INTEGRYS ENERGY GROUP, INC.
Form 10-K
February 29, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2011

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number	Registrant; State of Incorporation; Address; and Telephone Number	IRS Employer Identification No.
1-11337	**INTEGRYS ENERGY GROUP, INC.** (A Wisconsin Corporation) 130 East Randolph Street Chicago, IL 60601-6207 (312) 228-5400	39-1775292

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $1 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant.

$4,039,305,304 as of June 30, 2011

Number of shares outstanding of each class of common stock, as of February 24, 2012

Common Stock, $1 par value, 78,287,906 shares

DOCUMENT INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the Integrys Energy Group, Inc. Annual Meeting of Shareholders to be held on May 10, 2012 are incorporated by reference into Part III.

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INTEGRYS ENERGY GROUP, INC.

ANNUAL REPORT ON FORM 10-K
For the Year Ended December 31, 2011

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Acronyms Used in this Annual Report on Form 10-K

AFUDC	Allowance for Funds Used During Construction
AMRP	Accelerated Natural Gas Main Replacement Program
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATC	American Transmission Company LLC
EPA	United States Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
GAAP	United States Generally Accepted Accounting Principles
IBS	Integrys Business Support, LLC
ICC	Illinois Commerce Commission
ICR	Infrastructure Cost Recovery
IRS	United States Internal Revenue Service
ITF	Integrys Transportation Fuels, LLC
LIFO	Last-in, First-out
MERC	Minnesota Energy Resources Corporation
MGU	Michigan Gas Utilities Corporation
MISO	Midwest Independent Transmission System Operator, Inc.
MPSC	Michigan Public Service Commission
MPUC	Minnesota Public Utility Commission
N/A	Not Applicable
NSG	North Shore Gas Company
OCI	Other Comprehensive Income
PELLC	Peoples Energy, LLC (formerly known as Peoples Energy Corporation)
PGL	The Peoples Gas Light and Coke Company
PSCW	Public Service Commission of Wisconsin
SEC	United States Securities and Exchange Commission
UPPCO	Upper Peninsula Power Company
WDNR	Wisconsin Department of Natural Resources
WPS	Wisconsin Public Service Corporation
WRPC	Wisconsin River Power Company

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Forward-Looking Statements

In this report, we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, and future events or performance. These statements are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of future results and conditions, but rather are subject to numerous management assumptions, risks, and uncertainties. Therefore, actual results may differ materially from those expressed or implied by these statements. Although we believe that these forward-looking statements and the underlying assumptions are reasonable, we cannot provide assurance that such statements will prove correct.

Forward-looking statements involve a number of risks and uncertainties. Some risks that could cause actual results to differ materially from those expressed or implied in forward-looking statements include those described in Item 1A of this Annual Report on Form 10-K for the year ended December 31, 2011 and those identified below:

- The timing and resolution of rate cases and related negotiations, including recovery of deferred and current costs and the ability to earn a reasonable return on investment, and other regulatory decisions impacting our regulated businesses;

- Federal and state legislative and regulatory changes relating to the environment, including climate change and other environmental regulations impacting coal-fired generation facilities and renewable energy standards;

- Other federal and state legislative and regulatory changes, including deregulation and restructuring of the electric and natural gas utility industries, financial reform, health care reform, energy efficiency mandates, reliability standards, pipeline integrity and safety standards, and changes in tax and other laws and regulations to which we and our subsidiaries are subject;

- Costs and effects of litigation and administrative proceedings, settlements, investigations, and claims, including manufactured gas plant site cleanup, third-party intervention in permitting and licensing projects, compliance with Clean Air Act requirements at generation plants, and prudence and reconciliation of costs recovered in revenues through automatic gas cost recovery mechanisms;

- Changes in credit ratings and interest rates caused by volatility in the financial markets and actions of rating agencies and their impact on our and our subsidiaries liquidity and financing efforts;

- The risks associated with changing commodity prices, particularly natural gas and electricity, and the available sources of fuel, natural gas, and purchased power, including their impact on margins, working capital, and liquidity requirements;

- The timing and outcome of any audits, disputes, and other proceedings related to taxes;

- The effects, extent, and timing of additional competition or regulation in the markets in which our subsidiaries operate;

- The ability to retain market-based rate authority;

