

Large Filing Separator Sheet

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2008 Compared with 2007

Net cash used for investing activities was \$452.2 million in 2008, compared with \$451.5 million in 2007. The \$0.7 million year-over-year increase in cash used for investing activities was primarily driven by a \$140.2 million increase in cash used for capital expenditures (discussed below), partially offset by the reimbursement of \$99.7 million from ATC, related to the construction of the transmission facilities required to support Weston 4, and a \$15.5 million year-over-year increase in cash proceeds received from the sale of property, plant, and equipment.

Capital Expenditures

Capital expenditures by business segment for the years ended December 31 were as follows:

Reportable Segment (millions)	2009	2008	2007
Electric utility	\$250.4	\$207.4	\$202.6
Natural gas utility	136.9	237.3	158.8
Integrus Energy Services	22.4	68.1	20.5
Holding company and other	34.5	20.0	10.7
Integrus Energy Group	\$444.2	\$532.8	\$392.6

The increase in capital expenditures at the electric utility segment in 2009 compared with 2008 was primarily due to wind generation projects, partially offset by the year-over-year decrease in capital expenditures associated with Weston 4. The decrease in capital expenditures at the natural gas utility segment in 2009 compared with 2008 was primarily due to a decrease in costs related to the construction of natural gas laterals that connected WPS's natural gas distribution system to the Guardian II natural gas pipeline, which was completed in February 2009. The decrease in capital expenditures at Integrus Energy Services in 2009 compared with 2008 was primarily driven by fewer expenditures related to renewable energy projects in 2009, compared with 2008.

The increase in capital expenditures at the natural gas utility segment in 2008 compared with 2007 was primarily due to an increase in capital expenditures at PGL and NSG due to the fact that they were not acquired until February 21, 2007, as well as construction of the natural gas lateral infrastructure that connects WPS's natural gas distribution system to the Guardian II natural gas pipeline. The increase in capital expenditures at Integrus Energy Services in 2008 compared with 2007 was primarily due to solar energy projects as well as the construction of a pipeline that will transport methane gas produced at a landfill for use at a chemical plant as a replacement for natural gas.

Financing Cash Flows**2009 Compared with 2008**

Net cash used for financing activities was \$1,378.4 million in 2009, compared with net cash provided by financing activities of \$911.3 million in 2008. The \$2,289.7 million year-over-year increase in cash used for financing activities was primarily driven by \$973.6 million of net repayments of short-term debt and notes payable in 2009, compared with \$725.4 million of net short-term and notes payable borrowings in 2008. The repayments in 2009 were made possible by the increase in net cash provided by operating activities. Also, as a result of the previously announced strategy change at Integrus Energy Services, fewer structured natural gas loan agreements were entered into in 2009, compared with 2008, resulting in a \$368.4 million year-over-year decrease in proceeds from the sale of borrowed natural gas. Additionally, Integrus Energy Services had a \$188.0 million year-over-year increase in the purchase of natural gas to repay structured natural gas loan agreements, many of which were entered into in 2008.

2008 Compared with 2007

Net cash provided by financing activities was \$911.3 million in 2008, compared with net cash used for financing activities of \$459.2 million in 2007. In 2007, Integrys Energy Group was able to pay down short-term debt with a portion of the proceeds received from the sale of PEP. In 2008, proceeds were required to fund higher year-over-year working capital requirements.

Significant Financing Activities

Dividends paid increased in 2009 compared with 2008. In February 2009, Integrys Energy Group increased its quarterly common stock dividend to 68 cents per share. The quarterly common stock dividend was increased from 66 cents per share to 67 cents per share in 2008.

Integrys Energy Group had outstanding commercial paper borrowings of \$212.1 million and \$552.9 million at December 31, 2009, and 2008, respectively. Integrys Energy Group had short-term notes payable outstanding of \$10.0 million and \$181.1 million at December 31, 2009, and 2008, respectively. Integrys Energy Group had no borrowings under revolving credit facilities at December 31, 2009 and \$475.0 million as of December 31, 2008. See Note 12, "*Short-Term Debt and Lines of Credit*" for more information.

For information on the issuance and redemption of long-term debt at Integrys Energy Group and its subsidiaries, see Note 13, "*Long-Term Debt*."

Prior to January 1, 2008, Integrys Energy Group issued new shares of common stock under its Stock Investment Plan and under certain stock-based employee benefit and compensation plans. As a result of the plans, equity increased \$45.6 million in 2007. During 2009 and 2008, shares of Integrys Energy Group's common stock were purchased on the open market to meet the requirements of its Stock Investment Plan and certain stock-based employee benefit and compensation plans. Integrys Energy Group did not repurchase any existing common stock during 2007. Beginning in the first quarter of 2010, Integrys Energy Group plans to issue new shares of common stock to meet the requirements of its Stock Investment Plan and certain stock-based employee benefit and compensation plans.

Credit Ratings

Integrys Energy Group uses internally generated funds, commercial paper borrowings, and other short-term borrowings to satisfy most of its capital requirements. Integrys Energy Group also periodically issues long-term debt and common stock to reduce short-term debt, maintain desired capitalization ratios, and fund future growth.

Integrys Energy Group, WPS, and PGL have their own commercial paper borrowing programs.

WPS periodically issues long-term debt and receives equity contributions from Integrys Energy Group to reduce short-term debt, fund future growth, and maintain capitalization ratios as authorized by the PSCW.

PGL and NSG periodically issue long-term debt in order to reduce short-term debt, refinance maturing securities, maintain desired capitalization ratios, and fund future growth. The specific forms of long-term financing, amounts, and timing depend on business needs, market conditions, and other factors.

The current credit ratings for Integrys Energy Group, WPS, PEC, PGL, and NSG are listed in the table below.

Credit Ratings	Standard & Poor's	Moody's
Integrys Energy Group		
Issuer credit rating	BBB+	N/A
Senior unsecured debt	BBB	Baa1
Commercial paper	A-2	P-2
Credit facility	N/A	Baa1
Junior subordinated notes	BBB-	Baa2
WPS		
Issuer credit rating	A-	A2
First mortgage bonds	N/A	A1
Senior secured debt	A	A1
Preferred stock	BBB	Baa1
Commercial paper	A-2	P-1
Credit facility	N/A	A2
PEC		
Issuer credit rating	BBB+	N/A
Senior unsecured debt	BBB	Baa1
PGL		
Issuer credit rating	BBB+	A3
Senior secured debt	A-	A2
Commercial paper	A-2	P-2
NSG		
Issuer credit rating	BBB+	A3
Senior secured debt	A	A2

Credit ratings are not recommendations to buy or sell securities and are subject to change, and each rating should be evaluated independently of any other rating.

On January 26, 2010, Standard and Poor's revised the outlook for Integrys Energy Group and all of its subsidiaries to stable from negative. The revised outlook reflected Integrys Energy Group's decision to retain a selected portion of its nonregulated operations, which resulted in a revision to Integrys Energy Group's business risk profile to "strong" from "excellent." The revised outlook also reflected Integrys Energy Group's improved financial measures and decreasing regulatory risk, which resulted in a change in its financial risk profile to "significant" from "aggressive."

On June 9, 2009, Moody's assigned an "A3" issuer credit rating to PGL and NSG, and lowered the following ratings of Integrys Energy Group and its subsidiaries:

- The senior unsecured debt ratings of Integrys Energy Group and PEC were lowered from "A3" to "Baa1."
- The credit facility rating of Integrys Energy Group was lowered from "A3" to "Baa1."
- The junior subordinated notes rating of Integrys Energy Group was lowered from "Baa1" to "Baa2."
- The issuer credit rating of WPS was lowered from "A1" to "A2."
- The senior secured debt rating and first mortgage bonds rating of WPS were lowered from "Aa3" to "A1."
- The senior secured debt ratings of PGL and NSG were lowered from "A1" to "A2."
- The preferred stock rating of WPS was lowered from "A3" to "Baa1."
- The credit facility rating of WPS was lowered from "A1" to "A2."
- The commercial paper rating of PGL was lowered from "P-1" to "P-2."

According to Moody's, the downgrade considers management's decision to divest of its nonregulated energy marketing business, and reflects the expected improvements in Integrys Energy Group's business

risk and liquidity profiles after the divestiture, as well as the expected challenge of replacing the earnings generated by this nonregulated segment. Also according to Moody's, the downgrade reflects management's decision to leave its dividend policy unchanged despite expected near-term reduction in earnings and internal cash flow generation.

On March 5, 2009, Standard & Poor's lowered the following ratings of Integrys Energy Group and its subsidiaries:

- The issuer credit ratings of Integrys Energy Group, PGL, NSG, and PEC were lowered from "A-" to "BBB+."
- The issuer credit rating of WPS was lowered from "A" to "A-."
- The senior unsecured debt ratings of Integrys Energy Group and PEC were lowered from "BBB+" to "BBB."
- The junior subordinated notes rating of Integrys Energy Group was lowered from "BBB" to "BBB-."
- The senior secured debt rating of WPS was lowered from "A+" to "A."
- The preferred stock rating of WPS was lowered from "BBB+" to "BBB."

According to Standard & Poor's, Integrys Energy Group's corporate credit downgrade reflects weak financial measures that do not support an "A" category credit profile. Standard & Poor's also stated that the downgrade reflects the changes to Integrys Energy Group's business and financial risk profiles. Standard & Poor's revised Integrys Energy Group's business risk profile to "excellent" from "strong" and changed its financial risk profile to "aggressive" from "intermediate." The change in the business risk profile reflected the strategy change with respect to Integrys Energy Services and helped to moderate the downgrade.

Discontinued Operations

2009 Compared with 2008

Net cash provided by discontinued operations was \$3.2 million in 2009 compared with \$3.8 million in 2008.

2008 Compared with 2007

Net cash provided by discontinued operations was \$3.8 million in 2008 compared with \$690.2 million in 2007. The decrease in net cash provided by discontinued operations was driven by the approximate \$669.2 million of proceeds received from the sale of PEP.

Future Capital Requirements and Resources*Contractual Obligations*

The following table shows the contractual obligations of Integrys Energy Group, including its subsidiaries, as of December 31, 2009.

(Millions)	Total Amounts Committed	Payments Due By Period			
		2010	2011 to 2012	2013 to 2014	2015 and Thereafter
Long-term debt principal and interest payments ⁽¹⁾	\$ 3,580.2	\$ 254.4	\$ 942.3	\$ 571.8	\$1,811.7
Operating lease obligations	68.4	11.6	19.6	13.6	23.6
Commodity purchase obligations ⁽²⁾	5,735.6	2,399.9	1,858.0	689.8	787.9
Purchase orders ⁽³⁾	515.3	514.1	1.2	-	-
Pension and other postretirement funding obligations ⁽⁴⁾	683.4	103.3	267.4	138.1	174.6
Total contractual cash obligations	\$10,582.9	\$3,283.3	\$3,088.5	\$1,413.3	\$2,797.8

(1) Represents bonds issued, notes issued, and loans made to Integrys Energy Group and its subsidiaries. Integrys Energy Group records all principal obligations on the balance sheet. For purposes of this table, it is assumed that the current interest rates on variable rate debt will remain in effect until the debt matures.

(2) Energy supply contracts at Integrys Energy Services included as part of commodity purchase obligations are generally entered into to meet obligations to deliver energy to customers. The utility subsidiaries expect to recover the costs of their contracts in future customer rates.

(3) Includes obligations related to normal business operations and large construction obligations.

(4) Obligations for pension and other postretirement benefit plans, other than the Integrys Energy Group Retirement Plan, cannot be estimated beyond 2012.

The table above does not reflect any payments related to the manufactured gas plant remediation liability of \$657.7 million at December 31, 2009, as the amount and timing of payments are uncertain. Integrys Energy Group anticipates incurring costs annually to remediate these sites, but 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 WPS, MGU, PGL, and NSG. See Note 16, "Commitments and Contingencies," for more information about environmental liabilities. In addition, the table does not reflect any payments for the December 31, 2009, liability related to uncertain tax positions, as the amount and timing of payments are uncertain. See Note 15, "Income Taxes," for more information about this liability.

Capital Requirements

Estimated construction expenditures by company for the three-year period 2010 through 2012 are listed below.

(Millions)	
WPS	
Environmental projects	\$ 164.1
Electric and natural gas distribution projects	150.9
Electric and natural gas delivery and customer service projects	59.1
Other projects	108.0
UPPCO	
Repairs and safety measures at hydroelectric facilities	37.3
Other projects	28.4
MGU	
Natural gas pipe distribution system, underground natural gas storage facilities, and other projects	29.8
MERC	
Natural gas pipe distribution system and other projects	48.5
PGL	
Natural gas pipe distribution system, underground natural gas storage facilities, and other projects *	481.1
NSG	
Natural gas pipe distribution system and other projects	45.9
Integrys Energy Services	
Solar and other projects	88.9
IBS	
Corporate services infrastructure projects	53.7
Total capital expenditures	\$1,295.7

* Includes approximately \$114 million of expenditures related to the accelerated replacement of cast iron mains at PGL in 2011 and 2012. On January 21, 2010, the ICC approved a rider mechanism to allow PGL to recover the incremental cost of an accelerated natural gas main replacement program. See Note 24, "Regulatory Environment," for more information.

Integrys Energy Group expects to provide additional capital contributions to ATC (not included in the above table) of approximately \$7 million in 2010, \$8 million in 2011, and \$7 million in 2012.

All projected capital and investment expenditures are subject to periodic review and may vary significantly from the estimates depending on a number of factors, including, but not limited to, industry restructuring, regulatory constraints, acquisition opportunities, market volatility, and economic trends.

Capital Resources

As of December 31, 2009, Integrys Energy Group and each of its subsidiaries were in compliance with all respective covenants related to outstanding short-term and long-term debt and expect to be in compliance with all such debt covenants for the foreseeable future.

See Note 12, "*Short-Term Debt and Lines of Credit*," for more information on Integrys Energy Group's credit facilities and other short-term credit agreements, including short-term debt covenants. See Note 13, "*Long-Term Debt*," for more information on Integrys Energy Group's long-term debt covenants.

Integrys Energy Group plans to meet its capital requirements for the period 2010 through 2012 primarily through internally generated funds (net of forecasted dividend payments) and debt and equity financings. During 2010, over \$1.3 billion of Integrys Energy Group's revolving credit facilities will mature. It is the intent of management to renew a substantial portion of the maturing credit facilities by the end of the second quarter of 2010. Integrys Energy Group plans to maintain current debt to equity ratios at appropriate levels to support current credit ratings and corporate growth. Management believes Integrys Energy Group has adequate financial flexibility and resources to meet its future needs.

In March 2009, Integrys Energy Group filed a shelf registration statement which allows it to publicly issue debt, equity, certain types of hybrid securities, and other financial instruments. Specific terms and conditions of securities issued will be determined prior to the actual issuance of any specific security.

Under an existing shelf registration statement, WPS may issue up to \$250.0 million of senior debt securities with amounts, prices, and terms to be determined at the time of future offerings. In December 2008, WPS issued \$125.0 million of 6.375%, 7-year Senior Notes under this shelf registration statement.

Other Future Considerations

Integrys Energy Services Business Segment Strategy Change

At December 31, 2009, Integrys Energy Group had completed a substantial portion of its previously announced strategy to divest of or significantly reduce the size of its nonregulated energy services business segment to a smaller segment with significantly reduced credit and collateral support requirements. One of the remaining parts of the strategy change is the pending sale of the wholesale electric business, which is expected to close in the first half of 2010.

Integrys Energy Group has repositioned its nonregulated energy services business segment from a focus on significant growth in wholesale and retail markets across the United States and Canada, to a focus on selected retail markets in the United States with the expectation that recurring customer based business will result in dependable cash and earnings contributions with a reduced risk and capital profile. In addition, Integrys Energy Services will continue to invest in energy assets with renewable attributes. Once fully implemented, Integrys Energy Group expects its liquidity needs to decrease and expects to reduce its existing credit facilities. Integrys Energy Group may also use the proceeds from the sales of any portions of this business segment, as well as the return of invested capital, to reduce outstanding debt or invest in areas with more desirable risk adjusted rates of return to achieve the highest value for its shareholders. See Note 4, "*Dispositions*," for more information.

Customer Usage

Due to the general economic slowdown and the increased focus on energy efficiency, sales volumes excluding the impact of weather have been decreasing at the utilities. In certain jurisdictions, decoupling mechanisms have been implemented, which allow utilities to adjust rates going forward to recover or refund all or a portion of the differences between the actual and authorized margin per customer impact of variations in volumes. The mechanisms do not adjust for changes in volume resulting from changes in customer count. Decoupling for residential and small commercial and industrial sales was approved by the ICC on a four-year trial basis for PGL and NSG, effective March 1, 2008. Interveners, including the Illinois Attorney General, oppose decoupling and have appealed the ICC's approval. PGL and NSG are actively supporting the ICC's decision to approve decoupling. The PSCW approved the implementation of decoupling on a four-year trial basis, effective January 1, 2009, for WPS's natural gas and electric residential and small commercial sales. This decoupling mechanism includes an annual \$14.0 million cap

for electric service and an annual \$8.0 million cap for natural gas service. The \$14.0 million cap for electric service was reached in the second quarter of 2009. On December 16, 2009, decoupling for UPPCO was approved for all customer groups by the MPSC effective January 1, 2010. MGU requested decoupling in its rate case filed in July 2009. The partial settlement approved in that rate case did not address the decoupling request. Therefore the request will be addressed by the MPSC through the normal rate case process, which is expected to conclude in the second quarter of 2010. In Minnesota, the legislature required the MPUC to evaluate decoupling. The MPUC is currently engaged in that process and has sought and received comments on decoupling mechanisms from utilities and interveners in Minnesota.

Uncollectible Accounts

The reserves for uncollectible accounts at Integrys Energy Group reflect management's best estimate of probable losses on the accounts receivable balances. The reserves are based on known troubled accounts, historical experience, and other currently available evidence. Provisions for bad debt expense are affected by changes in various factors, including the impacts of the economy, energy prices, and weather.

The impact of the weak economic environment could cause more accounts receivable to become uncollectible. Higher levels of uncollectible balances could negatively impact Integrys Energy Group's results of operations and could result in higher working capital requirements. Recoveries (or refunds) under Illinois Senate Bill (SB) 1918 and an Uncollectible Expense Tracking Mechanism (UETM) in Michigan will affect bad debt expense as described in Note 24, "Regulatory Environment."

Goodwill Impairment Testing

Integrys Energy Group performs its required annual goodwill impairment tests each April 1. Interim impairment tests are performed between required annual testing dates if certain conditions exist. One of these conditions is a change in business climate, which may be evidenced by, among other things, a prolonged decline in a company's market capitalization below book value. Any annual or interim goodwill impairment test could result in the recognition of a goodwill impairment loss. See Note 10, "Goodwill and Other Intangible Assets," for more information on goodwill balances for Integrys Energy Group's reporting units at December 31, 2009.

Climate Change

Recently, efforts have been initiated to develop state and regional greenhouse gas programs, to create federal legislation to limit carbon dioxide emissions, and to create national or state renewable portfolio standards. Some examples of these efforts are the Waxman-Markey bill, which passed the United States House of Representatives; the Kerry-Boxer draft bill, which was introduced in the United States Senate; and the Wisconsin Clean Energy Jobs Act, which has been introduced in the Wisconsin legislature to implement recommendations from the Governor's Global Warming Task Force. The Wisconsin Clean Energy Jobs Act establishes statewide goals for the reduction of greenhouse gas emissions and requires certain actions, including an increased renewable portfolio standard, to meet those goals. In addition, in April 2009, the EPA declared carbon dioxide and several other greenhouse gases to be a danger to public health and welfare, which is the first step towards the EPA potentially regulating greenhouse gases under the Clean Air Act. A risk exists that such legislation or regulation will increase the cost of energy. However, Integrys Energy Group believes the capital expenditures being made at its generation units are appropriate under any reasonable mandatory greenhouse gas program and that future expenditures related to control of greenhouse gas emissions or renewable portfolio standards by its regulated electric utilities will be recoverable in rates. Integrys Energy Group will continue to monitor and manage potential risks and opportunities associated with future greenhouse gas legislative or regulatory actions.

The majority of Integrys Energy Group's generation and distribution facilities are located in the upper Midwest region of the United States. The same is true for the majority of our customers' facilities. The physical risks posed by climate change are not expected to be significant at this time. Ongoing

evaluations will be conducted as more information on the extent of such physical changes becomes available.

New Laws

In February 2009, the American Recovery and Reinvestment Act of 2009 (ARRA) was signed into law. ARRA contains various provisions intended to stimulate the economy. Included in ARRA are several tax provisions that may affect the company. Most notably, a provision of ARRA provides Integrys Energy Group with additional opportunities to claim tax deductions for bonus depreciation for certain assets placed in service during 2009, extending the bonus depreciation period established by the Economic Stimulus Act of 2008. The additional first year deduction for bonus depreciation is estimated to be approximately \$200 million. Other provisions of ARRA provide Integrys Energy Group with elections to select among a production tax credit, an investment tax credit, or a federal grant for various renewable generating facilities that went into service in 2009. Integrys Energy Group currently plans to take production tax credits on power generated by wind facilities, but is evaluating the other alternatives mentioned.

In February 2009, Wisconsin Act 2 was signed into law. Act 2 contains various tax provisions intended to reduce Wisconsin's current budget gap. Most notably, this Act will require Integrys Energy Group and its subsidiaries to file a Wisconsin income tax return as a combined group. As a result, all of Integrys Energy Group's income became subject to apportionment and taxation in Wisconsin beginning January 1, 2009. In the future, Integrys Energy Group may experience higher or lower Wisconsin income taxes depending on the mix and type of income. In the short-term, after the adjustment to deferred taxes at the time of the law change, this law is expected to generate a small benefit for Integrys Energy Group.

Property Tax Assessment on Natural Gas

Integrys Energy Group's natural gas retailers, including its five natural gas utilities, purchase storage services from pipeline companies on the pipelines' interstate natural gas storage and transmission systems. Once a shipper delivers natural gas to the pipeline's system, that specific natural gas cannot be physically traced back to the shipper, and the physical location of that specific natural gas is not ascertainable. Some states tax natural gas as personal property and have recently sought to assess personal property tax obligations against natural gas quantities held as working gas in facilities located in their states. Because the pipeline does not have title to the working gas inventory in these facilities, the state imposes the tax on the shippers as of the assessment date, based on allocated quantities. Shippers that are being assessed a tax are actively protesting these property tax assessments. PGL and MERC are currently pursuing protests through litigation in Texas and Kansas, respectively.

OFF BALANCE SHEET ARRANGEMENTS

See Note 17, "Guarantees," for information regarding guarantees.

MARKET PRICE RISK MANAGEMENT ACTIVITIES

Market price risk management activities include the electric and natural gas marketing and related risk management activities of Integrys Energy Services.

Integrys Energy Services measures the fair value of derivative instruments on a mark-to-market basis. The fair value is included in assets or liabilities from risk management activities on Integrys Energy Group's Consolidated Balance Sheets, with an offsetting impact to other comprehensive income (for the effective portion of cash flow hedges), also on Integrys Energy Group's Consolidated Balance Sheets, or to earnings. The following table provides an assessment of the factors impacting the change in the net value of Integrys Energy Services' assets and liabilities from risk management activities for the year ended December 31, 2009.

