INTEGRYS ENERGY GROUP, INC.
Form DEF 14A
April 05, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
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Check the appropriate box:

o	Preliminary Proxy Statement
o	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to §240.14a-12

Integrys Energy Group, Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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x	No fee required.	
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Integrys Energy Group, Inc.
(formerly known as WPS Resources Corporation)
130 East Randolph Drive, Chicago, Illinois 60601

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD MAY 17, 2007

The Integrys Energy Group annual meeting will be held on Thursday, May 17, 2007, at 10 a.m., Central daylight time, at the Weidner Center, on the campus of the University of Wisconsin - Green Bay, 2420 Nicolet Drive, Green Bay, Wisconsin. Our shareholders are asked to vote to:

1. Elect Pastora San Juan Cafferty, Ellen Carnahan, Michael E. Lavin, William F. Protz, Jr. and Larry L. Weyers to three-year terms on the Board of Directors or until their successors have been duly elected;

2. Approve the Integrys Energy Group 2007 Omnibus Incentive Compensation Plan, which authorizes 3.5 million shares of Common Stock for future grants;

3. Approve an amendment to the Integrys Energy Group Deferred Compensation Plan that authorizes the issuance of an additional 0.7 million shares of Common Stock under the plan;

4. Ratify the selection of Deloitte & Touche LLP as the independent registered public accounting firm for Integrys Energy Group and its subsidiaries for 2007; and

5. Transact any other business properly brought before the annual meeting and any adjournment or postponement thereof.

If you held shares in Integrys Energy Group at the close of business on March 22, 2007, you are entitled to vote at the annual meeting.

You may vote your shares over the Internet at www.voteproxy.com, by calling toll-free (800) 776-9437, by completing and mailing the enclosed proxy card, or in person at the annual meeting. We request that you vote in advance whether or not you attend the annual meeting. You may revoke your proxy at any time prior to the vote at the annual meeting and vote your shares in person at the meeting or by using any of the voting options provided. Please review the proxy statement and follow the directions closely in exercising your vote.

INTEGRYS ENERGY GROUP, INC.

PETER H. KAUFFMAN
Secretary and Chief Governance Officer

Chicago, Illinois
April 6, 2007

The board of directors solicits the enclosed proxy. Your vote is important no matter how large or small your holdings. To assure your representation at the meeting, please complete, sign exactly as your name appears, date and promptly mail the enclosed proxy card in

the postage-paid envelope provided or use one of the alternative voting options provided.

2007 ANNUAL MEETING OF SHAREHOLDERS
PROXY STATEMENT
TABLE OF CONTENTS

This proxy statement, the accompanying Notice of Annual Meeting of Shareholders and proxy card are being mailed to shareholders on or about April 6, 2007, and are furnished in connection with the solicitation of proxies by the board of directors of Integrys Energy Group, Inc.

FREQUENTLY ASKED QUESTIONS

Q: Why have I received these materials?

A. All shareholders of Integrys Energy Group were sent these proxy materials. You are asked to elect five members to the board of directors, approve the Integrys Energy Group 2007 Omnibus Incentive Compensation Plan which authorizes 3.5 million shares of Common Stock for future grants, approve an amendment to the Integrys Energy Group Deferred Compensation Plan that authorizes the issuance of an additional 0.7 million shares under the plan, ratify the appointment of Deloitte & Touche LLP as the independent registered public accounting firm for Integrys Energy Group and its subsidiaries for 2007 and vote on any other business that may be properly brought before the annual meeting.

Q: Who can attend the annual meeting?

A: Anyone who is a shareholder as of the close of business on March 22, 2007 may attend the annual meeting and vote. This includes all those shareholders holding Integrys Energy Group stock certificates on March 22, 2007. Each shareholder may be accompanied by one guest. Former shareholders of Peoples Energy who have not yet exchanged their shares may attend the annual meeting and vote.

Q: How are directors elected?

A: A plurality of votes cast at the annual meeting is required to elect directors (assuming a quorum is present). Five directors will be elected at the annual meeting. Plurality means the five individuals who receive the largest number of votes will be elected as directors. Shares not voted at the annual meeting will not affect the election of directors. Abstentions, broker non-votes and votes withheld will be treated as shares not voted.

Q: What constitutes a quorum?

A: A quorum is the number of shares that must be voted at the meeting to lawfully conduct business. Votes of a majority of the shares entitled to vote constitute a quorum. As of the record date of March 22, 2007, a total of 75,619,431 shares were eligible to vote. Votes of 37,809,716 shares will constitute a quorum.

Q: What are the items to be voted on?

A: Items you are asked to vote on are the election of five directors, approval of the Integrys Energy Group 2007 Omnibus Incentive Compensation Plan which authorizes 3.5 million shares of Common Stock for future grants, approval of an amendment to the Integrys Energy Group Deferred Compensation Plan that authorizes the issuance of an additional 0.7 million shares under the plan and ratification of the selection of Deloitte & Touche LLP as the independent registered public accounting firm for Integrys Energy Group and its subsidiaries for 2007. Additional matters may be voted on at this annual meeting if they are properly presented at the meeting.

Q: What is the Integrys Energy Group 2007 Omnibus Incentive Plan?

A: The Integrys Energy Group 2007 Omnibus Incentive Compensation Plan is designed to provide both short-term (annual) and long-term incentive awards for eligible employees. The plan

authorizes the issuance of up to 3.5 million shares of Integrys Energy Group common stock. The plan is being adopted to provide for future compensation that may be made to the officers of Integrys Energy Group.

Q: What is the amendment to the Integrys Energy Group Deferred Compensation Plan?

A: The Integrys Energy Group Deferred Compensation Plan is being amended to authorize an additional 700,000 shares of Integrys Energy Group common stock to be issued under the plan. These additional shares are needed to provide for additional compensation that may be made in the future to the officers of Integrys Energy Group.

Q: What happens if additional proposals are presented at the meeting?

A: Our By-laws require advance notice of any matter to be brought before the annual meeting. We have not received any notice requesting additional proposals be addressed at the meeting. Therefore, we are not required to present any other issues at the meeting. Additional issues may be presented at the discretion of Integrys Energy Group. If an additional proposal is brought up, the shares represented by proxy will be voted in accordance with the discretionary judgment of the appointed proxies, Larry L. Weyers and Peter H. Kauffman.

Q: Who tabulates the votes?

A: Our independent transfer agent, American Stock Transfer & Trust Company, tabulates the votes.

Q: Is my vote confidential?

A: Yes. American Stock Transfer & Trust Company will hold your vote in confidence. Whether you vote your shares by Internet, telephone or mail, your vote will be received directly by American Stock Transfer & Trust Company. American Stock Transfer & Trust Company will serve as inspector, count all the proxies or ballots submitted and report the vote at the annual shareholder meeting on May 17, 2007.

Q: Do I need to attend the annual meeting in order to vote?

A: No. You can vote at any time prior to the annual meeting by using the Internet, by telephone or by returning the completed proxy card in the enclosed envelope. You may also vote in person by submitting your proxy card at the annual meeting.

Q. Who can vote?

A: Anyone who owned Integrys Energy Group common stock as of the close of business on March 22, 2007 can vote. Any shareholder of Peoples Energy who did not exchange their stock for shares of Integrys Energy Group by March 22, 2007 will also be allowed to vote at this meeting. Each eligible share of Integrys Energy Group common stock is entitled to one vote.

Q: How do I vote?

A: You may vote your shares by any of four methods:

1) Over the Internet at www.voteproxy.com,

2) Over the telephone by calling toll-free (800) 776-9437,

3) Through the mail by returning your completed, signed and dated proxy card in the enclosed prepaid envelope, or

2

4) In person at the annual meeting.

Instructions to vote your shares over the Internet or telephone are provided on your proxy card. Your completed proxy will be voted according to your instructions. If you return an incomplete proxy card, your proxy will be voted FOR the election of Pastora San Juan Cafferty, Ellen Carnahan, Michael E. Lavin, William F. Protz, Jr. and Larry L. Weyers , FOR approval of the Integrys Energy Group 2007 Omnibus Incentive Compensation Plan, FOR approval of the amendment to the Integrys Energy Group Deferred Compensation Plan and FOR the ratification of the selection of Deloitte & Touche LLP as the independent registered public accounting firm for Integrys Energy Group and its subsidiaries for 2007. You have the right to change your vote any time before the meeting by:

1) Notifying us in writing,

2) Revoting over the Internet or telephone,

3) Voting in person at the annual meeting, or

4) Returning a later-dated proxy card.

By voting your shares, you also authorize your shares to be voted on any other business that may properly come before the annual meeting or any adjournment or postponement of the annual meeting in accordance with the judgment of the appointed proxies, Larry L. Weyers and Peter H. Kauffman.

You may vote over the Internet or telephone until midnight Eastern Time on May 16, 2007.

Q: Do I need to return the proxy card if I vote over the Internet or telephone?

A: No. If you vote your proxy over the Internet or telephone, you should not mail your proxy card, unless you want to change your vote. If you return your proxy card after voting over the Internet or telephone, it will be processed and replace any earlier vote you provided over the Internet or telephone.

Q: If my broker holds my shares in street name, will my broker vote my shares for me?

A: If your shares are held in a brokerage account, you will receive a full meeting package including a voting instruction form to vote your shares. Your brokerage firm may permit you to vote by the Internet or by telephone. Brokerage firms have the authority under New York Stock Exchange rules to vote their client s unvoted shares on certain routine matters. If you do not vote, your brokerage firm may choose to vote for you on the election of five directors and ratification of the selection of Deloitte & Touche LLP as the independent registered public accounting firm for Integrys Energy Group and its subsidiaries for 2007 or they may leave your shares unvoted on these proposals. ***Approval of the executive compensation plans is not considered routine and can only be voted by your broker with your specific instructions. Therefore, we urge you to respond to your brokerage firm so that your vote will be cast.***

Q. If my shares are held in street name (by a bank or broker), can I vote my shares at the annual meeting?

A: If your shares are held in street name you may vote your shares at the annual meeting **ONLY** if you bring a Legal Proxy to the annual meeting. The Legal Proxy would be provided by your bank or broker. You must request this Legal Proxy from your bank or broker; they will not automatically supply one to you.

Q: What are the Board of Directors voting recommendations?

A: The board recommends shareholders vote FOR the election of all of our nominees as directors, FOR approval of the Integrys Energy Group 2007 Omnibus Incentive Compensation Plan which authorizes 3.5 million shares of Common Stock for future grants, FOR approval of the amendment to the Integrys Energy Group Deferred Compensation Plan that authorizes the issuance of an additional 0.7 million shares under the plan and FOR ratification of the selection of Deloitte & Touche as the independent registered public accounting firm for 2007.

Q: What if I receive more than one proxy card?

A: If you receive more than one proxy card this means your shares are in more than one account. Please vote all the shares that you own. If you would like to consolidate your accounts and receive only one proxy card in the future, please contact our transfer agent, American Stock Transfer & Trust Company, at (800) 236-1551 or www.amstock.com.

Q: How are shares in the Employee Stock Ownership Plan Trusts voted?

A: If you own stock in the Wisconsin Public Service Employee Stock Ownership Plan, or the Peoples Energy Corporation ESOP, you may vote your shares by any of the following three methods:

1) Over the Internet at www.voteproxy.com,

2) Over the telephone by calling toll-free (800) 776-9437, or

3) Through the mail by returning your completed, signed and dated proxy card in the enclosed prepaid envelope.

Your vote must be received by May 15, 2007 to be voted at the annual meeting. Stock owned in these Employee Stock Ownership Plans, may NOT be voted in person at the annual meeting.

American Stock Transfer & Trust Company will tabulate the votes of participants for each of these plans. The results of the vote received from these plan s participants will serve as voting instructions to the plan trustees. The trustees of these plans, as of the record date, are Wells Fargo Bank N.A. and The Northern Trust Company. The trustees will vote the plan shares as instructed by plan participants. If a participant in the Wisconsin Public Service ESOP does not provide voting instructions, the trustees will not vote the participant s shares in the ESOP. If a participant in the Peoples Energy plan elects not to provide voting directions, the trustee (The Northern Trust Company) will vote Peoples Energy shares allocated to your plan account in the same proportion as those votes cast by other plan participants submitting voting instructions. American Stock Transfer & Trust, Wells Fargo Bank and The Northern Trust Company will keep how you vote your shares confidential.

Shares held in the Peoples Energy Capital Accumulation Plan or the Peoples Energy Thrift Plan will be voted at the discretion of the trustee, The Northern Trust Company, and not by plan participants.

Q: How can a shareholder communicate with the Board of Directors directly?

A: Any shareholder or interested parties may communicate with the board of directors (or an individual director serving on the board of directors) by sending written communications, addressed to any director or to the board of directors as a group, in care of Integrys Energy Group s Secretary and Chief Governance Officer, Integrys Energy Group, Inc., 130 East Randolph Drive, Chicago, Illinois 60601. The Secretary and Chief Governance Officer will ensure that this communication (assuming it is properly marked *to the board of directors* or *a specific director)* is

delivered to the board of directors or the specified director, as the case may be. However, commercial advertisements or other forms of solicitation will not be forwarded.

Q: When are shareholder proposals due to be included in the proxy for the 2008 annual meeting?

A: Shareholder proposals must be received in writing by December 7, 2007, to be included in next year s proxy statement. Proposals should be submitted to Peter H. Kauffman, Secretary and Chief Governance Officer, Integrys Energy Group, Inc., 130 East Randolph Drive, Chicago, Illinois 60601.