- The risk associated with the value of goodwill or other intangible assets and their possible impairment;

- The investment performance of employee benefit plan assets and related actuarial assumptions, which impact future funding requirements;

- The impact of unplanned facility outages;
- Changes in technology, particularly with respect to new, developing, or alternative sources of generation;
- The effects of political developments, as well as changes in economic conditions and the related impact on customer use, customer growth, and our ability to adequately forecast energy use for all of our customers;
- Potential business strategies, including mergers, acquisitions, and construction or disposition of assets or businesses, which cannot be assured to be completed timely or within budgets;
- The risk of terrorism or cyber security attacks, including the associated costs to protect our assets and respond to such events;
- The risk of failure to maintain the security of personally identifiable information, including the associated costs to notify affected persons and to mitigate their information security concerns;
- The effectiveness of risk management strategies, the use of financial and derivative instruments, and the related recovery of these costs from customers in rates;
- The risk of financial loss, including increases in bad debt expense, associated with the inability of our and our subsidiaries counterparties, affiliates, and customers to meet their obligations;
- Unusual weather and other natural phenomena, including related economic, operational, and/or other ancillary effects of any such events;
- The ability to use tax credit and loss carryforwards;
- The financial performance of ATC and its corresponding contribution to our earnings;
- The effect of accounting pronouncements issued periodically by standard-setting bodies; and
- Other factors discussed elsewhere herein and in other reports we file with the SEC.

Except to the extent required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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PART I

ITEM 1. BUSINESS

A. GENERAL

In this report, when we refer to us, we, our, or ours, we are referring to Integrys Energy Group, Inc. References to Notes are to the Notes to t Consolidated Financial Statements included in this Annual Report on Form 10-K.

For more information about our business operations, including financial and geographic information about each reportable business segment, see Note 27, *Segments of Business,* and Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations*.

Integrys Energy Group, Inc.

We are a diversified energy holding company with regulated natural gas and electric utility operations, nonregulated energy operations, and an approximate 34% equity ownership interest in ATC, a regulated electric transmission company. We were incorporated in Wisconsin in 1993.

Natural Gas Utility Segment

The natural gas utility segment includes the regulated natural gas utility operations of WPS, MGU, MERC, PGL, and NSG. WPS, a Wisconsin corporation, began operations in 1883. MGU and MERC, both Delaware corporations, began operations upon the acquisition of existing natural gas distribution operations in Michigan and Minnesota, respectively, in April 2006 and July 2006, respectively. PGL and NSG, both Illinois corporations, began operations in 1855 and 1900, respectively. We acquired PGL and NSG in February 2007 in the PELLC merger.

Electric Utility Segment

The electric utility segment includes the regulated electric utility operations of WPS and UPPCO. UPPCO, a Michigan corporation, began operations in 1884. We acquired UPPCO in September 1998.

Integrys Energy Services

Integrys Energy Services, a Wisconsin corporation, was established in 1994. Integrys Energy Services is a diversified nonregulated retail energy supply and services company that primarily sells electricity and natural gas to commercial, industrial, and residential customers in deregulated markets. In addition, Integrys Energy Services invests in energy assets with renewable attributes.

Electric Transmission Investment

The electric transmission investment segment consists of our approximate 34% ownership interest in ATC. ATC is a federally regulated electric transmission company with operations in Wisconsin, Michigan, Minnesota, and Illinois. ATC began operations in 2001. See Note 9, *Investments in Affiliates, at Equity Method*, for more information about ATC.

Holding Company and Other Segment

The holding company and other segment includes the operations of the Integrys Energy Group holding company and the PELLC holding company, along with any nonutility activities at WPS, MGU, MERC, UPPCO, PGL, NSG, and IBS. The compressed natural gas operations of ITF are included in this segment as of September 1, 2011, the date on which we acquired Trillium USA (Trillium) and Pinnacle CNG Systems (Pinnacle). See Note 4, *Acquisition*, for more information about the acquisition of Trillium and Pinnacle.

