



\$50,000,000 – FINAL ISSUANCE AMOUNT – CLOSED 4/18/2013

PAB CONDUIT

\$50,000,000

March 12, 2013

The Peoples Gas Light and Coke Company

REQUEST	<p>Purpose: Bond proceeds will be used by The Peoples Gas Light and Coke Company (“Peoples Gas” or the “Borrower”) for the purpose of refunding \$50,000,000 aggregate principal amount of the Illinois Development Finance Authority, Gas Supply Refunding Revenue Bonds, Series 2003A (the “Prior Bonds”), the proceeds of which were issued to refund \$50,000,000 aggregate principal amount of the City of Chicago, Illinois, Adjustable-Rate Gas Supply Revenue Bonds, 1985 Series A (the “Original Bonds”) which were issued for the purpose of defraying the cost of certain gas supply facilities, designed as “facilities for the local furnishing of electric energy or gas” within the meaning of Section 103(b)(4)(E) of the Internal Revenue Code of 1954, as amended (the “Prior Project”).</p> <p>Program: Exempt Facilities Revenue Bonds (Gas Supply Refunding Revenue Bonds)</p> <p>Extraordinary Conditions: None. (Financing will not use State resources. No Volume Cap will be required.)</p>									
BOARD ACTIONS	<p>Final Bond Resolution</p> <p>Voting Record: No prior vote – this is the first time this financing has been considered by the IFA Board of Directors.</p>									
MATERIAL CHANGES	<p>Not applicable (this is the first time this financing has been presented to the IFA Board of Directors)</p>									
JOB DATA	<table border="0"> <tr> <td>1,265</td> <td>Current jobs</td> <td>N/A</td> <td>New jobs projected (Refunding)</td> </tr> <tr> <td>N/A</td> <td>Retained jobs</td> <td>N/A</td> <td>Construction jobs projected</td> </tr> </table>	1,265	Current jobs	N/A	New jobs projected (Refunding)	N/A	Retained jobs	N/A	Construction jobs projected	
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BORROWER DESCRIPTION	<ul style="list-style-type: none"> ● Type of entity: Private Gas Utility ● Location: Service Area: City of Chicago and certain other distribution facilities located in Illinois ● When established: 1855 ● What does the entity do: Private Natural Gas Company serving the general public ● Who does the entity serve: All natural gas users in the City of Chicago irrespective of their contractual gas supplier ● What will new project facilitate: Current Refund 100% of outstanding balance on prior IFA (IDFA) Series 2003A Bonds. 									
CREDIT INDICATORS	<ul style="list-style-type: none"> ● Rated. Underlying Long-Term Rating of The Peoples Gas Light and Coke Company: A1/A- (Moody’s/S&P) 									
PROPOSED STRUCTURE	<p>Not Enhanced</p> <p>Fixed Rate Bonds: Estimated interest rate range of 3.25% to 3.50% as of 3/5/2013 based on prevailing tax-exempt market rates for Single A rated credits for a 20-year maturity.</p> <p>Maturity: 2/1/2033 (no change in Final Maturity Date from Prior Bonds)</p>									
SOURCES AND USES	<table border="0"> <tr> <td>IFA Bonds: \$50,000,000</td> <td>Refunding Prior Bonds:</td> <td>\$50,000,000</td> </tr> <tr> <td>Estimated</td> <td>Equity: <u>1,000,000</u></td> <td>Costs of Issuance: <u>1,000,000</u></td> </tr> <tr> <td></td> <td>Total \$51,000,000</td> <td>Total \$51,000,000</td> </tr> </table>	IFA Bonds: \$50,000,000	Refunding Prior Bonds:	\$50,000,000	Estimated	Equity: <u>1,000,000</u>	Costs of Issuance: <u>1,000,000</u>		Total \$51,000,000	Total \$51,000,000
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RECOMMENDATION	<p>Credit Review Committee recommends approval.</p>									

**ILLINOIS FINANCE AUTHORITY
BOARD SUMMARY
March 12, 2013**

Project: The Peoples Gas Light and Coke Company

STATISTICS

Project Number: PU-UR-TE-CD-8311	Amount: \$50,000,000 (not-to-exceed amount)
Type: Gas Supply Revenue	
Refunding Bonds (Exempt Facilities Bonds)	IFA Staff: Rich Frampton and Brad Fletcher
Location: Chicago	County/ Region: Cook County/Northeast

BOARD ACTION

Final Bond Resolution (One-Time Consideration)
Conduit Tax-Exempt Gas Supply Refunding Revenue Bonds No IFA funds at risk
Credit Review Committee recommends approval No extraordinary conditions

VOTING RECORD

This is the first time this financing has been presented to the IFA Board for consideration.

