VORYS

Vorys, Sater, Seymour and Pease LLP
Legal Counsel

52 East Gay Street
P.O. Box 1008
Columbus, Ohio 43216-1008

614.464.6400 | www.vorys.com

Founded 1909

Stephen M. Howard
Direct Dial (614) 464-5401
Direct Fax (614) 719-4772
Email smhoward@vorys.com

March 21, 2014

Ms. Barcy F. McNeal, Secretary
Public Utilities Commission of Ohio
180 E. Broad St., 11th Floor
Columbus, Ohio 43215-3793

Re: Case No. 10-396-GA-CRS
Integrys Energy Services - Natural Gas, LLC
Combined Exhibits C-4 and C-6 (Public Version)

Dear Ms. McNeal:

On March 18, 2014, I filed a renewal application on behalf of Integrys Energy Services – Natural Gas, LLC. Included in that filing was a public version of Exhibit C-4 (Financial Arrangements) and C-6 (Credit Rating). Today I am filing a combined Exhibit C-4 and C-6 (Public Version) which supersedes the individual Exhibits C-4 and C-6 that were filed back on March 18.

Thank you for your consideration.

Sincerely yours,

Stephen M. Howard

Stephen M. Howard
Attorneys for Integrys Energy Services – Natural Gas LLC

SMH/jaw
Enclosure

Combined Exhibits C-4 and C-6 (Public Version)

C-4 **<u>Exhibit C-4 "Financial Arrangements,"</u>** provide copies of the applicant's current financial arrangements to conduct competitive retail natural gas service (CRNGS) as a business activity (e.g., guarantees, bank commitments, contractual arrangements, credit agreements, etc.,).

This Exhibit contains confidential and propriety information. This information has been submitted under seal and request for confidential treatment.

C-6 **<u>Exhibit C-6 "Credit Rating,"</u>** provide a statement disclosing the applicant's credit rating as reported by two of the following organizations: Duff & Phelps, Dun and Bradstreet Information Services, Fitch IBCA, Moody's Investors Service, Standard & Poor's, or a similar organization. In instances where an applicant does not have its own credit ratings, it may substitute the credit ratings of a parent or affiliate organization, provided the applicant submits a statement signed by a principal officer of the applicant's parent or affiliate organization that guarantees the obligations of the applicant.

TEGE LLC does not have a credit rating. Credit ratings for TEG, parent of TEGE LLC and TEGE Inc, from Moody's and S&P are attached. **(Attachment H)** TEG will guarantee TEGE Inc and TEGE LLC's financial commitments as necessitated by specific business activities. TEG will increase this amount or make additional guarantees to other parties as necessary during the course of our Ohio business operations.

MOODY'S
INVESTORS SERVICE

Credit Opinion: Integrys Energy Group, Inc.

Global Credit Research - 17 May 2013

Chicago, Illinois, United States

Ratings

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

Contacts

Analyst	Phone
Scott Solomon/New York City	212.553.4358
William L. Hess/New York City	212.553.3837

Key Indicators

[1]Integrys Energy Group, Inc.

	LTM 3/30/2013	2012	2011	2010
(CFO Pre-W/C + Interest) / Interest Expense	6.3x	5.7x	6.6x	6.0x
(CFO Pre-W/C) / Debt	21%	20%	28%	27%
(CFO Pre-W/C - Dividends) / Debt	14%	13%	21%	21%
Debt / Book Capitalization	43%	42%	41%	44%

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

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

Opinion

Rating Drivers

Utility subsidiaries operate in diverse and relatively supportive regulatory environments

Repositioning of non-regulated businesses

Strong financial performance

Large capital spending program

Significant holding company debt and above average dividend payout

Corporate Profile

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

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

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

Integrys' sizable non-regulated retail energy marketing business is focused on marketing natural gas and electricity to commercial, industrial and residential customers primarily in the northeastern quadrant of the United States. Retail electric volumes in 2012 totaled 13.3 million megawatt hours (Mwh) while retail gas volumes totaled 130 bcf. Integrys has operated a retail energy marketing business since 1994 and has largely managed the associated risks over this period in an adequate manner. We estimate Integrys' non-regulated energy marketing business accounts for 10- 15% of the company's consolidated cash flow .

Rating Rationale

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

DETAILED RATING CONSIDERATIONS

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

Diverse and reasonably supportive regulatory environments

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

Generally speaking, Integrys' regulated LDC utilities operate in relatively supportive regulatory environments that provide PGL, NSG, MGU and MERC with rate mechanisms to pass gas costs directly to their customers and to recover bad debts. Furthermore, PGL, NSG, MGU and MERC have been granted decoupling mechanisms to offset the financial impact of declining usage. An offset to these allowed recovery mechanisms by regulators, a credit positive, is the below average allowed return on equity 9.45% granted to PGL and NSG and 9.70% to MERC.

