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# Integrys CEO weighs dealmaking options, reluctantly

By: [Steve Daniels](#) July 25, 2011

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Charles Schrock knows consolidation is reshaping the utility industry.

Photo by: [John R. Boehm](#)

Charles Schrock, a nuclear engineer who's spent virtually his entire career with one company, would prefer to stick to operations as **CEO** of **Integrys** Energy Group Inc. than confront the eat-or-be-eaten world that the utility industry has become. But he realizes he may not have a choice.

Chicago-based **Integrys**, itself the result of the merger of Peoples Energy Corp. into WPS Resources Corp. of Green Bay, Wis., has sat by while the region's other big utilities, Nicor Inc. and Exelon Corp., have paired up with out-of-

state companies as seller and buyer, respectively.

Mr. Schrock, 58, a 32-year veteran of WPS, got the top job in 2009 after his predecessor, Larry Weyers, capped a deal-stoked career with his biggest, the \$1.5-billion acquisition of Peoples in

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~~2007. Mr. Schrock, who allows that he doesn't share Mr. Weyers' intense interest in deal-making,~~  
did the bulk of the cleanup, stabilizing troubled Peoples Gas and selling off much of Mr. Weyers' unwieldy energy trading business.

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"I believe we can implement our value proposition without" a takeover, Mr. Schrock says in an interview. But "consolidation in the industry is a fact. It's going to happen. . . . We're not going to stick our head in the sand and ignore what's going on around us."

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**Integrlys** tells investors it can deliver earnings growth of 4% to 6% a year on its own, but utilities are eyeing each other right now like speed daters as they aim for faster growth. Unless Mr. Schrock joins them, he risks a takeover that would move **Integrlys'** headquarters to another state.

That **Integrlys** is here was improbable five years ago, when troubled Peoples put itself on the auction block. Normally, when a weak company gets bought, its headquarters go to the winner's home city. But Mr. Weyers opted to move 200 miles south to Chicago. Today, **Integrlys** employs 1,835 people in the Chicago area; more than 700 are affiliated with the parent company rather than with Peoples Gas. The company reported \$224 million in profit on \$5.2 billion in revenue last year, a turnaround from a \$74-million loss on \$7.5 billion in revenue in 2009.

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Before becoming **CEO** and moving to an East Loop condo just steps away from **Integrlys'** Prudential Plaza digs, Mr. Schrock ran a Green Bay electric and gas utility, Wisconsin Public Service Corp. A suburban Detroit native whose dad drove a truck for a local department store, Mr. Schrock hired on as an associate nuclear engineer in 1979 and spent much of his career in the power generation side of the business. Still a Green Bay Packers fan, he says he and his wife of 35 years, Liz, view their time in Chicago as "our big adventure. We're having a blast."

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His operations bent has come in handy. Since 2009, Mr. Schrock has transformed **Integrlys** into a regulated company, with electric and gas utilities in Wisconsin, Michigan and Minnesota, in addition to Peoples Gas in Chicago, which serves the city and 54 northern suburbs.

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He divested much of **Integrlys'** energy trading and unregulated electric and gas supply business, which as recently as 2007 accounted for 40% of **Integrlys'** earnings but was susceptible to volatile earnings movements as commodity prices fluctuated. In 2011, **Integrlys** projects that what remains of that unit—now focused just on selling electricity and gas to retail customers—will account for about 16% of earnings of \$3.24 to \$3.57 a share.

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At the same time, Peoples Gas has persuaded Illinois regulators to allow it to hike rates twice and charge ratepayers extra to replace \$125 million worth of aging cast-iron gas pipes under Chicago's streets each year in a capital project that could take 15 years. Those victories enabled **Integrlys** to preserve a \$2.72-per-share annual dividend that is among the utility industry's richest.

Wall Street has reacted positively. The company's stock is up 14% in the past year, to \$52.55 a share, slightly better than the 13.5% increase in the Standard & Poor's 500 Utility Index. **Integrlys'** stock is valued at 14.5 times its estimated 2012 earnings, one to two percentage points above typical electric utilities.

Its rising market cap could help it finance an acquisition. It also won't necessarily scare off prospective buyers.

## PREMIUM POWER

Atlanta-based AGL Resources paid a 22% premium for Nicor when it agreed to a \$2.4-billion acquisition in December, despite the belief on Wall Street that Nicor already was richly valued. Unusually, both companies' stock is trading above the purchase price now, though the acquisition hasn't closed yet.

According to people familiar with the matter, Mr. Schrock looked hard at buying Nicor, which delivers gas to most of suburban Chicago. He declines to comment.

Paul Patterson, a utility analyst with Glenrock Associates LLC in New York, sees Mr. Schrock as more of a buyer than a seller. "I don't think of them as particularly vulnerable," he says. "This would be a company, given its history, that wouldn't be averse to combining with somebody."

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