Integrus Energy Services
Mark-to-Market Roll Forward
(Millions)

	Natural Gas	Electric	Total
Fair value of contracts at December 31, 2008 ⁽¹⁾	\$294.0	\$(135.4)	\$158.6
Less: Contracts realized or settled during period ⁽²⁾	317.0	(225.9)	91.1
Plus: Changes in fair value of contracts in existence at December 31, 2009 ⁽³⁾	60.0	(187.9)	(127.9)
Fair value of contracts at December 31, 2009 ⁽¹⁾	\$ 37.0	\$ (97.4)	\$ (60.4)

- (1) Reflects the values reported on the balance sheets for net mark-to-market current and long-term risk management assets and liabilities as of those dates. The fair value of contracts at December 31, 2008, includes \$0.6 million of liabilities held for sale, related to the sale of generation assets and the associated sales and service contracts in Northern Maine, which closed during the first quarter of 2010. The fair value of Integrus Energy Services' contracts at December 31, 2009, was impacted by the reduction in wholesale trading and marketing activity associated with its strategy change, as well as an overall decline in energy prices in 2009.
- (2) Includes the value of contracts in existence at December 31, 2008, that were no longer included in the net mark-to-market assets as of December 31, 2009.
- (3) Includes unrealized gains and losses on contracts that existed at December 31, 2008, and contracts that were entered into subsequent to December 31, 2008, which were included in Integrus Energy Services' portfolio at December 31, 2009.

There were, in many cases, derivative positions entered into and settled during the period resulting in gains or losses being realized during the current period. The realized gains or losses from these derivative positions are not reflected in the table above.

The table below shows Integrus Energy Services' risk management instruments categorized by fair value hierarchy levels and by maturity. For more information on the fair value hierarchy, including definitions of Level 1, Level 2, and Level 3, see Note 1(r), "Summary of Significant Accounting Policies – Fair Value."

Integrus Energy Services
Risk Management Contract Aging at Fair Value
As of December 31, 2009 (Millions)

Fair Value Hierarchy Level	Maturity Less Than 1 Year	Maturity 1 to 3 Years	Maturity 4 to 5 Years	Maturity in Excess of 5 years	Total Fair Value
Level 1	\$(52.2)	\$ 0.6	\$(0.3)	\$ -	\$(51.9)
Level 2	(56.4)	(75.7)	4.1	1.6	(126.4)
Level 3	37.1	80.8	(0.6)	0.6	117.9
Total fair value	\$(71.5)	\$ 5.7	\$ 3.2	\$2.2	\$ (60.4)

CRITICAL ACCOUNTING POLICIES

Integrus Energy Group has determined that the following accounting policies are critical to the understanding of its financial statements because their application requires significant judgment and reliance on estimations of matters that are inherently uncertain. Integrus Energy Group's management has discussed these critical accounting policies with the Audit Committee of the Board of Directors.

Risk Management Activities

Integrus Energy Group has entered into contracts that are accounted for as derivatives. All derivative contracts are recorded at fair value on the Consolidated Balance Sheets, unless they qualify for the normal purchases and sales exception, which provides that recognition of gains and losses in the consolidated financial statements is not required until the settlement of the contracts. Changes in fair value, except effective portions of derivative instruments designated as hedges or qualifying for regulatory

deferral, generally affect income available for common shareholders at each financial reporting date until the contracts are ultimately settled.

At December 31, 2009, those derivatives not designated as hedges were primarily commodity contracts used to manage price risk associated with natural gas and electricity purchase and sale activities. Cash flow hedge accounting treatment may be used when Integrys Energy Group enters into contracts to buy or sell a commodity at a fixed price for future delivery to protect future cash flows corresponding with anticipated physical sales or purchases. In addition, Integrys Energy Group uses cash flow hedge accounting to protect against changes in interest rates. Fair value hedge accounting may be used when Integrys Energy Group holds assets, liabilities, or firm commitments and enters into transactions that hedge the risk of changes in commodity prices or interest rates. To the extent that the hedging instrument is fully effective in offsetting the transaction being hedged, there is no impact on income available for common shareholders prior to settlement of the hedge.

In conjunction with the implementation of SFAS No. 157, "Fair Value Measurements" (now incorporated as part of the Fair Value Measurements and Disclosures Topic of the FASB ASC), on January 1, 2008, Integrys Energy Group categorized its fair value measurements into three levels within a fair value hierarchy. See Note 1(r), "Summary of Significant Accounting Policies – Fair Value," and Note 22, "Fair Value," for more information.

Integrys Energy Group has based its valuations on observable inputs whenever possible. However, at times, the valuation of certain derivative instruments requires the use of internally developed valuation techniques and/or significant unobservable inputs. These valuations require a significant amount of management judgment and are classified as Level 3 measurements. Of the total risk management assets on Integrys Energy Group's Consolidated Balance Sheets, \$1,593.0 million (68.7%) utilized Level 3 measurements. Of the total risk management liabilities, \$1,471.6 million (61.6%) utilized Level 3 measurements. Integrys Energy Group believes these valuations represent the fair values of these instruments as of the reporting date; however, the actual amounts realized upon settlement of these instruments could vary materially from the reported amounts due to movements in market prices and changes in the liquidity of certain markets.

Beginning January 1, 2008, Integrys Energy Services no longer includes transaction costs in fair value determinations.

As a component of fair value determinations, Integrys Energy Group considers counterparty credit risk (including its own credit risk) and liquidity risk. The liquidity component of the fair value determination may be especially subjective when limited liquid market information is available. Changes in the underlying assumptions for these components of fair value at December 31, 2009, would have had the following effects:

Effect on Fair Value of Net Risk Management Liabilities at December 31, 2009	
Change In Components	(Millions)
100% increase	\$15.8 decrease
50% decrease	\$7.9 increase

These hypothetical changes in fair value would be included in current and long-term assets and liabilities from risk management activities on the Consolidated Balance Sheets and as part of nonregulated revenue on the Consolidated Statements of Income, unless the related contracts are designated as cash flow hedges, in which case potential changes would be included in Other Comprehensive Income – Cash Flow Hedges on the Consolidated Statements of Common Shareholders' Equity.

Asset Impairment

Integrus Energy Group reviews certain assets for impairment as required by the Property, Plant, and Equipment Topic and Intangibles – Goodwill and Other Topic of the FASB ASC.

Goodwill

Goodwill is tested for impairment using a two-step process that begins with an estimation of the fair value of a reporting unit. A reporting unit can be an operating segment, or one level below an operating segment, as defined by the Segment Reporting Topic of the FASB ASC. At Integrus Energy Group, goodwill has been assigned to each of the five reporting units that comprise the natural gas utility segment and also to the Integrus Energy Services segment. The carrying value of goodwill by reporting unit and reportable segment for the year ended December 31, 2009 was:

<i>(Millions)</i>	Carrying Value of Goodwill
WPS	\$ 36.4
PGL	401.2
NSG	36.1
MERC	127.7
MGU	34.5
Total Natural Gas Utility Segment	\$635.9
Integrus Energy Services	6.6
Balance at December 31, 2009	\$642.5

The goodwill for each of the reporting units is tested for impairment annually on April 1 or more frequently when events or circumstances warrant. The fair market value of each reporting unit is estimated using certain key assumptions that require significant judgment. This judgment includes developing cash flow projections (including the selection of appropriate returns on equity, long-term growth rates, and capital expenditure levels), selecting appropriate discount rates, and identifying relevant market comparables.

The fair value of WPS currently exceeds the carrying amount by a significant amount, such that Integrus Energy Group believes WPS is unlikely to fail step one of the goodwill impairment test in the foreseeable future.

However, in the first quarter of 2009, the combination of the decline in equity markets as well as the increase in the expected weighted-average cost of capital indicated that a potential impairment of goodwill might exist for PGL, NSG, MERC, MGU, and Integrus Energy Services, triggering an interim goodwill impairment analysis effective February 28, 2009 for these reporting units. For this analysis, the estimated fair value for the PGL, NSG, MERC, and MGU reporting units was determined by utilizing a combination of the income approach and the market approach methodologies. More weight was given to the income approach as Integrus Energy Group believes that the income approach more accurately captures the anticipated economics and related performance expectations for each of these reporting units. In the first quarter of 2009, Integrus Energy Group announced a strategy change for Integrus Energy Services. Because it was likely that Integrus Energy Group would sell a significant portion of Integrus Energy Services, the goodwill at Integrus Energy Services was tested for impairment during each interim period in 2009 as well as at the time of the April 1, 2009 annual testing date. At each testing date, the fair value of Integrus Energy Services exceeded its carrying amount. Based on the interim test performed at December 31, 2009, the fair value of Integrus Energy Services exceeded its carrying amount by more than 10%.

The income approach was based on discounted cash flows which were derived from internal forecasts and economic expectations. The key assumptions used to determine fair value under the income approach included the cash flow period, terminal values based on a terminal growth rate, and the discount rate. The discount rate represents the estimated cost of debt and equity financing weighted by

the percentage of debt and equity in a company's target capital structure. The discount rates used in the income approach for PGL, NSG, MERC, and MGU ranged from 7.25% to 7.5%. The discount rate used for Integrys Energy Services was 10.2%. The terminal growth rates used in the income approach ranged from 2% to 3%.

The market approach for PGL, NSG, MERC, and MGU utilized the guideline company method, which calculates valuation multiples based on operating and valuation metrics from publicly traded guideline companies in the regulated natural gas distribution industry. Multiples derived from the guideline companies provided an indication of how much a knowledgeable investor in the marketplace would be willing to pay for an investment in a similar company. These multiples were then applied to the appropriate operating metric for PGL, NSG, MERC, and MGU to determine indications of fair value.

Aggregate fair values of all of Integrys Energy Group's operating segments were compared to its market capitalization as an assessment of the appropriateness of the fair value measurements. When assessing Integrys Energy Group's market capitalization, the average stock price 15 days before and after the interim February 28, 2009, valuation date was used. The comparison between the aggregate fair values of all reporting units of Integrys Energy Group and the market capitalization indicated an implied control premium. A control premium analysis indicated that the implied premium was within a range of the overall premiums observed in the market place.

As a result of applying the first step of goodwill impairment testing to determine if potential goodwill impairment existed at the February 28, 2009 interim testing date, Integrys Energy Services passed (fair value exceeded carrying amount) and PGL, NSG, MERC, and MGU failed (carrying amount exceeded fair value). As a result, a \$291.1 million pre-tax impairment loss was recorded in the first quarter of 2009, which included a \$148.0 million goodwill impairment loss related to PGL, a \$38.2 million goodwill impairment loss related to NSG, a \$16.7 million goodwill impairment loss related to MERC, and an \$88.2 million goodwill impairment loss related to MGU. See Note 10, "*Goodwill and Other Intangible Assets*," for information.

On the April 1, 2009 annual goodwill impairment testing date, an increase in equity values for United States companies, as well as a decrease in the discount rate since February 28, 2009, resulted in the fair values of PGL, NSG, MERC and MGU exceeding their respective carrying amounts. The resulting fair values exceeded the carrying amount by less than 10% for each of these four reporting units.

Other

Integrys Energy Group evaluates property, plant, and equipment for impairment whenever indicators of impairment exist. These indicators include a significant underperformance of the assets relative to historical or projected future operating results, a significant change in the use of the assets or business strategy related to such assets, and significant negative industry or economic trends. If the sum of the undiscounted expected future cash flows from an asset is less than the carrying value of the asset, an asset impairment must be recognized in the income statement. For assets held for sale, impairment charges are recorded if the carrying value of such assets exceeds the estimated fair value less costs to sell. The amount of impairment recognized is calculated by reducing the carrying value of the asset to its fair value (or fair value less costs to sell if held for sale). For Integrys Energy Group's regulated utilities, an asset impairment requires further assessment to determine if a regulatory asset should be recorded.

The review for impairment of tangible assets is more critical to Integrys Energy Services than to any other segment because of its lack of access to rate setting based on cost of service that is available to the regulated segments. At December 31, 2009, the carrying value of Integrys Energy Services' property, plant, and equipment totaled \$143.9 million. Management's assumptions about future market sales prices and generation volumes require significant judgment because actual prices and generation volumes have fluctuated in the past as a result of changing fuel costs and required plant maintenance and are expected to continue to do so in the future.

The primary assumptions used at Integrys Energy Services in the impairment analyses are future revenue streams that depend on future commodity prices, capital expenditures, environmental landscape, and operating costs. A combination of inputs from both internal and external sources is used to project revenue streams. Integrys Energy Services forecasts future operating costs with input from external sources. These assumptions are modeled over the projected remaining life of the asset.

Throughout 2009, Integrys Energy Services tested various assets for impairment whenever events or changes in circumstances indicated that a test was required. No material impairment charges were recorded in 2009 as a result of the recoverability tests. Results of past impairment tests may not necessarily be an indicator of future results given the nature of the accounting estimates involved, as discussed more fully above. Future results or changes in assumptions could result in an impairment.

Receivables and Reserves

The regulated natural gas and electric utilities and Integrys Energy Services accrue estimated amounts of revenues for services rendered but not yet billed. Estimated unbilled revenues are calculated using a variety of factors based on customer class or contracted rates. At December 31, 2009 and 2008, Integrys Energy Group's unbilled revenues were \$337.0 million and \$525.5 million, respectively. Any difference between actual revenues and the estimates are recorded in revenue in the next period. Differences historically have not been significant.

The majority of the bad debt expense at the utilities is recovered through rates. Integrys Energy Services calculates the reserve for potential uncollectible customer receivable balances by applying an estimated bad debt experience rate to each past due aging category and reserving for 100% of specific customer receivable balances deemed to be uncollectible. If the assumption that historical uncollectible experience matches current customer default is incorrect, or if a specific customer with a large account receivable that has not previously been identified as a risk defaults, there could be significant changes to bad debt expense and the uncollectible reserve balance. At December 31, 2009 and 2008, Integrys Energy Services' reserve for uncollectible accounts was \$19.4 million and \$16.7 million, respectively.

Pension and Other Postretirement Benefits

The costs of providing non-contributory defined benefit pension benefits and other postretirement benefits, described in Note 18, "*Employee Benefit Plans*," are dependent upon numerous factors resulting from actual plan experience and assumptions regarding future experience.

Pension and other postretirement benefit costs are impacted by actual employee demographics (including age, compensation levels, and employment periods), the level of contributions made to the plans, and earnings on plan assets. Pension and other postretirement benefit costs may be significantly affected by changes in key actuarial assumptions, including anticipated rates of return on plan assets, discount rates used in determining the projected pension and other postretirement benefit obligations and costs, and health care cost trends. Changes made to the plan provisions may also impact current and future pension and other postretirement benefit costs.

Integrys Energy Group's pension and other postretirement benefit plan assets are primarily made up of equity and fixed income investments. Fluctuations in actual equity and fixed income market returns, as well as changes in general interest rates, may result in increased or decreased benefit costs in future periods. Management believes that such changes in costs would be recovered at the regulated segments through the ratemaking process.

The following table shows how a given change in certain actuarial assumptions would impact the projected benefit obligation and the reported net periodic pension cost. Each factor below reflects an evaluation of the change based on a change in that assumption only.

Actuarial Assumption (Millions, except percentages)	Percentage- Point Change in Assumption	Impact on Projected Benefit Obligation	Impact on 2009 Pension Cost
Discount rate	(0.5)	\$75.5	\$7.5
Discount rate	0.5	(84.1)	(4.2)
Rate of return on plan assets	(0.5)	N/A	5.4
Rate of return on plan assets	0.5	N/A	(5.4)

The following table shows how a given change in certain actuarial assumptions would impact the accumulated other postretirement benefit obligation and the reported net periodic other postretirement benefit cost. Each factor below reflects an evaluation of the change based on a change in that assumption only.

Actuarial Assumption (Millions, except percentages)	Percentage-Point Change in Assumption	Impact on Postretirement Benefit Obligation	Impact on 2009 Postretirement Benefit Cost
Discount rate	(0.5)	\$29.0	\$2.2
Discount rate	0.5	(27.1)	(2.2)
Health care cost trend rate	(1.0)	(48.4)	(6.8)
Health care cost trend rate	1.0	58.1	8.3
Rate of return on plan assets	(0.5)	N/A	1.1
Rate of return on plan assets	0.5	N/A	(1.1)

Integrus Energy Group uses an interest rate yield curve to enable it to make appropriate judgments about discount rates. The yield curve is comprised of non-callable (or callable with make-whole provisions), high-quality corporate bonds with maturities between 0 and 30 years. The included bonds are generally rated "Aa" with a minimum amount outstanding of \$50 million. The expected annual benefit cash flows are discounted for each of Integrus Energy Group's pension and retiree welfare plans using this yield curve, and a single-point discount rate is developed matching each plan's expected payout structure.

Integrus Energy Group establishes its expected return on asset assumption based on consideration of historical and projected asset class returns, as well as the target allocations of the benefit trust portfolios. The assumed long-term rate of return was 8.5% in 2009, 2008, and 2007. For 2009, 2008, and 2007, the actual rates of return on pension plan assets, net of fees, were 22.0%, (25.9)%, and 6.2%; respectively.

The determination of expected return on qualified plan assets is based on a market-related valuation of assets, which reduces year-to-year volatility. Cumulative gains and losses in excess of 10% of the greater of the pension or other postretirement benefit obligation or market-related value are amortized over the average remaining future service to expected retirement ages. Changes in fair value are recognized over the subsequent five years for plans sponsored by WPS, while differences between actual investment returns and the expected return on plan assets are recognized over a five-year period for pension plans sponsored by IBS and PEC. Because of this method, the future value of assets will be impacted as previously deferred gains or losses are included in market-related value.

In selecting assumed health care cost trend rates, past performance and forecasts of health care costs are considered. For more information on health care cost trend rates and a table showing future payments that Integrus Energy Group expects to make for pension and other postretirement benefits, see Note 18, "Employee Benefit Plans."

Regulatory Accounting

The electric and natural gas utility segments of Integrus Energy Group follow the guidance under the Regulated Operations Topic of the FASB ASC, and the financial statements reflect the effects of the different ratemaking principles followed by the various jurisdictions regulating these segments. Certain items that would otherwise be immediately recognized as revenues and expenses are deferred as regulatory assets and regulatory liabilities for future recovery or refund to customers, as authorized by

Integrus Energy Group's regulators. Future recovery of regulatory assets is not assured, and is generally subject to review by regulators in rate proceedings for matters such as prudence and reasonableness. Management regularly assesses whether these regulatory assets and liabilities are probable of future recovery or refund by considering factors such as changes in the regulatory environment, earnings at the utility segments, and the status of any pending or potential deregulation legislation. Once approved, the regulatory assets and liabilities are amortized into income over the rate recovery period. If recovery or refund of costs is not approved or is no longer deemed probable, these regulatory assets or liabilities are recognized in current period income.

The application of the Regulated Operations Topic of the FASB ASC would be discontinued if the regulated electric and natural gas utility segments or a separable portion of those segments would no longer meet the criteria for application. Assets and liabilities recognized solely due to the actions of rate regulation would no longer be recognized on the balance sheet, but rather classified as an extraordinary item in income for the period in which the discontinuation occurred. A write-off of all of Integrus Energy Group's regulatory assets and regulatory liabilities at December 31, 2009, would result in a 13.1% decrease in total assets and a 4.2% decrease in total liabilities. See Note 8, "*Regulatory Assets and Liabilities*," for more information.

Environmental Activities Relating to Former Manufactured Gas Operations

Integrus Energy Group's 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. The utility subsidiaries are accruing and deferring the costs incurred in connection with environmental activities at the manufactured gas plant sites pending recovery through rates or from other entities. The amounts deferred include costs incurred but not yet recovered through rates and management's best estimates of the costs that the utilities will incur in investigating and remediating the manufactured gas sites. Management's estimates are based upon a probabilistic model and an ongoing review by management of future investigative and remedial costs.

Management considers this policy critical due to the substantial uncertainty in the estimation of future costs with respect to the amount and timing of costs, and the extent of recovery from other potential responsible parties. See Note 16, "*Commitments and Contingencies*," for further discussion of environmental matters.

Tax Provision

Integrus Energy Group is required to estimate income taxes for each of the jurisdictions in which it operates as part of the process of preparing Integrus Energy Group's consolidated financial statements. This process involves estimating actual current tax liabilities together with assessing temporary differences resulting from differing treatment of items, such as depreciation, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within Integrus Energy Group's Consolidated Balance Sheets. Integrus Energy Group must also assess the likelihood that its deferred tax assets will be recovered through future taxable income. To the extent Integrus Energy Group believes that recovery is not likely, it must establish a valuation allowance, which is offset by an adjustment to the provision for income taxes in the Consolidated Statements of Income.

Uncertainty associated with the application of tax statutes and regulations and the outcomes of tax audits and appeals require that judgment and estimates be made in the accrual process and in the calculation of effective tax rates. Integrys Energy Group adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FAS 109" (now incorporated as part of the Income Taxes Topic of the FASB ASC), which requires that only income tax benefits that meet the "more likely than not" recognition threshold be recognized or continue to be recognized. The change in the unrecognized tax benefits needs to be reasonably estimated based on an evaluation of the nature of uncertainty, the nature of event that could cause the change, and an estimate of the range of reasonably possible changes. As allowed under Interpretation No. 48, Integrys Energy Group also elected to change its method of accounting to record interest and penalties paid on income tax obligations as a component of provision for income taxes.

Significant management judgment is required in determining Integrys Energy Group's provision for income taxes, deferred tax assets and liabilities, and any valuation allowance recorded against deferred tax assets. The assumptions involved are supported by historical data, reasonable projections, and technical interpretations of applicable tax laws and regulations across multiple taxing jurisdictions. Significant changes in these assumptions could have a material impact on Integrys Energy Group's financial condition and results of operations. See Note 1(o), "*Summary of Significant Accounting Policies – Income Taxes*," and Note 15, "*Income Taxes*," for a discussion of accounting for income taxes.

IMPACT OF INFLATION

Integrys Energy Group's financial statements are prepared in accordance with GAAP. The statements provide a reasonable, objective, and quantifiable statement of financial results, but generally do not evaluate the impact of inflation. For Integrys Energy Group's regulated operations, to the extent it is not recovering the effects of inflation, it will file rate cases as necessary in the various jurisdictions in which it operates. Integrys Energy Group's nonregulated businesses include inflation in forecasted costs.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risks and Other Significant Risks

Integrus Energy Group has potential market risk exposure related to commodity price risk (including regulatory recovery risk), interest rate risk, and equity return and principal preservation risk. Integrus Energy Group is also exposed to other significant risks due to the nature of our subsidiaries' businesses and the environment in which we operate. Integrus Energy Group has risk management policies in place to monitor and assist in controlling these risks and may use derivative and other instruments to manage some of these exposures, as further described below.

Commodity Price Risk and Regulatory Recovery Risk

Utilities

The electric utilities of Integrus Energy Group purchase natural gas, fuel oil, and coal for use in power generation. They also buy power from the MISO market at a price that is often reflective of the underlying cost of natural gas used in power generation. Prudent fuel and purchased power costs are recovered from customers under one-for-one recovery mechanisms by UPPCO and by the wholesale electric operations and Michigan retail electric operations of WPS. The costs of natural gas used by the natural gas utility subsidiaries are generally also recovered from customers under one-for-one recovery mechanisms. These recovery mechanisms greatly reduce commodity price risk for the utilities.

