

**Earnings Conference Call
First Quarter 2009
May 1, 2009**

Operator will introduce you, and then begin reading.

Steven Eschbach, Vice President – Investor Relations, speaks.

Good morning. Welcome to Integrys Energy Group's 2009 first quarter 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 Weyers, our Executive Chairman; Larry Borgard, our newly appointed President and Chief Operating Officer – Utilities; and Mark Radtke, President and 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 August 4, 2009.

I need to direct you to Slides 2 and 3 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 4 indicates that today's presentation includes non-GAAP financial information related to "diluted earnings per share – adjusted," "forward book value," and "managerial gross margin." We believe that diluted earnings per share – adjusted, forward book value, and managerial gross margin are useful measures 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. Please go to Slide 5.

First, I am going to give a short overview of our first quarter results, a quarter where absent non-cash accounting charges, Integrys Energy Group performed well.

Since our last quarterly conference call on February 26, our executive management team has spoken to many of you in a number of different forums, and you have provided us with valuable insights. So today I will address the status of our strategy change and capital redeployment effort with respect to Integrys Energy Services. We are prepared to give you a better sense on the timing of a transaction, more clarity on what transactions are being considered, an update on quantifying potential proceeds

and/or recovered capital, and the anticipated redeployment of these funds. Our objective is to strike a balance: We want to be as transparent as possible with the financial community and our investors without compromising our goal of executing an effective divestiture process that maximizes value for our shareholders. I will then comment on our quarterly dividend and the future potential of our strategy that focuses on our core utilities.

This will be followed by Joe O'Leary, who will provide the financial overview for the first quarter 2009, the details on our current financial position and liquidity, an update on our guidance for 2009, and introduce guidance for 2011, the first full year we expect to be a predominantly Midwestern regional regulated utility company.

Moving to Slide 6, our loss for the quarter included two large, non-cash losses totaling 300.3 million dollars after tax. One was related to a 248.8 million dollar after-tax goodwill impairment loss in the natural gas utility segment, and the other related to accounting losses totaling 51.5 million dollars after tax for Integrys Energy Services resulting from derivative and inventory accounting activities. Integrys Energy Services expects to recover certain non-cash accounting losses when the related transactions are physically settled. Again, these are non-cash losses and our core utility businesses performed well during the quarter.

Absent these non-cash losses, Integrys Energy Group would have earned 120.1 million dollars in the first quarter of 2009 compared with about 96.1 million dollars in the same quarter last year.

Also, we are moving forward with our capital redeployment program and core utility focus, which I'll now cover, beginning with Slide 7. At the heart of our strategy for the full divestiture of Integrys Energy Services and redeployment of capital is a desire to achieve the highest value for our investors. The planned divestiture is part of a coherent, logical strategy which will yield proceeds and/or recovered capital to support our core utility business and strengthen our balance sheet. Our dividend policy is

unchanged. We have revised our diluted earnings per share guidance for 2009 and are providing initial guidance for 2011 to reflect the divestiture of Integrys Energy Services. Although our divestiture process is moving forward as planned, we are somewhat constrained in terms of the detail we can provide surrounding the divestiture, but I want to emphasize that our first priority is maximizing value for our shareholders.

Now, please turn to Slide 8 and I will provide an update on our planned divestiture of Integrys Energy Services. We are driving a structured divestiture process with assistance from our financial advisor, J. P. Morgan Securities, and are making progress.

As we stated during our last earnings conference call, our preference is for a full divestiture of Integrys Energy Services. We may be able to achieve this through either one transaction or multiple transactions with various buyers. At this point, it is too early to disclose specifics about discussions we are currently engaged in or the value we are expecting to receive. However, I can tell you that there are a few smaller transactions that could arise in the near-term that should not adversely affect and could actually enhance a larger transaction of greater value.

Given the status of our negotiations to date, it is not prudent for us to provide a value, or a range of values, that we expect any one or a series of transactions may provide. However, we want to provide some guidance on the potential proceeds and/or return of recovered capital for Integrys Energy Services. We continue to anticipate that the recovered capital will be roughly 600 million dollars by the time we have fully executed our strategy change.

Again, our ultimate goal is to achieve the highest value for our investors, and we believe the initiatives we have underway and the interest we have seen from potential buyers will achieve this goal.

With respect to timing, we expect to make an announcement regarding Integrys Energy Services or provide more details by the end of the third quarter or early fourth quarter

2009. Given this timeline, we could have a divestiture completed as early as the fourth quarter of this year providing all regulatory approvals that may be required are received.

What will we do with the anticipated proceeds and/or return of recovered capital?

