



THE INVESTOR'S VOICE

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TABLE OF CONTENTS

2009 Legislative Session Will Be Challenging For Investors 1

Schrock Named President & CEO Of Integrys Energy Group 2

Wisconsin Power And Light Considers Options After PSCW Rejection Of Cassville Plant 2

Wisconsin Energy To Raise Quarterly Dividend In 2009 3

Wisconsin Public Service And enXco Close Wind Farm Deal 3

Stolper Elected To Madison Gas & Electric & MGE Energy Boards 3

Madison Gas & Electric Increased Wind Capacity By 12 Times In 2008 3

Innovative Biomass Project To Begin Regulatory Review Process 4

WUI Extends Best Wishes For 2009 4

2009 LEGISLATIVE SESSION WILL BE CHALLENGING FOR INVESTORS



With the state facing a \$5 billion deficit, and both houses of the legislature and the Governor's office controlled by Democrats, Wisconsin businesses, including the state's utilities and their investors, will be facing one of the most challenging legislative sessions in decades. With the weakened economy, the strong possibility of new "stimulus" spending combined with increased fees and taxes and punishing environmental legislation, investors must be on guard as never before. This is happening at a time when the Public Service Commission of Wisconsin

continues to squeeze utility rates-of-return. Compounding the situation is the prospect of less sympathetic business policies at the federal level including further tightening of environmental controls and the threat to investors of higher taxes on dividends and capital gains.

The State's budget debate will begin with the introduction of Governor Doyle's budget in February. The Legislature's Joint Finance Committee is charged with developing the initial, and most important, legislative version following the Governor's budget submission. Since Democrats hold a 12-4 committee majority, it will be a budget dominated with Democratic policy items. Most observers expect that even before the new budget is presented, the Governor and legislative leaders will propose a "stimulus package" including new taxes and fees to help fill the \$5 billion budget hole and possibly a "budget repair" bill to address the deficit expected by the close of this fiscal year on June 30, 2009.

The Legislature is expected to revisit many tax and fee initiatives which were passed in the Senate last session but ultimately failed to be included in the final budget deal. These include an oil company gross receipts tax, a hospital assessment, and combined tax reporting. Even if they are enacted, they will not be sufficient to close the budget gap, and further revenue increases, budget cuts, federal assistance and borrowing will be required. There is little doubt that businesses can expect higher and expanded taxes and fees.

Senate Democrats return with the same 18-15 majority and leadership team while the Assembly Democrats have gained control for the first time since the 1993 Session. The Senate Democrats are likely to pursue many of the same policy priorities they have been unable to pass in previous sessions because Republican control of the Assembly. Assembly Democrats will be likely to be the source of new and costly policy initiatives. Many of these could be in the areas of energy and the environment. The issue of climate change will be dealt with by attempting to enact initiatives recommended in Governor Doyle's Task Force on Global Warming. Furthermore, environmental groups, labor, plaintiff's lawyers, pro-choice advocates, and champions of campaign finance reform are likely to receive more favorable consideration of their issues and initiatives.

Schrock Named President & Ceo Of Integrys Energy Group

Weyers Will Remain Chairman as Company Implements Succession Plan

The Integrys Energy Group, Inc. Board of Directors has selected Charles A. (Charlie) Schrock, President and CEO of Wisconsin Public Service Corporation, to be President and CEO of the Chicago-based energy holding company, effective January 1, 2009. Current Chairman, President and CEO Larry L. Weyers has become Executive Chairman of the Board. Schrock, 55, and Weyers, 63, will have an extensive transition period as Weyers prepares for retirement once the transition is successfully completed.

“The selection team was impressed with the strength of the internal candidates who stepped up,” according to Jack Meng, who, as Chair of the Board’s Compensation Committee, led the selection process that began in late September. “It’s a testament to the strength of the company’s leadership team that our candidates compared so well to others presented by our advisors from SpencerStuart. The board has made a great decision in selecting Charlie for this position,” Weyers said. “I have had the privilege of working with Charlie for many years. He has excelled in every position he’s held with us and worked hard to prepare himself for this role. I am extremely confident in his ability to lead Integrys. Charlie is not only an astute manager with tremendous business acumen; he’s a very down-to-earth person.”

