Direct Testimony and Schedules
Noreen E. Cleary

Before the Minnesota Public Utilities Commission
State of Minnesota

In the Matter of the Application of Minnesota Energy Resources Corporation for Authority to Increase Rates for Natural Gas Service in Minnesota

Docket No. G011/GR-13-617

Exhibit _____

2014 Pay-at-Risk Compensation Programs

September 30, 2013

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

A. My name is Noreen E. Cleary. My business address is Integrys Business Support, LLC, 130 E. Randolph Drive, Chicago, IL 60601. I am the Assistant Vice President, Total Compensation for Integrys Energy Group, Inc ("Integrys"). Integrys is the parent corporation of Minnesota Energy Resources Company ("MERC").

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND BUSINESS EXPERIENCE

A. I received a bachelor's of science degree in Medical Technology from Fitchburg State College, now Fitchburg State University, in 1981. My professional experience in Human Resources ("HR") covers a period of more than 25 years with various companies. My primary expertise and concentration in the HR area has been in compensation and benefits design and administration. I hold designations as a Compensation Management Specialist (C.M.S.) and a Certified Employee Benefit Specialist (C.E.B.S.) from the International Foundation of Employee Benefits Programs (I.F.E.B.P.) in partnership with The Wharton School of the University of Pennsylvania.

Q. FOR WHOM ARE YOU PROVIDE TESTIMONY

A. I am providing testimony on behalf of MERC.

Q. WHAT IS THE PURPOSE OF YOUR PRE-FILED DIRECT TESTIMONY?

A. My pre-filed direct testimony will describe the Integrys 2013 Non-Executive Incentive Plan as it applies directly to MERC and indirectly to MERC through Integrys Business

Support, LLC ("IBS") ("MERC Non-Executive Incentive Plan"). Non-executive employees of MERC, as well as those of IBS, participate in the MERC Non-Executive Incentive Plan utilizing specific measures and targets designed for MERC. IBS is a separate subsidiary of Integrys that provides services to MERC in the areas of Engineering, Customer Relations, shared services and corporate support. This plan remains the substantially the same in design as the 2011 and 2012 plans and a similar design is currently being developed for the 2014 plan. The plan uses metrics specifically focused on providing benefits to customers in the form of reduced cost of service, greater efficiencies in operations, increased customer satisfaction and improved reliability. In Addition I will address why it is reasonable for customers to pay 100% of MERC's pension obligation.

II. PAY AT RISK INCENTIVE PLANS

Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS PROCEEDING?

A. Yes, I am. I am sponsoring Exhibit_____(NEC-1), which is the Integrys 2013 IBS & Regulated Non-Executive Incentive Plan.

Q. WAS THIS EXHIBIT PREPARED BY YOU OR UNDER YOUR DIRECTION AND SUPERVISION?

A. Yes, it was.

Q. PLEASE DESCRIBE MERC'S COMPENSATION PHILOSOPHY.

A. Like most customer-focused businesses, including public utilities, MERC maintains compensation programs that are market-based so it can attract and retain a qualified and motivated work force. We compete for quality employees in a market that includes regulated and non-regulated energy companies as well as non-energy firms. Virtually all firms with which MERC competes for quality employees offer Pay-at-Risk pay as a portion of total compensation. This Pay-at-Risk is an expected component of a total compensation package in today's talent market place. Potential employees are anticipating the opportunity to participate in the Company's success through such 'Pay-at-Risk' programs as MERC's Annual Incentive Plan.

MERC's goal is to pay our employees a total cash compensation package (base pay plus target Pay-at-Risk pay) that is anchored to market median levels, as compared to other energy industry companies and general industry companies, based on data as provided by

Towers Watson, an internationally recognized firm that specializes in both compensation and benefits consulting services. Stated another way, the combination of the base pay target plus annual Pay-at-Risk target brings the employee to the 50th percentile median of comparable energy industry and general industry companies. Our compensation programs are reviewed at least annually against competitive data. This review includes both market data and business objectives to ensure our compensation programs will attract and retain a quality workforce to serve our customers.

Q. HAS THIS COMMISSION ALLOWED RECOVERY OF PAY AT RISK COSTS IN PRIOR RATE CASES?

A. Yes, the Commission approved the inclusion of pay-at-risk in Docket Number G-007,011/GR-10-977 where it granted MERC 100% recovery of Non-Executive Pay-at-Risk costs, and 30% recovery of Executive Pay-at-Risk costs.

Q. IF THE COMMISSION DOES NOT ALLOW RECOVERY OF PAY AT RISK COSTS, WHY COULDN'T MERC SIMPLY PAY ITS EMPLOYEES EXCLUSIVELY THROUGH BASE PAY?

