

**STATE OF MICHIGAN**

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

\* \* \* \* \*

In the matter of the application of )  
**MICHIGAN GAS UTILITIES CORPORATION** )  
for authority to increase retail natural gas rates )  
and for other relief. )  
\_\_\_\_\_ )

Case No. U-17880

DIRECT TESTIMONY AND EXHIBIT OF  
NOREEN E. CLEARY  
FOR  
MICHIGAN GAS UTILITIES CORPORATION

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**QUALIFICATIONS  
OF  
NOREEN E. CLEARY  
PART I**

1 **Q. Please state your name, address and position.**

2 A. My name is Noreen E. Cleary. My business address is Integrys Business Support,  
3 200 E. Randolph St, Chicago, IL 60601. I am the Assistant Vice President, Total  
4 Compensation for Integrys Energy Group, Inc. ("Integrys"). Integrys is the parent  
5 corporation of Michigan Gas Utilities Corporation ("MGUC").

6  
7 **Q. Please describe your educational and business experience.**

8 A. I received a bachelor's of science degree in Medical Technology from Fitchburg  
9 State College, now Fitchburg State University, in 1981. My professional experience  
10 in Human Resources ("HR") covers a period of more than 25 years with various  
11 companies. My primary expertise and concentration in the HR area has been in  
12 compensation and benefits design and administration. I hold designations as a  
13 Compensation Management Specialist (C.M.S.) and a Certified Employee Benefit  
14 Specialist (C.E.B.S.) from the International Foundation of Employee Benefits  
15 Programs (I.F.E.B.P.) in partnership with The Wharton School of the University of  
16 Pennsylvania. I am a current Fellow in the International Society of Certified  
17 Employee Benefits Specialists.

18

1

2 **Q. For whom are you providing testimony?**

3 A. I am providing testimony on behalf of MGUC.

4

5 **Q. Have you previously testified before any public utility commission?**

6 A. Yes, I have. I have testified before the Minnesota Public Utilities Commission  
7 (“MPUC”). I have also submitted pre-filed testimony before the Public Service  
8 Commission of Wisconsin (“PSCW”) and the Michigan Public Service Commission  
9 (“MPSC”) in several general rate case proceedings.

**NOREEN E. CLEARY  
DIRECT TESTIMONY  
PART II**

1 **Q. What is the purpose of your pre-filed direct testimony?**

2 A. My pre-filed direct testimony describes the Integrys 2015 IBS & Regulated Non-  
3 Executive Incentive Plan as it applies directly to MGUC and indirectly to MGUC  
4 through Integrys Business Support, LLC ("IBS"). Non-executive employees of  
5 MGUC, as well as those of IBS, participate in the Integrys 2015 IBS & Regulated  
6 Non-Executive Incentive Plan utilizing specific measures and targets designed for  
7 MGUC. IBS is a separate subsidiary of Integrys that provides services to MGUC in  
8 the areas of Gas Supply, Engineering, Customer Relations, shared services and  
9 corporate support. This plan remains virtually the same as the 2013 and 2014 plans,  
10 and uses metrics specifically focused on providing benefits to customers in the form  
11 of reduced cost of service, greater efficiencies in operations, increased customer  
12 satisfaction and improved reliability

13

14 **Q. Are you sponsoring any exhibits in this proceeding?**

15 A. Yes, I am. I am sponsoring Exhibit A-10, which is the Integrys 2015 IBS & Regulated  
16 Non-Executive Incentive Plan.

17

18 **Q. Was this exhibit prepared by you or under your direction and supervision?**

19 A. Yes, it was.

20

21 **Q. Please describe MGUC's compensation philosophy.**

22 A. Like most customer-focused businesses, including public utilities, MGUC maintains  
23 compensation programs that are market-based so it can attract and retain a qualified  
24 and motivated work force. We compete for quality employees in a market that  
25 includes regulated and non-regulated energy companies as well as non-energy

1 firms. Virtually all firms with which MGUC competes for quality employees offer Pay-  
2 at-Risk as a portion of total compensation. This Pay-at-Risk is an expected  
3 component of a total compensation package in today's talent market place. Potential  
4 employees are anticipating the opportunity to participate in the Company's success  
5 through Pay-at-Risk programs, such as the Integrys 2015 IBS & Regulated Non-  
6 Executive Incentive Plan.

7  
8 MGUC's goal is to pay our employees a total cash compensation package (base pay  
9 plus target Pay-at-Risk) that is anchored to market median levels, as compared to  
10 other energy industry companies and general industry companies, based on data as  
11 provided by Towers Watson, an internationally recognized firm that specializes in  
12 both compensation and benefits consulting services. Stated another way, the  
13 combination of the base pay target plus annual Pay-at-Risk target brings the  
14 employee to the 50th percentile median of comparable energy industry and general  
15 industry companies. Our compensation programs are reviewed at least annually  
16 against competitive data. This review includes both market data and business  
17 objectives to ensure our compensation programs will attract and retain a quality  
18 workforce to serve our customers.

