

INTEGRYS ENERGY GROUP, INC.  
Form 10-Q  
November 04, 2010

---

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

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 Drive Chicago, Illinois 60601-6207 (312) 228-5400	39-1775292

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  No

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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.

Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form 10-Q

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common stock, \$1 par value,  
77,582,022 shares outstanding at  
November 1, 2010

---

---

INTEGRYS ENERGY GROUP, INC.  
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2010

TABLE OF CONTENTS

		Page
	COMMONLY USED <u>ACRONYMS</u>	4
	<u>FORWARD-LOOKING STATEMENTS</u>	5
PART I.	FINANCIAL INFORMATION	7
Item 1.	FINANCIAL STATEMENTS (Unaudited)	7
	Condensed Consolidated Statements of <u>Income</u>	7
	Condensed Consolidated <u>Balance</u> Sheets	8
	Condensed Consolidated Statements of <u>Cash Flows</u>	9
	CONDENSED <u>NOTES</u> TO FINANCIAL STATEMENTS OF Integrys Energy Group, Inc. and Subsidiaries	10 – 51
		Page
	Note 1 Financial Information	10
	Note 2 Cash and Cash Equivalents	10
	Note 3 Risk Management Activities	11
	Note 4 Restructuring Expense	17
	Note 5 Dispositions	18
	Note 6 Impairment Losses on Property, Plant, and Equipment	23
	Note 7 Investments in Affiliates, at Equity Method	23
	Note 8 Inventories	24
	Note 9 Goodwill and Other Intangible Assets	24
	Note 10 Short-Term Debt and Lines of Credit	26
	Note 11 Long-Term Debt	28
	Note 12 Asset Retirement Obligations	29
	Note 13 Income Taxes	29
	Note 14 Commitments and Contingencies	30
	Note 15 Guarantees	37
	Note 16 Employee Benefit Plans	38
	Note 17 Stock-Based Compensation	39
	Note 18 Comprehensive Income (Loss)	41
	Note 19 Common Equity	41
	Note 20 Variable Interest Entities	43
	Note 21 Fair Value	43
	Note 22 Miscellaneous Income	47
	Note 23 Regulatory Environment	47
	Note 24 Segments of Business	51

Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form 10-Q

<u>Item 2.</u>	Management's Discussion and Analysis of Financial Condition and Results of Operations	54 – 81
<u>Item 3.</u>	Quantitative and Qualitative Disclosures About Market Risk	82 – 83
<u>Item 4.</u>	Controls and Procedures	84

	Page
<u>PART II.</u>	85
OTHER INFORMATION	
<u>Item 1.</u>	85
Legal Proceedings	
<u>Item 1A.</u>	85
Risk Factors	
<u>Item 6.</u>	85
Exhibits	
<u>Signature</u>	86
<u>EXHIBIT</u>	87
<u>INDEX</u>	
10.1	Integrys Energy Group, Inc. Deferred Compensation Plan, as Amended and Restated Effective January 1, 2011 (Incorporated by reference to Exhibit 10.1 to Integrys Energy Group's Form 8-K filed September 22, 2010)
10.2	Integrys Energy Group, Inc. Pension Restoration and Supplemental Retirement Plan, as Amended and Restated Effective January 1, 2011 (Incorporated by reference to Exhibit 10.2 to Integrys Energy Group's Form 8-K filed September 22, 2010)
10.3	Form of Integrys Energy Group, Inc. 2010 Omnibus Incentive Compensation Plan Performance Stock Right Agreement approved September 16, 2010 (Incorporated by reference to Exhibit 10.3 to Integrys Energy Group's Form 8-K filed September 22, 2010)
10.4	Form of Integrys Energy Group, Inc. 2010 Omnibus Incentive Compensation Plan Restricted Stock Unit Award Agreement approved September 16, 2010 (Incorporated by reference to Exhibit 10.4 to Integrys Energy Group's Form 8-K filed September 22, 2010)
10.5	Form of Integrys Energy Group, Inc. 2010 Omnibus Incentive Compensation Plan Nonqualified Stock Option Agreement approved September 16, 2010 (Incorporated by reference to Exhibit 10.5 to Integrys Energy Group's Form 8-K filed September 22, 2010)
12	Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 for Integrys Energy Group, Inc.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 for Integrys Energy Group, Inc.
32	Written Statement of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 for Integrys Energy Group, Inc.
101*	Financial statements from the Quarterly Report on Form 10-Q of Integrys Energy Group, Inc. for the quarter ended September 30, 2010, filed on November 3, 2010, formatted in XBRL: (i) the

Condensed Consolidated Statements of Income; (ii) the Condensed Consolidated Balance Sheets; (iii) the Condensed Consolidated Statements of Cash Flows; and (iv) the Condensed Notes To Financial Statements tagged as blocks of text.

