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INTEGRYS

2014
Executive
Incentive Plan

Update 1/24/14

EFFECTIVE DATE

The 2014 Executive Incentive Plan (the “Plan”), shall become effective on January 1, 2014. The Plan shall operate on the basis of a plan year that will begin on January 1, 2014 and will end on December 31, 2014 (the “Plan Year”). Payouts will be based on Plan Year performance results, except as otherwise provided herein.

PURPOSE

The purpose of the Plan is to provide short term incentive compensation to:

(1) Focus key executives on assisting Integrys Energy Group, Inc. (“TEG”) and its Subsidiaries (collectively referred to as the “Company”) in achieving objectives key to their success;
(2) Recognize the performance of key employees in achieving the Company’s financial and operating objectives; and
(3) Provide compensation opportunities that closely reflect the pay levels at companies in the custom peer group of utility companies as approved by the Compensation Committee of the Integrys Energy Group, Inc. Board of Directors (the “Committee”).

Payouts for Plan participants will be determined based on the Plan provisions and the results of Company performance measurements, subject to Committee adjustment (to the extent that any such adjustment is consistent with the terms and conditions of the Plan).

ELIGIBILITY

Eligibility for Plan participation will be limited to employees who (1) are employed in executive positions that have ultimate responsibility for the financial and operating performance of the Company, and (2) have been specifically identified by the Committee as being eligible for Plan participation. However, employees who participate in another short term Company incentive plan (other than a plan that compensates the employee on a commission basis) are not eligible to participate in this Plan with respect to the portion of the Plan Year that is also covered under such other plan. Names of approved Plan participants, measurement data points for threshold, target and superior performance levels, measurement applications and their weightings by each executive are identified in the Plan Appendix.

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

Any employee who first becomes eligible and is added to the Plan after the start of the Plan Year will be eligible to participate with respect to that Plan Year, but any payout under the Plan

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

SUBSIDIARIES

For purposes of the Plan, the Company's subsidiaries include: Integrys Business Support, LLC (IBS), Integrys Energy Services, Inc. (TEGE), Minnesota Energy Resources Corporation (MER), Michigan Gas Utilities, Inc. (MGU), North Shore Gas Company (NSG), The Peoples Gas Light & Coke Company (PGL), Upper Peninsula Power Company (UPPCO), Wisconsin Public Service Corporation (WPS), Integrys Transportation Fuels, LLC, Trillium USA, LLC, Pinnacle CNG Systems, LLC and any other corporation or entity designated as a subsidiary for purposes of the Plan. Each such entity is individually referred to as a "Subsidiary" and collectively as the "Subsidiaries."

When evaluating performance on Financial and Non-Financial Measures during the Plan Year, the performance of all such Subsidiaries shall be included. In the event that any such Subsidiary is sold or otherwise divested during the Plan Year, the target metric and actual performance for such Subsidiary will include the full period prior to such sale or divestiture and thereafter performance of such Subsidiary will be excluded. Unless the Committee determines otherwise, in the event of an acquisition of a new subsidiary or other corporate transaction involving the merger with or acquisition of a business by TEG, performance related to such acquired business shall not be considered when evaluating performance on the Financial and Non-Financial Measures for the Plan Year.

PAYROLL YEAR

The Payroll Year that is associated with the Plan Year, and that will be used to determine eligible Pay for payout calculations, is from December 22, 2013 through December 20, 2014.

EMPLOYMENT TERMINATION

Termination of employment at any time during the Plan Year (other than termination on account of retirement or death) will disqualify the participant from receiving a payout from the Plan.

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

Similarly, if termination of employment occurs during the Plan Year due to retirement or death, the participant will receive a payout of any award that has otherwise been earned and approved by the Committee, but the amount payable to or on behalf of the participant will be based upon the participant's Pay during the participant's period of active service during the year.

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

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

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

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

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

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

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

DEFINITION OF PAY

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

PLAN PERFORMANCE MEASURES

The Plan design includes financial and non-financial measures that are approved by the Committee, provided that with respect to any Plan payout that is intended to constitute performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code, such measures shall be approved in the first ninety (90) days of the Plan Year. Measurement performance levels will be monitored throughout the Plan Year. Following the end of the Plan Year, results will be presented to the TEG Chief Executive Officer (the "CEO") and Committee for approval. The performance measures can be specific to an individual or apply to a group, and may include operational and/or financial measures as approved by the Committee. Weightings can vary by eligible executive as approved by the Committee.