19  
20 **Q. If the Commission does not allow recovery of Pay-at-Risk costs, why couldn't**  
21 **MGUC simply pay its employees exclusively through base pay?**

22 A. It could, but there are two reasons why MGUC needs to use a compensation  
23 package that includes Pay-at-Risk rather than pay employees exclusively through  
24 base pay. First, offering only base pay plans without a Pay-at-Risk component  
25 would make it more difficult for MGUC to attract the quality employees required to  
26 provide a level of service that our customers demand. Quality employees demand  
27 this type of Pay-at-Risk compensation to recognize superior performance. Indeed,

1 surveys performed by Towers Watson have concluded that the majority of  
2 companies extend their Pay-at-Risk programs deep into their organizations (i.e., at  
3 least to entry level professionals). Second, including annual Pay-at-Risk plans in its  
4 compensation program enables MGUC to offer competitive compensation packages  
5 that incent employees to improve service levels and reduce costs that impact the  
6 rates paid by customers. The 2015 Pay-at-Risk plan design will focus employees on  
7 key goals and objectives that benefit our customers, as its design measure criteria  
8 will concentrate on cost containment and operational goals that are aligned with the  
9 interests of customers rather than financial measures that might be more aligned  
10 with the interests of shareholders.

11  
12 **Q. Does a utility's ability to attract and retain sufficient, qualified and motivated**  
13 **work force benefit customers?**

14 A. Absolutely. Attracting and retaining a sufficient, qualified and motivated work force  
15 directly benefits customers, because it ensures there are enough highly proficient  
16 employees to perform needed customer work. In addition, customers benefit by  
17 MGUC maintaining and improving the productivity and quality of work performed,  
18 which reduces overall costs to customers. By retaining trained and experienced  
19 employees through a market-competitive compensation program, MGUC is able to  
20 avoid incurring the costs of hiring and training employees to replace workers who  
21 otherwise would choose to leave the company if such a market-competitive program  
22 were not in place. Experienced employees who are familiar with MGUC's systems  
23 and equipment are more efficient in their performance, further reducing the  
24 Company's operating and maintenance expenses and capital expenditures.

25  
26 **Q. Please review the current makeup of the Integrys 2015 IBS & Regulated Non-**  
27 **Executive Incentive Plan.**

1 A. The Integrys 2015 IBS & Regulated Non-Executive Incentive Plan rewards non-union  
 2 employees on an annual basis for meeting pre-determined goals in a number of  
 3 areas which we believe are in our customers' best interests. It uses four specific  
 4 2015 performance measures to determine Pay-at-Risk payouts for MGUC  
 5 employees. The four performance measures are all focused on operational aspects  
 6 of the business, including cost management. There is no financial performance  
 7 measure in the plan. MGUC's measures assess cost control via a non-fuel  
 8 Operations and Maintenance ("O&M") expense-adjusted metric which is weighted at  
 9 50% of the total. In addition, employee safety measurements, customer service and  
 10 system reliability are weighted at a combined 50% of the total. The following is a  
 11 high-level review of the plan design:  
 12

<b><i>Operational Performance Measures</i></b>			
1) Cost Management Non-fuel O&M Expense- Adjusted	2) Employee Safety- DART Incident Rate and Safety Business Plan	3) Customer Performance Index	4) Reliability
50%	15%	15%	20%

13

14 **Q. What is the focus of these operational measures?**

15 A. Our operational measures are focused on improving services delivered to customers  
 16 including cost control of expenses that impact their rates. They are designed to  
 17 motivate employees to maintain customer support at a high quality level and at  
 18 competitive rates.

19

20 **Q. Can you provide more details as to the operational performance measures in  
 21 the Integrys 2015 IBS & Regulated Non-Executive Incentive Plan?**