\* In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

#### Commonly Used Acronyms

AFUDC	Allowance for Funds Used During Construction
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATC	American Transmission Company LLC
EEP	Enhanced Efficiency Program
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
IRS	United States Internal Revenue Service
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
PEC	Peoples Energy Corporation
PGL	The Peoples Gas Light and Coke Company
PSCW	Public Service Commission of Wisconsin
SEC	United States Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
UPPCO	Upper Peninsula Power Company
WDNR	Wisconsin Department of Natural Resources
WPS	Wisconsin Public Service Corporation
WRPC	Wisconsin River Power Company

### Forward-Looking Statements

In this report, Integrys Energy Group and its subsidiaries make statements concerning expectations, beliefs, plans, objectives, goals, strategies, and future events or performance. Such statements are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are subject to assumptions and uncertainties; therefore, actual results may differ materially from those expressed or implied by such forward-looking statements. Although Integrys Energy Group and its subsidiaries believe that these forward-looking statements and the underlying assumptions are reasonable, they cannot provide assurance that such statements will prove correct.

Forward-looking statements include, among other things, statements concerning management's expectations and projections regarding earnings, regulatory matters, fuel costs, sources of electric energy supply, coal and natural gas deliveries, remediation costs, environmental and other capital expenditures, liquidity and capital resources, trends, estimates, completion of construction projects, and other matters.

Forward-looking statements involve a number of risks and uncertainties. Some risks that could cause results to differ from any forward-looking statement include those described in Item 1A of Integrys Energy Group's Annual Report on Form 10-K for the year ended December 31, 2009, as may be amended or supplemented in Part II, Item 1A of Integrys Energy Group's subsequently filed Quarterly Reports on Form 10-Q (including this report). Other factors include:

- Resolution of pending and future rate cases and negotiations (including the recovery of deferred costs) and other regulatory decisions impacting Integrys Energy Group's regulated businesses;

- The individual and cumulative impact of recent and future federal and state regulatory changes, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric and natural gas utility industries, financial reform, changes in environmental and other regulations, including but not limited to, greenhouse gas emissions, energy efficiency mandates, renewable energy standards, and reliability standards, and changes in tax and other laws and regulations to which Integrys Energy Group and its subsidiaries are subject;
- Current and future litigation and regulatory proceedings, enforcement actions or inquiries, including but not limited to, 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 an automatic gas cost recovery mechanism;

- The impacts of changing financial market conditions, credit ratings, and interest rates on the liquidity and financing efforts of Integrys Energy Group and its subsidiaries;

- The risks related to executing the strategy change associated with Integrys Energy Group's nonregulated energy services business, including the restructuring of its retail natural gas and retail electric marketing business;

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

- Resolution of audits or other tax disputes with the IRS and various state, local, and Canadian revenue agencies;

- The effects, extent, and timing of additional competition or regulation in the markets in which Integrys Energy Group's subsidiaries operate;

- The retention of market-based rate authority;

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

- Investment performance of employee benefit plan assets and the related impact on future funding requirements;

- Changes in technology, particularly with respect to new, developing, or alternative sources of generation;

- Effects of and changes in political and legal developments, as well as economic conditions and the related impact on customer demand, including the ability to attract and retain customers in Integrys Energy Group's nonregulated energy services business and to adequately forecast its energy usage for nonregulated 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 direct or indirect effects of terrorist incidents, natural disasters, or responses to such events;  
The effectiveness of risk management strategies, the use of financial and derivative instruments, and the ability to recover costs from customers in rates associated with the use of those strategies and financial and derivative instruments;  
The risk of financial loss, including increases in bad debt expense, associated with the inability of Integrys Energy Group's and its subsidiaries' counterparties, affiliates, and customers to meet their obligations;  
Customer usage, weather, and other natural phenomena;  
The utilization of tax credit and loss carryforwards;  
Contributions to earnings by non-consolidated equity method and other investments, which may vary from projections;  
The effect of accounting pronouncements issued periodically by standard-setting bodies; and  
Other factors discussed elsewhere herein and in other reports filed by Integrys Energy Group from time to time with the SEC.