The following provides a general description of each of the financial and non-financial performance measures for the Plan Year. Measures reflect operations of the Company and will apply to one or more Plan participants. With respect to any Plan payout that is intended to constitute performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code, the Committee may at any time exercise negative discretion to adjust the performance measures (or the amount payable upon satisfaction of one or more performance measures) to reflect the effects of extraordinary items, non-recurring items or any other items that the Committee feels should be considered in determining performance results if the result is to reduce the amount payable relative to the performance measures as originally approved. The Committee also has the discretion to approve additional or alternative performance measures on a participant by participant basis that will supplement or replace any or all of the performance measures set forth below, including, without limitation, the authority to incorporate the terms of any objective performance measure used under another Company incentive program. To the extent that the Committee acts to incorporate the terms of any objective performance measure used under another Company incentive program, the terms and conditions of such other plan defining the performance measure are incorporated into this Plan by reference; provided that all other terms and conditions of this Plan shall continue to apply, including, without limitation, the application of any threshold financial requirement on the payment of incentive awards, the requirements regarding compliance with Internal Revenue Code Section 162(m) and terms and conditions set forth in this Plan regarding participation and eligibility for a payout of amounts otherwise payable in accordance with the objective performance measure that is incorporated from the other program.

FINANCIAL MEASURE

Calculated Diluted EPS-Adjusted, Before Annual Incentives – targets

The financial measure to be utilized in establishing performance threshold, target and superior levels is annual TEG Consolidated Diluted Earnings Per Share-Adjusted (Diluted EPS-Adjusted), Before Annual Incentives, subject to adjustments as set forth below. The 2014 Diluted EPS-Adjusted, Before Annual Incentives achievement range is to be derived from the budgeted Diluted EPS-Adjusted accepted by the Integrys Energy Group, Inc. Board of Directors on December 12, 2013. The Diluted EPS-Adjusted, Before Annual Incentives achievement range is based upon budgeted net income available for common shareholders, adjusted on an after-tax basis items (1) through (2) below, then divided by the weighted average diluted share count budgeted for the year ended December 31, 2014.

Adjustments:

(1) The budgeted annual incentive plan compensation expense related to all of the Company's annual incentive compensation plans (except for Integrys Energy Services, Inc. and Integrys Transportation Fuels, Inc. plans that are commission related); and

(2) The effects of (a.) charges for reorganizing and restructuring, (b.) discontinued operations, (c.) charges from asset write-downs, (d.) gains or losses on the disposition of a business or business segment or arising from the sale of assets outside the ordinary course of business, (e.) changes in tax or accounting rules, regulations or laws, (f.) extraordinary, unusual, transition, one-time and/or non-

recurring items of gain or loss, (g.) mergers, acquisitions or dispositions, (h.) lower of cost or market adjustments related to inventory, and (i.) unrealized mark to market adjustments related to commodity hedging activity, provided that, for each of the items (2.)(a.) through (2.)(i.), the Company shall have identified that it anticipates it will reflect such adjustments for investors in its audited financial statements (including footnotes), its earnings release or in the management discussion and analysis section of the Company's Form 10-K for fiscal year 2014.

The foregoing describes the process that the Committee, in setting threshold, target and superior performance levels, will follow in establishing Calculated Diluted EPS–Adjusted, Before Annual Incentives. The actual performance targets, including the Payout Governor and any other performance goals defining threshold, target and superior levels of performance, will be established and fixed by the Committee within the first ninety (90) days of the Plan Year with respect to any Plan payout that is intended to constitute performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code.

Calculated Diluted EPS-Adjusted, Before Annual Incentives

TEG Calculated Diluted EPS-Adjusted, Before Annual Incentives used to determine if desired performance has been achieved will be calculated based off of Generally Accepted Accounting Principles ("GAAP") net income available for common shareholders reported in the Company's Form 10-K for fiscal year 2014, adjusted on an after-tax basis to exclude items (1) through (3) below, then divided by the weighted average diluted share count reported in the Company's Form 10-K for the fiscal year 2014.

Adjustments:(1) The annual incentive plan compensation expense related to all of the Company's annual incentive plans (except for Integrys Energy Services, Inc. and Integrys Transportation Fuels, Inc. plans that are commission-related); and

(2) The effects of (a.) charges for reorganizing and restructuring, (b.) discontinued operations, (c.) charges from asset write-downs, (d.) gains or losses on the disposition of a business or business segment or arising from the sale of assets outside the ordinary course of business, (e.) changes in tax or accounting rules, regulations or laws, (f.) extraordinary, unusual, transition, one-time and/or non-recurring items of gain or loss, (g.) mergers, acquisitions or dispositions, (h.) lower of cost or market adjustments related to inventory, and (i.) unrealized mark to market adjustments related to commodity hedging activity, provided that, for each of the items (2.)(a.) through (2.)(i.), the Company shall have disclosed such adjustments in its audited financial statements (including footnotes), its earnings release or in the management discussion and analysis section of the Company's Form 10-K for fiscal year 2014; and

(3) Budget to actual variances for costs related to various long-term equity-based incentive compensation arrangements (in order to avoid incentive arrangements that would reward employees under the annual incentive plan for a declining stock price or harm employees under the annual incentive plan for a rising stock price, etc.).Diluted EPS-Adjusted for external financial reporting purposes includes an adjustment to net income related to liability classified equity-based compensation awards; as this impact is not budgeted, it is not considered for the Calculated Diluted EPS-Adjusted, Before Annual Incentives.

