

INTEGRYS

2011 IBS & Regulated Non-Executive Incentive Plan

2/8/11

Effective Date

The Integrys Non-Executive Incentive Plan (the “Plan”) shall become effective on January 1, 2011. Except as otherwise provided herein, awards are based upon the calendar year (the “Incentive Year”).

Purpose and Participation

The Plan provides eligible employees with an opportunity to receive incentive compensation based upon the achievement of short-term goals that support Integrys Energy Group, Inc. (the “Company”), and those direct and indirect subsidiaries of the Company that have been designated by the Company for participation in this Plan. The following direct and indirect subsidiaries of the Company (the “Participating Subsidiaries”) participate in the Plan with respect to their eligible employees: Integrys Business Support, LLC (IBS), North Shore Gas Company (NSG), The Peoples Gas Light & Coke Company (PGL), Minnesota Energy Resources (MERC), Michigan Gas Utilities (MGU), Upper Peninsula Power Company (UPPCO) and Wisconsin Public Service Corporation (WPS). The purpose of the Plan is to focus employees on reducing costs and improving reliability to customers, and supporting an emphasis on safety in all we do. Awards for plan participants will be determined based on the achievement of Participating Subsidiary performance goals.

Eligibility

Eligibility for the Plan is determined per the following guidelines:

1. Eligibility is limited to employees who are classified by the Company or a Participating subsidiary as active regular administrative (non-union) full-time or part-time employees of the Company or Participating Subsidiary for the period of time during the Incentive Year that they are employed in an eligible classification. As described above, employees of the Company’s non-regulated direct and indirect subsidiaries, including Integrys Energy Services, Inc., are not eligible to participate in the Plan.
2. Employees who are assigned by the Company or a Participating Subsidiary to a limited term or temporary status, e.g. limited-term employees, and persons who provide services to the Company or a Participating Subsidiary but who are classified as non-employee service providers, e.g. contractors and consultants, are not eligible for the Plan.
3. Any employee who first becomes eligible and thus is added to the Plan after the start of the Incentive Year will be eligible to participate with respect to that Incentive 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 in “Definition of Pay) for which the employee was employed in an eligible classification.
4. Employees covered by a collective bargaining agreement are not eligible for participation in the Plan. If an employee transfers during the Incentive Year from employment covered by a collective bargaining agreement to employment in a regular position eligible for participation in the Plan, or vice versa, the employee will be eligible to participate with respect to that Incentive Year, but any payout under the Plan will be based on the employee’s Pay during the portion of the Payroll Year for which the employee was employed in an eligible classification.
5. An Employee who during the Incentive Year changes employment status from one eligible status to another eligible status, other than a change that the Company or applicable

