

Earnings Conference Call Fourth Quarter 2009 February 26, 2010

Operator will introduce you, and then begin reading.

Steven Eschbach, Vice President – Investor Relations, speaks.

Good morning. Welcome to Integrys Energy Group's fourth quarter 2009 earnings conference call. Delivering formal remarks with me today are Charlie Schrock, our President and Chief Executive Officer, and Joe O'Leary, our Senior Vice President and Chief Financial Officer. Other executives, including Larry Borgard, our President and Chief Operating Officer – Utilities, and Mark Radtke, Chief Executive Officer of our nonregulated subsidiary, Integrys Energy Services, are available for the question and answer session at the conclusion of our formal remarks.

The slides supporting today's presentation and an associated data package are located on our Web site at www.integrysgroup.com. Select Investor, select Presentations, and then today's presentation.

Before we begin, I will advise everyone that this call is being recorded and will be available for replay through May 4, 2010.

I need to direct you to Slides 3 and 4 of our presentation and to point out that this presentation contains forward-looking statements within the definition of the Securities and Exchange Commission's Safe Harbor rules including projected results for Integrys Energy Group and its subsidiaries. Forward-looking statements contain factors that are beyond the ability of Integrys Energy Group to control and, in many cases, Integrys Energy Group cannot predict what factors would cause actual results to differ materially from those indicated by forward-looking statements. I also refer you to the forward-

looking statement section of yesterday's news release for further information. Except as may be required by federal securities laws, Integrys Energy Group and its subsidiaries undertake no obligation to publicly update or revise any forward-looking statement contained in this presentation, whether the result of new information, future events, or otherwise.

Slide 5 indicates that today's presentation includes non-GAAP financial information related to "diluted earnings per share – adjusted." We believe that this is a useful measure for providing investors with additional insight into our operating performance and the effects of certain items that are not comparable from one period to the next. Please review the text of this slide regarding non-GAAP financial information.

I will now turn the call over to Charlie Schrock. Charlie...

Charlie Schrock, President and Chief Executive Officer, speaks.

Thanks, Steve. Good morning, everyone, and thanks for joining us on the call today.

On February 17, we hosted an Investor and Analyst Day in New York. A webcast of each presentation and Q&A session is archived on our Web site, and the associated slides are available there as well. We had approximately 40 people join us in person for that event, and many more listened to the webcast – our thanks to those who took the time to participate. For those who were unable to participate, I encourage you to review the materials from the event, as they cover in detail our regulated utility operations, the results of our Integrys Energy Services strategy change, our restructured nonregulated business, and detailed financial information. We also discussed our decision to maintain our quarterly dividend at its current level and management's confidence that successful execution of our business plan will lead to a reasonable payout ratio over time.

Today, as listed on the agenda on Slide 6, I will provide an overview of 2009 as well as the key takeaways from the Investor and Analyst Day. Joe O'Leary will discuss our fourth quarter and full year 2009 results and our diluted earnings per share guidance for 2010 and 2011. Finally, we will be happy to take your questions, either on our fourth quarter and full year results for 2009, or on any information that we discussed at our event last week.

Turning to Slide 7, we are pleased to report 2009 diluted earnings per share – adjusted results of 2 dollars and 41 cents, which exceeds our previously communicated 2009 diluted earnings per share – adjusted guidance range of 2 dollars and 26 cents to 2 dollars and 38 cents.

We are continuing on a deliberate path that will bring our utilities closer to earning their authorized returns on equity over time. We are advancing along this path with the operational progress that we made through our 2-pronged approach to achieving this goal. First, we completed a number of rate cases during 2009 and early 2010. Second, we are continually making progress on our operational excellence initiatives to further streamline and improve the efficiency of our operations.

Another major accomplishment is that we met our key strategic objectives for Integrys Energy Services. We substantially reduced the invested capital and collateral support requirements of this business. Upon completion of our announced transactions, we will have exited wholesale operations and we have refocused the remaining nonregulated retail natural gas marketing and retail electric marketing operations to achieve a platform for controlled growth within acceptable parameters.