Schrock comes to the presidency of Integrys from his role as President and CEO of Wisconsin Public Service Corporation, a position he has held since Integrys was formed in early 2007. His career with WPS began in 1979 when he joined the company as an Associate Engineer. Since that time, he has held numerous leadership roles, including Senior Vice President of Generation, Senior Vice President-Nuclear Management Company (NMC), Plant Manager, Kewaunee Nuclear Power Plant, President of WPS Power Development, Inc., Senior Vice President of WPS Resources Corporation, President and Chief Operating Officer of Generation at WPSC and President of WPSC. A Detroit native, Schrock has both Bachelor’s and Master’s degrees in Nuclear Engineering from the University of Michigan. He has completed graduate courses in Business Management at Cardinal Stritch College and is a graduate of the Advanced Management Program at Harvard University. He is a member of the American Nuclear Society.



Charles A. (Charlie) Schrock, President and CEO of The Integrys Energy Group, Inc.

I am extremely confident in his ability to lead Integrys. Charlie is not only an astute manager with tremendous business acumen; he’s a very down-to-earth person.”

Larry L. Weyers, Executive Chairman of the Board of The Integrys Energy Group, Inc.

Wisconsin Power And Light Considers Options After PSCW Rejection Of Cassville Plant

The Wisconsin Public Service Commission (PSCW) has now officially rejected Wisconsin Power & Light’s (WPL) proposal to build a 300-megawatt coal-fired power plant along the Mississippi River at Cassville. The unanimous written opinion reiterated the objections commissioners voiced in their earlier oral decision that the \$1.26 billion plant would be too expensive and would create too much air pollution, despite the fact that up to 20 percent of the fuel would have come from agricultural waste products. The company will not appeal the ruling and is considering its other options but it’s too soon to tell how long it will take WPL to come up with a new proposal, according to company spokesman Rob Crain.

“We’ve begun discussions with commission staff to take a look at the available tools and what our options might be.” One possibility being considered is increasing the efficiency of existing natural gas fired plants. Combustion turbine natural gas-run plants might be converted into combined cycle, in which a second generator is added so waste heat can be used to produce added electricity. The PSCW has pointed to the the 300-megawatt Neenah plant, which WPL will buy in 2009, or the 450-megawatt RockGen power plant in eastern Dane County owned by Calpine.



WISCONSIN ENERGY TO RAISE QUARTERLY DIVIDEND IN 2009

The board of directors of Wisconsin Energy Corporation has announced a new dividend policy that will provide for a quarterly dividend of 33.75 cents a share on the company's common stock in the first quarter of 2009. This would represent an increase of 6.75 cents a share over the current quarterly rate. The directors expect to declare the new dividend at their regularly scheduled meeting in January. The dividend - which would be equivalent to an annual rate of \$1.35 a share - is expected to be payable March 1, 2009, to stockholders of record on Feb. 13, 2009.



WISCONSIN PUBLIC SERVICE AND enXco CLOSE WIND FARM DEAL

Wisconsin Public Service Corporation (WPS), a subsidiary of Integrys Energy Group, Inc., and enXco, an EDF Energies Nouvelles Company based in California, have closed on the Acquisition and Sale Agreement (ASA) for the Crane Creek Wind Farm, a 99-megawatt wind facility to be constructed near Riceville in Howard County, Iowa. enXco will build the wind farm and turn it over to WPS in a turnkey transaction. Closure of the ASA removes the final hurdle to construction. In April 2008, the Public Service Commission of Wisconsin (PSCW) approved the purchase by a 3-0 vote.



