

INTEGRYS ENERGY GROUP, INC.

Form 10-Q

May 01, 2013

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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 March 31, 2013

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.<br>(A Wisconsin Corporation)<br>130 East Randolph Street<br>Chicago, IL 60601-6207<br>(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.

Large accelerated filer  Accelerated filer

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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,  
79,128,089 shares outstanding at  
April 26, 2013

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INTEGRYS ENERGY GROUP, INC.

QUARTERLY REPORT ON FORM 10-Q

For the Quarter Ended March 31, 2013

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Acronyms Used in this Quarterly Report on Form 10-Q

|       |   |
|-------|---|
| AFUDC | Allowance for Funds Used During Construction                        |
| AMRP  | Accelerated Natural Gas Main Replacement Program                    |
| ASC   | Accounting Standards Codification                                   |
| 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                              |
| ITF   | Integrys Transportation Fuels, LLC (doing business as Trillium CNG) |
| 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 Utilities 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                                |

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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. 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 our Annual Report on Form 10-K for the year ended December 31, 2012, as may be amended or supplemented in Part II, Item 1A of our subsequently filed Quarterly Reports on Form 10-Q (including this report), 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 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;
- 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 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. FINANCIAL INFORMATION

## Item 1. Financial Statements

## INTEGRYS ENERGY GROUP, INC.

| CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited) | Three Months Ended |         |   |
|---|--------------------|---------|---|
|   | March 31           |         |   |
| (Millions, except per share data)                       | 2013               | 2012    |   |
| Utility revenues  | \$1,123.8          | \$971.0 |   |
| Nonregulated revenues                                   | 554.4              | 276.9   |   |
| Total revenues  | 1,678.2            | 1,247.9 |   |
| Utility cost of fuel, natural gas, and purchased power  | 565.1              | 472.3   |   |
| Nonregulated cost of sales                              | 436.8              | 273.7   |   |
| Operating and maintenance expense                       | 295.1              | 259.3   |   |
| Depreciation and amortization expense                   | 60.9               | 62.1    |   |
| Taxes other than income taxes                           | 27.2               | 27.4    |   |
| Operating income  | 293.1              | 153.1   |   |
| Earnings from equity method investments                 | 22.3               | 21.1    |   |
| Miscellaneous income                                    | 5.7                | 2.4     |   |
| Interest expense  | (29.3              | ) (30.4 | ) |
| Other expense   | (1.3               | ) (6.9  | ) |
| Income before taxes                                     | 291.8              | 146.2   |   |
| Provision for income taxes                              | 109.6              | 47.4    |   |
| Net income from continuing operations                   | 182.2              | 98.8    |   |
| Discontinued operations, net of tax                     | 6.1                | 0.9     |   |
| Net income  | 188.3              | 99.7    |   |
| Preferred stock dividends of subsidiary                 | (0.8               | ) (0.8  | ) |
| Net income attributed to common shareholders            | \$187.5            | \$98.9  |   |
| Average shares of common stock                          |                    |         |   |
| Basic   | 78.7               | 78.6    |   |
| Diluted   | 79.3               | 79.2    |   |
| Earnings per common share (basic)                       |                    |         |   |
| Net income from continuing operations                   | \$2.30             | \$1.25  |   |
| Discontinued operations, net of tax                     | 0.08               | 0.01    |   |
| Earnings per common share (basic)                       | \$2.38             | \$1.26  |   |
| Earnings per common share (diluted)                     |                    |         |   |
| Net income from continuing operations                   | \$2.29             | \$1.24  |   |
| Discontinued operations, net of tax                     | 0.08               | 0.01    |   |
| Earnings per common share (diluted)                     | \$2.37             | \$1.25  |   |



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

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

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## INTEGRYS ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

|   | Three Months Ended |         |
|---|--------------------|---------|
|   | March 31           |         |
| (Millions)  | 2013               | 2012    |
| Net income  | \$188.3            | \$99.7  |
| Other comprehensive income, net of tax:   |                    |         |
| Cash flow hedges  |                    |         |
| Unrealized net gains (losses) arising during period, net of tax of \$ – million and \$(0.2) million, respectively   | 0.1                | (0.3 )  |
| Reclassification of net losses to net income, net of tax of \$0.6 million and \$1.0 million, respectively   | 0.9                | 1.5     |
| Cash flow hedges, net   | 1.0                | 1.2     |
| Defined benefit pension plans   |                    |         |
| Amortization of pension and other postretirement benefit costs included in net periodic benefit cost, net of tax of \$0.4 million and \$0.3 million, respectively | 0.6                | 0.3     |
| Other comprehensive income, net of tax  | 1.6                | 1.5     |
| Comprehensive income  | 189.9              | 101.2   |
| Preferred stock dividends of subsidiary   | (0.8 )             | (0.8 )  |
| Comprehensive income attributed to common shareholders  | \$189.1            | \$100.4 |

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

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## INTEGRYS ENERGY GROUP, INC.

| CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)<br>(Millions)  | March 31<br>2013 | December 31<br>2012 |
|--|------------------|---------------------|
| Assets   |                  |                     |
| Cash and cash equivalents  | \$72.0           | \$ 27.4             |
| Collateral on deposit  | 25.4             | 41.0                |
| Accounts receivable and accrued unbilled revenues, net of reserves of \$47.2 and \$43.5, respectively    | 899.0            | 796.8               |
| Inventories  | 140.2            | 271.9               |
| Assets from risk management activities   | 182.5            | 145.4               |
| Regulatory assets  | 88.4             | 110.8               |
| Assets held for sale   | 2.5              | 10.1                |
| Deferred income taxes  | 42.8             | 64.3                |
| Prepaid taxes  | 116.6            | 152.8               |
| Other current assets   | 31.3             | 38.6                |
| Current assets   | 1,600.7          | 1,659.1             |
| Property, plant, and equipment, net of accumulated depreciation of \$3,225.5 and \$3,114.7, respectively | 5,941.8          | 5,501.9             |
| Regulatory assets  | 1,842.7          | 1,813.8             |
| Assets from risk management activities   | 50.3             | 45.3                |
| Equity method investments  | 518.3            | 512.2               |
| Goodwill   | 658.3            | 658.3               |
| Other long-term assets   | 152.3            | 136.8               |
| Total assets   | \$10,764.4       | \$ 10,327.4         |
| Liabilities and Equity   |                  |                     |
| Short-term debt  | \$756.4          | \$ 482.4            |
| Current portion of long-term debt  | 291.5            | 313.5               |
| Accounts payable   | 450.1            | 457.7               |
| Liabilities from risk management activities  | 140.9            | 181.9               |
| Accrued taxes  | 95.9             | 83.0                |
| Regulatory liabilities   | 84.8             | 65.6                |
| Liabilities held for sale  | —                | 0.2                 |
| Other current liabilities  | 287.1            | 229.0               |
| Current liabilities  | 2,106.7          | 1,813.3             |
| Long-term debt   | 1,931.7          | 1,931.7             |
| Deferred income taxes  | 1,263.9          | 1,203.8             |
| Deferred investment tax credits  | 48.9             | 49.3                |
| Regulatory liabilities   | 377.6            | 370.5               |
| Environmental remediation liabilities  | 641.2            | 651.5               |
| Pension and other postretirement benefit obligations   | 566.4            | 625.2               |
| Liabilities from risk management activities  | 49.3             | 58.4                |
| Asset retirement obligations   | 416.3            | 411.2               |
| Other long-term liabilities  | 138.3            | 135.7               |
| Long-term liabilities  | 5,433.6          | 5,437.3             |

Commitments and contingencies

|  |            |             |
|--|------------|-------------|
| Common stock – \$1 par value; 200,000,000 shares authorized; 78,809,948 shares issued;<br>78,353,096 shares outstanding            | 78.8       | 78.3        |
| Additional paid-in capital   | 2,590.2    | 2,574.6     |
| Retained earnings  | 565.4      | 431.5       |
| Accumulated other comprehensive loss   | (39.3      | ) (40.9     |
| Shares in deferred compensation trust  | (22.0      | ) (17.7     |
| Total common shareholders' equity  | 3,173.1    | 3,025.8     |
| Preferred stock of subsidiary – \$100 par value; 1,000,000 shares authorized; 511,882 shares<br>issued; 510,495 shares outstanding | 51.1       | 51.1        |
| Noncontrolling interest in subsidiaries  | (0.1       | ) (0.1      |
| Total liabilities and equity   | \$10,764.4 | \$ 10,327.4 |

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

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## INTEGRYS ENERGY GROUP, INC.

| CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)                      | Three Months Ended |          |
|--|--------------------|----------|
|  | March 31           |          |
| (Millions)   | 2013               | 2012     |
| Operating Activities   |                    |          |
| Net income   | \$ 188.3           | \$ 99.7  |
| Adjustments to reconcile net income to net cash provided by operating activities |                    |          |
| Discontinued operations, net of tax  | (6.1               | ) (0.9   |
| Depreciation and amortization expense  | 60.9               | 62.1     |
| Recoveries and refunds of regulatory assets and liabilities                      | 16.5               | 9.5      |
| Net unrealized (gains) losses on energy contracts                                | (65.2              | ) 43.7   |
| Bad debt expense   | 9.3                | 10.1     |
| Pension and other postretirement expense   | 15.9               | 17.5     |
| Pension and other postretirement contributions                                   | (63.2              | ) (246.2 |
| Deferred income taxes and investment tax credits                                 | 68.3               | 29.7     |
| Equity income, net of dividends  | (4.4               | ) (3.8   |
| Termination of tolling agreement with Fox Energy Company LLC                     | (50.0              | ) —      |
| Other  | 6.3                | 2.7      |
| Changes in working capital   |                    |          |
| Collateral on deposit  | 15.4               | (13.7    |
| Accounts receivable and accrued unbilled revenues                                | (182.8             | ) 49.8   |
| Inventories  | 137.9              | 133.0    |
| Other current assets   | 45.4               | 54.6     |
| Accounts payable   | 24.7               | (77.7    |
| Temporary LIFO liquidation credit  | 83.2               | 36.7     |
| Other current liabilities  | 19.2               | 18.0     |
| Net cash provided by operating activities  | 319.6              | 224.8    |
| Investing Activities   |                    |          |
| Capital expenditures   | (147.0             | ) (123.0 |
| Proceeds from the sale or disposal of assets                                     | 1.1                | 1.4      |
| Capital contributions to equity method investments                               | (1.7               | ) (10.4  |
| Acquisition of Fox Energy Company LLC  | (391.6             | ) —      |
| Grant received related to Crane Creek Wind Project                               | 69.0               | —        |
| Other  | (3.0               | ) (4.6   |
| Net cash used for investing activities   | (473.2             | ) (136.6 |
| Financing Activities   |                    |          |
| Short-term debt, net   | 74.0               | 2.2      |
| Borrowing on term credit facility  | 200.0              | —        |
| Repayment of long-term debt  | (22.0              | ) —      |
| Proceeds from stock option exercises   | 6.4                | 10.1     |
| Shares purchased for stock-based compensation                                    | (2.0               | ) (24.6  |
| Payment of dividends   |                    |          |
| Preferred stock of subsidiary  | (0.8               | ) (0.8   |
| Common stock   | (50.1              | ) (53.0  |
|  | (3.8               | ) (9.0   |

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Payments made on derivative contracts related to divestitures classified as financing activities

|   |        |         |
|---|--------|---------|
| Other   | (4.5   | ) 0.2   |
| Net cash provided by (used for) financing activities          | 197.2  | (74.9 ) |
| Change in cash and cash equivalents – continuing operations   | 43.6   | 13.3    |
| Change in cash and cash equivalents – discontinued operations |        |         |
| Net cash (used for) provided by operating activities          | (0.6   | ) 1.0   |
| Net cash provided by (used for) investing activities          | 1.6    | (0.1 )  |
| Net change in cash and cash equivalents                       | 44.6   | 14.2    |
| Cash and cash equivalents at beginning of period              | 27.4   | 28.1    |
| Cash and cash equivalents at end of period                    | \$72.0 | \$42.3  |

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

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INTEGRYS ENERGY GROUP, INC. AND SUBSIDIARIES  
 CONDENSED NOTES TO FINANCIAL STATEMENTS  
 March 31, 2013

## NOTE 1 — FINANCIAL INFORMATION

As used in these notes, the term “financial statements” refers to the condensed consolidated financial statements. This includes the condensed consolidated statements of income, condensed consolidated statements of comprehensive income, condensed consolidated balance sheets, and condensed consolidated statements of cash flows, unless otherwise noted. In this report, when we refer to “us,” “we,” “our,” or “ours,” we are referring to Integrys Energy Group, Inc.

We prepare our financial statements in conformity with the rules and regulations of the SEC for Quarterly Reports on Form 10-Q and in accordance with GAAP. Accordingly, these financial statements do not include all of the information and footnotes required by GAAP for annual financial statements. These financial statements should be read in conjunction with the consolidated financial statements and footnotes in our Annual Report on Form 10-K for the year ended December 31, 2012.

In management’s opinion, these unaudited financial statements include all adjustments necessary for a fair presentation of financial results. All adjustments are normal and recurring, unless otherwise noted. All intercompany transactions have been eliminated in consolidation. Financial results for an interim period may not give a true indication of results for the year.

## 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 a supplemental disclosure to our statements of cash flows:

| (Millions)                     | Three Months Ended |         |
|--------------------------------|--------------------|---------|
|                                | March 31           |         |
|                                | 2013               | 2012    |
| Cash paid for interest         | \$4.8              | \$8.9   |
| Cash received for income taxes | (1.0               | ) (33.2 |

Cash received for income taxes decreased \$32.2 million primarily due to refunds received in 2012 related to prior year amended tax returns.

Significant noncash transactions were:

| (Millions)   | Three Months Ended |        |
|--|--------------------|--------|
|  | March 31           |        |
|  | 2013               | 2012   |
| Construction costs funded through accounts payable                   | \$59.8             | \$50.2 |
| Equity issued for stock-based compensation plans                     | 18.7               | —      |
| Equity issued for reinvested dividends                               | 3.0                | —      |
| Risk management asset related to sale of Beaver Falls and Syracuse * | 6.8                | —      |

\* See Note 5, "Discontinued Operations," for more information.





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## NOTE 3 — RISK MANAGEMENT ACTIVITIES

The following tables show our assets and liabilities from risk management activities:

| (Millions)                           | Balance Sheet<br>Presentation * | March 31, 2013                               |   |
|--------------------------------------|---------------------------------|--|---|
|                                      |                                 | Assets from<br>Risk Management<br>Activities | Liabilities from<br>Risk Management<br>Activities |
| Utility Segments                     |                                 |  |   |
| Nonhedge derivatives                 |                                 |  |   |
| Natural gas contracts                | Current                         | \$9.8  | \$3.7   |
| Natural gas contracts                | Long-term                       | 1.9  | —   |
| Financial transmission rights (FTRs) | Current                         | 1.0  | 0.1   |
| Petroleum product contracts          | Current                         | 0.1  | —   |
| Coal contracts                       | Current                         | 0.1  | 2.8   |
| Coal contracts                       | Long-term                       | —  | 2.0   |
| Cash flow hedges                     |                                 |  |   |
| Natural gas contracts                | Current                         | —  | 0.1   |
| Nonregulated Segments                |                                 |  |   |
| Nonhedge derivatives                 |                                 |  |   |
| Natural gas contracts                | Current                         | 24.3   | 19.7  |
| Natural gas contracts                | Long-term                       | 10.0   | 5.3   |
| Electric contracts                   | Current                         | 147.2  | 114.5   |
| Electric contracts                   | Long-term                       | 38.4   | 42.0  |
|                                      | Current                         | 182.5  | 140.9   |
|                                      | Long-term                       | 50.3   | 49.3  |
| Total                                |                                 | \$232.8                                      | \$190.2   |

\* We classify assets and liabilities from risk management activities as current or long-term based upon the maturities of the underlying contracts.

| (Millions)                  | Balance Sheet<br>Presentation * | December 31, 2012                            |   |
|-----------------------------|---------------------------------|--|---|
|                             |                                 | Assets from<br>Risk Management<br>Activities | Liabilities from<br>Risk Management<br>Activities |
| Utility Segments            |                                 |  |   |
| Nonhedge derivatives        |                                 |  |   |
| Natural gas contracts       | Current                         | \$2.5  | \$14.0  |
| Natural gas contracts       | Long-term                       | 0.9  | 0.8   |
| FTRs                        | Current                         | 2.1  | 0.1   |
| Petroleum product contracts | Current                         | 0.2  | —   |
| Coal contracts              | Current                         | 0.3  | 4.7   |
| Coal contracts              | Long-term                       | 2.2  | 4.3   |
| Cash flow hedges            |                                 |  |   |
| Natural gas contracts       | Current                         | —  | 0.4   |
| Nonregulated Segments       |                                 |  |   |
| Nonhedge derivatives        |                                 |  |   |
| Natural gas contracts       | Current                         | 51.7   | 48.5  |

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|                       |           |         |         |
|-----------------------|-----------|---------|---------|
| Natural gas contracts | Long-term | 11.5    | 7.6     |
| Electric contracts    | Current   | 88.6    | 114.2   |
| Electric contracts    | Long-term | 30.7    | 45.7    |
|                       | Current   | 145.4   | 181.9   |
|                       | Long-term | 45.3    | 58.4    |
| Total                 |           | \$190.7 | \$240.3 |

\* We classify assets and liabilities from risk management activities as current or long-term based upon the maturities of the underlying contracts.