These accomplishments in our regulated and nonregulated operations position us well for 2010 and beyond.

I would now like to briefly review the key takeaways for our regulated and nonregulated operations from our Investor and Analyst Day last week.

In our regulated business, covered on Slide 8, our objective is to bring each utility closer to earning its authorized return on equity. As I said earlier, one major way that we are doing this is through cost control efforts focused on operational excellence and timely and regular filings of rate cases, when appropriate. We have also been able to incorporate mechanisms that help us achieve more predictable earnings over time. The decoupling and bad debt riders that we have in place in several of our jurisdictions are examples of these mechanisms. Our rate base will grow through investment in capital projects needed for environmental compliance, renewable portfolio standard mandates, and maintaining and improving our infrastructure investments.

American Transmission Company will continue to positively impact our earnings. Although this is an equity investment for us, we treat this investment as a separate reportable segment. We have included American Transmission Company on this slide because it is subject to regulation by the Federal Energy Regulatory Commission.

And finally – but no less importantly – our commitment to continuous improvements in operational excellence and cost controls will allow us to deliver on our financial expectations while delivering safe, reliable, and outstanding customer service.

Slide 9 shows our potential earnings growth for 2008 and 2009's financial results associated with our efforts to have our regulated utilities earn closer to their authorized returns on equity, and you can find the 2008 and 2009 data for each utility in the Appendix of the presentation. We have also displayed estimates of our earnings potential for our regulated natural gas and regulated electric segments for 2010 and 2011, which we calculated using the mid-point of the 2010 and 2011 diluted earnings per share guidance range that we presented at the Investor and Analyst Day last week. Although we are confident in the diluted earnings per share guidance ranges that we have provided to you, I do want to stress that the figures you see for 2010 and 2011 are estimates to give you an idea of the improvement trend in earnings that we expect to

deliver in the next two years. The actual results could vary by as much as 5 to 10 million dollars either way, and still remain within our guidance range.

Consistent with what we said during our presentation last week, the earnings shortfall between what was authorized and what was actually earned for all of our regulated utilities did increase in 2009, going from about 45 million dollars in 2008 to about 57 million dollars in 2009. Given the economy and the timing of rate cases, this was not unexpected. And, while we experienced a decline in utility earnings from 2008 to 2009, the longer-term trend shows improvement. A closer look at individual utility results also shows the progress we are making. For example, Minnesota Energy Resources' financial results for 2009 show that it slightly exceeded its allowed return on equity, and Michigan Gas Utilities' financial results show an improvement in earnings. Peoples Gas and North Shore Gas were involved in rate cases in 2009, with new rates going into effect in late January 2010, which will lead to an improvement in earnings for these companies as well. Wisconsin Public Service's 2009 financial results were impacted by a shortfall in sales and limitations of the decoupling cap at the electric utility. We will be filing a rate case for Wisconsin Public Service in April and expect its earnings to improve upon implementation of new rates in 2011.

So, in total, we are expecting a substantial improvement in the utility earnings for 2010, which is the first full year that the recent rate cases are in effect. We expect the shortfall to be reduced to approximately 37 million dollars in total – roughly 20 million dollars for the natural gas utility business and 17 million dollars for the electric business. From 2010 and 2011, there is a bit of lumpiness, as the expected increase in the electric utility segment due to anticipated rate case awards will be somewhat offset by a decline at Peoples Gas and North Shore Gas, which will be in a rate case filing year. Again, these are estimates using the diluted earnings per share guidance mid-point, and the actual numbers will vary, you can see that we believe that the trend will continue to improve in 2011, when we expect the total shortfall to be approximately 34 million dollars: roughly 25 million dollars for the natural gas utility business and 9 million dollars for the electric business.

One of our major strategic objectives is to bring our utilities closer to earning their authorized returns on equity over time. Due to the inherent nature of the regulatory process in terms of timing and typical disallowances, complete eradication of the shortfall is probably not likely; however, we will keep trying to improve on that number as much as we can through our operational excellence program and rate case filings when they are appropriate.