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

Please refer to the credit opinions for WPSC, PGL and NSG for additional detail.

Reduced scale and scope of non-regulated energy marketing business

Integrys substantially reduced the scale and scope of its non-regulated energy marketing businesses in 2009-2010 largely by selling several wholesale businesses with substantial collateral requirements. That said, the risk profile of this business is considerably higher than that of a regulated utility.

Integrys' remaining non-regulated business is focused on marketing electricity and natural gas in the retail market serving commercial, industrial, direct and aggregated small commercial and residential customers primarily in the northeastern quadrant of the United States. Integrys manages the supply risk of its natural gas marketing business through a multi-year natural gas supply agreement with a creditworthy counterparty. This agreement provides Integrys with sufficient capacity to meet the natural gas requirements of its energy marketing business and includes a contractually set limitation on collateral support requirements. The non-regulated energy marketing business has no leverage and Integrys parent provides the needed collateral support.

In 2012, realized retail electric margins totaled $91.3 million or $6.86 per MWh compared to $98.5 million or $7.93 per MWh in 2011. The decrease was driven in large part by increased competitive pressure in the marketplace. Realized retail gas margins totaled $47.5 million in 2012 or $0.37 per dekatherm down slightly from $49.1 million and $0.39 per dekatherm realized in 2011. Retail electric volumes are expected to increase in 2013 due to the company's success in winning a municipal aggregation contract with the city of Chicago. That said, competitive pressures will continue to reduce per unit margins.

As this business grew in scale, so did the collateral requirements, thereby pressuring Integrys' liquidity profile. The downsizing of this business segment beginning in 2009, however, has resulted in significantly reduced collateral requirements. Guarantees and other forms of corporate support provided by Integrys on behalf of its non-regulated operations to support its commodity transactions has declined to approximately $500 million from $2.6 billion at December 31, 2008. Cash collateral provided to third parties declined to $24 million at March 31, 2013 from $256 million at December 31, 2008. Furthermore, the collateral requirement associated with a hypothetical downgrade of Integrys' rating to below investment grade has declined to a more manageable $121 million at March 31, 2013, from approximately the $700 million potential amount at December 31, 2008.

Strong key financial metrics

Intergrys' consolidated historical financial metric have firmly positioned the company in the Baa1 rating category. Specifically, Integrys achieved consolidated CFO-pre WC to debt of approximately 21%, cash flow coverage of interest expense of 6.3 times and debt-to-capitalization of 42.9% for the trailing twelve months ended March 31, 2013. Over the past three year- period, these specific metrics averaged 24.4%, 6.0 times and 41.3%, respectively, driven in part by the positive impact of bonus depreciation.

Integrys' consolidated capital expenditure program for the three-year period 2013 through 2015 is significant at an estimated $2.8 billion (compared to $1.2 billion for the three year period ended 2012). The primary drivers for the increase in capital spending are PGL's accelerated cast iron replacement program, the installation of environmental controls on WPSC's existing coal plant facilities and its recent $392 million purchase of the Fox Energy Center. Both utilities are expected to file frequent rate cases to ensure timely recovery of these investments.

Integrys' subsidiaries are expected to fund their respective capital expenditure programs with internally generated funds, incremental debt issuances and parent equity contributions. Integrys recently contributed $200M in equity capital to WPSC to fund in part its acquisition of Fox. Integrys anticipates issuing up to $400 million of hybrid securities in 2013 as well as $65-70 million in equity through its Stock Investment Plan and other stock-based benefit plans to fund its capital requirements. Incremental holding company debt and equity offerings are likely in 2014 and 2015.

Going forward, we anticipate that the investments in Integrys' regulated utilities combined with above average regulatory treatment and a conservative financing policy will result in consolidated key financial metrics of CFO pre-WC to debt and interest coverage in excess of 20% and 6 times, respectively, and a debt-to-consolidation ratio below 46% through at least 2015.

Above average holding company debt levels and above average dividend payout

Integrys' rating reflects in part the still significant amount of holding company debt and the current high dividend payout ratio, which are the primary drivers for the two-notch rating difference between it and the senior unsecured rating assigned to WPSC, its largest regulated subsidiary. At December 31, 2012, long-term holding company debt was $608 million (adjusted for a $270M hybrid security that currently receives 25% equity and 75% debt treatment for financial leverage purposes by Moody's) or approximately 28% of consolidated long-term balance sheet debt.