- Participating subsidiary determines to be short-term or temporary assignment that does not represent a long-term change in the employee's regular role, will be subject, with respect to employment on or after the date the change in employment status is reflected in the PeopleSoft System (the "Change in Status Date"), to the Plan payout target and/or incentive measures applicable to the employment status into which the employee has transferred. Any payout applicable to eligible employment during the Incentive 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 Incentive 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.
6. Short-term or temporary assignments (as determined by the Company or applicable Participating Subsidiary) will not change the incentive plan or level that an employee is assigned to. The employee will remain in the incentive plan level for their regular role.
 7. Employees, who during the Incentive Year retire, become permanently and totally disabled (as defined in the Company or Participating Subsidiary long-term disability plan applicable to the employee), or take an approved leave of absence or die during active employment, are eligible for any earned payout based upon the employee's Pay during the portion of the Payroll year for which the employee was employed in an eligible classification. For purposes of this Plan, "retire" or "retirement" means (1) if the employee participates in the Integrys Energy Group Retirement Plan (the "Retirement Plan"), the employee terminates employment on or after the date on which the employee has satisfied the requirements for "retirement" under the component of the Retirement Plan that is applicable to the employee, or (2) if the employee is not eligible for the Retirement Plan, the employee terminates employment on or after the date on which the employee has satisfied the requirements for "retirement" under the defined contribution plan in which the employee is eligible to participate. In the event of an employee's death, the payout will be distributed in a lump sum to the employee's estate. Payment will be made at the same time as payment would have been made if the employee had continued in active employment.
 8. Eligible Plan participants who during the Incentive Year change employment status from one eligible status to another eligible status but qualify to participate in the current Integrys Pay Protection program will be eligible to participate (a) at the annual incentive percentage target level payout that has been assigned to their prior, higher pay grade with respect to eligible employment during the portion of the Incentive Year that is prior to the Change in Status Date and (b) at the annual incentive percentage target level payout that has been assigned to their new, lower pay grade with respect to eligible employment during the portion of the Incentive Year that is on or after the Change in Status Date.
 9. Except as provided in Paragraph 7 above, employees must be actively employed through December 31 of the Incentive Year to be eligible for a payout of any incentive award that is otherwise payable under the Plan with respect to that Incentive Year. Those who are not actively employed through December 31 of the Incentive Year for reasons other than death, disability, retirement, or approved leave of absence, as provided in Paragraph 7, will not be eligible to receive an award from the Plan with respect to the Incentive Year. An employee does not earn a right to an incentive payment (whether on a pro rata basis or otherwise) based upon length of service or mere completion of service during the Incentive Year. Rather, an incentive payout is earned based upon the achievement by the Company or applicable Participating Subsidiary of pre-determined performance goals measured over the course of the entire Incentive Year as a result of the efforts of eligible employees who contribute toward the achievement of such goals during the Incentive Year. An employee's participation in the Plan, and the opportunity to earn an incentive payout in accordance with

the terms and conditions of the Plan, does not represent an unequivocal promise on the part of the Company to pay incentive compensation other than to the extent that applicable performance goals have been satisfied and the employee satisfies the eligibility conditions specified herein.

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

Payment of Incentive Award Earned

1. The President of the Company or of a Participating Subsidiary may determine (or, if there is no President of a Participating Subsidiary, the highest ranking officer of the Participating Subsidiary), shall have discretion to determine that an eligible employee of the Company or applicable Participating Subsidiary is ineligible in total or in part for a Plan payout if the employee has earned less than a “fully successful” performance evaluation rating for the Incentive Year or is otherwise being counseled concerning documented insufficient performance. This is the only circumstance in which an amount that would otherwise be payable as a result of the achievement of performance objectives might not be paid.
2. The amount of the incentive payout that has been earned shall be paid to each eligible employee after the Company’s audited financial results for the Incentive Year are available, but no later than March 15th of the year following the Incentive Year.
3. Plan awards are subject to Federal and State taxes, and Social Security withholdings.

Participants receive the payout as current income subject to Federal and State taxes and Social Security withholdings. However, former 401(k) and Deferred Compensation Plans eligible participants may defer a portion of the incentive plan award into the 401(k) and Deferred Compensation Plans with the deferrals subject to the respective plan and tax law limits.

Relationship to Other Benefit Plans

1. For employees participating in a defined benefit retirement plan, payouts made under the Plan generally will be included in earnings used to determine retirement benefits if paid while an active employee in accordance with the applicable retirement program. If an employee retires and receives a payout under the Plan subsequent to the employee’s retirement, that payout will not be used in calculation of retirement benefits, except as specifically provided in the applicable retirement plan document. Nothing in the Plan shall be construed as an amendment of or modification to the terms of any retirement program in which an employee participates.
2. 401(k) and Deferred Compensation Plans participants may defer a portion of the incentive plan payout into the 401(k) and Deferred Compensation Plans, subject to the terms of the respective plan and tax law limits. 401(k) deferrals are not available to participants who are not active employees at the time of payout. Nothing in the Plan shall be construed as an amendment of or modification to the terms of any 401(k) or Deferred Compensation Plan in which an employee participates.