In our nonregulated business, covered on Slide 10, we are pleased to have achieved our strategic objectives for Integrys Energy Services. We are completely exiting the wholesale portions of this business. We have restructured the remaining portions of our nonregulated business, which now encompasses retail electric and retail natural gas marketing and solar and other renewable energy projects, so that it is positioned for controlled growth. Our refocused nonregulated retail customer business is lower risk and more predictable than our prior integrated business, and our renewable energy projects will focus on customer-sited solar projects and renewable contracted asset development. Our commitment to operational excellence extends to Integrys Energy Services as well, and we will make improvements in that arena as we continue to provide exceptional energy solutions for our customers.

With that, I will now turn this call over to Joe O'Leary.

Joe...

Joe O'Leary, Senior Vice President and Chief Financial Officer, speaks.

Thank you, Charlie.

I will cover our results for the fourth quarter and full year 2009, as well as our annual diluted earnings per share guidance for 2010 and 2011.

Beginning with Slide 11, during the fourth quarter of 2009, in accordance with generally accepted accounting principles, or GAAP, we recognized total diluted earnings per share of 31 cents for the quarter ended December 31, 2009, compared with 33 cents for the same quarter in 2008. To arrive at diluted earnings per share – adjusted for the quarter, 2009 expenses relating to our reductions in the workforce at the regulated utilities and holding company are added back, as is Integrys Energy Services' net loss from continuing operations in 2009 and 2008. Diluted earnings per share – adjusted was 49 cents for the fourth quarter of 2009 compared with 68 cents for the same period in 2008.

For the full year 2009, on a GAAP basis, we experienced a net loss per share of 92 cents, compared with net income of 1 dollar and 64 cents per diluted share for the full year 2008. To arrive at diluted earnings per share – adjusted, the non-cash goodwill impairment losses for our natural gas utility segment, expenses related to our reductions in the workforce at the regulated utilities and holding company, and the Integrys Energy Services' net loss from continuing operations in 2008 and 2009 are removed, resulting in diluted earnings per share – adjusted of 2 dollars and 41 cents for 2009, compared with 2 dollars and 51 cents for 2008.

Last year—2009—was a difficult year for many companies and a lot of our customers, and we did not escape the impact of a tough economy, nor did we expect to. We are pleased that our performance allows us to report 2009 results that exceed our previously communicated guidance for the full year. This was due primarily to lower fuel and purchased power costs for our electric utility segment than we had forecasted earlier in 2009. Considering the difficult economic environment in 2009, it is no surprise that our sales volumes were negatively affected. We were able to partially mitigate the impact through the decoupling mechanisms that we have in place in our jurisdictions for our regulated utility operations. However, we reached our decoupling cap relating to our electric utility in Wisconsin in the first half of 2009, which is why the lower sales volumes have had a relatively larger earnings impact in the second half of the year.

On Slide 12, you will see that there are 6 key items driving the 2.1 million dollar quarter-over-quarter decrease in fourth quarter GAAP net income

Slide 13 is a similar chart that compares factors that drove the 197.3 million dollar decrease in GAAP net income for the full year 2009 versus the same period a year ago.

Additional detail related to the key drivers by segment for the fourth quarter and full year can be found on Slides 23 through 32 contained in the Appendix of the slide deck for today's presentation, in the news release we issued last evening, and in the Form 10-K we filed with the Securities and Exchange Commission last evening, which are also available on our Web site.

Moving to Slide 14, I would like to refer you to the Appendix for slides replicated from our February 17 Investor and Analyst Day presentation for detail on our financings; recent, favorable credit rating agency action; capital expenditure plans; utility depreciation; utility rate base growth; and a simplified cash flow model.

Slides 15 and 16 cover our diluted earnings per share guidance for 2010 and 2011, which is the same information we presented last week in New York. We are now providing diluted earnings per share guidance for all of Integrys Energy Group instead of on a diluted earnings per share – adjusted basis, which we had provided in November during our third quarter conference call.

