North Shore Gas Company

Cost of Capital Summary (1)

Line No.	Class of Capital	Amount (2)	Percent of Total	Percent Cost	Cost Reference	Weighted Cost	Line No.
		Historical Year 2011 (12 month average)					
	(A)	(B)	(C)	(D)	(E)	(F) = (C X D)	
1	Long-term Debt (3)	$ 72,303,000	42.54%	5.52%	D-3	2.35%	1
2	Short-term Debt	2,692,000	1.58%	8.21%	D-2	0.13%	2
3	Common Equity	94,984,000	55.88%	10.75% (4)		6.01%	3
4	Total Capital	$ 169,979,000				8.49%	4
		Forecasted Year 2012 (5)					
	Class of Capital	Amount (2)	Percent of Total	Percent Cost	Cost Reference	Weighted Cost	
	(A)	(B)	(C)	(D)	(E)	(F) = (C X D)	
5	Long-term Debt (3)	$ 72,043,000	41.39%	5.09%	D-3	2.11%	5
6	Short-term Debt	9,220,000	5.30%	2.72%	D-2	0.14%	6
7	Common Equity	92,791,000	53.31%	10.75% (4)		5.73%	7
8	Total Capital	$ 174,054,000				7.98%	8
		Test Year 2013					
	Class of Capital	Amount (2)	Percent of Total	Percent Cost	Cost Reference	Weighted Cost	
	(A)	(B)	(C)	(D)	(E)	(F) = (C X D)	
9	Long-term Debt (3)	$ 80,621,000	42.22%	4.95%	D-3	2.09%	9
10	Short-term Debt	14,267,000	7.47%	2.00%	D-2	0.15%	10
11	Common Equity	96,053,000	50.31%	10.75% (4)		5.41%	11
12	Total Capital	$ 190,941,000				7.65%	12

Notes:
(1) The weights and costs of the components of the capital structure do not differ from total company data.
(2) 12-month average balances of long-term debt, short-term debt, and common equity
(3) Includes long-term debt due within one year (if any).
(4) Cost of common equity requested in this filing.
(5) Based on zero months of actual data and twelve months of forecasted data.

North Shore Gas Company

Cost of Short Term Debt

Line No.	Month	Balance of Short Term Debt (1)	Balance of Total CWIP	Balance of CWIP Accruing AFUDC	Net Amount Outstanding Calculation A	Net Amount Outstanding Calculation B	Greater of [D] and [E] Net Amount Outstanding	Short-Term Interest Expense	Amorization of Upfront Credit Facility Fees	Total Interest Requirements	Average Interest Rate	Cost of Short Term Debt	Line No.
		[A]	[B]	[C]	[D]=[A]-[A/B*C]	[E]=[A-C]	[F]	[G]	[H]	[I]=[G+H]	[J]=[G/F]	[K]=[I/F]	
1	Historical Year Ended December 31, 2011												1
2	Jan	$11,600,000	$694,000	$0	$11,600,000	$11,600,000	$11,600,000	$3,000	$11,000	$14,000			2
3	Feb	3,000,000	665,000	0	3,000,000	3,000,000	3,000,000	1,000	11,000	12,000			3
4	Mar	0	558,000	0	0	0	0	0	29,000	29,000			4
5	Apr	0	506,000	0	0	0	0	0	17,000	17,000			5
6	May	0	826,000	0	0	0	0	0	19,000	19,000			6
7	Jun	0	1,780,000	0	0	0	0	0	17,000	17,000			7
8	Jul	0	1,519,000	0	0	0	0	0	18,000	18,000			8
9	Aug	0	1,432,000	0	0	0	0	0	18,000	18,000			9
10	Sep	0	1,739,000	0	0	0	0	0	18,000	18,000			10
11	Oct	2,125,000	1,243,000	0	2,125,000	2,125,000	2,125,000	0	19,000	19,000			11
12	Nov	6,675,000	669,000	0	6,675,000	6,675,000	6,675,000	1,000	19,000	20,000			12
13	Dec	8,900,000	2,060,000	0	8,900,000	8,900,000	8,900,000	1,000	19,000	20,000			13
14							$2,692,000 (2)	$6,000	$215,000	$221,000	0.22%	8.21%	14
15	Forecasted Year Ending December 31, 2012 (3)												15
16	Jan	$12,580,000	$30,000	$0	$12,580,000	$12,580,000	$12,580,000	$5,000	$18,000	$23,000			16
17	Feb	0	144,000	0	0	0	0	3,000	18,000	21,000			17
18	Mar	0	397,000	0	0	0	0	0	18,000	18,000			18
19	Apr	0	501,000	0	0	0	0	0	18,000	18,000			19
20	May	0	717,000	0	0	0	0	0	16,000	16,000			20
21	Jun	0	702,000	0	0	0	0	0	16,000	16,000			21
22	Jul	169,000	1,907,000	0	169,000	169,000	169,000	0	16,000	16,000			22
23	Aug	7,871,000	3,517,000	0	7,871,000	7,871,000	7,871,000	2,000	16,000	18,000			23
24	Sep	11,027,000	517,000	0	11,027,000	11,027,000	11,027,000	5,000	16,000	21,000			24
25	Oct	17,004,000	1,017,000	0	17,004,000	17,004,000	17,004,000	8,000	16,000	24,000			25
26	Nov	21,878,000	1,017,000	0	21,878,000	21,878,000	21,878,000	12,000	16,000	28,000			26
27	Dec	40,115,000	1,017,000	0	40,115,000	40,115,000	40,115,000	16,000	16,000	32,000			27
28							$9,220,000 (2)	$51,000	$200,000	$251,000	0.55%	2.72%	28
29	Test Year Ending December 31, 2013												29
30	Jan	$22,481,000	$1,017,000	$0	$22,481,000	$22,481,000	$22,481,000	$13,000	$16,000	$29,000			30
31	Feb	4,706,000	1,017,000	0	4,706,000	4,706,000	4,706,000	4,000	16,000	20,000			31
32	Mar	670,000	1,147,000	0	670,000	670,000	670,000	0	16,000	16,000			32
33	Apr	0	1,139,000	0	0	0	0	0	16,000	16,000			33
34	May	0	1,152,000	0	0	0	0	0	16,000	16,000			34
35	Jun	0	1,532,000	0	0	0	0	0	16,000	16,000			35
36	Jul	2,579,000	1,549,000	0	2,579,000	2,579,000	2,579,000	0	16,000	16,000			36
37	Aug	10,176,000	2,517,000	0	10,176,000	10,176,000	10,176,000	2,000	16,000	18,000			37
38	Sep	24,353,000	2,517,000	0	24,353,000	24,353,000	24,353,000	8,000	16,000	24,000			38
39	Oct	29,953,000	17,000	0	29,953,000	29,953,000	29,953,000	16,000	16,000	32,000			39
40	Nov	39,206,000	17,000	0	39,206,000	39,206,000	39,206,000	23,000	16,000	39,000			40
41	Dec	37,081,000	17,000	0	37,081,000	37,081,000	37,081,000	28,000	16,000	44,000			41
42							$14,267,000 (2)	$94,000	$192,000	$286,000	0.66%	2.00%	42

Notes: (1) Intercompany or Inter-Utility Loans.
(2) 12-month average of month-end balances.
(3) Includes zero months of actual data and twelve months of forecasted data.

North Shore Gas Company

Embedded Cost of Long-Term Debt

Net Proceeds Method

Line No.	Debt Issue Type, Coupon Rate	Date Issued	Maturity Date	Date Reacquired	Principal Amount at Issuance	Twelve Month Average: Face Amount Outstanding	Twelve Month Average: Unamortized Discount or (Premium)	Twelve Month Average: Unamortized Debt Expense (Gain)	Carrying Value	Coupon Interest Expense	Amortization of Debt Discount or (Premium) (3)	Amortization of Debt Expense (3)	Total Expense	Line No.
	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]=[F-G-H]	[J]=[A*F]	[K]	[L]	[M]=[J+K+L]	
	Historical Year Ended December 31, 2011													
1	First Mortgage Bonds:													1
2	Series M - 5.00% (1)	12/18/98	12/01/28		$30,035,000	$28,320,000	$ -	$ 791,000	$27,529,000	$1,416,000	$ -	$46,000	$1,462,000	2
3	Series N-2 - 4.625%	04/29/03	05/01/13		40,000,000	40,000,000	6,000	117,000 (2)	39,877,000	1,850,000	3,000	80,000	1,933,000	3
4	Series O - 7.00%	11/03/08	11/01/13		6,500,000	6,500,000	-	71,000	6,429,000	455,000	-	31,000	486,000	4
5	Sub-Total				$76,535,000	$74,820,000	$6,000	$979,000	$73,835,000	$3,721,000	$3,000	$157,000	$3,881,000	5
6	Less: Amortization of Losses on Reacquired Bonds													6
7	Series J - 8.00%	11/01/90	11/01/20	12/05/02	$ -	$ -	$ -	$504,000	($504,000)	$ -	$ -	$54,000	$54,000	7
8	Series K - 6.375% (1)	10/01/92	12/01/28	01/19/99	-	-	-	988,000	(988,000)	-	-	57,000	57,000	8
9	Series M - 5.00% (1)	12/18/98	12/01/28	Various	-	-	-	40,000	(40,000)	-	-	2,000	2,000	9
10	Sub-Total				-	-	-	1,532,000	(1,532,000)	-	-	113,000	113,000	10
11	Total				$76,535,000	$74,820,000	$6,000	$2,511,000	$72,303,000	$3,721,000	$3,000	$270,000	$3,994,000	11
12	Embedded Cost of Long-Term Debt (I /G)												5.52%	12
	Forecasted Year Ending December 31, 2012 (4)													
	First Mortgage Bonds:													
13	Series M 5.00% (1)	12/18/98	12/01/28	4/2/2012	$30,035,000	$7,038,000	$ -	$189,000	$6,849,000	$352,000	$ -	$11,000	$363,000	13
14	Series N-2 - 4.625%	04/29/03	05/01/13		40,000,000	40,000,000	3,000	52,000 (7)	39,945,000	1,850,000	3,000	81,000	1,934,000	14
15	Series O - 7.00%	11/03/08	11/01/13		6,500,000	6,500,000	-	40,000	6,460,000	455,000	-	31,000	486,000	15
16	New Issue - 3.43% (4)	04/03/12	04/01/27		28,000,000	21,000,000	-	204,000	20,796,000	720,000	-	14,000 (8)	734,000	16
17	Sub-Total				$104,535,000	$74,538,000	$ 3,000	$485,000	$74,050,000	$3,377,000	$3,000	$137,000	$3,517,000	17
18	Less: Amortization of Losses on Reacquired Bonds													18
19	Series J - 8.00%	11/01/90	11/01/20	12/05/02	$ -	$ -	$ -	$451,000	($451,000)	$ -	$ -	$54,000	$54,000	19
20	Series K - 6.375% (1)	10/01/92	12/01/28	01/19/99	-	-	-	931,000	(931,000)	-	-	57,000	57,000	20
21	Series M - 5.00% (1)(6)	12/18/98	12/01/28	Various	-	-	-	625,000	(625,000)	-	-	42,000	42,000	21
22	Sub-Total				-	-	-	2,007,000	(2,007,000)	-	-	153,000	153,000	22
23	Total				$104,535,000	$74,538,000	$3,000	$2,492,000	$72,043,000	$3,377,000	$3,000	$290,000	$3,670,000	23
24	Embedded Cost of Long-Term Debt (M / I)												5.09%	24
	Test Year Ending December 31, 2013													
	First Mortgage Bonds:													
25	Series N-2 4.625%	04/29/03	05/01/13		$40,000,000	$13,333,000	$ -	$2,000	$13,331,000	$617,000	$1,000	$27,000	$645,000	25
26	Series O 7.00%	11/03/08	11/01/13		6,500,000	5,417,000	-	11,000 (9)	5,406,000	379,000	-	26,000	405,000	26
26	New Issue - 3.43% (5)	04/03/12	04/01/27		28,000,000	28,000,000	-	256,000	27,744,000	960,000	-	19,000 (10)	979,000	26
27	New Issue - 4.75%	05/01/13	05/01/23		55,000,000	36,667,000	-	486,000	36,181,000	1,742,000	-	50,000 (8)	1,792,000	27
28	Sub-Total				$129,500,000	$83,417,000	-	$755,000	$82,662,000	$3,698,000	$1,000	$122,000	$3,821,000	28
29	Less: Amortization of Losses on Reacquired Bonds													29
30	Series J - 8.00%	11/01/90	11/01/20	12/05/02	$ -	$ -	$ -	$393,000	($393,000)	$ -	$ -	$54,000	$54,000	30
31	Series K - 6.375% (1)	10/01/92	12/01/28	01/19/99	-	-	-	877,000	(877,000)	-	-	57,000	57,000	31
32	Series M - 5.00% (1)(6)	12/18/98	12/01/28	Various	-	-	-	771,000	(771,000)	-	-	56,000	56,000	32
33	Sub-Total				-	-	-	2,041,000	(2,041,000)	-	-	167,000	167,000	33
34	Total				$129,500,000	$83,417,000	$0	$2,796,000	$80,621,000	$3,698,000	$1,000	$289,000	$3,988,000	34
35	Embedded Cost of Long-Term Debt (M / I)												4.95% (11)	35

Notes:
(1) Tax-exempt bond.
(2) Includes $41,000 for the unamortized debt expense related to an interest rate swap on these bonds.
(3) Annualized amounts were created using the 12/31/11 amortization amounts multiplied by 12 months.
(4) Based on zero months of actual data and twelve months of forecasted data.
(5) North Shore's 3.43% Series P bonds were issued on April 3, 2012.
(6) North Shore's 5% Series M bonds were redeemed on April 2, 2012.
(7) Includes $18,000 for the unamortized debt expense related to an interest rate swap on these bonds.
(8) Total costs amortized based on life of the debt.
(9) Includes $3,000 for the unamortized debt expense related to an interest rate swap on these bonds.
(10) Annualized amount based on life of the debt.
(11) Proposed embedded cost of debt requested in this filing.