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The following tables show the potential effect of netting arrangements on our financial position for recognized derivative assets and liabilities:

| (Millions)   | March 31, 2013    |   |            |
|--|-------------------|---|------------|
|  | Gross Amount      | Gross Amount Not Offset in the Balance Sheet, including Cash Collateral | Net Amount |
| Derivative assets subject to master netting or similar arrangements          |                   |   |            |
| Utility Segments   | \$12.8            | \$3.4   | \$9.4      |
| Nonregulated Segments  | 219.7             | 160.3   | 59.4       |
| Total  | 232.5             | 163.7   | 68.8       |
| Derivative assets not subject to master netting or similar arrangements      |                   |   |            |
| Total risk management assets   | \$232.8           |   | \$69.1     |
| Derivative liabilities subject to master netting or similar arrangements     |                   |   |            |
| Utility Segments   | \$3.9             | \$3.4   | \$0.5      |
| Nonregulated Segments  | 181.4             | 160.3   | 21.1       |
| Total  | 185.3             | 163.7   | 21.6       |
| Derivative liabilities not subject to master netting or similar arrangements |                   |   |            |
| Total risk management liabilities  | \$190.2           |   | \$26.5     |
| (Millions)   | December 31, 2012 |   |            |
|  | Gross Amount      | Gross Amount Not Offset in the Balance Sheet, including Cash Collateral | Net Amount |
| Derivative assets subject to master netting or similar arrangements          |                   |   |            |
| Utility Segments   | \$5.7             | \$3.0   | \$2.7      |
| Nonregulated Segments  | 182.5             | 145.4   | 37.1       |
| Total  | 188.2             | 148.4   | 39.8       |
| Derivative assets not subject to master netting or similar arrangements      |                   |   |            |
| Total risk management assets   | \$190.7           |   | \$42.3     |
| Derivative liabilities subject to master netting or similar arrangements     |                   |   |            |
| Utility Segments   | \$15.3            | \$3.8   | \$11.5     |
| Nonregulated Segments  | 215.4             | 159.8   | 55.6       |
| Total  | 230.7             | 163.6   | 67.1       |
| Derivative liabilities not subject to master netting or similar arrangements |                   |   |            |
| Total risk management liabilities  | \$240.3           |   | \$76.7     |

Our master netting and similar arrangements have conditional rights of setoff that can be enforced under a variety of situations, including counterparty default or credit rating downgrade below investment grade. Financial collateral received or provided is restricted to the extent that is it required per the terms of the related agreements. We have trade receivables and trade payables, subject to master netting or similar arrangements, that are not included in the above table. These amounts may offset (or conditionally offset) the net amounts presented in the above table. The net amounts in the above table represent the netting of fair value balances under master netting or similar arrangements, and the netting of cash collateral, as applicable.

The following table shows our cash collateral positions:

| (Millions)   | March 31,<br>2013 | December 31, 2012 |
|--|-------------------|-------------------|
| Cash collateral provided to others:  |                   |                   |
| Related to contracts under master netting or similar arrangements  | \$24.3            | \$ 39.9           |
| Other  | 1.1               | 1.1               |
| Cash collateral received from others related to contracts under master netting or similar arrangements * | —                 | 0.2               |

\* Reflected in other current liabilities on the balance sheets.

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Certain of our derivative and nonderivative commodity instruments contain provisions that could require “adequate assurance” in the event of a material change in our 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)               | March 31,<br>2013 | December 31, 2012 |
|--------------------------|-------------------|-------------------|
| IntegrYS Energy Services | \$67.2            | \$ 108.9          |
| Utility segments         | 3.8               | 14.0              |

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, our collateral requirement would have been as follows:

| (Millions)                                   | March 31,<br>2013 | December 31, 2012 |
|--|-------------------|-------------------|
| Collateral that would have been required:    |                   |                   |
| IntegrYS Energy Services                     | \$124.6           | \$ 173.8          |
| Utility segments                             | 0.4               | 10.1              |
| Collateral already satisfied:                |                   |                   |
| IntegrYS Energy Services — Letters of credit | 3.2               | 3.2               |
| Collateral remaining:                        |                   |                   |
| IntegrYS Energy Services                     | 121.4             | 170.6             |
| Utility segments                             | 0.4               | 10.1              |

## Utility Segments

## Non-Hedge Derivatives

Utility derivatives include natural gas purchase contracts, coal purchase contracts, financial derivative contracts (futures, options, and swaps), and FTRs used to manage electric transmission congestion costs. Both the electric and natural gas utility segments use futures, options, and swaps to manage 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. The electric utility segment also uses oil futures and options to manage price risk related to coal transportation.

The utilities had the following notional volumes of outstanding nonhedge derivative contracts:

|                                   | March 31, 2013 |       |                       | December 31, 2012 |       |                       |
|-----------------------------------|----------------|-------|-----------------------|-------------------|-------|-----------------------|
|                                   | Purchases      | Sales | Other<br>Transactions | Purchases         | Sales | Other<br>Transactions |
| Natural gas (millions of therms)  | 595.4          | —     | N/A                   | 1,072.6           | 0.1   | N/A                   |
| FTRs (millions of kilowatt-hours) | N/A            | N/A   | 1,579.0               | N/A               | N/A   | 4,057.2               |
| Petroleum products (barrels)      | 50,855.0       | N/A   | N/A                   | 62,811.0          | N/A   | N/A                   |
| Coal contracts (millions of tons) | 4.7            | 0.2   | N/A                   | 5.1               | N/A   | N/A                   |

The table below shows the unrealized gains (losses) recorded related to nonhedge derivatives at the utilities:

| (Millions) | Financial Statement Presentation | Three Months Ended<br>March 31<br>2013 | 2012 |
|------------|----------------------------------|--|------|
|------------|----------------------------------|--|------|

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|                             |   |        |        |   |
|-----------------------------|---|--------|--------|---|
| Natural gas contracts       | Balance Sheet — Regulatory assets (current)                               | \$13.0 | \$(6.4 | ) |
| Natural gas contracts       | Balance Sheet — Regulatory assets (long-term)                             | 0.8    | (0.8   | ) |
| Natural gas contracts       | Balance Sheet — Regulatory liabilities (current)                          | 5.9    | (3.7   | ) |
| Natural gas contracts       | Balance Sheet — Regulatory liabilities (long-term)                        | 0.8    | 0.1    |   |
| Natural gas contracts       | Income Statement — Utility cost of fuel, natural gas, and purchased power | —      | 0.1    |   |
| Natural gas contracts       | Income Statement — Operating and maintenance expense                      | 0.2    | —      |   |
| FTRs                        | Balance Sheet — Regulatory assets (current)                               | 0.2    | 0.4    |   |
| FTRs                        | Balance Sheet — Regulatory liabilities (current)                          | (0.4   | ) (0.3 | ) |
| Petroleum product contracts | Balance Sheet — Regulatory assets (current)                               | —      | 0.1    |   |
| Petroleum product contracts | Balance Sheet — Regulatory liabilities (current)                          | —      | 0.1    |   |
| Petroleum product contracts | Income Statement — Operating and maintenance expense                      | —      | 0.1    |   |
| Coal contracts              | Balance Sheet — Regulatory assets (current)                               | 1.9    | (3.1   | ) |
| Coal contracts              | Balance Sheet — Regulatory assets (long-term)                             | 2.3    | (3.5   | ) |
| Coal contracts              | Balance Sheet — Regulatory liabilities (current)                          | (0.2   | ) —    |   |
| Coal contracts              | Balance Sheet — Regulatory liabilities (long-term)                        | (2.2   | ) —    |   |

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## Nonregulated Segments

## NonHedge Derivatives

Integrys Energy Services enters into derivative contracts such as futures, forwards, options, and swaps that are used to manage commodity price risk primarily associated with retail electric and natural gas customer contracts.