Q: How can I help reduce costs for Integrys Energy Group?

A: You can help Integrys Energy Group reduce costs by subscribing to electronic delivery of your annual report, proxy statement and other shareholder communications. If you subscribe to this free service, you will receive future copies of Integrys Energy Group s annual reports, proxy statements and other shareholder communications over the Internet. You will receive the material quicker and reduce costs for Integrys Energy Group. Subscribers will receive an e-mail when the annual report, proxy statement and other material become available. This would be no later than the day Integrys Energy Group mails the paper documents. The e-mail will provide you with instructions to access the documents over the Internet.

Q: How can I subscribe to electronic delivery of annual reports and proxy statements?

A: You can subscribe to electronic delivery of future annual reports, proxy statements and other shareholder communications over the Internet when you vote your proxy or by going directly to www.voteproxy.com. When you reach the Web page:

- Click on Account Access,
- Have the proxy card you received in hand and follow the instructions on the screen,
- Click on submit,
- Click on Receive Company Mailings via e-mail,
- Provide your e-mail address and
- Click on go.

Q: Where can I find voting results from the meeting?

A: The annual meeting voting results will be published in the Form 10-Q for the second quarter of 2007, available no later than August 9, 2007, on Integrys Energy Group s Web site (www.integrysgroup.com), under Investor and then select SEC Filings.

Q: May I review the presentation made at the meeting if I can t attend?

A: Yes. The speech from our chief executive officer will be posted on Integrys Energy Group s Web site under Investor and then Presentations.

ELECTION OF DIRECTORS

Our board of directors is currently made up of 16 directors. The directors are divided into three classes. Each year one class of directors is elected to a three-year term. At the time of the closing of the merger of Peoples Energy Corporation into a subsidiary of Integrys Energy Group, the size of the Board of Directors was increased from 9 members to 16 members with the addition of 7 former directors of Peoples Energy. At that time the board appointed the 16 directors into 3 classes. As provided by the By-laws of Integrys Energy Group, the first class of 5 directors is standing for election at this year s annual meeting. The tables below reflect information as of March 22, 2007.

Individuals nominated for election are:

Class A Term Expiring in 2007

Name	**Age**	**Principal Occupation and Other Directorships**		**Director Since**	
Pastora San Juan Cafferty	66	Professor *emerita* University of Chicago, Chicago, IL Directorships Harris Financial Corp Kimberly-Clark Corporation Waste Management, Inc.	1988 - present	1988	*
Ellen Carnahan	51	Managing Director Seyen Capital LLC Managing Director William Blair Capital Partners, LLC Chicago, IL	2006 - present 1988 - present	2003	
Michael E. Lavin	60	Retired Midwest Area Managing Partner KPMG LLP Directorships Tellabs, Inc. SPSS Inc.	2003 - present 1993 - 2002	2003	*
William F. Protz, Jr.	62	Retired Consultant Santa s Best, LLP Northfield, IL President and Chief Executive Officer Santa s Best, LLP	2006 - present 2003 - 2006 1991 - 2003	2001	
Larry L. Weyers	61	President and Chief Executive Officer Integrys Energy Group, Inc. Chairman, President and Chief Executive Officer Integrys Energy Group, Inc. Green Bay, WI	2007 - present 1998 - 2007	1996	

The board of directors has no reason to believe that any of these nominees will be unable or unwilling to serve as a director if elected. If any nominee is unable or unwilling to serve, the shares represented by proxies solicited by the board will be voted for the election of another person the board may recommend.

The board of directors recommends a vote FOR the election to the board of each of the foregoing nominees. Proxies solicited by the board of directors will be voted FOR the above nominees unless the shareholder has specified otherwise.

Current directors not standing for election this year are:

Class B Term Expiring in 2008

Name	Age	Principal Occupation and Other Directorships		Director Since
Richard A. Bemis	65	Co-Chairman of the Board Bemis Manufacturing Company President and Chief Executive Officer Bemis Manufacturing Company Sheboygan Falls, WI Directorships W. H. Brady Company	1965 - present 1975 - 2006	1983
James R. Boris	62	Retired Non-Executive Chairman of the Board Integrys Energy Group, Inc. Chairman and Chief Executive Officer Everen Capital Corporation Formerly Kemper Securities, Inc. Directorships Smurfit-Stone Container Corporation The Chicago Board Options Exchange Midwest Air Group, Inc.	2000 - present 2007 - present 1990 - 1999	1999 *
William J. Brodsky	63	Chairman and Chief Executive Officer The Chicago Board Options Exchange Chicago, IL Directorships Sustainable Forestry Management Limited International Advisory Committee of the Federal Reserve Bank of New York World Federation of Exchanges	1997 - present	1997 *
Albert J. Budney, Jr.	59	Retired Director and President Niagara Mohawk Holdings, Inc. Syracuse, NY (Holding company for electric and gas operations)	2002 - present 1999 - 2002	2002

Name	**Age**	**Principal Occupation and Other Directorships**		**Director Since**
Robert C. Gallagher	68	Retired	2007 - present	1992
		Chairman Associated Banc-Corp. Green Bay, WI	2003 - Jan. 2007	
		President and Chief Executive Officer Associated Banc-Corp. Directorships Associated Banc-Corp	2000 - 2003	
John C. Meng	62	Chairman of the Board Schreiber Foods, Inc. Green Bay, WI Directorships Associated Banc-Corp	1999 - present	2000

Class C Term Expiring in 2009

Name	**Age**	**Principal Occupation and Other Directorships**		**Director Since**
Keith E. Bailey	64	Retired	2002 - present	2005 *
		Chairman and Chief and Executive Officer The Williams Companies, Inc. Directorships Apco Argentina Inc. Associated Electric and Gas Insurance Services Limited MarkWest Energy Partners, L.P.	1994 - 2002	
Diana S. Ferguson	43	Senior Vice President Chief Financial Officer Sara Lee Food Service	2006 - present	2005 *
		Senior Vice President Strategy and Corporate Development Sara Lee Corporation	2005 - 2006	
		Senior Vice President Corporate Development and Treasurer Sara Lee Corporation	2004 - 2005	
		Vice President and Treasurer Sara Lee Corporation Directorships Franklin Electric Co., Inc.	2001 - 2004	

Name	Age	Principal Occupation and Other Directorships		Director Since
Kathryn M. Hasselblad-Pascale	58	Managing Partner Hasselblad Machine Company, LLP Green Bay, WI	1999 - present	1987
John W. Higgins	60	Chief Executive Officer Higgins Development Partners, LLC	1980 - present	2003 *
James L. Kemerling	67	President and Chief Executive Officer Riiser Oil Company, Inc. Wausau, WI	1999 - present	1988
		Chairman and Chief Executive Officer Award Hardwood Floors, LLP Wausau, WI	2003 - 2006	

* For former directors of Peoples Energy Corporation the years of service reflected in the tables include their years of service as directors of Peoples Energy Corporation. Each of them began to serve as a director of Integrys Energy Group in February 2007.

On February 8, 2007, the board of directors reviewed the business and other relationships of all directors of Integrys Energy Group. The board affirmatively determined that all non-management directors are independent as defined in the New York Stock Exchange listing standards, meet the independence standards adopted by the board of directors (set forth below) and have no other material relationships with Integrys Energy Group. In addition, Diana S. Ferguson, Michael E. Lavin, James L. Kemerling, Albert J. Budney, Jr., Ellen Carnahan and William F. Protz, Jr. meet additional independence standards for audit committee members. All directors are independent directors with the exception of Larry L. Weyers, President and Chief Executive Officer of Intergrys Energy Group, Inc.

Categorical Independence Standards for Directors

A director who at all times during the previous three years has met all of the following categorical standards and has no other material relationships with Integrys Energy Group shall be deemed to be independent:

1. Integrys Energy Group has not employed the director, and has not employed (except in a non-executive officer capacity) any of his or her immediate family members. Employment as an interim Chairman or Chief Executive Officer shall not disqualify a director from being considered independent following that employment.

2. Neither the director, nor any of his or her immediate family members, has received more than $100,000 per year in direct compensation from Integrys Energy Group, other than director and committee fees, and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service). Compensation received by a director for former service as an interim Chairman or Chief Executive Officer need not be considered in determining independence under this test. Compensation received by an immediate family member for service as a non-executive employee of Integrys Energy Group need not be considered in determining independence under this test.

3. The director has not been employed by, or affiliated with Integrys Energy Group s present or former internal or external auditor, nor have any of his or her immediate family members been so employed or affiliated (except in a non-professional capacity).

4. Neither the director, nor any of his or her immediate family members, has been part of an interlocking directorate in which any of Integrys Energy Group s present executives serve on the compensation (or equivalent) committee of another company that employs the director or any of his or her immediate family members in an executive officer capacity.

5. Neither the director, nor any of his or her immediate family members (except in a non-executive officer capacity), has been employed by a company that makes payments to, or receives payments from, Integrys Energy Group for property or services in an amount which, in any single fiscal year, exceeds the greater of $1 million or 2 percent of such other company s consolidated gross revenues.

6. Neither the director, nor any of his or her immediate family members, has been an employee, officer or director of a foundation, university or other non-profit organization to which Integrys Energy Group gives directly, or indirectly through the provision of services, more than $1 million per annum or 2 percent of the total annual donations received (whichever is greater).

In addition to satisfying the criteria set forth above, directors who are members of Integrys Energy Group s Audit Committee will not be considered independent for purposes of membership on the Audit Committee unless they satisfy the following additional criteria:

1. A director who is a member of the Audit Committee may not, other than in his or her capacity as a member of the Audit Committee, the Board, or any other Board committee, accept directly or indirectly any consulting, advisory, or other compensatory fee from Integrys Energy Group or any subsidiary thereof, provided that, unless the rules of the New York Stock Exchange provide otherwise, compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with Integrys Energy Group (provided that such compensation is not contingent in any way on continued service).

2. A director, who is a member of the Audit Committee may not, other than in his or her capacity as a member of the Audit Committee, the Board, or any other Board committee, be an affiliated person of Integrys Energy Group.

3. If an Audit Committee member simultaneously serves on the audit committees of more than two other public companies, then the Board must determine that such simultaneous service would not impair the ability of such member to effectively serve on Integrys Energy Group s Audit Committee. Integrys Energy Group shall disclose this determination in its proxy statement.

APPROVAL OF PROPOSED
INTEGRYS ENERGY GROUP 2007
OMNIBUS INCENTIVE COMPENSATION PLAN

The board of directors of Integrys Energy Group will adopt the Integrys Energy Group 2007 Omnibus Incentive Compensation Plan (the 2007 Incentive Compensation Plan), subject to approval by the holders of common stock at the Integrys Energy Group 2007 Annual Meeting of Shareholders.

The board seeks shareholder approval of the Integrys Energy Group 2007 Omnibus Incentive Compensation Plan, which authorizes 3.5 million shares of Common Stock for use in future grants made under the plan. If the 2007 Incentive Compensation Plan is approved, no further grants will be made under the Integrys Energy Group 2005 Omnibus Incentive Compensation Plan (the 2005 Incentive Compensation Plan), although the 2005 Incentive Compensation Plan will continue to operate in accordance with its terms with respect to grants previously made.

The board also seeks approval of the plan to satisfy requirements of tax law necessary to preserve Integrys Energy Group s ability to claim tax deductions for compensation to executive officers that may exceed $1 million as a result of awards provided by this plan that otherwise satisfy the requirements of Internal Revenue Code Section 162(m). Internal Revenue Code Section 162(m) limits the tax deduction for compensation in excess of $1 million in a given year paid to the Chief Executive Officer, Chief Financial Officer and the three additional most highly compensated executive officers. Performance based compensation meeting certain requirements is not counted against the $1 million limit and remains fully deductible for tax purposes. Shareholder approval of the general business criteria of this plan and the maximum amounts that may be awarded under the plan, even without shareholder approval of specific targeted levels of performance, will qualify otherwise compliant incentive awards under this plan as performance based compensation and is expected to allow full tax deductibility of the performance-based awards for the next five years.

Plan Description

The 2007 Incentive Compensation Plan provides both short-term (annual) and long-term incentive awards for eligible employees. Annual incentive awards are paid in cash and take the form of annual performance rights. Long-term incentive awards are stock-based, and may take the form of performance stock rights (Performance Shares), stock options (Options), stock appreciation rights (SARs), or other stock-based awards, such as restricted stock (Other Stock Awards). Performance Shares, Options, SARs, and Other Stock Awards are sometimes collectively referred to as Plan Awards. Final Awards are defined as awards ultimately issued pursuant to an annual performance right or a performance stock right. As noted above, the board seeks shareholder approval of the 2007 Incentive Compensation Plan, which authorizes the issuance of 3.5 million shares of Common Stock for use in future grants. Of the 3.5 million total shares of Common Stock, no more than 1.5 million will be used for grants of Performance Shares and Other Stock Awards.

Material Terms of the 2007 Omnibus Incentive Compensation Plan

The following summary description of the 2007 Incentive Compensation Plan is subject in all respects to the full text of the 2007 Incentive Compensation Plan. A copy of the 2007 Incentive Compensation Plan will be furnished without charge to any person entitled to receive a copy of the Integrys Energy Group Form 10-K upon written request to Integrys Energy Group Inc., Attention: Peter H. Kauffman, Secretary and Chief Governance Officer, 130 East Randolph Drive, Chicago, Illinois 60601.