Definition of Pay

Awards under the Plan are expressed and calculated as a percentage of the eligible employee’s Pay for the Payroll Year or applicable portion of the Payroll Year. Pay for purposes of the Plan is defined as standard base pay earnings and overtime actually paid during the Payroll Year or applicable portion of the Payroll Year (as opposed to rate of pay). For example, with respect to the 2011 Incentive Year, the Payroll Year

will be the period from December 26, 2010 until December 24, 2011. All other payments shall be excluded.

Plan Performance Goals

Goals, Weightings and Performance Levels

The payout will be based on the various Company, NSG, PGL, MERC, MGU, UPPCO, and WPS's operational performance goals. Each goal is weighted, representing a proportional share of the potential payout. No payout will be made with respect to a particular performance goal if performance with respect to that goal does not exceed the threshold level of performance. To receive a target award for a goal, the target performance goal level must be attained. To receive a superior award for a goal, the superior performance goal level must be attained. For performance that exceeds threshold but is less than target, the payout amount will be pro-rated. Similarly, for performance that exceeds target but is less than superior, the payout amount will be determined using interpolation or a non-linear equation established at the time that the performance goals and target payouts are established.

The performance measures to be utilized in determining payouts for the Incentive Year are set forth below. Not every performance measure applies with respect to each Participating Subsidiary or each employee of a Participating Subsidiary, nor will the weightings applied with respect to a performance measure necessarily be the same between Participating Subsidiaries or between employee groups who are employed at a particular Participating Subsidiary.

Performance goals and weightings for participants at the Company and each participating subsidiary are listed as separate addenda to this plan document. The specific goals and their targets are listed on Appendix A.

The payout weightings for each goal for eligible participant groups are listed on Appendix B.

Operational Measures

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

The annual forecasted Combined Utility and IBS FERC-based non-fuel Operation and Maintenance (O&M) expense – Adjusted Before Annual Incentives is determined based upon the combined Utility and IBS FERC-based non-fuel O&M included in the budget approved by the Integrys Board of Directors on December 9, 2010 adjusted for (1.) annual incentive plan compensation expense, expected to be accrued at target-level performance related to the executive and non-executive annual incentive compensation plans for employees of IBS and the Regulated Utilities, (2.) where applicable to O&M, the pre-tax impact of adjustments reflected in Integrys Energy Group's 2011 EPS-Adjusted earnings guidance, as reported in the Company's earnings release for calendar year 2010, and (3) amounts recorded for (a) costs recovered directly through regulatory trackers such as bad debt, demand side management, energy efficiency programs, and manufactured gas plant clean up, (b) electric transmission (wheeling) costs, and (c) bad debt expense not recovered through trackers.

The Calculated Combined Utility and IBS FERC-based non-fuel Operation and Maintenance expense – Adjusted Before Annual Incentives used to determine if desired performance has been achieved will be calculated based upon the combined Utility and IBS FERC-based non-fuel O&M included in the final 2011 audited financial results for Integrys Energy Group, Inc. adjusted for (1.) incentive

plan compensation expense included in the actual results related to the executive and non-executive annual incentive compensation plan for employees of IBS and the Regulated Utilities, (2.) where applicable to O&M, the pre-tax impact of adjustments reflected in Integrys Energy Group's 2011 EPS-Adjusted as reported in the Company's earnings release for calendar year 2011, and (3.) amounts recorded for (a) costs recovered directly through regulatory trackers such as bad debt, demand side management, energy efficiency programs, and manufactured gas plant clean up, (b) electric transmission (wheeling) costs, and (c) bad debt expense not recovered through trackers, and (4.) budget to actual variances for costs related to various long term equity-based compensation arrangements for plan participants that are employees of IBS and the Regulated Utilities (in order to avoid perverse incentive arrangements that would reward employees under the annual incentive plan for a declining stock price, etc...).

Customer Satisfaction Measure

Our utilities' continued success will ultimately be determined by our customers, requiring customer satisfaction to be the focal point of our efforts. Customer satisfaction will be measured for residential customers of MER, MGU, NSG, PGL, UPPCO and WPS and compared against the satisfaction survey results of other regional benchmark energy suppliers.