A. There are two reasons why MERC continues to need to utilize a compensation package that includes Pay-at-Risk rather than simply pay employees exclusively through base pay. First, offering only base pay plans without a Pay-at-Risk component would make it more difficult for MERC to attract the quality employees required to provide a level of service that our customers demand. Quality employees demand this type of Pay-at-Risk compensation to recognize superior performance. Indeed, surveys performed by Towers

Watson have concluded that the majority of companies extend their Pay-at-Risk programs deep into their organizations (i.e., at least to entry level professionals). Second, including annual Pay-at-Risk plans in its compensation program enables MERC to offer competitive compensation packages that incent employees to improve service levels and reduce costs that impact the rates paid by customers. As with the 2011 and 2012 plans, the 2013 Pay-at-Risk plan design continues to focus employees on key goals and objectives that benefit our customers, by concentrating on cost containment and operational goals that are aligned with the interests of customers rather than financial measures that might be more aligned with the interests of shareholders.

Q. DOES A UTILITY'S ABILITY TO ATTRACT AND RETAIN SUFFICIENT, QUALIFIED, AND MOTIVATED WORK FORCE BENEFIT CUSTOMERS?

A. Absolutely. Attracting and retaining a sufficient, qualified and motivated work force directly benefits customers, because it ensures there are enough highly proficient employees to perform needed customer work. In addition, customers benefit by MERC maintaining and improving the productivity and quality of work performed, which reduces overall costs to customers. By retaining trained and experienced employees through a market-competitive compensation program, MERC is able to avoid incurring the costs of hiring and training employees to replace workers who otherwise would choose to leave the company if such a market-competitive program were not in place. Experienced employees who are familiar with MERC's systems and equipment are more efficient in their performance, further reducing the company's operating and maintenance expenses and capital expenditures.

Q. PLEASE REVIEW THE CURRENT MAKE UP OF THE MERC NON EXECUTIVE INCENTIVE PLAN.

A. The MERC Non-Executive Incentive Plan rewards non-union employees on an annual basis for meeting pre-determined goals in a number of areas which we believe are in our customers' best interests. It uses four specific 2013 performance measures to determine Pay-at-Risk payouts for MERC employees. The four performance measures are all focused on operational aspects of the business, including cost management. There is no financial performance measure in the plan. MERC's measures assess cost control via a non-fuel Operations and Maintenance ("O&M") expense-adjusted metric which is weighted at 50% of the total. In addition, employee safety measurements, customer service and system reliability are weighted at a combined 50% of the total. The following is a high-level review of the plan design:

Operational Performance Measures			
1) Cost Management Non-fuel O&M Expense-Adjusted	2) Employee Safety-OSHA-Recordable Incident Rates	3) Customer Satisfaction	4) Reliability
50%	15%	15%	20%

Q. WHAT IS THE FOCUS OF THESE OPERATIONAL MEASURES?

A. Our operational measures are focused on improving services delivered to customers including cost control of expenses that impact their rates. They are designed to motivate employees to maintain customer support at a high quality level and at competitive rates.

Q. CAN YOU PROVIDE MORE DETAILS AS TO THE OPERATIONAL PERFORMANCE IN THE MERC NON EXECUTIVE INCENTIVE PLAN?

A. Yes. The following chart provides details on the four operational measures.

Operational Performance Measure	*Description*	*Weighting*
1. Cost Management Non-fuel O&M Expense Adjusted	Assess cost management via non-fuel O&M expense-adjusted, to help maintain or reduce expenses that may be charged to customers in future rate cases. All employees in the Plan are tied to this measure.	50%
2. Employee Safety – OSHA-Recordable Incident Rates	Based on reducing OSHA recordable injuries and illnesses. A comparison to targets measuring recordable injuries and illnesses. All employees are tied to this measure.	15%
3. Customer Satisfaction	Based on improving customer satisfaction, a residential customer survey measures overall customer satisfaction in categories such as reliability, communications, corporate citizenship, price and value, billing and payment, customer and field service. Customer satisfaction surveys are conducted by an independent third party and compared against the satisfaction survey results of other regional benchmark energy suppliers. All employees are tied to this measure.	15%
4. Reliability	Meter set remediation based on the total number of meter sets remediated for risers in hard surfaces	20%

Q. WHO PARTICIPATES IN THE MERC NON EXECUTIVE PLAN?

A . Participants in the MERC Non-Executive Incentive Plan include MERC non-union non-executive employees, as well as employees of IBS. Employees of IBS affect the MERC Non-Executive Incentive Plan based on the proportion that IBS costs are allocated to MERC, as discussed in the pre-filed direct testimony of Tracy L. Kupsh.

Q. HOW DOES THE COST MANAGEMENT NON FUEL O&M EXPENSE ADJUSTED METRIC BENEFIT CUSTOMERS?

A. The Cost Management Non-fuel O&M Expense-adjusted metric benefits customers by reducing the costs of service that must be recovered from customers in future rate cases. This metric encourages employees to maintain or reduce operational costs in order to keep O&M costs at or below the target level set for MERC. The more O&M costs are reduced, the higher the payout for which employees may be eligible. This metric benefits customers because all else being equal, lowering O&M expenses will reduce the amount of costs to be recovered in future rate cases.