Integrys Energy Services had the following notional volumes of outstanding nonhedge derivative contracts:

| (Millions)                                    | March 31, 2013 |          | December 31, 2012 |          |
|---|----------------|----------|-------------------|----------|
|   | Purchases      | Sales    | Purchases         | Sales    |
| Commodity contracts                           |                |          |                   |          |
| Natural gas (therms)                          | 641.5          | 556.2    | 782.0             | 679.0    |
| Electric (kilowatt-hours)                     | 56,100.1       | 34,502.0 | 54,127.6          | 31,809.6 |
| Foreign exchange contracts (Canadian dollars) | 0.4            | 0.4      | 0.4               | 0.4      |

Gains (losses) related to nonhedge derivatives are recognized currently in earnings, as shown in the table below:

| (Millions)            | Income Statement Presentation                              | Three Months Ended |           |
|-----------------------|--|--------------------|-----------|
|                       |  | March 31           | 2012      |
| Natural gas contracts | Nonregulated revenue                                       | 2013               | 2012      |
| Natural gas contracts | Nonregulated cost of sales                                 | \$3.4              | \$4.0     |
| Natural gas contracts | Nonregulated revenue (reclassified from accumulated OCI) * | (1.6 )             | —         |
| Electric contracts    | Nonregulated revenue                                       | (0.1 )             | (1.2 )    |
| Electric contracts    | Nonregulated revenue (reclassified from accumulated OCI) * | 64.0               | (68.6 )   |
| Total                 |  | (1.0 )             | (0.7 )    |
|                       |  | \$64.7             | \$(66.5 ) |

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

In the next 12 months, pre-tax losses of \$0.1 million and \$2.4 million related to discontinued cash flow hedges of natural gas contracts and electric contracts, respectively, are expected to be recognized in earnings as the forecasted transactions occur. These amounts are expected to be offset by the settlement of the related nonderivative customer contracts.

## NOTE 4 — ACQUISITIONS

## Acquisition of Fox Energy Center

In March 2013, WPS acquired all of the equity interests in Fox Energy Company LLC for \$391.6 million, subject to post-closing working capital adjustments. Fox Energy Company LLC was dissolved into WPS immediately after the purchase.

The purchase included the Fox Energy Center, a 593-megawatt combined-cycle electric generating facility located in Wisconsin, along with associated contracts. Fox Energy Center is a dual-fuel facility, equipped to use fuel oil, but expected to run primarily on natural gas. This plant gives WPS a more balanced mix of owned electric generation, including coal, natural gas, hydroelectric, wind, and other renewable sources. In giving its approval for the purchase,

the PSCW stated that the purchase price was reasonable and will benefit ratepayers.

The purchase price was allocated based on the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition, as follows:

(Millions)

|                                |         |
|--------------------------------|---------|
| Assets acquired                |         |
| Inventories                    | \$3.0   |
| Other current assets           | 0.6     |
| Property, plant, and equipment | 374.4   |
| Other long-term assets *       | 15.6    |
| Total assets acquired          | \$393.6 |
| Liabilities assumed            |         |
| Accounts payable               | \$2.0   |
| Total liabilities assumed      | \$2.0   |

\* Relates to intangible assets recorded for contractual services agreements. See Note 8, "Goodwill and Other Intangible Assets," for more information.



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Prior to the purchase, WPS supplied natural gas for the facility and purchased 500 megawatts of capacity and the associated energy output under a tolling arrangement. WPS paid \$50.0 million for the early termination of the tolling arrangement. This amount was recorded as a regulatory asset, as WPS is authorized recovery by the PSCW.

The purchase was financed with a combination of short-term debt and cash flow from operations. The short-term debt will be replaced later in 2013 with long-term financing.

WPS received regulatory approval to defer incremental costs associated with the purchase of the facility. Operating costs for the Fox Energy Center subsequent to the date of acquisition are included in our income statement. Due to regulatory deferral, these costs had no impact on net income. Pro forma adjustments to our revenues and earnings prior to the date of acquisition would not be meaningful or material. Prior to the acquisition, the Fox Energy Center was a nonregulated plant and sold all of its output to third parties, with most of the output purchased by WPS. The plant is now part of WPS's regulated fleet, used to serve its customers.

Acquisition of Compass Energy Services

In May 2013, Integrys Energy Services acquired all of the equity interests of Compass Energy Services, Inc. and its wholly-owned subsidiary ("Compass"), a nonregulated retail natural gas business supplying commercial and industrial customers primarily in the Mid Atlantic and Ohio regions. This transaction will expand Integrys Energy Services' retail natural gas presence in these markets and provide a solid foundation for future growth in these regions.

This acquisition is not material to us. Integrys Energy Services made an initial cash payment of \$12.0 million upon closing, and under the terms of the purchase agreement, the former owners of Compass will be eligible to receive additional cash consideration of up to \$8.0 million (but no less than \$3.0 million), based upon the financial performance of Compass over the next five years. Due to the timing of this acquisition, certain disclosures, including the allocation of the purchase price, have been omitted because the initial accounting for the business combination was incomplete as of the filing date.

NOTE 5 — DISCONTINUED OPERATIONS

Discontinued Operations at Holding Company and Other Segment

During the three months ended March 31, 2013, and 2012, we recorded \$6.0 million and \$1.9 million of after-tax gains, respectively, in discontinued operations at the holding company and other segment. In the first quarter of 2013, we remeasured uncertain tax positions included in our liability for unrecognized tax benefits after effectively settling a certain state income tax examination. We reduced the provision for income taxes related to this remeasurement.

Discontinued Operations at Integrys Energy Services Segment

Potential Sale of Combined Locks Energy Center

Integrys Energy Services is currently pursuing the sale of the Combined Locks Energy Center (Combined Locks), a natural gas-fired co-generation facility located in Wisconsin, as part of its long-term energy asset strategy. The sale of Combined Locks is expected to be completed by the end of 2013.

The carrying values of the major classes of assets related to Combined Locks classified as held for sale on the balance sheets were as follows:

(Millions)

March 31, 2013

|  |       | December 31,<br>2012 |
|--|-------|----------------------|
| Inventories  | \$0.5 | \$0.5                |
| Property, plant, and equipment, net of accumulated depreciation of \$0.5 million | 2.0   | 2.0                  |
| Total assets   | \$2.5 | \$2.5                |

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A summary of the components of discontinued operations related to Combined Locks recorded on the income statements was as follows at March 31:

| (Millions)                            | 2013   | 2012     |   |
|---------------------------------------|--------|----------|---|
| Nonregulated revenues                 | \$—    | \$0.4    |   |
| Nonregulated cost of sales            | (0.1   | ) (0.3   | ) |
| Operating and maintenance expense     | (0.1   | ) (0.2   | ) |
| Depreciation and amortization expense | —      | (0.1     | ) |
| Taxes other than income taxes         | —      | (0.1     | ) |
| Loss before taxes                     | (0.2   | ) (0.3   | ) |
| Benefit for income taxes              | 0.1    | 0.1      |   |
| Discontinued operations, net of tax   | \$(0.1 | ) \$(0.2 | ) |

## Sale of WPS Beaver Falls Generation, LLC and WPS Syracuse Generation, LLC

In March 2013, WPS Empire State, Inc, a subsidiary of Integrys Energy Services, sold all of the membership interests of WPS Beaver Falls Generation, LLC (Beaver Falls) and WPS Syracuse Generation, LLC (Syracuse), both of which own natural gas-fired generation plants located in the state of New York. The cash proceeds from the sale were \$1.6 million, subject to certain post-closing adjustments primarily related to working capital. The sale agreement also includes a potential annual payment to Integrys Energy Services for a four-year period following the sale based on a certain level of earnings achieved by the buyer (an earn-out).

The carrying values of the major classes of assets and liabilities related to Beaver Falls and Syracuse classified as held for sale on the balance sheets were as follows:

| (Millions)                                    | As of the Closing<br>Date on March<br>14, 2013 | As of<br>December 31,<br>2012 |
|---|--|-------------------------------|
| Inventories                                   | \$1.8  | \$1.8                         |
| Other current assets                          | 0.2  | —                             |
| Property, plant, and equipment                | 5.7  | 5.7                           |
| Other long-term assets                        | 0.1  | 0.1                           |
| Total assets                                  | \$7.8  | \$7.6                         |
| Total liabilities – other current liabilities | \$0.4  | \$0.2                         |

In conjunction with the sale, the buyer will assume certain derivative contracts with Integrys Energy Services. The derivative contracts establish physical capacity hedges for the retail electric business and physical hedges associated with the sale of capacity to external counterparties. Integrys Energy Services is in the process of novating the external capacity sales contracts to the buyer, upon which time the corresponding purchase transactions with the buyer will terminate. The carrying value of the derivative contract liabilities assumed by the buyer were \$6.8 million at March 31, 2013.