North Shore Gas Company

Cost of Common Equity Workpapers

Line No.	Description	Work paper Reference
1	Annual Reports and 10Ks	None

AGL Resources, Inc. 2011 Annual Report
available at: http://www.aglresources.com/about/docs/AGL_AR_2011/2011AnnualReport.pdf

Atmos Energy Corporation 10K for the period ending September 30, 2011
available at http://www.investquest.com/iq/a/ato/fin/10k/atok11.pdf
3htbA%3d%3d

Consolidated Edison, Inc. 10K for the period ending December 31, 2011
available at http://phx.corporate-ir.net/phoenix.zhtml?c=61493&p=irol-SECText&TEXT=aHR0cDovL2lyLmlud
C53ZXN0bGF3YnVzaW5lc3MuY29tL2RvY3VtZW50L3YxLzAwMDExOTMxMjUtMTItMDY5ODI4L
3htbA%3d%3d

Laclede Group 10K for the period ending September 30, 2011
available at http://www.snl.com/Cache/12162727.pdf?O=3&IID=4002506&OSID=9&FID=12162727

New Jersey Resources Corporation 10K for the period ending September 30, 2011
available at: http://files.shareholder.com/downloads/NJR/1522841230x0xS356309-11-33/356309/filing.pdf

Northeast Utilities 10K for the period ending December 31, 2011
available at http://www.nu.com/investors/reports/2011_NU_Form_10K.pdf

Northwest Natural Gas 10K for the period ending December 31, 2011
available at http://www2.snl.com/Cache/12792125.pdf?O=3&IID=4057132&OSID=9&FID=12792125

PEPCO Holdings, Inc. 10K for the period ending December 31, 2011
available at http://phx.corporate-ir.net/phoenix.zhtml?c=62854&p=irol-SECText&TEXT=aHR0cDovL2lyLmludC
53ZXN0bGF3YnVzaW5lc3MuY29tL2RvY3VtZW50L3YxLzAwMDExOTMxMjUtMTItMDc1OTk5L3ht
bA%3d%3d

Piedmont Natural Gas Company, Inc. 10K for the period ending October 31, 2011
available at: http://phx.corporate-ir.net/phoenix.zhtml?c=76635&p=irol-SECText&TEXT=aHR0cDovL2lyLmludC53ZXN0
bGF3YnVzaW5lc3MuY29tL2RvY3VtZW50L3YxLzAwMDExOTMxMjUtMTEtMzUxNDk0L3htbA%
3d%3d

South Jersey Industries 10K for the period ending December 31, 2011
available at: http://www.sec.gov/Archives/edgar/data/91928/000144530512000502/sji-12311110xk.htm

Southwest Gas Corporation 10K for the period ending December 31, 2011
available at http://www.sec.gov/Archives/edgar/data/92416/000119312512084423/d255241d10k.htm

UIL Holdings Corporation 10K for the period ending December 31, 2011
available at http://phx.corporate-ir.net/phoenix.zhtml?c=102834&p=irol-SECText&TEXT=aHR0cDovL2lyLmlud
W5lc3MuY29tL2RvY3VtZW50L3YxLzAwMDExNDAzNjEtMTItMDEwMTEyL3htbA%3d%3d
C53ZXN0bGF3YnVza

WGL Holdings, Inc. 2011 Annual Report
available at: http://files.shareholder.com/downloads/WGL-II/1098199085x0x535385/473e8ff4-4401-4c5c-add1-
b12875f1b92e/WGL2011AR_1_.pdf

Alliant Energy 2011 Annual Report
available at: http://phx.corporate-ir.net/phoenix.zhtml?c=71431&p=irol-irhome

Black Hills Corp. 10K for the period ending December 31, 2011
available at: http://www.sec.gov/Archives/edgar/data/1130464/000113046412000024/bkh10k12312011.htm

CMS Energy Corp. 10K for the period ending December 31, 2011
available at: http://phx.corporate-ir.net/phoenix.zhtml?c=101338&p=irol-reportsAnnual

DTE Energy 10K for the period ending December 31, 2011
available at: http://phx.corporate-ir.net/phoenix.zhtml?c=68233&p=irol-SECText&TEXT=aHR0cDovL2lyLmludC53ZXN0
bGF3YnVzaW5lc3MuY29tL2RvY3VtZW50L3YxLzAwMDA5MzYzNDAtMTItMDAwMDA0L
3htbA%3d%3d

Integrys Energy Group 2011 Annual Report
available at: http://ir.integrysgroup.com/Cache/1500040433.PDF?D=&O=PDF&IID=4057067&Y=&T=&FID=1500040433

MGE Energy 10K for the period ending December 31, 2011
available at: http://www.mgeenergy.com/reports/html/10k_2011.htm

Vectren Corp. 10K for the period ending December 31, 2011
available at: http://www2.snl.com/Cache/1500040381.PDF?D=&O=PDF&IID=4057065&Y=&T=&FID=1500040381

Wisconsin Energy 2011 Annual Report
available at: http://www.wisconsinenergy.com/invest/annualreports/wec2011_annualreport.pdf

Xcel Energy Inc. 10K for the period ending December 31, 2011
available at: http://phx.corporate-ir.net/phoenix.zhtml?c=89458&p=irol-irhome

North Shore Gas Company

Cost of Common Equity Workpapers

2	Work Papers Supporting NS Ex. 3.2	NS Capitalization & Financial Statistics	WPD-6 (1)
3	Work Papers Supporting NS Ex. 3.3	Delivery Group Capitalization & Financial Statistics	WPD-6 (2)
4	Work Papers Supporting NS Ex. 3.4	Combination Group Capitalization & Financial Statistics	WPD-6 (3)
5	Work Papers Supporting NS Ex. 3.5	S&P Public Utilities Capitalization & Financial Statistics	WPD-6 (4)
6	Work Papers Supporting NS Ex. 3.6	Monthly Dividend Yields	WPD-6 (5)
7	Work Papers Supporting NS Ex. 3.7	Historical Growth Rates	WPD-6 (6)
8	Work Papers Supporting NS Ex. 3.8	Five-Year Projected Growth Rates	WPD-6 (7)
9	Work Papers Supporting NS Ex. 3.9	Public Utility Bond Yields	WPD-6 (8)
10	Work Papers Supporting NS Ex. 3.10	Historical Data: S&P Indexes, Corporate & Utility Bonds	WPD-6 (9)
11	Work Papers Supporting NS Ex. 3.10	Source Docs for NS Ex. 3.10 Please note that the documents are of poor quality	WPD-6 (10)
12	Delivery Group Market Capitalization	NS Ex. 3.13C	WPD-6 (11)
13	Combination Group Market Capitalization	NS Ex. 3.13C	WPD-6 (12)
14	Work Papers Supporting NS Ex. 3.12	Source Docs. for DCF Result for the S&P 500 Composite	WPD-6 (13)
15	Earnings Estimates source documents	NS Ex. 3.8	WPD-6 (14)
16	Work Papers Support NS Ex. 3.12	Comparable Earnings	WPD-6 (15)
17	Comparable Earnings source documents	Supports NS Ex. 3.12	WPD-6 (16)
18	Authoritative sources	References for Footnotes (3), (4), (5), (8), (10) and (11)	WPD-6 (17)

Support for PGL Ex. 3.11 are available among the workpapers supporting PGL Ex. 3.2 - 3.10, 3.12, and 3.13.

North Shore Gas Company

Comparative Financial Data
(000s) except per share data

Line	Description	Source	Test Year Ending 12/31/2013	Forecasted Year Ending 12/31/2012 (1)	Historical Year Ended 12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006
	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]
1	Funds from Operations									
2	Net Income	FERC - Income Statement	$ 6,551	$ 8,684	$ 9,729	$ 7,927	$ 4,351	$ 7,066	$ 7,900	$ 16,741
3	Depreciation and Amortization	SEC Annual Report - Cash Flow	10,803	10,113	9,508	9,037	6,225	6,583	5,994	5,836
4	Deferred Income Tax and Investment Tax Credits - Net	SEC Annual Report - Cash Flow	785	7,285	1,495	9,238	6,072	4,304	(1,264)	6,240
5	AFUDC	N/A					-	-	-	-
6	Other Internal Sources:									
7	Pension Funding (Greater) Less Than Expensed	SEC Annual Report - Cash Flow	(589)	(6,502)	(3,076)	(9,663)	(1,757)	2,809	4,200	1,062
8	Other Adjustments	SEC Annual Report - Cash Flow	1,855	(923)	10,648	6,224	2,019	2,038	(3,600)	(9,578)
9	Total Funds from Operations	Line 2 + 3 + 4 - 5 + 7 + 8	$ 19,405	$ 18,657	$ 28,304	$ 22,763	$ 16,910	$ 22,800	$ 13,230	$ 20,301
10	Capital Structure									
11	Short-term Debt	FERC - Balance Sheet [231, 233]	$ 37,081	$ 40,115	$ 8,900	$ 10,575	$ 7,555	$ 9,025	$ 11,875	$ -
12	Long-term Debt	FERC - Balance Sheet [221, 226]	83,000	74,499	74,646	74,828	74,959	75,291	69,043	69,075
13	Preferred Stock	N/A	-	-	-	-	-	-	-	-
14	Common Equity:									
15	Common Equity Excluding AOCI	N/A	98,265	92,684	95,500	95,134	95,108	102,257	101,493	102,894
16	Accumulated Other Comprehensive Income	FERC - Balance Sheet [219]	-	(8)	(31)	(53)	(76)	(99)	(122)	(144)
17	Common Equity Including AOCI	FERC - Balance Sheet	$ 98,265	$ 92,676	$ 95,469	$ 95,081	$ 95,032	$ 102,158	$ 101,371	$ 102,750
18	Total Capital Including AOCI	Line 11 + 12 + 13 +17	$ 218,346	$ 207,290	$ 179,015	$ 180,484	$ 177,546	$ 186,474	$ 182,289	$ 171,825
19	Total Capital Excluding AOCI	Line 11 + 12 + 13 + 15	$ 218,346	$ 207,298	$ 179,046	$ 180,537	$ 177,622	$ 186,573	$ 182,411	$ 171,969
20	Capital Structure Ratios - Including AOCI									
21	Short-term Debt Ratio	Line 11 / Line 18	16.98%	19.35%	4.97%	5.86%	4.26%	4.84%	6.51%	0.00%
22	Long-term Debt Ratio	Line 12 / Line 18	38.01%	35.94%	41.70%	41.46%	42.22%	40.38%	37.88%	40.20%
23	Preferred Stock Ratio	Line 13 / Line 18	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
24	Common Equity Ratio	Line 17 / Line 18	45.00%	44.71%	53.33%	52.68%	53.53%	54.78%	55.61%	59.80%
25	Capital Structure Ratios - Excluding AOCI									
26	Short-term Debt Ratio	Line 11 / Line 19	16.98%	19.35%	4.97%	5.86%	4.25%	4.84%	6.51%	0.00%
27	Long-term Debt Ratio	Line 12 / Line 19	38.01%	35.94%	41.69%	41.45%	42.20%	40.35%	37.85%	40.17%
28	Preferred Stock Ratio	Line 13 / Line 19	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
29	Common Equity Ratio	Line 15 / Line 19	45.00%	44.71%	53.34%	52.70%	53.55%	54.81%	55.64%	59.83%
30	Capital Structure Ratios - Excluding Short Term Debt and AOCI									
31	Long-term Debt Ratio	Line 12 / (Line 19 - Line 11)	45.79%	44.56%	43.87%	44.03%	44.08%	42.41%	40.49%	40.17%
32	Preferred Stock Ratio	Line 13 / (Line 19 - Line 11)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
33	Common Equity Ratio	Line 15 / (Line 19 - Line 11)	54.21%	55.44%	56.13%	55.97%	55.92%	57.59%	59.51%	59.83%

Note: (1) Includes zero months actual data and twelve months of forecast data.