Purpose:

The 2007 Incentive Compensation Plan is designed to:

- Attract and retain executives and other key employees of outstanding training, experience and ability;
- Motivate key employees by means of performance-related incentives to achieve performance goals; and
- Enable key employees to participate in the growth and financial success of Integrys Energy Group.

Stock Subject to the Plan:

The total number of shares of Integrys Energy Group Common Stock available for awards under the 2007 Incentive Compensation Plan will be 3.5 million shares subject to adjustment for stock splits, stock dividends and certain other transactions or events affecting Integrys Energy Group Common Stock. During any calendar year in which any part of the 2007 Incentive Compensation Plan is in effect, a maximum of 1.0 million shares of Integrys Energy Group s Common Stock may be subject to Options or SARs that may be granted to an individual, who on the last day of a taxable year, is the chief executive officer, chief financial officer or any of the three additional highest compensated officers of Integrys Energy Group and its subsidiaries (each a Covered Executive) and a maximum of 250,000 shares of Integrys Energy Group Common Stock may be granted as Final Awards in any calendar year pursuant to Performance Stock Rights (as described below) or other performance-based awards to any Covered Executive. In each case the maximum number is subject to adjustment for stock splits, stock dividends and certain other transactions and events.

Administrator:

The Compensation Committee of the Integrys Energy Group board of directors or any other committee which the board may appoint, which in either case consists of not less than two members of the board each of whom meets the outside director requirements of Section 162(m) of the Internal Revenue Code (the Code), the New York Stock Exchange independence requirements, and the non-employee director requirements of Rule 16b-3(b)(3) under the Securities Exchange Act of 1934 (the Exchange Act) (either referred to as the Committee) will administer the 2007 Incentive Compensation Plan. The 2007 Incentive Compensation Plan authorizes the Committee to establish rules and regulations as it may deem appropriate for the proper administration of the 2007 Incentive Compensation Plan, and to make determinations under and interpretations of the 2007 Incentive Compensation Plan and to take other steps in connection with the 2007 Incentive Compensation Plan and Plan Awards as it may deem necessary or advisable, in each case in its sole discretion. The board may also exercise any authority granted to the Committee except to the extent that the grant or exercise of authority by the board would cause any award that is intended to be a qualified performance-based award to cease to qualify for exemption under Section 162(m) of the Code. The Committee may delegate any or all of its powers and duties under the 2007 Incentive Compensation Plan, including its authority to make awards under the 2007 Incentive Compensation Plan or to grant waivers of 2007 Incentive Compensation Plan conditions, to one or more other persons or committees as it shall appoint provided the Committee may not delegate its authority to:

- Act on matters affecting any participant who is subject to the reporting requirements of Section 16(m) of the Exchange Act, or the liability provisions of Section 16(b) of the Exchange Act; or
- Amend or modify the 2007 Incentive Compensation Plan.

Annual Performance Rights and Final Awards:

The Committee may from time to time grant or authorize the granting of Annual Performance Rights under the 2007 Incentive Compensation Plan to such officers or other employees of Integrys Energy Group or any of its subsidiaries, or of any joint venture in which Integrys Energy Group or any of its subsidiaries has a substantial equity interest (each, an Employee) as the Committee may select. An Annual Performance Right is the right to receive up to the amount described in a participant s award agreement, taking into account the Target Award and the Performance Formula, upon the attainment of one or more specified Performance Goals, subject to the terms and conditions of the award agreement and the 2007 Incentive Compensation Plan. The Target Award is the amount of compensation or the number of shares of Integrys Energy Group Common Stock to be earned by a participant if all the Performance Goals are achieved at the specified level. With respect to an Annual Performance Right that is intended to constitute performance based compensation for purposes of Internal Revenue Code Section 162(m), the Performance Goals for a participant who is a Covered Executive will be a performance measure that is based upon one or more of the following business criteria which the Committee establishes with respect to Integrys Energy Group and/or any of its subsidiaries or a division, business unit or component of Integrys Energy Group or a subsidiary: asset change, asset turnover, capital employed in the business, capital spending, cash flow, cost structure improvements, complexity reductions, customer loyalty, customer value, diversity, earnings growth, earnings per share, economic value-added, environmental health, safety, occupational health reportable incidents, workers compensation costs, increase in customer base, market efficiency, energy price weighted availability of generation facilities, market share, net cash balance, net income, net income margin, net operating cash flow, operating profit margin, operations and maintenance reduction, electric and/or gas utility rate levels, productivity, response time, profits before tax, quality/customer satisfaction, return on assets, return on capital, return on equity, return on net operating assets, return on sales, revenue growth, sales margin, sales volume, system reliability, total shareholder return, variable margin and working capital. In any other case, the Performance Goals may be based on one or more of the business criteria described above or any other criteria based on individual, business unit, subsidiaries, group or Company performance selected by the Committee. A Performance Formula is applied to the Performance Goals in determining the percentage of the Target Award earned by the participant with respect to a Plan Award.

A Final Award of $5 million is the maximum amount that may be granted to a Covered Executive with respect to one or more Annual Performance Rights during any calendar year during any part of which the 2007 Incentive Compensation Plan is in effect.

Prior to the grant of any Annual Performance Right, the Committee will determine the terms of the Annual Performance Right including:

- The Target Award,
- One or more Performance Goals to measure performance,
- The Performance Formula to apply against the Performance Goals in determining the amount of compensation earned under the Performance Right as a percentage of the Target Award, and
- The Performance Period (the period for which performance with respect to one or more Performance Goals is to be measured).

The Committee may establish a minimum threshold objective for any Performance Goal, which if not met, would result in no Final Award being made to any Participant with respect to the Performance Goal. During and after the Performance Period but prior to determination of the Final Award, the Committee may adjust the Performance Goals, Performance Formula and Target Award and otherwise modify the terms of an Annual Performance Right but if the Committee acts, more than 90 days after the beginning of the Performance Period, to adjust or modify the terms of an Annual Performance Right granted to a participant who is a Covered Executive for purposes of Internal Revenue Code Section 162(m), the Annual Performance Right will not constitute performance-based compensation for purposes of Internal Revenue Code Section 162(m). Each Annual Performance Right will be evidenced by an award agreement in a form determined by the Committee.

As soon as practicable, following the completion of the Performance Period relating to any Annual Performance Right, the Committee will determine the extent to which the participant achieved the Performance Goals and the amount of compensation to be awarded as a Final Award. The Committee may in its sole discretion reduce the amount of any Final Award or increase the amount of any Final Award awarded to any participant, but if the Committee acts to increase the amount of the Final Award awarded to a participant who is a Covered Executive for purposes of Internal Revenue Code Section 162(m), the Final Award will not constitute performance-based compensation for purposes on Internal Revenue Code Section 162(m). Any determination shall take into account:

- The extent to which the Performance Goals were, in the Committee s sole opinion, achieved;
- Individual performance by the participant during the performance period; and
- Such other factors as the Committee may deem relevant, including changes in circumstances or unforeseen events.

The Final Award will be payable to the participant in cash unless the participant elects to defer its payment pursuant to the Integrys Energy Group Deferred Compensation Plan.

Performance Stock Rights and Final Awards:

The Committee may from time to time grant or authorize the granting of Performance Stock Rights to such Employees as the Committee may select and for such number of shares of Integrys Energy Group common stock as it may designate subject to the limitations specified in the 2007 Incentive Compensation Plan. A Performance Stock Right is the right to receive, without payment to Integrys Energy Group, up to the number of shares of Integrys Energy Group common stock described in the participant s award agreement, taking into account the Target Award and the Performance Formula upon the attainment of one or more Performance Goals, subject to the terms of the award agreement and the 2007 Incentive Compensation Plan.

Prior to the grant of any Performance Stock Right, the Committee will determine the terms of the Performance Stock Right, including the Target Award, Performance Goal, Performance Formula and Performance Period. The Committee at any time prior to granting the Final Award will also determine the period of time, if any, during which the disposition of shares of Integrys Energy Group common stock issuable under the Performance Stock Rights will be restricted. The Committee may also determine that any participant will be entitled to receive Dividend Equivalents, i.e., payment of the same amount of cash or other credit in the same amount as he or she would have received as cash dividends during the Performance Period if the participant had owned the number of shares of Integrys Energy Group common stock equal to the Target Award. Dividend Equivalents may be paid in cash on dividend payment dates or at the time of the Final Award or in shares of Integrys Energy Group common stock, all as the Committee may determine in accordance with the applicable tax rules. Final Awards are made in the manner previously described with respect to Annual Performance Rights but are payable in shares of Integrys Energy Group common stock unless the participant elects to defer payment pursuant to the Integrys Energy Group Corporation Deferred Compensation Plan.

Options:

The Committee may from time to time authorize the granting of Options to officers and other employees as the Committee may select. Each Option will be a nonqualified stock option unless the Committee at the time of grant designates the Option as an incentive stock option (ISO) as such term is defined in Section 422 of the Internal Revenue Code.

Option Price:

The Committee will determine the per share option price which will be not less than the closing market price of Integrys Energy Group common stock on the date of the grant of the Option.

Option Period:

The Committee will determine the term of each Option. The term of an Option, however, may not exceed a period of ten (10) years from the date of its grant.

Exercise of Option:

Unless the Committee shall provide otherwise, the participant may make any payment for shares of Integrys Energy Group common stock purchased upon exercise of an Option granted under the 2007 Incentive Compensation Plan in cash, by delivery of shares of Integrys Energy Group common stock which have been beneficially owned by the participant for at least six months or by a combination of cash and stock, at the election of the participant. The Committee may also permit payment through a cashless exercise executed through a broker.

ISO s Option Period Maximum Value:

Options, which are ISOs, may be exercised no later than three months after termination of employment by reason of death, early or normal retirement or total and permanent disability. The aggregate fair market value of the stock for which an ISO is exercisable for the first time by a participant during any calendar year under the 2007 Incentive Compensation Plan or any other plan of Integrys Energy Group or any subsidiary may not exceed \$100,000. To the extent the fair market value of the shares of Integrys Energy Group common stock attributable to ISOs first exercisable in any calendar year exceeds \$100,000, the excess portion of the ISO will be treated as a nonqualified option.

SARs:

Integrys Energy Group may grant SARs in tandem with Options or separate from any Option granted under the 2007 Incentive Compensation Plan. SARs entitle the participant to receive an amount equal to the excess of the closing market price of one share of Integrys Energy Group s common stock on the date of exercise over the per share grant or option price multiplied by the number of shares in respect of which the participant exercises the SARs. If the Committee grants SARs independent of an Option, the grant price of the SARs will be not less than the closing market price of a share of Integrys Energy Group s common stock on the date of grant multiplied by the number of shares subject to the SARs. Upon exercise of SARs, Integrys Energy Group generally will pay the participant in Integrys Energy Group common stock, although the 2007 Incentive Compensation Plan permits Integrys Energy Group to pay the participant in cash, Integrys Energy Group common stock or a combination of stock and cash.

In the case of a SAR issued in tandem with an Option, the total number of shares of Integrys Energy Group s common stock that a participant may receive upon exercise of a SAR for stock may not exceed the total number of shares subject to the related Option or portion of Option. The total amounts of cash that a participant may receive upon exercise of a SAR for cash (where an exercise for cash is permitted) may not exceed the closing market price on the date of exercise of the total number of shares subject to the related Option or portion of Option.

With respect to Options issued in tandem with SARs, the right of a participant to exercise the SAR will be cancelled if and to the extent the participant exercises the related Option, and the right of a participant to exercise an Option will be cancelled if and to the extent the participant exercises the related SAR.

Stock and Other Stock-Based Awards:

The Committee may from time-to-time grant to officers and other Employees as the Committee may select other stock-based awards which may include awards of restricted stock, stock units, phantom stock and options containing terms differing from options otherwise granted pursuant to the 2007 Incentive Compensation Plan. The Committee has authority to determine all terms and conditions of the other stock-based awards including whether the awards will be payable in cash, stock or otherwise.

Cash Awards to Employees of Foreign Subsidiaries, Branches or Joint Ventures:

The Committee may provide for special terms, including cash payments and other substitutes for the previously described awards under the 2007 Incentive Compensation Plan for participants who are foreign nationals or who are employed outside the United States of America to accommodate differences in local law, tax policy or custom.

Conditions to Payment of 2007 Incentive Compensation Plan Awards:

If a 2007 Incentive Compensation Plan participant s employment terminates for any reason other than death, while any award to the participant under the Plan is outstanding and the participant has not received the compensation or stock covered by the award or the full benefit of the award, the participant will receive the remaining stock, compensation or benefit only if the participant continues to make himself or herself available upon request at reasonable times and on a reasonable basis to consult with, supply information to, and otherwise cooperate with Integrys Energy Group or any of its subsidiaries with respect to any matter previously handled by him or her or under his or her supervision and the participant refrains from engaging in any activity that is directly or indirectly in competition with any activity of Integrys Energy Group or any of its subsidiaries. The Committee may waive any forfeiture of 2007 Incentive Compensation Plan awards if it determines that there has not been and will not be any substantial adverse effect on Integrys Energy Group or any of its subsidiaries.

All rights of a participant under any award granted under the 2007 Incentive Compensation Plan will cease as of the date the Committee determines that the participant at any time acted in a manner inimical to Integrys Energy Group or any of its subsidiaries.