22 A. Yes, I can. The following chart provides details on the four operational measures.  
 23

<i>Operational Performance Measure</i>	<i>Description</i>	<i>Weighting</i>
1. <u>Cost Management Non-fuel O&amp;M Expense Adjusted</u>	Assess cost management via non-fuel O&M expense-adjusted, to help maintain or reduce expenses that may be charged to customers in future rate cases. All employees in the Plan are tied to this measure.	50%
2. <u>Employee Safety – DART Incident Rates and MGU Safety Business Plan</u>	Based on reducing Days Away, Restricted-Duty or Job Transfer (“DART”) incidents. All employees are tied to this measure. MGUC Safety Business Plan is its specific plan for improving overall safety performance.	15%
3. <u>Customer Performance Index</u>	Customer Performance is measured using an index consisting of three customer components: Customer Effort – how easy/hard is it to do business with MGUC; Service Quality – an operational measure of customer satisfaction with billing, payment, field service and call handling and Customer Value – customer-perceived progress on the Company’s mission to provide the best value in energy and related services. All employees are tied to this measure.	15%
4. <u>Reliability – Meter Accuracy Improvement and Meter Valve Remediation</u>	Improvement of overall accuracy by focusing on removal of meters that test over 2% fast, requiring customer refunds. Also improving performance of defective meter shut-off valve corrections by reducing the number of outstanding broken, buried and built over meter shut-off valves. This measure applies to all MGUC Incentive Plan participants.	20%

1

2 **Q. Who participates in the Integrys 2015 IBS & Regulated Non-Executive Incentive**  
3 **Plan?**

4 A. Participants in the Integrys 2015 IBS & Regulated Non-Executive Incentive Plan  
5 include MGUC non-union non-executive employees, as well as employees of IBS.

1 Employees of IBS affect the Integrys 2015 IBS & Regulated Non-Executive Incentive  
2 Plan based on the proportion that IBS costs are allocated to MGUC, as discussed in  
3 the pre-filed direct testimony of Tracy L. Kupsh.

4

5 **Q. How does the Cost Management Non-fuel O&M Expense-adjusted metric**  
6 **benefit customers?**

7 A. The Cost Management Non-fuel O&M Expense-adjusted metric benefits customers  
8 by reducing the costs of service that must be recovered from customers in future rate  
9 cases. This metric encourages employees to maintain or reduce operational costs in  
10 order to keep O&M costs at or below the target level set for MGUC. The more O&M  
11 costs are reduced, the higher the payout for which employees may be eligible. This  
12 metric benefits customers, because all else being equal, lowering O&M expenses will  
13 reduce the amount of costs to be recovered in future rate cases.

14

15 To the extent any O&M savings are permanent, the result will be lower rates for  
16 MGUC customers for years to come.

17

18 **Q. How does the Employee Safety metric benefit customers?**

19 A. The Employee Safety metric benefits customers by reducing costs and inefficiencies  
20 associated with on-the-job accidents. The focus on employee safety is part of a  
21 larger effort to create a "Safety Culture" in which all aspects of safety, public safety,  
22 customer safety, as well as employee safety, become a daily part of what we do.

23 The Pay-at-Risk compensation metric is designed to encourage the reduction in the  
24 number of DART incidents by MGUC employees and improve the overall culture of  
25 safety through adherence to the Safety Business Plan. Moreover, safer employees  
26 are more motivated and efficient than those who operate in a less safe environment.

27 Thus, by encouraging increased safety for employees, this metric leads to more

1 efficiency and lower costs, which are a direct benefit to customers.

2

3 **Q. How does the Customer Performance Index metric benefit customers?**

4 A. The Customer Performance Index metric benefits customers by encouraging MGUC  
5 employees to improve the Company's performance with respect to customer  
6 communications, customer service, and field service. This metric is designed to  
7 ensure that MGUC customers receive an ever-improving level of high-quality service  
8 in all aspects of MGUC's delivery of natural gas to their homes and businesses.  
9 Customers of MGUC benefit from this metric because it ensures that they continue to  
10 receive high-quality service from MGUC employees and encourages further  
11 improvements in that service quality.

12

13 **Q. How does the Reliability metric benefit customers?**

14 A. The Reliability metric benefits customers by removing older meters that test over 2%  
15 fast and therefore require customer refunds. Further reducing the number of  
16 defective meter valve shut-offs, thereby enabling quick and efficient response time to  
17 the need for shut-offs, both emergency and non-emergency. Quick and efficient  
18 shut-off response benefits customers of MGUC by increasing their level of safety.

19

20 **Q. Do you anticipate any additional changes to the Pay-at-Risk plan for the 2016  
21 projected test year?**

22 A. No, I do not. For the 2016 projected test year our focus will likely continue to be on  
23 the four measures described above, although targets will be adjusted annually.

24

25 **Q. Do you propose that MGUC recover in rates the costs of the Integrys IBS &  
26 Regulated Non-Executive Incentive Plan in their entirety?**

27 A. Yes, we do.

1

2 **Q. On what basis do you propose that MGUC recover in rates the costs of the**  
3 **Integritys 2015 IBS & Regulated Non-Executive Incentive Plan?**

4 A. As described above, the Integritys 2015 IBS & Regulated Non-Executive Incentive  
5 Plan contains measures designed exclusively to provide benefits to customers by  
6 encouraging the achievement of operational goals focused on maintaining or  
7 reducing costs and improving reliability and service. The Integritys 2015 IBS &  
8 Regulated Non-Executive Incentive Plan aligns non-executive employee  
9 performance with customer interests.