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

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## INTEGRYS ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF  
INCOME (Unaudited)

(Millions, except per share data)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2010	2009	2010	2009
Nonregulated revenues	\$399.3	\$754.0	\$1,450.1	\$3,355.3
Utility revenues	598.6	543.8	2,466.0	2,570.9
Total revenues	997.9	1,297.8	3,916.1	5,926.2
Nonregulated cost of fuel, natural gas, and purchased power	338.0	661.7	1,293.1	3,139.7
Utility cost of fuel, natural gas, and purchased power	232.1	220.6	1,224.5	1,402.6
Operating and maintenance expense	254.3	238.2	764.7	804.8
Goodwill impairment loss	-	-	-	291.1
Impairment losses on property, plant, and equipment	43.2	-	43.2	0.7
Restructuring (income) expense	(0.3 )	2.4	8.9	21.5
Net (gain) loss on Integrys Energy Services' dispositions related to strategy change	(0.2 )	0.2	14.6	0.2
Depreciation and amortization expense	69.0	57.5	201.1	172.0
Taxes other than income taxes	22.7	23.9	71.5	72.5
Operating income	39.1	93.3	294.5	21.1
Miscellaneous income	26.3	25.5	71.1	67.2
Interest expense	(35.2 )	(41.7 )	(111.2 )	(124.4 )
Other expense	(8.9 )	(16.2 )	(40.1 )	(57.2 )
Income (loss) before taxes	30.2	77.1	254.4	(36.1 )
Provision for income taxes	9.3	28.0	103.9	59.3
Net income (loss) from continuing operations	20.9	49.1	150.5	(95.4 )
Discontinued operations, net of tax	-	2.3	0.1	2.6
Net income (loss)	20.9	51.4	150.6	(92.8 )
Preferred stock dividends of subsidiary	(0.7 )	(0.7 )	(2.3 )	(2.3 )
Noncontrolling interest in subsidiaries	-	0.4	0.3	0.7
Net income (loss) attributed to common shareholders	\$20.2	\$51.1	\$148.6	\$(94.4 )
Average shares of common stock				
Basic	77.7	76.8	77.3	76.8
Diluted	78.1	76.9	77.8	76.8

Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form 10-Q

Earnings (loss) per common share (basic)

Net income (loss) from continuing operations	\$0.26	\$0.64	\$1.92	\$(1.26 )
Discontinued operations, net of tax	-	0.03	-	0.03
Earnings (loss) per common share (basic)	\$0.26	\$0.67	\$1.92	\$(1.23 )

Earnings (loss) per common share (diluted)

Net income (loss) from continuing operations	\$0.26	\$0.63	\$1.91	\$(1.26 )
Discontinued operations, net of tax	-	0.03	-	0.03
Earnings (loss) per common share (diluted)	\$0.26	\$0.66	\$1.91	\$(1.23 )

Dividends per common share declared	\$0.68	\$0.68	\$2.04	\$2.04
-------------------------------------	--------	--------	--------	--------

The accompanying condensed notes are an integral part of these statements.