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, registration statements, and any amendments to these documents are available, free of charge, on our website, www.integrysgroup.com, as soon as reasonably practicable after they are filed with or furnished to the SEC. Reports, statements, and amendments posted on our website do not include access to exhibits and supplemental schedules electronically filed with the reports, statements, or amendments. We are not including the information contained on or available through our website as a part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

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You may obtain materials we filed with or furnished to the SEC at the SEC Public Reference Room at 100 F Street, NE, Washington, DC 20549. To obtain information on the operation of the Public Reference Room, you may call the SEC at 1-800-SEC-0330. You may also view our reports, proxy statements, and other information (including exhibits) filed or furnished electronically with the SEC, at the SEC s website at www.sec.gov.

B. REGULATED NATURAL GAS UTILITY OPERATIONS

Our regulated natural gas utilities provide service to approximately 1,682,000 residential, commercial and industrial, transportation, and other customers. Our customers are located in Chicago and the northern suburbs of Chicago, northeastern Wisconsin and an adjacent portion of Michigan s Upper Peninsula, various cities and communities throughout Minnesota, and the southern portion of lower Michigan.

Facilities

For information regarding our regulated natural gas facilities, see Item 2, *Properties*. For our utility plant asset book value, see Note 6, *Property, Plant, and Equipment*.

Natural Gas Supply

Our regulated natural gas utilities manage portfolios of natural gas supply contracts, storage services, and pipeline transportation services designed to meet varying customer use patterns at the lowest reasonable cost.

Our regulated natural gas supply requirements are met through a combination of fixed price purchases, index price purchases, contracted and owned storage, peak-shaving facilities, and natural gas supply call options. Our regulated natural gas subsidiaries contract for fixed-term firm natural gas supply each year (in the United States and Canada) to meet the demand of firm system sales customers. To supplement natural gas supply and manage risk, our regulated natural gas utilities purchase additional natural gas supply on the monthly and daily spot markets.

For more information on our regulated natural gas utility supply and transportation contracts, see Note 16, *Commitments and Contingencies*.

Our regulated natural gas utilities own two storage fields and contract with various underground storage service providers for additional storage services. Storage allows us to manage significant changes in daily natural gas demand and to purchase steady levels of natural gas on a year-round basis, thus providing a hedge against supply cost volatility. Our regulated natural gas utilities contract with local distribution companies and interstate pipelines to purchase firm transportation services. We believe that having multiple pipelines that serve our regulated natural gas service territory benefits our customers by improving reliability, providing access to a diverse supply of natural gas, and fostering competition among these service providers which can lead to favorable conditions when negotiating new agreements for transportation and storage services. In addition, our regulated natural gas utilities use financial instruments such as commodity futures, swaps, and options as part of their hedging program to further reduce supply cost volatility.

PGL owns and operates an underground natural gas storage reservoir in central Illinois (Manlove Field) and a natural gas pipeline system that connects Manlove Field to Chicago with eight major interstate pipelines. These assets are directed primarily to serving rate-regulated retail customers and are included in PGL s regulatory rate base. PGL also uses a portion of these storage and pipeline assets as a natural gas hub, which consists of providing transportation and storage services in interstate commerce to its wholesale customers. Customers deliver natural gas to PGL through an injection, and PGL later returns the natural gas to the customers when needed through a withdrawal. Title to the natural gas does not transfer to PGL; therefore, all natural gas related only to the hub remains customer-owned. PGL recognizes service fees associated with the natural gas hub services provided to wholesale customers. These service fees reduce the cost of natural gas and services charged to retail customers in rates.

Set forth below is a rollforward of natural gas in storage balances related to the natural gas hub as well as natural gas hub service fees collected from wholesale customers:

Thousands of Dekatherms (MDth)	**2011**	**2010**	**2009**
Beginning Balance, January 1	**5,156**	**5,187**	4,541
Injections	**7,000**	**7,010**	6,978
Withdrawals	**(6,895)**	**(7,041)**	(6,332)
Ending Balance, December 31	**5,261**	**5,156**	5,187

(Millions)	**2011**	**2010**	**2009**
Natural gas hub service fees	**$ 5.4**	**$ 10.3**	$ 5.8

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Our regulated natural gas utilities had adequate capacity to meet all firm natural gas demand obligations during 2011 and expect to have adequate capacity to meet all firm obligations during 2012. Our regulated natural gas utilities forecast design peak-day throughput is 3,736 MDth for the 2011 through 2012 heating season.