Slide 9 discusses the balance sheet restructuring we mentioned previously. The most advantageous thing we can do is to pay down debt. This would position us well to fund future investment in rate base growth. In addition, following the full divestiture of Integrys Energy Services, we would expect to have reduced liquidity needs and we will be able to reduce our credit facilities from 2.4 billion dollars at December 31, 2008, to approximately 1.4 billion dollars. As we execute our financing strategy, we are continuing to communicate with the credit rating agencies so they fully understand the timing of, and benefit from, exiting the nonregulated energy services business segment.

Lastly, I will comment on the status of our quarterly dividend. The company understands how important the quarterly dividend is to its shareholders. During the review of the quarterly dividend, we take a long-term view on our financial expectations, including earnings as well as cash flow. At this point in time, the Board has left the dividend policy unchanged.

Our focus is to maintain the financial strength of the corporation by ensuring that it has the cash to satisfy its needs and the necessary financial facilities to back core operations. We believe that the financial strength of the corporation is important to long-term investors. We also believe that the long-term earnings outlook for our company will reduce our current payout ratio to a lower level. We strive to provide good returns to investors through the payment of dividends, an increase in earnings per share, and limiting the number of shares outstanding.

Moving to Slide 10, while we work on the sale of our nonregulated operations at Integrys Energy Services, we will concentrate our efforts on growth in our utility investments. Our goal is to have all utilities earn at or close to their authorized return on equity. At this time, many of our utility subsidiaries are earning below their authorized

return on equity. As you recall, we discussed in our last earnings conference call that our 2008 net income attributed to common shareholders would have been higher by 44.7 million dollars if all of our regulated utilities had earned their authorized returns on equity. In 2008, we completed 5 rate cases, which has had a positive impact on our first quarter 2009 results compared with the same quarter last year. In 2009, we will be processing 5 more rate cases and expect our earnings to improve beginning in 2010 as a result of those rate cases.

We will also continue to strive for operational excellence to control costs, and help improve earnings.

We have substantial opportunity to increase investment in our regulated rate base and thereby increase our earnings. We have opportunities to invest capital exceeding 3 billion dollars in our regulated utilities over time. For example, over 2 billion dollars is expected to be required to replace the aging natural gas mains at Peoples Gas, and an additional 500 million dollars to 1 billion dollars is planned for the environmental backfits and renewable energy investments required for our regulated electric utilities. The timing of these investments will be dependent on the regulatory treatment received and the impact on our customers.

In addition, we expect to continue investing in the growth of American Transmission Company. Recall that we have a 34 percent equity ownership in this company, and American Transmission Company is projecting growth in its net investment in utility plant of 1.1 billion dollars from 2009 through 2018.

Now I will turn this call over to Joe who will provide you with an overview of our financial results, our current liquidity situation, our capital expenditure program, and our long-term financing plans. Joe will also provide an update to our 2009 diluted earnings per share guidance and introduce guidance for 2011.

Joe...

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

Thank you, Charlie.

Turning to Slide 11, during the first quarter of 2009, in accordance with generally accepted accounting principles, or GAAP, we recognized a net loss attributed to common shareholders of 180.2 million dollars compared with net income attributed to common shareholders of 135.8 million dollars in the same quarter a year ago. This resulted in a loss per share of 2 dollars and 35 cents for the quarter ended March 31, 2009, compared with diluted earnings per share of 1 dollar and 77 cents for the same quarter in 2008.

There are 6 key items driving the negative 316 million dollar quarter-over-quarter change, and we have presented them in after-tax dollars. Additional detail related to the quarter-over-quarter drivers by segment can be found on Slides 26 through 29 in the Appendix contained in the slide deck for today's presentation and in the news release we issued last evening.

The first quarter 2009 net loss attributed to common shareholders of 180.2 million dollars included 300.3 million dollars of after-tax non-cash losses, related to a goodwill impairment loss in the natural gas utility segment and accounting losses at Integrys Energy Services resulting from derivative and inventory accounting activities. First quarter 2008 net income attributed to common shareholders of 135.8 million dollars included 39.7 million dollars of after-tax non-cash accounting gains at Integrys Energy Services resulting from derivative and inventory accounting activities. Exclusive of these after-tax non-cash items recognized in the first quarters of 2009 and 2008, Integrys Energy Group's earnings would have increased quarter-over-quarter to net income attributed to common shareholders of 120.1 million dollars, or 1 dollar and 56 cents diluted earnings per share, for the quarter ended March 31, 2009, from net

income attributed to common shareholders of 96.1 million dollars, or 1 dollar and 25 cents per share, for the quarter ended March 31, 2008.