WPS's Wisconsin retail electric operations do not have a one-for-one recovery mechanism for price fluctuations. Instead, a "fuel window" mechanism has partially mitigated the year-to-year price risk. See Note 1(e), "*Summary of Significant Accounting Policies – Revenue and Customer Receivables*," for more information.

To manage commodity price risk, our regulated utilities enter into contracts of various durations for the purchase and/or sale of natural gas, fuel for electric generation, and electricity. In addition, the electric operations of WPS and the natural gas operations of WPS, PGL, NSG, and MERC employ risk management techniques, which include the use of derivative instruments such as swaps, futures, and options.

Integrus Energy Services

Integrus Energy Services seeks to reduce market price risk from its generation and energy supply portfolios through the use of various financial and physical instruments.

To measure commodity price risk exposure, Integrus Energy Group employs a number of controls and processes, including a value-at-risk (VaR) analysis of its exposures. Integrus Energy Services' VaR calculation is utilized to quantify exposure to market risk associated with its marketing and trading portfolio (primarily natural gas and power positions), which also includes near-term positions managed under its asset management strategy through tolling agreements with the merchant generating fleet. The VaR calculation excludes the long-dated positions created by owning merchant generation and associated coal, sulfur dioxide emission allowances, and other ancillary fuels. Additionally, financial transmission rights, renewable energy credits, and certain portions of long-dated natural gas storage and transportation contracts are also excluded from the VaR calculation. The capped downside nature of the risks and duration of these positions would result in a VaR that would not be representative of the actual exposure. Therefore, Integrus Energy Services evaluates the exposures for these types of contracts by assessing the maximum potential loss of the positions which would represent the cost of the physical asset or the fixed demand charges for the contract.

VaR is used to describe a probabilistic approach to quantifying the exposure to market risk. The VaR amount represents an estimate of the potential change in fair value that could occur from changes in market factors, within a given confidence level, if an instrument or portfolio is held for a specified time period. VaR models are relatively sophisticated. However, the quantitative risk information is limited by the parameters established in creating the model. The instruments being used may have features that could trigger a potential loss in excess of the calculated amount if the changes in the underlying commodity price exceed the confidence level of the model used. VaR is not necessarily indicative of actual results that may occur. In addition to VaR, Integrys Energy Services employs other risk measurements including mark-to-market valuations, stress testing, and scenario based testing. In conjunction with the VaR analysis, these other risk measurements provide the risk management analysis for Integrys Energy Services' risk exposure. Additionally, Integrys Energy Services also uses volume limits and stop loss limits to limit its exposure to commodity price movements.

VaR has a number of limitations that are important to consider when evaluating the calculation results. Most importantly, VaR does not represent the maximum potential loss of the portfolio. Price movements outside of the relevant confidence levels can and do occur and may result in losses exceeding the reported VaR. Large short-term price moves can be caused by catastrophic weather events or other drivers of short term supply and demand disruptions. Also, the holding period may not always be an adequate assessment of the timeframe to close out positions. Short-term reductions in market liquidity could cause Integrys Energy Services to hold positions open longer than anticipated, resulting in greater than predicted losses. Additionally, there are other risks not captured by the VaR metric including, but not limited to, the risk of customer and vendor nonperformance and the risks associated with the liquidity in the markets in which Integrys Energy Services transacts. Customer and vendor nonperformance risk could result in bad debt losses, realized and unrealized losses on commodity contracts, or increased supply costs in the event that contractual obligations of our counterparties are not met. Market liquidity risk refers to the risk that Integrys Energy Services will not be able to efficiently enter or exit commodity positions.

Integrys Energy Services' VaR is calculated using non-discounted positions with a delta-normal approximation based on a one-day holding period and a 95% confidence level, as well as a ten-day holding period and 99% confidence level. The delta-normal approximation is based on the assumption that changes in the value of the portfolio over short time periods, such as one day or ten days, are normally distributed. Integrys Energy Services' VaR calculation includes financial and physical commodity instruments, such as forwards, futures, swaps, and options, as well as natural gas inventory, natural gas storage, and transportation contracts, to the extent such positions are significant, but excludes the positions mentioned above.

The VaR for Integrys Energy Services' portfolio at a 95% confidence level and a one-day holding period is presented in the following table:

(Millions)	2009	2008
As of December 31	\$0.6	\$1.3
Average for 12 months ended December 31	0.8	1.4
High for 12 months ended December 31	1.1	2.3
Low for 12 months ended December 31	0.6	0.9

The VaR for Integrys Energy Services' portfolio at a 99% confidence level and a ten-day holding period is presented below:

(Millions)	2009	2008
As of December 31	\$2.9	\$ 5.6
Average for 12 months ended December 31	3.8	6.2
High for 12 months ended December 31	4.7	10.2
Low for 12 months ended December 31	2.9	4.8

The average, high, and low amounts were computed using the VaR amounts at each of the four quarter ends.

The year-over-year decrease in VaR was driven by a substantial reduction in trading activity, as a result of Integrys Energy Services' strategy change and ultimate decision to exit its wholesale natural gas and electric businesses, and its Canadian energy marketing business.

Interest Rate Risk

Integrys Energy Group is exposed to interest rate risk resulting from its variable rate long-term debt and short-term borrowings. Exposure to interest rate risk is managed by limiting the amount of variable rate obligations and continually monitoring the effects of market changes on interest rates. Integrys Energy Group enters into long-term fixed rate debt when it is advantageous to do so. Integrys Energy Group may also enter into derivative financial instruments, such as swaps, to mitigate interest rate exposure.

Due to decreases in short-term borrowings in the last year, Integrys Energy Group has decreased its exposure to variable interest rates. Based on the variable rate debt of Integrys Energy Group outstanding at December 31, 2009, a hypothetical increase in market interest rates of 100 basis points would have increased annual interest expense by \$3.5 million. Comparatively, based on the variable rate debt outstanding at December 31, 2008, an increase in interest rates of 100 basis points would have increased interest expense by approximately \$11.7 million. This sensitivity analysis was performed assuming a constant level of variable rate debt during the period and an immediate increase in interest rates, with no other changes for the remainder of the period.

Equity Return and Principal Preservation Risk

Integrys Energy Group currently funds liabilities related to employee benefits through various external trust funds. The trust funds are managed by numerous investment managers and hold investments in debt and equity securities. Changes in the market value of these investments can have an impact on the future expenses related to these liabilities. Declines in the equity markets or declines in interest rates may result in increased future costs for the plans and possible future required contributions for the pension plans. Integrys Energy Group monitors the trust fund portfolio by benchmarking the performance of the investments against certain security indices. Most of the employee benefit costs relate to Integrys Energy Group's regulated utilities. As such, the majority of these costs are recovered in customers' rates, mitigating the equity return and principal preservation risk on these exposures. Effective May 1, 2008, and July 1, 2008, the defined pension plans were closed to new union hires at PGL and NSG, respectively. Effective April 19, 2009, and December 18, 2009, the defined benefit pension plans were closed to new union hires at UPPCO and WPS, respectively. Effective January 15, 2010, the defined pension plans were closed to new Local 12295 union hires at MGU.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

A. MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Integrys Energy Group and its subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting. Integrys Energy Group's control systems were designed to provide reasonable assurance to Integrys Energy Group's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Integrys Energy Group's management assessed the effectiveness of its internal control over financial reporting as of December 31, 2009. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework*. Based on this assessment, management believes that, as of December 31, 2009, Integrys Energy Group's internal control over financial reporting is effective based on those criteria.

Integrys Energy Group, Inc.'s independent registered public accounting firm has issued an audit report on the effectiveness of Integrys Energy Group's internal control over financial reporting.

B. REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Integrys Energy Group, Inc.:

We have audited the internal control over financial reporting of Integrys Energy Group, Inc. and subsidiaries (the "Company") as of December 31, 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2009 of the Company and our report dated February 25, 2010 expressed an unqualified opinion on those financial statements and financial statement schedules.

/s/ Deloitte & Touche LLP

Milwaukee, Wisconsin
February 25, 2010

C. CONSOLIDATED STATEMENTS OF INCOME

Year Ended December 31			
(Millions, except per share data)	2009	2008	2007
Nonregulated revenues	\$4,004.0	\$9,737.9	\$6,987.0
Utility revenues	3,495.8	4,309.9	3,305.4
Total revenues	7,499.8	14,047.8	10,292.4
Nonregulated cost of fuel, natural gas, and purchased power	3,701.3	9,654.3	6,676.2
Utility cost of fuel, natural gas, and purchased power	1,919.8	2,744.1	2,044.2
Operating and maintenance expense	1,100.6	1,081.2	922.1
Goodwill impairment loss	291.1	6.5	-
Restructuring expense	43.5	-	-
Loss on Integrys Energy Services dispositions related to strategy change	28.9	-	-
Depreciation and amortization expense	230.9	221.4	195.1
Taxes other than income taxes	96.3	93.6	87.4
Operating income	87.4	246.7	367.4
Miscellaneous income	89.0	87.3	64.1
Interest expense	(164.8)	(158.1)	(164.5)
Other expense	(75.8)	(70.8)	(100.4)
Income before taxes	11.6	175.9	267.0
Provision for income taxes	83.2	51.2	86.0
Net income (loss) from continuing operations	(71.6)	124.7	181.0
Discontinued operations, net of tax	2.8	4.7	73.3
Net income (loss)	(68.8)	129.4	254.3
Preferred stock dividends of subsidiary	(3.1)	(3.1)	(3.1)
Noncontrolling interest in subsidiaries	1.0	0.1	0.1
Net income (loss) attributed to common shareholders	(\$70.9)	\$126.4	\$251.3
Average shares of common stock			
Basic	76.8	76.7	71.6
Diluted	76.8	77.0	71.8
Earnings (loss) per common share (basic)			
Net income (loss) from continuing operations	(\$0.96)	\$1.59	\$2.49
Discontinued operations, net of tax	0.04	0.06	1.02
Earnings (loss) per common share (basic)	(\$0.92)	\$1.65	\$3.51
Earnings (loss) per common share (diluted)			
Net income (loss) from continuing operations	(\$0.96)	\$1.58	\$2.48
Discontinued operations, net of tax	0.04	0.06	1.02
Earnings (loss) per common share (diluted)	(\$0.92)	\$1.64	\$3.50
Dividends per common share declared	\$2.72	\$2.68	\$2.56

The accompanying notes to Integrys Energy Group's consolidated financial statements are an integral part of these statements.

D. CONSOLIDATED BALANCE SHEETS

At December 31 (Millions)	2009	2008
Assets		
Cash and cash equivalents	\$44.6	\$254.1
Collateral on deposit	184.9	262.7
Accounts receivable and accrued unbilled revenues, net of reserves of \$57.5 and \$62.5, respectively	958.0	1,892.8
Inventories	304.3	732.8
Assets from risk management activities	1,522.1	2,223.7
Regulatory assets	121.1	244.0
Deferred income taxes	92.9	-
Assets held for sale	26.6	28.3
Other current assets	257.9	280.8
Current assets	3,512.2	5,917.0
Property, plant, and equipment, net of accumulated depreciation of \$2,847.2 and \$2,701.0, respectively	4,945.1	4,748.5
Regulatory assets	1,434.9	1,444.8
Assets from risk management activities	795.4	758.7
Goodwill	642.5	933.9
Other long-term assets	517.8	489.8
Total assets	\$11,847.9	\$14,272.5
Liabilities and Equity		
Short-term debt	\$222.1	\$1,209.0
Current portion of long-term debt	116.5	150.9
Accounts payable	639.4	1,534.3
Liabilities from risk management activities	1,607.1	2,189.7
Regulatory liabilities	190.4	58.8
Liabilities held for sale	0.3	7.5
Deferred income taxes	-	71.6
Other current liabilities	461.8	494.7
Current liabilities	3,147.6	5,716.5
Long-term debt	2,394.7	2,285.7
Deferred income taxes	658.2	435.7
Deferred investment tax credits	36.2	38.9
Regulatory liabilities	277.6	275.5
Environmental remediation liabilities	658.8	840.6
Pension and other postretirement benefit obligations	640.7	636.5
Liabilities from risk management activities	783.1	762.7
Asset retirement obligations	194.8	178.9
Other long-term liabilities	147.4	152.8
Long-term liabilities	5,791.5	5,405.3
Commitments and contingencies		
Common stock - \$1 par value; 200,000,000 shares authorized; 76,418,843 shares issued; 75,980,143 shares outstanding	76.4	76.4
Additional paid-in capital	2,487.8	2,487.9
Retained earnings	345.6	624.6
Accumulated other comprehensive loss	(44.0)	(72.8)
Treasury stock and shares in deferred compensation trust	(17.2)	(16.5)
Total common shareholders' equity	2,858.6	3,099.6
Preferred stock of subsidiary - \$100 par value; 1,000,000 shares authorized; 511,882 shares issued; 510,495 shares outstanding	51.1	51.1
Noncontrolling interest in subsidiaries	(0.9)	-
Total liabilities and equity	\$11,847.9	\$14,272.5

The accompanying notes to Integrys Energy Group's consolidated financial statements are an integral part of these statements.

E. CONSOLIDATED STATEMENTS OF EQUITY

Integrys Energy Group Common Shareholders' Equity									
(Millions)	Deferred Compensation Trust and Treasury Stock	Common Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Common Shareholders' Equity	Preferred Stock of Subsidiary	Noncontrolling Interest	Total Equity
Balance at December 31, 2006	(\$13.5)	\$43.4	\$889.3	\$628.2	(\$13.8)	\$1,533.6	\$51.1	\$0.2	\$1,584.9
Net income attributed to common shareholders	-	-	-	251.3	-	251.3	-	(0.1)	251.2
Other comprehensive income	-	-	-	-	-	-	-	-	-
Cash flow hedges (net of tax of \$3.1)	-	-	-	-	4.9	4.9	-	-	4.9
Unrecognized pension and other postretirement costs (net of taxes of \$3.0)	-	-	-	-	3.8	3.8	-	-	3.8
Available-for-sale securities (net of tax of \$0.2)	-	-	-	-	0.4	0.4	-	-	0.4
Foreign currency translation (net of tax of \$2.2)	-	-	-	-	3.6	3.6	-	-	3.6
Comprehensive income	-	-	-	-	-	264.0	-	-	263.9
Issuance of common stock	-	1.1	44.5	-	-	45.6	-	-	45.6
PEC merger	-	31.9	1,527.4	-	-	1,559.3	-	-	1,559.3
Stock based compensation	-	-	8.7	-	-	8.7	-	-	8.7
Dividends on common stock	-	-	-	(177.0)	-	(177.0)	-	-	(177.0)
Net contributions from noncontrolling parties	-	-	-	-	-	-	-	0.1	0.1
Other	(1.5)	-	3.9	(0.6)	(0.2)	1.6	-	(0.2)	1.4
Balance at December 31, 2007	(\$15.0)	\$76.4	\$2,473.8	\$701.9	(\$1.3)	\$3,235.8	\$51.1	\$ -	\$3,286.9
Net income attributed to common shareholders	-	-	-	126.4	-	126.4	-	(0.1)	126.3
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	-
Cash flow hedges (net of tax of \$33.7)	-	-	-	-	(52.8)	(52.8)	-	-	(52.8)
Unrecognized pension and other postretirement costs (net of taxes of \$8.1)	-	-	-	-	(12.7)	(12.7)	-	-	(12.7)
Available-for-sale securities (net of tax of \$0.3)	-	-	-	-	(0.5)	(0.5)	-	-	(0.5)
Foreign currency translation (net of tax of \$3.4)	-	-	-	-	(5.5)	(5.5)	-	-	(5.5)
Comprehensive income	-	-	-	-	-	54.9	-	-	54.8
Cumulative effect of change in accounting principle	-	-	-	4.5	-	4.5	-	-	4.5
Effects of changing pension plan measurement date pursuant to SFAS No. 158	-	-	-	(3.5)	-	(3.5)	-	-	(3.5)
Purchase of deferred compensation shares	(2.7)	-	-	-	-	(2.7)	-	-	(2.7)
Stock based compensation	0.1	-	12.5	-	-	12.6	-	-	12.6
Dividends on common stock	-	-	-	(203.9)	-	(203.9)	-	-	(203.9)
Net contributions from noncontrolling parties	-	-	-	-	-	-	-	0.1	0.1
Other	1.1	-	1.6	(0.5)	-	1.9	-	-	1.9
Balance at December 31, 2008	(\$16.5)	\$76.4	\$2,497.9	\$624.6	(\$72.8)	\$3,099.6	\$51.1	\$ -	\$3,150.7
Net loss attributed to common shareholders	-	-	-	(70.9)	-	(70.9)	-	(1.0)	(71.9)
Other comprehensive income (loss)	-	-	-	-	-	-	-	-	-
Cash flow hedges (net of tax of \$17.0)	-	-	-	-	31.5	31.5	-	-	31.5
Unrecognized pension and other postretirement costs (net of taxes of \$3.2)	-	-	-	-	(6.7)	(6.7)	-	-	(6.7)
Available-for-sale securities (net of tax of \$0.1)	-	-	-	-	(0.1)	(0.1)	-	-	(0.1)
Foreign currency translation (net of tax of \$2.6)	-	-	-	-	4.1	4.1	-	-	4.1
Comprehensive loss	-	-	-	-	-	(42.1)	-	-	(43.1)
Purchase of deferred compensation shares	(3.1)	-	-	-	-	(3.1)	-	-	(3.1)
Stock based compensation	0.1	-	11.3	-	-	11.4	-	-	11.4
Dividends on common stock	-	-	-	(206.9)	-	(206.9)	-	-	(206.9)
Net contributions from noncontrolling parties	-	-	-	-	-	-	-	0.1	0.1
Other	2.3	-	(1.4)	(1.2)	-	(0.3)	-	-	(0.3)
Balance at December 31, 2009	(\$17.2)	\$76.4	\$2,497.8	\$345.6	(\$44.0)	\$2,858.6	\$51.1	(\$0.9)	\$2,908.8

The accompanying notes to Integrys Energy Group's consolidated financial statements are an integral part of these statements.

F. CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31			
(Millions)	2009	2008	2007
Operating Activities			
Net income (loss)	(\$68.8)	\$129.4	\$254.3
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities			
Discontinued operations, net of tax	(2.8)	(4.7)	(73.3)
Goodwill impairment loss	291.1	6.5	-
Depreciation and amortization expense	230.9	221.4	195.1
Refund of nonqualified decommissioning trust	(0.5)	(0.5)	(70.8)
Recoveries and refunds of other regulatory assets and liabilities	41.3	51.2	32.6
Net unrealized losses (gains) on nonregulated energy contracts	104.2	(15.8)	(58.5)
Nonregulated lower of cost or market inventory adjustments	44.2	167.3	7.0
Bad debt expense	54.6	76.8	39.1
Pension and other postretirement expense	72.4	50.7	67.5
Pension and other postretirement contributions	(53.3)	(40.8)	(35.3)
Deferred income taxes and investment tax credit	57.8	62.4	66.8
(Gain) loss on sale of assets	25.5	(1.2)	(1.6)
Equity income, net of dividends	(16.1)	(15.1)	2.4
Other	38.5	9.9	(24.1)
Changes in working capital			
Collateral on deposit	45.5	(239.2)	82.0
Accounts receivable and accrued unbilled revenues	884.8	(207.7)	(30.7)
Inventories	444.1	(312.0)	(172.9)
Other current assets	39.6	(124.6)	0.9
Accounts payable	(604.7)	(53.2)	(96.5)
Other current liabilities	(2.0)	(10.8)	55.3
Net cash provided by (used for) operating activities	1,806.3	(250.0)	238.5
Investing Activities			
Capital expenditures	(444.2)	(632.8)	(382.6)
Proceeds from the sale or disposal of assets	44.6	31.1	15.6
Purchase of equity investments	(34.1)	(37.8)	(66.5)
Cash paid for transaction costs related to PEC merger	-	-	(14.4)
Restricted cash for repayment of long-term debt	-	-	22.0
Cash paid for transmission interconnection	-	(17.4)	(23.9)
Proceeds received from transmission interconnection	-	99.7	-
Other	(7.0)	5.0	8.3
Net cash used for investing activities	(440.7)	(462.2)	(461.5)
Financing Activities			
Short-term debt, net	(815.7)	589.7	(463.7)
Issuance of notes payable	-	155.7	-
Redemption of notes payable	(157.9)	-	-
Proceeds from sale of borrowed natural gas	162.0	530.4	211.9
Purchase of natural gas to repay natural gas loans	(445.2)	(257.2)	(177.6)
Issuance of long-term debt	230.0	181.5	125.2
Repayment of long-term debt	(157.8)	(68.1)	(28.5)
Payment of dividends			
Preferred stock	(3.1)	(3.1)	(3.1)
Common stock	(206.9)	(203.9)	(177.0)
Issuance of common stock	-	-	45.6
Proceeds from derivative contracts related to divestitures classified as financing activities	33.9	-	-
Other	(17.7)	(3.7)	5.9
Net cash (used for) provided by financing activities	(1,378.4)	911.3	(459.2)
Change in cash and cash equivalents - continuing operations	(212.8)	209.1	(672.2)
Change in cash and cash equivalents - discontinued operations			
Net cash used for operating activities	-	-	(109.3)
Net cash provided by investing activities	3.2	3.8	799.5
Change in cash and cash equivalents	(209.6)	212.9	18.0
Cash and cash equivalents at beginning of year	254.1	41.2	23.2
Cash and cash equivalents at end of year	\$44.5	\$254.1	\$41.2

The accompanying notes to Integrys Energy Group's consolidated financial statements are an integral part of these statements.

G. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) **Nature of Operations**--Integrys Energy Group is a holding company whose primary wholly owned subsidiaries at December 31, 2009 included WPS, UPPCO, MGU, MERC, PGL, NSG, IBS, and Integrys Energy Services. Of these subsidiaries, six are regulated electric and/or natural gas utilities, one, IBS, is a wholly owned centralized service company, and one, Integrys Energy Services, is a nonregulated energy supply and services company. In addition, WPS Investments, LLC holds an approximate 34% interest in ATC.

The term "utility" refers to the regulated activities of the electric and natural gas utility segments, while the term "nonutility" refers to the activities of the electric and natural gas utility segments that are not regulated. The term "nonregulated" refers to activities at Integrys Energy Services, the Integrys Energy Group holding company, and the PEC holding company.

(b) **Consolidated Basis of Presentation**--The consolidated financial statements include the accounts of Integrys Energy Group and all majority owned subsidiaries, after eliminating intercompany transactions and balances. If a noncontrolling owner's equity is reduced to zero, Integrys Energy Group's policy is to record 100% of the subsidiary's losses until the noncontrolling owner makes capital contributions or commits to fund its share of the operating costs. The cost method of accounting is used for investments when Integrys Energy Group does not have significant influence over the operating and financial policies of the investee. Investments in businesses not controlled by Integrys Energy Group, but over which it has significant influence regarding the operating and financial policies of the investee, are accounted for using the equity method. For additional information on equity method investments, see Note 9, "*Investments in Affiliates, at Equity Method.*" These consolidated financial statements also reflect Integrys Energy Group's proportionate interests in certain jointly owned utility facilities.

