Earnings Conference Call
Third Quarter 2009
November 5, 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 third quarter earnings conference call. Delivering formal remarks with me today are Charlie Schrock, our President and Chief Executive Officer; Larry Borgard, our President and Chief Operating Officer – Utilities; and Joe O'Leary, our Senior Vice President and Chief Financial Officer. Other executives, including Larry Weyers, our Executive Chairman; 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 February 23, 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," "forward book value," and "managerial gross margin." We believe that these 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.
I will begin with our agenda on Slide 6.

I will provide an overview of our third quarter results, our earnings per share guidance, progress on our strategy change at Integrys Energy Services, and our dividend. Then Larry Borgard will discuss our core utility operations and provide an update on our regulatory filings as well as the cost control efforts that will enable us to achieve our financial expectations. Joe O'Leary will discuss our third quarter 2009 results in detail, our current liquidity position, 2009 financing plan, capital expenditure plans through 2011, and details for our earnings per share guidance. Finally, we will be happy to take your questions.

Moving to Slide 7, we have increased our diluted earnings per share – adjusted guidance for 2009, and we now expect this to be between 2 dollars and 26 cents and 2 dollars and 38 cents, absent any severance charges that may result from our workforce reduction plans. We are reaffirming our diluted earnings per share – adjusted guidance for 2011 of 2 dollars and 80 cents to 3 dollars and 20 cents; Joe will go into the drivers of our guidance changes later in this call. These figures exclude Integrys Energy Services' results in order to depict our strategy change with respect to Integrys Energy Services and our plan to evolve into primarily an operator of regulated utilities.

Third quarter 2009 diluted earnings per share – adjusted was 35 cents, compared with 46 cents for the same period in 2008. In the third quarter 2009, we faced factors that had a negative impact on our earnings. These included a decrease in sales volumes at our natural gas utilities due primarily to the current economic conditions and at our electric utilities due to a cooler than normal summer, a reduction in the over-collection of fuel and purchased power costs, and increased utility operating and maintenance expenses during the third quarter of 2009 versus the same period a year ago. Increases in operating and maintenance expenses were due primarily to higher distribution labor costs and employee benefit costs.

Our year-to-date results, adjusting for the removal of the non-cash goodwill impairment charges at the natural gas utilities and the earnings impact of Integrys Energy Services, looked much better. Diluted earnings per share – adjusted of one dollar and 93 cents were up over 5 percent versus the same period a year ago. The primary drivers included rate increases at our regulated utilities, an increase in wholesale electric demand charges, and lower fuel and purchased power costs.

Finally, our Integrys Energy Services strategy change is moving forward.

Moving on to Slide 8, our goal as we implement the Integrys Energy Services process remains the same – to achieve the highest value for our shareholders. Our transaction announcements to date demonstrate the progress we are making on our strategic objective with respect to Integrys Energy Services. We are significantly reducing our collateral support requirements, and capital investment, and we will redeploy the recovered capital to support our core utility business. We are executing this plan through multiple transactions or contractual arrangements, and we are on target for completing the strategy change by December 31, 2010. To date, the amount of recovered capital and collateral support reductions from the four transactions we have announced previously have been consistent with our expectations.

On Slide 9, we have summarized those transactions.

- We closed on the sale of our Energy Management Consulting Services business to U.S. Energy Services in July. This business required minimal collateral support and capital investment.

- Next, we closed on the sale of our Canadian natural gas and electric power marketing business to Shell Energy North America (Canada) Inc. and the sale of our natural gas storage contract to TransCanada Gas Storage Partnership in September. Our exit from the Canadian business is expected to free up about 350 million dollars of collateral support requirements in total and 300 million dollars by the end of 2009. Again, just to be clear about the terminology that we are using, collateral support requirements differ from invested capital. Collateral support requirements include corporate guarantees, letters of credit, and cash. The collateral support requirements for the Canadian business required very little cash collateral, primarily using corporate guarantees and letters of credit.