NON-FINANCIAL MEASURES

Customer Performance Index

The continued success of the Company will ultimately be determined by how we perform for our customers, requiring this to be the focal point of our efforts. Customer performance will be measured using an index that consists of three customer success components, Customer Effort, a measure of how easy/hard it is to do business with our utilities, Service Quality, an operational measure of customer satisfaction across billing, payment, field service, and call handling and Customer Value, a strategic measure of customer-perceived progress on the Integrys mission to provide customers with the best value in energy and related services.

The Customer Performance Index (CPI) will be calculated as an equal-weighting (1/3rd each) of these component measures. The incentive measure will be the annual CPI for all Integrys utilities, combined, where the customer survey responses for all utilities are used calculate each component measure and the CPI. A 5-point measurement scale will be used with “5” equaling “excellent performance”.

Employee Safety

Employee safety will be measured with two plan components: (1) the development and successful execution of safety business plans by business-unit; and (2) the DART Incident Rate as compared to the annual improvement target by business-unit.

Business-unit specific business plans shall be prepared on an annual basis in-conjunction with HR Corporate Safety to ensure an appropriate level of objectivity. Each business-unit shall also work with Corporate Safety to monitor and report on business unit progress throughout the year. In order to provide an appropriate segregation of duties, the Internal Auditing Department will audit business plan performance at year-end and determine the final outcome.

The DART Incident Rate refers to those incidents that result in **d**ays-**a**way, **r**estricted-duty, or job **t**ransfer. The rate is calculated by multiplying the number of qualified DART *incidents* over a given period of time by 200,000. That total is subsequently divided by the number of total hours worked by the identified business unit to obtain the final rate. An injury or illness is considered a DART Incident if it meets standard criteria set by Occupational Safety and Health

Administration (OSHA) regulations. For purposes of determining plan results for 2014, the rate will be measured over a calendar year basis.

The DART Incident Rates are further analyzed against viable industry benchmarks, and final targets are reviewed and approved by business unit management to promote consistency and improvement. The business plans and DART Incident Rate will be measured at the following levels:

(1) Regulated utility subsidiaries – measure will rely on the individual metrics of MER, MGU, NSG, PGL, UPPCO and WPS.
(2) A Consolidated Regulated Utility subsidiaries and non-regulated subsidiaries measure applicable only to identified executives will be dependent upon the combined results of all regulated subsidiaries and non-regulated subsidiaries.
(3) A combined Gas regulated subsidiaries measure applicable only to identified executives will be dependent on the combined results of MER, MGU, NSG and PGL.
(4) A combined Electric regulated subsidiaries measure applicable only to identified executives will be dependent on the combined results of UPPCO and WPS only.
(5) A combined Gas regulated subsidiaries measure applicable only to identified executives will be dependent on the combined results of MER and MGU.
(6) A combined Gas regulated subsidiaries measure applicable only to identified executives will be dependent on the combined results of PGL and NSG.

Environmental Impact

In accordance with our corporate environmental vision to create energy solutions for a sustainable tomorrow, this measure will be based on a reduction of annual emissions of carbon dioxide (CO_2) and other greenhouse gases resulting from:

(1) Implementing energy efficiency and conservation activities that will reduce greenhouse gas emissions from the energy we use.
(2) Making improvements in our processes to generate and transmit electricity and natural gas with reduced greenhouse gas emissions.

Integrys Energy Services – Customer Delight

The Customer Delight measure is defined as "the result of service that surpasses simple satisfaction by surprising the customer through offering products and service at a level either not thought possible or in a form or manner the consumer did not realize they wanted or needed," based on the average of quarterly (four) TEGE customer surveys to be done in 2014. The incentive target baseline will be ~~is~~ set by taking the average of the four 2013 survey results and applying an improvement amount equal to half of one Confidence Interval (CI) at 95% probability. Superior will be set at 2014 target measure plus one CI, and threshold will be set by subtracting one CI from the 2014 target measure.

<u>Subsidiary Specific Annual Leadership Incentive Plan Results</u>

This measure is defined as the final Percentage of Plan Achievement for the Annual Leadership Plan of the subsidiary lead by the named Executive. The final Percentage of Plan Achievement used to calculate the Executive's results will be the same achievement used for all the specific Plan's participants. For 2014, the specific subsidiary plans included are the 2014 Integrys Transportation Fuels Incentive Plan and the Integrys Energy Services 2014 Leadership Incentive Plan.