The sources of our deliveries to customers (including transportation customers) in MDth for regulated natural gas utility operations were as follows:

(MDth)	2011	2010	2009
Natural gas purchases	**217,288**	204,794	224,762
Natural gas purchases for electric generation	**1,780**	1,389	957
Customer-owned natural gas received	**181,021**	172,180	164,676
Underground storage, net	**(1,425)**	3,494	1,080
Hub fuel in kind *	**180**	176	141
Liquefied petroleum gas (propane)	**1**	4	12
Owned storage cushion injection	**(1,098)**	(1,094)	(1,272)
Contracted pipeline and storage compressor fuel, franchise requirements, and unaccounted- for natural gas	**(10,809)**	(7,544)	(9,692)
Total	**386,938**	373,399	380,664

* This delivered natural gas was originally provided by hub customers whose contract requires them to provide additional natural gas to compensate for unaccounted-for natural gas in future deliveries.

Regulatory Matters

Our regulated natural gas utility retail rates are regulated by the ICC, PSCW, MPSC, and MPUC. These commissions have general supervisory and regulatory powers over public utilities in their respective jurisdictions.

Sales are made and services are rendered by the regulated natural gas utilities pursuant to rate schedules on file with the respective commissions. These rate schedules contain various service classifications, which largely reflect customers different uses and levels of consumption. Our regulated natural gas utilities bill customers for the distribution of natural gas as well as for a natural gas charge representing third-party costs for purchasing, transporting, and storing natural gas. This charge also includes gains, losses, and costs incurred under hedging programs, the amount of which is also subject to applicable commission authority. Prudently incurred natural gas costs are passed directly through to customers in rates and, therefore, have no impact on margins. Commissions in respective jurisdictions conduct annual proceedings regarding the reconciliation of revenues from the natural gas charge and related natural gas costs.

Almost all of the natural gas our regulated natural gas utilities distribute is transported to our distribution systems by interstate pipelines. The pipelines transportation and storage services, including PGL s natural gas hub, are regulated by the FERC under the Natural Gas Act and the Natural Gas Policy Act of 1978. Under United States Department of Transportation regulations, the state commissions are responsible for monitoring our regulated natural gas utilities safety compliance programs for our pipelines under 49 Code of Federal Regulations (CFR) Part 192 (Transportation of Natural and Other Gas by Pipeline: Minimum Federal Safety Standards) and 49 CFR Part 195 (Transportation of Hazardous Liquids by Pipeline).

All of our regulated natural gas utility subsidiaries are required to provide service and grant credit (with applicable deposit requirements) to customers within their service territories. Our regulated natural gas utilities are generally not allowed to discontinue service during winter moratorium months to residential customers who do not pay their bills. Federal and certain state governments have legislation that provides for a limited amount of funding for assistance to low-income customers of the utilities.

See Note 26, *Regulatory Environment*, for information regarding rate cases, decoupling mechanisms, and bad debt recovery mechanisms in place at the regulated natural gas utilities.

Other Matters

Seasonality

The natural gas throughput of our regulated natural gas utilities is generally higher during the winter months because the heating requirements of customers are temperature driven. During 2011, the regulated natural gas utility segment recorded approximately 64% of its revenues in January, February, March, November, and December.

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Competition

Although our natural gas retail rates are regulated by various commissions, the utilities still face competition from other entities and forms of energy in varying degrees, particularly for large commercial and industrial customers who have the ability to switch between natural gas and alternate fuels. Due to the volatility of energy commodity prices, our regulated natural gas utilities have seen customers with dual fuel capability switch to alternate fuels for short periods of time, then switch back to natural gas as market rates change.

Our regulated natural gas utilities offer natural gas transportation service and interruptible natural gas sales to enable customers to better manage their energy costs. Such transportation customers purchase natural gas directly from third-party natural gas suppliers and use our regulated natural gas utilities distribution systems to transport the natural gas to their facilities. Our regulated natural gas utilities still earn a distribution charge for transporting the natural gas for these customers. As such, the loss of revenue associated with the cost of natural gas our transportation customers now purchase from the third-party suppliers has no impact on our regulated natural gas utilities segment net income, as it is offset by an equal reduction to natural gas costs. Additionally, some customers have elected to purchase their natural gas directly from one of our regulated natural gas utilities on an interruptible basis, as a means to reduce their costs. Customers continue to switch between firm system supply, interruptible system supply, and transportation service each year as the economics and service options change.

