Moody's Investors Service

Global Credit Research
Credit Opinion
22 FEB 2007

Credit Opinion: Integrys Energy Group, Inc.

Integrys Energy Group, Inc.

Chicago, Illinois, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Sr Unsec Bank Credit Facility	A3
Senior Unsecured	A3
Jr Subordinate	Baa1
Commercial Paper	P-2
Wisconsin Public Service Corporation	
Outlook	Stable
Issuer Rating	A1
First Mortgage Bonds	Aa3
Senior Secured	Aa3
Sr Unsec Bank Credit Facility	A1
Preferred Stock	A3
Commercial Paper	P-1
Peoples Energy Corporation	
Outlook	Stable
Senior Unsecured	A3
Commercial Paper	P-2

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Key Indicators

WPS Resources Corporation

	LTM Q3 06	[1]2005	2004	2003	2002
(CFO Pre-W/C + Interest) / Interest	4.1	3.5	5.0	4.8	4.7
(CFO Pre-W/C) / Debt	14.5%	15.4%	20.5%	20.5%	21.3%
(CFO Pre-W/C - Dvidends) / Debt	9.9%	8.7%	14.2%	13.8%	14.5%
(CFO Pre-W/C - Dvidends) / Capex	54.8%	27.5%	63.8%	85.5%	69.7%
Debt / Book Capitalization	57.3%	51.2%	55.3%	50.4%	53.7%
EBITDA Margin	5.1%	5.4%	5.6%	5.6%	16.2%

[1] CFO Pre-W/C includes deferral of Kewaunee outage costs totaling approximately $49 million

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

Opinion

Company Profile

Integrys Energy Group, Inc. (Integrys: A3 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 Corporation (Peoples). It owns regulated utilities serving 1,662,000 million gas and 481,000 electric customers in Wisconsin, Illinois, Michigan, and Minnesota that operate under the names

Wisconsin Public Service Corporation (WPSC: Aa3 senior secured), Upper Peninsula Power Company, Michigan Gas Utilities, Minnesota Energy Resources, Peoples Gas Light and Coke Co. (A1 senior secured) and North Shore Gas Co. (A1 senior secured). The company also provides retail and wholesale energy marketing services in 23 states and in 3 Canadian provinces through its Integrys Energy Services, Inc. subsidiary.

Approximately 80% of Integrys' consolidated cash flow is expected to be derived from its regulated utilities and 20% from its non-regulated activities.

Rating Rationale

Integrys' long-term ratings were downgraded two notches on February 21, 2007 following the closing of the merger between WPS Resources and Peoples Energy Corporation (PEC). This rating action took into account the company's announcement to sell its oil and gas exploration and production (E&P) business.

The downgrade reflected increases in Integrys' consolidated debt levels and business risk profile associated with the merger and challenges in improving consolidated financial metrics, which have trended downward. Integrys' pre-merger ratio of CFO pre-W/C to debt declined for the twelve months ended December 31, 2006 to less than 15% along with a lower CFO pre-W/C interest coverage of less than 4 times. The primary driver for the decline in these ratios is an increase in consolidated debt primarily arising from the previous acquisition of assets from Aquila. Similarly, Peoples' consolidated credit metrics weakened in fiscal year 2006 due in part to the erosion of the operating margins of its two regulated gas distribution utilities, which have not increased their delivery rates in eleven years.

Moody's expects 2007 to be a transitioning year for Integrys and that its resulting credit metrics will be lower compared to other A-rated utility holding companies. Our rating action incorporated an expectation that Integrys' metrics will improve considerably however beginning 2008 driven in large part by anticipated rate relief in Illinois and synergy savings from the merger.

Integrys' A3 senior unsecured is supported by the relatively strong and predictable cash flows generated by its various regulated utility subsidiaries that operate in relatively supportive regulatory environments and the company's intention to sell its E&P business and use such proceeds to reduce the level of short-term debt.

Rating Outlook

The stable outlook reflects our expectation that Integrys' short-term debt balances will be reduced near-term and that CFO pre-W/C to debt and CFO pre-W/C interest coverage will improve to approximately 20% and 5 times, respectively, in 2008. Failure to meet these expectations could exert downward pressure on the ratings.

What Could Change the Rating - UP

Upward rating movement is not expected in the medium-term absent a fundamental shift in the company's business risk profile caused by the sale of the majority of its non-regulated business. Longer term, we would likely need to see Integrys consolidated ratio of CFO pre-W/C to debt to exceed 25% to consider an upgrade.

What Could Change the Rating - Down

Downward rating movement could be triggered by further merger and acquisition activity or any evidence that Integrys will be unable to meet our expectation for improved financial metrics to the levels cited above.

Rating Factors

WPS Resources Corporation

Select Key Ratios for Global Regulated Electric Utilities

Rating	**Aa**	**Aa**	**A**	**A**	**Baa**	**Baa**	**Ba**	**Ba**
Level of Business Risk	**Medium**	**Low**	**Medium**	**Low**	**Medium**	**Low**	**Medium**	**Low**
CFO pre-W/C to Interest (x) [1]	>6	>5	3.5-6.0	3.0-5.7	2.7-5.0	2-4.0	<2.5	<2
CFO pre-W/C to Debt (%) [1]	>30	>22	22-30	12-22	13-25	5-13	<13	<5
CFO pre-W/C - Dividends to Debt (%) [1]	>25	>20	13-25	9-20	8-20	3-10	<10	<3
Total Debt to Book Capitalization (%)	<40	<50	40-60	50-70	50-70	60-75	>60	>70

[1] CFO pre-W/C, which is also referred to as FFO in the Global Regulated Electric Utilities Rating Methodology, is

equal to net cash flow from operations less net changes in working capital items