The Committee will make appropriate arrangements for deposit of any taxes and other required federal, state or local withholdings prior to distribution of cash, stock or other stock-based awards to any participant.

Transferability of Awards, Options and SARs:

No Annual Performance Right or Performance Stock Right, or until the expiration of any restriction period, no shares of Integrys Energy Group s common stock covered by any Final Award may be transferred, pledged, assigned or otherwise disposed of by a participant except as permitted by the 2007 Incentive Compensation Plan, without the consent of the Committee, other than by will or the laws of descent and distribution. The Committee may permit the use of stock included in any Final Award as partial or full payment upon exercise of any stock option granted by Integrys Energy Group prior to the expiration of any restriction period relating to the Final Award.

Unless the Committee determines otherwise under the 2007 Incentive Compensation Plan, no Option or SAR or other stock-based award granted under the 2007 Incentive Compensation Plan may be transferred by a participant other than by will or the laws of descent and distribution, and during the lifetime of a participant any Option or SAR or other stock-based award granted under the 2007 Incentive Compensation Plan to a participant shall be exercisable only by the participant or his or her guardian or legal representative.

In no event may an Award, Option, SAR or other stock-based award be transferable for value or consideration.

A participant may file with Integrys Energy Group a written designation of a beneficiary or beneficiaries under the 2007 Incentive Compensation Plan subject to any limitations the Committee may from time to time prescribe.

Change in Control:

Unless the Committee determines otherwise at the time of grant, upon the occurrence of a Change in Control:

- Any awards of Options or SARs outstanding under the 2007 Incentive Compensation Plan that are not vested will become fully vested;

- Any other awards outstanding under the 2007 Incentive Compensation Plan that are not vested will become fully vested if vesting is based solely upon length of employment or in any other case will become fully vested at the Target Level (or if greater, the then projected Final Award) prorated for the portion of the Performance Period then elapsed, any restrictions or other conditions applicable to outstanding 2007 Incentive Compensation Plan awards will then lapse, and any of those awards will immediately be paid to the participant.

Except as otherwise required to comply with Internal Revenue Code Section 409A, Change of Control means the occurrence of any one of the following:

- Any person (other than an employee benefit plan of Integrys Energy Group or of any subsidiary of Integrys Energy Group and fiduciaries and certain other parties related to any of these plans) becomes the beneficial owner of securities of Integrys Energy Group representing at least 30% of the combined voting power of Integrys Energy Group s then outstanding securities;

- One-half or more of the members of Integrys Energy Group s board of directors ceases to be a Continuing Director, *i.e.*, an individual who was a member of the board on the day following the effective date of the 2007 Incentive Compensation Plan, a successor to a Continuing Director who is recommended to succeed a Continuing Director by a majority of the Continuing Directors then on Integrys Energy Group s board of directors or additional directors elected by a majority of the Continuing Directors;

- Completion of any merger, consolidation or reorganization of Integrys Energy Group with any other corporation as a result of which less than 50% of the outstanding voting securities of the surviving or resulting entity are owned by the former shareholders of Integrys Energy Group other than a shareholder who is an affiliate or associate of any party to such consolidation or merger;

- Completion of any merger of Integrys Energy Group or share exchange involving Integrys Energy Group in which Integrys Energy Group is not the continuing or surviving corporation other than a merger of Integrys Energy Group in which each of the holders of Integrys Energy Group common stock immediately prior to the merger have the same proportional ownership of common stock of the surviving corporation immediately after the merger;

- Completion of any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of Integrys Energy Group to a person other than a wholly owned subsidiary of Integrys Energy Group; or

- Approval by the shareholders of Integrys Energy Group of any plan or proposal for the liquidation or dissolution of Integrys Energy Group.

Amendment and Termination:

The board of directors of Integrys Energy Group may, from time to time, amend or modify the 2007 Incentive Compensation Plan or any outstanding award under the 2007 Incentive Compensation Plan as necessary or desirable to implement Plan Awards or may terminate the 2007 Incentive Compensation Plan or any provision of the 2007 Incentive Compensation Plan. No such action of the board, however, without the approval of the shareholders of Integrys Energy Group, may:

- Increase the total number of shares of Integrys Energy Group common stock with respect to which awards may be granted under the 2007 Incentive Compensation Plan or increase certain individual limits specified in the 2007 Incentive Compensation Plan;

- Extend the terms of the 2007 Incentive Compensation Plan beyond May 16, 2017,

- Permit any person while a member of the Compensation Committee or any other committee of the board administering the Plan to be eligible to receive or hold an award under the 2007 Incentive Compensation Plan; or

- Permit Integrys Energy Group to reprice an outstanding Option or SAR to provide for a grant price that is less than the closing market price of a share of common stock on the date on which the Option or SAR was originally granted, cancel an Option or SAR and replace the cancelled Option or SAR with an Option or SAR having an exercise price or base price less than that of the cancelled Option or SAR, or make a cash payment in exchange for an Option or SAR if the closing market price of Integrys Energy Group common stock on the date of the proposed cash payment is less than the Option exercise price or SAR base price.

Accounting Treatment of Options

In accordance with Statement of Financial Accounting Standards (SFAS) No. 123R, Integrys Energy Group will recognize expense in connection with stock options and other share-based payments under the 2007 Incentive Compensation Plan.

Federal Income Tax Consequences

The federal income tax consequences described in this section are based on laws and regulations in effect on the date of this proxy statement and future changes in those laws and regulations may affect the tax consequences described below. No discussion of state income tax treatment has been included.

Nonqualified Stock Options:

Options granted under the 2007 Incentive Compensation Plan which do not qualify as ISOs will, in general, be subject to the following federal income tax treatment:

- The grant of a nonqualified option does not give rise to any income tax consequences to either Integrys Energy Group or the participant.

- The exercise of a nonqualified option generally results in ordinary taxable income to the participant in the amount equal to the excess of the fair market value of the shares at the time of exercise over the option price. A deduction from taxable income is allowed to Integrys Energy Group in an amount equal to the amount of ordinary income recognized by the participant.

- Upon a subsequent taxable disposition of shares, a participant recognizes short-term or long-term capital gain (or loss) depending on the holding period, equal to the difference between the amount received and the tax basis of the shares, usually the fair market value at the time of exercise, net of any transaction costs.

Incentive Stock Options:

Options granted under the Plan which constitute ISOs will, in general, be subject to the following federal income tax treatment:

- The grant of an ISO does not give rise to any income tax consequences to either Integrys Energy Group or the participant.

- No deduction is allowed to Integrys Energy Group on a participant s exercise of an ISO.

- A participant s exercise of an ISO does not result in ordinary income to the participant for regular tax purposes, but may result in the imposition of or an increase in alternative minimum tax. If shares acquired upon exercise of an ISO are not disposed of within the same taxable year of the ISO exercise, the excess of the fair market value of the shares at the time the ISO is exercised over the option price is included in the participant s computation of alternative minimum taxable income in the year of exercise.

- If shares acquired upon the exercise of an ISO are disposed of within two years of the date of the option grant, or within one year of the date of the option exercise, the participant recognizes ordinary taxable income at the time of the disposition to the extent that the fair market value of the shares at the time of exercise exceeds the option price, but not in an amount greater than the excess, if any, of the amount realized on the disposition over the option price. The participant recognizes capital gain (long-term or short-term depending upon the holding period) at the time of such a disposition to the extent that the amount of proceeds from the sale exceeds the fair market value at the time of the exercise of the ISO. The participant recognizes capital loss (long-term or short-term depending upon the holding period) at the time of such a disposition to the extent that the fair market value at the time of the exercise of the ISO exceeds the amount of proceeds from the sale. Integrys Energy Group is entitled to a deduction in the taxable year in which the disposition is made in an amount equal to the amount of ordinary income recognized by the participant.

- If shares acquired upon the exercise of an ISO are disposed of after the later of two years from the date of the option grant or one year from the date of the option exercise in a taxable transaction, the participant recognizes long-term capital gain or loss at the time of the disposition in an amount equal to the difference between the amount realized by the participant on the disposition and the participant s basis in the shares. Integrys Energy Group will not be entitled to any income tax deduction with respect to the ISO.

Stock Appreciation Rights:

Any SAR granted under the 2007 Incentive Compensation Plan, will in general, be subject to the following federal income tax treatment:

- The grant of a SAR does not give rise to any income tax consequences to either Integrys Energy Group or the participant.

- Upon the exercise of a SAR, the participant recognizes ordinary income equal to the amount of any cash plus the fair market value of any shares of common stock received. Integrys Energy Group is generally allowed a deduction in an amount equal to the income recognized by the participant.

Annual Performance Rights and Performance Stock Rights:

Any Annual Performance Right or Performance Stock Right granted under the 2007 Incentive Compensation Plan will, in general, be subject to the following federal income tax treatment:

- The grant of an Annual Performance Right or Performance Stock Right does not give rise to any tax consequences to either Integrys Energy Group or the participant.

- Upon payment of cash pursuant to an Annual Performance Right, the participant recognizes ordinary income equal to the amount of the payment and Integrys Energy Group is generally allowed a deduction in an equal amount.

- Upon the issuance of Integrys Energy Group s common stock pursuant to a Performance Stock Right, generally the participant recognizes ordinary income equal to the fair market value of the shares received, or if received subject to certain restrictions, the fair market value of the shares when no longer restricted. The participant recognizes ordinary income on the receipt of Dividend Equivalents.

- A deduction from taxable income is allowed to Integrys Energy Group in an amount equal to the amount of ordinary income recognized by the participant with respect to the Performance Stock Right.

Internal Revenue Code Sections 162(m) and 280G:

Section 162(m) of the Internal Revenue Code limits Integrys Energy Group income tax deduction for compensation paid in any taxable year to certain executive officers to $1 million per individual. Amounts in excess of $1 million are not deductible unless one of several exceptions apply. The Committee intends to grant awards under the 2007 Incentive Compensation Plan that are designed, in most cases and with the specific exception of Other Stock Rights (such as restricted stock) that are subject to time-based vesting, to qualify for one such exception, the performance-based compensation exception. Grants of Options and SARs as well as Annual Performance Rights and Performance Stock Rights can be structured so as to qualify for this exception. Integrys Energy Group does not anticipate that Section 162(m) will have a material impact on its ability to deduct compensation payable under the 2007 Incentive Compensation Plan, but the Committee specifically reserves the right to make awards that are not intended to comply with Section 162(m). Section 280G of the Internal Revenue Code limits Integrys Energy Group income tax deduction in the event there is a change in control of Integrys Energy Group. Accordingly, all or some of the amount which would otherwise be deductible may not be deductible with respect to those Annual Performance Rights, Performance Stock Rights, Options and SARs that become immediately exercisable or payable in the event of a change in control of Integrys Energy Group.

Other Disclosures

Market Price of Common Stock:

The closing price of a share of Integrys Energy Group common stock on the New York Stock Exchange on March 23, 2007 was $55.70.

New Plan Benefits:

The number and amount of awards under the 2007 Incentive Compensation Plan has yet to be determined. The Committee pursuant to the terms of the 2007 Incentive Compensation Plan will determine the number and nature of the 2007 Incentive Compensation Plan awards. In 2006, 188 employees received grants under the 2005 Omnibus Incentive Compensation Plan. See Grants of Plan-Based Awards for information relating to the performance shares, restricted stock and stock options rights granted to Integrys Energy Group s Chief Executive Officer, Chief Financial Officer and its three most highly compensated executive officers.

Required Vote:

The affirmative vote of a majority of the votes cast on the proposal by the holders of Integrys Energy Group common stock is required for approval and ratification of the Plan, provided that a majority of the outstanding shares of Integrys Energy Group common stock are voted on the proposal. Any shares not voted (whether by abstention, broker nonvote or otherwise) may prevent the proviso from being satisfied, but if the proviso is satisfied, will have no impact on the vote.

The board recommends that you vote FOR the approval of the Integrys Energy Group 2007 Omnibus Incentive Compensation Plan. Proxies solicited by the board of directors will be voted FOR approval and ratification of the proposed 2007 Omnibus Incentive Compensation Plan unless the shareholder has specified otherwise.

APPROVAL OF PROPOSED AMENDMENT TO INCREASE COMMON STOCK AVAILABLE UNDER THE INTEGRYS ENERGY GROUP DEFERRED COMPENSATION PLAN

Integrys Energy Group maintains the Integrys Energy Group Deferred Compensation Plan (the Deferred Compensation Plan). The board of directors of Integrys Energy Group will adopt an amendment to the Deferred Compensation Plan to increase the number of shares of Common Stock available for issuance under the Deferred Compensation Plan, subject to approval by the holders of Common Stock at the Integrys Energy Group 2007 Annual Meeting of Shareholders.

The following summary description of the Deferred Compensation Plan is subject in all respects to the full text of the Deferred Compensation Plan. A copy of the Deferred Compensation Plan will be furnished without charge to any person entitled to receive a copy of Integrys Energy Group s Form 10-K upon written request to Integrys Energy Group, Attention: Peter H. Kauffman, Secretary and Chief Governance Officer, 130 East Randolph Drive, Chicago, Illinois 60601.

