

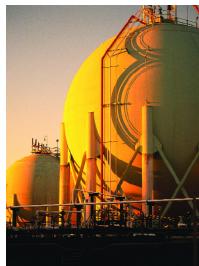
Statistical Procurement Program Update

Spring 2013



Integrys Energy Services' Statistical Procurement Program offers your business a world-class analytical risk management tool that takes the emotion and subjectivity out of buying your energy.

MARKET INSIGHT



Welcome to the Spring 2013 edition of the Statistical Procurement Program Update. This semi-annual newsletter provides an update on program activity and focuses on factors influencing the natural gas market. The Energy Information Administration (EIA)'s Annual Energy Outlook 2013 features future projections on topics such as demand, production, and pricing.

After a long recession the economy is finally showing signs of gaining steam, which should help support industrial growth. Natural gas consumption in the industrial sector is higher in the 2013 *Outlook* due to the rejuvenation of this sector—which benefits from surging shale gas production that is accompanied by slow price growth. This is anticipated particularly from 2011 through 2019, when the price of natural gas is predicted to remain below 2010 levels. Natural gas use in the industrial sector is expected to increase by 16 percent, from 6.8 trillion cubic feet per year in 2011 to 7.8 trillion cubic feet per year in 2025. This would represent about 30 to 33 percent of all the natural gas consumed in the U.S.

Electric generation from natural gas should grow by 42 percent from 2010 to 2035 according to the 2013 *Outlook*, and its share of total generation increases from 24 percent in 2010 to 28 percent in 2035. A portion of the growth projected is attributable to the retirement of 49 gigawatts of coal-fired capacity by 2022. The relatively low cost of natural gas makes the dispatching of existing natural gas plants more competitive with coal plants and, in combination with relatively low capital costs, makes natural gas the primary choice to fuel new generation capacity. Coal remains the dominant fuel for electricity generation, but its share declines significantly.

Natural gas consumption is expected to increase nearly 21% between 2011 and 2040, according to the 2013 *Outlook*. It reaches new markets, such as exports, as a fuel for heavy-duty freight transportation (trucking), and as a feedstock for producing diesel and other fuels.

Production of dry natural gas from 2011 through 2035 in the 2013 *Outlook* is about 8 percent higher than in the 2012 *Outlook*, primarily reflecting continued increases in shale gas production that result from the dual application of horizontal drilling and hydraulic fracturing. U.S. dry natural gas production increases throughout the projection period, outpacing domestic consumption by 2020 and spurring net exports of natural gas. U.S. exports of LNG from domestic sources rise to almost double 2012 *Outlook* projection. In the 2013 *Outlook*, the United States would

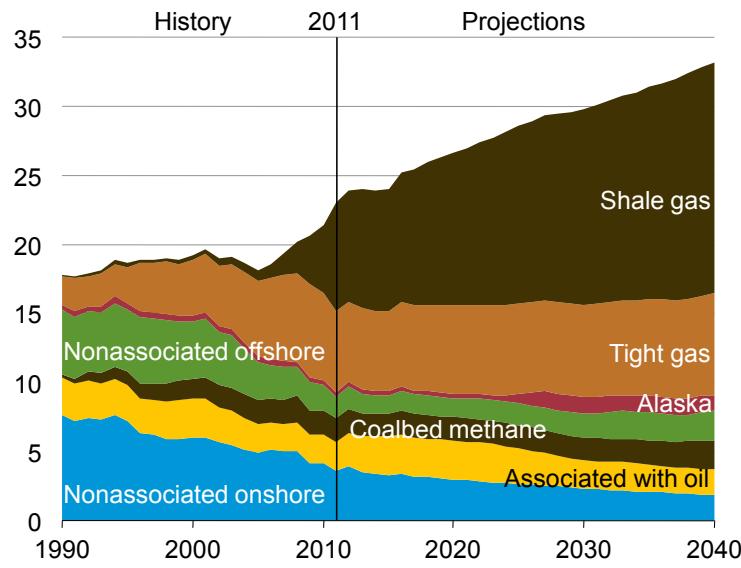
<<World-class Analytical Risk Management Tool Takes Emotion and Subjectivity out of Buying Energy>>

become a net exporter of LNG starting in 2016, and an overall net exporter of natural gas in 2020—two years earlier than in the 2012 *Outlook*.