North Shore Gas Company

Comparative Financial Data
(000s) except per share data

Line	Description	Historical Source	Test Year Ending 12/31/2013	Forecasted Year Ending 12/31/2012 (1)	Historical Year Ended 12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006
	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]
34	Cost of Capital									
35	Embedded Cost of Long-term Debt	Sch. D-3, State Reg. Quarterly Filings	4.95%	5.09%	5.52%	5.34%	5.56%	5.57%	5.39%	5.29%
36	Embedded Cost of Preferred Stock	N/A	-	-	-	-	-	-	-	-
37	Earnings Ratios									
38	Operating Income	FERC - Income Statement	$ 10,813	$ 12,445	$ 14,027	$ 11,626	$ 8,371	$ 10,801	$ 11,454	$ 20,144
39	Earnings Available for Common Equity (EACE)	Line 2 - Line 61	$ 6,551	$ 8,684	$ 9,729	$ 7,927	$ 4,351	$ 7,066	$ 7,900	$ 16,741
40	Net Original Cost Rate Base	Sch. B-1, State Reg. Quarterly Filings	$ 212,580	$ 200,780	$ 198,069	$ 201,150	$ 207,956	$ 214,187	$ 214,959	$ 190,313
41	AFUDC as a percentage of EACE	Line 5 / Line 39	-	-	-	-	-	-	-	-
42	Return on Net Original Cost Rate Base	Line 38 / Line 40	5.09%	6.20%	7.08%	5.78%	4.03%	5.04%	5.33%	10.58%
43	Return on Average Common Equity Including AOCI	Line 39 / 2-Yr. Avg. Line 17	6.86%	9.23%	10.21%	8.34%	4.41%	6.94%	7.74%	17.57%
44	Return on Average Common Equity Excluding AOCI	Line 39 / 2-Yr. Avg. Line 15	6.86%	9.23%	10.21%	8.33%	4.41%	6.94%	7.73%	17.34%
45	Fixed Charge Coverage									
46	Pre-Tax Interest Coverage:									
47	Total Operating Income	FERC - Income Statement	$ 10,813	$ 12,445	$ 14,027	$ 11,626	$ 8,371	$ 10,801	$ 11,454	$ 20,144
48	Income From Gas Plant Leased to Others	FERC - Income Statement [412, 413]	-	-	-	-	-	-	-	-
49	Other Income and Deductions, net	FERC - Income Statement [408.2 - 426.5]	101	223	(85)	497	232	481	714	768
50	Federal and State Income Taxes	FERC - Income Statement [409.1 - 411.4]	4,535	5,758	5,870	5,656	2,377	4,155	5,117	10,490
51	AFUDC Equity Funds Portion	N/A	-	-	-	-	-	-	-	-
52	Pre-tax Income Before Interest Charges	Line 47 + 48 + 49 + 50 - 51	$ 15,449	$ 18,426	$ 19,812	$ 17,779	$ 10,980	$ 15,437	$ 17,285	$ 31,402
53	Total Interest Charges	FERC - Income Statement [427 - 431]	$ 4,363	$ 3,984	$ 4,213	$ 4,196	$ 4,252	$ 4,216	$ 4,268	$ 4,171
54	Pre-tax Interest Coverage	Line 52 / Line 53	3.5	4.6	4.7	4.2	2.6	3.7	4.0	7.5
55	After-tax Fixed Charge Coverage:									
56	Total Operating Income	FERC - Income Statement	$ 10,813	$ 12,445	$ 14,027	$ 11,626	$ 8,371	$ 10,801	$ 11,454	$ 20,144
57	Income From Gas Plant Leased to Others	FERC - Income Statement [412, 413]	-	-	-	-	-	-	-	-
58	Other Income and Deductions, net	FERC - Income Statement [408.2 - 426.5]	101	223	(85)	497	232	481	714	768
59	Income Before Interest Charges	Line 56 + 57 + 58	$ 10,914	$ 12,668	$ 13,942	$ 12,123	$ 8,603	$ 11,282	$ 12,168	$ 20,912
60	Total Interest Charges	FERC - Income Statement [427 - 431]	$ 4,363	$ 3,984	$ 4,213	$ 4,196	$ 4,252	$ 4,216	$ 4,268	$ 4,171
61	Preferred Dividends	N/A	-	-	-	-	-	-	-	-
62	After-tax Fixed Charge Coverage	Line 59 / (Line 60 + 61)	2.5	3.2	3.3	2.9	2.0	2.7	2.9	5.0

Notes: (1) Includes zero months actual data and twelve months of forecast data.

North Shore Gas Company

Comparative Financial Data
(000s) except per share data

Line	Description	Historical Source	Test Year Ending 12/31/2013	Forecasted Year Ending 12/31/2012 (1)	Historical Year Ended 12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006
	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]
63	Cash Flow Ratios									
64	Funds from Operations	Line 9	$ 19,405	$ 18,657	$ 28,304	$ 22,763	$ 16,910	$ 22,800	$ 13,230	$ 20,301
65	Cash Interest Paid	SEC Annual Report - Cash Flow	4,009	3,552	3,991	3,876	3,950	3,805	3,800	3,707
66	Funds from Operation plus Cash Interest Paid	Line 64 + 65	$ 23,414	$ 22,209	$ 32,295	$ 26,639	$ 20,860	$ 26,605	$ 17,030	$ 24,008
67	Total Interest Incurred	Line 53	$ 4,363	$ 3,984	$ 4,213	$ 4,196	$ 4,252	$ 4,216	$ 4,268	$ 4,171
68	Funds Flow Interest Coverage	Line 66 / Line 67	5.4	5.6	7.7	6.3	4.9	6.3	4.0	5.8
69	Average Short-term Debt	12 Month Average [231, 233]	$ 14,267	$ 9,220	$ 2,692	$ 4,912	$ 977	$ 2,868	$ 1,831	$ 2,560
70	Average Long-term Debt (2)	12 Month Average [221, 226]	$ 83,417	$ 74,535	$ 74,814	$ 74,950	$ 75,265	$ 70,093	$ 69,074	$ 69,215
71	Funds Flow as % of Average Total Debt	Line 64 / (Line 69 + 70)	19.87%	22.28%	36.52%	28.50%	22.18%	31.25%	18.66%	28.28%
72	Common Dividends	SEC Annual Report - Cash Flow	$ 970	$ 11,500	$ 9,410	$ 7,900	$ 11,500	$ 5,700	$ 9,300	$ 5,500
73	Preferred Dividends	N/A	-	-	-	-	-	-	-	-
74	Cash Coverage of Common Dividends	(Line 64 - 73) / Line 72	20.0	1.6	3.0	2.9	1.5	4.0	1.4	3.7
75	Gross Construction Expenditures	SEC Annual Report - Cash Flow	$ 24,989	$ 35,058	$ 13,766	$ 12,122	$ 14,130	$ 10,021	$ 26,153	$ 11,620
76	Net Cash Flow as % of Construction Expenditures	(Line 64 - 72 - 73) / (Line 75 - line 5)	74%	20%	137%	123%	38%	171%	15%	127%
77	Common Stock Related Data									
78	Shares Outstanding - Calendar Year End	SEC Annual Report	3,625,887	3,625,887	3,625,887	3,625,887	3,625,887	3,625,887	3,625,887	3,625,887
79	Shares Outstanding - Monthly Weighted Average	SEC Annual Report	3,625,887	3,625,887	3,625,887	3,625,887	3,625,887	3,625,887	3,625,887	3,625,887
80	Earnings Per Share - Weighted Average	(Line 39 * 1,000) / Line 79	$1.81	$2.40	$2.68	$2.19	$1.20	$1.95	$2.18	$4.62
81	Dividend Paid Per Share - Weighted Average	(Line 72 * 1,000) / Line 79	$0.27	$3.17	$2.60	$2.18	$3.17	$1.57	$2.56	$1.52
82	Dividend Payout Ratio (Declared Basis)	Line 72 / Line 39	15%	132%	97%	100%	264%	81%	118%	33%

Note: (1) Includes zero months actual data and twelve months of forecast data.
(2) Includes unamortized discount on long-term debt.

North Shore Gas Company

Comparative Financial Data
(000s) except per share data

Line	Description	Source	Test Year Ending 12/31/2013	Forecasted Year Ending 12/31/2012 (1)	Historical Year Ended 12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006
	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]
	Amounts Attributable to Non-Utility Subsidiaries									
1	Funds from Operations									
2	Net Income	FERC - Income Statement [418.10]	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
3	Depreciation and Amortization	N/A	-	-	-	-	-	-	-	-
4	Deferred Income Tax and Investment Tax Credits - Net	N/A	-	-	-	-	-	-	-	-
5	AFUDC	N/A	-	-	-	-	-	-	-	-
6	Other Internal Sources:									
7	Pension Funding (Greater) Less Than Expense	N/A	-	-	-	-	-	-	-	-
8	Other Adjustments	SEC Annual Report - Cash Flow	-	-	-	-	-	-	-	-
9	Total Funds from Operations		$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
10	Capital Structure									
11	Short-term Debt	N/A	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
12	Long-term Debt	N/A	-	-	-	-	-	-	-	-
13	Preferred Stock	N/A	-	-	-	-	-	-	-	-
14	Common Equity:									
15	Common Equity Excluding AOCI	N/A	-	-	-	-	-	-	-	-
16	Accumulated Other Comprehensive Income	N/A	-	-	-	-	-	-	-	-
17	Common Equity Including AOCI	FERC - Balance Sheet [123.10]	$ -	$ -	$ -	$ -	-	$ -	$ -	$ -
18	Total Capital Including AOCI	Line 11 + 12 + 13 + 17	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
19	Total Capital Excluding AOCI	Line 11 + 12 + 13 + 15	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
20	Earnings Ratios									
21	Operating Income	N/A	-	-	-	-	-	-	-	-
22	Earnings Available for Common Equity (EACE)	Line 2 - Line 39	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
23	Net Original Cost Rate Base	N/A	-	-	-	-	-	-	-	-
24	Fixed Charge Coverage									
25	Pre-Tax Interest Coverage:									
26	Total Operating Income	N/A	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
27	Income From Gas Plant Leased to Others	N/A	-	-	-	-	-	-	-	-
28	Other Income and Deductions, net	FERC - Income Statement [418.10]	-	-	-	-	-	-	-	-
29	Federal and State Income Taxes	N/A	-	-	-	-	-	-	-	-
30	AFUDC Equity Funds Portion	N/A	-	-	-	-	-	-	-	-
31	Pre-tax Income Before Interest Charges	Line 26 + 27 + 28 + 29 - 30	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
32	Total Interest Charges									

Note: (1) Includes zero months actual data and twelve months of forecast data.

North Shore Gas Company

Comparative Financial Data
(000s) except per share data

Line	Description	Source	Test Year Ending 12/31/2013	Forecasted Year Ending 12/31/2012 (1)	Historical Year Ended 12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006
	[A]	[B]	[C]	[D]	[E]	[F]	[G]	[H]	[I]	[J]
33	After-tax Fixed Charge Coverage:									
34	Total Operating Income	N/A	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
35	Income From Gas Plant Leased to Others	N/A	-	-	-	-	-	-	-	-
36	Other Income and Deductions, net	FERC - Income Statement [418.10]	-	-	-	-	-	-	-	-
37	Income Before Interest Charges	Line 34 + 35 + 36	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
38	Total Interest Charges	N/A	-	-	-	-	-	-	-	-
39	Preferred Dividends	N/A	-	-	-	-	-	-	-	-
40	Cash Flow Ratios									
41	Funds from Operations	Line 9	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
42	Cash Interest Paid	N/A	-	-	-	-	-	-	-	-
43	Funds from Operation plus Cash Interest Paid	Line 41 + 42	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
44	Total Interest Incurred		-	-	-	-	-	-	-	-
45	Average Short-term Debt	N/A	-	-	-	-	-	-	-	-
46	Average Long-term Debt	N/A	-	-	-	-	-	-	-	-
47	Common Dividends	N/A	-	-	-	-	-	-	-	-
48	Preferred Dividends	N/A	-	-	-	-	-	-	-	-
49	Gross Construction Expenditures	N/A	-	-	-	-	-	-	-	-
50	Common Stock Related Data									
51	Shares Outstanding - Calendar Year End	N/A	-	-	-	-	-	-	-	943
52	Shares Outstanding - Monthly Weighted Average	N/A	-	-	-	-	-	-	-	943

Note: (1) Includes zero months actual data and twelve months of forecast data.

North Shore Gas Company

Security Quality Ratings

		Moodys		Standard & Poors	
Line No.	Debt	Rating	Date Assigned	Rating	Date Assigned
	[A]	[B]	[C]	[D]	[E]
1	Senior Secured Debt	A1	5/27/2010	A	9/6/2007
2	(First Mortgage Bonds)	A2	6/9/2009	A-	9/26/2002
3		A1	4/20/2006		

North Shore Gas Company

Provide a copy of all credit rating analyses or reports on the utility and its parent, in the utility's possession, published during the last 12 months that describe security rating changes and the rationale for those changes.

No security rating changes were made during the last 12 months.