The Deferred Compensation Plan permits key employees of Integrys Energy Group and its subsidiaries and affiliates to defer a portion of their base compensation, as well as annual bonus awards and long-term performance awards under the Integrys Energy Group 2005 Omnibus Incentive Compensation Plan (the 2005 Incentive Compensation Plan) and the Integrys Energy Group 2007 Omnibus Incentive Compensation Plan (the 2007 Incentive Compensation Plan) and in most cases, to allocate the amount deferred among the hypothetical investment accounts available under the Deferred Compensation Plan. The accounts are bookkeeping accounts, which serve solely as a device for determining the amount of benefits accumulated by a participant and do not create or imply an obligation on the part of Integrys Energy Group to fund such benefits. In addition, the Deferred Compensation Plan includes both mandatory and voluntary components for the directors of Integrys Energy Group.

Objective:	The purpose of the Deferred Compensation Plan is to attract and retain key management employees possessing a strong interest in the successful operation of Integrys Energy Group, its subsidiaries and affiliates and encourage their continued loyalty, service and counsel to Integrys Energy Group and its subsidiaries and affiliates.
Eligibility and Participation:	Eligibility is limited to executives and directors of Integrys Energy Group, its subsidiaries, or affiliates. Executive for this purpose means a common law employee of Integrys Energy Group or any direct or indirect subsidiary of Integrys Energy Group and certain employees of entities in which Integrys Energy Group or one of its subsidiaries holds an ownership interest who has been designated by the Compensation Committee of Integrys Energy Group s board of directors (Committee) as being eligible to participate in the Deferred Compensation Plan. As of January 1, 2007, there were 66 employees who would be eligible to participate in the Deferred Compensation Plan. Directors of Integrys Energy Group are automatically eligible under the directors component of the Deferred Compensation Plan.
Administration:	The Committee will administer and interpret the Deferred Compensation Plan and supervise preparation of compensation deferral elections and forms.

Employee Deferral of Base Compensation:	A participating employee may elect to defer from 1% to 100% (or such lesser percentage as may be established by the Committee) of their base compensation. Base Compensation means the base monthly salary or wage payable by a participating employer for services performed, prior to deferrals under the Deferred Compensation Plan and contributions by the participant to any other employee benefit plan maintained by a participating employer, but excludes extraordinary payments, such as overtime, bonuses, meal allowances, reimbursed expenses, termination pay, moving pay, commuting expense, severance pay, non-elective deferred compensation payments or accruals, stock options, and the value of employer-provided fringe benefits or coverage.
Employee Deferral of Annual Cash Bonus Awards:	A participating employee may elect to defer from 1% to 100% (or such lesser percentage as may be established by the Committee) of any annual cash bonus that is awarded and would otherwise be paid to the participating employee for any year under the 2005 Incentive Compensation Plan or the 2007 Incentive Compensation Plan. The portion of any such amount that a participating employee elects to have credited to the Incentive Stock Unit Account (described below) is converted to stock units and credited to the Incentive Stock Unit Account together with a 5% premium, e.g., a participating employee who defers all or a portion of the annual cash bonus is credited with stock units that are purchased on a dollar-for-dollar basis with the employee s deferral, and additional stock units with a value equal to 5% of the amount deferred (the Annual Bonus Premium). The Annual Bonus Premium applies only to annual cash bonus amounts that the participating employee elects to defer and allocates to the Incentive Stock Unit Account. The Annual Bonus Premium does not apply to any other amount.
Employee Deferral of Stock Based Compensation:	A participating employee may elect to defer from 1% to 100% (or such lesser percentage as may be established by the Committee) of performance shares or other stock-based compensation (other than stock options and stock appreciation rights) that are awarded and would otherwise be paid to the participating employee for any year under the 2005 Incentive Compensation Plan or the 2007 Incentive Compensation Plan.
Matching Contribution and Other Employer Credits for Employees:	If a participating employee s deferrals of base compensation and annual bonus under the Deferred Compensation Plan result in the employee receiving a reduced matching contribution under an eligible defined contribution plan of Integrys Energy Group or its subsidiaries or affiliates (because the employee had less compensation considered for purposes of determining the employee s elective contributions, and thus, the amount of the matching contribution to which the employee is entitled), the employee will receive a matching contribution credit, in the form of stock units, under the Deferred Compensation Plan (the Matching Contribution Credit). The Matching Contribution Credit will equal the difference (if any) between the matching contribution actually received by the employee under the eligible defined contribution plan and the matching contribution that the employee would have received under such plan if base compensation and annual bonus amounts deferred by the employee under the Deferred Compensation

	Plan had instead been payable to the employee and had the employee s deferral election under the eligible defined contribution plan, applied to such amounts. In addition, the Compensation Committee, in its discretion, may award other deferred compensation credits to such employees and in such amounts as it determines (the Other Employer Credits).
Director Deferrals and Credits:	To the extent consistent with tax law rules, a portion of a director s annual compensation is automatically deferred and credited to the Director Deferred Stock Unit Account under the Deferred Compensation Plan. These amounts are allocated directly to the Director Deferred Stock Unit Account, and the director has no discretion to have the amounts credited or transferred to another of the hypothetical investment options. In addition, a director may elect to defer from 1% to 100% (or such lesser percentage as may be established by the Committee) of any remaining director compensation, which the director may allocate among the hypothetical investment options established under the Deferred Compensation Plan. The Annual Bonus Premium that applies with respect to certain employee deferrals is not applicable to director deferrals or credits.

Hypothetical investment accounts are established as devices for determining the amount of benefits accumulated by a participating employee or director under the Deferred Compensation Plan and prior deferred compensation programs, including the following accounts:

Reserve Account A has been credited with the reserve account balance accumulated by a participating employee or director as of December 31, 1995, under a prior deferred compensation program of Wisconsin Public Service Corporation. Except for attributed earnings, no further contributions or credits of any kind will be made to this account. Balances of participating employees or directors in Reserve Account A are credited with an interest equivalent for each month at a rate equal to the greater of (i) 0.5% or (ii) 1/12th of the consolidated return on equity of Integrys Energy Group and all of its consolidated subsidiaries (ROE) for the 12 month period ended on the preceding September 30 for the months of January through March and October through December and for the 12 month period ended on the preceding March 31 for the months of April through September. Alternative (ii) will not apply following termination of employment to a participating employee who terminates employment with a participating employer prior to age 55 and prior to a change of control as defined below, unless the Committee determines otherwise.

Reserve Account B is credited with that portion of deferrals of base compensation and annual bonus awards which a participating employee or director elects to allocate to this account. Participant balances in Reserve Account B will be credited with an interest equivalent for each month at a rate equal to the greater of (i) 0.5% or (ii) 70% of 1/12th of the ROE for the 12 month period ended on the preceding September 30 for the months of January through March and October through December and for the 12 month period ended on the preceding March 31 for the months of April through September. Alternative (ii) will not apply following termination of employment to a participating employee who terminates employment with a participating employer prior to age 55 and prior to a change of control as defined below, unless the Committee determines otherwise.

The Committee may revise the interest equivalent rate for Reserve Accounts A and B or the manner in which such rate is calculated, but may not reduce the rate below 6% per annum.

Incentive Stock Unit Account is a buy only account limited to that portion of deferrals of annual bonus awards which the participating employee elects to allocate to this account, deferrals of performance share awards under the 2005 Incentive Compensation Plan or the 2007 Incentive

Compensation Plan, Matching Contribution Credits, and/or Other Employer Credits. A participating employee is not permitted to reallocate amounts that are credited to the Incentive Stock Unit Account to any of the other hypothetical investment accounts.

Base Stock Unit Account is credited with that portion of a deferral of base compensation which a participating employee elects to allocate to this account.

Deferrals to the Incentive Stock Unit Account and the Base Stock Unit Account, dividends credited on stock units and any Matching Contribution Credits, will be converted for record keeping purposes, into whole and fractional stock units with fractional units calculated to four decimal places based on the closing price of Integrys Energy Group common stock as reported in the New York Stock Exchange Composite Transactions in The Wall Street Journal on the date the deferrals are credited to a participant s account. Participating employees electing to allocate deferrals to, or otherwise receiving credits under, the two stock accounts will have no rights of a shareholder resulting from the stock units in their accounts. Integrys Energy Group may, however, elect to have shares of Company common stock purchased by the Trust in an amount equal to a portion of the stock units in the stock accounts. Although participants under the Deferred Compensation Plan will have no proprietary interest in shares purchased by the Trust and will remain general unsecured creditors of Integrys Energy Group with respect to amounts deferred under the Deferred Compensation Plan, shares held by the Trust for purposes of exercising voting rights are allocated proportionately to the share units in the respective stock accounts of participating employees and voted in accordance with the instructions of such participants.

Director Deferred Stock Unit Account is a buy only account limited to the portion of a director s fees that is automatically converted into Integrys Energy Group Stock Units. A director is not permitted to reallocate amounts credited to the Director Deferred Stock Unit Account to any of the other hypothetical investment options.

The Committee has established certain other hypothetical investment accounts. Such accounts generally mirror investment options available to the participating employee under Wisconsin Public Service Corporation s 401(k) savings plan.

Elections to defer base compensation or director fees generally must be made prior to the beginning of the calendar year in which the deferred amount would otherwise be paid. Elections to defer annual bonus awards must be made each year on or before June 30 (or such earlier date as may be established by the Committee). Elections to defer long-term performance incentive awards must be made at least six months prior to the end of the performance period (or such earlier date as may be established by the Committee). The Committee may establish additional requirements with respect to the form and timing of deferral elections.

In accordance with Committee rules, participating employees and directors may elect to reallocate how deferred amounts are deemed to be invested. The right to reallocate the deemed investment of deferred amounts does not apply to amounts deferred by certain participants prior to July 1, 2001, and does not apply with respect to any amounts credited to the Incentive Stock Unit Account or the Director Deferred Stock Unit Account.

All reallocation elections by a participant who is subject to Section 16 of the Exchange Act of 1934 (Exchange Act), however, are subject to review by the Committee prior to implementation. In addition, the following transactions are prohibited: elections to reallocate the deemed investments into Integrys Energy Group Stock Units within six months of an election to reallocate deemed investments out of Integrys Energy Group Stock Units and elections to reallocate the deemed investments out of Integrys Energy Group Stock Units within six months of an election to reallocate deemed investments into Integrys Energy Group Stock Units. These prohibited transactions are void. The Committee may restrict additional transactions, or impose other rules and procedures, to the extent deemed desirable by the Committee in order to comply with the Exchange Act.

It is not possible to predict what benefits will be received under the Deferred Compensation Plan, as amended. For information on 2006 deferrals and earnings in this plan for the named executive officers see the tables regarding Nonqualified Deferred Compensation later in this proxy. In 2006 total dollars deferred and income earned in this plan were $3,603,362 and $765,283, respectively. The total number of stock units deferred into the plan in 2006 was 87,051.

Distributions from Deferred Compensation Plan accounts are made in 1 to 15 annual installments, as elected by the participating employee or director and commence within 60 days following the end of the calendar year in which occurs the 6-month anniversary of the participating employee s retirement or termination of employment or the director s termination of service, unless the employee or director has selected a later commencement date. A participating employee or director may modify a distribution election but such revision will take effect only if certain conditions are satisfied. With respect to amounts deferred prior to January 1, 2005, the revised distribution election will take effect only if the participant remains employed by Integrys Energy Group or a subsidiary or affiliate of Integrys Energy Group for 12 consecutive months following the revised election. With respect to amounts deferred after December 31, 2004, a revised distribution election is permitted only if the participant is deferring distribution commencement for at least five years. For purposes of determining distribution amounts, share units in the Stock Accounts will be valued on the basis of the closing price as reported in The Wall Street Journal as New York Stock Exchange Composite Transactions on January 21 (or if not a trading day the next preceding trading day) of each year.

Distributions attributable to a participant s stock accounts will be made in whole shares of common stock of Integrys Energy Group. Distributions attributable to Reserve Account A and Reserve Account B and other hypothetical investment accounts will be made in cash. Unless a participant otherwise elects, income tax on each distribution will be withheld from the cash portion of the distribution and Integrys Energy Group common stock will be used to satisfy withholding obligations only to the extent that the cash portion of the distribution is insufficient.

The amended Deferred Compensation Plan provides that, subject to adjustment as described below, the total number of authorized but previously unissued shares of common stock of Integrys Energy Group which may be distributed to participants pursuant to the Deferred Compensation Plan is 1,450,000, which number is not reduced by or as a result of (i) any cash distributions pursuant to the Deferred Compensation Plan or (ii) the distribution to participants pursuant to the Deferred Compensation Plan of shares of common stock of Integrys Energy Group that relate to an award of shares originally made (and charged against the pool of available shares) under the 2005 Incentive Compensation Plan or the 2007 Incentive Compensation Plan. Of the 1,450,000 total shares, 750,000 represent shares already approved by shareholders and 700,000 represent additional shares to be available upon the approval of shareholders at Integrys Energy Group s 2007 annual meeting. In the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, stock dividend, split-up, share combination or other change in the corporate structure of Integrys Energy Group affecting its common stock, adjustment will be made in the number and class of shares which may be distributed pursuant to the Deferred Compensation Plan as may be determined to be appropriate and equitable by the Committee in its sole discretion.

The Deferred Compensation Plan is intended to operate in full compliance with the insider trading liability rules under Section 16 of the Exchange Act. The Committee will administer the Deferred Compensation Plan so that transactions under the Deferred Compensation Plan will be in compliance with Section 16 of the Exchange Act and will have the right to restrict any transaction or impose other rules and requirements to the extent it deems necessary or desirable for that compliance.

Special Rules Applicable in Event of Change of Control:

The board of directors of Integrys Energy Group may amend the Deferred Compensation Plan in anticipation of a change of control. These amendments may include the elimination of stock units and the reallocation of the value of the stock units to Reserve Account B.