A summary of the components of discontinued operations related to Beaver Falls and Syracuse recorded on the income statements were as follows at March 31:

| (Millions)                          | 2013  | 2012   |   |
|-------------------------------------|-------|--------|---|
| Nonregulated revenues               | \$1.2 | \$(0.7 | ) |
| Nonregulated cost of sales          | (0.9  | ) (0.4 | ) |
| Operating and maintenance expense * | 0.4   | (0.5   | ) |

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|                                       |       |        |   |
|---------------------------------------|-------|--------|---|
| Depreciation and amortization expense | —     | (0.2   | ) |
| Taxes other than income taxes         | (0.3  | ) (0.8 | ) |
| Income (loss) before taxes            | 0.4   | (2.6   | ) |
| (Provision) benefit for income taxes  | (0.2  | ) 1.0  | ) |
| Discontinued operations, net of tax   | \$0.2 | \$(1.6 | ) |

\* Includes a \$1.0 million gain on sale at closing.

The sale of Beaver Falls and Syracuse will generate immaterial cash flows from providing certain administrative transition services to the buyer for up to a six-month period following the sale and from the potential four-year annual earn-out payment. Integrys Energy Services will also continue to purchase capacity from these facilities to satisfy certain capacity obligations, until novated to the buyer, and settle certain forward financial natural gas swaps under contracts that existed at the time of sale. Both of these transactions will generate cash flows that will expire upon novation or

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within two years of the sale and are not considered significant to the overall operations of Beaver Falls and Syracuse. Integrys Energy Services does not have the ability to significantly influence the operating or financial policies of Beaver Falls and Syracuse and also does not have significant continuing involvement in the operations of Beaver Falls and Syracuse. Therefore, the continuing cash flows discussed above are not considered direct cash flows of Beaver Falls and Syracuse.

## Sale of WPS Westwood Generation, LLC

In November 2012, Sunbury Holdings, LLC, a subsidiary of Integrys Energy Services, sold all of the membership interests of WPS Westwood Generation, LLC (Westwood), a waste coal generation plant located in Pennsylvania. The cash proceeds related to the sale were \$2.6 million. Integrys Energy Services also received a \$4.0 million note receivable from the buyer with a seven and one-half year term.

A summary of the components of discontinued operations related to Westwood recorded on the income statements were as follows at March 31:

|                                       |       |   |
|---------------------------------------|-------|---|
| (Millions)                            | 2012  |   |
| Nonregulated revenues                 | \$4.1 |   |
| Nonregulated cost of sales            | (1.3) | ) |
| Operating and maintenance expense     | (1.0) | ) |
| Depreciation and amortization expense | (0.3) | ) |
| Taxes other than income taxes         | (0.1) | ) |
| Interest expense                      | (0.1) | ) |
| Income before taxes                   | 1.3   |   |
| Provision for income taxes            | (0.5) | ) |
| Discontinued operations, net of tax   | \$0.8 |   |

Integrys Energy Services will receive interest income for seven and one-half years from the sale date related to the note receivable from the buyer. The sale will also generate immaterial cash flows from providing certain administrative transition services to the buyer for up to a six-month period following the sale. However, Integrys Energy Services does not have the ability to significantly influence the operating or financial policies of Westwood and also does not have significant continuing involvement in the operations of Westwood. Therefore, the continuing cash flows discussed above are not considered direct cash flows of Westwood.

## NOTE 6 — INVESTMENT IN ATC

Our electric transmission investment segment consists of WPS Investments LLC's ownership interest in ATC, which was approximately 34% at March 31, 2013. ATC is a for-profit, transmission-only company regulated by FERC.

The following table shows changes to our investment in ATC.

| (Millions)                                  | Three Months Ended March 31 |         |
|---|-----------------------------|---------|
|   | 2013                        | 2012    |
| Balance at the beginning of period          | \$476.6                     | \$439.4 |
| Add: Earnings from equity method investment | 21.7                        | 20.8    |
| Add: Capital contributions                  | 1.7                         | 3.4     |
| Less: Dividends received                    | 17.3                        | 16.7    |
| Balance at the end of period                | \$482.7                     | \$446.9 |

Financial data for all of ATC is included in the following tables:

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| (Millions)            | Three Months Ended March 31 |         |
|-----------------------|-----------------------------|---------|
|                       | 2013                        | 2012    |
| Income statement data |                             |         |
| Revenues              | \$151.8                     | \$147.7 |
| Operating expenses    | 69.8                        | 69.6    |
| Other expense         | 21.5                        | 20.0    |
| Net income            | \$60.5                      | \$58.1  |

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| (Millions)                                 | March 31, 2013 | December 31, 2012 |
|--|----------------|-------------------|
| Balance sheet data                         |                |                   |
| Current assets                             | \$69.3         | \$63.1            |
| Noncurrent assets                          | 3,325.3        | 3,274.7           |
| Total assets                               | \$3,394.6      | \$3,337.8         |
| Current liabilities                        | \$261.5        | \$251.5           |
| Long-term debt                             | 1,550.0        | 1,550.0           |
| Other noncurrent liabilities               | 124.8          | 95.8              |
| Shareholders' equity                       | 1,458.3        | 1,440.5           |
| Total liabilities and shareholders' equity | \$3,394.6      | \$3,337.8         |

## NOTE 7 — INVENTORIES

PGL and NSG price natural gas storage injections at the calendar year average of the cost of natural gas supply purchased. Withdrawals from storage are priced on the LIFO cost method. For interim periods, the difference between current projected replacement cost and the LIFO cost for quantities of natural gas temporarily withdrawn from storage is recorded as a temporary LIFO liquidation debit or credit. At March 31, 2013, we had a temporary LIFO liquidation credit of \$83.2 million recorded within other current liabilities on our balance sheet. Due to seasonality requirements, PGL and NSG expect interim reductions in LIFO layers to be replenished by year end.

## NOTE 8 — GOODWILL AND OTHER INTANGIBLE ASSETS

We had no material changes to the carrying amount of goodwill during the three months ended March 31, 2013, and 2012.

In connection with the acquisition of Fox Energy Company LLC, WPS recorded \$15.6 million of intangible assets in the first quarter of 2013. The intangible assets relate to contractual service agreements, which provide for major maintenance and protection against unforeseen maintenance costs related to the combustion turbine generators at the Fox Energy Center. The approximate amortization period of these intangible assets is 7 years.

The identifiable intangible assets other than goodwill listed below are part of other long-term assets on the balance sheets. An insignificant amount was recorded as assets held for sale on the balance sheets.

| (Millions)  | March 31, 2013        |                          |                     | December 31, 2012     |                          |                     |
|---|-----------------------|--------------------------|---------------------|-----------------------|--------------------------|---------------------|
|   | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Amortized intangible assets                                   |                       |                          |                     |                       |                          |                     |
| Customer-related <sup>(1)</sup>                               | \$22.4                | \$ (15.0 )               | \$7.4               | \$22.4                | \$ (14.7 )               | \$7.7               |
| Contractual service agreements <sup>(2)</sup>                 | 15.6                  | —                        | 15.6                | —                     | —                        | —                   |
| Patents/intellectual property <sup>(3)</sup>                  | 7.2                   | (0.3 )                   | 6.9                 | 7.2                   | (0.3 )                   | 6.9                 |
| Compressed natural gas fueling contract assets <sup>(4)</sup> | 5.6                   | (1.7 )                   | 3.9                 | 5.6                   | (1.3 )                   | 4.3                 |
| Renewable energy credits <sup>(5)</sup>                       | 5.1                   | —                        | 5.1                 | 3.1                   | —                        | 3.1                 |
| Nonregulated easements <sup>(6)</sup>                         | 3.8                   | (1.0 )                   | 2.8                 | 3.8                   | (0.9 )                   | 2.9                 |
| Customer-owned equipment modifications <sup>(7)</sup>         | 4.0                   | (0.6 )                   | 3.4                 | 4.0                   | (0.5 )                   | 3.5                 |

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|                               |        |            |        |        |            |        |
|-------------------------------|--------|------------|--------|--------|------------|--------|
| Other                         | 0.5    | (0.3 )     | 0.2    | 0.5    | (0.2 )     | 0.3    |
| Total                         | \$64.2 | \$ (18.9 ) | \$45.3 | \$46.6 | \$ (17.9 ) | \$28.7 |
| Unamortized intangible assets |        |            |        |        |            |        |
| MGU trade name                | \$5.2  | \$ —       | \$5.2  | \$5.2  | \$ —       | \$5.2  |
| Trillium trade name           | 3.5    | —          | 3.5    | 3.5    | —          | 3.5    |
| Pinnacle trade name           | 1.5    | —          | 1.5    | 1.5    | —          | 1.5    |
| Total intangible assets       | \$74.4 | \$ (18.9 ) | \$55.5 | \$56.8 | \$ (17.9 ) | \$38.9 |

(1) Represents customer relationship assets associated with PELLC's former nonregulated retail natural gas and electric operations and Trillium USA (Trillium) and Pinnacle CNG Systems (Pinnacle) compressed natural gas fueling operations. The remaining weighted-average amortization period for customer-related intangible assets at March 31, 2013, was approximately 9 years.