PURPOSE

The proposed Bonds will current refund (i.e., refinance) 100% of the outstanding principal balance of IFA (Illinois Development Finance Authority) Series 2003A Gas Supply Revenue Bonds.

IFA PROGRAM AND CONTRIBUTION

The Bonds will be issued as Tax-Exempt Gas Supply Revenue Bonds, a category of Exempt Facilities Bonds under the Internal Revenue Code (within the meaning of Section 103(b)(4)(E) of the Internal Revenue Code of 1954, as amended). These Bonds provide tax-exempt financing for capital improvements for gas supply facilities owned by investor-owned gas utilities that operate in no more than two contiguous counties. (Note: this geographic limitation is specified under the Internal Revenue Code for facilities that provide for the local furnishing of electric energy or gas.) These Bonds will be issued under IFA's general statute, consistent with past practice.

Gas Supply Revenue Bonds finance essential purpose natural gas supply system improvements that improve the quality of life by (1) assuring adequate supply of natural gas delivery to prospective users to facilitate continued economic development, (2) financing access to an improved natural gas supply, and (3) financing ongoing improvements in natural gas delivery safety.

IFA (IDFA) has had a longstanding relationship with The Peoples Gas Light and Coke Company and its North Shore Gas Company affiliate since 1992.

[Aside from the outstanding \$50.0 Million Bond Issue that will be refunded with proceeds of the proposed IFA Series 2013A Refunding Bonds, IFA currently has approximately \$225.0 Million in outstanding principal amount of bonds for The Peoples Gas Light and Coke Company, comprised of 4 bond issues. All of the North Shore Gas Company bond issues have been redeemed.]

VOLUME CAP

None required. Refunding Bonds do not require any Volume Cap.

ESTIMATED SOURCES AND USES OF FUNDS – PRELIMINARY, SUBJECT TO CHANGE

Sources:	IFA Refunding Bonds	\$50,000,000	Uses:	Project Costs	\$50,000,000
	Equity	<u>1,000,000</u>		Costs of Issuance	<u>1,000,000</u>
	Total	<u>\$51,000,000</u>		Total	<u>\$51,000,000</u>

Source of Equity: To the extent the Costs of Issuance exceed the amounts represented above, additional costs of issuance will be paid from available corporate cash resources. As proposed, all costs of issuance will be paid from equity.

JOBS

Current employment:	1,265	Projected new jobs:	Not applicable (Refunding Bonds)
Jobs retained:	Not Applicable	Construction jobs:	Not applicable (Refunding Bonds)

FINANCING SUMMARY

Security: Bonds will be sold based on the underlying rating of **The Peoples Gas Light and Coke Company (“PGL”, “Peoples Gas”, or the “Borrower”)**, a wholly owned subsidiary of **Peoples Energy, LLC (“PELLC”)**, which is in turn a wholly owned subsidiary of **Integrys Energy Group, Inc. (“Integrys”, or the “Parent Company”)**.

Substantially all of PGL’s utility plant is subject to a first mortgage lien:

As a technical matter, concurrent with delivery of the IFA Series 2013A Refunding Bonds, the Company will execute and deliver to the Bond Trustee, a series of its First Mortgage and Refunding Bonds, which shall be in an aggregate principal amount of \$50MM (i.e., in a principal amount equal to the aggregate principal amount). These First Mortgage and Refunding bonds will secure the IFA Series 2013A Bonds (The Peoples Gas Light and Coke Company Project). Payments required to be made pursuant to the IFA Series 2013A Bonds Loan Agreement (including amounts on the associated First Mortgage Bonds) will be sufficient to repay the IFA Series 2013A Bonds.

Additional ownership information on Integrys and Peoples Energy, LLC is described further in this report (see pages 4-6).

Structure: Fixed Rate Bonds to be sold based on the underlying ratings of PGL (see “Ratings” below).

Interest Rate: Bonds will be priced based on market rates in effect at the time of pricing. Estimated market rates ranged Single-A rated municipal bonds with a 20-year maturity ranged between 3.25% and 3.50% as of 3/5/2013 based on applicable market yields as of 3/5/2013.

Maturity: 2/1/2033 (no change in the existing Final Maturity Date on the IFA (IDFA) Series 2003A Bonds)

Estimated

Closing Date: April or May 2013 (Note: closing will be contingent upon the proposed Refunding attaining the Company’s internal fixed interest rate and NPV savings targets.)

Ratings: PGL's Senior Secured Debt (i.e., including debt secured by the Company's First Mortgage Bonds), is rated A1/A- long-term by Moody's/S&P).