As indicated on Slide 15, we expect our 2010 diluted earnings per share to be between 3 dollars and 9 cents and 3 dollars and 37 cents. Our guidance related to the Integrys Energy Services – Other line includes gains and losses and certain other impacts related to divestiture transactions, restructuring costs related to Integrys Energy Services, net non-cash gains or losses related to derivative accounting, and the non-cash impact on margin resulting from inventory adjustments made in prior periods. Our guidance does not include any Integrys Energy Group restructuring costs related to the

reduction in workforce that is currently in progress, other than those related to Integrys Energy Services.

Slide 16 shows our guidance for 2011. We expect 2011 diluted earnings per share to be between 3 dollars and 28 cents and 3 dollars and 61 cents. Our guidance for the Integrys Energy Services – Other line includes net non-cash gains and losses related to derivative accounting, the non-cash impact on margin resulting from inventory adjustments made in prior periods, and certain impacts related to divestiture transactions.

Now I will turn the call back over to Charlie Schrock.

Charlie Schrock, President and CEO, speaks.

Thanks, Joe.

Turning to Slide 17, I will summarize the key points from today's call before we take your questions.

We completed five rate cases in 2009 and early 2010, made progress on our operational excellence initiatives, and put certain mechanisms in place to improve the predictability of our regulated utilities. In 2010, we will be filing general rate cases for Wisconsin Public Service and Upper Peninsula Power. These efforts will move our utilities closer to earning their authorized returns on equity over time. At Integrys Energy Services, we achieved our key strategic objectives by reducing the amount of invested capital and collateral support requirements. We are exiting the wholesale portions of the business and, overall, have significantly reduced the scale of operations and risk profile of this business. We have refocused the remaining nonregulated retail natural gas and retail electric marketing operations while allowing room for controlled growth in the future. From a corporate perspective, we have taken steps to improve our

productivity and processes throughout the company, resulting in more streamlined and efficient operations.

Moving on to Slide 18, future earnings will be driven by our utilities and complemented by our nonregulated operations. This will be achieved by investing approximately 1.2 billion dollars in regulated utility capital projects between 2010 and 2012. These investments in our utilities will be for environmental controls, renewable portfolio standards, and infrastructure improvements. The infrastructure investment in Chicago will be done in accordance with the Rider ICR which the Illinois Commerce Commission approved in our last rate case at Peoples Gas. Additionally for our regulated utilities, we will file rate cases when appropriate. This will be complemented by controlled growth at our nonregulated energy services business. All of these efforts will be accompanied by continually focusing on operational excellence and cost controls that will deliver on our financial commitments.

We also expect to continue achieving earnings growth from our investment in American Transmission Company.

On February 16, the Board of Directors declared a quarterly common stock dividend of 68 cents per share payable on March 20 to shareholders of record on February 26, 2010. The dividend was maintained at the same amount as the previous quarterly dividend declaration. While this remains subject to quarterly review by our Board of Directors, management is confident that with the dividend at this level, the successful execution of its business plan will lead to a reasonable payout ratio over time.

We are reaffirming the diluted earnings per share guidance for 2010 and 2011 that we provided on February 17, 2010, as well as an expected 4 percent to 6 percent growth rate on an average annualized basis, using 2011 as the base year, through 2015.

We would now like to open the call up for questions.

STOP

Allow operator to give instructions.

Repeat the question before answering.

Signal for the last question.

Take last question and then end the call with the following:

Steve Eschbach, Vice President – Investor Relations speaks:

Thank you for being a part of our fourth quarter earnings conference call. A replay of this conference call will be available until May 4, 2010, by dialing toll free 888-568-0411.

The text for today's presentation is available on our Web site at www.integrysgroup.com. Just select Investor and then Presentations.

If you have additional questions, you may contact me at 312-228-5408 or Donna Sheedy at 920-433-1857.