PAYOUT GOVERNOR

Notwithstanding anything to the contrary, a payout with respect to a particular performance measure will be reduced or eliminated, even if performance with respect to that particular performance measure would otherwise indicate a payout, if the annual TEG Consolidated "Calculated Diluted EPS – Adjusted, Before Annual Incentives" (as defined above) for 2014 does not meet the threshold requirement established by the Committee. This is referred to as the Overall Threshold Requirement. If the Overall Threshold Requirement is not attained, there will be no payout with respect to any financial performance measure. If the Overall Threshold Requirement is not met, any payout for actual non-financial performance measure results will be reduced by fifty (50) percent.

PLAN PAYOUTS

Following the close of the Plan Year and after the audited financial results are available, the Committee will meet and certify the extent to which the performance measures have been satisfied (including application of the Payout Governor) and will authorize Plan payouts. Payouts, less tax withholdings, will be paid no later than March 15th of the year following the Plan Year. To receive a target payout for a measure, the target performance level must be attained. To receive a superior payout for a measure, the superior performance level must be attained. The Committee has discretion to determine if any additional payouts shall be made for performance between threshold, target and superior levels; provided that if the payout is intended to satisfy the requirements of Internal Revenue Code Section 162(m) with respect to a "covered executive" with respect to whom the Company is subject to the requirements of Section 162(m), the Company shall establish, within the first 90 days of the performance period, the manner in which performance between threshold, target and superior levels impacts the payout.

An employee who during the Plan Year changes employment status from one eligible status to another eligible status, other than a change that the Company or applicable Subsidiary determines to be short-term or temporary assignment that does not represent a long-term change in the employee's regular role, will be subject, with respect to employment on or after the date the change in employment status is reflected in the PeopleSoft System (the "Change in

Status Date"), to the Plan payout target and/or incentive measures applicable to the employment status into which the employee has transferred. Any payout applicable to eligible employment during the Plan Year prior to the Change in Status Date will be based upon the employee's payout targets and/or incentive measures applicable to the employee prior to the Change in Status Date and the employee's Pay prior to the Change in Status Date. Any payment applicable to eligible employment during the Plan Year but on or after the Change in Status Date will be based upon the employee's payout target and/or incentive measures applicable to the employee on or after the Change in Status Date and the employee's Pay on or after the Change in Status Date. Short-term or temporary assignments (as determined by the Company or applicable Subsidiary) will not change the incentive plan or level that an employee is assigned to. The employee will remain in his or her regular role for payout calculation purposes.

Any Plan payout is subject to any recoupment or clawback policy that may be adopted by the Company from time to time and to any requirement of applicable law, regulation or listing standard that requires the Company to recoup or claw back compensation paid pursuant to the Plan.

Note: Section 162(m) of the Internal Revenue Code limits the tax deduction for compensation paid to a "covered executive" to $1,000,000 unless certain requirements are met. In order for compensation in excess of $1,000,000 to be deductible by the Company, that compensation must satisfy the requirements to be treated as qualified performance-based compensation under Section 162(m). With respect to any payout opportunity that is made to a "covered executive" and that is intended to constitute qualified performance-based compensation for purposes of Section 162(m), those requirements include, without limitation, (1) a requirement that the Plan be administered by the Committee which consists entirely of outside directors, (2) a requirement that compensation in excess of $1,000,000 must be based upon the attainment of objective performance goals approved by shareholders, and (3) a requirement that the objective performance goals and measures be established no later than ninety (90) days following the beginning of the performance period, and that such objective formula or standard preclude discretion to increase the amount of compensation due upon attainment of the goal. The Committee may always exercise "negative discretion", i.e., discretion that reduces or eliminates a payout from the amount that would otherwise be payable in the absence of Committee discretion.

RELATIONSHIP TO OTHER COMPANY PLANS

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

RIGHTS OF PARTICIPANTS & FORFEITURE

Nothing in this Plan shall:

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

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

ADMINISTRATION

The TEG Board of Directors (the "Board") is responsible for the establishment of the Plan, and the Board has the right to amend or terminate the Plan at any time, as it deems appropriate. Further, the Committee is authorized to 1) interpret and apply the Plan's terms and conditions, 2) determine who will participate in the Plan and the level of participation, and 3) approve the performance measures that are applicable to a covered employee's participation and approve payments for Executive Officers (as defined in the Charter of the Compensation Committee of the Board of Directors) covered by the Plan. The Committee has delegated to the CEO its authority and responsibility with respect to other executives not named in the Charter. The Committee will report to the Board substantive actions taken.

Any authority granted to the Committee may also be exercised by the Board, except to the extent that the grant or exercise of such authority would cause any payout that is intended to be qualified performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code to cease to qualify for exemption under such section. To the extent that any permitted action taken by the Board conflicts with any action taken by the Committee, the Board action shall control.