To the extent any O&M savings are permanent, the result will be lower rates for MERC customers for years to come.

Q. HOW DOES THE EMPLOYEE SAFETY METRIC BENEFIT CUSTOMERS?

A. The Employee Safety metric benefits customers by reducing costs and inefficiencies associated with on-the-job accidents. The focus on employee safety is part of a larger effort to create a “Safety Culture” in which all aspects of safety, public safety, customer safety, as well as employee safety, become a daily part of what we do. The Pay-at-Risk compensation metric is designed to encourage the reduction in the number of OSHA-recordable incidents by MERC employees. OSHA-recordable incidents or indeed, accidents of any kind, cause higher operating expenses, which ultimately result in higher rates for customers. Moreover, safer employees are more motivated and efficient than those who operate in a less safe environment. Thus, by encouraging increased safety of employees, this metric leads to more efficiency and lower costs, which are a direct benefit to customers.

Q. HOW DOES THE CUSTOMER SATISFACTION METRIC BENEFIT CUSTOEMRS?

A. The Customer Satisfaction metric benefits customers by encouraging MERC employees to improve the Company's performance with respect to customer communications, customer service, and field service. This metric is designed to ensure that MERC customers receive an ever-improving level of high-quality service in all aspects of MERC's delivery of natural gas to their homes and businesses. Customers of MERC benefit from this metric because it ensures that they continue to receive high-quality service from MERC employees and encourages further improvements in that service quality.

Q. HOW DOES THE RELIABILITY METRIC BENEFIT CUSTOMERS?

A. The Reliability metric benefits customers by increasing the safety and reliability of the gas system. When risers are incased in hard surfaces, corrosive atmosphere is created that is proven to be detrimental, potentially causing damage that can result in leaks. Reduction in leaks benefits all three of MERC's customers, residential, commercial and industrial.

Customers benefit from this increased scrutiny as well as from focused work plans that identify and remove risers in hard surfaces.

Q. DO YOU ANTICIPATE ANY ADDITIONAL CHANGES TO THE PLAN FOR THE PROJECTED TEST YEAR?

A. No. For the 2014 projected test year our focus will likely continue to be on the four measures described above, although targets will be adjusted.

Q. DO YOU PROPOSE THAT MERC RECOVER IN RATES THE COSTS OF THE MERC NON EXECUTIVE INCENTIVE PLAN IN THEIR ENTIRETY?

A. Yes. MERC proposes to continue the practice utilized in Docket Number G007,011/GR-10-977 where MERC will recover 100% of the non-executive incentive plan.

Q. ON WHAT BASIS DO YOU PROPOSE THAT MERC RECOVER IN RATES THE COSTS OF THE MERC NON EXECUTIVE INCENTIVE PLAN IN THEIR ENTIRETY?

A. As described above, the MERC Non-Executive Incentive Plan contains measures designed exclusively to provide benefits to customers by encouraging the achievement of operational goals focused on maintaining or reducing costs and improving reliability and service. The MERC Non-Executive Incentive Plan aligns non-executive employee performance with customer interests.

Q. HOW ARE YOU PROPOSING THE COST OF THE MERC EXECUTIVE INCENTIVE PLAN BE RECOVERED IN RATES?

A. MERC proposes that 30% of the pay-at-risk in the 2013 MERC Executive Incentive plan share as also based on operational measures, as was the case in the 2011 and 2012 plans. 10% uses the same Safety metric as used in the MERC Non-Executive Incentive Plan and 10% uses the same Customer Satisfaction metric. The final 10% uses an Environmental metric. The Environmental metric supports MERC's efforts to reduce annual emissions of carbon dioxide (CO_2) and other greenhouse gases by implementing energy efficiency and conservation activities that will reduce greenhouse gas emissions from the energy MERC uses as well as through improvements in the processes to generate and transmit natural gas with reduced greenhouse gas emissions. Therefore, we propose to continue the practice utilized in Docket Number G-007,011/GR-10-977 and have the costs associated with the 30% recovered in rates.

Q. WHAT IS YOUR PROPOSAL FOR THE REMAINING 70% OF THE COST OF THE MERC EXECUTIVE INCENTIVE PLAN?

A. The 70% of the pay-at-risk in the MERC Executive Incentive plan is associated with an Earnings per Share measure and are not included in this rate proposal.

Q. DO YOU HAVE ANY FURTHER COMMENTS ON THE RECOVERY OF THE PAY AT RISK PAY COMPONENT OF TOTAL CASH COMPENSATION?

A. Yes, I do. MERC's total cash compensation costs are targeted to the energy industry and the general industry market median rates. These are prudent expenditures that allow

MERC to continue customer-expected service levels and to maintain competitive rates. If MERC went to a more fixed-expense basis for compensation in the form of increased base salaries, it would put the Company at a disadvantage in a market where Pay-at-Risk pay programs are prevalent, and negatively impact our ability to attract and retain the quality workforce needed to deliver high levels of customer service without any benefit to the customer.