Working Capital Requirements

The working capital needs of our regulated natural gas utility operations vary significantly over time due to volatility in levels of natural gas inventories and the price of natural gas. Our regulated natural gas utilities working capital needs are met by cash generated from operations and debt (both long-term and short-term). The seasonality of natural gas revenues causes the timing of cash collections to be concentrated from January through June. A portion of the winter natural gas supply needs is typically purchased and stored from April through November. Also, planned capital spending on the regulated natural gas distribution facilities is concentrated in April through November. Because of these timing differences, the cash flow from customers is typically supplemented with temporary increases in short-term borrowings (from affiliates and external sources) during the late summer and fall. Short-term debt is typically reduced over the January through June period.

C. REGULATED ELECTRIC UTILITY OPERATIONS

Our regulated electric utility operations of WPS and UPPCO provide service to approximately 493,000 residential, commercial and industrial, wholesale, and other customers. WPS s customers are located in northeastern Wisconsin and an adjacent portion of Michigan s Upper Peninsula. UPPCO s customers are located in Michigan s Upper Peninsula. Wholesale electric service is provided to various customers, including municipal utilities, electric cooperatives, energy marketers, other investor-owned utilities, and municipal joint action agencies. Beginning in 2012, UPPCO no longer provides service to any wholesale electric customers due to the expiration of its remaining wholesale electric contracts in 2011. In 2011, retail electric revenues accounted for 82.9% of total electric revenues, while wholesale electric revenues accounted for 17.1% of total electric revenues.

In 2011, WPS reached a firm net design peak of 2,344 megawatts (MW) on July 20. At the time of this summer peak, WPS s total firm resources (i.e., generation plus firm purchases) totaled 3,164 MW. The summer period is the most relevant for WPS s regulated electric utility capacity due to the air conditioning requirements of its customers. The PSCW requires WPS to maintain a planning reserve margin above its projected annual peak demand forecast to help ensure reliability of electric service to its customers. The PSCW has a 14.5% reserve margin requirement for long-term planning (planning years two through ten). For short-term planning (planning year one), the PSCW requires Wisconsin utilities to follow the planning reserve margin established by MISO under Module E of its Open Access Transmission and Energy Markets Tariff. MISO has a 17.4% reserve margin requirement from January 1 through May 31, 2012, and 14.4% for the remainder of 2012. The MPSC does not have minimum guidelines for future supply reserves.

In 2011, UPPCO reached a firm net design peak of 121 MW on February 18. At the time of this peak, UPPCO s total firm resources totaled 148 MW. The MPSC does not have minimum guidelines for future supply reserves; however, the MISO short-term planning reserve margin requirements described above also apply to UPPCO.

WPS and UPPCO expect future supply reserves to meet the minimum planning reserve margin requirements for 2012. WPS and UPPCO had adequate capacity through company-owned generation units and power purchase contracts to meet all firm electric demand obligations during 2011 and expect to have adequate capacity to meet all obligations during 2012.

Facilities

For a complete list of our electric utility facilities, see Item 2, *Properties*. For our utility plant asset book value, see Note 6, *Property, Plant, and Equipment*.

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Electric Supply

Both WPS and UPPCO are members of MISO, a FERC-approved, independent, non-profit organization, which operates a financial and physical electric wholesale market in the Midwest. WPS and UPPCO offer their generation and bid their customer load into the MISO market. MISO evaluates WPS s, UPPCO s, and other market participants energy offers into, and subsequent withdrawals from, the system to economically dispatch electricity within the system. MISO settles the participants offers and bids based on locational marginal prices, which are market-driven values based on the specific time and location of the purchase and/or sale of energy.