- Last week we announced the execution of a definitive agreement to sell our U. S. wholesale natural gas marketing business. This two-part transaction, which includes the wholesale marketing contracts as well as the wholesale storage contracts, is expected to reduce collateral support requirements by 290 million dollars by the end of 2009 when the sale of the marketing contracts close, and by another 150 million dollars by early 2011 when the last of the related storage contracts are sold.

- Separately, we have entered into a natural gas supply agreement with a third-party, whereby this party will be the primary supplier for our retail natural gas marketing business. This transaction will have a near term favorable impact on collateral support requirements – a further reduction by approximately 75 million dollars.

In aggregate, these transactions are expected to reduce our collateral support requirements by over 700 million dollars by year-end 2009.

We recognize that many of you are looking for more information regarding the proceeds that we expect to receive from these transactions and the portion of the Integrys Energy Services segment that they represent. I hope you can appreciate that since we are in various stages of negotiations for the remaining Integrys Energy Services businesses, we do not believe it would be prudent to discuss proceeds from individual transactions at this time.

To give you a sense of our progress, the footnoted text on Slide 10 represents the Integrys Energy Services operations where we have announced transactions. In addition, we have also provided a graphic representation of the relative size of each of the business segments in terms of collateral support requirements at September 30, 2009.

Moving on to Slide 11, we have provided a progress report on our capital recovery and the reduction in corporate guarantees for Integrys Energy Services. For the nine months ended September 30, 2009, we have recovered 450 million dollars, or approximately 45 percent of the approximate 1 billion dollars of capital recovery anticipated at December 31, 2008. Regarding corporate guarantees, we have decreased them from 2.6 billion dollars at March 31, 2009, to 1.8 billion dollars at September 30, 2009, a decrease of about 31 percent. We remain on track for further reductions in corporate guarantees, with a target of 1.1 billion dollars at December 31, 2009, as previously announced, and a target of 800 million dollars by March 31, 2010.

Slide 12 will look familiar to you, and since our plans for the use of the proceeds have not changed, I will not go into too much detail. Our first priority is to pay down debt, which will improve our ability to fund future investment in our regulated utility rate base growth. Upon completion of our Integrys Energy Services process, we expect to have substantially reduced liquidity needs and credit facilities. As a regular course of business, we periodically communicate with the credit rating agencies as we execute our strategy.

Turning to Slide 13, I will comment on our quarterly dividend. Our Board of Directors has approved a dividend of 68 cents per share, payable in December 2009. The Board continues to carefully consider the quarterly dividend level based on a number of factors, which we have discussed before and which are listed on this slide.

With that, I will turn the call over to Larry Borgard.

Larry Borgard, President and Chief Operating Officer – Utilities, speaks.

Thank you, Charlie.

I will review our core regulated utility operations, beginning with an overview of our plan to drive growth, provide an update on our ongoing rate cases, and discuss in more detail our new and ongoing cost control efforts.

Beginning with Slide 14, we continue to focus on having each of our regulated utilities earn their respective authorized return on equity, or close to it. We intend to achieve this through a combination of rate cases, when appropriate, and initiatives to control costs through operational improvements. We also anticipate that our infrastructure investments in Chicago and in environmental and renewable projects in Wisconsin will increase our regulated utility rate base and provide us with an opportunity for additional earnings growth. We also continue to benefit from our approximate 34 percent investment in American Transmission Company, which has recently announced that it expects to invest 2.5 billion dollars over the next ten years.

Slide 15 provides a look at our regulatory calendar. This is an update of what we presented during our last earnings conference call. Details for each regulatory filing are included in our Appendix on Slides 32 through 36.

Slide 16 provides additional information on our regulated utilities and summarizes some additional key drivers supporting our regulatory initiatives going forward. The bad debt rider, Senate Bill 1918, has been approved by the Illinois legislature, and implementation for Peoples Gas and North Shore Gas will commence upon regulatory approval of the application we filed with the Illinois Commerce Commission in September. Approval is expected no later than March of 2010, and our year-to-date results already reflect the estimated benefit – 4.1 million dollars – from this rider. While slightly different from what we filed in our current Illinois rate cases, it effectively achieves the same goal of prudently truing up incurred actual bad debt costs at year end and recovering or refunding any difference to customers without the need for a formal rate case filing.