III. PENSION OBLIGATION FUNDING

Q. WILL YOU BE ADDRESSING DOCKET NO. G007,011/GR-10-977 ORDER POINT 14 REQUIREMENT THAT THE COMPANY SHALL FULLY SUPPORT THE REASONABLENESS OF HAVING RATEPAYERS PAY 100% OF ITS PENSION OBLIGATION?

A. Yes, I will address the issue of pension obligation funding.

In 2008 the Company announced it was beginning an orderly transition from a defined benefit pension plan to a defined contribution plan. As part of that transition, the pension plan that has been offered to Administrative employees was closed to new entrants. At the same time, the Company, through the collective bargaining process, commenced negotiating the closing of the pension plan with the unions that represented a portion of MERC's work force. There are no longer any open pension plans at MERC. However, there are pension obligations that do remain in place for those employees who participated in the plans before they were closed. It is reasonable to continue to have those previously promised obligations recovered through rates as those obligations arose from a time when ratepayers were supportive of pension programs for public utility employees.

IV. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY ON THE TEST YEARS?

A. Yes, it does.

1/1/13

INTEGRYS

2013
IBS & Regulated
Non-Executive
Incentive Plan

Update 12/3/12

EFFECTIVE DATE

The 2013 IBS & Regulated Non-Executive Incentive Plan (the "Plan"), shall become effective on January 1, 2013. The Plan shall operate on the basis of a plan year that will begin on January 1, 2013 and will end on December 31, 2013 (the "Plan Year"). Payouts will be based on Plan Year performance results, except as otherwise provided herein.

PURPOSE

The Plan provides eligible employees with an opportunity to receive cash short term incentive compensation based upon the achievement of short-term goals that support Integrys Energy Group, Inc. (the "Company"), and those direct and indirect subsidiaries of the Company that have been designated by the Company for participation in this Plan. The purpose of the Plan is to focus eligible employees on reducing the costs of operations, improving reliability to customers, and supporting an emphasis on safety in all we do. Payouts for Plan participants will be determined based on the Plan provisions and the results of performance measurements from Participating Subsidiaries (as defined below).

ELIGIBILITY

Eligibility is limited to employees who are classified by the Company or a Participating Subsidiary as active regular administrative full-time or part-time employees of the Company or a Participating Subsidiary for the period of time during the Plan Year that they are employed in an eligible classification. Employees of the Company's non-regulated direct and indirect subsidiaries, including Integrys Energy Services, Inc., are not eligible to participate in the Plan. Further, employees who participate in another short-term Company or Participating Subsidiary incentive plan (other than a plan that compensates the employee on a commission basis) are not eligible to participate in this Plan with respect to the portion of the Plan Year that is also covered under such other plan. Performance measures, weightings and threshold, target and superior payout levels by pay grade are listed in the Plan Appendix.

Employees who are covered by a collective bargaining agreement, assigned by the Company to a limited term or temporary status (e.g. limited-term employees) and persons who provide services to the Company or a Participating Subsidiary but who are classified as non-employee service providers (e.g. contractors and consultants) are not eligible for the Plan.

Any employee who first becomes eligible and is added to the Plan after the start of the Plan Year will be eligible to participate with respect to that Plan Year, but any payout under the Plan will be based solely on the employee's Pay during the portion of the Payroll Year (as defined below) for which the employee was employed in an eligible classification.

If an employee transfers during the Plan Year from employment covered by a collective bargaining agreement to employment in a regular position eligible for participation in the Plan, or vice versa, the employee will be eligible to participate with respect to that Plan Year, but any payout under the Plan will be based on the employee's Pay during the portion of the Payroll Year for which the employee was employed in an eligible classification.

Except as provided in the Employment Termination section below, employees must be actively employed through December 31 of the Plan Year to be eligible for a payout under the Plan with respect to that Plan Year. Those who are not actively employed through December 31 of the Plan Year for reasons other than retirement, disability, approved leave of absence or death, will not be eligible to receive a payout from the Plan. An employee does not earn a right to a Plan payment (whether on a pro rata basis or otherwise) based upon length of service or mere completion of service during the Plan Year. Rather, a payout is earned based upon the achievement by the applicable Participating Subsidiary (or other business unit) of pre-determined performance goals measured over the course of the entire Plan Year as a result of the efforts of eligible employees who contribute toward the achievement of such goals. An employee's participation in the Plan, and the opportunity to earn a payout in accordance with the terms and conditions of the Plan, does not represent an unequivocal promise on the part of the Company to pay incentive compensation other than to the extent that applicable performance goals have been satisfied and the employee satisfies the eligibility conditions specified herein.

Eligible Plan participants who during the Plan Year change employment status from one eligible status to another eligible status but qualify to participate in the current Integrys Pay Protection policy will be eligible to participate (a) at the annual incentive percentage target level payout that has been assigned to their prior, higher pay grade with respect to eligible employment during the portion of the Plan Year that is prior to the Change in Status Date and (b) at the annual incentive percentage target level payout that has been assigned to their new, lower pay grade with respect to eligible employment during the portion of the Plan Year that is on or after the Change in Status Date.