Electric Generation and Supply Mix

The sources of our electric utility supply were as follows:

(Millions) Energy Source (kilowatt-hours)	2011	2010	2009
Company-owned generation units			
Coal	**8,634.5**	10,232.9	8,974.3
Hydroelectric	**348.9**	306.5	225.9
Wind	**309.3**	287.7	46.4
Natural gas, fuel oil, and tire derived	**135.8**	105.4	71.4
Total company-owned generation units	**9,428.5**	10,932.5	9,318.0
Power purchase contracts			
Nuclear (Kewaunee Power Station)	**2,674.4**	2,940.8	2,663.9
Natural gas (Fox Energy Center, LLC and Combined Locks Energy Center, LLC)	**1,593.9**	608.4	673.7
Hydroelectric	**570.7**	526.7	569.5
Wind	**210.6**	149.1	136.9
Other	**235.8**	205.5	571.1
Total power purchase contracts	**5,285.4**	4,430.5	4,615.1
Purchased power from MISO	**1,605.2**	781.9	1,898.9
Purchased power from other	**100.1**	342.9	54.4
Total purchased power	**6,990.7**	5,555.3	6,568.4
Opportunity sales			
Sales to MISO	**(1,242.0)**	(734.5)	(462.5)
Net sales to other	**(64.6)**	(248.4)	(450.5)
Total opportunity sales	**(1,306.6)**	(982.9)	(913.0)
Total electric utility supply	**15,112.6**	15,504.9	14,973.4

Fuel Costs

The cost of fuel per generation of one million British thermal units was as follows:

Fuel Type	2011	2010	2009
Coal	**$ 2.44**	$ 2.05	$ 1.94
Natural gas	**5.64**	6.28	6.73
Fuel oil	**21.24**	18.44	17.09

Coal Supply

Coal is the primary fuel source for WPS s electric generation facilities. WPS s regulated fuel portfolio strategy is to maintain a 35- to 45-day supply of coal at each plant site. Currently the coal supply is higher than the portfolio strategy due to lower coal burning rates as a result of decreased natural gas prices and economic conditions. The majority of the coal is purchased from Powder River Basin mines located in Wyoming. This low sulfur coal has been WPS s lowest cost coal source of any of the subbituminous coal-producing regions in the United States. Historically, WPS has purchased coal directly from the producer for its wholly owned plants. WPS also purchases the coal for the jointly owned Weston 4 plant and Dairyland Power Cooperative reimburses WPS for their share of the coal costs. Wisconsin Power and Light purchases coal for the jointly owned Edgewater and Columbia plants and is reimbursed by WPS for its share of the coal costs. At December 31, 2011, WPS had coal transportation contracts in place for 100% of its 2012 coal transportation requirements. For more information on coal purchases and coal deliveries under contract, see Note 16, *Commitments and Contingencies*.

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Power Purchase Agreements

Our electric utilities enter into short-term and long-term power purchase agreements to meet a portion of their electric energy supply needs. For more information on power purchase obligations, see Note 16, *Commitments and Contingencies*.

Regulatory Matters

WPS s retail electric rates are regulated by the PSCW and the MPSC. UPPCO s retail electric rates are regulated by the MPSC. The FERC regulates wholesale electric rates for WPS and UPPCO. WPS and UPPCO must also comply with mandatory electric system reliability standards developed by the North American Electric Reliability Corporation (NERC), the electric reliability organization certified by the FERC. The Midwest Reliability Organization is responsible for the enforcement of NERC s standards for WPS and UPPCO.

The PSCW sets rates through its ratemaking process, which is based on recovery of operating costs and a return on invested capital. One of the cost recovery components is fuel and purchased power, which is governed by a fuel window mechanism, as described in Note 1(f), *Summary of Significant Accounting Policies Revenues and Customer Receivables*. The MPSC and the FERC ratemaking processes are similar to those of the PSCW, with the exception of fuel and purchased power, which are recovered on a one-for-one basis.

See Note 26, *Regulatory Environment*, for information regarding rate cases and decoupling mechanisms of our electric utilities.

Hydroelectric Licenses

WPS, UPPCO, and WRPC (a company in which WPS has 50% ownership) have long-term licenses from the FERC for their hydroelectric facilities.

Other Matters

Seasonality

Our electric utility sales in Wisconsin are generally higher during the summer months due to the air conditioning requirements of customers. Our regulated electric utility sales in Michigan do not follow a significant seasonal trend due to cooler climate conditions in the Upper Peninsula of Michigan.

Competition

The retail electric utility market in Wisconsin is regulated by the PSCW. Retail electric customers currently do not have the ability to choose their electric supplier. In order to increase sales, utilities work to attract new customers into their service territories. As a result, there is competition among utilities to keep energy rates low. Wisconsin utilities have continued to refine regulated tariffs in order to pass on the true cost of electricity to each class of customer by reducing or eliminating rate subsidies among different ratepayer classes. Although Wisconsin electric energy markets are regulated, utilities still face competition from other energy sources, such as self-generation by large industrial customers and alternative energy sources.