Two interveners in the Peoples Gas rate case—the city of Chicago and Local 18007, which represents the field workers at Peoples Gas—have now stated their support for our proposed infrastructure rider. This rider, as proposed, would function in a way that is similar to the bad debt rider, in that it would true up our accelerated natural gas main replacement investments in rate base and adjust rates accordingly without the need for a formal rate case filing. As a reminder, we expect to receive the Administrative Law Judge's decision in the form of a proposed order for the Illinois rate cases tomorrow.

Our rate proceedings in Wisconsin, Minnesota, and Michigan are progressing as expected. Decoupling, introduced in our current rate cases in Michigan and expected to be introduced with our next rate case filing in Minnesota, will be pursued in all jurisdictions in which we operate. If we are successful in our other jurisdictions, all of our regulated residential and small commercial/industrial customers will be covered under some form of decoupling.

Finally, we have enacted a number of new cost control measures, which provide additional support for achieving our financial expectations while also meeting our customers' expectations. They include a workforce reduction in 2010, and furloughing all non-union employees for one week during 2010. Other improved operating performance measures remain, such as, travel restrictions, a reduction in the use of outside contractors, benefit changes that would essentially replace our defined benefit retirement plan with a defined contribution plan for most new hires, and a freeze on hires where we can do so without sacrificing reliability, safety, and customer service.

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, Larry.

I will begin with Slide 17. During the third quarter of 2009, in accordance with generally accepted accounting principles, or GAAP, we recognized net income attributed to common shareholders of 51.1 million dollars compared with a net loss attributed to common shareholders of 59.1 million dollars in the same quarter a year ago. This resulted in diluted earnings per share of 66 cents for the quarter ended September 30, 2009, compared with a net loss per share of 77 cents for the same quarter in 2008. To arrive at diluted earnings per share – adjusted, the non-cash goodwill impairment losses are added back to our year-to-date results, and the financial results from Integrys Energy Services for 2009 as well as 2008 are removed given our strategy change announced earlier this year. The performance of our core utilities, in the aggregate, was down in the third quarter of 2009 versus the same period a year ago. However, year-to-date results in 2009 are up versus the same period a year ago.

There are 5 key items driving the 110.2 million dollar quarter-over-quarter increase in GAAP net income, and we have presented them in after-tax dollars on Slide 18. Additional detail related to the quarter-over-quarter drivers by segment can be found on Slides 37 through 40 in the Appendix contained in the slide deck for today's presentation, in the news release we issued last evening, and in the Form 10-Q we filed with the Securities and Exchange Commission last evening, all of which are also available on our website.

We have provided a similar waterfall slide that compares nine months year-to-date results through September 30, 2009 versus the same period a year ago, and that is provided in the Appendix on Slide 41. Additional detail is also available in the Integrys Energy Group Form 10-Q.

Moving on to Slide 19, I would like to update you on our current liquidity position. First and foremost, Integrys Energy Group continues to have a strong financial position. We have credit facilities totaling approximately 2.2 billion dollars with 27 financial institutions. The largest exposure we have at any one financial institution is about

12 percent of our total credit facilities. At September 30, 2009, approximately 1.9 billion dollars of the credit facilities were unused and available for us to support our short-term borrowing needs in addition to approximately 150 million dollars of cash on hand.

Slide 20 sets forth our expected financing activity through the end of 2009. In June, we completed a 155 million dollar debt financing transaction for Integrys Energy Group. In September, we issued 75 million dollars of 10-year debt for Peoples Gas, which was 25 million dollars higher than what we initially planned, as we were able to take advantage of favorable market conditions—a coupon rate of 4.63 percent—that will enhance our flexibility relative to future offerings. Lower than anticipated commodity costs have favorably impacted our typical natural gas storage injection cycle requirements for our regulated utilities. Lower natural gas storage requirements due to the Integrys Energy Services' strategy change, and strong cash generation from operations have also allowed us to avoid an anticipated 195 million dollar debt offering for Integrys Energy Group during the balance of this year. We do not expect to issue any other long-term debt through the end of the 2009.