Rationale: The purpose of this Refunding will be to refinance the Series 2003A Bonds at a lower fixed interest rate to take advantage of historically favorable market conditions.

PROJECT SUMMARY (FOR IFA FINAL BOND RESOLUTION)

Bond proceeds will be used by **The Peoples Gas Light and Coke Company** ("**Peoples Gas**" or the "**Borrower**") for the purpose of refunding \$50,000,000 aggregate principal amount of the Illinois Development Finance Authority, Gas Supply Refunding Revenue Bonds, Series 2003A (the "**Prior Bonds**"), the proceeds of which were issued to refund \$50,000,000 aggregate principal amount of the City of Chicago, Illinois, Adjustable-Rate Gas Supply Revenue Bonds, 1985 Series A (the "**Original Bonds**") which were issued for the purpose of defraying the cost of certain gas supply facilities, designed as "facilities for the local furnishing of electric energy or gas" within the meaning of Section 103(b)(4)(E) of the Internal Revenue Code of 1954, as amended (the "**Prior Project**").

BUSINESS SUMMARY

Background: **The Peoples Gas Light and Coke Company** ("**PGL**", "**Peoples Gas**", or the "**Borrower**"), is a wholly owned subsidiary of **Peoples Energy, LLC** ("**PELLC**"), which is in turn a wholly owned subsidiary of **Integrus Energy Group, Inc.** ("**Integrus**", or the "**Parent Company**").

PELLC is an intermediate holding company of two gas utilities, Peoples Gas (serving the City of Chicago) and North Shore Gas (serving 54 communities in Cook and Lake Counties). *Peoples Gas and North Shore Gas are legally and fiscally distinct operating subsidiaries of PELLC – each Company has its own stand-alone credit rating and each is regulated by the Illinois Commerce Commission. Accordingly, Peoples Gas and North Shore Gas undertake financings on a stand-alone basis; additionally, their debts are not cross-guaranteed, cross-collateralized, or cross-defaulted.*

PGL's core business is to serve as the natural gas distribution company within the City of Chicago while also serving as the legacy natural gas supplier. PGL uses its storage and pipeline system as a natural gas hub, providing wholesale transportation and storage services to its customers located in the City of Chicago. PGL's customer base includes residential users, commercial and industrial users, and transportation accounts (which represent accounts with natural gas users that purchase their natural gas requirements directly from a supplier other than PGL and use PGL's natural gas distribution system for delivery to their premises).

PGL has approximately 818,000 residential, commercial, and industrial customers located in the City of Chicago according to the Company's website: (see www.peoplesgasdelivery.com/company/about.aspx).

Peoples Gas operates under franchise and license agreements granted by the City of Chicago. Peoples Gas holds a perpetual, nonexclusive franchise from the City of Chicago. Additionally, Peoples Gas is subject to the jurisdiction of and regulation by the Illinois Commerce Commission (the "**ICC**"). The ICC has general supervisory and regulatory powers over practically all phases of Peoples Gas' operations, including rates and charges based on cost structure (i.e., the cost of financing).

IFA (and IDFA) refinanced several series of City of Chicago Bonds in 2003 (5 series totaling \$277.0 Million), in 2005 (1 series totaling \$50.0 Million), and in 2010 (1 series totaling \$50.0 Million). Of these amounts, \$275.0 Million of principal remains outstanding as of February 1, 2013 (inclusive of the bond issue to be refunded).

Additionally, IFA (IDFA) issued \$30.035 Million of Gas Supply Revenue Bonds on behalf of sister company North Shore Gas in 1992 that were current refunded in 1998 (again, North Shore Gas is a stand-alone regulated utility and a stand-alone legal and financial entity). These bonds were redeemed on April 2, 2012.

Payments on all five series of outstanding IFA (IDFA) Bonds issued on behalf of Peoples Gas have been current since the date of issuance.

Background on
Parent

Companies: Integrys was formed by the merger of WPS Resources Corp. (parent company of Wisconsin Public Service Corporation and several other gas and electric power utilities in Michigan and Minnesota) and Peoples Energy, LLC (and its Peoples Gas and North Shore Gas operating subsidiaries) in February 2007. Effective with the closing of the merger, WPS Resources changed its name to Integrys Energy Group, Inc.

Integrys is a publicly traded company (**NYSE Ticker: "TEG"**) – see Economic Disclosure Statement for additional information (see pp. 5-6 below).

ICC Regulation: PGL operates under franchise and license agreements granted by the City of Chicago.

