

INTEGRYS ENERGY GROUP, INC.  
Form 10-Q  
August 06, 2009

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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 June 30, 2009

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). (Registrant is not yet required to provide financial disclosure in an Interactive Data File format.)

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

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reporting company" in Rule 12b-2 of the Exchange Act.

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 the issuer's classes of common stock, as of the latest practicable date:

Common stock, \$1 par value,  
76,422,505 shares outstanding at  
August 4, 2009

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INTEGRYS ENERGY GROUP, INC.  
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2009

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4.1	Third Supplemental Indenture, dated as of June 1, 2009, by and between Integrys Energy Group, Inc. and U.S. Bank National Association (successor to Firststar Bank, National Association) (Incorporated by reference to Exhibit 4.1 to Integrys Energy Group's Form 8-K filed June 17, 2009.)
4.2	Fourth Supplemental Indenture, dated as of June 1, 2009, by and between Integrys Energy Group, Inc. and U.S. Bank National Association (successor to Firststar Bank, National Association) (Incorporated by reference to Exhibit 4.2 to Integrys Energy Group's Form 8-K filed June 17, 2009.)
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.

Commonly Used Acronyms

AFUDC	Allowance for Funds Used During Construction
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
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
NYMEX	New York Mercantile Exchange
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

### 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 risk factors 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, 2008, as may be amended or supplemented in Part II, Item 1A of 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 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 and future initiatives to address concerns about global climate change, changes in environmental, tax, and other laws and regulations to which Integrys Energy Group and its subsidiaries are subject, as well as changes in the application of existing laws and regulations;

- Current and future litigation, regulatory investigations, proceedings, or inquiries, including but not limited to, manufactured gas plant site cleanup, reconciliation of revenues from the Gas Charge (as defined in Note 13, "Commitments and Contingencies") and related natural gas costs, and the proceeding regarding the Weston 4 air permit;

- 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 associated with executing Integrys Energy Group's plan to significantly reduce the scope and scale of, or divest in its entirety, the nonregulated energy services 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;  
Advances in technology;  
Effects of and changes in political and legal developments, as well as economic conditions and the related impact on customer demand;  
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 and the use of financial and derivative instruments;  
The risks associated with the inability of Integrys Energy Group's and its subsidiaries' counterparties, affiliates, and customers to meet their obligations;



Weather and other natural phenomena, in particular the effect of weather on natural gas and electricity sales;  
The utilization of tax credit and loss carryforwards;  
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 1. FINANCIAL INFORMATION

## Item 1. Financial Statements

## INTEGRYS ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF  
INCOME (Unaudited)

(Millions, except per share data)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
Nonregulated revenue	\$ 815.0	\$ 2,601.1	\$ 2,601.3	\$ 5,013.4
Utility revenue	612.6	816.1	2,027.1	2,393.0
Total revenues	1,427.6	3,417.2	4,628.4	7,406.4
Nonregulated cost of fuel, natural gas, and purchased power	708.9	2,544.8	2,478.0	4,829.3
Utility cost of fuel, natural gas, and purchased power	271.4	483.3	1,182.0	1,589.6
Operating and maintenance expense	276.0	251.8	567.3	538.4
Goodwill impairment loss	-	6.5	291.1	6.5
Restructuring expense	19.1	-	19.1	-
Depreciation and amortization expense	57.6	55.9	114.5	107.1
Taxes other than income taxes	21.7	21.8	48.6	47.7
Operating income (loss)	72.9	53.1	(72.2)	287.8
Miscellaneous income	20.8	22.7	42.0	40.8
Interest expense	(40.0)	(33.5)	(82.7)	(71.4)
Other expense	(19.2)	(10.8)	(40.7)	(30.6)
Income (loss) before taxes	53.7	42.3	(112.9)	257.2
Provision for income taxes	18.5	17.5	31.3	95.8
Net income (loss) from continuing operations	35.2	24.8	(144.2)	161.4
Discontinued operations, net of tax	0.3	0.1	0.3	0.1
Net income (loss)	35.5	24.9	(143.9)	161.5
Preferred stock dividends of subsidiary	0.8	0.8	1.6	1.6
Net income (loss) attributed to common shareholders	\$ 34.7	\$ 24.1	\$ (145.5)	\$ 159.9
Average shares of common stock				
Basic	76.8	76.6	76.7	76.6
Diluted	76.8	76.9	76.7	76.9
Earnings (loss) per common share (basic)				
Net income (loss) from continuing operations	\$ 0.45	\$ 0.31	\$ (1.90)	\$ 2.09
Discontinued operations, net of tax	-	-	-	-