(2) Represents contractual service agreements related to maintenance on the combustion turbine generators at the Fox Energy Center. The remaining amortization period for these intangible assets at March 31, 2013, was approximately 7 years.

(3) Represents the fair value of patents/intellectual property at Pinnacle related to a system for more efficiently compressing natural gas to allow for faster fueling. The remaining amortization period at March 31, 2013, was approximately 9 years.



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- (4) Represents the fair value of Trillium and Pinnacle contracts acquired in September 2011. The remaining amortization period at March 31, 2013, was approximately 8 years.
- (5) Used at Integrys Energy Services to comply with state Renewable Portfolio Standards and to support customer commitments.
- (6) Relates to easements supporting a pipeline at Integrys Energy Services. The easements are amortized on a straight-line basis, with a remaining amortization period at March 31, 2013, of approximately 11 years.
- (7) Relates to modifications made by Integrys Energy Services and Trillium to customer-owned equipment. These intangible assets are amortized on a straight-line basis, with a remaining weighted-average amortization period at March 31, 2013, of approximately 11 years.

Amortization expense recorded as a component of nonregulated cost of sales in the statements of income for the three months ended March 31, 2013, and 2012, was \$0.4 million and \$1.6 million, respectively.

Amortization expense recorded as a component of depreciation and amortization expense in the statements of income for the three months ended March 31, 2013, and 2012, was \$0.5 million and \$0.7 million, respectively.

An insignificant amount of amortization expense was recorded in discontinued operations for the three months ended March 31, 2013, and 2012.

Amortization expense for the next five fiscal years is estimated to be:

| (Millions)   | For the Year Ending December 31 |       |       |       |       |
|--|---------------------------------|-------|-------|-------|-------|
|  | 2013                            | 2014  | 2015  | 2016  | 2017  |
| Amortization to be recorded in nonregulated cost of sales            | \$6.7                           | \$1.2 | \$1.1 | \$0.9 | \$0.9 |
| Amortization to be recorded in depreciation and amortization expense | 3.8                             | 4.1   | 4.1   | 3.9   | 3.8   |

## NOTE 9 — SHORT-TERM DEBT AND LINES OF CREDIT

Our outstanding short-term borrowings were as follows:

| (Millions, except percentages)                           | March 31, 2013 | December 31, 2012 |
|--|----------------|-------------------|
| Commercial paper   | \$556.4        | \$482.4           |
| Average discount rate on commercial paper                | 0.33%          | 0.40%             |
| Loan under term credit facility *                        | \$200.0        | —                 |
| Average interest rate on loan under term credit facility | 0.80%          | —                 |

\* Relates to the purchase of Fox Energy Company LLC. See Note 4, "Acquisitions," for more information regarding this purchase.

The commercial paper outstanding at March 31, 2013, had maturity dates ranging from April 1, 2013, through May 24, 2013. The terms of the loan outstanding under the term credit facility require repayment upon the earlier of issuance of replacement long-term debt or December 31, 2013.

The table below presents our average amount of short-term borrowings based on daily outstanding balances during the three months ended March 31:

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| (Millions)  | 2013    | 2012    |
|---|---------|---------|
| Average amount of commercial paper                | \$400.7 | \$357.5 |
| Average amount of loan under term credit facility | 8.9     | —       |

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We manage our liquidity by maintaining adequate external financing commitments. The information in the table below relates to our revolving credit facilities used to support our commercial paper borrowing program, including remaining available capacity under these facilities, and our short-term debt:

| (Millions)  | Maturity   | March 31, 2013   | December 31, 2012 |
|---|------------|------------------|-------------------|
| Revolving credit facility (IntegrYS Energy Group)                     | 05/17/2014 | \$275.0          | \$275.0           |
| Revolving credit facility (IntegrYS Energy Group)                     | 05/17/2016 | 200.0            | 200.0             |
| Revolving credit facility (IntegrYS Energy Group)                     | 06/13/2017 | 635.0            | 635.0             |
| Revolving credit facility (WPS)                                       | 05/17/2014 | 135.0            | 135.0             |
| Revolving credit facility (WPS)                                       | 06/13/2017 | 115.0            | 115.0             |
| Revolving credit facility (PGL)                                       | 06/13/2017 | 250.0            | 250.0             |
| Term credit facility (WPS) *  | 12/31/2013 | 200.0            | —                 |
| <b>Total short-term credit capacity</b>                               |            | <b>\$1,810.0</b> | <b>\$1,610.0</b>  |
| Less:   |            |                  |                   |
| Letters of credit issued inside credit facilities                     |            | \$29.1           | \$25.5            |
| Loan outstanding under term credit facility *                         |            | 200.0            | —                 |
| Commercial paper outstanding  |            | 556.4            | 482.4             |
| Accrued interest or original discount on outstanding commercial paper |            | 0.1              | —                 |
| <b>Available capacity under existing agreements</b>                   |            | <b>\$1,024.4</b> | <b>\$1,102.1</b>  |

\* Relates to the purchase of Fox Energy Company LLC. See Note 4, "Acquisitions," for more information regarding this purchase.

## NOTE 10 — LONG-TERM DEBT

| (Millions)                   | March 31, 2013 | December 31, 2012 |
|------------------------------|----------------|-------------------|
| WPS <sup>(1)</sup>           | \$850.1        | \$872.1           |
| PGL <sup>(2)</sup>           | 625.0          | 625.0             |
| NSG <sup>(3)</sup>           | 74.5           | 74.5              |
| IntegrYS Energy Group        | 674.8          | 674.8             |
| Total                        | 2,224.4        | 2,246.4           |
| Unamortized discount on debt | (1.2)          | (1.2)             |
| Total debt                   | 2,223.2        | 2,245.2           |
| Less current portion         | (291.5)        | (313.5)           |
| Total long-term debt         | \$1,931.7      | \$1,931.7         |

(1) In February 2013, WPS's \$22.0 million of 3.95% Senior Notes matured, and the outstanding principal balance was repaid.

In December 2013, WPS's 4.80% Senior Notes will mature. As a result, the \$125.0 million balance of these notes was included in the current portion of long-term debt on our balance sheets.

(2)

In April 2013, PGL bought back its \$50.0 million of 5.00% Series KK First and Refunding Mortgage Bonds that were due in February 2033.

In the same month, PGL issued \$50.0 million of 4.00% Series ZZ First and Refunding Mortgage Bonds. These bonds are due in February 2033.

On May 1, 2013, PGL's 4.625% Series NN-2 First and Refunding Mortgage Bonds matured, and the outstanding principal balance was repaid. As a result, the \$75.0 million balance of these bonds was included in the current portion of long-term debt on our balance sheets.

In November 2013, PGL's 7.00% Series SS First and Refunding Mortgage Bonds will mature. As a result, the \$45.0 million balance of these bonds was included in the current portion of long-term debt on our balance sheets.

(3) On May 1, 2013, NSG issued \$54.0 million of 3.96% Series Q First Mortgage Bonds. These bonds are due in May 2043.

On May 1, 2013, NSG's 4.625% Series N-2 First Mortgage Bonds matured, and the outstanding principal balance was repaid. As a result, the \$40.0 million balance of these bonds was included in the current portion of long-term debt on our balance sheets.

In November 2013, NSG's 7.00% Series O First Mortgage Bonds will mature. As a result, the \$6.5 million balance of these bonds was included in the current portion of long-term debt on our balance sheets.

On May 1, 2013, PGL secured commitments for \$220.0 million of 30-year 3.96% Series AAA First and Refunding Mortgage Bonds with a delayed draw feature. These bonds will be issued in August 2013.

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## NOTE 11 — INCOME TAXES

We calculate our interim period provision for income taxes based on our projected annual effective tax rate as adjusted for certain discrete items.

The table below shows our effective tax rates:

| Effective Tax Rate | Three Months Ended March 31 |        |   |
|--------------------|-----------------------------|--------|---|
|                    | 2013                        | 2012   |   |
|                    | 37.6                        | % 32.4 | % |

Our effective tax rate normally differs from the federal statutory tax rate of 35% due to additional provision for multistate income tax obligations. Other significant items that had an impact on our effective tax rates are noted below.

Our effective tax rate for the three months ended March 31, 2012, was lowered by the federal income tax benefit of wind production tax credits (PTCs). The effective income tax rate in 2013 was not impacted by wind PTCs. In the fourth quarter of 2012, we elected to claim and subsequently received a Section 1603 Grant for WPS's Crane Creek Wind Project in lieu of wind PTCs.

Our effective tax rate for the three months ended March 31, 2012, was also lowered by the effective settlement of certain state income tax examinations and a remeasurement of uncertain tax positions included in our liability for unrecognized tax benefits.