(c) **Use of Estimates**--Integrys Energy Group prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Integrys Energy Group makes estimates and assumptions that affect assets, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

(d) **Cash and Cash Equivalents**--Short-term investments with an original maturity of three months or less are reported as cash equivalents.

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

<i>(Millions)</i>	2009	2008	2007
Cash paid for interest	\$164.8	\$156.8	\$144.5
Cash paid for income taxes	19.1	100.9	198.1

Significant non-cash transactions were:

<i>(Millions)</i>	2009	2008	2007
Construction costs funded through accounts payable	\$30.4	\$34.2	\$ 26.1
Intangible assets (customer contracts) received in exchange for risk management assets	17.0	-	-
Equity issued for net assets acquired in PEC merger	-	-	1,559.3
Realized gain on settlement of contracts due to PEC merger	-	-	4.0
PEP post-closing adjustments funded through other current liabilities	-	-	9.9

(e) Revenue and Customer Receivables—Revenues are recognized on the accrual basis and include estimated amounts for electric and natural gas services provided but not billed. At December 31, 2009, and 2008, Integrys Energy Group's unbilled revenues were \$337.0 million and \$525.5 million, respectively. At December 31, 2009, there were no customers or industries that accounted for more than 10% of Integrys Energy Group's revenues.

Prudent fuel and purchased power costs are recovered from customers under one-for-one recovery mechanisms by UPPCO and by the wholesale electric operations and Michigan retail electric operations of WPS, which provide for subsequent adjustments to rates for changes in commodity costs. There is a portion of WPS's wholesale electric business that limits cost recovery to no greater than the 2-year average rate charged to large industrial retail customers for that same period. The costs of natural gas prudently incurred by the natural gas utility subsidiaries are also recovered from customers under one-for-one recovery mechanisms.

WPS's Wisconsin retail electric operations do not have a one-for-one recovery mechanism. Instead, a "fuel window" mechanism is used to recover fuel and purchased power costs. Under the fuel window, if actual fuel and purchased power costs deviate by more than 2% from costs included in the rates charged to customers, a rate review can be triggered. Once a rate review is triggered, rates may be reset (subject to PSCW approval) for the remainder of the year to recover or refund, on an annualized basis, the projected increase or decrease in the cost of fuel and purchased power.

All of Integrys Energy Group's utility subsidiaries are required to provide service and grant credit (with applicable deposit requirements) to customers within their service territories. The companies continually review their customers' credit-worthiness and obtain or refund deposits accordingly. The utilities are generally precluded from discontinuing service to residential customers during winter moratorium months.

PGL credits proceeds from its interstate services against natural gas costs, resulting in a reduction to utility customers' natural gas charges.

WPS and UPPCO both sell and purchase power in the MISO market. If WPS or UPPCO is a net seller in a particular hour, the net amount is reported as revenue. If WPS or UPPCO is a net purchaser in a particular hour, the net amount is recorded as utility cost of fuel, natural gas, and purchased power on the Consolidated Statements of Income.

Integrys Energy Group presents revenues net of pass-through taxes on the Consolidated Statements of Income.

(f) Inventories—Inventories consist of natural gas in storage, liquid propane, and fossil fuels, including coal. Average cost is used to value fossil fuels, liquid propane, and natural gas in storage for the regulated utilities, excluding PGL and NSG. PGL and NSG price natural gas storage injections at the calendar year average of the costs of natural gas supply purchased. Withdrawals from storage are priced on the LIFO cost method. Inventories stated on a LIFO basis represented approximately 34% of total inventories at December 31, 2009, and 16% of total inventories at December 31, 2008. The estimated replacement cost of natural gas in inventory at December 31, 2009, and December 31, 2008, exceeded

the LIFO cost by approximately \$220.5 million and \$212.2 million, respectively. In calculating these replacement amounts, PGL and NSG used a Chicago city-gate natural gas price per dekatherm of \$6.14 at December 31, 2009, and \$5.80 at December 31, 2008.

Inventories at Integrys Energy Services are valued at the lower of cost or market unless hedged pursuant to a fair value hedge, in which case changes in the fair value of inventory subsequent to the hedge designation are recorded directly to inventory. Integrys Energy Services recorded net write-downs of \$44.2 million, \$167.3 million, and \$7.0 million in 2009, 2008, and 2007, respectively.

(g) Risk Management Activities—As part of its regular operations, Integrys Energy Group enters into contracts, including options, swaps, futures, forwards, and other contractual commitments, to manage market risks such as changes in commodity prices and interest rates, which are described more fully in Note 2, "*Risk Management Activities*." Derivative instruments at the utilities are entered into in accordance with the terms of the risk management plans approved by their respective Boards of Directors and, if applicable, by their respective regulators.

All derivatives are recognized on the balance sheet at their fair value unless they qualify for the normal purchases and sales exception. Integrys Energy Group continually assesses its contracts designated as normal and will discontinue the treatment of these contracts as normal if the required criteria are no longer met. Most energy-related physical and financial derivatives at the utilities qualify for regulatory deferral. These derivatives are marked to fair value; the resulting risk management assets are offset with regulatory liabilities or decreases to regulatory assets, and risk management liabilities are offset with regulatory assets or decreases to regulatory liabilities. Management believes any gains or losses resulting from the eventual settlement of these derivative instruments will be refunded to or collected from customers in rates.

Integrys Energy Group classifies unrealized gains and losses on derivative instruments that do not qualify for hedge accounting or regulatory deferral as a component of margins or operating and maintenance expense, depending on the nature of the transactions. Unrealized gains and losses on fair value hedges are recognized currently in revenue, as are the changes in fair value of the hedged items. To the extent they are effective, the changes in the values of contracts designated as cash flow hedges are included in other comprehensive income, net of taxes. Fair value hedge ineffectiveness and cash flow hedge ineffectiveness are recorded in revenue or operating and maintenance expense on the Consolidated Statements of Income, based on the nature of the transactions. Cash flows from derivative activities are presented in the same category as the item being hedged within operating activities on the Consolidated Statements of Cash Flows unless the derivative contracts contain an other-than-insignificant financing element, in which case the cash flows are classified within financing activities.

FASB ASC 815-10-45 provides the option to present certain asset and liability derivative positions net on the balance sheet and to net the related cash collateral against these net derivative positions. Integrys Energy Group elected not to net these items. On the Consolidated Balance Sheets, cash collateral provided to others is shown separately as collateral on deposit, and cash collateral received from others is reflected in other current liabilities.

(h) Emission Allowances—Integrys Energy Services accounts for emission allowances as intangible assets, with cash inflows and outflows related to purchases and sales of emission allowances recorded as investing activities in the Consolidated Statements of Cash Flows. Integrys Energy Services uses the guidance under the Property, Plant, and Equipment Topic of the FASB ASC to test allowances for impairment. The utilities account for emission allowances as inventory at average cost by vintage year. Charges to income result when allowances are utilized in operating the utilities' generation plants. Gains on sales of allowances at the utilities are returned to ratepayers.

(i) Property, Plant, and Equipment—Utility plant is stated at original cost, including any associated AFUDC and asset retirement costs. The costs of renewals and betterments of units of property (as distinguished from minor items of property) are capitalized as additions to the utility plant accounts. Except for land, no gain or loss is recognized in connection with ordinary retirements of utility property

units. Maintenance, repair, replacement, and renewal costs associated with items not qualifying as units of property are considered operating expenses. PGL and NSG charge the cost of units of property retired, sold, or otherwise disposed of to the accumulated provision for depreciation and record the cost of removal, less salvage value, associated with the retirement to depreciation expense. The other utilities charge the cost of units of property retired, sold, or otherwise disposed of, less salvage value, to the accumulated provision for depreciation and record a regulatory liability for removal costs included in rates, with actual removal costs charged against the liability as incurred. Consistent with the ICC rate order issued January 22, 2010, PGL and NSG changed their method for recognizing net dismantling costs from as incurred to allocating the cost over the life of the asset.

Integrus Energy Group records straight-line depreciation expense over the estimated useful life of utility property, using depreciation rates as approved by the applicable regulators. Annual utility composite depreciation rates are shown below.

Annual Utility Composite Depreciation Rates	2009	2008	2007
WPS – Electric	3.04%	3.09%	3.35%
WPS – Natural gas	3.30%	3.39%	3.52%
UPPCO	3.05%	2.98%	3.01%
MGU	2.66%	2.67%	2.67%
MERC	3.10%	3.32%	3.42%
PGL	2.29%	2.55%	2.86% *
NSG	1.66%	1.80%	1.85% *

* Composite depreciation rate from the February 22, 2007 PEC merger date through the end of 2007.

Interest capitalization is applied to nonutility property during construction, and a gain or loss is recognized for retirements. At December 31, 2009, and 2008, nonutility property at the regulated utilities consisted primarily of land.

Nonregulated plant is stated at cost, which includes capitalized interest. The costs of renewals, betterments, and major overhauls are capitalized as additions to plant. The gains or losses associated with ordinary retirements are recorded in the period of retirement. Maintenance, repair, and minor replacement costs are expensed as incurred.

Depreciation is computed for the majority of the nonregulated subsidiaries' assets using the straight-line method over the assets' useful lives.

Integrus Energy Group capitalizes certain costs related to software developed or obtained for internal use and amortizes those costs to operating expense over the estimated useful life of the related software, which ranges from 3 to 15 years. If software is retired prior to being fully amortized, the difference is recorded as a loss on the Consolidated Statements of Income.

See Note 6, "Property, Plant, and Equipment," for details regarding Integrus Energy Group's property, plant, and equipment balances.

(j) **Capitalized Interest and AFUDC**—The nonregulated subsidiaries capitalize interest for construction projects, while the utilities capitalize the cost of funds used for construction using a calculation that includes both internal equity and external debt components. The internal equity component of capitalized AFUDC is accounted for as other income, and the external debt component is accounted for as a decrease to interest expense.

Approximately 50% of WPS's retail jurisdictional construction work in progress expenditures are subject to the AFUDC calculation. For 2009, WPS's average AFUDC retail rate was 8.61%, and its average AFUDC wholesale rate was 7.78%. WPS's allowance for equity funds used during construction for 2009, 2008, and 2007 was \$5.1 million, \$5.2 million, and \$0.9 million, respectively. WPS's allowance for borrowed

funds used during construction for 2009, 2008, and 2007 was \$2.0 million, \$1.8 million, and \$0.3 million, respectively.

The AFUDC calculation for IBS and the other utilities is determined by the respective state commissions, each with specific requirements. Based on these requirements, IBS and the other utilities did not record significant AFUDC for 2009, 2008, or 2007.

Interest capitalized at the nonregulated subsidiaries was not significant during 2009, 2008, and 2007.

(k) Regulatory Assets and Liabilities—Regulatory assets represent probable future revenue associated with certain costs or liabilities that have been deferred and are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or amounts collected in rates for future costs. If at any reporting date a previously recorded regulatory asset is no longer probable of recovery, the regulatory asset is reduced to the amount considered probable of recovery with the reduction charged to expense in the year the determination is made. See Note 8, "Regulatory Assets and Liabilities," for more information.

(l) Asset Impairment—Goodwill and other intangible assets with indefinite lives are not amortized, but are subject to an annual impairment test. Other long-lived assets require an impairment review when events or circumstances indicate that the carrying amount may not be recoverable. Integrys Energy Group bases its evaluation of other long-lived assets on the presence of impairment indicators such as the future economic benefit of the assets, any historical or future profitability measurements, and other external market conditions or factors.

Integrys Energy Group's reporting units containing goodwill perform annual goodwill impairment tests during the second quarter of each year, and interim impairment tests are performed when impairment indicators are present. The carrying amount of the reporting unit's goodwill is considered not recoverable if the carrying amount of the reporting unit as a whole exceeds the reporting unit's fair value. An impairment charge is recorded for any excess of the carrying value of the goodwill over the implied fair value. For more information on Integrys Energy Group's goodwill and other intangible assets, see Note 10, "Goodwill and Other Intangible Assets."

The carrying amount of assets held and used is considered not recoverable if it exceeds the undiscounted sum of cash flows expected to result from the use and eventual disposition of the asset. If the carrying value is not recoverable, the impairment loss is measured as the excess of the asset's carrying value over its fair value.

The carrying value of assets held for sale is not recoverable if it exceeds the fair value less cost to sell the asset. An impairment charge is recorded for any excess of the carrying value over the fair value less estimated cost to sell.

The carrying values of cost and equity method investments are assessed for impairment by comparing the fair values of these investments to their carrying values, if a fair value assessment was completed, or by reviewing for the presence of impairment indicators. If an impairment exists and it is determined to be other-than-temporary, a charge is recognized equal to the amount the carrying value exceeds the investment's fair value.

(m) Retirement of Debt—Any call premiums or unamortized expenses associated with refinancing utility debt obligations are amortized consistent with regulatory treatment of those items. Any gains or losses resulting from the retirement of nonutility debt are recorded through earnings, while gains or losses resulting from the retirement of utility debt that is not refinanced are either amortized over the remaining life of the original debt or recorded through earnings.

(n) Asset Retirement Obligations—Integrys Energy Group recognizes legal obligations at fair value associated with the retirement of tangible long-lived assets that result from the acquisition, construction or development, and/or normal operation of the assets. A liability is recorded for these obligations as long as

the fair value can be reasonably estimated, even if the timing or method of settling the obligation is unknown. The asset retirement obligations are accreted using a credit-adjusted risk-free interest rate commensurate with the expected settlement dates of the asset retirement obligations; this rate is determined at the date the obligation is incurred. The associated retirement costs are capitalized as part of the related long-lived assets and are depreciated over the useful lives of the assets. See Note 14, "Asset Retirement Obligations," for more information.

(o) Income Taxes—Deferred income taxes have been recorded to recognize the expected future tax consequences of events that have been included in the financial statements by using currently enacted tax rates for the differences between the tax basis of assets and liabilities and the basis reported in the financial statements. Integrys Energy Group records valuation allowances for deferred tax assets when it is uncertain if the benefit will be realized in the future. Integrys Energy Group's regulated utilities defer certain adjustments made to income taxes that will impact future rates and record regulatory assets or liabilities related to these adjustments.

Investment tax credits that reduce income taxes payable for the current year are recognized as a reduction of the provision for income taxes if the credits are generated in Integrys Energy Group's nonregulated operations unless it is likely that the related property that generated the tax credits will be sold after the end of the year with the tax credits transferred to the seller as permitted under tax law. For investment tax credits generated within regulated operations, regulators reduce Integrys Energy Group's future rates over the lives of the property to which the tax credits relate. Accordingly, Integrys Energy Group defers the investment tax credits in the year the taxes payable are reduced and reduces the provision for income taxes over the useful lives of the related property. Production tax credits generally reduce the provision for income taxes in the year that electricity from the qualifying facility is generated and sold. Investment tax credits and production tax credits that do not reduce income taxes payable for the current year are eligible for carryover and recognized as a deferred tax asset. A valuation allowance is established unless it is more likely than not that the credits will be realized during the carryforward period.

Integrys Energy Group files a consolidated United States income tax return that includes domestic subsidiaries of which its ownership is 80% or more. Integrys Energy Group and its consolidated subsidiaries are parties to a tax allocation arrangement under which each entity determines its provision for income taxes on a stand-alone basis. In several states, combined or consolidated filing is required for certain members of Integrys Energy Group doing business in that state. The tax allocation arrangement equitably allocates the state taxes associated with these combined or consolidated filings.

Integrys Energy Group reports interest and penalties accrued related to income taxes as a component of provision for income taxes in the Consolidated Statements of Income, as well as regulatory assets or regulatory liabilities in the Consolidated Balance Sheets.

For more information regarding Integrys Energy Group's accounting for income taxes, see Note 15, "Income Taxes."

(p) Guarantees—Integrys Energy Group follows the guidance of the Guarantees Topic of the FASB ASC, which requires that the guarantor recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. For additional information on guarantees, see Note 17, "Guarantees."

(q) Employee Benefits—The costs of pension and other postretirement benefits are expensed over the periods during which employees render service. The transition obligation related to other postretirement plans that existed at Integrys Energy Group prior to the PEC merger is being recognized over a 20-year period beginning in 1993. In computing the expected return on plan assets, Integrys Energy Group uses a market-related value of plan assets. Changes in fair value are recognized over the subsequent five years for plans sponsored by WPS, while differences between actual investment returns and the expected return on plan assets are recognized over a five-year period for pension plans sponsored by IBS and PEC. The benefit costs associated with employee benefit plans are allocated among Integrys Energy Group's subsidiaries based on employees' time reporting and actuarial

calculations, as applicable. Integrys Energy Group's regulators allow recovery in rates for the regulated utilities' net periodic benefit cost calculated under GAAP.

Integrys Energy Group recognizes the funded status of defined benefit postretirement plans on the balance sheet, and recognizes changes in the plans' funded status in the year in which the changes occur. Integrys Energy Group's nonregulated segments record changes in the funded status in other comprehensive income, and the regulated utilities record these changes to regulatory asset or liability accounts.

Integrys Energy Group uses a December 31 measurement date for all of its pension and other postretirement benefit plans.

For additional information on Integrys Energy Group's employee benefits, see Note 18, "*Employee Benefit Plans*."

(r) **Fair Value**--Effective January 1, 2008, Integrys Energy Group adopted SFAS No. 157, "Fair Value Measurements" (now incorporated as part of the Fair Value Measurements and Disclosures Topic of the FASB ASC). This standard defined fair value and required enhanced disclosures about assets and liabilities carried at fair value. These disclosures can be found in Note 22, "*Fair Value*."

A fair value measurement is required to reflect the assumptions market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model. Also, transaction costs should not be considered in the determination of fair value. On January 1, 2008, Integrys Energy Group recognized an increase in nonregulated revenues of \$11.0 million due to the exclusion of transaction costs from Integrys Energy Services' fair value estimates.

SFAS No. 157 nullified a portion of Emerging Issues Task Force Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities." Under Issue No. 02-3, inception gains or losses were deferred unless the fair value of the derivative was substantially based on quoted prices or other current market transactions. However, SFAS No. 157 provided a framework to consider, in evaluating a transaction, whether a transaction represents fair value at initial recognition. Integrys Energy Services recognized a pre-tax cumulative effect increase to retained earnings of \$4.5 million on January 1, 2008, related to the nullification of the aforementioned portion of Issue No. 02-3.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). Integrys Energy Group utilizes a mid-market pricing convention (the mid-point price between bid and ask prices) as a practical expedient for valuing certain derivative assets and liabilities.

SFAS No. 157 established a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are defined as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are observable, either directly or indirectly, but are not quoted prices included within Level 1. Level 2 includes those financial instruments that are valued using external inputs within models or other valuation methodologies.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's

best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs.

Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

(s) **Subsequent Events**—Subsequent events at Integrys Energy Group were evaluated for potential recognition or disclosure through February 25, 2010, which is the date the consolidated financial statements were issued.

(t) **New Accounting Pronouncements**—SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" (now incorporated as part of the Consolidation Topic of the FASB ASC), was issued in June 2009. This statement introduces a requirement to perform ongoing assessments to determine whether an entity is a variable interest entity and whether an enterprise is the primary beneficiary of a variable interest entity. In addition, this statement clarifies that the enterprise that is required to consolidate a variable interest entity will have a controlling financial interest evidenced by (1) the power to direct the activities that most significantly affect the entity's economic performance, and (2) the obligation to absorb losses or the right to receive benefits that are potentially significant to the variable interest entity. Additional disclosures are required regarding involvement with variable interest entities, as well as the methodology used to determine the primary beneficiary of any variable interest entities. This standard was effective for Integrys Energy Group beginning January 1, 2010. Management is currently evaluating the impact that the adoption will have on Integrys Energy Group's first quarter 2010 consolidated financial statements.

NOTE 2—RISK MANAGEMENT ACTIVITIES

The following table shows Integrys Energy Group's assets and liabilities from risk management activities:

		Risk Management Assets		Risk Management Liabilities	
(Millions)	Balance Sheet Presentation *	December 31 2009	December 31 2008	December 31 2009*	December 31 2008
Utility Segments					
Non-hedge derivatives					
Commodity contracts	Current	\$ 10.8	\$ 28.6	\$ 24.7	\$ 161.6
Commodity contracts	Long-term	2.0	-	1.5	9.0
Cash flow hedges					
Commodity contracts	Current	-	-	0.2	1.5
Commodity contracts	Long-term	-	-	0.1	-
Nonregulated Segments					
Non-hedge derivatives					
Commodity contracts	Current	1,503.9	2,080.9	1,548.4	1,944.2
Commodity contracts	Long-term	787.2	750.0	769.5	729.7
Interest rate swaps	Current	-	-	1.0	1.0
Interest rate swaps	Long-term	-	-	2.5	3.3
Foreign exchange contracts	Current	1.0	2.8	0.9	0.5
Foreign exchange contracts	Long-term	0.9	2.5	0.9	2.3
Fair value hedges					
Commodity contracts	Current	-	14.2	-	-
Interest rate swaps	Current	1.8	1.1	-	-
Interest rate swaps	Long-term	0.8	2.1	-	-
Cash flow hedges					
Commodity contracts	Current	4.6	81.3	30.1	79.4
Commodity contracts	Long-term	4.5	4.1	8.6	14.8
Interest rate swaps	Current	-	-	1.8	1.5
Interest rate swaps	Long-term	-	-	-	3.6
Foreign exchange contracts	Current	-	14.8	-	-
Total		\$2,317.5	\$2,982.4	\$2,390.2	\$2,952.4

* Assets and liabilities from risk management activities are classified as current or long-term based upon the maturities of the underlying contracts.

At December 31, 2008, \$0.6 million of current non-hedge commodity derivative contracts were classified as liabilities held for sale in the nonregulated Integrys Energy Services segment. For more information see Note 4, "Dispositions."

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

<i>(Millions)</i>	December 31, 2009	December 31, 2008
Cash collateral provided to others	\$184.9	\$262.7
Cash collateral received from others	55.2	18.9

Certain of Integrys Energy Group's derivative and nonderivative commodity instruments contain provisions that could require "adequate assurance" in the event of a material adverse change in Integrys Energy Group's creditworthiness, or the posting of additional collateral for instruments in net liability positions, if triggered by a decrease in credit ratings. The aggregate fair value of all derivative instruments with specific credit-risk related contingent features that were in a liability position at December 31, 2009, was \$579.6 million. As of December 31, 2009, Integrys Energy Group had not posted any cash collateral related to the credit-risk related contingent features of these commodity instruments.

If all of the credit-risk related contingent features contained in commodity instruments (including derivatives, non-derivatives, normal purchase and normal sales contracts, and applicable payables and receivables) had been triggered at December 31, 2009, Integrys Energy Group would have been required to post collateral of \$566.3 million. Of this amount, Integrys Energy Group had already satisfied \$51.9 million with letters of credit. Therefore, the remaining collateral requirement would have been \$514.4 million.