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Earnings (loss) per common share (basic)	\$	0.45	\$	0.31	\$	(1.90)	\$	2.09
Earnings (loss) per common share (diluted)								
Net income (loss) from continuing operations	\$	0.45	\$	0.31	\$	(1.90)	\$	2.08
Discontinued operations, net of tax		-		-		-		-
Earnings (loss) per common share (diluted)	\$	0.45	\$	0.31	\$	(1.90)	\$	2.08
Dividends per common share declared	\$	0.68	\$	0.67	\$	1.36	\$	1.34

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

## INTEGRYS ENERGY GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) (Millions)	June 30 2009	December 31 2008
<b>Assets</b>		
Cash and cash equivalents	\$ 206.4	\$ 254.1
Accounts receivable and accrued unbilled revenues, net of reserves of \$74.6 and \$62.5, respectively	1,285.8	2,155.3
Inventories	287.1	732.9
Assets from risk management activities	2,860.2	2,223.7
Regulatory assets	152.8	244.0
Deferred income taxes	148.6	-
Other current assets	241.0	280.8
<b>Current assets</b>	<b>5,181.9</b>	<b>5,890.8</b>
Property, plant, and equipment, net of accumulated depreciation of \$2,796.6 and \$2,710.0, respectively	4,844.4	4,773.3
Regulatory assets	1,465.9	1,444.8
Assets from risk management activities	1,225.8	758.7
Goodwill	642.8	933.9
Other	503.5	471.0
<b>Total assets</b>	<b>\$ 13,864.3</b>	<b>\$ 14,272.5</b>
<b>Liabilities and Shareholders' Equity</b>		
Short-term debt	\$ 113.7	\$ 1,209.0
Current portion of long-term debt	271.0	155.2
Accounts payable	964.8	1,534.3
Liabilities from risk management activities	2,952.9	2,190.3
Regulatory liabilities	89.7	58.8
Deferred income taxes	-	71.6
Temporary LIFO liquidation credit	34.1	-
Other current liabilities	408.7	494.8
<b>Current liabilities</b>	<b>4,834.9</b>	<b>5,714.0</b>
Long-term debt	2,323.1	2,288.0
Deferred income taxes	626.1	435.7
Deferred investment tax credits	36.2	36.9
Regulatory liabilities	275.5	275.5
Environmental remediation liabilities	657.4	640.6
Pension and other postretirement benefit obligations	656.6	636.5
Liabilities from risk management activities	1,223.7	762.7
Asset retirement obligations	183.8	179.1
Other	148.1	152.8
<b>Long-term liabilities</b>	<b>6,130.5</b>	<b>5,407.8</b>

## Commitments and contingencies

Preferred stock of subsidiary - \$100 par value; 1,000,000 shares authorized; 511,882 shares issued; 510,516 shares outstanding	51.1	51.1
Common stock - \$1 par value; 200,000,000 shares authorized; 76,426,505 shares issued; 76,013,872 shares outstanding	76.4	76.4
Additional paid-in capital	2,490.8	2,487.9
Retained earnings	373.1	624.6
Accumulated other comprehensive loss	(77.0)	(72.8)
Treasury stock and shares in deferred compensation trust	(15.5)	(16.5)
Total liabilities and shareholders' equity	\$ 13,864.3	\$ 14,272.5

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