Surveys will be conducted by J.D. Powers, who will also provide detailed individual utility reports and publish the benchmark report.

Employee Safety

The recordable incident rate key measure is the basis of the incentive plan measure. The rate is calculated by multiplying the number of recordable cases over a given period of time by 200,000. That total is subsequently divided by the number of total hours worked by identified business unit to obtain the final rate. An injury or illness is considered recordable if it meets standard criteria set by Occupational Safety and Health Administration (OSHA) regulations. For purposes of determining results, the rate is measured over the Incentive Year.

The recordable incident rates are further analyzed against viable industry benchmarks, and final targets are reviewed and approved by business unit management to promote consistency and improvement. The recordable 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. IBS will share outcomes of the regulated utility subsidiaries on a prorated basis.

UPPCO, WPS - System Reliability

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

1. The electric system measurement is the median monthly System Average Interruption Duration Index (SAIDI), excluding major storms. The monthly SAIDI is the customer minutes of outage, excluding customer minutes of outage due to large storms, per customer served. The 2011

incentive levels of threshold, target and superior are determined by the average median SAIDI values from 2005 through 2010.

2. The gas system component measure is based on the percentage of customer and public odor complaints with employee response times less than 60 minutes.

PGL - Reduction in Class 2 System Leaks

The proactive reduction in the percentage of Class 2 outside gas leaks to the total number of pending Class 2 and Class 3 outside gas leaks may have an impact on public safety, as it mitigates the risk of the possible negative consequences that may result from such a leak. A Class 2 leak is a gas leak that is recognized as being non-hazardous at the time of detection, but justifies more frequent monitoring and scheduled repair based on probable future hazard. The fewer the number of Class 2 gas leaks, the less exposure to a future risk. There would also be some cost savings through the reduction in frequency of future required leak rechecks, if the leak was not eliminated by the repair(s). With the anticipated implementation of an accelerated main replacement program, the reduction in the higher classified gas leaks is more critical and efficient than the time being spent to completely eliminate the gas leak, especially a Class 3 gas leak that is expected to remain non-hazardous. The metric for this measure will be based on the percentage of Class 2 gas leaks as a ratio to the total number of pending Class 2 and Class 3 outside gas leaks.

NSG, PGL - Reduction in 3rd Party Damages

Damage prevention is an operational measure with a significant safety component and will be critical for development of a strong distribution integrity management program. Every year there are damages to underground facilities that lead to unplanned service interruptions, that cause damage to property or equipment, and some may even result in bodily injury. In addition, associated repairs are costly and may also result in customer inconvenience through the loss of service to that particular utility. The metric for this measure will be based on the total number of damages caused by Company crews as well as third party damages to company-owned facilities as a percentage of total number of locates received. The damages caused by Company crews would include those that impact third party facilities as well as company-owned facilities.

MERC - Meter Set Remediation

This metric is based on meter sets remediated for active atmospheric corrosion identified in MER's recent meter set surveys. The remediation targets are number of meter sets remediated based on budget and resources.

MGU - Improved Pipeline Locating Productivity

This measure is intended to improve the efficiency and accuracy of pipeline locating. The productivity of locating is currently being measured by: $(\text{expected hours/unit}) / (\text{actual hours/unit})$. The efficiency goal will be to improve this productivity rate.

Accuracy will be measured as the percent reduction of non-billable 3rd party damages which are primarily caused by mis-locating facilities. Each portion of the goal will be weighted 50% for participating MGU employees.

WPS - Market Effectiveness Measure

The WPS Market Effectiveness measure is specific to WPS Energy Supply Operations participants, and selected participants in Energy Supply & Control. It is the energy price weighted availability of all WPS's generation facilities, the comparison of what WPS electric generation earns in 2011 versus what it could have earned if all units had been available 100% as needed.

Rights of Participants & Forfeiture

Nothing in this Plan shall:

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

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