Upon a change in control, the rate of interest equivalent to be credited to Reserve Account A and Reserve Account B will be the greater of the rate of interest equivalent calculated based upon the consolidated return on equity to common shareholders of Integrys Energy Group or any successor corporation and all subsidiaries and a rate equal to 2% above the prime lending rate of US Bank N.A. or its successor. With respect to Reserve Account B, the alternative minimum rate based on the prime lending rate of US Bank N.A. or its successor will cease to apply on the third anniversary of the change in control for participating employees who are then actively employed by Integrys Energy Group or any successor to Integrys Energy Group or affiliate of a successor company.

Following a change in control Integrys Energy Group may not, without the written consent of any affected participants or beneficiary of a deceased participant, amend or take action to terminate the Deferred Compensation Plan that would:

- Decrease the number or type of investment options,
- Cause an account to be valued less frequently than quarterly,
- Impair or limit a participating employee s right to reallocate account balances,
- Decrease the interest credited under Reserve Account A or Reserve Account B, or
- Eliminate distribution options or terminate distribution elections then in effect.

Except as otherwise provided in an employment contract of a participating employee total payments under the Deferred Compensation Plan will be limited to one dollar less than the maximum amount that would cause the payment to constitute an excess parachute payment and subject the participating employee to the tax imposed by Section 4999 of the Internal Revenue Code.

Amendment or Termination:	Except as otherwise described above with respect to amendments following a change in control, the board may, at any time, amend or terminate the Deferred Compensation Plan without the consent of the participants or beneficiaries of participants, provided, however, that no amendment or termination may reduce any account balance accrued on behalf of a participating employee to the date of such amendment or termination, and, in accordance with federal tax laws, termination of the Deferred Compensation Plan will not, except in certain limited situations, result in accelerated distributions to plan participants.
Unfunded Plan:	The Deferred Compensation Plan is unfunded for purposes of the Internal Revenue Code and the Employee Retirement Income Security Act of 1974 (ERISA), and the Trust established to facilitate payments under the Deferred Compensation Plan is consistent with the unfunded status of the Deferred Compensation Plan. The right of a participant to receive a distribution under the Deferred Compensation Plan will be an unsecured claim.
Required Vote:	The affirmative vote of a majority of the votes cast on the proposal by the holders of Integrys Energy Group s common stock is required for approval of the amendment to increase the number of shares of Common Stock available under the Deferred Compensation Plan, provided that a majority of the outstanding shares of Integrys Energy Group s common stock are voted on the proposal. Any shares not voted (whether by abstention, broker non-vote or otherwise) may prevent the proviso from being satisfied, but if such proviso is satisfied, will have no impact on the vote.

The board recommends that you vote FOR approval of the amendment to increase the number of shares of common stock available under the Integrys Energy Group Deferred Compensation Plan. Proxies solicited by the board of directors will be voted FOR approval of the Deferred Compensation Plan, unless the shareholder has specified otherwise.

RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The audit committee selected Deloitte & Touche LLP, independent registered public accounting firm, to audit the consolidated financial statements of Integrys Energy Group and its subsidiaries for the year ending December 31, 2007, as well as its internal control over financial reporting as of December 31, 2007 and requests that the shareholders ratify such selection. If shareholders do not ratify the selection of Deloitte & Touche LLP, the audit committee will reconsider the selection.

Audit services provided by Deloitte & Touche in 2006 included the audit of the consolidated financial statements of Integrys Energy Group and its subsidiaries; reviews of interim condensed consolidated financial statements; audit of management s assessment that Integrys Energy Group maintained effective internal control over financial reporting and Integrys Energy Group s internal control over financial reporting as of December 31, 2006 and consultations on matters related to accounting and financial reporting.

Deloitte & Touche also provided certain audit related and nonaudit services to Integrys Energy Group and its subsidiaries during 2006, which were reviewed by the audit committee and are more fully described later in this proxy statement.

Representatives of Deloitte & Touche are expected to attend the annual meeting where they will be available to respond to questions and, if they desire, to make a statement.

Assuming a quorum is present at the annual meeting, to ratify the Audit Committee s selection of Deloitte & Touche as the independent registered public accounting firm for 2007, the number of votes cast in favor of ratification must exceed the number of votes cast in opposition to it. Abstentions and broker non-votes will be counted as present in determining whether there is a quorum; however, they will not constitute a vote for or against ratification, and will be disregarded in the calculation of votes cast. A broker non-vote occurs when a broker submits a proxy card with respect to shares that the broker holds on behalf of another person, but declines to vote on a particular matter, either because the broker elects not to exercise its discretionary authority to vote on the matter or does not have authority to vote on the matter.

The board of directors recommends a vote FOR the ratification of the selection of Deloitte & Touche LLP as the independent registered public accounting firm for Integrys Energy Group and its subsidiaries for 2007. Proxies solicited by the board of directors will be voted FOR ratification of the selection of Deloitte & Touche LLP as the independent registered public accounting firm for Integrys Energy Group and its subsidiaries for 2007.

BOARD COMMITTEES

Committee Membership

The following table lists the board committees, their members as of December 31, 2006, and the number of board and board committee meetings in 2006.

2006 Board Committees					
Director (*Chairman)	**Board**	**Audit**	**Compensation**	**Financial**	**Governance**
Richard A. Bemis	X		X	X	
Albert J. Budney, Jr.	X	X			X *
Ellen Carnahan	X	X		X	
Robert C. Gallagher	X			X *	X
Kathryn M. Hasselblad-Pascale	X			X	X
James L. Kemerling	X	X *			
John C. Meng	X		X *		
William F. Protz, Jr.	X	X	X		
Larry L. Weyers	X *				
Meetings in 2006	11	9	4	6	5

In 2006, all directors attended a minimum of 75 percent of the aggregate number of (1) all board meetings and (2) their assigned committee meetings. Under Integrys Energy Group s Corporate Governance Guidelines all directors are expected to attend the annual meeting of shareholders. All directors (with the exception of Richard A. Bemis) attended the 2006 annual meeting.

In addition to the above committees, upon completion of the merger with Peoples Energy on February 21, 2007, three additional committees were established; the Executive Committee, Environmental Committee and the Ad Hoc Oil and Gas Committee.

The board of directors selected Robert C. Gallagher, to serve as lead director, for a one-year term, effective January 1, 2007. Upon the close of the merger with Peoples Energy, James R. Boris, an independent director, was appointed Non-Executive Chairman and Robert C. Gallagher resigned as lead director. As the independent Non-Executive Chairman, Mr. Boris will preside at all executive sessions of the non-management directors. An executive session of non-management directors (without management present) is held at each regularly scheduled board meeting with the chairman presiding. Any shareholder or interested party wishing to communicate with the chairman may contact Mr. Boris by sending a written communication, addressed to the chairman, in care of Integrys Energy Group s Secretary and Chief Governance Officer, Integrys Energy Group, Inc., 130 East Randolph Drive, Chicago, Illinois 60601. The Secretary and Chief Governance Officer will ensure that this communication (assuming it is properly marked *to the chairman)* is delivered to Mr. Boris. However, commercial advertisements or other forms of solicitation will not be forwarded.

Audit Committee

At December 31, 2006, the audit committee consisted of four independent directors of Integrys Energy Group: James L. Kemerling - Chairperson, Albert J. Budney, Jr., Ellen Carnahan and William F. Protz, Jr. On February 21, 2007, upon the closing of the merger with Peoples Energy, the Audit Committee was reappointed by the Board with James L. Kemerling, Ellen Carnahan, William F. Protz, Jr., Michael E. Lavin - Chairperson and Diana S. Ferguson as the members of the Audit Committee. The Integrys Energy Group board of directors has determined that all five members meet audit committee financial expert requirements as defined by the Securities and Exchange

Commission (SEC). Diana S. Ferguson currently serves on the Audit Committee of Franklin Electric Co., Inc. and Michael E. Lavin currently serves on the Audit Committees of Tellabs, Inc and SPSS Inc. None of the remaining members of the Integrys Energy Group audit committee are members of any other public company s audit committee.

Integrys Energy Group s securities are listed on the New York Stock Exchange and are governed by its listing standards. All members of the audit committee meet the independence standards of Section 303.01(B)(2) and (3) of the listing standards of the New York Stock Exchange and Section 10A-3 under the Securities Exchange Act of 1934. In compliance with NYSE listing standards, in 2006 the audit committee received an annual report of the independent auditors regarding the internal control over financial reporting of Integrys Energy Group.

The audit committee is directly responsible for the selection, compensation and oversight of Deloitte & Touche LLP as its independent registered public accounting firm. Deloitte & Touche reports directly to the audit committee. The committee is responsible to oversee the resolution of any disagreements between Deloitte & Touche and management.

A written charter defining the responsibilities of the audit committee has been adopted.

The information contained in this proxy statement with respect to the audit committee charter shall not to be deemed to be soliciting material or deemed to be filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent specifically requested by Integrys Energy Group or incorporated by reference in documents otherwise filed.

Principal Fees and Services Paid to Independent Registered Public Accounting Firm

The following is a summary of the fees billed to Integrys Energy Group by Deloitte & Touche LLP for professional services performed for 2006 and 2005:

Fees	**2006**	**2005**
Audit Fees (a)	$ 2,605,745	$ 2,169,279
Audit Related Fees (b)	341,005	80,250
Tax Fees		
All Other Fees (c)	10,620	19,523
Total Fees	$ 2,957,370	$ 2,269,052

a) *Audit Fees*. Consists of aggregate fees billed to Integrys Energy Group and its subsidiaries by Deloitte & Touche LLP for professional services rendered for the audits of the annual consolidated financial statements, reviews of the interim condensed consolidated financial statements included in quarterly reports and audits of the effectiveness of, and management s assessment of the effectiveness of, internal control over financial reporting, of Integrys Energy Group and its subsidiaries. Audit fees also include services that are normally provided by Deloitte & Touche in connection with statutory and regulatory filings or engagements, including comfort letters, consents and other services related to SEC matters, and consultations arising during the course of the audits and reviews concerning financial accounting and reporting standards.

b) *Audit Related Fees.* Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the consolidated financial statements or internal control over financial reporting and are not reported under Audit Fees. These services include employee benefit plan audits, accounting consultations in connection with potential

31

transactions, due diligence projects, and consultations concerning financial accounting and reporting standards.

c) *All Other Fees*. Consists of other fees billed to Integrys Energy Group and its subsidiaries by Deloitte & Touche LLP for products and services other than the services reported above. All Other Fees are for software licensing and training provided in 2006 and 2005. The nature of the software license fees, which include support, learning services, and training have been deemed to be permissible non-attest services.

In considering the nature of the services provided by the independent registered public accounting firm, the audit committee determined that such services are compatible with the provision of independent audit services. The audit committee discussed these services with the independent registered public accounting firm and Integrys Energy Group s management and determined that they are permitted under the rules and regulations concerning auditor independence promulgated by the SEC to implement the Sarbanes-Oxley Act of 2002, as well as those of the American Institute of Certified Public Accountants.

The audit committee has approved in advance 100% of the services described in the table above under Audit Fees, Audit-Related Fees and All Other Fees in accordance with its pre-approval policy.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

Consistent with SEC policies regarding auditor independence, the audit committee has responsibility for appointing, setting compensation and overseeing the work of the independent registered public accounting firm. In recognition of this responsibility, the audit committee has established a policy regarding the pre-approval of all audit and permissible non-audit services provided by the independent registered public accounting firm.

The audit committee will annually pre-approve a list of select services and a maximum fee per engagement for these services that would not require management to obtain specific approval from the committee on an individual basis. Other services (not on the pre-approved list or individual engagements for services on the pre-approved list that exceed the dollar limit) would require additional approval of the audit committee. If pre-approval is necessary between audit committee meetings, the audit committee Chairperson or his designated alternate may provide approval. The audit committee may specifically delegate its pre-approval authority to the Chairperson and any audit committee member designated as an alternate. Approvals provided by any member to whom authority is delegated must be presented to the full audit committee at its next scheduled meeting. Integrys Energy Group s external auditors are absolutely prohibited from performing certain non-audit services, including:

- Bookkeeping or other services related to the accounting records or financial statements;
- Financial information systems design and implementation;
- Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- Actuarial services;
- Internal audit outsourcing services;
- Management functions or human resources;
- Broker-dealer, investment advisor or investment banking services;
- Legal and expert services unrelated to the audit; and
- Other services the Public Company Accounting Oversight Board chooses to prohibit.

Compensation Committee

On December 31, 2006, the compensation committee consisted of three independent directors; John C. Meng - Chairperson, Richard A. Bemis and William F. Protz, Jr. On February 21, 2007, upon the closing of the merger with Peoples Energy, the Compensation Committee was reappointed by the Board with John C. Meng - Chairperson, Richard A. Bemis and William J. Brodsky as members of the Compensation Committee. Each individual met the independence requirements as defined in the New York Stock Exchange listing standards. Its function is to evaluate the performance of the Chief Executive Officer, define and establish executive compensation strategy for Integrys Energy Group and recommend to the board compensation, bonuses and benefits for the Chief Executive Officer, executive officers and other key employees.

A written charter defining the responsibilities of the Compensation Committee has been adopted.