10

11 **Q. Have other MGUC utility affiliates been granted recovery of Pay-at-Risk costs?**

12 A. Yes, they have.

13

14 In Docket Number G-007,011/GR-10-977, MGUC affiliate Minnesota Energy  
15 Resources Corporation was granted 100% recovery of Non-Executive Pay-at-Risk  
16 costs, and 30% recovery of Executive Pay-at-Risk costs.

17

18 In Docket Number G-011/GR-13-617, MGUC affiliate Minnesota Energy Resources  
19 Corporation was granted 100% recovery of Non-Executive Pay-at-Risk costs, and  
20 15% recovery of Executive Pay-at-Risk costs.

21

22 In Docket Number 14-0224/14-0225 (Consol.), MGUC affiliates The Peoples Gas  
23 Light and Coke Company and North Shore Gas Company in Illinois were granted  
24 100% recovery of Non-Executive Pay-at-Risk costs, and approximately 15%  
25 recovery of Executive Pay-at-Risk costs.

26

27 **Q. Do you have any further comments on the recovery of the Pay-at-Risk**

1 **component of total cash compensation?**

2 A. Yes, I do. MGUC's total cash compensation costs are targeted to the energy  
3 industry and the general industry market median rates. These are prudent  
4 expenditures that allow MGUC to continue customer-expected service levels and to  
5 maintain competitive rates. If MGUC implemented a more fixed-expense basis for  
6 compensation in the form of increased base salaries, it would put the Company at a  
7 disadvantage in a market where Pay-at-Risk programs are prevalent, and negatively  
8 impact our ability to attract and retain the quality workforce needed to deliver high  
9 levels of customer service without any benefit to the customer.

10

11 **Q. In light of the approvals granted in Case No. U-17682 and the impending**  
12 **merger of Wisconsin Energy Corporation ("WEC") and Integrys to be**  
13 **completed in 2015, do you anticipate that the substance of your testimony or**  
14 **sponsored exhibits will need to be modified to reflect the change in MGUC's**  
15 **control from Integrys to WEC?**

16 A. No, I do not at this time. With the merger of Integrys into WEC and WEC taking  
17 control of MGUC, with the exceptions of IBS changing its name to WEC Business  
18 Support LLC., ("WBS"), we expect business as usual, with no significant immediate  
19 changes.

20

21 **Q. Does this conclude your pre-filed direct testimony?**

22 A. Yes, it does.

1/1/15

# **INTEGRYS**

**2015**

## **IBS & Regulated Non-Executive Incentive Plan**

Update 12/16/14

## **EFFECTIVE DATE**

The 2015 IBS & Regulated Non-Executive Incentive Plan (the “Plan”), shall become effective on January 1, 2015. The Plan shall operate on the basis of a plan year that will begin on January 1, 2015 and will end on December 31, 2015 (the “Plan Year”).

## **ADDITIONAL DEFINITIONS**

**CEO**: The Chief Executive Officer of the Company.

**Company**: Integrys Energy Group, Inc.

**Disability**: The interruption of an employee’s active service has as a result of the employee becoming totally disabled (as defined in the Company’s or Participating Subsidiary’s long-term disability plan applicable to the employee).

**Participating Subsidiary**: Integrys Business Support LLC (IBS), Minnesota Energy Resources Corporation (MER), Michigan Gas Utilities, Inc. (MGU), North Shore Gas Company (NSG), the Peoples Gas Light & Coke Company (PGL), Upper Peninsula Power Company (UPPCO), Wisconsin Public Service Corporation (WPS) and any other corporation or entity designated by the CEO for participation in the Plan.

**Payroll Year**: The payroll year that is associated with the Plan Year and that is used to determine eligible Pay for payout calculations. The 2015 Payroll Year runs from December 21, 2014 through December 19, 2015.

**Retirement**: Termination of a Participant’s service with the Company and its Affiliates, if one or more of the following conditions is satisfied:

- (a) the termination occurs on or after the Participant's attainment of age sixty-two (62),
- (b) the termination occurs on or after the Participant's attainment of age fifty-five (55) and completion of at least ten (10) years of vesting service (as defined in the 401(k) plan that is applicable to the participant), or
- (c) in the case of a Participant who is covered under a defined benefit pension plan maintained by the Company or an Affiliate, the termination qualifies the Participant for retirement (as opposed to vested termination) benefits under such defined benefit pension plan.

**Subsidiary**: A direct or indirect subsidiary of the Company whose operating results are consolidated with the Company for tax and accounting purposes.