The two companies earlier reached an agreement in which WPS will contract with enXco Service Corporation to operate and provide maintenance for the 66 turbines, including 24/7 remote monitoring from their Operations Control Center located in Chandler, Minnesota.

"enXco has met the requirements paving the way for the real estate transaction to close, and we're pleased that we're able to enter the construction phase of the project early in 2009," said Conrad Weis, project manager for WPS. The wind farm is expected to be operational in late December 2009, helping WPS reach its state-mandated Renewable Portfolio Standard (RPS) target of generating 10 percent of its retail electrical sales with renewable power by 2015.

"Closing the ASA is an important milestone in the development of the Crane Creek project," according to Steve Peluso, vice president development for enXco's Midwest Region. "We look forward to starting the construction phase of the project to bring this renewable resource online for WPS."



STOLPER ELECTED TO MADISON GAS & ELECTRIC & MGE ENERGY BOARDS

Thomas R. Stolper has been elected to the Board of Directors of Madison Gas and Electric and MGE Energy effective December 19, 2008. Stolper has been a certified public accountant since 1972 and a partner in the accounting and consulting firm of Clifton Gunderson LLP of Middleton, Wisconsin, since 1977. Stolper received his Bachelor's degree in accounting from the University of Wisconsin-Madison.

MADISON GAS & ELECTRIC INCREASED WIND CAPACITY BY 12 TIMES IN 2008

Madison Gas and Electric (MGE) increased wind power capacity by more than 12 times during 2008 as four new wind farms in Wisconsin and Iowa began production. The most recent addition to MGE's renewable energy portfolio was a 10-year agreement with Osceola Wind Power II, LLC, a subsidiary of FPL Energy, to purchase 50 megawatts of wind energy.

MGE Chairman, President and CEO Gary Wolter said, "With strong customer support, MGE increased wind capacity from 11 to 137 megawatts this year alone. This exceeds the goal in our Energy 2015 plan which set out to increase renewable energy up to ten fold." The latest green power comes from FPL Energy's Endeavor II Wind Energy Center in northwest Iowa, an area with some of the most robust wind resources in the Midwest.

Renewable energy is expected to account for more than 12 percent of MGE's total energy supply in 2009, up from 1.6 percent in 2007. Earlier in the year, MGE added 16 megawatts from a wind farm near Fond du Lac, Wisconsin, and 60 megawatts from two wind farms in north-central Iowa. In 1999, MGE built its first wind farm of 11 megawatts, at the time the largest wind farm east of the Mississippi River.



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Innovative Biomass Project To Begin Regulatory Review Process

Xcel Energy has announced that the Public Service Commission of Wisconsin (PSCW) has created a docket to begin evaluating the company's request to install biomass gasification technology at the Bay Front Power Plant in Ashland, Wisconsin. This represents the first step in the regulatory review process for the innovative project that, if approved, would transform Bay Front into the largest biomass-fueled power plant in the Midwest, and one of the largest in the nation. When completed, the project will convert the plant's remaining coal-fired unit to biomass gasification technology, allowing it to use 100 percent biomass in all three boilers. Currently, two of the three operating units at Bay Front use biomass as their primary fuel to generate electricity.



In 1979, the facility became the first investor-owned utility plant in the nation to burn waste wood to generate electricity. When complete and operational, the project will reduce emissions of nitrogen oxides by more than 60 percent, sulfur dioxides by more than 80 percent and particulate matter by more than 80 percent. In addition, displacing coal with sustainably harvested biomass will also reduce net carbon dioxide emissions, contributing to the state of Wisconsin's carbon management goals.

WUI EXTENDS BEST WISHES FOR 2009



The staff and Board of Directors of Wisconsin Utility Investors hope you have had a very Merry Christmas or Happy Hanukkah and wish to thank you for your loyal support during the past year. The coming year, with all of its challenges, makes it all the more important for concerted activity by and on behalf of utility shareholders. With your help, it can continue to be a happy and prosperous one for all utility investors.

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