Most of our peer universe of rated utility companies have less than 20% of consolidated debt at the holding company level.

Integrys' dividend payout to its shareholders in 2012 was approximately $212 million or 75% of consolidated net income. That said, the company's earnings are somewhat influenced by mark-to-market accounting at its energy marketing business. For example, in 2012, the company earnings were skewed by $27 million (after-tax) of net unrealized gains on non-regulated energy contracts and inventory accounting activities. Ignoring this non-cash impact, Integrys' dividend payout in 2012 was approximately 84%, which is higher than industry average of 70%, a credit negative.

That said, distributions from Integrys' subsidiaries have historically been sufficient to fund the company's external dividend. In 2012, Integrys parent received $274 million in dividends and return of capital from its subsidiaries. Integrys parent contributed $90 million in equity to its subsidiaries in 2012.

Liquidity Profile

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

Integrys' parent's external sources of liquidity include $1,110 million of unsecured revolving credit facilities commitments ($275 million due in May 2014; $200 million due in May 2016 and $635 million due June 2017), a significant amount relative to the company's requirements. The committed facilities support the issuance of letters of credit, meet short-term funding requirements and provide alternate liquidity for Integrys' commercial paper program. Terms of the syndicated revolving credit facilities include a representation that no material adverse change has occurred on the facilities' effective date (but not at any other times throughout the facility's term). The sole financial covenant is a 65% limitation on the debt component of Integrys' capital structure. The company has substantial headroom under the capital structure covenant; we estimate that Integrys' debt-to-capitalization for the purpose of this covenant is currently less than 45%.

Integrys parent had approximately $208 million of commercial paper outstanding as of December 31, 2012. Short-term borrowings likely increased during 1Q13 to fund Integrys $200 million equity contribution to WPSC. Integrys' most near-term parent-level debt maturity is $100 million in December 2014.

Availability under Integrys' credit facilities are more than adequate to meet potential collateral requirements associated with a hypothetical downgrade of Integrys' rating to below investment grade. We anticipate the Integrys $275 million facility due May 2014 will be extended prior to maturity.

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

Rating Outlook

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

What Could Change the Rating - Up

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

What Could Change the Rating - Down

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

Rating Factors

Integrys Energy Group, Inc.

Regulated Electric and Gas Utilities Industry [1][2]	Current 12/31/2012		Moody's 12-18 month Forward View* As of May 2013	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		Baa		Baa
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		Baa		Baa
Factor 3: Diversification (10%)				
a) Market Position (10%)		A		A
b) Generation and Fuel Diversity (0%)		Baa		Baa
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		Baa		Baa
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	6.1x	Aa	6.0x-6.5X	Aa
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	25.2%	A	20-25%	A
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	18.3%	A	15-18%	A
e) Debt/Capitalization (3 Year Avg) (7.5%)	42.2%	A	40-45%	A
Rating:				
a) Indicated Rating from Grid		Baa1		Baa1
b) Actual Rating Assigned		Baa1		Baa1

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

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 12/31/2012; Source: Moody's Financial Metrics

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Summary:
Integrys Energy Group Inc.

Primary Credit Analyst:
Ana M Olaya-Rotonti, New York (1) 212-438-1000; ana_olaya-rotonti@standardandpoors.com

Secondary Contact:
Gerrit W Jepsen, CFA, New York (1) 212-438-1000; gerrit_jepsen@standardandpoors.com

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Summary:

Integrys Energy Group Inc.

Credit Rating: A-/Stable/A-2

Rationale

Standard & Poor's Ratings Services' ratings on Chicago-based Integrys Energy Group Inc. reflect Integrys' consolidated credit profile, including its "excellent" business risk profile and "significant" financial risk profile under our criteria.

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

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

Integrys's nonutility operations include Integrys Energy Services Inc., a retail energy marketing company, and the compressed natural gas operations of Integrys Transportation Fuels LLC, through two recently acquired subsidiaries, Trillium USA and Pinnacle CNG. Integrys's nonutility businesses also include solar projects, through its partnership with Duke Energy Generation Services.

We view Integrys's various businesses as a diversification of its nonutility operations, but we do not view them as an overall reduction of the nonutility risk portfolio and would not expect them to grow disproportionately. We expect Integrys to maintain the current size of its nonutility businesses and these to account for about 10% of consolidated funds from operations (FFO) and the remaining 90% to represent the more stable cash flows of the regulated utility business.