## PURPOSE

The Plan provides eligible employees of the Company and the Participating Subsidiaries with an opportunity to receive cash short term incentive compensation based upon the achievement of short-term goals that support the Company and its Subsidiaries. The purpose of the Plan is to focus eligible employees on, among other items, reducing the costs of operations, improving reliability to customers, and supporting an emphasis on safety in all we do. Payouts will be based on Plan Year performance results, except as otherwise provided herein.

## ELIGIBILITY TO PARTICIPATE

- a. *In General.* Eligibility is limited to employees who are classified by the Company or a Participating Subsidiary as active regular administrative full-time or part-time employees. Eligibility is limited to the period of time during the Plan Year that the employee is employed in an eligible classification. Employees of non-regulated Subsidiaries are not eligible to participate in the Plan. Further, employees who participate in another short-term incentive plan maintained by the Company or a Subsidiary (other than a plan that compensates the employee on a commission basis) are not eligible to participate in this Plan with respect to the portion of the Plan Year for which the employee is also covered under such other plan.
- b. *Excluded Employees.* Employees who are (1) covered by a collective bargaining agreement, (2) assigned by the Company or a Participating Subsidiary to a limited term or temporary status (e.g. limited-term employees), and (3) persons who provide services to the Company or a Subsidiary but who are classified as non-employee service providers (e.g. contractors and consultants) are not eligible for the Plan. If a person who has been classified as a non-employee service provider is reclassified during the Plan Year as an employee who is otherwise eligible to participate in the Plan, such reclassification will for purposes of this Plan apply on a prospective basis only from the date on which the Company or Participating Subsidiary adopts such reclassification, regardless of the fact that the reclassification might have a retroactive effective date for other purposes.
- c. *Employees Becoming Eligible After First Day of Plan Year.* Any employee who first becomes eligible and is added to the Plan after the start of the Plan Year will be eligible to participate with respect to that Plan Year, but any payout under the Plan will be based solely on the employee's Pay during the portion of the Payroll Year (as defined below) for which the employee was employed in an eligible classification.
- d. *Employment Transfers.* If an employee transfers during the Plan Year from employment covered by a collective bargaining agreement to employment in a regular position eligible for participation in the Plan, or vice versa, the employee will be eligible to participate with respect to that Plan Year, but any payout under the

Plan will be based on the employee's Pay during the portion of the Payroll Year for which the employee was employed in an eligible classification.

- e. *Participation Does Not Guarantee Plan Pay-Out.* Except as provided in the Employment Termination section below, employees must be actively employed by the Company or Subsidiary through December 31 of the Plan Year to be eligible for a payout under the Plan with respect to that Plan Year. Those who are not actively employed through December 31 of the Plan Year for reasons other than Retirement, Disability, approved leave of absence or death, will not be eligible to receive a payout from the Plan. An employee does not earn a right to a Plan payment (whether on a pro rata basis or otherwise) based upon length of service or mere completion of service during the Plan Year. Rather, a payout is earned based upon the achievement by the Company, applicable Participating Subsidiary (or other business unit) of pre-determined performance measures measured over the course of the entire Plan Year as a result of the efforts of eligible employees who contribute toward the achievement of such measures. An employee's participation in the Plan, and the opportunity to earn a payout in accordance with the terms and conditions of the Plan, does not represent an unequivocal promise on the part of the Company or a Participating Subsidiary to pay incentive compensation other than to the extent that applicable performance measures have been satisfied and the employee satisfies the eligibility conditions specified herein.
- f. *Employees Covered Under Pay Protection Policy.* Eligible Plan participants who during the Plan Year change employment status from one eligible status to another eligible status but qualify to participate in the current Integrys Pay Protection policy will be eligible to participate (1) at the annual incentive percentage target level payout that has been assigned to their prior, higher pay grade with respect to eligible employment during the portion of the Plan Year that is prior to the Change in Status Date and (2) at the annual incentive percentage target level payout that has been assigned to their new, lower pay grade with respect to eligible employment during the portion of the Plan Year that is on or after the Change in Status Date.

## **TRANSACTIONS AFFECTING THE PARTICIPATING SUBSIDIARIES**

When evaluating performance during the Plan Year, the performance of Participating Subsidiary, to the extent that the performance of such Participating Subsidiary is relevant to the performance measure, for the entire Plan Year shall be included. In the event that any such Participating Subsidiary is sold or otherwise divested during the Plan Year, the target metric and actual performance for such Participating Subsidiary will include the full period prior to such sale or divestiture and thereafter performance of such Participating Subsidiary will be excluded. Unless the CEO determines otherwise, in the event of an acquisition of a new Participating Subsidiary or other corporate transaction involving the acquisition of a business (or business

operations) by the Company or a Subsidiary, performance related to such acquired business shall not be considered when evaluating performance for the Plan Year. As such, when evaluating IBS performance during the year, the respective weighting percentages assigned to each Participating Subsidiary (under Plan Performance Measures) shall be adjusted as necessary, consistent with the language above.