Michigan electric energy markets are open to competition. However, an active competitive market has not yet developed in the Upper Peninsula of Michigan, primarily due to a lack of excess generation and transmission system capacity.

D. INTEGRYS ENERGY SERVICES

Integrys Energy Services and its subsidiaries market electricity and natural gas in various retail markets, serving commercial and industrial customers, as well as direct and aggregated small commercial and residential customers. Aggregated customers are municipalities, associations, or groups of customers that have joined together to negotiate the purchase of electricity or natural gas as a larger group.

Integrys Energy Services invests in and promotes renewable energy, primarily distributed solar, which it believes is important to the future of the energy industry. Clean, renewable, and efficient energy sources are developed, acquired, owned, and operated by Integrys Energy Services. Integrys Energy Services assists customers with selecting an energy solution that meets their needs and collaborates with developers of energy projects to overcome challenges with integrating the technical, regulatory, and financial aspects of their projects.

Integrys Energy Services uses physical and financial derivative instruments, including forwards, futures, options, and swaps, to manage its exposure to market risks from its energy assets and energy supply portfolios in accordance with limits and approvals established in its risk management and credit policies.

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Recent Developments

Throughout 2009 and 2010, Integrys Energy Services was repositioned to focus on serving retail natural gas and retail electric customers concentrated in the northeast quadrant of the United States, and investing in energy assets with renewable attributes. See Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations Introduction*, for a discussion of the current strategy for Integrys Energy Services.

In October 2010, Integrys Energy Services announced the launch of a joint venture with Duke Energy Generation Services to build and finance distributed solar projects throughout the United States. Duke Energy Generation Services and Integrys Energy Services will equally fund the necessary equity capital for construction and ownership of the solar projects, and are considering pursuing financing to be secured by the joint venture. See Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations Future Capital Requirements and Resources*, for estimated construction expenditures for Integrys Energy Services.

Energy Supply

Physical supply obligations are created when Integrys Energy Services executes forward retail customer sales contracts. Integrys Energy Services electricity supply requirements are primarily met through bilateral electricity purchase agreements with generation companies and other marketers, as well as purchases from regional power pools. Integrys Energy Services does not own any natural gas reserves, so all natural gas supply is procured from producers and other suppliers in the wholesale market. Natural gas is sourced at the customer demand regions, or from the supply region and transported to the customer demand regions under natural gas transportation contracts.

Facilities

For information regarding the energy asset facilities owned by Integrys Energy Services, see Item 2, *Properties*. For our nonregulated plant asset book value, see Note 6, *Property, Plant, and Equipment*.

Fuel Supply for Generation Facilities

Integrys Energy Services fuel inventory policy varies for each generation facility depending on the type of fuel used. The natural gas-fired facilities (78.0% of its installed generation portfolio) are subject to market price volatility, and are dispatched to produce energy only when it is economical to do so. The Westwood facility (12.2% of its installed generation portfolio) burns waste coal left behind by mining operations and has several years supply on site. All fuel is located within a seven-mile radius of the facility. The renewable energy facilities (9.8% of its installed generation portfolio) are all powered by renewable resources such as solar irradiance or landfill gas. There is no market price risk associated with the fuel supply of these facilities; however, production at these facilities can be intermittent due to the availability of the renewable energy resource.

Regulatory Matters

Integrys Energy Services is a FERC-authorized power marketer and has all of the licenses required to conduct business in the states in which it operates.

Other Matters

Customer Segmentation

As of December 31, 2011, Integrys Energy Services largest retail electric markets included the Illinois, New York, New England, Mid-Atlantic, and Michigan regions. Integrys Energy Services largest retail natural gas markets included Wisconsin, Illinois, Ohio, and Michigan. Integrys Energy Services continuously reviews and evaluates the profitability of its operations in each of its markets. Integrys Energy Services continues to concentrate on adding customers in existing markets and placing emphasis on business that provides the appropriate rate of return, and currently has no plans to expand into new geographic regions. See Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations Introduction*, for a discussion of the current strategy for Integrys Energy Services.