PARTICIPATING SUBSIDIARIES

The participating subsidiaries (each, a "Participating Subsidiary", and collectively, the "Participating Subsidiaries") are: Integrys Business Support LLC (IBS), Minnesota Energy Resources Corporation (MER), Michigan Gas Utilities, Inc. (MGU), North Shore Gas Company (NSG), the Peoples Gas Light & Coke Company (PGL), Upper Peninsula Power Company (UPPCO), Wisconsin Public Service Corporation (WPS) and any other corporation or entity designated by the Chief Executive Officer of the Company (the "CEO") for participation in the Plan.

When evaluating performance during the Plan Year, the performance of all such Participating Subsidiaries shall be included. In the event that any such Participating Subsidiary is sold or otherwise divested during the Plan Year, the target metric and actual performance for such Participating Subsidiary will include the full period prior to such sale or divestiture and thereafter performance of such Participating Subsidiary will be excluded. Unless the CEO determines otherwise, in the event of an acquisition of a new subsidiary or other corporate transaction involving the merger with or acquisition of a business by TEG, performance related to such acquired business shall not be considered when evaluating performance for the Plan Year. As such, when evaluating IBS performance during the year, the respective weighting percentages assigned to each Participating Subsidiary shall be adjusted as necessary, consistent with the language above.

PAYROLL YEAR

The Payroll Year that is associated with the Plan Year, that will be used to determine eligible Pay for payout calculations, is from December 23, 2012 through December 21, 2013.

EMPLOYMENT TERMINATION

Termination of employment at any time during the Plan Year (other than termination on account of retirement, death, or because the employee left the company in good standing at the end of a "Regular with an end date" assignment) will disqualify the participant from receiving a payout from the Plan.

Absence from active employment during the Plan Year on account of disability or approved unpaid leave of absence will not disqualify the participant from receiving a payout of any award that has otherwise been earned, but the amount payable to or on behalf of the participant will be based upon the participant's Pay that is recognized for purposes of the Plan.

Similarly, if termination of employment occurs during the Plan Year due to retirement, ~~or~~ death, or because the employee left the company in good standing at the end of a "Regular with an end date" assignment, the participant will receive a payout of any award that has otherwise been earned, but the amount payable to or on behalf of the participant will be based upon the participant's Pay during the participant's period of active service during the year.

"Retirement" means termination of a Participant's service with the Company and its Affiliates, if one or more of the following conditions is satisfied:

(a) the termination occurs on or after the Participant's attainment of age sixty-two (62),

(b) the termination occurs on or after attainment the Participant's attainment of age fifty-five (55) and completion of at least ten (10) years of vesting service (as defined in the 401(k) plan that is applicable to the participant), or

(c) in the case of a Participant who is covered under a defined benefit pension plan maintained by the Company or an Affiliate, the termination qualifies the Participant's for retirement (as opposed to vested termination) benefits under such defined benefit pension plan.

The word "disability" means that the participant's active service has been interrupted as a result of the participant being totally disabled (as defined in the Company's or Participating Subsidiary's long-term disability plan applicable to the employee).

In all cases, eligibility for any earned payout is based upon the employee's Pay during the portion of the Payroll Year for which the employee was employed in an eligible classification.

Any earned Plan payout to or on behalf of a participant who terminated employment during the Plan Year on account of retirement, death, or because the employee left the company in good standing at the end of a "Regular with an end date" assignment, or who is absent from active service on account of disability or an approved unpaid leave of absence, will be paid at the same time as payment is made to active employees whose employment with the Company or a Participating Subsidiary has continued. In the event of a participant's death, any earned Plan payout will be distributed at such time in a lump sum to the participant's estate.

DEFINITION OF PAY

Plan payouts are expressed and calculated as a percentage of the eligible employee's Pay for the Payroll Year or applicable portion of the Payroll Year while a Plan participant. For the purposes of the Plan, "Pay" is defined as base pay and overtime earnings from the Company actually paid (or that would have been payable except for the employee's election to defer receipt of base pay earnings) during the Payroll Year or applicable portion of the Payroll Year for services performed in an eligible employment position (including short term salary continuation or short-term disability benefits or paid leave of absence earnings paid by the Company or a Participating Subsidiary). All other payments such as, without limitation, long-term disability or other sickness or disability benefits not paid by the Company or a Participating Subsidiary, reimbursed expenses, termination pay, relocation allowances or reimbursements, deferred compensation (other than base pay earnings voluntarily deferred during the Plan Year at the election of the employee), pension restoration, supplemental retirement or similar accruals or benefits, stock options, performance shares, restricted stock, restricted stock unit or other equity compensation, retention agreements/bonuses, signing bonuses, and any contributions paid by the Company to any employee benefit plan (within the meaning of ERISA), and imputed income resulting from participation in a Company or Participating Subsidiary benefit or compensation program, shall be excluded. Only amounts paid by the Company or a Participating Subsidiary and otherwise eligible in accordance with the foregoing provisions of this paragraph will be recognized as pay; other payments and benefits, e.g., long-term disability benefits paid by a third party insurer, are not recognized as Pay.