Section 285.4080
Schedule D-8
Part c)

North Shore Gas Company

Provide a copy of all credit rating analyses or reports on the utility and its parent, in the utility's possession, published by each rating agency engaged by the utility to rate its securities that comprehensively describes the utility's operations, financial condition, and regulatory environment.

Provided are Moody's reports for Integrys Energy Group, Inc. and North Shore Gas Company. Moodys does not publish such a report for Peoples Energy, LLC (formerly Peoples Energy Corporation). Also provided are Standard and Poor's reports for Integrys Energy Group, Inc., Peoples Energy, LLC and North Shore Gas Company.

MOODY'S
INVESTORS SERVICE

Announcement: Moody's Disclosures on Credit Ratings of Integrys Energy Group, Inc.

Global Credit Research - 30 Mar 2012

New York, March 30, 2012 -- The following release represents Moody's Investors Service's summary credit opinion on Integrys Energy Group, Inc. and includes certain regulatory disclosures regarding its ratings. This release does not constitute any change in Moody's ratings or rating rationale for Integrys Energy Group, Inc. and its affiliates.

Moody's current ratings on Integrys Energy Group, Inc. and its affiliates are:

Senior Unsecured domestic currency ratings of Baa1

Junior Subordinate domestic currency ratings of Baa2

Senior Unsec. Shelf domestic currency ratings of (P)Baa1

Subordinate Shelf domestic currency ratings of (P)Baa2

Commercial Paper domestic currency ratings of P-2

North Shore Gas Company

First Mortgage Bonds domestic currency ratings of A1

Senior Secured MTN domestic currency ratings of (P)A1

LT Issuer Rating domestic currency ratings of A3

Peoples Gas Light and Coke Company

First Mortgage Bonds domestic currency ratings of A1

Senior Secured MTN domestic currency ratings of (P)A1

LT Issuer Rating domestic currency ratings of A3

Commercial Paper domestic currency ratings of P-2

Wisconsin Public Service Corporation

First Mortgage Bonds domestic currency ratings of Aa3

Senior Secured domestic currency ratings of Aa3

LT Issuer Rating ratings of A2

Pref. Stock ratings of Baa1

Pref. Stock domestic currency ratings of Baa1

Senior Secured Shelf domestic currency ratings of (P)Aa3

Pref. Shelf domestic currency ratings of (P)Baa1

Commercial Paper domestic currency ratings of P-1

RATINGS RATIONALE

Moody's evaluates Integrys' consolidated financial performance relative to the Regulated Electric and Gas Utilities rating methodology (the methodology) published in August 2009. As depicted in the grid below, Integrys' indicated rating under this methodology is Baa1 compared to its current Baa1 senior unsecured rating. The indicated rating under the methodology considers Integrys' consolidated financial performance based on a three-year historical average.

Integrys' Baa1 senior unsecured rating is supported by the underlying cash flow stability provided by its six utility subsidiaries, a diverse, multi-state service territory, an improved business risk profile resulting from the restructuring of its non-regulated energy marketing business and an expectation that near-term financial metrics will remain appropriate for its rating. The rating, however, is tempered by the degree of holding company debt and a significant dividend payout.

Rating Outlook

The stable rating outlook reflects a reduced business risk profile associated with the restructuring of the company's non-regulated business and an expectation that Integrys' consolidated ratio of CFO pre-W/C to debt will exceed 20% for at least the near-term.

What Could Change the Rating – Up

Upward rating movement is not expected in the medium-term. Longer term, we would likely need to see Integrys' consolidated ratio of CFO pre-W/C to debt exceed 25% on a sustainable basis to consider an upgrade.

What Could Change the Rating - Down

Changes in regulatory supportiveness or an unexpected increase in leverage or decline in cash flow such that its ratio of CFO pre-W/C to debt falls below 17% on a sustainable basis.

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in August 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

Although these credit ratings have been issued in a non-EU country which has not been recognized as endorsable at this date, the credit ratings are deemed "EU qualified by extension" and may still be used by financial institutions for regulatory purposes until 30 April 2012. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Information sources used to prepare each of the ratings are the following: parties involved in the ratings, parties not involved in the ratings, public information, confidential and proprietary Moody's Investors Service information, and confidential and proprietary Moody's Analytics information.

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MOODY'S
INVESTORS SERVICE

Credit Opinion: Integrys Energy Group, Inc.

Global Credit Research - 18 May 2012

Chicago, Illinois, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Senior Unsecured	Baa1
Jr Subordinate	Baa2
Commercial Paper	P-2
Wisconsin Public Service Corporation	
Outlook	Stable
Issuer Rating	A2
First Mortgage Bonds	Aa3
Senior Secured	Aa3
Pref. Stock	Baa1
Commercial Paper	P-1
Peoples Gas Light and Coke Company	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured MTN	(P)A1
Commercial Paper	P-2
North Shore Gas Company	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured MTN	(P)A1

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Key Indicators

[1]**Integrys Energy Group, Inc.**

	2011	2010	2009	2008
(CFO Pre-W/C + Interest) / Interest Expense	6.7x	6.0x	5.5x	5.3x
(CFO Pre-W/C) / Debt	28%	27%	27%	18%
(CFO Pre-W/C - Dividends) / Debt	21%	21%	20%	13%
Debt / Book Capitalization	41%	44%	45%	52%

[1] All ratios calculated in accordance with the Global Regulated Electric Utilities Rating Methodology using Moody's standard adjustments.

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Utility subsidiaries operate in diverse and relatively supportive regulatory environments

Repositioning of non-regulated businesses

Strong financial performance

Large capital spending program

Significant holding company debt and above average dividend payout

Corporate Profile

Integrys Energy Group, Inc. (Integrys: Baa1 senior unsecured, stable outlook) is a diversified energy holding company headquartered in Chicago, Illinois that was created through the February 2007 merger between WPS Resources and Peoples Energy, LLC (PEC).

Integrys owns six regulated utilities, Wisconsin Public Service Corporation (WPSC: A2 Issuer Rating), The Peoples Gas, Light and Coke Company (PGL: A3 Issuer Rating), North Shore Gas Company (NSG: A3 Issuer Rating), Minnesota Energy Resources Corporation (MERC: not rated), Michigan Gas Utilities Corporation (MGUC: not rated) and Upper Peninsula Power Corporation (UPPCO: not rated) that in the aggregate serve approximately 1.7 million gas and 500,000 electric customers in Wisconsin, Illinois, Michigan, and Minnesota. The most sizable utilities are WPSC, a vertically-integrated electric utility headquarter in Green Bay, Wisconsin and PGL, a local natural gas distribution company(LDC) that operates in and around Chicago.

Integrys also has an approximate 34% ownership interest in the American Transmission Company (ATC: A1 senior unsecured).

Integrys' non-regulated retail energy marketing business is focused on marketing natural gas and electricity to commercial, industrial and residential customers primarily in the northeastern quadrant of the United States. Moody's estimates Integrys' non-regulated energy marketing business currently accounts for 10- 15% of the company's annual cash flow .

Rating Rationale

Moody's evaluates Integrys' consolidated financial performance relative to the Regulated Electric and Gas Utilities rating methodology (the methodology) published in August 2009. As depicted in the grid below, Integrys' indicated rating under this methodology is Baa1 compared to its current Baa1 senior unsecured rating. The indicated rating under the methodology considers Integrys' consolidated financial performance based on a three-year historical average.

Integrys is well positioned in the Baa1 rating category. The company's rating is supported by the underlying cash flow stability provided by its six regulated utility subsidiaries, a diverse, multi-state service territory and strong historical financial performance. The rating, however, is tempered by the degree of holding company debt, the risk profile of its non-regulated business and an above average dividend payout.

DETAILED RATING CONSIDERATIONS

The primary drivers for the rating and outlook are as follows:

Diverse and reasonably supportive regulatory environments

Integrys has successfully reduced the business risk profile of the enterprise through the acquisition of four regulated gas utilities, MGUC in April 2006, MERC in June 2006 and NSG and PGL in February 2007 followed by a restructuring of its non-regulated business in 2009-2010. As a result, Integrys' regulated utilities (including its investment in ATC) which operates in four states, typically account for approximately 85-90% of its annual consolidated cash flow.

Generally speaking, Integrys' regulated LDC utilities operate in relatively supportive regulatory environments that provide PGL, NSG, MGU and MERC with rate mechanisms to pass gas costs directly to their customers and to recover bad debts. Furthermore, PGL, NSG and MGU have been granted decoupling mechanisms to offset the financial impact of declining usage. MERC requested a decoupling mechanism in its recent rate case filing and we expect the request to be approved in a final order expected in the second quarter. An offset to these allowed recovery mechanisms by regulators, a credit positive, is the below average allowed return on equity (9.45%) granted to PGL and NSG.

The supportive regulatory environments in which the LDC's operate combined with the strong regulatory environment provided in Wisconsin supports a high-Baa rating factor for Factor 1: Regulatory Framework within Moody's methodology. That being said, we have notched this rating factor downward to reflect the higher risk profile of Integrys' remaining non-regulated business; however, a high-Baa rating factor has been assigned for Factor 2: Ability to Recover Costs and Earn Returns.

Reduced scale and scope of non-regulated energy marketing business

Integrys substantially reduced the scale and scope of its non-regulated energy marketing businesses in 2009-2010 largely by selling several businesses with substantial collateral requirements.

Integrys' remaining non-regulated business is focused on marketing electricity and natural gas in the retail market serving commercial, industrial, direct and aggregated small commercial and residential customers primarily in the northeastern quadrant of the United States. Integrys manages the supply risk of its natural gas marketing business through a multi-year natural gas supply agreement with a creditworthy counterparty. Specifically, this agreement provides Integrys with sufficient capacity to meet the natural gas requirements of its energy marketing business and includes a contractually set limitation on collateral support requirements.

Integrys has always provided collateral support on behalf of its non-regulated energy marketing businesses. As this business grew in scale, so did the collateral requirements, thereby pressuring Integrys' liquidity profile. The downsizing of this business segment, however, has resulted in significantly reduced collateral requirements. Guarantees and other forms of corporate support provided by Integrys on behalf of its non-regulated operations to support its commodity transactions declined to less than $600 million as of March 31, 2012 from $2.5 billion at December 31, 2008. Cash collateral provided to third parties declined to $64 million from $256 million during the same timeframe. Furthermore, the collateral requirement associated with a hypothetical downgrade of Integrys' rating to below investment grade has declined to a more manageable $271 million at March 31, 2012 from approximately $700 million at December 31, 2008.

Strong key financial metrics

Integrys achieved CFO-pre WC to debt of approximately 28% and cash flow coverage of interest expense of 6.7 times for 2011 compared to 27% and 6.0 times, respectively, in 2010. Integrys' strong financial metrics in these years were driven in part by the impact of bonus depreciation. Specifically, Integrys received a federal tax refund of $80 million in 2011 and $2 million in 2010. Without bonus depreciation, Moody's estimates that Integrys' key financial metrics would have ranged between 22-26% and 5-6 times, respectively, during this two-year timeframe.

The company anticipates a significant reduction in taxes again in 2012 due to bonus depreciation. Our rating and outlook assumes a normalization of depreciation and an expectation that Integrys maintains consolidated CFO-pre WC to debt in the 20-25% range and interest coverage in excess of 5.0 times over the next several years.

Integrys consolidated capital expenditure program for the three-year period 2012 through 2014 is significant at an estimated $2.3 billion (compared to $1.0 billion for the three year period ended 2011). The primary drivers for the increase in capital spending are PGL's accelerated cast iron replacement program and environmental controls on WPS's coal plant facilities. Both utilities are expected to file frequent rate cases to ensure timely recovery of these investments.

Integrys' subsidiaries are expected to fund their respective capital expenditure programs with internally generated funds, incremental debt and parent equity contributions. Integrys anticipates an incremental holding company debt offering in the 2012-2014 timeframe and may issue equity to fund in part its capital expenditure program.

Significant holding company debt and above average dividend payout

Integrys' rating reflects in part the significant amount of holding company debt and the current high dividend payout ratio, which are the primary drivers for the two-notch rating difference between it and the senior unsecured rating assigned to WPSC, its largest regulated subsidiary. At 12/31/2011 long-term holding company debt was $708 million (adjusted for a $270M hybrid security that currently receives 25% equity and 75% debt treatment for financial leverage purposes by Moody's) or approximately 30% of consolidated long-term balance sheet debt.

Integrys' dividend payout to its shareholders in 2011 was approximately $206 million or 90% of consolidated net income. That said, the company's earnings are somewhat influenced by mark-to-market accounting at its energy marketing business. For example, in 2011, the company earnings were skewed by $48 million (after-tax) of net unrealized losses on non-regulated energy contracts. Ignoring this non-cash impact, Integrys' dividend payout in 2011 was approximately 74%, which is slightly higher than industry average of 65-70%.

Liquidity Profile

Integrys proactively manages its liquidity profile to ensure access to funds in an amount comfortably in excess of all potential requirements.