Integrys Energy Services is not dependent on any one customer segment. Rather, a significant percentage of its retail sales volume is derived from several industries, including paper and allied products, general government and national security, food and kindred products, schools (including primary, secondary, colleges, and universities), chemicals and paint, and steel and foundries.

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Seasonality

Integrys Energy Services business, in the aggregate, is somewhat seasonal with certain products selling more heavily in certain seasons than in others. Sales of natural gas generally peak in the winter months, while sales of electricity generally peak in the summer months, with the first and fourth quarters, in the aggregate, typically being the most profitable periods. Integrys Energy Services business can be volatile as a result of market conditions and the related market opportunities available to its customers.

Competition

Integrys Energy Services is a nonregulated retail energy marketer that competes against regulated utilities and other retail energy marketers. Integrys Energy Services competes with other energy providers on the basis of price, reliability, customer service, product offerings, financial strength, consumer convenience, performance, and reputation.

The competitive landscape differs in each regional area and within each targeted customer segment. For residential and small commercial customers, the primary competitive challenges come from the incumbent utility, established national marketers, and affiliated utility marketing companies. The large commercial, institutional, and industrial segments are very competitive in most markets with nearly all natural gas customers having already switched away from utilities to an alternative energy provider. National affiliated marketers, energy producers, and other independent retail energy companies compete for customers in this segment.

The local utilities generally have the advantage of long-standing relationships with their customers, and they have longer operating histories, greater financial and other resources, and greater name recognition in their markets than Integrys Energy Services. In addition, local utilities have been subject to many years of regulatory oversight and, thus, have a significant amount of experience regarding the policy preferences of their regulators. Local utilities may seek to decrease their tariff retail rates to limit or preclude opportunities for competitive energy suppliers and may seek to establish rates, terms, and conditions to the disadvantage of competitive energy suppliers.

Working Capital

The working capital needs of Integrys Energy Services vary significantly over time due to volatility in commodity prices and related margin calls, and levels of natural gas storage inventories. Integrys Energy Services working capital needs are met by cash generated from operations, equity infusions, and debt (both long-term and short-term). As of December 31, 2011, Integrys Energy Services had the ability to borrow up to $765.0 million through an intercompany credit facility with us. As of December 31, 2011, we have provided total parental guarantees of $532.0 million on behalf of Integrys Energy Services, which includes guarantees for the current retail business as well as residual guarantees related to assets sold in 2009 and 2010.

E. ENVIRONMENTAL MATTERS

For information on our environmental matters, see Note 16, *Commitments and Contingencies*.

F. CAPITAL REQUIREMENTS

For information on our capital requirements, see Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources*.

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G. EMPLOYEES

At December 31, 2011, our consolidated subsidiaries had the following employees:

	Total Number of Employees	Percentage of Employees Covered by Collective Bargaining Agreements
WPS	**1,304**	**69%**
IBS	**1,252**	
PGL	**1,077**	**79%**
Integrys Energy Services	**276**	
MERC	**217**	**20%**
NSG	**163**	**80%**
MGU	**157**	**69%**
UPPCO	**115**	**82%**
ITF	**58**	
Total	**4,619**	**46%**

Our subsidiaries have collective bargaining agreements with various unions which are summarized in the table below.

Union	Subsidiary	Contract Expiration Date
Local 310 of the International Union of Operating Engineers	WPS	October 13, 2012
Local 18007 of the Utility Workers Union of America	PGL	April 30, 2013
Local 31 of the International Brotherhood of Electrical Workers, AFL CIO	MERC	May 31, 2013
Local 2285 of the International Brotherhood of Electrical Workers	NSG	June 30, 2013
Local 510 of the International Brotherhood of Electrical Workers, AFL CIO	UPPCO	April 12, 2014
Local 12295 of the United Steelworkers of America, AFL CIO CLC	MGU	January 15, 2015
Local 417 of the Utility Workers Union of America, AFL CIO	MGU	February 15, 2016

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H. EXECUTIVE OFFICERS OF INTEGRYS ENERGY GROUP

Name and Age (1)		Position and Business Experience During Past Five Years	Effective Date
Charles A. Schrock	58	Chairman, President and Chief Executive Officer	04-01-10
		President and Chief Executive Officer	01-01-09