PLAN PERFORMANCE MEASURES

Plan payouts will be based on the various Company, NSG, PGL, MER, MGU, UPPCO, and WPS operational performance measures. Each goal is weighted, representing a proportional share of the potential payout. No payout will be made with respect to a particular performance goal if performance with respect to that goal does not exceed the threshold level of performance. To receive a target award for a goal, the target performance goal level must be attained. To receive a superior award for a goal, the superior performance goal level must be attained. For performance that exceeds threshold but is less than target or greater than target but less than superior the payout amount will be pro-rated. IBS will share outcomes of the regulated utility subsidiaries on a prorated basis as related to Customer Satisfaction, Employee Safety and the various reliability measures. The respective weighting percentages by Participating Subsidiary for the Plan Year are: MER 4.76%, MGU 3.82%, NSG 5.05%, PGL 34.15%, UPPCO 4.11% and WPS 48.11%. These weightings will be used to calculate IBS payouts.

General descriptions of the performance measures to be utilized in determining payouts for the Plan Year are set forth below. Not every performance measure applies with respect to each

Participating Subsidiary or each eligible employee of a Participating Subsidiary, nor will the weightings applied with respect to a performance measure necessarily be the same between Participating Subsidiaries or between employee groups who are employed at a particular Participating Subsidiary. In addition, the performance measures can be specific to a group, and may include measures as approved by the CEO.

OPERATIONAL MEASURES

Integrys Energy Group-Utility and IBS FERC-based non-fuel Operation and Maintenance expense – Adjusted Before Annual Incentives

The annual forecasted ***Combined Utility and IBS FERC-based non-fuel Operation and Maintenance (O&M) expense – Adjusted Before Annual Incentives*** is determined based upon the combined Utility and IBS FERC-based non-fuel O&M included in the budget accepted by the Integrys Board of Directors on December 12, 2012 adjusted for:

(1) Budgeted annual incentive plan compensation expense, expected to be accrued at target-level performance related to the executive and non-executive annual incentive compensation plans for employees of IBS and the Regulated Utilities,

(2) Amounts recorded for (a) costs recovered directly through regulatory trackers such as bad debt, demand side management, energy efficiency programs, and manufactured gas plant clean up, (b) electric transmission (wheeling) costs, and (c) bad debt expense not recovered through trackers.

(3) The performance levels required to achieve threshold, target, and maximum payout levels for performance on Combined Utility and IBS FERC-based non-fuel Operations and Maintenance (O&M) expense-Adjusted Before Annual Incentives are attached in Appendix A hereto.

The ***Calculated Combined Utility and IBS FERC-based non-fuel Operation and Maintenance expense – Adjusted Before Annual Incentives*** used to determine if desired performance has been achieved will be calculated based upon the combined Utility and IBS FERC-based non-fuel O&M included in the final 2013 audited financial results for Integrys Energy Group, Inc. adjusted for:

(1) Incentive plan compensation expense included in the actual results related to the executive and non-executive annual incentive compensation plan for employees of IBS and the Regulated Utilities,

(2) Where applicable to O&M, the pre-tax impact of adjustments reflected in Integrys Energy Group's 2013 EPS-Adjusted as reported in the Company's earnings release for fiscal year 2013, and

(3) Amounts recorded for (a) costs recovered directly through regulatory trackers such as bad debt, demand side management, energy efficiency programs, and manufactured gas plant clean up, (b) electric transmission (wheeling) costs, and (c) bad debt expense not recovered through trackers, and

(4) Budget to actual variances for costs related to various long term equity-based incentive compensation arrangements for plan participants who are employees of IBS and the Regulated Utilities (in order to avoid incentive arrangements that would reward employees under the annual incentive plan for a declining stock price, etc.).

Customer Satisfaction Measure

The continued success of the Company will ultimately be determined by our customers, requiring customer satisfaction to be the focal point of our efforts. Customer satisfaction will be measured for residential customers of MERC, MGU, NSG, PGL, UPPCO and WPS and compared against the satisfaction survey results of other regional benchmark energy suppliers. Surveys will be conducted by J.D. Power and Associates. The surveys measure overall customer satisfaction in categories such as power quality and reliability, communications, corporate citizenship, price, billing and payment, customer service and field service. Survey category results are combined into an overall score for each utility. The incentive measure compares each of our electric and gas utilities' score against the Midwest regional average utility score. IBS employees' incentive measure will be a weighted combination of all of our utilities' scores – the score weighting based on the ratio of customer counts for each utility.