With increasing natural gas production, reflecting continued success in tapping the nation's extensive shale gas resource, Henry Hub spot natural gas prices are projected to remain below \$4 per million Btu (2011 dollars) through 2018 in the 2013 *Outlook*. The resilience of drilling activity, despite low natural gas prices, is in part a result of high crude oil prices, which significantly improve the economics of natural gas plays that have relatively high liquids content. Also contributing to growing production volumes are improved drilling efficiencies, which result in a greater number of wells being drilled more quickly, with fewer rigs and higher initial production rates.

After 2018, natural gas prices are expected to increase steadily as tight gas and shale gas drilling activity expands to meet growing domestic demand for natural gas and offsets declines in natural gas production from other sources. Natural gas prices are anticipated to rise as lower cost resources are depleted and production gradually shifts to less productive and more expensive resources. Henry Hub spot natural gas prices (in 2011 dollars) reach \$5.40 per million Btu in 2030 and \$7.83 per million Btu in 2040, according to the 2013 *Outlook*.

Figure 3. U.S. dry natural gas production by source, 1990-2040 (trillion cubic feet)



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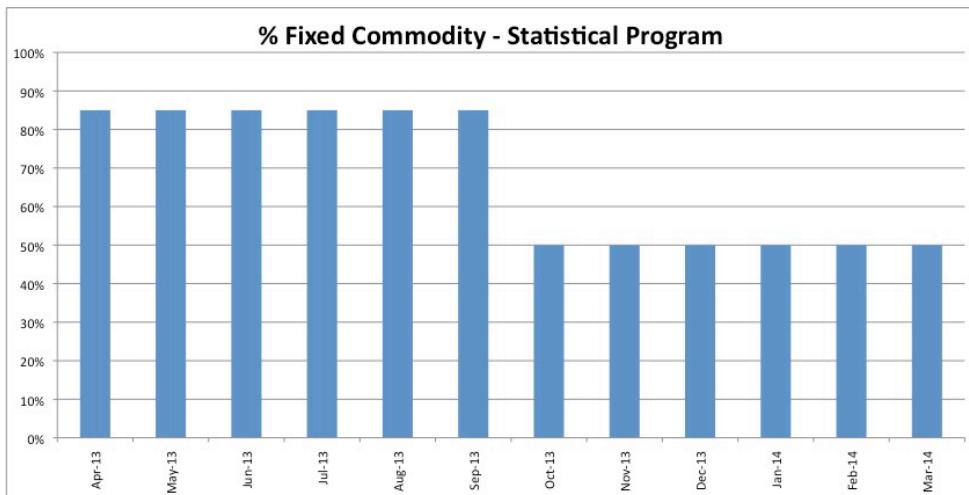
<<More Predictable Energy Costs and a Fully Integrated Natural Gas Solution>>



PROGRAM ACTIVITY

The Statistical Program provides a risk management tool to reduce exposure to market volatility and helps determine when, what amount, and how far ahead you should fix your price for gas. This strategy provides more predictable energy costs and a fully integrated natural gas solution that doesn't require your constant attention.

The graph below indicates the level of coverage Integrys has taken on behalf of the Statistical Program customers.



As of March 2013, Integrys has locked in 85% of forecasted gas usage in the \$3.45 - \$3.75 per dekatherm range for April 2013 – September 2013, while October 2013 – March 2014 is 50% hedged in the \$3.95 - \$4.20 range.

Keep in mind that these purchases only cover the commodity component of your natural gas program price and do not include the transportation (or "basis") component or other monthly and/or daily balancing costs that are included in the city gate delivery price.

Integrys will continue to track and compare the market to historical pricing trends. Using this statistical analysis, our experienced team will acquire predetermined volumes as the model signals either to buy at times of opportunity in the market, or to protect at times of rising or high market prices.

*1 dekatherm = 10 therms

CONTACT US

If you have specific questions, please contact your Account Manager or Account Executive at the following numbers:

ILLINOIS
877-409-9836

MICHIGAN
800-230-1856

OHIO
800-275-4036

WISCONSIN and MINNESOTA
888-367-4403 - option 2



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