## INTEGRYS ENERGY GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) (Millions)	September 30 2010	December 31 2009
<b>Assets</b>		
Cash and cash equivalents	\$165.3	\$44.5
Collateral on deposit	47.3	184.9
Accounts receivable and accrued unbilled revenues, net of reserves of \$49.9 and \$57.5, respectively	497.1	958.0
Inventories	323.9	304.3
Assets from risk management activities	324.0	1,522.1
Regulatory assets	120.4	121.1
Deferred income taxes	82.6	92.9
Assets held for sale	-	26.5
Other current assets	247.6	257.9
<b>Current assets</b>	<b>1,808.2</b>	<b>3,512.2</b>
<b>Property, plant, and equipment, net of accumulated depreciation of \$2,933.9 and \$2,847.2, respectively</b>		
	<b>4,887.3</b>	<b>4,945.1</b>
Regulatory assets	1,438.5	1,434.9
Assets from risk management activities	126.7	795.4
Goodwill	642.5	642.5
Other long-term assets	527.4	517.8
<b>Total assets</b>	<b>\$9,430.6</b>	<b>\$11,847.9</b>
<b>Liabilities and Equity</b>		
Short-term debt	\$59.5	\$222.1
Current portion of long-term debt	477.9	116.5
Accounts payable	378.0	639.4
Liabilities from risk management activities	431.5	1,607.1
Regulatory liabilities	96.2	100.4
Liabilities held for sale	-	0.3
Other current liabilities	331.8	461.8
<b>Current liabilities</b>	<b>1,774.9</b>	<b>3,147.6</b>
Long-term debt	1,912.7	2,394.7
Deferred income taxes	703.8	658.2
Deferred investment tax credits	36.4	36.2
Regulatory liabilities	307.1	277.6
Environmental remediation liabilities	651.9	658.8
Pension and other postretirement benefit obligations	617.0	640.7
Liabilities from risk management activities	165.0	783.1
Asset retirement obligations	203.5	194.8
Other long-term liabilities	148.8	147.4
<b>Long-term liabilities</b>	<b>4,746.2</b>	<b>5,791.5</b>

## Commitments and contingencies

Common stock - \$1 par value; 200,000,000 shares authorized; 77,486,900 shares issued;

77,085,543 shares outstanding	77.5	76.4
Additional paid-in capital	2,524.7	2,497.8
Retained earnings	339.8	345.6
Accumulated other comprehensive loss	(67.2 )	(44.0 )
Treasury stock and shares in deferred compensation trust	(16.5 )	(17.2 )
Total common shareholders' equity	2,858.3	2,858.6
Preferred stock of subsidiary - \$100 par value; 1,000,000 shares authorized; 511,882 shares issued; 510,495 shares outstanding	51.1	51.1
Noncontrolling interest in subsidiaries	0.1	(0.9 )
Total liabilities and equity	\$9,430.6	\$11,847.9

The accompanying condensed notes are an integral part of these statements.

## INTEGRYS ENERGY GROUP, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Millions)	Nine Months Ended	
	2010	September 30 2009
Operating Activities		
Net income (loss)	\$ 150.6	\$ (92.8 )
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Discontinued operations, net of tax	(0.1 )	(2.6 )
Goodwill impairment loss	-	291.1
Impairment losses on property, plant, and equipment	43.2	0.7
Depreciation and amortization expense	201.1	172.0
Recoveries and refunds of regulatory assets and liabilities	20.1	30.8
Net unrealized (gains) losses on nonregulated energy contracts	(44.3 )	151.1
Nonregulated lower of cost or market inventory adjustments	1.3	36.0
Bad debt expense	32.7	49.7
Pension and other postretirement expense	50.7	47.4
Pension and other postretirement contributions	(64.9 )	(30.9 )
Deferred income taxes and investment tax credit	54.2	(32.2 )
Gain (loss) on sale of assets	12.5	(1.8 )
Equity income, net of dividends	(10.3 )	(11.9 )
Other	27.6	(24.4 )
Changes in working capital		
Collateral on deposit	149.7	18.1
Accounts receivable and accrued unbilled revenues	440.8	1,152.4
Inventories	(25.2 )	347.5
Other current assets	0.1	86.4
Accounts payable	(118.4 )	(678.5 )
Other current liabilities	(145.7 )	(13.5 )
Net cash provided by operating activities	775.7	1,494.6
Investing Activities		
Capital expenditures	(187.1 )	(342.3 )
Proceeds from the sale or disposal of assets	64.1	37.9
Purchase of equity investments	(5.1 )	(23.9 )
Other	0.2	(9.9 )
Net cash used for investing activities	(127.9 )	(338.2 )
Financing Activities		
Short-term debt, net	(162.6 )	(951.9 )
Redemption of notes payable	-	(157.9 )

Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form 10-Q

Proceeds from sale of borrowed natural gas	21.9	148.6
Purchase of natural gas to repay natural gas loans	(6.5 )	(370.1 )
Issuance of long-term debt	-	230.0
Repayment of long-term debt	(116.1 )	(2.0 )
Payment of dividends		
Preferred stock of subsidiary	(2.3 )	(2.3 )
Common stock	(139.3 )	(155.2 )
Issuance of common stock	26.2	-
Payments made on derivative contracts related to divestitures classified as financing activities	(138.2 )	-
Other	(10.2 )	(4.8 )
Net cash used for financing activities	(527.1 )	(1,265.6 )
Change in cash and cash equivalents - continuing operations	120.7	(109.2 )
Change in cash and cash equivalents - discontinued operations		
Net cash provided by investing activities	0.1	4.5
Net change in cash and cash equivalents	120.8	(104.7 )
Cash and cash equivalents at beginning of period	44.5	254.1
Cash and cash equivalents at end of period	\$ 165.3	\$ 149.4

The accompanying condensed notes are an integral part of these statements



INTEGRYS ENERGY GROUP, INC. AND SUBSIDIARIES  
CONDENSED NOTES TO FINANCIAL STATEMENTS  
September 30, 2010

## NOTE 1--FINANCIAL INFORMATION

The condensed consolidated financial statements of Integrys Energy Group, Inc. have been prepared pursuant to the rules and regulations of the SEC for Quarterly Reports on Form 10-Q and in accordance with GAAP. Accordingly, these condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for annual financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes in the Integrys Energy Group Annual Report on Form 10-K for the year ended December 31, 2009.

The condensed consolidated financial statements are unaudited, but, in management's opinion, include all adjustments (which, unless otherwise noted, include only normal recurring adjustments) necessary for a fair presentation of such financial statements. Financial results for this interim period are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2010.

## NOTE 2--CASH AND CASH EQUIVALENTS

Short-term investments with an original maturity of three months or less are reported as cash equivalents.

The following is supplemental disclosure to the Integrys Energy Group Condensed Consolidated Statements of Cash Flows:

(Millions)	Nine Months Ended September 30	
	2010	2009
Cash paid for interest	\$92.0	\$100.5
Cash paid for income taxes	42.4	25.2

Significant non-cash transactions were:

(Millions)	Nine Months Ended September 30	
	2010	2009
Construction costs funded through accounts payable	\$13.8	\$26.2
Equity issued for reinvested dividends	16.9	-
Equity issued for stock-based compensation plans	3.0	-
Intangible assets (customer contracts) received in exchange for risk management assets	-	17.0

## NOTE 3--RISK MANAGEMENT ACTIVITIES

Integrys Energy Group identified additional classes of risk management assets and liabilities as a result of the implementation of FASB ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures about Fair Value Measurements." As required, this ASU was only applied to disclosures beginning with the quarter ended March 31, 2010, and, therefore, prior periods do not reflect the expanded disclosure requirements.

The following tables show Integrys Energy Group's assets and liabilities from risk management activities.

(Millions)	Balance Sheet Presentation *	September 30, 2010	
		Risk Management Assets	Risk Management Liabilities
<b>Utility Segments</b>			
Non-hedge derivatives			
Natural gas contracts	Current	\$0.8	\$ 37.6
Natural gas contracts	Long-term	0.5	4.2
Financial transmission rights	Current	5.6	0.6
Petroleum product contracts	Current	0.3	-
Total commodity contracts	Current	6.7	38.2
Total commodity contracts	Long-term	0.5	4.2
Cash flow hedges			
Natural gas contracts	Current	-	1.1
Natural gas contracts	Long-term	-	0.2
<b>Nonregulated Segments</b>			
Non-hedge derivatives			
Natural gas contracts	Current	170.5	141.7
Natural gas contracts	Long-term	91.0	82.2
Electric contracts	Current	142.4	195.3
Electric contracts	Long-term	32.5	58.0
Total commodity contracts	Current	312.9	337.0
Total commodity contracts	Long-term	123.5	140.2
Foreign exchange contracts	Current	1.0	1.0
Foreign exchange contracts	Long-term	0.3	0.3
Fair value hedges			
Interest rate swaps	Current	0.9	-
Cash flow hedges			
Natural gas contracts	Current	-	16.0
Natural gas contracts	Long-term	-	2.3
Electric contracts	Current	2.5	28.8
Electric contracts	Long-term	2.4	17.8
Total commodity contracts	Current	2.5	44.8
Total commodity contracts	Long-term	2.4	20.1
Interest rate swaps	Current	-	9.4
	Current	324.0	431.5
	Long-term	126.7	165.0
<b>Total</b>		<b>\$450.7</b>	<b>\$ 596.5</b>

\* All derivatives are recognized on the balance sheet at their fair value unless they qualify for the normal purchases and sales exception. Integrys Energy Group continually assesses its contracts designated as normal and will discontinue the treatment of these contracts as normal if the required criteria are no longer met. Assets and liabilities from risk management activities are classified as current or long-term based upon the maturities of the underlying contracts.