Employee Safety

Employee safety will be measured with a rate calculated by multiplying the number of recordable cases over a given period of time by 200,000. That total is subsequently divided by the number of total hours worked by the identified business unit to obtain the final rate. An injury or illness is considered recordable if it meets standard criteria set by Occupational Safety and Health Administration (OSHA) regulations. For purposes of determining results for 2013, the rate is measured over a calendar year basis.

The recordable incident rates are further analyzed against viable industry benchmarks, and final targets are reviewed and approved by business unit management to promote consistency and improvement. Regulated utility subsidiaries – measure will rely on the individual metrics of MER, MGU, NSG, PGL, UPPCO and WPS. IBS employees will use each utility's score as a portion of their score, weighted to reflect the ratio of IBS costs allocated to the utility.

This incentive is designed to promote safety awareness and safe work practices and will not be the cause of underreporting of injuries and illnesses.

VARIABLE OPERATIONS RELIABILITY MEASURES (see below) IBS employees will use each utility's score as a portion of their score, weighted to reflect the ratio of IBS costs allocated to the utility.

UPPCO, WPS - System Reliability

The System Reliability measure includes two components, electric system and gas system reliability which measure our ability to deliver quality services to our customers by reducing the frequency and duration of planned and unplanned service interruptions. The electric system component will apply to UPPCO and WPS. The gas system component will apply to WPS. They are defined as follows:

The electric system measurement is the annual System Average Interruption Duration Index (SAIDI), excluding major event days as defined by the IEEE (Institute of Electrical and Electronics Engineers) Standard 1366-2003. The SAIDI is the cumulative customer minutes of outage, on average, per customer served per year. It excludes the customer minutes of outage due to major event days such as large storms, and includes the customer minutes of outage due to events originating on the transmission, substation, and distribution systems. The 2013 incentive levels of threshold, target and superior are determined by the historical average annual SAIDI values.
The gas system component measure is based on the percentage of customer and public odor complaints with employee response times less than or equal to 60 minutes.

PGL - Reduction in Class 2 System Leaks

A Class 2 leak is a gas leak that is recognized as being non-hazardous at the time of detection, but justifies more frequent monitoring and scheduled repair based on probable future hazard. Proper management of Class 2 gas leaks will reduce exposure to risk. There would also be some cost savings through the reduction in frequency of future required leak rechecks. The metric for this measure will be based on the percentage of Class 2 gas leaks pending repair as a ratio to the total number of Class 2 and Class 3 pending repair. A Class 3 leak is one that is nonhazardous at the time of detection and can be reasonably expected to remain non-hazardous.

NSG – Reduction in Total Leaks

Leaks not requiring immediate action are recognized as being non-hazardous at the time of detection. However these non hazardous leaks require frequent monitoring and scheduled repair based on probable future hazard. Reducing the total number of non-hazardous leaks pending reduces the risk of leak migration between rechecks and improves overall system safety. There is also cost savings when expediently repairing leaks through the reduction in the number of rechecks required to be performed. The metric for this measure would be the total number of leaks pending. The results would be measured as an average of the total leaks pending repair on the last day of each month.

NSG, PGL - Reduction in 2nd and 3rd Party Damages

Damage prevention is an operational measure with a significant safety component and will be critical for development of a strong distribution integrity management program. Elimination of third party damages is a major initiative across the natural gas industry. Reducing damages by others to company gas facilities improves safety for our own employees as well as for the general public and avoids outages to our customers. The metric for this measure will be based on the total number of excavation damages caused by second parties (company contractors) and third parties (other excavators) to company-owned facilities per 1,000 locates performed by the company.

NSG, PGL – Reduction in Damages caused by Company Crews

Installing and maintaining natural gas facilities requires company crews to work in close proximity to other utilities. Performing this work safely is essential to ensure employee and customer safety. This can be achieved by proper jobsite preparedness and safe excavation practices. Cost savings can also be achieved through reduced claim expenses. The metric for this measure will be the number of damages caused by company crews to other utilities, below and above ground, as well as to company facilities.

MER - Meter Set Remediation

This multi-year metric is based on meter set remediation as identified in MERC's meter set surveys. For 2013 the measure will focus on risers in hard surface; in 2012 the measure focused on stop valve readily accessible; in 2011 the measure focused on active atmospheric corrosion. The remediation targets are number of meter sets remediated based on budget and resources.

MGU - Meter Valve Remediation

This metric is based on improving performance of defective meter shut-off valve corrections. The objective is to reduce the number of outstanding broken, buried, and built over meter shut-off valves. Completion goal is the percent corrections of all identified defective shut-offs found in 2012 and prior – 35% for threshold, 50% for target, and 75% for superior performance.

WPS - Market Effectiveness Measure

The WPS Market Effectiveness measure is specific to WPS Energy Supply Operations participants, and selected participants in Energy Supply & Control. It is based on the energy price weighted availability of all WPS's generation facilities, the comparison of what WPS electric generation earns in 2013 versus what it could have earned if all units had been available 100% as needed.