Integrys' parent's external sources of liquidity include $1,210 million of unsecured revolving credit facilities commitments ($735 million due April 2013, $275 million due in May 2014 and $200 million due in May 2016) to support the issuance of letters of credit, to meet short-term funding requirements and to provide alternate liquidity for its commercial paper program. Terms of the syndicated revolving credit facilities include a representation that no material adverse change has occurred on the facilities' effective date (but not at any other times throughout the facility's term). The sole financial covenant is a 65% limitation on the debt component of Integrys' capital structure. The company has substantial headroom under the capital structure covenant ; we estimate that Integrys' debt-to-capitalization for the purpose of this covenant is currently at approximately 45%.

Integrys had approximately $92 million of commercial paper outstanding and $34 million of letters of credit issued under its credit facilities at December 31, 2011. The average amount of parent commercial paper outstanding during fiscal year 2011 was $75 million. The company's most near-term debt maturity is $100 million in December 2012.

Availability under Integrys' credit facilities are more than adequate to meet the potential $271 million collateral requirement associated with a hypothetical downgrade of Integrys' rating to below investment grade. We anticipate Integrys will extend the maturity of its $735 million facility due April 2013 during the second quarter.

Separately, WPSC and PGL have access to three credit facilities totaling $500 million in commitments to support their respective business requirements.

Rating Outlook

The stable rating outlook reflects a reduced business risk profile associated with the completed restructuring of the company's non-regulated businesses and an expectation that Integrys' consolidated ratio of CFO pre-W/C to debt will continue to exceed 20% for the near-to- medium term.

What Could Change the Rating - Up

Upward rating movement is not expected in the medium-term. Longer term, we would likely need to see Integrys' consolidated ratio of CFO pre-W/C to debt exceed 25% without the benefit of any temporary items such as bonus depreciation on a sustainable basis to consider an upgrade.

What Could Change the Rating - Down

Changes in regulatory supportiveness or an unexpected increase in leverage or decline in cash flow such that its ratio of CFO pre-W/C to debt falls below 17% on a sustainable basis.

Rating Factors

Integrys Energy Group, Inc.

Regulated Electric and Gas Utilities Industry [1][2]	Current 12/31/2011	Moody's 12-18 month

			Forward View* As of May 2012	
Factor 1: Regulatory Framework (25%)	Measure	Score	Measure	Score
a) Regulatory Framework		Baa		Baa
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		Baa		Baa
Factor 3: Diversification (10%)				
a) Market Position (10%)		A		A
b) Generation and Fuel Diversity (0%)		Baa		Baa
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		Baa		Baa
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	6.0x	A	5.0x-6.0x	A
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	27.6%	A	20-25%	Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	20.7%	A	15-17%	Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	43.3%	A	40-45%	A
Rating:				
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned		Baa1		Baa1

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 12/31/2011; Source: Moody's Financial Metrics

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MOODY'S
INVESTORS SERVICE

Credit Opinion: North Shore Gas Company

Global Credit Research - 15 May 2012

Chicago, Illinois, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured MTN	(P)A1
Ult Parent: Integrys Energy Group, Inc.	
Outlook	Stable
Senior Unsecured	Baa1
Jr Subordinate	Baa2
Commercial Paper	P-2

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Opinion

Rating Drivers

Fairly supportive regulatory environment

Low business risk profile

Improving financial performance

Increased capital spending program

Illinois Appellate Court`s reversal of Rider ICR is a credit negative

Corporate Profile

The Peoples Gas Light and Coke Company (PGL: A3 Issuer Rating) is a regulated local gas distribution utility (LDC) that purchases, stores, distributes, sells and transports natural gas to approximately 826,000 customers through a 4,460-mile distribution and transmission system serving Chicago, Illinois. The customer base includes residential, commercial, industrial and transportation customers. Transportation customers acquire their gas elsewhere and pay PGL for the use of its distribution system. PGL had revenue of slightly more than $1B in 2011, which accounted for 22% of Integrys' consolidated revenue.

North Shore Gas Company (NSG: A3 Issuer Rating) is also a regulated LDC, albeit smaller than PGL. It purchases, stores, distributes, sells and transports natural gas to approximately 158,000 customers through a 2,330-mile distribution and transmission system serving 54 communities in northeastern Illinois. The customer base includes residential, commercial, industrial and transportation customers. NSG had revenue of $201 million in 2011, which accounted for 4% of Integrys' consolidated revenue.

PGL and NSG are wholly-owned subsidiaries of Peoples Energy LLC (PEC), which is a subsidiary of Integrys Energy Group, Inc. (Integrys: Baa1 senior unsecured, stable outlook). PEC and WPS Resources merged to form Integrys in February 2007.

Rating Rationale

Moody's evaluates PGL and NSG's consolidated financial performance relative to the Regulated Electric and Gas Utilities rating methodology (the methodology) published in August 2009. As depicted in the grid below, PGL and NSG's indicated ratings under this methodology are A3 compared to their current A3 Issuer Rating. The indicated rating under the methodology considers their respective consolidated financial performance based on a three-year historical average and our projections for the next 18 months.

PGL and NSG's A3 Issuer Ratings are supported by their low risk business profiles, a fairly supportive regulatory environment and strong financial performance. Since acquiring PGL and NSG, Integrys has improved their respective profitability through rate case filings and cost management efforts. In 2011, PGL and NSG earned net income of $56.6 million and $9.9 million, respectively, compared to a loss of $13.7 million and net income of $ 7.9 million, respectively, during 2007.

DETAILED RATING CONSIDERATIONS

Supportive regulatory environment

PGL and NSG have been biennial rate filers. The most recent rate case decision received in January 2012 was less supportive than previous decisions. Specifically, the Illinois Commerce Commission (ICC) granted PGL a $57.8 million and NSG a $1.9 million rate increase premised on a 9.45% ROE and a common equity ratio of 49% (50% for NSG). This compares negatively to the parameters authorized by the ICC in its January 2010 order that authorized PGL a 10.23% ROE (10.33% for NSG) based on a 56% common equity ratio.

The 9.45% allowed ROE was calculated by averaging the companies' requested ROE (10.85%), the ICC Staff's recommended ROE (8.85%) and the recommended ROE from a consortium of government and commercial interveners (8.94%). The resulting average ROE of 9.55% was then reduced by the ICC by 10 basis points to reflect the reduction in risk associated with approval of a rider that provides recovery of uncollectible accounts receivables.

Importantly, the 2012 rate case decisions for PGL and NSG included the permanent approval of an existing decoupling mechanism. This mechanism, which initially became effective March 1, 2008 as a four-year pilot program, allows PGL and NSG to adjust rates going forward to recover or refund the difference between the actual and authorized margin impact of variations in distributed volumes. Since the implementation of the pilot program, decoupling has resulted in ratepayer refunds of approximately $28 million.

PGL and NSG have historically earned significantly less than their allowed ROE. For example, in 2009, PGL and NSG earned ROEs (from a GAAP perspective) of approximately 4% and 4.5%, respectively. Management has undertaken initiatives including workforce reductions and frequent rate case filings in an effort to move PGL and NSG closer to their allowed returns. As a result, PGL's earned ROE improved to slightly more than 8% in 2011 (NSG's increased to more than 10%).

Moody's has viewed the last few rate outcomes for PGL and NSG's as supportive and continues to score PGL and NSG a high-Baa for Factor 1: Regulatory Framework. For Factor 2: Ability to Recover Costs and Earn Returns, we also score PGL and NSG a high-Baa to reflect the permanent approval of decoupling and increased earned returns.

While noting that Illinois has been a challenging regulatory environment, past political interference has been focused mostly on electric utilities. Furthermore, LDC's are generally considered to have lower business risk than electric utilities and tend to have less contentious issues with their regulators.

Limited exposure to commodity prices and industrial customers

PGL and NSG typically record approximately 60% of their respective revenues during the heating season: from November through March. In addition to a rate charged for the distribution of natural gas, PGL and NSG also bill their customers a Gas Charge. The Gas Charge represents the companies' cost of gas, transportation, storage service and gains, losses and costs incurred under their respective hedging programs, thereby limiting their exposure to commodity prices. The ICC conducts annual Gas Charge proceedings which review and determine the prudence of all gas costs passed through to ratepayers through the Gas Charge. If the ICC were to find that the reconciliation was inaccurate or any gas costs were imprudently incurred, the ICC would order the utility to provide ratepayers a refund.

PGL and NSG benefit from a limited reliance on industrial customers. At December 31, 2011, industrial and commercial customers only accounted for approximately 10% of total customer throughput (residential and transportation customers combined accounted for approximately 90%). For this reason, PGL and NSG map to a high-Baa rating factor for Factor 3: Market Position.

Improved financial performance

PGL's key financial metrics (incorporating Moody's standard analytical adjustments) remain well positioned within the A rating category as outlined in the methodology. Specifically, PGL reported CFO pre W/C to debt of approximately 29%, CFO pre W/C interest coverage exceeded 8 times and a debt-to-capitalization ratio of 38% during the 12-months ended December 31, 2011, which was in-line with metrics achieved in 2010. Drivers for PGL's strong financial performance include improved earnings due to biennial rate increases and, to a lesser extent, a reduction in income taxes due to bonus depreciation.

Similarly, NSG's financial metrics remained strong in 2011. Specifically, the utility's ratio of CFO pre W/C to debt was approximately 30% and CFO pre W/C interest coverage exceeded 7 times.

Increased capital spending program

PGL's capital expenditures over the next three-year period are expected to significantly exceed historical levels. Specifically, PGL's capital expenditures for the three-year period 2012 through 2014 are estimated to be $876 million compared to the $287 million spent during the period 2009 through 2011. The planned increase is driven by the company's accelerated cast iron replacement program, a 20-year project that began in 2011 and involves the replacement of cast iron pipes with steel and polyethylene pipes.

In 2010, the ICC approved an infrastructure cost recovery mechanism (ICR) for PGL. The purpose of the ICR is to eliminate regulatory lag by allowing PGL to recover costs associated with its gas main replacement program outside of a rate case. Specifically, an 8.6% interim ROE is to be recovered until the next rate case. At that time, those property additions would be added to the rate base wherein the latest authorized ROE would take effect.

Charges relating to the ICR began to appear on customers' bills in April 2011. However, on September 30, 2011, the Illinois Appellate Court reversed the ICC's approval of Rider ICR, concluding it was improper single issue ratemaking. PGL and the ICC filed for leave to appeal with the Illinois Supreme Court, but their requests were denied and PGL stopped charging customers. In March 2012, the Illinois Appellate Court remanded the matter to the ICC for a further proceeding consistent with its September 30, 2011 decision. The matter is currently pending with the ICC.

The Appellate Courts' decision is a credit negative and is likely to delay cost recovery associated with PGL's substantial gas main replacement program and may cause the company to increase its frequency of rate filings.

PGL anticipates being free cash flow negative over the next several years due to the gas main replacement program and expects to meet its funding requirements with a combination of debt issuances and equity contributions from Integrys. PGL currently anticipates issuing $75 million of incremental long-term debt in 2012.

The increase in debt levels are expected to pressure PGL's key financial metrics relative to recent levels. Specifically, we expect the company's CFO pre W/C to debt to range between 20-25% and CFO pre W/C interest coverage to range between 6-7 times through 2014.

NSG's capital expenditures over the next three-year period are also expected to increase significantly. Specifically, NSG's capital expenditures for the three-year period 2012 through 2014 are estimated to be $85 million compared to $40 million during the period 2009 through 2011.

Liquidity:

PGL's external liquidity source is through a 3-year $250 million unsecured revolving credit facility that expires in April 2013 to support a similarly sized commercial paper program and for general corporate purposes. Terms and conditions include a representation that no material adverse change has occurred but only on the facility's effective date. The sole financial covenant is a 65% limitation on the debt component of PGL's capital structure. The company has substantial headroom under the capital structure covenant. Usage of the revolving credit facility mirrors the seasonality of PGL and NSG's business with borrowings typically peaking in the 4th quarter that are repaid in full during the spring months. PGL has the ability to borrow $150 million from PEC through an inter-company credit facility approved by the ICC, and may borrow or lend $50 million to NSG.

NSG does not have its own revolving credit facility or commercial paper program. Instead, it has the ability to borrow up to $50 million from PEC and to loan or borrow from PGL up to $50 million. PGL's long-term debt consists entirely of first mortgage bonds totaling $525 million. The most near-term maturities are two series totaling $120 million maturing in 2013. NSG's long-term debt consists of three series of first mortgage bonds totaling $75 million. Its most near-term maturities are two series totaling $46.5 million maturing in 2013.

PGL had $37 million of commercial paper outstanding as of December 31, 2011. Its average daily amount of commercial paper outstanding during 2011 was $2.3 million. NSG had $8.9 million of loans outstanding from PGL as of December 31, 2011.

Rating Outlook

PGL and NSG's stable rating outlooks reflect an expectation for the continuation of strong financial performance and credit metrics consistent with their ratings. The outlook also reflects the reduced risk profile of Integrys given the recent restructuring of its non-regulated business.

