

INTEGRYS ENERGY GROUP, INC.

Form 10-Q

November 04, 2010

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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.

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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

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

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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

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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
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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 September 30	
	2010	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