## **EMPLOYMENT TERMINATION AND ABSENCES DURING PLAN YEAR**

- a. *In General.* Termination of employment at any time during the Plan Year (other than termination on account of Retirement, death, or because the employee left the company in good standing at the end of a “Regular with an end date” assignment) will disqualify the employee from receiving a payout from the Plan.
- b. *Disability or Approved Leave of Absence.* Absence from active employment during the Plan Year on account of Disability or approved unpaid leave of absence will not disqualify the employee from receiving a payout of any award that has otherwise been earned, but the amount payable to or on behalf of the employee will be based upon the employee’s Pay that is recognized for purposes of the Plan.
- c. *Retirement, Death or Regular With an End Date Assignments.* Similarly, if termination of employment occurs during the Plan Year due to Retirement, death, or because the employee left employment with the Company or Participating Subsidiary in good standing at the end of a “regular with an end date” assignment, the employee will receive a payout of any award that has otherwise been earned, but the amount payable to or on behalf of the employee will be based upon the employee’s Pay during the employee’s period of active service during the year.
- d. *Eligible Pay.* In all cases, eligibility for any earned payout is based upon the employee’s Pay during the portion of the Payroll Year for which the employee was employed in an eligible classification.
- e. *Timing of Payout for Employees Not Actively Employed Throughout Plan Year.*

Any earned Plan payout to or on behalf of an employee who terminated employment during the Plan Year on account of Retirement, death, or because the employee left employment with the Company or Participating Subsidiary in good standing at the end of a “regular with an end date” assignment, or who is absent from active service on account of Disability or an approved unpaid leave of absence, will be paid at the same time as payment is made to active employees whose employment with the Company or a Participating Subsidiary has continued. In the event of an employee’s death, any earned Plan payout will be distributed at such time in a lump sum to the employee’s estate.

## DEFINITION OF PAY

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

## PLAN PERFORMANCE MEASURES

- a) *Employees May Be Covered Under Multiple Plan Performance Measures.* Plan payouts will be based on the various operational performance measures. Each performance measure is weighted, representing a proportional share of the potential payout.
- b) *Threshold, Target and Superior Performance Levels.* No payout will be made with respect to a particular performance measure if performance with respect to that measure does not exceed the threshold level of performance. To receive a target award for a measure, the target performance goal level must be attained. To receive a superior award for a measure, the superior performance goal level must be attained. For performance that exceeds threshold but is less than target or greater than target but less than superior, the payout amount will be pro-rated. IBS will share outcomes of the regulated utility Subsidiaries on a prorated basis as related to Customer Satisfaction, Employee Safety and the various reliability measures. The respective weighting percentages by Participating Subsidiary for the Plan Year are: MER 4.40%, MGU 3.61%, NSG 5.39%, PGL 38.83%, and WPS 47.77%. These weightings will be used to calculate IBS payouts.

c) *Determination of Plan Performance Measures Applicable to Each Eligible Employee.*

General descriptions of the performance measures to be utilized in determining payouts for the Plan Year are set forth below. Not every performance measure applies with respect to each Participating Subsidiary or each eligible employee, nor will the weightings applied with respect to a performance measure necessarily be the same between Participating Subsidiaries or between employee groups who are employed at the Company or at a particular Participating Subsidiary. In addition, the performance measures can be specific to a group, and may include measures as approved by the CEO.

## **OPERATIONAL MEASURES**

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

The annual forecasted ***Combined Utility and IBS FERC-based non-fuel Operation and Maintenance (O&M) expense – Adjusted before Annual Incentives*** is determined based upon the combined Utility and IBS FERC-based non-fuel O&M included in the budget accepted by the Integrys Board of Directors on December 10, 2014 adjusted for:

- (1) Budgeted annual incentive plan compensation expense, expected to be accrued at target-level performance related to the executive and non-executive annual incentive compensation plans for employees of IBS and the Regulated Utilities,
- (2) Amounts recorded for (a) costs recovered directly through regulatory trackers such as bad debt, demand side management, energy efficiency programs, and manufactured gas plant clean up, (b) electric transmission (wheeling) costs, and (c) bad debt expense not recovered through trackers.
- (3) The performance levels required to achieve threshold, target, and maximum payout levels for performance on Combined Utility and IBS FERC-based non-fuel Operations and Maintenance (O&M) expense-Adjusted Before Annual Incentives are attached in Appendix A hereto.