Turning to Slide 12, let me mention a couple of important details surrounding the 248.8 million dollar decrease in earnings relating to the goodwill impairment loss. First, the goodwill impairment is a non-cash charge to earnings. Second, this will not create problems in complying with current covenants for our credit facilities or our long-term debt contracts.

On Slide 13, note that this non-cash goodwill impairment loss is added back when arriving at diluted earnings per share – adjusted. This table also removes the financial results from Integrys Energy Services for the first quarter of 2009 as well as the first quarter of 2008 given that the impact on earnings of our change in strategy for this segment is not comparable to the strategy in place during 2008. As Charlie commented earlier, our core utilities performed well in the first quarter of 2009 versus the same period a year ago.

Moving on to Slide 14, I would like to update you on our current liquidity situation. First and foremost, Integrys Energy Group continues to have a strong financial position. We have credit facilities totaling approximately 2.2 billion dollars with 23 financial institutions. The largest exposure we have at any one financial institution is about 13 percent of our total credit facilities. At April 30, 2009, approximately 1.3 billion dollars of the credit facilities were unused and available for us to support our short-term borrowing needs in addition to 300 million dollars of cash on hand.

Please note that our estimated capital expenditures and estimated utility depreciation are set forth in the Appendix on Slides 23 and 24.

Slide 15 sets forth our expected long-term financing needs through the end of 2009. Our long-term debt financing includes up to 350 million dollars for Integrys Energy Group and 50 million dollars for Peoples Gas. We do not currently have plans to issue

common stock through the end of 2011, with the possible exception of a minimal number of common equity shares for certain stock based compensation programs. We will continue to assess this throughout the year based on the outcome around Integrys Energy Services and prevailing market conditions.

Turning to Slide 16, I will now update you on our earnings guidance for 2009. Note that we have changed the format for presentation of this information from what we provided during our last earnings conference call, and our focus is primarily on our core utilities and on operations included within our Holding Company and Other segment. The form that the divestiture of Integrys Energy Services could ultimately assume will produce a wide range of earnings that will impact our financial results. Accordingly, and given our strategic shift to focus on our core utility business, we have excluded guidance for our nonregulated energy services and marketing segment. We have added back the impact of the goodwill impairment when arriving at diluted earnings per share – adjusted. Please note that we have slightly increased our estimated diluted earnings per share – adjusted for the remainder of our business. Our new guidance assumes rate relief for certain utilities, availability of generation units, and normal weather conditions for the remainder of 2009. We have also provided diluted earnings per share – adjusted guidance by segment, which excludes Integrys Energy Services and the impact of the goodwill impairment. We have indicated our previous earnings per share guidance for 2009 that we provided on February 26, 2009 as a point of reference for our revised 2009 guidance.

Turning to Slide 17, we have provided revised 2009 guidance for diluted earnings per share – adjusted along with our initial guidance for 2011. Note that 2011 will be our first full year operating primarily as a predominantly Midwestern regional regulated utility company, assuming the divestiture timing proceeds as planned. We have not given 2010 guidance because it will be a transitional year. Please note also that our earnings per share guidance for 2011 of 2 dollars and 80 cents to 3 dollars and 20 cents per share assumes continued rate relief for certain utilities, availability of generation units,

reasonable execution of the Integrys Energy Services divestiture, including related capital redeployment, and normal weather.

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

Charlie Schrock, President and CEO, speaks.

Thanks, Joe.

Turning to Slide 18, I will summarize the key points from today's discussion. First, we have provided additional clarity on our strategy change with respect to Integrys Energy Services. We are driving a structured capital redeployment process with an announcement expected at the end of the third quarter or early fourth quarter of 2009, and we will continue to focus on our core regulated natural gas and electric utilities. We will use the proceeds and/or recovered capital to restructure our balance sheet and to support our future investment in rate base growth. Because, we believe, there are a number of outcomes that will support the current quarterly dividend, our current dividend policy is unchanged. We remain comfortable with our long-term growth target in earnings per share of 4 to 6 percent on an average annualized basis. Finally, our earnings per share guidance, which excludes Integrys Energy Services and goodwill impairment, for 2009 is between 2 dollars and 17 cents and 2 dollars and 32 cents and for 2011 it is between 2 dollars and 80 cents and 3 dollars and 20 cents.

We appreciate the opportunity to share our prepared remarks. Now, I would like to open the floor to 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 first quarter earnings conference call. A replay of this conference call will be available until August 4, 2009, by dialing toll free 866-411-1705.

The text for today's presentation is available on our Web site at www.integrystgroup.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.