-11-

---

(Millions)	Balance Sheet Presentation *	December 31, 2009	
		Risk Management Assets	Risk Management Liabilities
Utility Segments			
Non-hedge derivatives			
Commodity contracts	Current	\$ 10.8	\$ 24.7
Commodity contracts	Long-term	2.0	1.5
Cash flow hedges			
Commodity contracts	Current	-	0.2
Commodity contracts	Long-term	-	0.1
Nonregulated Segments			
Non-hedge derivatives			
Commodity contracts	Current	1,503.9	1,548.4
Commodity contracts	Long-term	787.2	769.5
Interest rate swaps	Current	-	1.0
Interest rate swaps	Long-term	-	2.5
Foreign exchange contracts	Current	1.0	0.9
Foreign exchange contracts	Long-term	0.9	0.9
Fair value hedges			
Interest rate swaps	Current	1.8	-
Interest rate swaps	Long-term	0.8	-
Cash flow hedges			
Commodity contracts	Current	4.6	30.1
Commodity contracts	Long-term	4.5	8.6
Interest rate swaps	Current	-	1.8
	Current	1,522.1	1,607.1
	Long-term	795.4	783.1
Total		\$2,317.5	\$ 2,390.2

\* All derivatives are recognized on the balance sheet at their fair value unless they qualify for the normal purchases and sales exception. Integrys Energy Group continually assesses its contracts designated as normal and will discontinue the treatment of these contracts as normal if the required criteria are no longer met. Assets and liabilities from risk management activities are classified as current or long-term based upon the maturities of the underlying contracts.

The following table shows Integrys Energy Group's cash collateral positions:

(Millions)	September 30,	December 31,
	2010	2009
Cash collateral provided to others	\$ 47.3	\$ 184.9
Cash collateral received from others *	9.4	55.2

\* Reflected in Other current liabilities on the Condensed Consolidated Balance Sheets.

Certain of Integrys Energy Group's derivative and nonderivative commodity instruments contain provisions that could require "adequate assurance" in the event of a material adverse change in Integrys Energy Group's creditworthiness, or

the posting of additional collateral for instruments in net liability positions, if triggered by a decrease in credit ratings. The following table shows the aggregate fair value of all derivative instruments with specific credit-risk related contingent features that were in a liability position:

(Millions)	September 30, 2010	December 31, 2009
Integrys Energy Services	\$ 345.0	\$ 555.6
Utility segments	36.6	24.0

If all of the credit-risk related contingent features contained in commodity instruments (including derivatives, nonderivatives, normal purchase and normal sales contracts, and applicable payables and receivables) had been triggered, Integrys Energy Group's collateral requirement would have been as follows:

(Millions)	September 30, 2010	December 31, 2009
Collateral that would have been required:		
IntegrYS Energy Services	\$ 384.6	\$ 549.3
Utility segments	26.6	17.0
Collateral already satisfied:		
IntegrYS Energy Services		
Letters of credit	88.5	51.9
Cash	-	-
Utility segments		
Letters of credit	-	-
Cash	-	-
Collateral remaining:		
IntegrYS Energy Services	296.1	497.4
Utility segments	26.6	17.0

### Utility Segments

### Non-Hedge Derivatives

Utility derivatives include a limited number of natural gas purchase contracts, financial derivative contracts (futures, options, and swaps), and financial transmission rights used to manage electric transmission congestion costs. The futures, options, and swaps were used by both the electric and natural gas utility segments to mitigate the risks associated with the market price volatility of natural gas supply costs and the costs of gasoline and diesel fuel used by utility vehicles.

Derivative instruments at the utilities are entered into in accordance with the terms of the risk management plans approved by their respective Boards of Directors and, if applicable, by their respective regulators. Most energy-related physical and financial derivatives at the utilities qualify for regulatory deferral. These derivatives are marked to fair value; the resulting risk management assets are offset with regulatory liabilities or decreases to regulatory assets, and risk management liabilities are offset with regulatory assets or decreases to regulatory liabilities. Management believes any gains or losses resulting from the eventual settlement of these derivative instruments will be refunded to or collected from customers in rates.