During the three months ended March 31, 2013, we decreased our liability for unrecognized tax benefits by \$6.8 million. This decrease primarily related to a remeasurement of uncertain tax positions driven by an effective settlement of a certain state income tax examination. We reduced the provision for income taxes related to this remeasurement, of which the majority was reported as discontinued operations.

## NOTE 12 — COMMITMENTS AND CONTINGENCIES

## (a) Unconditional Purchase Obligations and Purchase Order Commitments

We and our subsidiaries routinely enter into long-term purchase and sale commitments for various quantities and lengths of time. The regulated natural gas utilities have obligations to distribute and sell natural gas to their customers, and the regulated electric utilities have obligations to distribute and sell electricity to their customers. The utilities expect to recover costs related to these obligations in future customer rates. Additionally, the majority of the energy supply contracts entered into by Integrys Energy Services are to meet its obligations to deliver energy to customers. The following table shows our minimum future commitments related to these purchase obligations as of March 31, 2013, including those of our subsidiaries.

| (Millions)                                    | Date Contracts Extend Through | Total Amounts Committed | Payments Due By Period |         |         |         |        |             |
|---|-------------------------------|-------------------------|------------------------|---------|---------|---------|--------|-------------|
|   |                               |                         | 2013                   | 2014    | 2015    | 2016    | 2017   | Later Years |
| Natural gas utility supply and transportation | 2028                          | \$823.2                 | \$124.9                | \$156.3 | \$137.9 | \$125.7 | \$86.9 | \$191.5     |
| Electric utility Purchased power              | 2029                          | 852.6                   | 121.3                  | 37.7    | 33.0    | 29.4    | 28.4   | 602.8       |

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|   |      |           |         |         |         |         |         |         |
|---|------|-----------|---------|---------|---------|---------|---------|---------|
| Coal supply and transportation                  | 2017 | 122.7     | 44.4    | 41.2    | 30.4    | 6.2     | 0.5     | —       |
| Nonregulated electricity and natural gas supply | 2020 | 830.6     | 479.8   | 305.9   | 34.3    | 4.6     | 1.3     | 4.7     |
| Total   |      | \$2,629.1 | \$770.4 | \$541.1 | \$235.6 | \$165.9 | \$117.1 | \$799.0 |

We and our subsidiaries also had commitments of \$713.5 million in the form of purchase orders issued to various vendors at March 31, 2013, that relate to normal business operations, including construction projects.

(b) Environmental Matters

Air Permitting Violation Claims

Weston and Pulliam Clean Air Act (CAA) Issues:

In November 2009, the EPA issued a Notice of Violation (NOV) to WPS alleging violations of the CAA's New Source Review requirements relating to certain projects completed at the Weston and Pulliam plants from 1994 to 2009. WPS reached a settlement agreement with the EPA regarding this NOV and signed a Consent Decree, which was filed in the U.S. District Court (Court) in January 2013. This Consent Decree was approved by the Court in March 2013, after a public comment period. The final Consent Decree includes:

- the installation of emission control technology, including ReACT™ or an approved alternative, on Weston 3,
- changed operating conditions (including refueling, repowering, and/or retirement of units),
- limitations on plant emissions,

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beneficial environmental projects totaling \$6.0 million (various options, including capital projects, are available), and a civil penalty of \$1.2 million.

As mentioned above, the Consent Decree contains a requirement to refuel, repower, and/or retire certain Weston and Pulliam units. As of March 31, 2013, no decision had been made on how to address this requirement. Therefore, retirement of the Weston and Pulliam units mentioned in the Consent Decree was not considered probable.

We believe that significant costs prudently incurred as a result of complying with the terms of the Consent Decree, with the exception of the civil penalty, will be recoverable from customers.

In May 2010, WPS received from the Sierra Club a Notice of Intent (NOI) to file a civil lawsuit based on allegations that WPS violated the CAA at the Weston and Pulliam plants. WPS entered into a Standstill Agreement with the Sierra Club by which the parties agreed to negotiate as part of the EPA NOV process, rather than litigate. The Standstill Agreement ended in October 2012, but no further action has been taken by the Sierra Club as of March 31, 2013. It is unknown whether the Sierra Club will take further action in the future.

Columbia and Edgewater CAA Issues:

In December 2009, the EPA issued an NOV to Wisconsin Power and Light (WP&L), the operator of the Columbia and Edgewater plants, and the other joint owners of these plants, including Madison Gas and Electric and WPS. The NOV alleges violations of the CAA's New Source Review requirements related to certain projects completed at those plants. WPS, WP&L, and Madison Gas and Electric (Joint Owners) reached a settlement agreement with the EPA regarding this NOV and signed a Consent Decree, which was filed in the Court on April 22, 2013. The Consent Decree includes:

- the installation of emission control technology, including the installation of scrubbers at the Columbia plant,
- changed operating conditions (including refueling, repowering, and/or retirement of units),
- limitations on plant emissions,
- beneficial environmental projects, with WPS's portion totaling \$1.3 million (various options, including capital projects, are available), and
- WPS's portion of a civil penalty and legal fees totaling \$0.4 million.

The public comment period will end on May 28, 2013. The final terms of the Consent Decree may be different than currently anticipated.

As mentioned above, the Consent Decree contains a requirement to refuel, repower, and/or retire certain of the Columbia and Edgewater units. As of March 31, 2013, no decision had been made on how to address this requirement. Therefore, retirement of the Columbia and Edgewater units mentioned in the Consent Decree was not considered probable.

We believe that significant costs prudently incurred as a result of complying with the terms of the Consent Decree, with the exception of the civil penalty, will be recoverable from customers.

In September 2010, the Sierra Club filed a lawsuit against WP&L, which included allegations that modifications made at the Edgewater plant did not comply with the CAA. A similar case had also been filed by the Sierra Club related to the Columbia plant, which was dismissed without prejudice due to the impending settlement and Consent Decree. As part of the Consent Decree settlement, the Sierra Club filed a new suit related to the Columbia plant, which gave notice of the filing of the Consent Decree. It is anticipated that the Sierra Club will dismiss both suits against WP&L once the Consent Decree is approved by the Court.

Weston Title V Air Permit:

In November 2010, the WDNR provided a draft revised permit for the Weston 4 plant. WPS objected to proposed changes in mercury limits and requirements on the boilers as beyond the authority of the WDNR and met with the WDNR to resolve these issues. In September 2011, the WDNR issued an updated draft revised permit and a request for public comments. Due to the significance of the changes to the draft revised permit, the WDNR re-issued the draft revised permit for additional comments in February 2013. In July 2012, Clean Wisconsin filed suit against the WDNR alleging failure to issue or delay in issuing the Weston Title V permit. WPS and the WDNR both filed motions to dismiss Clean Wisconsin's lawsuit, which the Court granted in February 2013. Clean Wisconsin appealed this decision, but briefs have not yet been filed in the appeal. We do not expect this matter to have a material impact on our financial statements.

Pulliam Title V Air Permit:

The WDNR issued a renewal of the permit for the Pulliam plant in April 2009. In June 2010, the EPA issued an order directing the WDNR to respond to comments raised by the Sierra Club in its June 2009 petition requesting the EPA to object to the permit.

In April 2011, WPS received notification that the Sierra Club filed a civil lawsuit against the EPA based on what the Sierra Club alleged to be an unreasonable delay in responding to the June 2010 order. WPS is not a party to this litigation, but intervened to protect its interests. In February 2012, the WDNR sent a proposed permit and response to the EPA for a 45-day review, which allowed the parties to enter into a settlement agreement that has been approved by the Court.



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In May 2012, the Sierra Club filed another petition requesting that the EPA again object to the proposed permit and response, which the EPA denied in January 2013. The Sierra Club did not appeal the EPA decision. The Sierra Club also recently filed a request for a contested case proceeding regarding the permit, which was granted in part by the WDNR. A schedule has not yet been set for the contested case proceeding.

We are reviewing all of these matters, but we do not expect them to have a material impact on our financial statements.

### Columbia Title V Air Permit:

In February 2011, the Sierra Club filed a lawsuit against the EPA seeking to have the EPA take over the Title V permit process for the Columbia plant. The Sierra Club alleges the EPA must now act on the reconsideration of the Title V permit since the WDNR has exceeded its time frame in which to respond to an EPA order issued in 2009. In May 2011, the WDNR issued a revised draft Title V permit in response to the EPA's order.

In June 2012, WP&L received notice from the EPA of the EPA's proposal for WP&L to apply for a federally-issued Title V permit since the WDNR has not addressed the EPA's objections to the Title V permit issued for the Columbia plant. A hearing has been set for June 3, 2013. If the EPA decides to require the submittal of an operation permit application, it would be due within six months of the EPA's notice to WP&L. WP&L believes the previously issued Title V permit for the Columbia plant is still valid.