Integrys's excellent business risk profile reflects the company's lower-risk monopolistic rate-regulated businesses that provide an essential service, partly offset by the company's higher-risk nonutility businesses. Integrys has continued to effectively manage its regulatory risk in its service territories, including regular filing of rate cases, with the goal of further reducing regulatory lag. Rate cases were filed in Illinois and are currently pending for PG and NSG; the utilities requested increases of $102.7 million and $12.5 million, respectively. In Wisconsin, a settlement was recently approved by the Public Service Commission authorizing a rate increase of $28.5 million for WPS' electric rates, subject to certain offsets and deferrals in 2013 and a $3.4 million decrease in WPS's gas distribution rates.

The riskier nonutility businesses reflect the highly competitive energy retail marketing industry that is characterized by minimal barriers to entry, low margins, and volatile cash flows. The primary risks are matching supply to variable loads or estimated sales volumes and maintaining sufficient liquidity for collateral and margin calls. The company continues to expand this business and was recently selected as the supplier of electricity for the city of Chicago's 900,000 customers.

Integrys's significant financial risk profile reflects the company's strong historical financial measures, despite the recession and the subsequent weak recovery. We expect financial measures to support the current rating in the future. However, lower sales volumes, driven by mild weather, may continue to pressure the company's consolidated finances. The company also faces uncertainty regarding the Illinois gas companies' further use of the decoupling mechanism pending the Appellate Court's decision, which may result in regulatory refunds and increase vulnerability to weather in the future.

For the 12 months ended Sept. 30, 2012, consolidated FFO to total debt was 18.6%, compared with 19.8% on June 30, 2012. Debt to EBITDA was 4.3x and debt to capital was 50.7%. Under our base-case scenario, over the next three years, we forecast FFO to debt of about 20%, debt to EBITDA to average 4.1x, and debt to total capital to equal about 50%. Key assumptions include a continued slow economy, frequent rate case filings, and timely recovery of large capital spending.

Integrys had positive discretionary cash flow in 2011, partly because of increased bonus depreciation and reduced capital spending. Over the next three years, we expect discretionary cash flow to revert to negative, primarily because of increased environmental capital spending and the acquisition of the Fox Energy Center. However, we expect Integrys to meet these cash shortfalls in a manner that is at least credit neutral.

Liquidity

Our short-term rating on Integrys is 'A-2'. The company has "adequate" liquidity and can cover its needs for the next year, even if FFO decreases.

Our liquidity assessment is based on the following factors and assumptions:

- We expect the company's liquidity sources (including cash, FFO, and credit facility availability) to exceed its uses by about 1.3x over the next 12 months.
- Debt maturities are manageable, with about $314 million maturing in 2013, $100 million maturing in 2014, and about $126 million maturing in 2015.
- Even if EBITDA decreases by 15%, we believe net sources will be well in excess of liquidity requirements.

The company can absorb high-impact, low-probability events with limited need for refinancing, has the flexibility to lower capital spending, has sound bank relationships and solid standing in the credit markets, and has generally prudent risk management.

In our analysis, we assumed liquidity sources of more than $1.8 billion over the next 12 months. Integrys has more than $1.6 billion currently committed under revolving credit facilities. We estimate the company will use about $1.4 billion over the same period for capital spending, debt maturities, working capital needs, and shareholder dividends.

Integrys's credit agreements include a financial covenant requiring that the consolidated ratio of total debt to total capital be no more than 65%. As of Sept. 30, 2012, the company had adequate cushion with respect to this financial covenant.

Outlook

The stable rating outlook on Integrys reflects Standard & Poor's baseline forecast that consolidated FFO to debt and debt to total capital will equal about 20% and 50%, respectively, over the next three years. Significant risks to the forecast include higher-than-anticipated capital costs, a weaker-than-expected economy, or materially lower rate case increases than we predict. We could lower the rating if the nonutility business were to disproportionately grow to greater than 15% of the consolidated company or FFO to debt were to weaken to less than 18% on a consistent basis. We consider an upgrade to be highly unlikely, but it could occur if the company's FFO to debt were to be consistently greater than 30% and its debt to total capital less than 45% and if it were to maintain its excellent business risk profile.

Related Criteria And Research

- Issuer Ranking: U.S. Regulated Utility Companies, Strongest To Weakest, Aug. 6, 2012
- Standard & Poor's Revises Its U.S. Utility Regulatory Assessments, Dec. 28, 2012
- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- 2008 Corporate Ratings Criteria: Ratios And Adjustments, April 15, 2008
- 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

Temporary contact numbers: Ana Olaya-Rotonti 646-581-5949; Gerrit Jepsen 917-584-2786