The ***Calculated Combined Utility and IBS FERC-based non-fuel Operation and Maintenance expense – Adjusted Before Annual Incentives*** used to determine if desired performance has been achieved will be calculated based upon the combined Utility and IBS FERC-based non-fuel O&M included in the final 2015 audited financial results for Integrys Energy Group, Inc. adjusted for:

- (1) Incentive plan compensation expense included in the actual results related to the executive and non-executive annual incentive compensation plan for employees of IBS and the Regulated Utilities,

- (2) Where applicable to O&M, the pre-tax impact of adjustments reflected in Integrys Energy Group's 2015 EPS-Adjusted as reported in the Company's earnings release for fiscal year 2015, and
- (3) Amounts recorded for (a) costs recovered directly through regulatory trackers such as bad debt, demand side management, energy efficiency programs, and manufactured gas plant clean up, (b) electric transmission (wheeling) costs, and (c) bad debt expense not recovered through trackers, and
- (4) Budget to actual variances for costs related to various long term equity-based incentive compensation arrangements for plan participants who are employees of IBS and the Regulated Utilities (in order to avoid incentive arrangements that would reward employees under the annual incentive plan for a declining stock price, etc.).

### **Customer Performance Index**

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

The Customer Performance Index (CPI) will be calculated as an equal-weighting (1/3rd each) of these component measures. The incentive measure will be the annual CPI for all Integrys utilities, combined, where the customer survey responses for all utilities are used calculate each component measure and the CPI

### **Employee Safety**

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

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

The DART Incident Rate refers to those incidents that result in days-away, restricted-duty, or job transfer. The rate is calculated by multiplying the number of qualified DART *incidents* over a given period of time by 200,000. That total is subsequently divided by the number of total hours worked by the identified business unit to obtain the final rate. An injury or illness is considered a DART Incident if it meets standard criteria set by Occupational Safety and Health Administration (OSHA) regulations. For purposes of determining plan results for 2015, the rate will be measured over a calendar year basis.

The DART Incident Rates are further analyzed against viable industry benchmarks, and final targets are reviewed and approved by business unit management to promote consistency and improvement. Regulated utility subsidiaries – measure will rely on the individual metrics of MER, MGU, NSG, PGL, UPPCO and WPS. IBS employees will use each utility's score as a portion of their score, weighted to reflect the ratio of IBS costs allocated to the utility.

**VARIABLE OPERATIONS RELIABILITY MEASURES (see below)** IBS employees will use each utility's score as a portion of their score, weighted to reflect the ratio of IBS costs allocated to the utility.

### **WPS - System Reliability**

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

The electric system measurement is the annual System Average Interruption Duration Index (SAIDI), excluding major event days as defined by the IEEE (Institute of Electrical and Electronics Engineers) Standard 1366-2003. The SAIDI is the cumulative customer minutes of outage, on average, per customer served per year. It excludes the customer minutes of outage due to major event days such as large storms, and includes the customer minutes of outage due to events originating on the transmission, substation, and distribution systems. The 2015 incentive levels of threshold, target and superior are determined by the historical average annual SAIDI values.

The gas system component measure is based on the percentage of customer and public odor complaints with employee response times less than or equal to 60 minutes. The incentive levels of threshold, target, and superior are based on industry benchmark data supplied by the American Gas Association.

### **PGL - Reduction in Class 2 System Leaks**

A Class 2 leak is a gas leak that is recognized as being non-hazardous at the time of detection, but justifies more frequent monitoring and scheduled repair based on probable future hazard. Proper management of Class 2 gas leaks will reduce exposure to risk. There would also be

some cost savings through the reduction in frequency of future required leak rechecks. The metric for this measure will be based on the percentage of Class 2 gas leaks pending repair as a ratio to the total number of Class 2 and Class 3 pending repair. A Class 3 leak is one that is nonhazardous at the time of detection and can be reasonably expected to remain non-hazardous.

### **NSG - Reduction in Total Leaks**

Leaks not requiring immediate action are recognized as being non-hazardous at the time of detection. However these non-hazardous leaks require frequent monitoring and scheduled repair based on probable future hazard. Reducing the total number of non-hazardous leaks pending reduces the risk of leak migration between rechecks and improves overall system safety. There is also cost savings when expediently repairing leaks through the reduction in the number of rechecks required to be performed. The metric is the number of days to repair non-hazardous leaks. This metric is monitored monthly.

### **NSG, PGL - Reduction in 2<sup>nd</sup> and 3<sup>rd</sup> Party Damages**

Damage prevention is an operational measure with a significant safety component and will be critical for development of a strong distribution integrity management program. Elimination of third party damages is a major initiative across the natural gas industry. Reducing damages by others to company gas facilities improves safety for our own employees as well as for the general public and avoids outages to our customers. The metric for this measure will be based on the total number of excavation damages caused by second parties (company contractors) and third parties (other excavators) to company-owned facilities per 1,000 locates performed by the company.