What Could Change the Rating - Up

Upward rating pressure for PGL and NSG could be triggered by significant improvement in financial metrics such that the ratio of pre W/C to debt exceeds 26% on a sustainable basis.

What Could Change the Rating - Down

Unanticipated additional capital expenditure requirements without appropriate regulatory support, or changes in the regulatory framework that results in a decline in PGL and NSG financial metrics; such that the ratio of CFO pre-W/C to debt falls below 20% for an extended period.

Rating Factors

North Shore Gas Company

Regulated Electric and Gas Utilities Industry [1][2]	**Current 12/31/2011**		**Moody's 12-18 month Forward View* As of May 2012**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		Baa		Baa
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		Baa		Baa
Factor 3: Diversification (10%)				
a) Market Position (10%)		Baa		Baa
b) Generation and Fuel Diversity (0%)		n.a		n.a.
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		Baa		Baa
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)		Aa		Aa
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)		A		A
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)		A		A
e) Debt/Capitalization (3 Year Avg) (7.5%)		A		A

Rating:				
a) Indicated Rating from Grid		A3		A3
b) Actual Rating Assigned		A3		A3

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 12/31/2011; Source: Moody's Financial Metrics

Moody's
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February 10, 2012

Integrys Energy Group Inc.

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Integrys Energy Group Inc.

Major Rating Factors

Corporate Credit Rating
A-/Stable/A-2

Strengths:
- Mostly lower-risk monopolistic, rate-regulated electric and gas businesses;
- Management's proactive efforts to decrease regulatory risk;
- Restructured, smaller size, lower-risk nonutility businesses; and
- Historically improved financial measures.

Weaknesses:
- A continued weak economy and slow growth could weaken cash flow over the medium term; and
- Increased capital spending over the medium term.

Rationale

The ratings on Integrys Energy Group Inc. reflect its "excellent" business risk profile and "significant" financial risk profile. (For more on business risk and financial risk, see "Business Risk/Financial Risk Matrix Expanded," published May 27, 2009, on RatingsDirect on the Global Credit Portal.)

Integrys's rate-regulated electric and gas utility subsidiaries include:

- Wisconsin Public Service Corp. (WPS);
- Peoples Gas Light & Coke Co. (PG), a subsidiary of intermediate holding company Peoples Energy Corp. (PE);
- North Shore Gas Co. (NSG), also a subsidiary of PE;
- Upper Peninsula Power Co.;
- Minnesota Energy Resources Corp.;
- Michigan Gas Utilities Corp.; and
- Rate-regulated American Transmission Co., of which Integrys owns 34%.

Integrys also owns nonutility Integrys Energy Services Inc. (ESI), a retail energy marketing company, and recently purchased a compressed natural gas refueling business.

Integrys's excellent business risk profile reflects the company's lower-risk monopolistic rate-regulated businesses, partially offset by nonutility businesses. Integrys has continued to effectively manage its regulatory risk--including its recent rate case orders for PG and NSG that will collectively raise rates by almost $60 million--which we view as credit supportive. We expect that the company will continue to effectively manage its regulatory risk over the medium term with the goal of further reducing its regulatory lag.

Over the past three years, Integrys has successfully implemented its strategic initiative to reduce its exposure to the nonutility businesses. Fundamentally, we anticipate that these improvements will be maintained over the intermediate term and expect that the nonutility businesses will account for about 10% of consolidated funds from operations (FFO) and the remaining 90% will represent the more stable cash flows of the regulated utility businesses. The nonutility energy marketing businesses operate in a highly competitive industry that is characterized by minimal barriers to entry, low margins, and volatile cash flows. The primary risks are matching supply to variable loads or estimated sales volumes and maintaining sufficient liquidity for collateral and margin calls. Although the company did reduce the size and scope of its energy marketing business, it did recently announce the purchase of a compressed natural gas refueling business and will increase its solar project investments through its partnership with Duke Energy. While we view the company's expansion into compressed natural gas and solar as a diversification of its nonutility businesses, we do not view these developments as a material overall reduction of the nonutility risk portfolio.

Integrys's significant financial risk profile reflects the company's improved financial measures, despite the recession and the restructuring of its ESI business.

Over the past three years, Integrys has significantly improved its financial measures primarily by increasing cash flow from its regulated subsidiaries, implementing effective cost management initiatives, and using bonus depreciation. For the 12 months ended Sept. 30, 2011, adjusted consolidated FFO to total debt improved to 29.3% from 25.2% at the end of 2010, adjusted debt to EBITDA improved to 3.5x from 3.8x, and adjusted debt to total capital strengthened to 47.8% from 50.7%.

Under our base-case scenario, while we forecast weaker financial measures over the intermediate term because of the continued slow economy and the phase-out of bonus depreciation, we expect that Integrys will maintain financial measures that are consistent with the significant financial risk profile, albeit with less cushion. Over the medium term, we forecast adjusted FFO to debt of about 21%, adjusted debt to EBITDA at about 4.0x, and adjusted debt to total capital at approximately 51%.

Integrys had positive discretionary cash flow in 2010 partially because of increased deferred taxes and reduced capital spending. However, over the intermediate term, we expect that discretionary cash flow will revert to negative primarily because of increased capital spending for environmental capital expenditures and the company's natural gas main replacement program. We expect that Integrys will meet these cash shortfalls in a manner that is at least credit neutral.

Liquidity

Our short-term rating on Integrys is 'A-2'. The company has adequate liquidity and can more than cover its needs for the next year, even if FFO declines. (For more on liquidity, see "Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers," published July 2, 2010.)

We base our liquidity assessment on the following factors and assumptions:

- We expect the company's liquidity sources (including cash, FFO, and credit facility availability) over the next 12 months to exceed uses by about 1.7x.
- Debt maturities are manageable over the intermediate term, with about $250 million, $315 million, and $100 million maturing during 2012-2014.
- Even if the availability under the existing credit facilities and FFO declined by 25%, we believe net sources would total more than 1.2x cash requirements.
- The company has good relationships with its banks, in our assessment, and has a good standing in the credit markets, having successfully issued debt during the 2009 credit crisis.

In our analysis, we assumed liquidity of about $1.9 billion over the next 12 months, primarily consisting of cash, FFO, and availability under the credit facilities. We estimate the company will use about $1.1 billion over the same period for capital spending, debt maturities, working capital needs, and shareholder dividends.

Integrys's credit agreements include a financial covenant requiring that the consolidated ratio of total debt to total capital be no more than 65%. As of Sept. 30, 2011, the company had adequate cushion against this covenant and could increase total debt by more than 75% without violating it.

Outlook

The stable outlook on Integrys reflects Standard & Poor's baseline forecast that consolidated adjusted FFO to debt and debt to total capital will approximate 21% and 51%, respectively, over the intermediate term. Significant risks to the forecast include higher-than-anticipated capital costs, a weaker-than-expected economy, or materially lower rate case increases than predicted. We could lower the rating if the nonutility business disproportionally grows to greater than 15% of the consolidated company or FFO to debt weakens to below 18% on a consistent basis. We consider a ratings upgrade to be highly unlikely but could occur if the company's FFO to debt is consistently greater than 30%, its debt to total capital is lower than 45%, and Integrys maintains its excellent business risk profile.

Related Criteria And Research

- Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Table 1

Integrys Energy Group Inc. -- Peer Comparison

Industry Sector: Combo

	Integrys Energy Group Inc.	Alliant Energy Corp.	American Electric Power Co. Inc.	Dominion Resources Inc.	Wisconsin Energy Corp.
Rating as of Feb. 6, 2012	A-/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/A-2	A-/Stable/A-2	A-/Stable/A-2
	--Average of past three fiscal years--				
(Mil. $)					
Revenues	8,916.9	3,510.2	13,871.7	14,902.3	4,272.3
EBITDA	719.2	874.9	4,190.0	4,487.5	1,026.0
Net income from cont. oper.	92.7	239.1	1,314.7	1,886.0	448.1
Funds from operations (FFO)	806.6	777.3	3,256.9	3,141.0	974.4
Capital expenditures	453.9	1,052.4	3,182.0	3,624.2	788.6
Free operating cash flow	312.9	(338.6)	(568.1)	(549.2)	186.3
Discretionary cash flow	103.2	(506.5)	(1,330.7)	(1,676.2)	(19.3)
Cash and short-term investments	159.2	227.2	767.0	36.7	99.8
Debt	3,565.0	3,418.7	20,743.2	19,057.0	5,410.6
Equity	3,207.3	2,953.9	12,672.8	12,374.8	3,964.4
Adjusted ratios					
EBITDA margin (%)	8.1	24.9	30.2	30.1	24.0

Table 1

Integrys Energy Group Inc. -- Peer Comparison (cont.)

EBITDA interest coverage (x)	4.0	4.5	3.6	4.6	4.1
EBIT interest coverage (x)	2.9	3.0	2.5	3.6	3.1
Return on capital (%)	7.0	8.1	7.7	10.3	7.4
FFO/debt (%)	22.6	22.7	15.7	16.5	18.0
Free operating cash flow/debt (%)	8.8	(9.9)	(2.7)	(2.9)	3.4
Debt/EBITDA (x)	5.0	3.9	5.0	4.2	5.3
Total debt/debt plus equity (%)	52.6	53.6	62.1	60.6	57.7

Table 2

Integrys Energy Group Inc. -- Financial Summary

Industry Sector: Combo

	--Fiscal year ended Dec. 31--				
	2010	**2009**	**2008**	**2007**	**2006**
Rating history	BBB+/Stable/A-2	BBB+/Negative/A-2	A-/Negative/A-2	A-/Stable/A-2	A/Watch Neg/A-1
(Mil. $)					
Revenues	5,203.2	7,499.8	14,047.8	10,292.4	6,890.7
EBITDA	860.2	773.6	523.9	624.1	409.4
Net income from continuing operations	223.8	(70.6)	124.8	181.1	151.6
Funds from operations (FFO)	822.3	860.2	737.3	388.5	304.2
Capital expenditures	294.9	495.3	571.6	432.3	362.3
Dividends paid	196.8	217.6	214.6	187.9	97.6
Debt	3,264.7	3,371.6	4,058.7	3,157.3	2,343.2
Preferred stock	175.6	175.6	175.6	175.6	175.6
Equity	3,170.3	3,176.6	3,275.2	3,411.4	1,709.2
Debt and equity	6,435.0	6,548.2	7,333.8	6,568.7	4,052.4
Adjusted ratios					
EBITDA margin (%)	16.5	10.3	3.7	6.1	5.9
EBIT interest coverage (x)	3.7	3.1	2.0	2.6	2.7
FFO int. cov. (x)	5.7	5.5	5.2	3.0	3.3
FFO/debt (%)	25.2	25.5	18.2	12.3	13.0
Discretionary cash flow/debt (%)	11.4	27.7	(24.5)	(11.3)	(15.5)
Net cash flow/capex (%)	212.1	129.7	91.4	46.4	57.1
Debt/debt and equity (%)	50.7	51.5	55.3	48.1	57.8
Return on capital (%)	8.6	7.8	4.8	8.4	9.4
Return on common equity (%)	7.6	(2.7)	3.6	7.4	10.4
Common dividend payout ratio (un-adj.) (%)	94.6	(280.7)	167.5	99.4	64.6

Table 3

Reconciliation Of Integrys Energy Group Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)

--Fiscal year ended Dec. 31, 2010--

Integrys Energy Group Inc. reported amounts

	Debt	Shareholders' equity	Revenues	EBITDA	Operating income	Interest expense	Cash flow from operations
Reported	2,648.5	2,957.0	5,203.2	759.1	493.3	147.9	725.2
Standard & Poor's adjustments							
Operating leases	43.6	--	--	2.7	2.7	2.7	8.0
Intermediate hybrids reported as debt	(150.0)	150.0	--	--	--	(9.2)	9.2
Intermediate hybrids reported as equity	25.6	(25.6)	--	--	--	1.6	(1.6)
Postretirement benefit obligations	365.7	--	--	11.2	11.2	--	89.5
Capitalized interest	--	--	--	--	--	0.3	(0.3)
Share-based compensation expense	--	--	--	22.4	--	--	--
Power purchase agreements	303.1	--	--	53.1	16.7	16.7	36.4
Asset retirement obligations	192.5	--	--	11.7	11.7	11.7	(3.4)
Reclassification of nonoperating income (expenses)	--	--	--	--	91.6	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--
Debt - Other	(164.3)	--	--	--	--	--	--
Equity - Other	--	88.9	--	--	--	--	--
Total adjustments	616.2	213.3	0.0	101.1	133.9	23.8	137.9

Standard & Poor's adjusted amounts

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Cash flow from operations
Adjusted	3,264.7	3,170.3	5,203.2	860.2	627.2	171.7	863.1

Ratings Detail (As Of February 10, 2012)

Integrys Energy Group Inc.	
Corporate Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Junior Subordinated (1 Issue)	BBB
Senior Unsecured (3 Issues)	BBB+
Corporate Credit Ratings History	
24-Jan-2012	A-/Stable/A-2
21-Jan-2011	BBB+/Positive/A-2
26-Jan-2010	BBB+/Stable/A-2
05-Mar-2009	BBB+/Negative/A-2
25-Nov-2008	A-/Negative/A-2
13-Nov-2007	A-/Stable/A-2

Ratings Detail (As Of February 10, 2012) (cont.)	
21-Feb-2007	A-/Negative/A-2
Business Risk Profile	Excellent
Financial Risk Profile	Significant
Related Entities	
North Shore Gas Co.	
Issuer Credit Rating	A-/Stable/NR
Senior Secured (2 Issues)	A
Peoples Energy Corp.	
Issuer Credit Rating	A-/Stable/NR
The Peoples Gas Light & Coke Co.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Secured (7 Issues)	A-
Senior Secured (1 Issue)	AA+/Negative
Wisconsin Public Service Corp.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock (5 Issues)	BBB
Senior Secured (8 Issues)	A

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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February 10, 2012

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Peoples Energy Corp.