PGL is subject to the jurisdiction of and regulation by the **Illinois Commerce Commission ("ICC")**. The ICC has general supervisory and regulatory powers over practically all phases of the public utility business in Illinois.

The ICC has jurisdiction with respect to rates, service, accounting procedures, acquisitions, financial leverage, and other matters.

An ICC order is needed for the proposed IFA Series 2013A Gas Supply Revenue Refunding Bonds. Peoples Gas submitted an informational statement to the ICC on January 29, 2013 with a request for an order by March 6, 2013. The ICC approval would apply to the proposed Refunding Bonds, taking into account the interest of the ratepayers. (Because the purpose of this refunding is to enable Peoples to fix at a historically low fixed rate, this refunding issue is expected to reduce interest expense based on current market conditions.)

ECONOMIC DISCLOSURE STATEMENT

Applicant/Signatory: The Peoples Gas Light and Coke Company (Contact: Mr. William J. Guc, Treasurer, Integrys Energy Group, Inc., 130 East Randolph Street, 18th Floor, Chicago, IL 60601; Direct: 920-433-2639; E-mail: wjguc@integrysgroup.com)

Project Contact: Tchapo Napoe, CFA; Manager Corporate Finance, Integrys Energy Group, Inc., 130 East Randolph Street, 18th Floor, Chicago, IL 60601; Direct: 312-240-3718; E-mail: tnapoe@integrysgroup.com

Web Sites: Peoples Gas: www.peoplesgasdelivery.com
Integrys Energy (Holding Company): www.integrysgroup.com

Project name: IFA Series 2013A Gas Supply Facilities Revenue Bonds (The Peoples Gas Light and Coke Company Project)

Location: City of Chicago

Land Owner: The principal plants and properties of The Peoples Gas Light and Coke Company, other than pipelines, meters, and regulators, are located on property owned in fee simple interest. Substantially all natural gas pipes and pipelines are located under public rights-of-way (i.e., public streets, alleys, and highways), or under property owned by others under leases, easements, or permits.

	<i>The Peoples Gas Light and Coke Company (Borrower)</i>	<i>Peoples Energy, LLC (100% Owner of PGL)</i>	<i>Integrys Energy Group, Inc. (Holding company)</i>
Organization:	Corporation	Corporation	Corporation
State:	Illinois	Delaware	Illinois

Ownership: The Peoples Gas Light and Coke Company is a wholly-owned subsidiary of Peoples Energy, LLC, which is turn a wholly owned subsidiary of Integrys Energy Group, Inc. (a Chicago-based public company: NYSE ticker is “TEG”).

As of 9/29/2012, there were three institutional shareholders holding more than 5.0% of Integrys’ stock:

- State Street Corporation, One Lincoln Street, Boston, MA 02111.
- The Vanguard Group, Inc., 100 Vanguard Blvd., Malvern, PA 19355.
- Black Rock, Inc., 40 East 52nd Street, New York, NY 10022.

Accordingly, no further disclosure of underlying shareholders is required pursuant to IFA Board Policy.

PROFESSIONAL & FINANCIAL

Borrower’s Counsel:	Foley & Lardner LLP	Milwaukee, WI	Peter D. Fetzter
Auditor:	Deloitte & Touche LLP	Milwaukee, WI	
Bond Counsel:	Chapman and Cutler LLP	Chicago, IL	Rick Cosgrove, Juliet Huang
Underwriter/Senior Manager:	KeyBanc Capital Markets, Inc.	Chicago, IL/ Indianapolis, IN	Jason Fenwick
Co-Managers:	Cabrera Capital Markets, LLC	Chicago, IL	Robert Aguilar, Santino Bibbo
	Samuel A. Ramirez & Co., Inc.	Chicago, IL	Philip Culpepper
Underwriter’s Counsel:	Squire Sanders & Dempsey	New York, NY	Ed Sinick
Bond Trustee:	The Bank of New York Mellon	Chicago, IL	Merci Stahl
First Mortgage Trustee:	US Bank National Association	Chicago, IL	Grace Gorka
Rating Agencies:	Moody’s Investors Service	New York, NY	
	Standard & Poor’s Rating Service	New York, NY	
Issuer’s Counsel:	Schiff Hardin LLP	Chicago, IL	Bruce Weisenthal, Victoria Pool
IFA Financial Advisor:	Acacia Financial Group, Inc.	Chicago, IL	Courtney Shea

LEGISLATIVE DISTRICTS

	<u>City of Chicago – All Districts</u>
Congressional:	1-5, 7, 9
State Senate:	1-18, 20, 33, 39
State House:	1-16, 18-23, 25-36, 39-40, 65, 77, 78