### **NSG, PGL - Reduction in Damages caused by Company Crews**

Installing and maintaining natural gas facilities requires company crews to work in close proximity to other utilities. Performing this work safely is essential to ensure employee and customer safety. This can be achieved by proper jobsite preparedness and safe excavation practices. Cost savings can also be achieved through reduced claim expenses. The metric for this measure will be the number of damages caused by company crews to other utilities, below and above ground, as well as to company facilities.

### **MER - Meter Set Remediation**

This multi-year metric is based on meter set remediation as identified in MERC's meter set surveys. For 2015 the measure will focus on "Reliability" – meter set remediation to correct active atmospheric corrosion; in 2014 the measure focused on risers in hard surfaces. The remediation targets are number of meter sets remediated based on budget and resources.

**MGU - Meter Accuracy Improvement**

This metric is based on improving overall meter accuracy by focusing on removal of meters that test over 2% fast, requiring a customer refund. The objective is to replace the worst performing meter lots in order to reduce customer billing adjustments and to address a Public Service Commission priority. Focus will be specifically on American AI-225 meters (1984 and older with higher priority).

**MGU - Meter Valve Remediation**

This metric is based on improving performance of defective meter shut-off valve corrections. The objective is to reduce the number of outstanding broken, buried, and built over meter shut-off valves. Completion goal is the percent corrections of all identified defective shut-offs found in 2014 and prior.

**WPS - Market Effectiveness Measure**

The WPS Market Effectiveness measure is based on the energy price weighted availability of all WPS's generation facilities, the comparison of what WPS electric generation earns in 2014 versus what it could have earned if all units had been available 100% as needed.

**DOCUMENTED POOR PERFORMANCE**

The President of the Company or of a Participating Subsidiary (or, if there is no President of a Participating Subsidiary, the highest ranking officer of the Participating Subsidiary) shall have discretion to determine that an eligible employee of the Company or applicable Participating Subsidiary is ineligible in total or in part for a Plan payout if the employee has earned less than a "fully successful" performance evaluation rating for the Plan Year or is otherwise being counseled concerning documented insufficient performance. This is the only circumstance in which an amount that would otherwise be payable as a result of the achievement of performance objectives might not be paid assuming employment continues through the end of the Plan Year.

**PLAN PAYOUTS**

Following the close of the Plan Year and after the audited financial results are available, the CEO will certify the extent to which the performance measures have been satisfied and will authorize Plan payouts. Payouts, less tax and other authorized withholdings, will be paid no later than March 15<sup>th</sup> of the year following the Plan Year in which the payout was earned.

An employee who during the Plan Year changes employment status from one regular eligible status or position to another regular eligible status or position, other than a change that the Company or applicable Participating Subsidiary determines to be short-term or temporary

assignment that does not represent a long-term change in the employee's regular role, will be subject, with respect to employment on or after the date the change in employment status is reflected in the PeopleSoft System (the "Change in Status Date"), to the Plan payout target and/or incentive measures applicable to the employment status into which the employee has transferred. Any payout applicable to eligible employment during the Plan Year prior to the Change in Status Date will be based upon the employee's payout targets and/or incentive measures applicable to the employee prior to the Change in Status Date and the employee's pay prior to the Change in Status Date. Any payment applicable to eligible employment during the Plan Year but on or after the Change in Status Date will be based upon the employee's payout target and/or incentive measures applicable to the employee on or after the Change in Status Date and the employee's Pay on or after the Change in Status Date. In the case of a regular employee who during the Plan Year changes employment status from a regular eligible status and position to a Developmental position, the foregoing rules will apply, except that with respect to employment on or after the Change in Status Date, the employee will retain the Plan payout target applicable to the employee's original regular eligible status and position but any incentive payout to the employee will be determined under the Plan incentive measures of the Developmental position organization. Legacy short-term or other temporary assignments (as determined by the Company or applicable Participating Subsidiary) will not change the incentive plan or level that an employee is assigned to. The employee will remain in his or her regular role for payout calculation purposes.

## **NO BENEFIT OR EMPLOYMENT RIGHTS**

Nothing in this Plan shall:

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

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

## **ADMINISTRATION**

The Compensation Committee of the Board of Directors has delegated to the CEO its authority and responsibility with respect to the Plan. Accordingly, the CEO is authorized to 1) interpret and apply the Plan's terms and conditions, 2) determine who will participate in the Plan and the level of participation, and 3) approve, within the first 90 days of the Plan Year, the performance measures that are applicable to a covered employee's participation. The CEO's authority does not include the authority to 1) modify the performance measures once initially established and approved within the first 90 days of the Plan Year, or 2) to adjust payout amounts that have been earned under the Plan provisions.