Utility Segments

Non-Hedge Derivatives

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

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

<i>(Millions)</i>	Financial Statement Presentation	2009
Commodity contracts	Balance Sheet – Regulatory assets (current)	\$122.5
Commodity contracts	Balance Sheet – Regulatory assets (long-term)	7.3
Commodity contracts	Balance Sheet – Regulatory liabilities (current)	(1.0)
Commodity contracts	Balance Sheet – Regulatory liabilities (long-term)	-
Commodity contracts	Income Statement – Utility cost of fuel, natural gas, and purchased power	0.1

At December 31, 2009, the utilities had the following notional volumes of outstanding non-hedge derivative contracts:

	Purchases	Other Transactions
Natural gas (millions of therms)	833.2	N/A
FTRs (millions of kilowatt-hours)	N/A	4,546.6
Petroleum products (barrels)	42,823	N/A

Cash Flow Hedges

PGL uses commodity contracts designated as cash flow hedges to hedge changes in the price of natural gas used to support operations. These contracts extend through December 2011. At December 31, 2009, PGL had the following notional volumes of outstanding contracts that were designated as cash flow hedges:

	Purchases
Natural gas (millions of therms)	9.6

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

	Unrealized Loss Recognized in OCI on Derivative Instruments (Effective Portion)
(Millions)	2009
Commodity contracts	\$(1.4)

		Loss Reclassified from Accumulated OCI into Income (Effective Portion)
(Millions)	Income Statement Presentation	2009
Settled commodity contracts	Operating and maintenance expense	\$(2.6)

The amount reclassified from accumulated OCI into earnings as a result of the discontinuance of cash flow hedge accounting for certain hedge transactions was not significant during 2009, was a pre-tax loss of \$2.7 million during 2008, and was not significant during 2007. Cash flow hedge ineffectiveness related to these commodity contracts was not significant during 2009 and 2008, and was a pre-tax loss of \$4.4 million in 2007. When testing for effectiveness, no portion of the derivative instruments was excluded. In the next 12 months, PGL expects that an insignificant pre-tax loss will be recognized in earnings as the hedged transactions occur.

Nonregulated Segments*Non-Hedge Derivatives*

Integrys Energy Group's nonregulated segments enter into derivative contracts such as futures, forwards, options, and swaps that are not designated as accounting hedges under GAAP. In most cases, these contracts are used to manage commodity price risk associated with customer related contracts, interest rate risk associated with expected future natural gas purchases, and foreign currency exchange rate risk related to the wrap up of the Canadian marketing operations.

At December 31, 2009, the nonregulated segments had the following notional volumes of outstanding non-hedge derivative contracts:

(Millions)	Purchases	Sales	Other Transactions
Commodity contracts			
Natural gas (therms)	2,990.4	2,917.1	N/A
Power (kilowatt-hours)	132,200.4	125,983.1	N/A
Interest rate swaps	N/A	N/A	\$219.2
Foreign exchange contracts	\$35.1	\$35.1	N/A

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

(Millions)	Income Statement Presentation	2009
Commodity contracts	Nonregulated revenue	\$ (5.1)
Commodity contracts	Nonregulated revenue (reclassified from accumulated OCI)	(3.2) *
Interest rate swaps	Interest expense	(1.7)
Foreign exchange contracts	Nonregulated revenue	(1.8)
Total		\$(11.8)

* Represents amounts amortized out of accumulated OCI related to cash flow hedges that were dedesignated in prior quarters.

Fair Value Hedges

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

(Millions)	Income Statement Presentation	2009
Interest rate swap	Interest expense	\$(0.6)
Debt hedged by swap	Interest expense	0.6
Total		\$ -

Fair value hedge ineffectiveness recorded in interest expense on the Consolidated Statements of Income was not significant in 2009, 2008, and 2007. No amounts were excluded from effectiveness testing related to the interest rate swap during 2009, 2008, and 2007.

During the year ended December 31, 2009, Integrys Energy Services did not have any commodity derivative contracts designated as fair value hedges. During the years ended December 31, 2008, and 2007, Integrys Energy Services had commodity derivative contracts designated as fair value hedges to mitigate the risk of changes in the price of natural gas held in storage. Fair value hedge ineffectiveness recorded in nonregulated revenue on the Consolidated Statements of Income was not significant in 2008 and 2007. Changes in the difference between the spot and forward prices of natural gas were excluded from the assessment of hedge effectiveness and reported directly in nonregulated revenue. The amount excluded was a pre-tax gain of \$5.5 million during 2008 and was not significant during 2007.

Cash Flow Hedges

Commodity futures, forwards, and swaps that are designated as cash flow hedges extend through April 2014, and are used to mitigate the risk of cash flow variability associated with future purchases and sales of natural gas and electricity. Integrys Energy Group also has two interest rate swaps that are designated as cash flow hedges to fix the interest rate on an unsecured term loan through June 2010. At December 31, 2009, the nonregulated segments had the following notional volumes of outstanding contracts that were designated as cash flow hedges:

(Millions)	Purchases	Sales	Other Transactions
Commodity contracts			
Natural gas (therms)	5.9	8.6	N/A
Power (kilowatt-hours)	7,116.2	-	N/A
Interest rate swaps	N/A	N/A	\$65.6

Changes in the fair values of the effective portions of contracts designated as cash flow hedges are included in OCI, net of taxes. Amounts recorded in OCI related to cash flow hedges will be recognized in

earnings when the hedged transactions occur, or if it is probable that the hedged transaction will not occur. The tables below show the amounts related to cash flow hedges recorded in OCI and in earnings.

Unrealized Gain (Loss) Recognized in OCI on Derivative Instruments (Effective Portion)		
(Millions)		2009
Commodity contracts		\$(60.0)
Interest rate swaps		3.2

		Gain (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)
(Millions)	Income Statement Presentation	2009
Settled/Realized		
Commodity contracts	Nonregulated revenue	\$(107.3)
Interest rate swaps	Interest expense	1.2
Hedge Designation Discontinued		
Commodity contracts	Nonregulated revenue	2.7
Total		\$(103.4)

		Loss Recognized in Income on Derivative Instruments (Ineffective Portion and Amount Excluded from Effectiveness Testing)
(Millions)	Income Statement Presentation	2009
Commodity contracts	Nonregulated revenue	\$(1.1)

In the next 12 months, subject to changes in market prices of natural gas and electricity, a pre-tax loss of \$34.0 million related to cash flow hedges of commodity contracts is expected to be recognized in earnings as the hedged transactions occur. This amount is expected to be substantially offset by the settlement of the related nonderivative hedged contracts.

NOTE 3--RESTRUCTURING EXPENSE

Reductions in Workforce

In an effort to permanently remove costs from its operations, Integrys Energy Group developed a plan at the end of 2009 that includes reductions in the workforce. In connection with this plan, \$18.0 million of employee-related and consulting costs, including an insignificant curtailment loss for a nonqualified pension plan, were included in the restructuring expense line item on the Consolidated Statements of Income. An insignificant amount was paid out in 2009 for consulting fees. The restructuring costs were distributed across Integrys Energy Group's segments as follows:

(Millions)	2009
Electric utility	\$ 8.6
Natural gas utility	6.9
Integrys Energy Services	1.7
Holding company and other	0.8
Total restructuring expense	\$18.0

Integrys Energy Services Strategy Change

Integrys Energy Group is in the process of significantly reducing the size of its nonregulated energy services business segment to a smaller segment with significantly reduced credit and collateral support requirements. In connection with this strategy, the following restructuring costs were expensed:

(Millions)	2009
Employee-related costs	\$10.1
Legal and consulting	9.2
Software write-offs and accelerated depreciation	5.9
Miscellaneous	0.3
Total restructuring expense	\$25.5

All of the above costs were related to the Integrys Energy Services segment and were included in the restructuring expense line item on the Consolidated Statements of Income.

The following table summarizes the activity related to employee-related restructuring expense:

(Millions)	2009
Accrued employee-related costs at beginning of period	\$ -
Employee-related costs expensed	10.1
Cash payments	1.9
Accrued employee-related costs at end of period	\$ 8.2

Integrys Energy Group expects to incur total employee-related restructuring expense of approximately \$12 million related to the Integrys Energy Services strategy change by the end of 2010, including the \$10.1 million expensed as of December 31, 2009.

NOTE 4--DISPOSITIONS

Integrys Energy Services Strategy Change

As part of Integrys Energy Group's decision to significantly reduce the size of its nonregulated energy services business segment with significantly reduced credit and collateral support requirements, it entered into the following sale agreements during 2009.

Proposed Sale of United States Wholesale Electric Marketing and Trading Business

In December 2009, Integrys Energy Services entered into a definitive agreement to sell substantially all of its United States wholesale electric marketing and trading business. The closing of this sale is contingent upon obtaining certain customary contractual consents and necessary regulatory approvals. Effective February 1, 2010, Integrys Energy Services transferred substantially all of the market risk associated with this business by entering into trades with the buyer that mirror Integrys Energy Services' underlying wholesale electric contracts. Integrys Energy Services expects to transfer title to the underlying contracts and close the transaction by the end of the second quarter of 2010, at which time these mirror transactions will terminate.

The carrying values of the major classes of assets and liabilities included in the sale agreement were as follows at December 31, 2009:

(Millions)	
Current assets from risk management activities	\$1,219.7
Long-term assets from risk management activities	629.4
Total assets	\$1,849.1
Current liabilities from risk management activities	\$1,229.8
Long-term liabilities from risk management activities	602.2
Total liabilities	\$1,832.0

Based on the terms of the sale agreement and the carrying amount of the net assets being sold, had the sale transaction closed on December 31, 2009, Integrys Energy Services would have realized a non-cash loss on the sale of approximately \$58 million pre-tax. Also included in the sale transaction are commodity contracts that do not meet the GAAP definition of derivative instruments, and therefore are not reflected on the Consolidated Balance Sheets. In accordance with GAAP, expected gains or losses related to nonderivative commodity contracts are not recognized until the contracts are settled. The gain or loss on the sale will be recorded in the period the contracts are transferred to the buyer as this transfer represents settlement. Furthermore, changes in forward electric prices will impact the ultimate gain or loss on the sale and could be different than the aforementioned loss that was computed assuming a December 31, 2009 closing date. In conjunction with the sale, Integrys Energy Services will enter into derivative contracts with the buyer to reestablish the economic hedges for the retained retail business at the same prices and other terms previously executed through Integrys Energy Services' wholesale electric marketing business being sold. Had these new third-party derivative contracts been entered into at December 31, 2009, the amount of assets and liabilities from risk management activities would have been as follows:

(Millions)

Current assets from risk management activities	\$ 50.1
Long-term assets from risk management activities	30.5
Total assets	\$ 80.6
<hr/>	
Current liabilities from risk management activities	\$ 78.9
Long-term liabilities from risk management activities	42.8
Total liabilities	\$121.7

Sale of Generation Assets in New Brunswick, Canada and Northern Maine, and Associated Retail Electric Contracts

In November 2009, Integrys Energy Services entered into definitive agreements that it subsequently closed in the first quarter of 2010, for the sale of two of its power generation companies, which own generation assets in New Brunswick, Canada and Northern Maine, along with the associated retail electric contracts and standard offer service contracts in Northern Maine. The proceeds from the sale of the generation companies and associated retail electric contracts were \$38.5 million, and the estimated pre-tax gain on the sale to be recognized during the first quarter of 2010 is approximately \$15 million, subject to certain post-closing adjustments.

The carrying values of the major classes of assets and liabilities classified as held for sale on the Consolidated Balance Sheets were as follows:

<i>(Millions)</i>	December 31, 2009	December 31, 2008
Inventories	\$ 0.1	\$ 0.1
Property, plant, and equipment – net of accumulated depreciation of \$9.7 and \$9.0, respectively	25.1	24.8
Other long-term assets	1.3	1.4
Total assets	\$26.5	\$26.3
Current portion of long-term debt	\$ -	\$ 4.3
Current liabilities from risk management activities	-	0.6
Other current liabilities	-	0.1
Long-term debt	-	2.3
Asset retirement obligations	0.3	0.2
Total liabilities	\$ 0.3	\$ 7.5

Sale of United States Wholesale Natural Gas Marketing and Trading Business

In October 2009, Integrys Energy Services entered into definitive agreements to sell the majority of its United States wholesale natural gas marketing and trading business in a two-part transaction. In December 2009, Integrys Energy Services completed the first part of the transaction by selling substantially all of its United States wholesale natural gas marketing and trading business. The second part of this transaction includes wholesale natural gas storage contracts. Integrys Energy Services will continue to pursue the sale of these contracts throughout the year. The pre-tax loss on the sale of the United States wholesale natural gas marketing and trading business reported during the fourth quarter of 2009 was \$28.5 million and is reported as a component of loss on Integrys Energy Services dispositions related to strategy change in the Consolidated Statements of Income.

The following table shows the carrying values of the major classes of assets and liabilities included in the sale at the December 4, 2009 closing date.

<i>(Millions)</i>	
Inventories	\$ 9.9
Current assets from risk management activities	261.2
Long-term assets from risk management activities	68.6
Total assets	\$339.7
Accounts payable	\$ 36.0
Current liabilities from risk management activities	311.7
Long-term liabilities from risk management activities	79.8
Total liabilities	\$427.5

In addition to the above recognized assets and liabilities, commodity contracts that are not accounted for as derivatives were also transferred to the buyer.

In conjunction with the transaction, Integrys Energy Services entered into derivative contracts with the buyer to reestablish the economic hedges for the retained retail business, at the same prices and other terms previously executed through Integrys Energy Services' wholesale natural gas marketing and trading business being sold. The execution of these new third-party derivative contracts resulted in assets and liabilities from risk management activities as follows at the date of the sale:

(Millions)

Current assets from risk management activities	\$ 62.6
Long-term assets from risk management activities	25.9
Total assets	\$ 88.5
Current liabilities from risk management activities	\$134.3
Long-term liabilities from risk management activities	53.8
Total liabilities	\$188.1

In January 2010, the buyer of the wholesale natural gas marketing and trading business exercised its option to purchase certain of the wholesale natural gas storage contracts from Integrys Energy Services in a subsequent sale. There is not anticipated to be a significant gain or loss on the sale of these natural gas storage contracts during the first quarter of 2010.

The carrying values of the major assets and liabilities included in this sale were as follows at December 31, 2009:

(Millions)

Inventories	\$16.1
Current assets from risk management activities	37.5
Long-term assets from risk management activities	8.9
Total assets	\$62.5
Accounts payable	\$24.8
Current liabilities from risk management activities	42.9
Long-term liabilities from risk management activities	7.5
Total liabilities	\$75.2

Sale of Canadian Natural Gas and Electric Power Portfolio

In September 2009, Integrys Energy Services of Canada, a subsidiary of Integrys Energy Services, sold nearly all of its Canadian natural gas and electric power contract portfolio. In a separate transaction, Integrys Energy Services of Canada sold a 2 billion cubic foot (bcf) natural gas storage contract to a counterparty. With these two transactions, Integrys Energy Services exited the majority of its electric and natural gas marketing business in Canada. The pre-tax loss on the sale of the Canadian portfolio was \$0.4 million and is reported as a component of loss on Integrys Energy Services dispositions related to strategy change in the Consolidated Statements of Income.

The following table shows the carrying values of the major classes of assets and liabilities included in the transactions at the closing dates.

(Millions)

Inventories	\$ 5.3
Current assets from risk management activities	134.7
Long-term assets from risk management activities	48.6
Total assets	\$188.6
Current liabilities from risk management activities	\$119.8
Long-term liabilities from risk management activities	32.3
Total liabilities	\$152.1

In conjunction with the transaction, Integrys Energy Services entered into derivative contracts with the buyer to reestablish the economic hedges for the retained United States retail business, at the same prices and other terms previously executed through Integrys Energy Services' Canadian natural gas and electric power portfolio being sold. The execution of these new third-party derivative contracts resulted in assets and liabilities from risk management activities as follows at the date of sale:

(Millions)

Current assets from risk management activities	\$21.8
Long-term assets from risk management activities	8.8
Total assets	\$30.6
Current liabilities from risk management activities	\$14.2
Long-term liabilities from risk management activities	6.3
Total liabilities	\$20.5

Discontinued Operations Resulting from Integrys Energy Services Strategy Change

Energy Management Consulting Business

During 2009, Integrys Energy Services completed the sale of its energy management consulting business and received proceeds of \$4.7 million. This business provided consulting services relating to long-term strategies for managing energy costs for its customers. The historical financial results of this business were not significant. The gain on sale of this business reported in discontinued operations was \$3.9 million (\$2.4 million after-tax).

Other Discontinued Operations

Stoneman

During the third quarter of 2008, Integrys Energy Services sold its subsidiary Mid-American Power, LLC, which owned the Stoneman generation facility, located in Wisconsin. The historical financial results of this business were not significant. In the fourth quarter of 2008, Integrys Energy Services recognized a \$6.3 million (\$3.8 million after-tax) gain on the sale of this business in discontinued operations when a previously contingent payment was earned and paid by the buyer. This contingent payment resulted from legislation that was passed in the fourth quarter of 2008, which extended the production tax credits available for certain biomass facilities.

PEP

In September 2007, Integrys Energy Group completed the sale of PEP, an oil and natural gas production subsidiary acquired in the PEC merger, for \$869.2 million, net of certain post-closing adjustments. These post-closing adjustments were funded through other current liabilities at December 31, 2007, and, therefore, are included in Note 1(d), "Summary of Significant Accounting Policies – Cash and Cash Equivalents," as a non-cash transaction for 2007. Including the impact of the post-closing adjustments, the pre-tax gain recorded for 2007 was \$12.6 million (\$7.6 million after-tax), and was included as a component of discontinued operations. In 2008, \$0.8 million of tax adjustments related to the 2007 PEP sale was recorded as income from discontinued operations.

Components of discontinued operations reported in the Consolidated Statements of Income related to PEP were:

<i>(Millions)</i>	February 22, 2007 through December 31, 2007
Nonregulated revenues	\$114.2
Operating and maintenance expense	28.5
Gain on PEP sale	(12.6)
Taxes other than income taxes	5.1
Other expense	0.1
Income before taxes	93.1
Provision for income taxes	34.6
Discontinued operations, net of tax	\$ 58.5

It is Integrys Energy Group's policy to not allocate interest to discontinued operations unless the asset group being sold has external debt obligations. PEP had no external debt obligations during the period shown above.

WPS Niagara Generation, LLC

In January 2007, Integrys Energy Services completed the sale of WPS Niagara Generation, LLC (Niagara) and received proceeds of approximately \$31 million. This facility was a merchant generation facility and sold power on a wholesale basis. Integrys Energy Services recognized a \$24.6 million (\$14.7 million after-tax) gain on the sale of this business in discontinued operations.

Components of discontinued operations reported in the Consolidated Statements of Income related to Niagara for the year ended December 31 were as follows:

<i>(Millions)</i>	2007
Nonregulated revenues	\$ 1.5
Nonregulated cost of fuel, natural gas, and purchased power	1.0
Operating and maintenance expense	0.5
Gain on Niagara sale	(24.6)
Income before taxes	24.6
Provision for income taxes	9.8
Discontinued operations, net of tax	\$14.8

No interest expense was allocated to discontinued operations as Niagara had no external debt obligations during the periods shown above.

During 2008, Integrys Energy Services recorded a \$0.1 million after-tax gain in discontinued operations related to amortization of an environmental indemnification guarantee included as part of the sale agreement.

During 2009, Integrys Energy Services recorded a \$0.4 million after-tax gain in discontinued operations related to a refund received in connection with the overpayment of auxiliary power service in prior years.

NOTE 5--PEC MERGER

The PEC merger was completed on February 21, 2007 and was accounted for under the purchase method of accounting, with Integrys Energy Group as the acquirer. In the merger, shareholders of PEC received 0.825 shares of Integrys Energy Group common stock, \$1 par value, for each share of PEC common stock, no par value, which they held immediately prior to the merger. The total purchase price was approximately \$1.6 billion. The results of operations attributable to PEC are included in the consolidated financial statements for the years ended December 31, 2009, 2008, and for the period from February 22, 2007, through December 31, 2007.

In order to achieve Integrys Energy Group's anticipated merger synergies, a restructuring plan was implemented, which included a process to eliminate duplicative positions within Integrys Energy Group. Costs associated with the merger-related involuntary termination of employees at PEC (the acquired company) were recognized as a liability assumed in the merger and included in the purchase price allocation. The liability recognized at the date of the merger was not significant and was fully paid at December 31, 2008.

Costs related to the involuntary termination of the acquirer's employees were expensed. Costs associated with the relocation or voluntary terminations of both Integrys Energy Group and PEC employees were also expensed. The following table summarizes the activity related to these specific costs for the years ended December 31:

<i>(Millions)</i>	2009	2008	2007
Accrued employee severance costs at beginning of period	\$1.4	\$4.8	\$ -
Severance expense recorded	0.1	2.5	7.2
Cash payments	(1.1)	(5.9)	(2.4)
Accrued employee severance costs at end of period	\$0.4	\$1.4	\$4.8

Supplemental Pro Forma Information

The following table shows pro forma results of operations for Integrys Energy Group for the year ended December 31, 2007, as if the acquisition of PEC had been completed at January 1, 2007. Pro forma results are presented for informational purposes only and are not necessarily indicative of what the actual results would have been had the acquisitions actually occurred on January 1, 2007.

<i>(Millions, except per share amounts)</i>	Year Ended December 31, 2007
Total revenues	\$10,997.7
Net income from continuing operations	\$211.2
Net income attributed to common shareholders	\$283.4
Basic earnings per share – continuing operations	\$2.73
Basic earnings per share	\$3.72
Diluted earnings per share – continuing operations	\$2.73
Diluted earnings per share	\$3.72

NOTE 6—PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at December 31 consisted of the following utility, nonutility, and nonregulated assets:

<i>(Millions)</i>	2009	2008
Electric utility	\$3,066.7	\$2,777.5
Natural gas utility	4,338.3	4,190.1
Total utility plant	7,405.0	6,967.6
Less: Accumulated depreciation	2,726.0	2,599.3
Net	4,679.0	4,368.3
Construction work in progress	40.7	159.6
Net utility plant	4,719.7	4,527.9
Nonutility plant – utility segments	100.7	87.9
Less: Accumulated depreciation	59.1	51.0
Net	41.6	36.9
Construction work in progress	34.6	15.5
Net nonutility plant – utility segments	76.2	52.4
Electric nonregulated	166.8	161.5
Natural gas nonregulated	18.1	3.4
Other nonregulated	23.5	23.1
Total nonregulated property, plant, and equipment	208.4	188.0
Less: Accumulated depreciation	62.1	50.7
Net	146.3	137.3
Construction work in progress	2.9	30.9
Net nonregulated property, plant, and equipment	149.2	168.2
Total property, plant, and equipment	\$4,945.1	\$4,748.5

NOTE 7--JOINTLY OWNED UTILITY FACILITIES

WPS holds a joint ownership interest in certain electric generating facilities. WPS is entitled to its share of generating capability and output of each facility equal to its respective ownership interest. WPS also pays its ownership share of additional construction costs, fuel inventory purchases, and operating expenses unless specific agreements have been executed to limit its maximum exposure to additional costs. WPS's share of significant jointly owned electric generating facilities as of December 31, 2009, was as follows:

<i>(Millions, except for percentages and megawatts)</i>	Weston 4	West Marinette Unit No. 33	Columbia Energy Center Units 1 and 2	Edgewater Unit No. 4
Ownership	70.0%	68.0%	31.8%	31.8%
WPS's share of rated capacity (megawatts)	374.5	56.8	335.2	105.0
Utility plant in service	\$609.8	\$18.2	\$165.9	\$37.8
Accumulated depreciation	\$ 53.5	\$ 9.7	\$102.4	\$23.5
In-service date	2008	1993	1975 and 1978	1969

WPS's share of direct expenses for these plants is recorded in operating expenses in the Consolidated Statements of Income. WPS has supplied its own financing for all jointly owned projects.