Financial Committee

On December 31, 2006, the financial committee consisted of four independent directors; Robert C. Gallagher - Chairperson, Richard A. Bemis, Ellen Carnahan and Kathryn M. Hasselblad-Pascale. On February 21, 2007, upon the closing of the merger with Peoples Energy, the Financial Committee was reappointed by the Board with Robert C. Gallagher - Chairperson, James L. Kemerling, and Keith E. Bailey appointed as members of the Financial Committee. The committee acts in an advisory and consulting capacity to management regarding capitalization, dividend and investment policies and other financial matters. The committee also provides assistance to the board of directors relating to financing strategy, financial policies and financial condition of Integrys Energy Group.

Governance Committee

On December 31, 2006, the governance committee consisted of three independent directors; Albert J. Budney, Jr. - Chairperson, Robert C. Gallagher and Kathryn M. Hasselblad-Pascale. On February 21, 2007, upon the closing of the merger with Peoples Energy, the Governance Committee was reappointed by the Board with Albert J. Budney, Jr - Chairperson, Kathryn Hasselblad-Pascale and Pastora San Juan Cafferty appointed by the Board as members of the Governance Committee. Each individual met the independence requirements as defined in the New York Stock Exchange listing standards.

The committee provides oversight on the broad range of issues surrounding composition, operation and compensation of the board of directors, identifying and recommending individuals qualified to become board members and recommending corporate governance guidelines for Integrys Energy Group to the board of directors. The governance committee will consider individuals recommended by shareholders for nomination as a director. Recommendations for consideration by the governance committee should be sent to the Secretary and Chief Governance Officer, Integrys Energy Group, Inc., 130 East Randolph Drive, Chicago, Illinois 60601, together with appropriate biographical information concerning each proposed nominee. As provided in the Integrys Energy Group By-laws, any proposed nominees and appropriate biographical information must be submitted to the Secretary and Chief Governance Officer between January 26, 2008 and February 20, 2008, for consideration at the 2008 annual meeting. For more detailed information regarding the process to submit an individual for consideration as a director nominee and the qualifications necessary to become a director of Integrys Energy Group, shareholders should review our By-laws, corporate governance guidelines and the governance committee charter.

In identifying potential nominees and determining which nominees to recommend to the board of directors, the governance committee may retain the services of a professional search firm or other third party advisor. In connection with each vacancy, the committee will develop a specific set of ideal characteristics for the vacant director position. The committee will look at nominees it identifies and any nominees identified by shareholders on an equal basis using these characteristics and the general criteria identified below.

The governance committee selects nominees on the basis of knowledge, experience, skills, expertise, diversity, personal and professional integrity, business judgment, time availability in light of other commitments, absence of conflicts of interest and such other relevant factors that the committee considers appropriate in the context of the needs of the board of directors at that time. At a minimum, each director nominee must have displayed the highest personal and professional ethics, integrity, values and sound business judgment. When considering nominees, the committee seeks to ensure that the board of directors as a whole possesses, and individual members possess at least one of the following competencies: (1) accounting and finance, (2) business judgment, (3) management, (4) industry knowledge, (5) leadership and (6) strategy/vision. In addition, the governance committee assures that at least one director have the requisite experience and expertise to be designated as an audit committee financial expert. The committee looks at each nominee on a case-by-case basis regardless of who recommended the nominee. In screening director nominees, the committee will review potential conflicts of interest, including interlocking directorships and substantial business, civic and social relationships with other members of the board of directors that could impair the prospective nominee s ability to act independently.

Executive Committee

On February 21, 2007, upon the closing of the merger with Peoples Energy, the Board of Directors created an Executive Committee. The committee consists of the Non-Executive Chairman of the Board of the Company; James R. Boris; the President and Chief Executive Officer Larry L. Weyers; Keith E. Bailey and Robert C. Gallagher. Each member shall serve for a term of one year. The Executive Committee shall perform such duties as necessary to ensure the effective and efficient operations of the Board and will consult with the Board and its members as appropriate between meetings. No action or approval of the Executive Committee shall be effective unless approved by the Board.

Environmental Committee

On February 21, 2007, upon the closing of the merger with Peoples Energy, the Board of Directors created an Environmental Committee. The Committee consists of three non-management members of the Board of Directors; John W. Higgins, Kathryn M. Hasselblad-Pascale - Chairperson, and Richard A. Bemis. The responsibility of the Committee shall be to review the environmental strategy and compliance plans of Integrys Energy Group, and the related management systems that are used to ensure compliance with environmental regulations and stewardship.

Ad Hoc Oil and Gas Committee

On February 21, 2007, upon the closing of the merger with Peoples Energy, the Board of Directors created an Ad Hoc Oil and Gas Committee. The Committee consists of Keith E. Bailey - Chairperson, Larry L. Weyers, James R. Boris, Robert C. Gallagher and James L. Kemerling. The Ad Hoc Oil and Gas Committee shall assist the Board in its oversight of the Company s oil and gas production business segment and other matters that may be delegated by the Board to the committee.

Related Persons Transaction Policy

Each of our executive officers, directors or nominees for director is required to disclose to the Audit Committee certain information relating to related person transactions. Disclosure to the Audit Committee should occur before, if possible, or as soon as practicable after the related person transaction is effected but in any event as soon as practicable after the executive officer, director or nominee for director becomes aware of the related person transaction. The Audit Committee s decision (if applicable) whether or not to approve or ratify a related person transaction is to be made in light of the Audit Committee s determination that consummation of the transaction is not or was not contrary to our best interests.

With respect to related persons transactions:

- A related person means any (a) person who is, or was at some time since the beginning of the last fiscal year, an executive officer, director or nominee for election as a director, (b) greater than 5 percent beneficial owner of our common stock, or (c) immediate family member of the foregoing; and

- A related person transaction means any transaction, arrangement or relationship or series of similar transactions, arrangements or relationships (including any indebtedness or guarantee of indebtedness) in which (a) the aggregate amount involved will or may be expected to exceed $100,000 in any calendar year, (b) we are a participant, and (c) any related person has or will have a direct or indirect interest (other than solely as a result of being a director or a less than 10 percent beneficial owner of another entity).

AVAILABLE CORPORATE GOVERNANCE INFORMATION

Integrys Energy Group s By-laws, code of conduct, corporate governance guidelines and charters of all board committees may be accessed on the Integrys Energy Group web site, www.integrysgroup.com under Investor then select Corporate Governance. Copies can also be obtained by writing to Integrys Energy Group, Inc., Attention: Peter H. Kauffman, Secretary and Chief Governance Officer; 130 East Randolph Drive, Chicago, Illinois 60601.

35

OWNERSHIP OF VOTING SECURITIES

Beneficial Ownership

Based on Integrys Energy Group s records and filings made with the SEC, we are not aware of any shareholder with beneficial ownership of five percent or more of our common stock. The following table indicates the shares of our common stock and stock options beneficially owned by our executive officers and directors as of March 15, 2007.

	Amount and Nature of Shares Beneficially Owned March 15, 2007		
Name and Title	**Aggregate Number of Shares Beneficially Owned (7)**	**Number of Shares Subject to Stock Options**	**Percent of Shares**
Keith E. Bailey, Director	6,303	0	*
Richard A. Bemis, Director	14,571	3,000	*
James R. Boris, Director and Non-Executive Chairman	31,588	7,425	*
William J. Brodsky, Director	26,227	7,425	*
Albert J. Budney, Jr., Director (1)	4,800	0	*
Pastora San Juan Cafferty, Director	14,476	7,425	*
Ellen Carnahan, Director	6,458	0	*
Diana S. Ferguson, Director	5,396	0	*
Robert C. Gallagher, Director	19,873	0	*
Kathryn M. Hasselblad-Pascale, Director (2)	15,924	3,000	*
John W. Higgins, Director	4,372	0	*
James L. Kemerling, Director (3)	11,303	3,000	
Michael E. Lavin, Director	5,378	0	*
John C. Meng, Director (4)	52,780	3,000	*
William F. Protz, Jr., Director (5)	159,864	0	*
Larry L. Weyers, Director President and Chief Executive Officer Integrys Energy Group, Inc.	408,741	365,324	*
Joseph P. O Leary, Senior Vice President and Chief Financial Officer Integrys Energy Group, Inc.	88,597	77,046	*
Phillip M. Mikulsky, Executive Vice President and Chief Development Officer Integrys Energy Group, Inc.	134,955	99,283	*
Mark A. Radtke, President Integrys Energy Services, Inc.	92,617	74,248	*
Daniel J. Verbanac, Chief Operating Officer Integrys Energy Services, Inc.	52,549	40,372	*
All 28 directors and executive officers as a group (6)	1,571,988	950,701	2.08 %

* Less than one percent of Integrys Energy Group outstanding shares of common stock.

36

None of the persons listed beneficially owns shares of any other class of our equity securities.

(1) Includes 800 shares owned by spouse.

(2) Includes 3,531 shares owned by spouse.

(3) Includes 800 shares held in an individual retirement account.

(4) Includes 41,600 shares held in a charitable revocable trust.

(5) Includes 123,841 shares held in two trusts for which Mr. Protz is the trustee and in which his spouse is a 1/16th beneficiary. As trustee, Mr. Protz controls the voting of the shares and can direct the trust to sell or retain the shares. Also includes 28,428 shares owned by spouse.

(6) Includes 212,295 shares held in joint tenancy, by spouses, as trustee or held as custodian for children.

(7) Aggregate number of shares beneficially owned includes shares and share equivalents of common stock held in the Employee Stock Ownership Plan and Trust, the Wisconsin Public Service Corporation Deferred Compensation Trust and all stock options, which are exercisable within 60 days of March 15, 2007. Each director or officer has sole voting and investment power with respect to the shares reported, unless otherwise noted. No voting or investment power exists related to the stock options reported until exercised.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires executive officers, directors and persons who beneficially own more than ten percent of our common stock to file reports of changes in ownership of our common stock with the SEC within two business days following such change. We have reviewed statements of beneficial ownership furnished to us and written representations made by our executive officers and directors. Based solely on this review, we believe that our officers and directors timely filed all reports they were required to file under Section 16(a) in 2006.

Equity Compensation Plan Information (as of December 31, 2006)

Plan Type/Plan Name	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a)		Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights (b)		Number of securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in Column (a)) (c)	
Equity Compensation Plans Approved by Security Holders						
1999 Employee Stock Option Plan	**124,647**		**$**	**34.0097**	**0**	
Integrys Energy Group 2001 Omnibus Incentive Compensation Plan	**1,172,129**		**$**	**41.7755**	**0**	
Integrys Energy Group 2005 Omnibus Incentive Compensation Plan	**730,648**	**(1)**	**$**	**53.6546**	**671,207**	**(2)**
Integrys Energy Group Deferred Compensation Plan	**513,939**		**$**	**0**	**141,747**	
Equity Compensation Plans Not Approved by Security Holders						
1999 Director s Stock Option Plan (3)	**12,000**		**$**	**25.5000**	**0**	
TOTAL	**2,553,363**				**812,954**	

(1) Includes 70,924 shares of restricted stock at a weighted average exercise price of $52.30.

(2) If the Integrys Energy Group 2007 Omnibus Incentive Compensation Plan is approved, no further grants will be made under the Integrys Energy Group 2005 Incentive Compensation Plan

(3) Equity compensation plans not approved by security holders consist solely of the Integrys Energy Group 1999 Non-Employee Directors Stock Option Plan, which provides stock options to directors at the discretion of the Board of Directors. The Board has not granted any stock options under this plan since 2000, and does not anticipate any further stock options will be issued under this plan. The plan provides that all exercises of options under this plan are to be completed through the use of treasury stock.

As of March 15, 2007, there were 2,220,586 stock options outstanding for Integrys Energy Group common stock (with a weighted-average exercise price of $45.67 and weighted-average remaining life of 6.74 years). In addition there were 70,924 shares of outstanding restricted stock awards and 126,221 targeted performance share awards under the plan. Approximately 671,000 shares remain available for issuance under the 2005 Omnibus Incentive Compensation Plan.

As of March 15, 2007, shares deferred under the Deferred Compensation Plan were 577,165 with approximately 132,000 shares remaining available for issuance under the plan.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The purpose of this Compensation Discussion and Analysis is to provide material information that is necessary for an understanding of our compensation policies and decisions relating to our named executive officers, including the identification of key components of our executive compensation program, and an explanation of the purpose of each key component. The named executive officers for 2006 include: Larry L. Weyers, President and Chief Executive Officer (CEO); Joseph P. O Leary, Senior Vice President and Chief Financial Officer (CFO); Phillip M. Mikulsky, Executive Vice President - Development; Mark A. Radtke, President, Integrys Energy Services, Inc.; and Daniel J. Verbanac, Chief Operating Officer, Integrys Energy Services, Inc.

Compensation Philosophy

We recognize the importance of maintaining sound principles for the development and administration of our compensation benefit programs. Overall, the executive compensation program is specifically designed to:

- Align executive efforts with the company s core values of integrity, safety, community, respect for our employees, service to customers and value for shareholders;
- Reward executive performance consistent with company objectives, including operational effectiveness and financial results, which in turn may reduce the need for rate increases to our customers;
- Attract, retain, motivate and develop a highly competent executive staff;
- Achieve a balance between fixed and variable pay, as well as between short-term and long-term incentives to balance executive focus on short-term and long-term goals; and
- Provide a mechanism for executives to have a stake in the company through stock ownership.

We believe that a focus on these principles will benefit our shareholders in the long-term by ensuring that we can attract and retain highly qualified executives who are committed to our long-term success and the creation of shareholder value.