We do not expect this matter to have a material impact on our financial statements.

### WDNR Issued NOV's:

Since 2008, WPS has received four NOV's from the WDNR alleging various violations of the different air permits for the entire Weston plant and Weston 1, Weston 2, and Weston 4 individually. WPS also received an NOV for a clerical error involving pages missing from a quarterly report for Weston. Corrective actions have been taken for the events in the five NOV's. In December 2011, the WDNR referred several of the claims in the NOV's to the state Justice Department for enforcement. WPS began discussing the pending NOV's and their resolution with the Justice Department in late 2012. We do not expect this matter to have a material impact on our financial statements.

### Weston 4 Construction Permit

From 2004 to 2009, the Sierra Club filed various petitions objecting to the construction permit issued for the Weston 4 plant. In June 2010, the Wisconsin Court of Appeals affirmed the Weston 4 construction permit, but directed the WDNR to reopen the permit to set specific visible emissions limits. In July 2010, WPS, the WDNR, and the Sierra Club filed Petitions for Review with the Wisconsin Supreme Court. In March 2011, the Wisconsin Supreme Court denied all Petitions for Review. Other than the specific visible emissions limits issue, all other challenges to the construction permit are now resolved. WPS is working with the WDNR to resolve this issue as part of the current construction permit renewal process. We do not expect this matter to have a material impact on our financial statements.

### Mercury and Interstate Air Quality Rules

#### Mercury:

The State of Wisconsin's mercury rule requires a 40% reduction from historical baseline mercury emissions, beginning January 1, 2010, through the end of 2014. Beginning in 2015, electric generating units above 150 megawatts will be required to reduce mercury emissions by 90% from the historical baseline. Reductions can be phased in and the 90% target delayed until 2021 if additional sulfur dioxide and nitrogen oxide reductions are

implemented. By 2015, electric generating units above 25 megawatts, but less than 150 megawatts, must reduce their mercury emissions to a level defined by the Best Available Control Technology rule. As of March 31, 2013, WPS estimates capital costs of approximately \$8 million for its wholly owned plants to achieve the required reductions. The capital costs are expected to be recovered in future rates.

In December 2011, the EPA issued the final Utility Mercury and Air Toxics Standards (MATS), which will regulate emissions of mercury and other hazardous air pollutants beginning in 2015. The State of Wisconsin is assessing how its current mercury rule will be impacted by the MATS rule. We are currently evaluating options for achieving the emission limits specified in this rule, but we do not anticipate the cost of compliance to be significant. We expect to recover future compliance costs in future rates.

**Sulfur Dioxide and Nitrogen Oxide:**

In July 2011, the EPA issued a final rule known as the Cross State Air Pollution Rule (CSAPR), which numerous parties, including WPS, challenged in the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit). The new rule was to become effective January 1, 2012. However, in December 2011, the CSAPR requirements were stayed by the D.C. Circuit and a previous rule, the Clean Air Interstate Rule (CAIR), was implemented during the stay period. In August 2012, the D.C. Circuit issued their ruling vacating and remanding CSAPR and simultaneously reinstating CAIR pending the issuance of a replacement rule by the EPA. In October 2012, the EPA and several other parties filed petitions for a rehearing of the D.C. Circuit's decision, which the D.C. Circuit denied in January 2013.

Under CAIR, units affected by the Best Available Retrofit Technology (BART) rule were considered in compliance with BART for sulfur dioxide and nitrogen oxide emissions if they were in compliance with CAIR. This determination was updated when CSAPR was issued (CSAPR satisfied BART), and the EPA has not revised it to reflect the reinstatement of CAIR. Although particulate emissions also contribute to visibility impairment, the WDNR's modeling has shown the impairment to be so insignificant that additional capital expenditures on controls are not warranted.

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Due to the uncertainty surrounding this rulemaking, we are currently unable to predict whether WPS will have to purchase additional emission allowances, idle or abandon certain units, or change how certain units are operated. WPS expects to recover any future compliance costs in future rates. The potential impact on Integrys Energy Services is not expected to be material.

## Manufactured Gas Plant Remediation

Our natural gas utilities, their predecessors, and certain former affiliates operated facilities in the past at multiple sites for the purpose of manufacturing and storing manufactured gas. In connection with these activities, waste materials were produced that may have resulted in soil and groundwater contamination at these sites. Under certain laws and regulations relating to the protection of the environment, our natural gas utilities are required to undertake remedial action with respect to some of these materials. They are coordinating the investigation and cleanup of the sites subject to EPA jurisdiction under what is called a "multi-site" program. This program involves prioritizing the work to be done at the sites, preparation and approval of documents common to all of the sites, and use of a consistent approach in selecting remedies.

Our natural gas utilities are responsible for the environmental remediation of 53 sites, of which 20 have been transferred to the EPA Superfund Alternative Sites Program. Under the EPA's program, the remedy decisions at these sites will be made using risk-based criteria typically used at Superfund sites. As of March 31, 2013, we estimated and accrued for \$639.6 million of future undiscounted investigation and cleanup costs for all sites. We may adjust these estimates in the future due to remedial technology, regulatory requirements, remedy determinations, and any claims of natural resource damages. As of March 31, 2013, cash expenditures for environmental remediation not yet recovered in rates were \$30.0 million. We recorded a regulatory asset of \$669.6 million at March 31, 2013, which is net of insurance recoveries received of \$63.1 million, related to the expected recovery through rates of both cash expenditures and estimated future expenditures.

Management believes that any costs incurred for environmental activities relating to former manufactured gas plant operations that are not recoverable through contributions from other entities or from insurance carriers have been prudently incurred and are, therefore, recoverable through rates for MGU, NSG, PGL, and WPS. Accordingly, we do not expect these costs to have a material impact on our financial statements. However, any changes in the approved rate mechanisms for recovery of these costs, or any adverse conclusions by the various regulatory commissions with respect to the prudence of costs actually incurred, could materially affect recovery of such costs through rates.

## NOTE 13 — GUARANTEES

The following table shows our outstanding guarantees:

| (Millions)  | Total Amounts                  | Expiration          |                 |                 |
|---|--------------------------------|---------------------|-----------------|-----------------|
|   | Committed at<br>March 31, 2013 | Less Than<br>1 Year | 1 to 3<br>Years | Over 3<br>Years |
| Guarantees supporting commodity transactions of subsidiaries <sup>(1)</sup> | \$ 597.1                       | \$368.8             | \$31.3          | \$197.0         |
| Standby letters of credit <sup>(2)</sup>                                    | 34.2                           | 34.1                | 0.1             | —               |
| Surety bonds <sup>(3)</sup>   | 14.4                           | 14.4                | —               | —               |
| Other guarantees <sup>(4)</sup>   | 22.3                           | —                   | —               | 22.3            |
| Total guarantees  | \$ 668.0                       | \$417.3             | \$31.4          | \$219.3         |

<sup>(1)</sup> Consists of parental guarantees of \$436.3 million to support the business operations of Integrys Energy Services; \$108.5 million and \$45.3 million, respectively, related to natural gas supply at MERC and MGU; and \$5.0 million

at IBS, and \$2.0 million at UPPCO to support business operations. These guarantees are not reflected on our balance sheets.

(2) At our request or the request of our subsidiaries, financial institutions have issued standby letters of credit for the benefit of third parties that have extended credit to our subsidiaries. This amount consists of \$32.5 million issued to support Integrys Energy Services' operations and \$1.7 million issued to support MERC, MGU, NSG, PGL, Pinnacle CNG Systems, UPPCO, and WPS. These amounts are not reflected on our balance sheets.

(3) Primarily for workers compensation self-insurance programs and obtaining various licenses, permits, and rights-of-way. These guarantees are not reflected on our balance sheets.

(4) Consists of (a) \$10.0 million related to the sale agreement for Integrys Energy Services' Texas retail marketing business, which included a number of customary representations, warranties, and indemnification provisions. An insignificant liability was recorded related to the possible imposition of additional miscellaneous gross receipts tax in the event of a change in law or interpretation of the tax law; (b) \$5.0 million related to an environmental indemnification provided by Integrys Energy Services as part of the sale of the Stoneman generation facility, under which we expect that the likelihood of required performance is remote. This amount is not reflected on our balance sheets; and (c) \$7.3 million related to other indemnifications primarily for workers compensation coverage. These amounts are not reflected on our balance sheets.

We have provided total parental guarantees of \$487.0 million on behalf of Integrys Energy Services. Our exposure under these guarantees related to existing transactions at March 31, 2013, was approximately \$229.7 million.