NOTE 8--REGULATORY ASSETS AND LIABILITIES

The following regulatory assets and liabilities were reflected in Integrys Energy Group's Consolidated Balance Sheets as of December 31:

(Millions)	2009	2008
Regulatory assets		
Environmental remediation costs (net of insurance recoveries)	\$ 674.9	\$ 681.1
Pension and other postretirement benefit related items	605.5	634.7
Asset retirement obligations	39.4	30.5
De Pere Energy Center	33.4	35.8
Derivatives	32.3	162.0
Income tax related items	29.0	23.2
Decoupling	28.9	4.4
Weston 3 lightning strike	18.1	22.3
Bad debt expense	17.7	4.8
Conservation program costs	17.4	4.8
Costs of previously owned nuclear plant	14.3	24.1
Unamortized loss on debt	12.5	13.2
Energy costs receivable through rate adjustments	12.3	23.1
Rate case costs	9.5	5.7
Costs to achieve merger synergies	6.1	12.1
Other	4.6	7.0
Total	\$1,556.0	\$1,688.8
Balance Sheet Presentation		
Current	\$ 121.1	\$ 244.0
Long-term	1,434.9	1,444.8
Total	\$1,556.0	\$1,688.8
Regulatory liabilities		
Cost of removal reserve	\$ 246.6	\$ 231.6
Energy costs refundable through rate adjustments	79.6	34.1
Pension and other postretirement benefit related items	23.5	26.1
Income tax related items	6.7	8.2
EEP	6.1	4.8
ATC and MISO refunds	4.6	9.6
Derivatives	4.3	4.9
Decoupling	1.4	9.4
Other	5.2	5.6
Total	\$ 378.0	\$ 334.3
Balance Sheet Presentation		
Current	\$ 100.4	\$ 58.8
Long-term	277.6	275.5
Total	\$ 378.0	\$ 334.3

Integrys Energy Group's utility subsidiaries expect to recover their regulatory assets and incur future costs or refund their regulatory liabilities through rates charged to customers based on specific ratemaking decisions over periods specified by the regulators or over the normal operating period of the assets and liabilities to which they relate. Based on prior and current rate treatment for such costs, Integrys Energy Group believes it is probable that its utility subsidiaries will continue to recover from customers the regulatory assets described above.

The regulatory assets listed in the table above related to WPS's environmental remediation costs, the Weston 3 lightning strike, rate case costs, and the unamortized loss on debt at PGL and NSG, are not

earning a rate of return. The regulatory asset for WPS's environmental remediation costs was \$74.2 million at December 31, 2009, and includes both liabilities and costs incurred to remediate the former manufactured gas plant sites that have not yet been recovered through rates. At December 31, 2009, environmental remediation costs that have been incurred but not yet recovered in rates were not significant. WPS is authorized recovery of the regulatory asset related to the Weston 3 lightning strike over a six-year period. The regulatory assets related to the unamortized loss on debt at PGL and NSG are not included in rate base, but are recovered over the term of the debt through the rate of return authorized by the ICC. The regulatory assets related to rate case costs for PGL and NSG are authorized recovery by the ICC over a five-year period for 2008 rates and a three-year period for 2010 rates. The regulatory assets related to rate case costs for MERC are authorized recovery by the MPUC over a five-year period for 2009 rates and a three-year period for 2010 rates. These regulatory assets are expected to be recovered from customers in future rates; however, the carrying costs of these assets are borne by Integrys Energy Group's shareholders.

Prior to WPS purchasing the De Pere Energy Center, WPS had a long-term power purchase contract with the De Pere Energy Center that was accounted for as a capital lease. As a result of the purchase, the capital lease obligation was reversed and the difference between the capital lease asset and the purchase price was recorded as a regulatory asset. WPS is authorized recovery of this regulatory asset over a 20-year period.

See Note 1(g), "Summary of Significant Accounting Policies – Risk Management Activities," Note 14, "Asset Retirement Obligations," Note 15, "Income Taxes," Note 16, "Commitments and Contingencies," Note 18, "Employee Benefit Plans," and Note 24, "Regulatory Environment," for more information on some of the more significant regulatory assets and liabilities listed in the above table.

NOTE 9--INVESTMENTS IN AFFILIATES, AT EQUITY METHOD

Investments in corporate joint ventures and other companies accounted for under the equity method at December 31, 2009, and 2008 were as follows:

<i>(Millions)</i>	2009	2008
ATC	\$395.9	\$346.9
WRPC	8.5	8.5
Other	1.4	3.1
Investments in affiliates, at equity method	\$405.8	\$358.5

Investments in affiliates accounted for under the equity method are included in other long-term assets on the Consolidated Balance Sheets, and the equity income (loss) is recorded in miscellaneous income on the Consolidated Statements of Income. Integrys Energy Group is taxed on ATC's equity income, rather than ATC, due to the tax flow-through nature of ATC's business structure. Accordingly, Integrys Energy Group's provision for income taxes includes taxes on ATC's equity income.

ATC

Integrys Energy Group's electric transmission investment segment consists of WPS Investments LLC's ownership interest in ATC, which was approximately 34% at December 31, 2009. ATC is a for-profit, transmission-only company. ATC owns, maintains, monitors, and operates electric transmission assets in portions of Wisconsin, Michigan, Minnesota, and Illinois.

The following table shows changes to Integrys Energy Group's investment in ATC during the years ended December 31.

(Millions)	2009	2008	2007
Balance at the beginning of period	\$346.9	\$296.6	\$231.9
Add: equity in net income	75.3	66.1	50.5
Add: capital contributions	34.1	34.6	50.9
Less: dividends received	60.4	50.4	36.7
Balance at the end of period	\$395.9	\$346.9	\$296.6

The regulated electric utilities provide construction and other services to, and receive network transmission services from, ATC. The related party transactions recorded by the regulated electric utilities in the years ended December 31 were as follows:

(Millions)	2009	2008	2007
Total charges to ATC for services and construction	\$10.1	\$12.8	\$98.6
Total costs for network transmission service provided by ATC	90.7	87.8	78.1
Net amounts received from (advanced to) ATC for transmission interconnection	-	82.3	(23.9)

WRPC

WPS owns 50% of the voting stock of WRPC, which operates two hydroelectric plants and an oil-fired combustion turbine. Two-thirds of the energy output of the hydroelectric plants is sold to WPS, and the remaining one-third is sold to Wisconsin Power and Light. The electric power from the combustion turbine is sold in equal parts to WPS and Wisconsin Power and Light.

WPS provides services to WRPC, purchases energy from WRPC, and receives net proceeds from sales of energy into the MISO market from WRPC. The related party transactions recorded and net proceeds and dividends received during the years ended December 31 were as follows:

(Millions)	2009	2008	2007
Revenues from services provided to WRPC	\$0.6	\$0.8	\$1.0
Purchases of energy from WRPC	4.6	4.7	4.7
Net proceeds from WRPC sales of energy to MISO	2.6	5.8	6.0
Dividends received from WRPC	0.9	3.5	0.9

Of Integrys Energy Group's equity in net income disclosed below, \$1.0 million, \$2.2 million, and \$1.8 million is the pre-tax income related to WPS's investment in WRPC in 2009, 2008, and 2007, respectively.

Financial Data

Combined financial data of Integrys Energy Group's significant equity method investments, ATC and WRPC, is included in the table below.

(Millions)	2009	2008	2007
Income statement data			
Revenues	\$ 528.7	\$ 474.0	\$ 415.6
Operating expenses	235.7	214.6	203.9
Other expense	77.7	67.1	54.2
Net income	\$ 215.3	\$ 192.3	\$ 157.5
Integrus Energy Group's equity in net income	\$ 76.3	\$ 68.3	\$ 52.3
Balance sheet data			
Current assets	\$ 54.0	\$ 52.5	\$ 52.3
Noncurrent assets	2,785.5	2,494.8	2,207.8
Total assets	\$2,839.5	\$2,547.3	\$2,260.1
Current liabilities	\$ 286.3	\$ 252.4	\$ 317.7
Long-term debt	1,259.6	1,109.4	899.1
Other noncurrent liabilities	80.1	119.3	111.1
Shareholders' equity	1,213.5	1,066.2	932.2
Total liabilities and shareholders' equity	\$2,839.5	\$2,547.3	\$2,260.1

NOTE 10--GOODWILL AND OTHER INTANGIBLE ASSETS

Integrus Energy Group had the following changes to the carrying amount of goodwill for the years ended December 31, 2008 and 2009:

(Millions)	Natural Gas Utility Segment	Integrus Energy Services	Total
Goodwill recorded at December 31, 2007 *	\$936.8	\$11.5	\$948.3
Adjustments to PEC purchase price allocation related to income taxes	(3.3)	(4.6)	(7.9)
Impairment loss	(6.5)	-	(6.5)
Goodwill recorded at December 31, 2008	927.0	6.9	933.9
Impairment loss	(291.1)	-	(291.1)
Goodwill allocated to businesses sold	-	(0.3)	(0.3)
Goodwill recorded at December 31, 2009	\$635.9	\$ 6.6	\$642.5

* The goodwill balance at December 31, 2007, did not include any accumulated impairment losses.

In the first quarter of 2009, the combination of the decline in equity markets as well as the increase in the expected weighted-average cost of capital indicated that a potential impairment of goodwill might exist, triggering an interim goodwill impairment analysis. Based upon the results of the interim goodwill impairment analysis, Integrus Energy Group recorded a non-cash goodwill impairment loss of \$291.1 million (\$248.8 million after-tax) in the first quarter of 2009, all within the natural gas utility segment. Key factors contributing to the impairment charge included disruptions in the global credit and equity markets and the resulting increase in the weighted-average cost of capital used to value the natural gas utility operations, and the negative impact that the global decline in equity markets had on the valuation of natural gas distribution companies in general.

A goodwill impairment loss in the amount of \$6.5 million, after-tax, was recognized for NSG in the second quarter of 2008. A present value technique was utilized to estimate the fair value of NSG at April 1, 2008. The goodwill impairment recognized for NSG was due to a decline in the estimated fair value of NSG, caused primarily by a decrease in forecasted results as compared to the forecast at the time of the acquisition. Worsening economic factors also contributed to the decline in fair value.

Identifiable intangible assets other than goodwill are included as a component of other current and long-term assets and other current and long-term liabilities within the Consolidated Balance Sheets as listed below.

(Millions)	December 31, 2009			December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets (liabilities)						
Customer-related ⁽¹⁾	\$ 32.6	\$(18.3)	\$14.3	\$32.6	\$(14.2)	\$18.4
Natural gas and electric contract assets ^{(2) (3)}	71.4	(60.5)	10.9	60.1	(54.6)	5.5
Natural gas and electric contract liabilities ^{(2) (4)}	(10.5)	10.4	(0.1)	(33.6)	20.2	(13.4)
Renewable energy credits ⁽⁵⁾	3.4	(2.1)	1.3	3.4	(2.1)	1.3
Nonregulated easements ⁽⁶⁾	3.6	(0.1)	3.5	-	-	-
Emission allowances ⁽⁷⁾	2.1	(0.2)	1.9	2.3	(0.1)	2.2
Other	2.5	(0.5)	2.0	3.0	(1.0)	2.0
Total	\$105.1	\$(71.3)	\$33.8	\$67.8	\$(51.8)	\$16.0
Unamortized intangible assets						
MGU trade name	5.2	-	5.2	5.2	-	5.2
Total intangible assets	\$110.3	\$(71.3)	\$39.0	\$73.0	\$(51.8)	\$21.2

⁽¹⁾ Includes customer relationship assets associated with both PEC's former nonregulated retail natural gas and electric operations and MERC's nonutility ServiceChoice business. The remaining weighted-average amortization period for customer-related intangible assets at December 31, 2009, was approximately 7 years.

⁽²⁾ Represents the fair value of certain PEC natural gas and electric customer contracts acquired in the merger that were not considered to be derivative instruments, as well as other electric customer contracts acquired in exchange for risk management assets.

⁽³⁾ Includes both short-term and long-term intangible assets related to customer contracts in the amount of \$6.2 million and \$4.7 million, respectively, at December 31, 2009, and \$3.1 million and \$2.4 million, respectively, at December 31, 2008. The remaining weighted-average amortization period for these intangible assets at December 31, 2009, was 2.5 years.

⁽⁴⁾ Includes both short-term and long-term intangible liabilities related to customer contracts in the amount of \$6.0 million and \$7.4 million, respectively at December 31, 2008.

⁽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 of 14.5 years.

⁽⁷⁾ Emission allowances do not have a contractual term or expiration date.

Intangible asset amortization expense, excluding amortization related to natural gas and electric contracts, was recorded as a component of depreciation and amortization expense. Amortization for the years ended December 31, 2009, 2008, and 2007, was \$6.3 million, \$7.9 million, and \$8.5 million, respectively.

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

(Millions)

For year ending December 31, 2010	\$4.2
For year ending December 31, 2011	3.3
For year ending December 31, 2012	2.4
For year ending December 31, 2013	1.6
For year ending December 31, 2014	1.4

Amortization of the natural gas and electric contract intangible assets and liabilities were recorded as a component of nonregulated cost of fuel, natural gas, and purchased power. Amortization of these contracts for the years ended December 31, 2009, 2008, and 2007, resulted in an increase to nonregulated fuel, natural gas, and purchased power in the amount of \$8.9 million, \$34.4 million, and \$21.0 million, respectively.

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

(Millions)

For year ending December 31, 2010	\$6.1
For year ending December 31, 2011	2.8
For year ending December 31, 2012	1.1
For year ending December 31, 2013	0.5
For year ending December 31, 2014	0.3

NOTE 11--LEASES

Integrys Energy Group leases various property, plant, and equipment. Terms of the operating leases vary, but generally require Integrys Energy Group to pay property taxes, insurance premiums, and maintenance costs associated with the leased property. Many of Integrys Energy Group's leases contain one of the following options upon the end of the lease term: (a) purchase the property at the current fair market value or (b) exercise a renewal option, as set forth in the lease agreement. Rental expense attributable to operating leases was \$16.9 million, \$17.0 million, and \$13.6 million in 2009, 2008, and 2007, respectively. Future minimum rental obligations under non-cancelable operating leases are payable as follows:

Year ending December 31

(Millions)

2010	\$11.6
2011	10.5
2012	9.1
2013	8.8
2014	4.8
Later years	23.6
Total payments	\$68.4

NOTE 12—SHORT-TERM DEBT AND LINES OF CREDIT

Integrus Energy Group's short-term borrowings consist of sales of commercial paper, borrowings under revolving credit facilities, and short-term notes. Amounts shown are as of December 31:

<i>(Millions, except percentages)</i>	2009	2008	2007
Commercial paper outstanding	\$212.1	\$552.9	\$308.2
Average discount rate on outstanding commercial paper	0.52%	4.78%	5.51%
Borrowings under revolving credit facilities	-	\$475.0	\$150.0
Average interest rate on outstanding borrowings under revolving credit facilities	-	2.41%	3.56%
Short-term notes payable outstanding	\$10.0	\$181.1	\$10.0
Average interest rate on short-term notes payable	0.18%	3.40%	5.20%

The commercial paper outstanding at December 31, 2009, had varying maturity dates ranging from January 4, 2010, through February 17, 2010.

The table below presents Integrus Energy Group's average amount of short-term borrowings outstanding based on daily outstanding balances during the years ended December 31:

<i>(Millions)</i>	2009	2008	2007
Average amount of commercial paper outstanding	\$193.8	\$305.7	\$490.1
Average amount of borrowings under revolving credit facilities	\$114.5	\$186.8	\$116.4
Average amount of short-term notes payable outstanding	\$48.0	\$34.3	\$10.0

Integrys Energy Group manages its liquidity by maintaining adequate external financing commitments. The information in the table below relates to Integrys Energy Group's short-term debt, lines of credit, and remaining available capacity as of December 31:

(Millions)	Maturity	2009	2008
Revolving credit facility (Integrys Energy Group) ⁽¹⁾	6/02/10	\$ 500.0	\$ 500.0
Revolving credit facility (Integrys Energy Group) ⁽¹⁾	6/09/11	500.0	500.0
Revolving credit facility (Integrys Energy Group) ⁽²⁾	5/03/09	-	250.0
Revolving credit facility (Integrys Energy Group) ⁽³⁾	5/26/10	425.0	-
Revolving credit facility (Integrys Energy Group) ⁽⁴⁾	6/04/10	35.0	-
Revolving credit facility (WPS) ⁽⁵⁾	6/02/10	115.0	115.0
Revolving credit facility (PEC) ⁽¹⁾⁽⁶⁾	6/13/11	400.0	400.0
Revolving credit facility (PGL) ⁽⁷⁾	7/12/10	250.0	250.0
Revolving credit facility (Integrys Energy Services) ⁽⁸⁾	6/29/09	-	175.0
Revolving short-term notes payable (WPS) ⁽⁹⁾	5/13/10	10.0	10.0
Short-term notes payable (Integrys Energy Group) ⁽¹⁰⁾	3/30/09	-	171.1
Total short-term credit capacity		2,235.0	2,371.1
Less:			
Letters of credit issued inside credit facilities		130.4	414.6
Loans outstanding under credit agreements and notes payable		10.0	656.1
Commercial paper outstanding		212.1	552.9
Accrued interest or original discount on outstanding commercial paper		-	0.8
Available capacity under existing agreements		\$1,882.5	\$ 746.7

⁽¹⁾ Provides support for Integrys Energy Group's commercial paper borrowing program.

⁽²⁾ This facility matured in May 2009, and the revolving credit agreement was terminated.

⁽³⁾ In May 2009, Integrys Energy Group entered into a revolving credit agreement to provide support for Integrys Energy Group's commercial paper borrowing program.

⁽⁴⁾ In June 2009, Integrys Energy Group entered into a revolving credit agreement to provide support for Integrys Energy Group's commercial paper borrowing program.

⁽⁵⁾ Provides support for WPS's commercial paper borrowing program.

⁽⁶⁾ Borrowings under this agreement are guaranteed by Integrys Energy Group.

⁽⁷⁾ Provides support for PGL's commercial paper borrowing program.

⁽⁸⁾ This facility matured in June 2009, at which time the borrowings were paid in full, and the revolving credit agreement was terminated. This facility was previously guaranteed by Integrys Energy Group.

⁽⁹⁾ This note is renewed every six months and is used for general corporate purposes.

⁽¹⁰⁾ This facility matured in March 2009, at which time the borrowings were paid in full, and the short-term debt agreement was terminated.

At December 31, 2009, Integrys Energy Group and its subsidiaries were in compliance with all financial covenants related to outstanding short-term debt. Integrys Energy Group and certain subsidiaries' revolving credit agreements contain financial and other covenants, including but not limited to, a requirement to maintain a debt to total capitalization ratio not to exceed 65%, excluding non-recourse debt. Failure to meet these covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements.

NOTE 13—LONG-TERM DEBT

		December 31	
(Millions)		2009	2008
WPS First Mortgage Bonds ⁽¹⁾			
	Series	Year Due	
	7.125%	2023	\$ 0.1
WPS Senior Notes ⁽¹⁾			
	Series	Year Due	
	6.125%	2011	150.0
	4.875%	2012	150.0
	4.80%	2013	125.0
	3.95%	2013	22.0
	6.375%	2015	125.0
	5.65%	2017	125.0
	6.08%	2028	50.0
	5.55%	2036	125.0
UPPCO First Mortgage Bonds ⁽²⁾			
	Series	Year Due	
	9.32%	2021	10.8
PEC Unsecured Senior Note ⁽³⁾			
	Series	Year Due	
	A, 6.90%	2011	325.0
Fair value hedge adjustment			
			2.6
PGL Fixed First and Refunding Mortgage Bonds ^{(4) (5)}			
	Series	Year Due	
	HH, 4.75%	2030	Adjustable after July 1, 2014
	KK, 5.00%	2033	50.0
	LL, 3.75%	2033	Adjustable after February 1, 2012
	MM-2, 4.00%	2010	50.0
	NN-2, 4.625%	2013	75.0
	QQ, 4.875%	2038	Adjustable after November 1, 2018
	RR, 4.30%	2035	Adjustable after June 1, 2016
	SS, 7.00%	2013	45.0
	TT, 8.00%	2018	5.0
	UU, 4.63%	2019	75.0
PGL Adjustable First and Refunding Mortgage Bonds ^{(5) (6)}			
	Series	Year Due	
	OO	2037	51.0
NSG First Mortgage Bonds ⁽⁷⁾			
	Series	Year Due	
	M, 5.00%	2028	28.5
	N-2, 4.625%	2013	40.0
	O, 7.00%	2013	6.5
Integrus Energy Group Unsecured Senior Notes ⁽⁸⁾			
	Series	Year Due	
	5.375%	2012	100.0
	7.00%	2009	-
	7.27%	2014	100.0
	8.00%	2016	55.0
Integrus Energy Group Unsecured Junior Subordinated Notes ⁽⁹⁾			
	Series	Year Due	
	6.11%	2066	300.0
Unsecured term loan due 2010 – Integrus Energy Group ⁽¹⁰⁾			
			65.6
Other term loan ⁽¹¹⁾			
			27.0
Total			2,509.1
Unamortized discount and premium on bonds and debt			2.1
Total debt			2,511.2
Less current portion			(116.5)
Total long-term debt			\$2,394.7
			2,430.9
			5.7
			2,436.6
			(150.9)
			\$2,285.7

⁽¹⁾ WPS's First Mortgage Bonds and Senior Notes are subject to the terms and conditions of WPS's First Mortgage Indenture. Under the terms of the Indenture, substantially all property owned by WPS is pledged as collateral for these outstanding debt securities. All of these debt securities require semi-annual payments of interest. WPS Senior Notes become non-collateralized if WPS retires all of its outstanding First Mortgage Bonds and no new mortgage indenture is put in place.

- (2) Under the terms of UPPCO's First Mortgage Indenture, substantially all property owned by UPPCO is pledged as collateral for this outstanding debt series. Interest payments are due semi-annually with a sinking fund payment of \$0.9 million due each November 1. As a result, this payment is included in the current portion of long-term debt on Integrys Energy Group's Consolidated Balance Sheet at December 31, 2009. The final sinking fund payment due November 1, 2021, will completely retire the series.

- (3) Integrys Energy Group entered into a First Supplemental Indenture, which provides that Integrys Energy Group will fully and unconditionally guarantee, on a senior unsecured basis, PEC's obligations under its \$325.0 million, 6.9% notes due January 15, 2011. See Note 2, "Risk Management Activities," for information on the PEC fair value hedge adjustment.

- (4) In March 2010, \$50.0 million of PGL's First and Refunding Mortgage Bonds will mature. As a result, these notes are included in the current portion of long-term debt on Integrys Energy Group's Consolidated Balance Sheet at December 31, 2009.

In September 2009, PGL issued \$75.0 million of Series UU, 4.63%, 10-year First and Refunding Mortgage Bonds due September 1, 2019. The net proceeds from the issuance of these bonds were used for general corporate utility purposes and to increase liquidity. The First and Refunding Mortgage Bonds were sold in a private placement and are not registered under the Securities Act of 1933.