Major Rating Factors

Corporate Credit Rating
A-/Stable/NR

Strengths:
- Lower-risk monopolistic, rate-regulated gas businesses;
- Management's proactive efforts to decrease regulatory risk; and
- Historically improved consolidated financial measures.

Weaknesses:
- A continued weak economy and slow growth could weaken consolidated cash flow over the medium term; and
- Affiliation with Integrys's higher-risk non-utility businesses.

Rationale

The ratings on Peoples Energy Corp. (PE) reflect parent company Integrys Energy Group Inc.'s consolidated credit profile. The ratings also reflect PE's "excellent" business risk profile and Integrys's "significant" financial risk profile. (For more on business risk and financial risk, see "Business Risk/Financial Risk Matrix Expanded," published May 27, 2009, on RatingsDirect on the Global Credit Portal.)

PE is the intermediate holding company for Peoples Gas Light & Coke Co. (PG) and North Shore Gas Co. (NSG).

The excellent business risk profile for PE reflects its lower-risk monopolistic gas distribution operations. PE's rate-regulated Illinois gas companies, NSG and PG, collectively serve about 980,000 gas customers in Chicago and the northeastern part of the state. The Illinois Commerce Commission (ICC) regulates the company's distribution rates. In addition, we view the gas distribution businesses as having lower risk than a fully integrated electric utility, which includes the higher-risk electric generation component.

PE has continued to effectively manage its regulatory risk--including its recent rate case orders for PG and NSG that will collectively raise rates by almost $60 million--which we view as credit supportive. We fundamentally expect that the company will continue to effectively manage its regulatory risk over the medium term. In addition, the company has diligently worked toward gradually reducing its regulatory lag by filing forward-looking rate cases, employing decoupling, a fuel recovery mechanism, and a bad debt rider. Ultimately, we expect that these regulatory mechanisms will, over time, make the company's cash flows more stable and predictable.

Marginally affecting PE's business risk profile is the Illinois Appellate Court ruling that the ICC did not have the authority to approve the infrastructure cost-recovery rider, which allows the company to recover the costs and earn a return on its gas main replacement program for costs above the annual baseline. The company has since filed a request with the Illinois Supreme Court to hear an appeal. We expect the cash impact will be minimal over the short term and that the company will continue to effectively manage its regulatory risk so as to minimize any potential cash impact over the longer term.

Integrys's significant financial risk profile reflects the company's improved financial measures, despite the recession and the restructuring of its non-utility business.

Over the past three years, Integrys has significantly improved its financial measures primarily by increasing cash flow from its regulated subsidiaries, implementing effective cost management initiatives, and using bonus depreciation. For the 12 months ended Sept. 30, 2011, adjusted consolidated FFO to total debt improved to 29.3% from 25.2% at the end of 2010, adjusted debt to EBITDA improved to 3.5x from 3.8x, and adjusted debt to total capital strengthened to 47.8% from 50.7%.

Under our base-case scenario, while we forecast weaker financial measures over the intermediate term because of the continued slow economy and the phase-out of bonus depreciation, we expect that Integrys will maintain financial measures that are consistent with the significant financial risk profile, albeit with less cushion. Over the medium term, we forecast adjusted FFO to debt approximates 21%, adjusted debt to EBITDA at about 4.0x, and adjusted debt to total capital approximates 51%.

Integrys had positive discretionary cash flow in 2010 partially because of increased deferred taxes and reduced capital spending. However, over the intermediate term, we expect that discretionary cash flow will revert to negative primarily because of increased capital spending for environmental capital expenditures and the company's natural gas main replacement program. We expect that Integrys will meet these cash shortfalls in a manner that is at least credit neutral.

Liquidity

Our short-term rating on Integrys is 'A-2'. The company has adequate liquidity and can more than cover its needs for the next year, even if FFO declines. (For more on liquidity, see "Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers," published on July 2, 2010.)

We base our liquidity assessment on the following factors and assumptions:

- We expect the company's liquidity sources (including cash, FFO, and credit facility availability) over the next 12 months to exceed uses by about 1.7x.
- Debt maturities are manageable over the intermediate term, with about$250 million, $315 million, and $100 million maturing during 2012-2014.
- Even if the availability under the existing credit facilities and FFO declined by 25%, we believe net sources would total more than 1.2x cash requirements.
- The company has good relationships with its banks, in our assessment, and has a good standing in the credit markets, having successfully issued debt during the 2009 credit crisis.

In our analysis, we assumed liquidity of about $1.9 billion over the next 12 months, primarily consisting of cash, FFO, and availability under the credit facilities. We estimate the company will use about $1.1 billion over the same period for capital spending, debt maturities, working capital needs, and shareholder dividends.

Integrys's credit agreements include a financial covenant requiring that the consolidated ratio of total debt to total capital be no more than 65%. As of Sept. 30, 2011, the company had adequate cushion against this covenant and could increase total debt by more than 75% without violating it.

Outlook

The stable outlook on Integrys and Peoples Energy reflects Standard & Poor's baseline forecast that consolidated adjusted FFO to debt and debt to total capital will approximate 21% and 51%, respectively, over the intermediate term. Significant risks to the forecast include higher-than-anticipated capital costs, a weaker-than-expected economy, or materially lower rate case increases than predicted. We could lower the rating if the nonutility business disproportionally grows to greater than 15% of the consolidated company or FFO to debt weakens to below 18% on a consistent basis. We consider a ratings upgrade to be highly unlikely but could occur if the company's FFO to debt is consistently greater than 30%, its debt to total capital is lower than 45%, and Integrys maintains its excellent business risk profile.

Related Criteria And Research

- Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Table 1

Integrys Energy Group Inc.--Peer Comparison

Industry Sector: Combo					
	Integrys Energy Group Inc.	Alliant Energy Corp.	American Electric Power Co. Inc.	Dominion Resources Inc.	Wisconsin Energy Corp.
Rating as of Feb. 6, 2012	A-/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/A-2	A-/Stable/A-2	A-/Stable/A-2
	--Average of past three fiscal years--				
(Mil. $)					
Revenues	8,916.9	3,510.2	13,871.7	14,902.3	4,272.3
EBITDA	719.2	874.9	4,190.0	4,487.5	1,026.0
Net income from cont. oper.	92.7	239.1	1,314.7	1,886.0	448.1
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Discretionary cash flow	103.2	(506.5)	(1,330.7)	(1,676.2)	(19.3)
Cash and short-term investments	159.2	227.2	767.0	36.7	99.8
Debt	3,565.0	3,418.7	20,743.2	19,057.0	5,410.6
Equity	3,207.3	2,953.9	12,672.8	12,374.8	3,964.4
Adjusted ratios					
EBITDA margin (%)	8.1	24.9	30.2	30.1	24.0
EBITDA interest coverage (x)	4.0	4.5	3.6	4.6	4.1
EBIT interest coverage (x)	2.9	3.0	2.5	3.6	3.1
Return on capital (%)	7.0	8.1	7.7	10.3	7.4
FFO/debt (%)	22.6	22.7	15.7	16.5	18.0
Free operating cash flow/debt (%)	8.8	(9.9)	(2.7)	(2.9)	3.4
Debt/EBITDA (x)	5.0	3.9	5.0	4.2	5.3
Total debt/debt plus equity (%)	52.6	53.6	62.1	60.6	57.7

Table 2

Integrys Energy Group Inc. — Financial Summary

Industry Sector: Combo

	--Fiscal year ended Dec. 31--				
	2010	2009	2008	2007	2006
Rating history	BBB+/Stable/A-2	BBB+/Negative/A-2	A-/Negative/A-2	A-/Stable/A-2	A/Watch Neg/A-1
(Mil. $)					
Revenues	5,203.2	7,499.8	14,047.8	10,292.4	6,890.7
EBITDA	860.2	773.6	523.9	624.1	409.4
Net income from continuing operations	223.8	(70.6)	124.8	181.1	151.6
Funds from operations (FFO)	822.3	860.2	737.3	388.5	304.2
Capital expenditures	294.9	495.3	571.6	432.3	362.3
Dividends paid	196.8	217.6	214.6	187.9	97.6
Debt	3,264.7	3,371.6	4,058.7	3,157.3	2,343.2
Preferred stock	175.6	175.6	175.6	175.6	175.6
Equity	3,170.3	3,176.6	3,275.2	3,411.4	1,709.2
Debt and equity	6,435.0	6,548.2	7,333.8	6,568.7	4,052.4
Adjusted ratios					
EBITDA margin (%)	16.5	10.3	3.7	6.1	5.9
EBIT interest coverage (x)	3.7	3.1	2.0	2.6	2.7
FFO int. cov. (x)	5.7	5.5	5.2	3.0	3.3
FFO/debt (%)	25.2	25.5	18.2	12.3	13.0
Discretionary cash flow/debt (%)	11.4	27.7	(24.5)	(11.3)	(15.5)
Net cash flow/capex (%)	212.1	129.7	91.4	46.4	57.1
Debt/debt and equity (%)	50.7	51.5	55.3	48.1	57.8
Return on capital (%)	8.6	7.8	4.8	8.4	9.4
Return on common equity (%)	7.6	(2.7)	3.6	7.4	10.4
Common dividend payout ratio (un-adj.) (%)	94.6	(280.7)	167.5	99.4	64.6

Table 3

Reconciliation Of Integrys Energy Group Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)

--Fiscal year ended Dec. 31, 2010--

Integrys Energy Group Inc. reported amounts	Debt	Shareholders' equity	Revenues	EBITDA	Operating income	Interest expense	Cash flow from operations	Cash flow from operations
Reported	2,648.5	2,957.0	5,203.2	759.1	493.3	147.9	725.2	725.2
Standard & Poor's adjustments								
Operating leases	43.6	--	--	2.7	2.7	2.7	8.0	8.0
Intermediate hybrids reported as debt	(150.0)	150.0	--	--	--	(9.2)	9.2	9.2
Intermediate hybrids reported as equity	25.6	(25.6)	--	--	--	1.6	(1.6)	(1.6)
Postretirement benefit obligations	365.7	--	--	11.2	11.2	--	89.5	89.5

Table 3

Reconciliation Of Integrys Energy Group Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $) (cont.)								
Capitalized interest	--	--	--	--	--	0.3	(0.3)	(0.3)
Share-based compensation expense	--	--	--	22.4	--	--	--	--
Power purchase agreements	303.1	--	--	53.1	16.7	16.7	36.4	36.4
Asset retirement obligations	192.5	--	--	11.7	11.7	11.7	(3.4)	(3.4)
Reclassification of nonoperating income (expenses)	--	--	--	--	91.6	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	(40.8)
Debt - Other	(164.3)	--	--	--	--	--	--	--
Equity - Other	--	88.9	--	--	--	--	--	--
Total adjustments	616.2	213.3	0.0	101.1	133.9	23.8	137.9	97.1

Standard & Poor's adjusted amounts

	Debt	Equity	Revenues	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations
Adjusted	3,264.7	3,170.3	5,203.2	860.2	627.2	171.7	863.1	822.3

Ratings Detail (As Of February 10, 2012)

Peoples Energy Corp.	
Corporate Credit Rating	A-/Stable/NR
Corporate Credit Ratings History	
24-Jan-2012	A-/Stable/NR
21-Jan-2011	BBB+/Positive/NR
26-Jan-2010	BBB+/Stable/NR
05-Mar-2009	BBB+/Negative/NR
25-Nov-2008	A-/Negative/NR
07-Dec-2007	A-/Stable/NR
13-Nov-2007	A-/Stable/A-2
Business Risk Profile	Excellent
Financial Risk Profile	Significant
Related Entities	
Integrys Energy Group Inc.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Junior Subordinated (1 Issue)	BBB
Senior Unsecured (3 Issues)	BBB+
North Shore Gas Co.	
Issuer Credit Rating	A-/Stable/NR
Senior Secured (2 Issues)	A

Ratings Detail (As Of February 10, 2012) (cont.)

The Peoples Gas Light & Coke Co.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Secured (7 Issues)	A-
Senior Secured (1 Issue)	AA+/Negative
Wisconsin Public Service Corp.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock (5 Issues)	BBB
Senior Secured (8 Issues)	A

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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February 10, 2012

North Shore Gas Co.