Role of the Compensation Committee

The Compensation Committee (Committee) of the Board of Directors maintains the authority to set policy for executive compensation, and to establish and administer the executive compensation program for the company and its subsidiaries in keeping with our compensation philosophy. For the 2006 calendar year, the Committee was composed of John C. Meng (Chairperson), Richard A. Bemis, and William F. Protz, Jr. The Committee has historically adhered to objective criteria and a structured method of determining compensation, with very limited discretionary decision-making. Compensation decisions made by the Committee rely on market trends and performance at the corporate, business unit and individual levels.

The Committee may review named executive compensation history, although it is only one factor in setting future compensation opportunities.

For the past several years, the Committee has engaged a nationally recognized independent, third party consultant (Towers Perrin) to evaluate our executive compensation, to discuss general compensation trends, to provide competitive market data and to assist human resources management in developing compensation recommendations to present to the Committee. The independent compensation consultant is present at the annual discussions on executive compensation to provide advice, consultation and market information. The Committee meets in executive session with the independent compensation consultant at least annually. The Senior Vice President-Human Resources and the CEO also provide information and recommendations during this session. The CEO is the only executive present when executive compensation considerations are discussed. The CEO, however, is not present when consideration is made regarding his own compensation.

The Committee reserves the right to modify or discontinue elements of the executive compensation program, and to revise compensation levels after considering qualitative and quantitative facts and circumstances surrounding actual or projected financial results, as well as its view of the appropriate balance between base salary, annual short-term incentive, long-term incentive compensation and benefits.

Total Compensation

The objective of the Committee is to establish target total compensation at or near the median level compared with competitive market data derived from survey information of nearly one hundred utility/energy companies and in the broader industry. The Committee intends to continue its strategy of compensating named executive officers at competitive levels, with an opportunity to earn above-median compensation for above-market performance, through programs that emphasize performance-based incentive compensation in the form of cash and equity-based awards. To that end, total executive compensation is tied directly to performance and is structured to ensure that, due to the nature of our business, there is an appropriate balance focused on long-term versus short-term performance, as well as a balance between financial performance and the creation of shareholder value. Based on our analysis, we believe that the total compensation paid or awarded to our named executive officers during 2006 was consistent with our financial and operational performance and the individual performance of each of the named executive officers. We also believe that the total compensation was reasonable and is consistent with our compensation philosophies as described above.

Key Components of the Executive Compensation Program

The key components of our executive compensation program are base salary, annual short-term incentive pay, long-term incentives (restricted stock, performance shares and stock options) and other benefits. In this mix of compensation, at-risk compensation is a significant portion. Base salary is generally less than one-half of overall compensation received by the executive. Incentives make up the remainder of direct compensation and are performance-based, with greater weighting on long-term incentives. Incentive compensation earned in 2006 was provided pursuant to the 2005 Omnibus Incentive Compensation Plan. A 2007 Omnibus Incentive Compensation Plan for Integrys is being proposed.

Base Salary

Base salary is used to provide annual cash income to executives to compensate them for services rendered during the fiscal year. Competitive market benchmark data is provided to the Committee by our independent executive compensation consultant on an annual basis. Market comparisons are based on the median (50th percentile) base salary for substantially equivalent positions of similarly-sized companies in the utility/energy services industry (based on revenue size adjusted for gas trading revenues). Utility/energy services market data at this revenue size includes 97 companies contained in the Towers Perrin Energy Services executive survey. Salary increases are based on recommendations of the CEO, which may include overall company and individual performance of the executive, and the Committee s evaluation of current market data. The Committee granted base salary increases for the named executive officers for 2006 (in December, 2005) ranging from 4.1% to 8.0%, with an average pay increase equal to 5.8%. In December, 2006, the Committee granted base salary increases to named executive officers for 2007 ranging from 5.0% to 11.1%, with the average pay increase equal to 7.4%. Base salaries set for named executives were on average 97.9% of market median as reported in December, 2006. Taking into account these increases, base salary levels for the named executive officers are generally at or near the median of the market comparison companies. Setting base salary at or near market median levels allows the company to be competitive in the marketplace.

Short-Term Incentive Compensation

All of the named executive officers participate in our Executive Incentive Plan. The purpose of this plan is to:

- Focus executive employees on assisting the company in achieving objectives key to its short-term success;
- Recognize the performance of key employees in achieving our financial and operating objectives; and
- Provide compensation opportunities that closely reflect the pay levels of other similarly-sized U.S. energy companies and general industry companies.

Annual incentive payments under this plan are based on operational and financial performance goals. The overall target payout for the named executive officers at the holding company level is established based on utility/energy services and general industry market median (50th percentile) data for similarly-sized companies. For the non-regulated subsidiary, energy marketing and trading data at the market median is considered in determining target payout for the named executives at this level. Data is reviewed for utility/energy services companies contained in the Towers Perrin Energy Services executive survey, and for general industry, including over 900 companies contained in the Towers Perrin general industry survey. The Committee considers appropriate payouts for stellar and satisfactory performance to determine superior and threshold payout levels respectively for all entities. These levels provide a partial payout for partially meeting objectives and a strong incentive, generally one and one-half times target level, for superior performance.

The Committee bases each participant s incentive on the attainment of some or all of the following performance goals:

- Customer Value - a set of three operational measures of customer satisfaction of residential, commercial/industrial and agricultural customers, as measured by surveys and in comparison to our competitors.
- System reliability - a set of two operational measures, including electric system outages and gas system responsiveness.
- Market effectiveness of energy supply operations (the company s generation operations) - an operational measure that applies to energy supply executives only and consists of the energy price weighted availability of all Wisconsin Public Service Corporation generation facilities.
- Safety - a set of two operational measures, including the number and severity of OSHA reportable accidents and workers compensation costs.
- Rate levels - a set of two operational measures for gas and electric rates derived through a comparison of rates relative to the following competitors: Consumers Energy, Edison Sault Electric Company, Commonwealth Edison Company, Xcel Energy, Minnesota Power, WE Energies, Alliant Energy, and Madison Gas & Electric Company.

- Employee diversity - a set of two operational measurements of the number of women and minorities promoted or hired overall within the company and specifically at management levels.

- Net income - financial measures set by the Committee for the company and its subsidiaries. The Committee can include or exclude extraordinary and/or non-recurring items.

Threshold, target and superior performance levels for each goal, as well as the weighting of each measure, are recommended by the Human Resources Department and the CEO (excluding his own) based on historical results, anticipated business conditions, and goals and objectives of the company. The final levels are set by the Committee based on these recommendations. Provided below are the specific payout levels and measurement weightings established for each of the named executive officers for the 2006 Executive Incentive Plan:

	Payout Levels (as a percent of gross earnings excluding extraordinary items)			Measurement Weightings (as a percent of total payout)	
Named Executive Officer	**Threshold**	**Target**	**Superior**	**Net Income**	**Operational Measures**
Larry L. Weyers	50	100	150	75 (1)	25
Joseph P. O Leary	20	50	80	75 (1)	25
Phillip M. Mikulsky	20	55	90	75 (1)	25
Mark A. Radtke	20	55	90	25 (1)	0
				75 (2)	
Daniel J. Verbanac	25	65	100	25 (1)	0
				75 (2)	

(1) Integrys Energy Group, Inc.

(2) Integrys Energy Services, Inc.

The Board of Directors believes it is important to establish performance targets and incentives that align executive compensation with financial and operational performance, promote value driven decision-making by executives and provide total compensation levels that are competitive in the market.

Payout is made on any individual measure with results at or above threshold. For the year 2006, Larry L. Weyers, Joseph P. O Leary and Phillip M. Mikulsky earned final payouts below threshold and Mark A. Radtke and Daniel J. Verbanac earned payouts midway between the target and superior levels. These incentives were paid out in March, 2007. Overall, company operational performance results for 2006 were superior for five of the operational measures (OSHA, all three Customer Value measures and Gas Rates), near target for two measures (Gas Reliability and Energy Supply Market Effectiveness), at threshold for both Diversity measures and Electric Reliability, and below threshold for two measures (Worker s Compensation Costs and Electric Rates). Net Income results were near superior for ESI and below threshold for Integrys Energy Group. As a result, actual total cash compensation levels were slightly below target for Messrs. Weyers, O Leary and Mikulsky, and slightly above target for Messrs. Radtke and Verbanac. The actual payout received by each named executive officer is provided in the Summary Compensation Table under Non-Equity Incentive Plan Compensation. Actual payout as a percentage of adjusted gross earnings was 20.27% for Larry L. Weyers, 10.21% for Joseph P. O Leary, 11.26% for Phillip M. Mikulsky, 64.95% for Mark A. Radtke, and 72.45% for Daniel J. Verbanac.

Long-Term Incentive Compensation

We believe that equity-based compensation ensures that our executives have a continuing stake in the long-term success of the company. In a manner consistent with our overall compensation philosophy, the Committee has adopted certain long-term compensation plans.

In 2006, it was proposed and endorsed by the Committee that a limited amount of restricted stock be added as a component of the long-term incentive compensation provided to executives. This change was made consistent with current market trends and to promote retention in light of the merger with Peoples Energy. For long-term incentive awards granted in December 2006, long-term incentive compensation was composed of 20% restricted stock, 50% performance share awards and 30% non-qualified stock options. Prior to this, long-term incentive compensation was made up of approximately two-thirds performance shares and one-third stock options. The amount of long-term incentive received by each executive is determined by the Committee and recommended to the Board of Directors, which relies on a blend of market median data from the utility/energy services industry and general industry of similarly-sized companies provided by our independent executive compensation consultant. In addition, performance of each named executive officer and internal equity is considered.

The target long-term incentive compensation as a percent of base salary for each named executive officer is Larry L. Weyers, 190%; Joseph P. O Leary, 90%; Phillip M. Mikulsky, 90%; Mark A. Radtke, 75%; and Daniel J. Verbanac, 70%.

Restricted Stock

The restricted stock has a 4-year vesting schedule (25% per year), and gives participants voting rights and dividends during the vesting period. Restricted stock is utilized as a long-term retention vehicle, establishes an incentive for optimizing total shareholder return, and is a vehicle to increase stock ownership in the company.

Performance Shares

Granting of performance shares encourages executives to direct their efforts in a manner consistent with the optimization of total shareholder return (stock appreciation and dividend rate), and to create shareholder value superior to the company s peers. Performance share awards are based on total shareholder return over a three-year period. During the three-year period, there are no dividends paid to participants nor do participants have voting rights over the shares subject to the award. At the end of the three-year period, the Committee makes a relative comparison of the company s total shareholder return to the shareholder return on common stock of a long-term incentive peer group (made up of major publicly traded energy companies) selected by the Committee for the three-year period, and determines the number (if any) of performance share awards to issue. Initially in establishing the method of measuring performance, our independent executive compensation consultant provided the Committee with several alternatives to consider. The Committee chose the method of comparing against a peer group of over 60 energy/utility companies, because it believes they constitute a comprehensive representation of the utility industry. At the end of a performance period, the Committee makes a recommendation to the Board of Directors regarding the amount of payout based on this method of measuring performance

The number of shares to be provided at target is based on market median levels of incentive compensation, competitiveness of the total compensation package and individual performance. A new three-year performance period starts annually. If the company s total shareholder return (TSR) is at the 50th percentile of the peer group, as determined by the Committee, an eligible executive would receive 100% of the target. A threshold payout of 25% of the target award is made if the TSR is at the 35th percentile. If the TSR is below the 35th percentile, participants receive 0%, and at the 90th

43

percentile or higher, participants receive 200% of target. For the 2004-2006 performance period ending on December 31, 2006, the company s total shareholder return ranked at the 25th percentile relative to the long-term incentive peer group. Therefore, participants (including the named executive officers) did not earn an award under the terms of the plan for the most recently completed performance period.

Non-Qualified Stock Options

Stock options also serve to encourage named executives to direct efforts to increase shareholder value. Consistent with the plan document, all option grants have strike prices equal to the average of the high and low value of a share of common stock on the date the options are granted, which coincides with the December Board of Director s meeting. One quarter of the options granted vest each year on the grant anniversary date. All options have a ten-year term from the date of the grant. There are no dividends or voting rights associated with stock options. Final approval of grants is made by the Board of Directors. The company does not back date option grants, reload options or discount the strike price below market.

Other Benefits

We have certain other plans which provide, or may provide, cash compensation and benefits to the named executive officers. These plans are principally our Deferred Compensation Plan, Qualified Pension Plan, and the Pension Restoration and Supplemental Retirement Plan (SERP). We also provide life insurance as part of our compensation package. The Committee considers all of these plans and benefits when reviewing total compensation of the named executive officers.

Perquisites

Named executive officers of the company and its subsidiaries are provided with very limited perquisites. No named executive officer received perquisites in excess of $10,000.

Deferred Compensation

Named executive officers may participate in the Integrys Energy Group Deferred Compensation Plan with the approval of the Committee of the Board of Directors. This non-qualified benefit allows eligible executives to defer 1% to 100% of base salary, annual incentive, and long-term equity incentive compensation (other than stock options) on a pre-tax (federal and state) basis. Participating executives who defer annual incentives into the stock unit investment account can receive a 5% stock premium in their account. The Deferred Compensation Plan also provides for a matching contribution credit for any reduction in the matching contribution the executive receives under the Employee Stock Ownership Plan (ESOP) due to the executive s election to defer base compensati