- (5) PGL's First Mortgage Bonds are subject to the terms and conditions of PGL's First Mortgage Indenture dated January 2, 1926, as supplemented. Under the terms of the Indenture, substantially all property owned by PGL is pledged as collateral for these outstanding debt securities.

- (6) PGL has outstanding \$51.0 million of Adjustable Rate, Series OO bonds, due October 1, 2037, which are currently in a 35-day Auction Rate mode (the interest rate is reset every 35 days through an auction process). Recent auctions have failed to receive sufficient clearing bids. As a result, these bonds are priced each 35 days at the maximum auction rate, until such time a successful auction occurs. The maximum auction rate is determined based on the lesser of the London Interbank Offered Rate or the Securities Industry and Financial Markets Association Municipal Swap Index rate plus a defined premium. The year-to-date weighted-average interest rate was 0.8% for these bonds in 2009.

PGL has utilized certain First Mortgage Bonds to secure tax exempt interest rates. The Illinois Finance Authority and the City of Chicago have issued Tax Exempt Bonds, and the proceeds from the sale of these bonds were loaned to PGL. In return, PGL issued equal principal amounts of certain collateralized First Mortgage Bonds.

- (7) NSG's First Mortgage Bonds are subject to the terms and conditions of NSG's First Mortgage Indenture dated April 1, 1955, as supplemented. Under the terms of the Indenture, substantially all property owned by NSG is pledged as collateral for these outstanding debt securities.

NSG has utilized First Mortgage Bonds to secure tax exempt interest rates. The Illinois Finance Authority has issued Tax Exempt Bonds, and the proceeds from the sale of these bonds were loaned to NSG. In return, NSG issued equal principal amounts of certain collateralized First Mortgage Bonds.

- (8) In June 2009, Integrys Energy Group issued \$100.0 million of 7.27%, 5-year Unsecured Senior Notes due June 1, 2014 and \$55.0 million of 8.0%, 7-year Unsecured Senior Notes due June 1, 2016. The net proceeds from the issuance of the Senior Notes were used to refinance existing short-term debt and for general corporate purposes. The Senior Notes were sold in a private placement and are not registered under the Securities Act of 1933.

- (9) These Integrys Energy Group Junior Subordinated Notes are considered hybrid instruments with a combination of debt and equity characteristics. Integrys Energy Group has agreed in a replacement capital covenant with the holders of Integrys Energy Group's 5.375% Unsecured Senior Notes due December 1, 2012, that it will not redeem or repurchase the Junior Subordinated Notes on or prior to December 1, 2036 unless such repurchases or redemptions are made from the proceeds of the sale of specific securities considered by rating agencies to have equity characteristics equal to or greater than those of the Junior Subordinated Notes.

- (10) In June 2010, Integrys Energy Group's \$65.6 million unsecured term loan will mature. As a result, this loan is included in the current portion of long-term debt on Integrys Energy Group's Consolidated Balance Sheet at December 31, 2009.

- (11) In April 2001, the Schuylkill County Industrial Development Authority issued \$27.0 million of Refunding Tax Exempt Bonds. The proceeds from the bonds were loaned to WPS Westwood Generation, LLC, a subsidiary of Integrys Energy Services. This loan is repaid by WPS Westwood Generation to Schuylkill County Industrial Development Authority with monthly interest only payments and has a floating interest rate that is reset weekly. At December 31, 2009, the interest rate was 4.24%. The loan is to be repaid by April 2021. Integrys Energy Group agreed to guarantee WPS Westwood Generation's obligation to provide sufficient funds to pay the loan and the related obligations and indemnities.

Long-term borrowings by Integrys Energy Services under term loans have been reclassified as liabilities held for sale in the amount of \$6.6 million for the year ended December 31, 2008, related to the sale of generation assets of WPS New England Generation, Inc. and WPS Canada Generation, Inc. that closed in January 2010. As of December 31, 2009, these term loans have been paid in full. For more information about the sale, see Note 4, "Dispositions."

At December 31, 2009, Integrys Energy Group and each of its subsidiaries were in compliance with all respective financial covenants related to outstanding long-term debt. Integrys Energy Group and certain subsidiaries' long-term debt obligations contain covenants related to payment of principal and interest when due and various financial reporting obligations. In addition, certain long-term debt obligations contain financial and other covenants, including but not limited to, a requirement to maintain a debt to total capitalization ratio not to exceed 65%. Failure to comply with these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of outstanding debt obligations.

A schedule of all principal debt payment amounts related to bond maturities is as follows:

Year ending December 31	
(Millions)	
2010	\$ 116.5
2011	478.5
2012	250.9
2013	314.4
2014	100.9
Later years	1,247.9
Total payments	\$2,509.1

NOTE 14--ASSET RETIREMENT OBLIGATIONS

The utility segments have asset retirement obligations primarily related to removal of natural gas distribution pipe (including asbestos and PCBs); asbestos abatement at certain generation facilities, office buildings, and service centers; disposal of PCB-contaminated transformers; and closure of fly-ash landfills at certain generation facilities. The utilities establish regulatory assets and liabilities to record the differences between ongoing expense recognition under the Asset Retirement and Environmental Obligations accounting rules, and the ratemaking practices for retirement costs authorized by the applicable regulators.

Changes to Asset Retirement Obligation Liabilities

The following table shows changes to Integrys Energy Group's asset retirement obligations through December 31, 2009.

(Millions)	Utilities	Integrys Energy Services	Total
Asset retirement obligations at December 31, 2006	\$ 9.4	\$0.7	\$ 10.1
Accretion	6.8	-	6.8
Asset retirement obligations from merger with PEC	124.9	-	124.9
Asset retirement obligations transferred in sales	(0.2)	-	(0.2)
Settlements	(1.4)	-	(1.4)
Asset retirement obligations at December 31, 2007	139.5	0.7	140.2
Accretion	7.8	-	7.8
Additions and revisions to estimated cash flows	31.7	-	31.7
Asset retirement obligations transferred in sales	(0.1)	(0.5)	(0.6)
Asset retirement obligations at December 31, 2008	178.9	0.2 ⁽²⁾	179.1
Accretion	9.6	0.1	9.7
Additions and revisions to estimated cash flows	6.3 ⁽¹⁾	-	6.3
Asset retirement obligations at December 31, 2009	\$194.8	\$0.3 ⁽²⁾	\$195.1

(1) This amount includes a \$6.3 million asset retirement obligation related to the WPS 99-megawatt Crane Creek wind generation project that became operational in the fourth quarter of 2009. All other adjustments netted to an insignificant amount.

(2) These amounts were classified as held for sale, as they relate to the sale of generation assets in Northern Maine, which closed in the first quarter of 2010.

NOTE 15--INCOME TAXES**Deferred Income Tax Assets and Liabilities**

Certain temporary book to tax differences, for which the offsetting amount is recorded as a regulatory asset or liability, are presented in the table below as net amounts, consistent with regulatory treatment. The principal components of deferred income tax assets and liabilities recognized in the Consolidated Balance Sheets as of December 31 are as follows:

<i>(Millions)</i>	2009	2008
Deferred income tax assets:		
Tax credit carryforwards	\$ 90.7	\$ 96.0
Employee benefits	96.0	88.9
Price risk management	55.4	-
State capital and operating loss carryforwards	16.0	15.9
Other	32.4	52.2
Total deferred income tax assets	\$290.5	\$253.0
Valuation allowance	(7.4)	(2.3)
Net deferred income tax assets	\$283.1	\$250.7
Deferred income tax liabilities:		
Plant related	\$756.8	\$642.1
Regulatory deferrals	76.1	70.3
Deferred income	15.5	-
Price risk management	-	45.6
Total deferred income tax liabilities	\$848.4	\$758.0
Consolidated Balance Sheet presentation:		
Current deferred income tax assets	\$ 92.9	\$ -
Current deferred income tax liabilities	-	71.6
Long-term deferred income tax liabilities	658.2	435.7
Net deferred income tax liabilities	\$565.3	\$507.3

Deferred tax credit carryforwards at December 31, 2009, include \$70.7 million of alternative minimum tax credits related to tax credits available under former Section 29/45K of the Internal Revenue Code. These alternative minimum tax credits can be carried forward indefinitely.

Carryforward periods for state capital and operating losses vary. In the majority of states in which Integrys Energy Group operates, the carryforward period is 15 years or more, with the majority of the state capital and operating losses beginning to expire in 2013. Valuation allowances are established for certain state operating and capital loss carryforwards based on the ability of Integrys Energy Group to realize the benefit of these losses in the future.

Federal Income Tax Expense

The following table presents a reconciliation of federal income taxes to the provision for income taxes reported in the Consolidated Statements of Income for the periods ended December 31. The taxes are calculated by multiplying the statutory federal income tax rate by book income before federal income tax.

<i>(Millions, except for percentages)</i>	2009		2008		2007	
	Rate	Amount	Rate	Amount	Rate	Amount
Statutory federal income tax	35.0%	\$ 4.1	35.0%	\$61.6	35.0%	\$93.5
State income taxes, net	120.7	14.0	6.8	12.0	4.3	11.5
Goodwill	562.1	65.2	1.3	2.3	-	-
Investment tax credit - amortization	(13.8)	(1.6)	(1.0)	(1.8)	(0.6)	(1.5)
Federal tax credits	6.0	0.7	(6.0)	(10.6)	(5.4)	(14.3)
Plant related	(14.7)	(1.7)	-	-	-	-
Unrecognized tax benefits	14.7	1.7	0.1	0.1	1.2	3.3
Benefits and compensation	(31.0)	(3.6)	(2.8)	(4.9)	(2.5)	(6.8)
Other differences, net	38.2	4.4	(4.3)	(7.5)	0.2	0.3
Effective income tax	717.2%	\$83.2	29.1%	\$51.2	32.2%	\$86.0
Current provision						
Federal		\$ 1.9		\$(10.5)		\$(6.8)
State		14.1		(3.1)		8.9
Foreign		7.1		1.9		4.7
Total current provision		23.1		(11.7)		6.8
Deferred provision		52.5		65.7		77.7
Valuation allowance		5.1		-		0.5
Interest		3.7		(0.1)		2.4
Net operating loss carryforwards		1.4		(1.8)		(0.9)
Investment tax credit - net		(0.6)		(1.5)		(1.4)
Unrecognized tax benefits		(2.0)		0.2		1.0
Penalties		-		0.4		(0.1)
Total provision for income taxes		\$83.2		\$51.2		\$86.0

Foreign income before taxes was \$0.3 million in 2009, \$12.0 million in 2008, and \$23.3 million in 2007.

As the related temporary differences reverse, the regulated utilities are prospectively refunding taxes to or collecting taxes from customers for which deferred taxes were recorded in prior years at rates different than current rates. The net regulatory asset for these and other regulatory tax effects totaled \$19.3 million and \$13.9 million as of December 31, 2009, and 2008, respectively.

Integrus Energy Group records accrued interest and penalties related to income taxes as a component of the provision for income taxes. Integrus Energy Group had accrued interest of \$8.0 million and accrued penalties of \$3.0 million related to unrecognized tax benefits at December 31, 2009. Integrus Energy Group had accrued interest of \$2.9 million and accrued penalties of \$3.1 million related to uncertain tax positions at December 31, 2008.

Unrecognized Tax Benefits

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

(Millions)	2009	2008	2007
Balance at January 1	\$22.4	\$10.0	\$ 3.7
Increase related to tax positions acquired	-	-	13.9
Increase related to tax positions taken in prior years	10.2	23.8	0.5
Decrease related to tax positions taken in prior years	(0.2)	(7.7)	(0.3)
Decrease related to tax positions taken in current year	(0.1)	-	(3.9)
Decrease related to settlements	(0.3)	(3.7)	(3.6)
Decrease related to lapse of statutes	(0.2)	-	(0.3)
Balance at December 31	\$31.8	\$22.4	\$10.0

At December 31, 2009, recognition in subsequent periods of the unrecognized tax benefits related to continuing operations could affect Integrys Energy Group's net income by \$6.2 million. Also, recognition in subsequent periods of the unrecognized tax benefits related to discontinued operations could affect Integrys Energy Group's net income by \$9.5 million.

Subsidiaries of Integrys Energy Group file income tax returns in the United States federal jurisdiction, in various United States state and local jurisdictions, and in Canada. Subject to the major exceptions listed below, Integrys Energy Group is no longer subject to United States federal, state and local, or foreign income tax examinations by tax authorities for years prior to 2004.

- Illinois Department of Revenue – PEC and consolidated subsidiaries have agreed to a statute extension for the September 30, 2003 tax year.
- Oregon Department of Revenue – WPS Power Development has open examinations for the 2002 and 2003 tax years.

In 2009, Integrys Energy Group closed the following examinations:

- Wisconsin Department of Revenue – WPS for the 2001 through 2006 tax years.

Integrys Energy Group has the following open examinations:

- IRS – PEC and consolidated subsidiaries have open examinations for the September 30, 2004 through December 31, 2006 tax years.
- IRS – Integrys Energy Group and consolidated subsidiaries have open examinations for the 2006 and 2007 tax years along with the February 21, 2007 PEC short year.
- IRS – An Integrys Energy Services subsidiary, Synfuel Solutions, LLC, has open examinations for the 2005 and 2006 tax years.
- Illinois Department of Revenue – PEC and consolidated subsidiaries have open examinations for the September 30, 2003 through December 31, 2006 tax years.
- Kentucky Department of Revenue – Integrys Energy Group has open examinations for the 2005 through the 2008 tax years.
- Mississippi Department of Revenue – PEC, PEP, and PEP Holdings LLC have open examinations for the September 30, 2006, December 31, 2006, and December 31, 2007 tax years.
- New York State Department of Revenue – Integrys Energy Services and WPS Power Development have open examinations for the 2004 and 2005 tax years.
- Oregon Department of Revenue – Integrys Energy Services has an open examination for the 2005 tax year; WPS Power Development has open examinations for the 2002, 2003, and 2004 tax years.
- Pennsylvania Department of Revenue – Integrys Energy Services has open examinations for the 2006 and 2007 tax years.

- Quebec Department of Revenue – Integrys Energy Services has open examinations for the 2006 through 2008 tax years.

In the next 12 months, it is reasonably possible that Integrys Energy Group and its subsidiaries will settle their open examinations in multiple taxing jurisdictions related to tax years prior to 2007, resulting in a decrease in unrecognized tax benefits of as much as \$10.9 million.

NOTE 16--COMMITMENTS AND CONTINGENCIES

Commodity Purchase Obligations and Purchase Order Commitments

Integrys Energy Group routinely enters into long-term purchase and sale commitments that have various quantity requirements and durations. 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 obligations described below are as of December 31, 2009.

- The electric utility segment has obligations related to coal supply and transportation that extend through 2016 and total \$350.7 million, obligations of \$1,192.1 million for either capacity or energy related to purchased power that extend through 2027, and obligations for other commodities totaling \$13.5 million, which extend through 2013.
- The natural gas utility segment has obligations related to natural gas supply and transportation contracts totaling \$1,301.0 million, some of which extend through 2028.
- Integrys Energy Services has obligations related to energy and natural gas supply contracts that extend through 2019 and total \$2,878.3 million. The majority of these obligations end by 2012, with obligations totaling \$113.0 million extending beyond 2012.
- Integrys Energy Group also has commitments in the form of purchase orders issued to various vendors, which totaled \$515.3 million and relate to normal business operations, including construction projects.

General

Amounts ultimately paid as penalties, or eventually determined to be paid in lieu of penalties, will not be deductible for income tax purposes.

Environmental

Clean Air Act New Source Review Issues

Weston and Pulliam Plants:

On November 18, 2009, the EPA issued a Notice of Violation (NOV) to WPS alleging violations of the New Source Review requirements of the Clean Air Act (CAA). Specifically, the allegations relate to requirements for certain projects undertaken at Pulliam and Weston from 1994 to 2009. WPS has evaluated the NOV, including an analysis of the allegations as well as options for resolution with the EPA and has met with the EPA to begin discussions on a possible resolution. Integrys Energy Group continues to review the allegations but is currently unable to predict the impact on its consolidated financial statements.

Columbia Plant:

On October 10, 2009, WPS, along with its co-owners, received from the Sierra Club a Notice of Intent (NOI) to file a civil lawsuit based on allegations that major modifications were made at the Columbia generation station without complying with the CAA. Specifically, the allegations suggest that Prevention of Significant Deterioration (PSD) permits that imposed Best Available Control Technology (BACT) limits on

emissions should have been obtained for the Columbia generation station, which is jointly owned by Wisconsin Power and Light (WP&L), Madison Gas and Electric Company, and WPS, and operated by WP&L. The NOI also covers similar allegations related to another generation station solely owned by WP&L. Integrys Energy Group is reviewing the allegations but is currently unable to predict the impact on its consolidated financial statements.

WP&L, on behalf of itself and the joint owners, sent a Notice of Deficiency to the Sierra Club regarding the NOI. In response, the Sierra Club filed a Supplemental NOI on December 14, 2009, purporting to correct the deficiencies. WP&L is in the process of analyzing the allegations and has begun discussions with the Sierra Club.

Edgewater Plant:

On December 11, 2009, WPS, along with its co-owners, received from the Sierra Club a copy of an NOI to file a civil lawsuit against the EPA based on the EPA's failure to take actions against the co-owners and operator of the Edgewater generation station based upon allegations of failure to comply with the CAA. Specifically, the allegations suggest that PSD permits that imposed BACT limits on emissions from the facilities should have been obtained for Edgewater. Edgewater is jointly owned by WP&L, WE Energies (Unit 5) and WPS (Unit 4), and operated by WP&L. WP&L is in the process of analyzing the Sierra Club's actions. Integrys Energy Group is reviewing the allegations but is currently unable to predict the impact on its consolidated financial statements.

On December 21, 2009, WPS, along with its co-owners, received from the Sierra Club an NOI to file a civil lawsuit based on allegations that major modifications were made at the Edgewater generation station without complying with the PSD and Title V Operating Permit requirements of the CAA. Specifically, the allegations suggest that PSD permits that imposed BACT limits on emissions from the facilities should have been obtained for Edgewater. WP&L is in the process of analyzing the allegations and has begun discussions with the Sierra Club. Integrys Energy Group is reviewing the allegations but is currently unable to predict the impact on its consolidated financial statements.

Columbia and Edgewater Plants:

On December 14, 2009, the EPA issued an NOV to WP&L relative to its Nelson Dewey Plant and to WP&L and the other joint owners of the Columbia and Edgewater generation stations alleging violations of New Source Review requirements of the CAA for certain projects undertaken at those plants. WP&L is the operator of these plants and is in the process of analyzing the NOV. The joint owners met with the EPA to begin discussions on a possible resolution. Integrys Energy Group is also reviewing the allegations but is currently unable to predict the impact on its consolidated financial statements.

EPA Settlements with Other Utilities:

In response to the EPA's CAA enforcement initiative, several utilities elected to settle with the EPA, while others are in litigation. The fines and penalties (including the cost of supplemental environmental projects) associated with settlements involving comparably-sized facilities to Weston and Pulliam range between \$7 million and \$30 million. The regulatory interpretations upon which the lawsuits or settlements are based may change based on future court decisions made in the pending litigation.

If the EPA brings a claim against WPS, and if it were determined by a court that historic projects at WPS's Pulliam and Weston plants required either a state or federal CAA permit, WPS may, under the applicable statutes, be required, in order to resolve any such claim, to:

- shut down any unit found to be operating in non-compliance,
- install additional pollution control equipment,
- pay a fine, and/or
- conduct a supplemental environmental project.

In addition, under the CAA, citizen groups may pursue a claim. Except as noted above for the Columbia and Edgewater plants, WPS has no notice of such a claim.

Weston Air Permits

In November 2004, the Sierra Club filed a petition with the WDNR under Section 285.61 of the Wisconsin Statutes seeking a contested case hearing on the construction permit issued for the Weston 4 generation station, which was a necessary predicate to plant construction under the pertinent air emission regulations (hereinafter referred to as the "Weston 4 air permit"). In February 2006, the administrative law judge affirmed the Weston 4 air permit with changes to the emission limits for sulfur dioxide and nitrogen oxide from the coal-fired boiler and particulate from the cooling tower. The changes, which were implemented by the WDNR in a revised permit issued on March 28, 2007, set limits that were more stringent than those originally set by the WDNR (hereinafter referred to as the "March 28, 2007 permit language").

On April 27, 2007, the Sierra Club filed a second petition requesting a contested case hearing regarding the March 28, 2007 permit language, which was granted by the WDNR. Both parties subsequently moved for summary judgment. In a decision issued on November 8, 2007, the administrative law judge granted WPS's motion for summary judgment in that proceeding, upholding the March 28, 2007 permit language. The Sierra Club filed petitions with the Dane County Circuit Court on April 27, 2007, and November 14, 2007, for judicial review of the Weston 4 air permit and the underlying proceedings before the administrative law judge. These two judicial review proceedings were consolidated by the court. On February 12, 2009, the court upheld the administrative law judge's final order, which affirmed the WDNR's actions. The Sierra Club appealed this decision and the parties have completed filing briefs and are awaiting the court's decision.

These activities did not stay the construction and startup of the Weston 4 facility or the administrative law judge's decision on the Weston 4 air permit. WPS believes that it has substantial defenses to the Sierra Club's challenges. Until the Sierra Club's challenges are finally resolved, Integrys Energy Group will not be able to make a final determination of the probable cost impact, if any, of compliance with any changes to the Weston 4 air permit on its future costs.

In December 2008, an NOV was issued to WPS by the WDNR alleging various violations of the air permits for Weston 4, as well as Weston 1 and 2. The alleged violations include an exceedance of the carbon monoxide and volatile organic compound limits at Weston 4, exceedances of the hourly sulfur dioxide limit in ten three-hour periods during startup/shutdown and during one separate event at Weston 4, and two that address baghouse operation at Weston 1 and 2. On July 22, 2009, an NOV was issued to WPS by the WDNR alleging violations of the opacity limits during two six-minute periods (one each at Weston 2 and 4) and of the sulfur dioxide average limit during one three-hour period at Weston 4. An NOV was issued to WPS in September 2009 relating to one event involving baghouse operation at Weston 1 and 2 that occurred in December 2008. A fourth NOV was issued on December 14, 2009, for a clerical error involving pages missing from a quarterly report. Corrective actions have been taken for the events in the four NOVs. An enforcement conference was held on January 7, 2009, for the December 2008 NOV and on August 26, 2009, for the July 2009 NOV. Discussions with the WDNR on the severity classification of the events continue. Management believes it is likely that the WDNR will refer the NOVs to the state Justice Department for enforcement. Management does not believe that these matters will have a material adverse impact on the consolidated financial statements of Integrys Energy Group.

In early November 2006, it came to the attention of WPS that previous ambient air quality computer modeling done by the WDNR for the Weston facility (and other nearby air sources) did not take into account the emissions from the existing Weston 3 facility for purposes of evaluating air quality increment consumption under the required PSD. WPS believes it has undertaken and completed corrective measures to address any identified modeling issues and anticipates issuance of a revised Title V permit that will resolve this issue. Integrys Energy Group currently is not able to make a final determination of the probable cost impact of this issue, if any.