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North Shore Gas Co.

Major Rating Factors

Corporate Credit Rating

A-/Stable/NR

Strengths:

- Lower-risk monopolistic, rate-regulated gas businesses;
- Management's proactive efforts to decrease regulatory risk; and
- Historically improved consolidated financial measures.

Weaknesses:

- A continued weak economy and slow growth could weaken consolidated cash flow over the medium term; and
- Affiliation with Integrys's higher-risk, nonutility businesses.

Rationale

The ratings on North Shore Gas Co. (NSG) reflect parent company Integrys Energy Group Inc.'s consolidated credit profile. The ratings also reflect NSG's "excellent" business risk profile and Integrys's "significant" financial risk profile. (For more on business risk and financial risk, see "Business Risk/Financial Risk Matrix Expanded," published May 27, 2009, on RatingsDirect on the Global Credit Portal.)

The excellent business risk profile for NSG reflects its lower-risk monopolistic gas distribution operations. NSG distributes gas to about 158,000 customers in northeastern Illinois. The Illinois Commerce Commission (ICC) regulates the company's distribution rates. In addition, we view the gas distribution businesses as having lower risk than a fully integrated electric utility, which includes the higher-risk electric generation component.

NSG has continued to effectively manage its regulatory risk--including its recent rate case order that will raise rates by almost $2 million--which we view as credit supportive. We fundamentally expect that the company will continue to effectively manage its regulatory risk over the medium term. In addition, the company has diligently worked toward gradually reducing its regulatory lag by filing forward-looking rate cases, employing decoupling, a fuel recovery mechanism, and a bad debt rider. Ultimately, we expect that these regulatory mechanisms will, over time, make the company's cash flows more stable and predictable.

Integrys's significant financial risk profile reflects the company's improved financial measures, despite the recession and the restructuring of its nonutility business.

Over the past three years, Integrys has significantly improved its financial measures primarily by increasing cash flow from its regulated subsidiaries, implementing effective cost management initiatives, and using bonus depreciation. For the 12 months ended Sept. 30, 2011, adjusted consolidated FFO to total debt improved to 29.3% from 25.2% at the end of 2010, adjusted debt to EBITDA improved to 3.5x from 3.8x, and adjusted debt to total capital strengthened to 47.8% from 50.7%.

Under our base-case scenario, while we forecast weaker financial measures over the intermediate term because of the continued slow economy and the phase-out of bonus depreciation, we expect that Integrys will maintain financial measures that are consistent with the significant financial risk profile, albeit with less cushion. Over the medium term, we forecast adjusted FFO to debt approximates 21%, adjusted debt to EBITDA at about 4.0x, and adjusted debt to total capital at approximately 51%.

Integrys had positive discretionary cash flow in 2010 partially because of increased deferred taxes and reduced capital spending. However, over the intermediate term, we expect that discretionary cash flow will revert to negative primarily because of increased capital spending for environmental capital expenditures and the company's natural gas main replacement program. We expect that Integrys will meet these cash shortfalls in a manner that is at least credit neutral.

Liquidity

Our short-term rating on Integrys is 'A-2'. The company has adequate liquidity and can more than cover its needs for the next year, even if FFO declines. (For more on liquidity, see "Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers," published on July 2, 2010.)

We base our liquidity assessment on the following factors and assumptions:

- We expect the company's liquidity sources (including cash, FFO, and credit facility availability) over the next 12 months to exceed uses by about 1.7x.
- Debt maturities are manageable over the intermediate term, with about$250 million, $315 million, and $100 million maturing during 2012-2014.
- Even if the availability under the existing credit facilities and FFO declined by 25%, we believe net sources would total more than 1.2x cash requirements.
- The company has good relationships with its banks, in our assessment, and has a good standing in the credit markets, having successfully issued debt during the 2009 credit crisis.

In our analysis, we assumed liquidity of about $1.9 billion over the next 12 months, primarily consisting of cash, FFO, and availability under the credit facilities. We estimate the company will use about $1.1 billion over the same period for capital spending, debt maturities, working capital needs, and shareholder dividends.

Integrys's credit agreements include a financial covenant requiring that the consolidated ratio of total debt to total capital be no more than 65%. As of Sept. 30, 2011, the company had adequate cushion against this covenant and could increase total debt by more than 75% without violating it.

Recovery analysis

We assign recovery ratings to first mortgage bonds (FMBs) issued by investment-grade U.S. utilities, which can result in issue ratings being notched above a utility's corporate credit rating (CCR), depending on the CCR category and the extent of the collateral coverage. We base our investment-grade FMB recovery methodology on the ample historical record of nearly 100% recovery for secured bondholders in utility bankruptcies and on our view that the factors that supported those recoveries (limited size of the creditor class, and the durable value of utility rate-based assets during and after a reorganization, given the essential service provided and the high replacement cost) will persist in the future. Under our notching criteria, when assigning issue ratings to utility FMBs, we consider the limitations of FMB issuance under the utility's indenture relative to the value of the collateral pledged to bondholders, management's stated intentions on future FMB issuance, as well as the regulatory limitations on bond issuance. FMB ratings can exceed a utility's CCR by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories.

NSG's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of 1.5x supports a recovery rating of '1+' and an issue rating one notch above the CCR.

Outlook

The stable outlook on Integrys and NSG reflects Standard & Poor's baseline forecast that consolidated adjusted FFO to debt and debt to total capital will approximate 21% and 51%, respectively, over the intermediate term. Significant risks to the forecast include higher-than-anticipated capital costs, a weaker-than-expected economy, or materially lower rate case increases than predicted. We could lower the rating if the nonutility business disproportionally grows to greater than 15% of the consolidated company or FFO to debt weakens to below 18% on a consistent basis. We consider a ratings upgrade to be highly unlikely but could occur if the company's FFO to debt is consistently greater than 30%, its debt to total capital is lower than 45%, and Integrys maintains its excellent business risk profile.

Related Criteria And Research

- Standard & Poor's Standardizes Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Business Risk/Financial Risk Matrix Expanded, May 27, 2009
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Table 1

Integrys Energy Group Inc. -- Peer Comparison

Industry Sector: Combo					
	Integrys Energy Group Inc.	Alliant Energy Corp.	American Electric Power Co. Inc.	Dominion Resources Inc.	Wisconsin Energy Corp.
Rating as of Feb. 6, 2012	A-/Stable/A-2	BBB+/Stable/A-2	BBB/Stable/A-2	A-/Stable/A-2	A-/Stable/A-2
	--Average of past three fiscal years--				
(Mil. $)					
Revenues	8,916.9	3,510.2	13,871.7	14,902.3	4,272.3
EBITDA	719.2	874.9	4,190.0	4,487.5	1,026.0
Net income from cont. oper.	92.7	239.1	1,314.7	1,886.0	448.1
Funds from operations (FFO)	806.6	777.3	3,256.9	3,141.0	974.4
Capital expenditures	453.9	1,052.4	3,182.0	3,624.2	788.6
Free operating cash flow	312.9	(338.6)	(568.1)	(549.2)	186.3
Discretionary cash flow	103.2	(506.5)	(1,330.7)	(1,676.2)	(19.3)
Cash and short-term investments	159.2	227.2	767.0	36.7	99.8
Debt	3,565.0	3,418.7	20,743.2	19,057.0	5,410.6
Equity	3,207.3	2,953.9	12,672.8	12,374.8	3,964.4
Adjusted ratios					
EBITDA margin (%)	8.1	24.9	30.2	30.1	24.0
EBITDA interest coverage (x)	4.0	4.5	3.6	4.6	4.1

Table 1

Integrys Energy Group Inc. -- Peer Comparison (cont.)					
EBIT interest coverage (x)	2.9	3.0	2.5	3.6	3.1
Return on capital (%)	7.0	8.1	7.7	10.3	7.4
FFO/debt (%)	22.6	22.7	15.7	16.5	18.0
Free operating cash flow/debt (%)	8.8	(9.9)	(2.7)	(2.9)	3.4
Debt/EBITDA (x)	5.0	3.9	5.0	4.2	5.3
Total debt/debt plus equity (%)	52.6	53.6	62.1	60.6	57.7

Table 2

Integrys Energy Group Inc. -- Financial Summary

Industry Sector: Combo

	--Fiscal year ended Dec. 31--				
	2010	**2009**	**2008**	**2007**	**2006**
Rating history	BBB+/Stable/A-2	BBB+/Negative/A-2	A-/Negative/A-2	A-/Stable/A-2	A/Watch Neg/A-1
(Mil. $)					
Revenues	5,203.2	7,499.8	14,047.8	10,292.4	6,890.7
EBITDA	860.2	773.6	523.9	624.1	409.4
Net income from continuing operations	223.8	(70.6)	124.8	181.1	151.6
Funds from operations (FFO)	822.3	860.2	737.3	388.5	304.2
Capital expenditures	294.9	495.3	571.6	432.3	362.3
Dividends paid	196.8	217.6	214.6	187.9	97.6
Debt	3,264.7	3,371.6	4,058.7	3,157.3	2,343.2
Preferred stock	175.6	175.6	175.6	175.6	175.6
Equity	3,170.3	3,176.6	3,275.2	3,411.4	1,709.2
Debt and equity	6,435.0	6,548.2	7,333.8	6,568.7	4,052.4
Adjusted ratios					
EBITDA margin (%)	16.5	10.3	3.7	6.1	5.9
EBIT interest coverage (x)	3.7	3.1	2.0	2.6	2.7
FFO int. cov. (x)	5.7	5.5	5.2	3.0	3.3
FFO/debt (%)	25.2	25.5	18.2	12.3	13.0
Discretionary cash flow/debt (%)	11.4	27.7	(24.5)	(11.3)	(15.5)
Net cash flow/capex (%)	212.1	129.7	91.4	46.4	57.1
Debt/debt and equity (%)	50.7	51.5	55.3	48.1	57.8
Return on capital (%)	8.6	7.8	4.8	8.4	9.4
Return on common equity (%)	7.6	(2.7)	3.6	7.4	10.4
Common dividend payout ratio (un-adj.) (%)	94.6	(280.7)	167.5	99.4	64.6

Table 3

Reconciliation Of Integrys Energy Group Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)

	--Fiscal year ended Dec. 31, 2010--							
Integrys Energy Group Inc. reported amounts								
	Debt	**Shareholders' equity**	**Revenues**	**EBITDA**	**Operating income**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**
Reported	2,648.5	2,957.0	5,203.2	759.1	493.3	147.9	725.2	725.2
Standard & Poor's adjustments								
Operating leases	43.6	--	--	2.7	2.7	2.7	8.0	8.0
Intermediate hybrids reported as debt	(150.0)	150.0	--	--	--	(9.2)	9.2	9.2
Intermediate hybrids reported as equity	25.6	(25.6)	--	--	--	1.6	(1.6)	(1.6)
Postretirement benefit obligations	365.7	--	--	11.2	11.2	--	89.5	89.5
Capitalized interest	--	--	--	--	--	0.3	(0.3)	(0.3)
Share-based compensation expense	--	--	--	22.4	--	--	--	--
Power purchase agreements	303.1	--	--	53.1	16.7	16.7	36.4	36.4
Asset retirement obligations	192.5	--	--	11.7	11.7	11.7	(3.4)	(3.4)
Reclassification of nonoperating income (expenses)	--	--	--	--	91.6	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	(40.8)
Debt - Other	(164.3)	--	--	--	--	--	--	--
Equity - Other	--	88.9	--	--	--	--	--	--
Total adjustments	616.2	213.3	0.0	101.1	133.9	23.8	137.9	97.1
Standard & Poor's adjusted amounts								
	Debt	**Equity**	**Revenues**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**
Adjusted	3,264.7	3,170.3	5,203.2	860.2	627.2	171.7	863.1	822.3

Ratings Detail (As Of February 10, 2012)

North Shore Gas Co.	
Corporate Credit Rating	A-/Stable/NR
Senior Secured (2 Issues)	A
Corporate Credit Ratings History	
24-Jan-2012	A-/Stable/NR
21-Jan-2011	BBB+/Positive/NR
26-Jan-2010	BBB+/Stable/NR
05-Mar-2009	BBB+/Negative/NR
25-Nov-2008	A-/Negative/NR
13-Nov-2007	A-/Stable/NR

Ratings Detail (As Of February 10, 2012) (cont.)

Business Risk Profile	Excellent
Financial Risk Profile	Significant
Related Entities	
Integrys Energy Group Inc.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Junior Subordinated (1 Issue)	BBB
Senior Unsecured (3 Issues)	BBB+
Peoples Energy Corp.	
Issuer Credit Rating	A-/Stable/NR
The Peoples Gas Light & Coke Co.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Senior Secured (7 Issues)	A-
Senior Secured (1 Issue)	AA+/Negative
Wisconsin Public Service Corp.	
Issuer Credit Rating	A-/Stable/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock (5 Issues)	BBB
Senior Secured (8 Issues)	A

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.