The tables below show the unrealized gains (losses) recorded related to non-hedge derivatives at the utilities.

(Millions)	Financial Statement Presentation	Three Months Ended September 30 2010	Nine Months Ended September 30 2010
Natural gas contracts	Balance Sheet – Regulatory assets (current)	\$ (12.9 )	\$ (17.7 )
Natural gas contracts	Balance Sheet – Regulatory assets (long-term)	(1.1 )	(3.5 )
Natural gas contracts	Balance Sheet – Regulatory liabilities (current)	(0.1 )	(0.2 )
Natural gas contracts	Income Statement – Utility cost of fuel, natural gas, and purchased power	(0.2 )	(0.1 )
Financial transmission rights	Balance Sheet – Regulatory assets (current)	1.2	0.6
Financial transmission rights	Balance Sheet – Regulatory liabilities (current)	(3.0 )	(0.3 )
Petroleum product contracts	Income Statement – Operating and maintenance expense	0.1	(0.2 )



(Millions)	Financial Statement Presentation	Three Months	Nine Months
		Ended September 30, 2009	Ended September 30, 2009
Commodity contracts	Balance Sheet – Regulatory assets (current)	\$ 54.5	\$ 109.1
Commodity contracts	Balance Sheet – Regulatory assets (long-term)	4.7	9.0
Commodity contracts	Balance Sheet – Regulatory liabilities (current)	(4.6 )	3.1
Commodity contracts	Balance Sheet – Regulatory liabilities (long-term)	(0.8 )	(0.7 )
Commodity contracts	Income Statement – Utility cost of fuel, natural gas, and purchased power	0.1	0.3
Commodity contracts	Income Statement – Operating and maintenance expense	(0.1 )	0.1

The utilities had the following notional volumes of outstanding non-hedge derivative contracts:

	September 30, 2010		December 31, 2009	
	Purchases	Other	Purchases	Other
		Transactions		Transactions
Natural gas (millions of therms)	679.3	N/A	833.2	N/A
Financial transmission rights (millions of kilowatt-hours)	N/A	9,403.7	N/A	4,546.6
Petroleum products (barrels)	52,782.0	N/A	42,823.0	N/A

#### Cash Flow Hedges

PGL uses natural gas contracts designated as cash flow hedges to hedge changes in the price of natural gas used to support operations. These contracts extend through December 2011. PGL had the following notional volumes of outstanding contracts that were designated as cash flow hedges:

	Purchases	
	September 30, 2010	December 31, 2009
Natural gas (millions of therms)	6.0	9.6

Changes in the fair values of the effective portions of these contracts are included in OCI, net of taxes. Amounts recorded in OCI related to these cash flow hedges will be recognized in earnings when the hedged transactions occur, or if it is probable that the hedged transaction will not occur. The tables below show the amounts related to cash flow hedges recorded in OCI and in earnings.

#### Unrealized Gain (Loss) Recognized in OCI on Derivative Instruments (Effective Portion)

(Millions)	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2010	2009	2010	2009
Natural gas contracts	\$(0.5 )	\$0.2	\$(1.6 )	\$(1.0 )

#### Loss Reclassified from Accumulated OCI into Income (Effective Portion)

(Millions)	Income Statement Presentation	Three Months Ended		Nine Months Ended	
		September 30		September 30	
		2010	2009	2010	2009
Settled natural gas contracts		\$(0.2 )	\$(0.8 )	\$(0.6 )	\$(2.2 )



Operating and maintenance  
expense

The amount reclassified from accumulated OCI into earnings as a result of the discontinuance of cash flow hedge accounting related to these natural gas contracts was not significant during the three and nine months ended September 30, 2010, and 2009. Cash flow hedge ineffectiveness related to these natural gas contracts also was not significant during the three and nine months ended September 30, 2010, and 2009. When testing for effectiveness, no portion of these derivative instruments was excluded. In the next 12 months, an insignificant pre-tax loss is expected to be recognized in earnings as the hedged transactions occur.