From an equity perspective, we have not issued any new shares of common equity to date in 2009. We will continue to assess this based on the outcome around Integrys Energy Services and prevailing market conditions.

Slide 21 provides updated information on our planned capital expenditures through 2011. Planned capital expenditures at the regulated utilities and Integrys Business Support are down 44 million dollars from what was reported in the second quarter due to slight changes in the timing and scope of the various projects. Our equity contributions for American Transmission Company are up about 5 million dollars for the same reason.

Slide 22 provides updated utility depreciation by company through 2011.

Slide 23 provides projected net growth in regulated utility rate base investment through 2011.

Turning to Slide 24, I will now discuss our earnings guidance for 2009, and which is presented in the same format that we used for our first and second quarter 2009 conference calls. To summarize, we are increasing our diluted earnings per share – adjusted from a range of 2 dollars and 17 cents to 2 dollars and 32 cents to a range of 2 dollars and 26 cents to 2 dollars and 38 cents. We have increased the guidance due to successful execution of our initiatives to reduce costs, mostly at our centralized services subsidiary. Additionally, earnings from our electric utility segment will be favorably impacted by expected lower fuel and purchased power costs. Both of these items primarily affect our regulated electric business segment. Please note that this amended 2009 guidance does not include any severance charges that we may need to recognize in 2009 in relation to our plans to implement a 2010 reduction in workforce as Larry just mentioned. The specific plans are under development at this time. Once we have finalized the details of the work force reduction, we will update you on the related severance charges.

Turning to Slide 25, you can see that we are reaffirming our guidance for 2011, which was originally announced in May. The 2009 diluted earnings per share – adjusted guidance figures have been carried over to this slide for ease of reference. Again, we have included the assumptions for our guidance on the bottom of the slide.

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

Charlie Schrock, President and CEO, speaks.

Thanks, Joe.

Turning to Slide 26, I will summarize the key points from today’s discussion.

- We are executing our previously stated business strategy in a number of ways. This strategy begins with improved core utility earnings. Our core utilities in 2009 are performing well relative to our expectations, despite unfavorable weather and difficult economic conditions in the third quarter. Diluted earnings per share – adjusted were up for the nine months ended September 30, 2009 by over 5 percent versus the same period in 2008.
- Our process for Integrys Energy Services is advancing. In July, we closed on the sale of our Energy Management Consulting Services business, and in September we closed on the sale of our Canadian natural gas and electric power marketing business and our Canadian wholesale natural gas storage contract. Last week we announced a definitive agreement for the sale of our U.S. natural gas wholesale marketing business, and we entered into an energy supply agreement for our retail natural gas marketing business segment.
- We are driving earnings growth by our continued focus on improving the performance of our core utilities. We will continue to grow our core utilities by investing approximately 1.1 billion dollars in capital projects between 2009 and 2011, by bringing to successful resolution the five rate cases that we have in progress this year, and by focusing on operational excellence and cost controls to deliver on our financial commitments. Also, we expect to realize continued growth in earnings through our investment in the American Transmission Company.
- Our quarterly dividend of 68 cents per share payable in December 2009 was maintained, although it is important to keep in mind that our Board of Directors continues to review the dividend on a periodic basis.
- We have increased our earnings per share guidance range for 2009, and we are reaffirming our earnings per share guidance for 2011
- Finally, we are also reaffirming our expected long-term, average annualized earnings per share growth target of four to six percent beginning in 2011.

Now, I would like to open this conference call 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 third quarter earnings conference call. A replay of this conference call will be available until February 23, 2010, by dialing toll free 888-673-3573.

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.