PAYMENT OF INCENTIVE AWARD EARNED

The President of the Company or of a Participating Subsidiary (or, if there is no President of a Participating Subsidiary, the highest ranking officer of the Participating Subsidiary) shall have discretion to determine that an eligible employee of the Company or applicable Participating Subsidiary is ineligible in total or in part for a Plan payout if the employee has earned less than a "fully successful" performance evaluation rating for the Plan Year or is otherwise being counseled concerning documented insufficient performance. This is the only circumstance in which an amount that would otherwise be payable as a result of the achievement of performance objectives might not be paid assuming employment continues through the end of the Plan Year.

PLAN PAYOUTS

Following the close of the Plan Year and after the audited financial results are available, the CEO will certify the extent to which the performance measures have been satisfied and will authorize Plan payouts. Payouts, less tax withholdings, will be paid no later than March 15th of the year following the Plan Year. No payout will be made with respect to a particular performance measure if performance with respect to that measure does not exceed the threshold level of performance. To receive a target payout for a measure, the target performance level must be attained. To receive a superior payout for a measure, the superior performance level must be attained.

An employee who during the Plan Year changes employment status from one regular eligible status or position to another regular eligible status or position, other than a change that the Company or applicable Participating Subsidiary determines to be short-term or temporary assignment that does not represent a long-term change in the employee's regular role, will be subject, with respect to employment on or after the date the change in employment status is reflected in the PeopleSoft System (the "Change in Status Date"), to the Plan payout target and/or incentive measures applicable to the employment status into which the employee has transferred. Any payout applicable to eligible employment during the Plan Year prior to the Change in Status Date will be based upon the employee's payout targets and/or incentive measures applicable to the employee prior to the Change in Status Date and the employee's pay prior to the Change in Status Date. Any payment applicable to eligible employment during the Plan Year but on or after the Change in Status Date will be based upon the employee's payout target and/or incentive measures applicable to the employee on or after the Change in Status Date and the employee's Pay on or after the Change in Status Date. In the case of a regular employee who during the Plan Year changes employment status from a regular eligible status and position to a Developmental position, the foregoing rules will apply, except that with respect to employment on or after the Change in Status Date, the employee will retain the Plan payout target applicable to the employee's original regular eligible status and position but any incentive payout to the employee will be determined under the Plan incentive measures of the Developmental position organization. Legacy short-term or other temporary assignments (as determined by the Company or applicable Participating Subsidiary) will not change the incentive plan or level that an employee is assigned to. The employee will remain in his or her regular role for payout calculation purposes.

RELATIONSHIP TO OTHER COMPANY PLANS

Employees who participate in another short term incentive plan (for example, an incentive plan at Integrys Energy Services, Inc.) are not eligible to participate in this Plan until the time their participation in the other short term incentive plan terminates.

RIGHTS OF PARTICIPANTS & FORFEITURE

Nothing in this Plan shall:

(1) Confer upon any employee any right with respect to continuation of employment with the Company;
(2) Interfere in any way with the right of the Company or the Participating Subsidiaries or any other affiliate to terminate his/her employment at any time; or
(3) Confer upon any employee or any other person any claim or right to any distribution under the Plan except to the extent that a payment has been earned based upon the achievement of the measures applicable to the employee and the employee otherwise satisfies the eligibility requirements of the Plan.

No right or interest of any employee in the Plan shall, prior to actual payment or distribution to the employee, be assignable or transferable in whole or in part, either voluntarily or by operation of law or otherwise, or be subject to payment of debts of any employee by execution, levy, garnishment, attachment, pledge, bankruptcy, or in any other manner.

ADMINISTRATION

The Compensation Committee of the Board of Directors has delegated to the CEO its authority and responsibility with respect to the Plan. Accordingly, the CEO is authorized to 1) interpret and apply the Plan’s terms and conditions, 2) determine who will participate in the Plan and the level of participation, and 3) approve, within the first 90 days of the Plan Year, the performance measures that are applicable to a covered employee’s participation. The CEO’s authority does not include the authority to 1) modify the performance measures once initially established and approved within the first 90 days of the Plan Year, or 2) to adjust payout amounts that have been earned under the Plan provisions.

2013 IBS & Regulated Non-Executive Incentive Plan

Integrys Energy Group-Utility and IBS FERC-based non-fuel Operation and Maintenance expense – Adjusted Before Annual Incentives

Appendix A

Utility and IBS FERC-based non-fuel O&M included in the budget	$1074.1
Less:	
Wheeling costs	128.9
Demand side management costs	33.0
Bad debt expense including tracker impact	41.0
Manufactured gas plant clean-up costs	42.0
Energy efficiency costs	26.0
Fox Energy Center O&M	16.4
Annual incentives	18.9
Budgeted Utility and IBS FERC-based non-fuel O&M – adjusted	$ 767.9

Utility and IBS FERC-based non-fuel O&M – adjusted incentive	
Threshold (budget)	$ 767.9
Target ($25 million savings from budget)	$ 742.9
Superior ($50 million savings from budget)	$ 717.9