## Nonregulated Segments

## Non-Hedge Derivatives

IntegrYS Energy Group's nonregulated segments enter into derivative contracts such as futures, forwards, options, and swaps that are not designated as accounting hedges under GAAP. In most cases, these contracts are used to manage commodity price risk associated with customer-related contracts.

The nonregulated segments had the following notional volumes of outstanding non-hedge derivative contracts:

(Millions)	September 30, 2010			December 31, 2009		
	Purchases	Sales	Other Transactions	Purchases	Sales	Other Transactions
Commodity contracts						
Natural gas (therms)	1,420.7	1,507.9	N/A	2,990.4	2,917.1	N/A
Electric (kilowatt-hours)	22,515.5	19,493.3	N/A	132,200.4	125,983.1	N/A
Interest rate swaps	N/A	N/A	\$ -	N/A	N/A	\$ 219.2
Foreign exchange contracts	\$21.9	\$21.9	N/A	\$35.1	\$35.1	N/A

Gains (losses) related to non-hedge derivatives are recognized currently in earnings, as shown in the tables below.

(Millions)	Income Statement Presentation	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Natural gas contracts	Nonregulated revenue	\$ 23.7	\$ 32.5
Natural gas contracts	Nonregulated revenue (reclassified from accumulated OCI)	(0.5 ) *	(0.9 ) *
Electric contracts	Nonregulated revenue	(12.9 )	(91.1 )
Electric contracts	Nonregulated revenue (reclassified from accumulated OCI)	(0.7 ) *	(2.2 ) *
Interest rate swaps	Interest expense	-	0.4
Total		\$ 9.6	\$ (61.3 )

\*Represents amounts reclassified from accumulated OCI related to cash flow hedges that were dedesignated in the current and/or prior periods.

(Millions)	Income Statement Presentation	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Commodity contracts	Nonregulated revenue	\$ 19.0	\$ (9.8 )
Commodity contracts	Nonregulated revenue (reclassified from accumulated OCI)	(0.3 ) *	(2.3 ) *
Interest rate swaps	Interest expense	(0.8 )	(0.5 )
Foreign exchange contracts	Nonregulated revenue	(0.7 )	(1.8 )
Total		\$ 17.2	\$ (14.4 )

\*

Represents amounts reclassified from accumulated OCI related to cash flow hedges that were dedesignated in the current and/or prior periods.

#### Fair Value Hedges

At PEC, an interest rate swap designated as a fair value hedge is used to hedge changes in the fair value of \$50.0 million of the \$325.0 million PEC Series A 6.9% notes due January 15, 2011. The changes in the fair value of this hedge are recognized currently in earnings, as are the changes in fair value of the hedged item. Unrealized gains (losses) related to the fair value hedge and the related hedged item are shown in the table below.

(Millions)	Income Statement Presentation	Three Months Ended September 30		Nine Months Ended September 30	
		2010	2009	2010	2009
Interest rate swap	Interest expense	\$(1.0 )	\$(0.4 )	\$(1.7 )	\$(0.7 )
Debt hedged by swap	Interest expense	1.0	0.4	1.7	0.7
Total		\$-	\$-	\$-	\$-

Fair value hedge ineffectiveness recorded in interest expense on the Condensed Consolidated Statements of Income was not significant for the three and nine months ended September 30, 2010, and 2009. No amounts were excluded from effectiveness testing related to the interest rate swap during the three and nine months ended September 30, 2010, and 2009.

#### Cash Flow Hedges

Natural gas futures, forwards, and swaps that are designated as cash flow hedges extend through December 2013, while electric futures, forwards, and swaps designated as cash flow hedges extend through May 2017. These contracts are used to mitigate the risk of cash flow variability associated with future purchases and sales of natural gas and electricity. In the second quarter of 2010, Integrys Energy Group entered into two interest rate swaps designated as cash flow hedges to hedge the variability in forecasted interest payments on the first \$100.0 million of a debt issuance planned for the fourth quarter of 2010. The nonregulated segments had the following notional volumes of outstanding contracts that were designated as cash flow hedges:

(Millions)	September 30, 2010			December 31, 2009		
	Purchases	Sales	Other Transactions	Purchases	Sales	Other Transactions
Commodity contracts						
Natural gas (therms)	257.9	-	N/A	5.9	8.6	N/A
Electric (kilowatt-hours)	10,822.0	19.6	N/A	7,116.2	-	