Columbia Air Permit

The renewal of the Title V air permit for the Columbia generation station, jointly owned by WP&L, MG&E, and WPS and operated by WP&L, was issued by the WDNR on September 2, 2008. On October 8, 2009, the EPA issued an order objecting to the Title V air permit. The order responds to a petition filed by the Sierra Club and determined that a project in 2006 to replace the economizer, final superheater, and related components on Unit 1 should have been permitted as a "major modification." The order directs the WDNR to resolve the EPA's objections within 90 days and "terminate, modify, or revoke and reissue" the Title V permit accordingly. It is not known how the WDNR will respond to the order.

Mercury and Interstate Air Quality Rules

Mercury

The State of Wisconsin's mercury rule, Chapter NR 446, requires a 40% reduction from the 2002 through 2004 baseline mercury emissions in Phase I, beginning January 1, 2010, through the end of 2014. In Phase II, which begins in 2015, electric generating units above 150 megawatts will be required to reduce mercury emissions by 90%. Reductions can be phased in and the 90% target can be 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 BACT rule. WPS estimates capital costs of approximately \$19 million for Phase I and Phase II, which includes estimates for both wholly owned and jointly owned plants, to achieve the required reductions. The capital costs are expected to be recovered in future rate cases. Because of the vacatur of the federal mercury control and monitoring rule in February 2008, the EPA is reviewing options for a new rulemaking and is expected to issue a draft rule in 2010.

Sulfur Dioxide and Nitrogen Oxide

The EPA issued the Clean Air Interstate Rule (CAIR) in 2005. CAIR was originally intended to reduce sulfur dioxide and nitrogen oxide emissions from utility boilers located in 29 states, including Wisconsin, Michigan, Pennsylvania, and New York. The first phase of CAIR required about a 50% reduction beginning in 2009 for nitrogen oxide and beginning in 2010 for sulfur dioxide. The second phase required about a 65% reduction in emissions of both pollutants by 2015. The State of Wisconsin's rule to implement CAIR, which incorporates the cap and trade approach, has been forwarded to the EPA for final review.

On July 11, 2008, the Court of Appeals issued a decision vacating CAIR, the EPA appealed, and in December 2008, the Court of Appeals reversed the CAIR vacatur and CAIR was reinstated. The Court of Appeals directed the EPA to address the deficiencies noted in its July 11, 2008 ruling, and the EPA has indicated they expect to issue a draft revised CAIR rule for comment in 2010. As a result of the Court of Appeals' decision, CAIR is in place for 2010. WPS has not acquired any nitrogen oxide allowances for vintage years beyond 2010 other than those allocated by the EPA, and does not expect any material impact as a result of the vacatur and subsequent reinstatement of CAIR.

The reinstatement of CAIR also affected the status of the Best Available Retrofit Technology (BART) rule, which is a rule that addresses regional haze and visibility. The WDNR is evaluating whether air quality improvements under CAIR will be adequate to demonstrate compliance with BART.

For planning purposes, it is still assumed that additional sulfur dioxide and nitrogen oxide controls will be needed on existing units. The installation of any controls will need to be scheduled as part of WPS's long-term maintenance plan for its existing units. As such, controls may need to be installed before 2015. On a preliminary basis, and assuming controls are still required, WPS estimates capital costs of \$596 million, which includes estimates for both wholly owned and jointly owned plants, in order to meet an assumed 2015 compliance date. This estimate is based on costs of current control technology and current information regarding the final state and federal rules. The capital costs are anticipated to be recovered in future rate cases.

Manufactured Gas Plant Remediation

Integrys Energy Group's 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 manufacturing and storing manufactured gas, 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, Integrys Energy Group's natural gas utilities are required to undertake remedial action with respect to some of these materials.

Integrys Energy Group's natural gas utilities are responsible for the environmental impacts at 55 manufactured gas plant sites located in Wisconsin, Michigan, and Illinois. All are former regulated utility sites and are being remediated, with costs charged to existing ratepayers at WPS, MGU, PGL, and NSG. Twenty of these sites have been transferred to the EPA Superfund Alternative Sites Program. Under the EPA's program, the remedy decisions at these sites will be based on risk-based criteria typically used at Superfund sites. Integrys Energy Group estimated and accrued for \$657.7 million of future undiscounted investigation and cleanup costs for all sites as of December 31, 2009. Integrys Energy Group may adjust these estimates in the future, contingent upon remedial technology, regulatory requirements, remedy determinations, and any claims of natural resource damages. Integrys Energy Group recorded a regulatory asset of \$673.8 million, which is net of insurance recoveries received of \$56.9 million, related to the expected recovery of both deferred expenditures and estimated future expenditures as of December 31, 2009.

Integrys Energy Group's natural gas utilities are coordinating the investigation and cleanup of the manufactured gas plant 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 utilization of a consistent approach in selecting remedies.

The EPA identified NSG as a potentially responsible party (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA), at the Waukegan Coke Plant Site located in Waukegan, Illinois (Waukegan Site). The Waukegan Site is part of the Outboard Marine Corporation (OMC) Superfund Site. The EPA also identified OMC, General Motors Corporation (GM), and certain other parties as PRPs at the Waukegan Site. NSG and the other PRPs are parties to a consent decree that requires NSG and GM, jointly and severally, to perform the remedial action and establish and maintain financial assurance of \$27.0 million. The EPA reduced the financial assurance requirement to \$21.0 million to reflect completion of the soil component of the remedial action in August 2005. NSG has met its financial assurance requirement in the form of a net worth test while GM met the requirement by providing a performance and payment bond in favor of the EPA. As a result of the GM bankruptcy filing, the EPA has contacted the surety and the surety has stated that it will provide the EPA access to the surety bond funds which are expected to fund a significant portion of GM's liability. The potential exposure related to the GM bankruptcy that is not expected to be covered by the bond proceeds has been reflected in the accrual identified above.

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 WPS, MGU, PGL, and NSG. Accordingly, management believes that the costs incurred in connection with former manufactured gas plant operations will not have a material adverse effect on the consolidated financial statements of Integrys Energy Group.

Flood Damage

In May 2003, a fuse plug at the Silver Lake reservoir owned by UPPCO was breached, resulting in subsequent flooding downstream on the Dead River, located in the Upper Peninsula of Michigan. All litigation matters have been resolved. All environmental claims have been resolved with the State of Michigan, and a Consent Judgment on the environmental matters was filed and approved in June 2009.

As part of a settlement agreement with the MPSC staff and interveners in UPPCO's 2009 Power Supply Cost Recovery (PSCR) case, \$0.6 million of replacement power costs was deemed not recoverable and was recorded in operating and maintenance expense in the first quarter of 2009. This settlement has been approved by the MPSC.

Greenhouse Gases

There is increasing concern over the issue of climate change and the effect of greenhouse gas emissions, in particular from the combustion of fossil fuels. Integrys Energy Group is evaluating both the technical and cost implications that may result from future state, regional, or federal greenhouse gas regulatory programs. This evaluation indicates it is probable that any regulatory program which caps emissions or imposes a carbon tax will increase costs for Integrys Energy Group and its customers. The greatest impact is likely to be on fossil fuel-fired generation, with a less significant impact on natural gas storage and distribution operations. Efforts are underway within the utility industry to find a feasible method for capturing carbon dioxide from pulverized coal-fired units and to develop cleaner ways to burn coal. The use of alternate fuels is also being explored by the industry, but there are many cost and availability issues. Recently, efforts have been initiated to develop state and regional greenhouse gas programs, to create federal legislation to limit carbon dioxide emissions, and to create national or state renewable portfolio standards. Some examples of these efforts are the Waxman-Markey bill, which passed the United States House of Representatives; the Kerry-Boxer draft bill, which was introduced in the United States Senate; and the Wisconsin Clean Energy Jobs Act, which has been introduced in the Wisconsin legislature to implement recommendations from the Governor's Global Warming Task Force. The Wisconsin Clean Energy Jobs Act establishes statewide goals for the reduction of greenhouse gas emissions and requires certain actions, including an increased renewable portfolio standard, to meet those goals. In addition, in April 2009, the EPA declared carbon dioxide and several other greenhouse gases to be a danger to public health and welfare, which is the first step towards the EPA potentially regulating greenhouse gases under the CAA. A risk exists that such legislation or regulation will increase the cost of energy. However, Integrys Energy Group believes the capital expenditures being made at its generation units are appropriate under any reasonable mandatory greenhouse gas program and that future expenditures related to control of greenhouse gas emissions or renewable portfolio standards by its regulated electric utilities will be recoverable in rates. Integrys Energy Group will continue to monitor and manage potential risks and opportunities associated with future greenhouse gas legislative or regulatory actions.

Escanaba Water Permit Issues

UPPCO operates the Escanaba Generating Station (EGS) under contract with its owner, the City of Escanaba (City). While the City owns the water permits for EGS, UPPCO's personnel provide testing and certification of waste water discharges. In September 2008, UPPCO became aware of potential water discharge permit violations regarding reported pH and oil and grease readings at EGS. Corrective actions were implemented at the plant, notification was provided to the City, and UPPCO self reported the potential permit violations to the Michigan Department of Environmental Quality (MDEQ). UPPCO filed a final report with the MDEQ on November 25, 2008, and a copy was sent to the City.

In March 2009, MDEQ began its investigation into this matter. Depending upon the results of the MDEQ's review of the information provided by UPPCO, the MDEQ, in consultation with the Michigan Attorney General's Office, may assess a fine and/or seek criminal charges against UPPCO, assess a fine and/or seek criminal charges against the former manager who certified the reports, and/or close out the

investigation. Although a specific date of resolution is unknown, UPPCO has responded to all information requests from the MDEQ.

Natural Gas Charge Reconciliation Proceedings and Related Matters

Natural Gas Charge Settlement and Pending Natural Gas Charge Cases

For PGL and NSG, the ICC conducts annual proceedings regarding the reconciliation of revenues from the natural gas charge and related natural gas costs. The natural gas charge represents the cost of natural gas and transportation and storage services purchased by PGL and NSG, as well as gains, losses, and costs incurred under PGL's and NSG's hedging program (Gas Charge). In these proceedings, interested parties review the accuracy of the reconciliation of revenues and costs and the prudence of natural gas costs recovered through the Gas Charge. If the ICC were to find that the reconciliation was inaccurate or any natural gas costs were imprudently incurred, the ICC would order PGL and NSG to refund the affected amount to customers through subsequent Gas Charge filings.

In March 28, 2006 orders, the ICC adopted a settlement agreement related to fiscal years 2001 through 2004 natural gas costs. Under certain provisions of the settlement agreement, PEC agreed to: (1) provide the Illinois Attorney General (AG) and the City of Chicago (Chicago) up to \$30.0 million for conservation and weatherization programs for which PGL and NSG may not seek rate recovery; (2) implement a reconnection program for certain customers and; (3) internal audits and an external audit of natural gas supply practices.

With respect to the conservation and weatherization funding, as of December 31, 2009, \$10.2 million remained unpaid, of which \$5.2 million was included in other current liabilities, and \$5.0 million was included in other long-term liabilities. Under the reconnection program, PGL and NSG took all steps they believed were required by the agreement. The AG and Chicago have indicated that they believe the terms of the reconnection program are broader. Management believes that PGL and NSG have fully complied with the reconnection program obligations of the settlement agreement; however, PGL, NSG, the AG and Chicago are discussing how to resolve this disagreement.

Four of the five annual internal audits required by the settlement agreement have been completed. An auditor hired by the ICC conducted the external audit, and filed its report on April 10, 2008. On March 31, 2009, PGL and NSG completed their responses to the auditor's recommendations.

The fiscal 2006 Gas Charge reconciliation cases were initiated on November 21, 2006. The ICC staff and interveners (the AG, the Citizens Utility Board, and Chicago, filing jointly) each filed testimony recommending disallowances for PGL and NSG for a bank natural gas adjustment similar to that addressed in the fiscal 2005 Gas Charge reconciliation cases, which PGL and NSG did not contest. In addition, the interveners recommended a disallowance for PGL of \$13.9 million (reduced to \$11.0 million in their brief) associated with PGL's provision of interstate hub services. The ICC staff does not support the interveners' proposal, and PGL does not believe the proposal has merit. A hearing for the PGL and NSG cases was held on December 11, 2008. For PGL, briefing concluded February 27, 2009, and the administrative law judge has not yet prepared a proposed order. For NSG, there were no contested issues, and the parties filed an agreed form of order in January 2009.

Class Action

In February 2004, a purported class action suit was filed in Cook County Circuit Court against PEC, PGL, and NSG by customers of PGL and NSG, alleging among other things, violation of the Illinois Consumer Fraud and Deceptive Business Practices Act related to matters at issue in the utilities' fiscal year 2001 Gas Charge reconciliation proceedings. In the suit, Alport et al. v. Peoples Energy Corporation, the plaintiffs seek disgorgement and punitive damages. PGL and NSG have been dismissed as defendants and the only remaining counts of the suit allege violations of the Consumer Fraud and Deceptive Business Practices Act by PEC and that PEC acted in concert with others to commit a tortious act. PEC denies the allegations and is vigorously defending the suit. On November 19, 2009, the court entered an order

certifying a class composed of customers of PGL and NSG during the period April 26, 2000, through September 30, 2002. On December 17, 2009, PEC filed a Petition for Leave to Appeal to the Appellate Court challenging class certification and on February 19, 2010, this appeal was denied.

NOTE 17—GUARANTEES

As part of normal business, Integrys Energy Group and its subsidiaries enter into various guarantees providing financial or performance assurance to third parties on behalf of certain subsidiaries. These guarantees are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes.

Most of the guarantees issued by Integrys Energy Group consist of inter-company guarantees of subsidiaries' obligations or performance by the subsidiaries under certain contractual commitments. As such, these guarantees are excluded from the recognition and measurement requirements of the Guarantees Topic of the FASB ASC.

The following table shows outstanding guarantees at Integrys Energy Group:

(Millions)	Total Amounts Committed at December 31, 2009	Expiration			
		Less Than 1 Year	1 to 3 Years	4 to 5 Years	Over 5 Years
Guarantees supporting commodity transactions of subsidiaries ⁽¹⁾	\$ 981.4	\$773.8	\$74.5	\$31.0	\$102.1
Standby letters of credit ⁽²⁾	130.8	119.4	11.3	0.1	-
Surety bonds ⁽³⁾	3.1	3.1	-	-	-
Other guarantees ⁽⁴⁾	7.6	1.4	-	-	6.2
Total guarantees	\$1,122.9	\$897.7	\$85.8	\$31.1	\$108.3

⁽¹⁾ Consists of parental guarantees of \$803.9 million to support the business operations of Integrys Energy Services; \$92.7 million and \$74.8 million, respectively, related to natural gas supply at MERC and MGU; and \$5.0 million at both PEC and IBS to support business operations. These guarantees are not reflected on the Consolidated Balance Sheets.

⁽²⁾ Composed of \$120.4 million issued to support Integrys Energy Services' operations; \$4.8 million related to letters of credit at WPS; \$4.3 million issued for workers compensation coverage in Illinois; and \$1.3 million related to letters of credit at UPPCO, MGU, MERC, PGL, and NSG. These amounts are not reflected on the Consolidated Balance Sheets.

⁽³⁾ Primarily for workers compensation coverage and obtaining various licenses, permits, and rights of way. Surety bonds are not included on the Consolidated Balance Sheets.

⁽⁴⁾ Consists of a \$5.0 million environmental indemnification provided by Integrys Energy Services related to the sale of the Stoneman generation facility, under which Integrys Energy Services expects that the likelihood of required performance is remote; and \$2.6 million related to other indemnifications and workers compensation coverage.

Integrys Energy Group has provided total parental guarantees of \$958.4 million on behalf of Integrys Energy Services as shown in the table below. Integrys Energy Group's exposure under these guarantees related to open transactions at December 31, 2009, was approximately \$513 million.

<i>(Millions)</i>	December 31, 2009
Guarantees supporting commodity transactions	\$803.9
Standby letters of credit	120.4
Guarantees of subsidiary debt	27.0 *
Surety bonds	1.5
Other	5.6
Total guarantees	\$958.4

* Consists of outstanding debt at an Integrys Energy Services' subsidiary, which is not included in the total Integrys Energy Group guarantee amounts above, because the debt is reflected on the Consolidated Balance Sheets.

NOTE 18--EMPLOYEE BENEFIT PLANS

Defined Benefit Plans

On September 30, 2008, the PEC Service Annuity System was merged into the PEC Retirement Plan, which was then renamed the Integrys Energy Group Retirement Plan. On December 31, 2008, the WPS Retirement Plan was merged into the Integrys Energy Group Retirement Plan. The two plan mergers had no effect on the level of plan benefits provided to participants or the management of plan assets. Integrys Energy Group and its subsidiaries now maintain one non-contributory, qualified pension plan covering substantially all employees, as well as several unfunded nonqualified retirement plans. In addition, Integrys Energy Group and its subsidiaries offer multiple other postretirement benefit plans to employees. The benefits for a portion of these plans are funded through irrevocable trusts, as allowed for income tax purposes.

Integrys Energy Group also currently offers medical, dental, and life insurance benefits to active employees and their dependents. Integrys Energy Group expenses the costs of these benefits as incurred.

During the third quarter of 2007, Integrys Energy Group made a series of changes to certain of its retirement benefit plans. Specifically, the changes included:

- Closure of the defined benefit pension plans to non-union new hires, effective January 1, 2008;
- A freeze in defined benefit pension service accruals for non-union employees, effective January 1, 2013;
- A freeze in compensation amounts used for determining defined benefit pension amounts for non-union employees, effective January 1, 2018;
- Revised eligibility requirements for retiree medical benefits for employees hired on or after January 1, 2008, and the introduction of an annual premium reduction credit for employees eligible to retire after December 31, 2012; and
- Closure of the retiree dental and life benefit programs to all new hires, effective January 1, 2008, and elimination of these benefits for any existing employees who are not eligible to retire before December 31, 2012.

As a result of the changes described above, Integrys Energy Group remeasured certain of its pension and other postretirement benefit obligations as of August 1, 2007. The curtailment gain recognized as a result of the plan design changes was not significant and is included in the net periodic benefit cost table below.

A second remeasurement occurred on October 1, 2007, because the ratification of a union contract resulted in changes to a postretirement medical plan. The changes did not result in a curtailment.

Effective May 1, 2008, and July 1, 2008, the defined benefit pension plans were closed to new union hires at PGL and NSG, respectively. Effective April 19, 2009, and December 18, 2009, the defined benefit pension plans were closed to new union hires at UPPCO and WPS, respectively. In addition, changes in

the WPS union contract resulted in a plan amendment in December 2009. Effective January 15, 2010, the defined benefit pension plans were closed to new Local 12295 union hires at MGU.

The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets during 2009 and 2008.

(Millions)	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Reconciliation of benefit obligation				
Obligation at January 1	\$1,230.5	\$1,210.2	\$432.7	\$408.6
Service cost	38.9	38.4	14.3	15.7
Interest cost	80.9	76.2	26.5	26.4
Plan amendments	3.0	-	-	-
Plan curtailment	0.2 *	-	-	-
Actuarial (gain) loss, net	78.6	12.1	23.2	(12.5)
Participant contributions	-	-	-	1.8
Benefit payments	(94.7)	(106.4)	(23.2)	(22.1)
Federal subsidy on benefits paid	-	-	2.0	2.0
Other	-	-	-	12.8
Obligation at December 31	\$1,337.4	\$1,230.5	\$475.5	\$432.7
Reconciliation of fair value of plan assets				
Fair value of plan assets at January 1	\$ 830.3	\$1,219.5	\$191.1	\$248.3
Actual return on plan assets	174.5	(310.6)	33.1	(55.6)
Employer contributions	23.5	27.8	29.8	13.0
Participant contributions	-	-	-	1.7
Benefit payments	(94.7)	(106.4)	(23.2)	(22.1)
Other	-	-	-	5.8
Fair value of plan assets at December 31	\$ 933.6	\$ 830.3	\$230.8	\$191.1

* In connection with the reduction in workforce discussed in Note 3, "Restructuring Expense," an insignificant curtailment loss was recognized. The curtailment is included in the restructuring expense line item on the Consolidated Statement of Income, and is not included in the net periodic benefit expense table below.

Amounts recognized on Integrys Energy Group's Consolidated Balance Sheets at December 31 related to the funded status of the benefit plans consisted of:

(Millions)	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Current liabilities	\$ 7.5	\$ 5.3	\$ 0.3	\$ -
Noncurrent liabilities	396.3	394.9	244.4	241.6
Total liabilities	\$403.8	\$400.2	\$244.7	\$241.6

The accumulated benefit obligation for all defined benefit pension plans was \$1.1 billion at both December 31, 2009, and December 31, 2008. Information for pension plans with an accumulated benefit obligation in excess of plan assets is presented in the following table.

(Millions)	December 31	
	2009	2008
Projected benefit obligation	\$1,337.4	\$1,230.5
Accumulated benefit obligation	1,147.0	1,103.5
Fair value of plan assets	933.6	830.3

The following table shows the amounts that had not yet been recognized in Integrys Energy Group's net periodic benefit cost as of December 31. Amounts related to the nonregulated entities are included in accumulated other comprehensive loss, while amounts related to the utilities are recorded as regulatory assets or liabilities.

(Millions)	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Accumulated other comprehensive loss (pre-tax)				
Net actuarial loss	\$ 36.2	\$ 25.7	\$ -	\$ 0.7
Prior service costs (credits)	0.9	1.2	(1.8)	(2.2)
Total	\$ 37.1	\$ 26.9	\$ (1.8)	\$ (1.5)
Net regulatory assets				
Net actuarial loss	\$368.6	\$384.3	\$66.2	\$56.1
Prior service costs (credits)	21.1	22.9	(23.4)	(26.9)
Transition obligation	-	-	0.8	1.1
Merger related regulatory adjustment	71.5	91.5	38.7	42.0
Regulatory deferral *	4.5	-	(1.3)	-
Total	\$465.7	\$498.7	\$81.0	\$72.3

* The PSCW authorized recovery for net increased 2009 WPS pension and other postretirement benefit costs related to plan asset losses that occurred in 2008. Amortization and recovery of these deferred costs will occur in 2010.

Integrys Energy Group recorded the PEC pension assets acquired and liabilities assumed at fair value at the February 2007 acquisition date. However, through 2009, PGL and NSG continued to have rates set based on their historical basis of accounting, including amortizations of prior service costs (credits), actuarial losses, and transition obligations, which were recognized on the consolidated financial statements as regulatory assets at the purchase date. The amount reflected in net periodic benefit cost in the table below is based on the amount used in the rate-setting process for PGL and NSG. The difference in the basis of accounting is shown as a merger related regulatory adjustment in the table above.

The estimated net losses and prior service costs for defined benefit pension plans that will be amortized as a component of net periodic benefit cost during 2010 are \$11.5 million and \$5.3 million, respectively. The estimated net losses, prior service credits, and transition obligation for other postretirement benefit plans that will be amortized as a component of net periodic benefit cost during 2010 are \$2.8 million, \$3.8 million, and \$0.3 million, respectively.

The following table presents the components of the consolidated net periodic benefit costs for the plans:

(Millions)	Pension Benefits			Other Benefits		
	2009	2008	2007	2009	2008	2007
Net periodic benefit cost						
Service cost	\$38.9	\$ 38.4	\$39.7	\$14.3	\$15.7	\$15.4
Interest cost	80.8	76.2	70.4	26.5	26.4	24.5
Expected return on plan assets	(92.5)	(101.0)	(89.4)	(17.7)	(19.0)	(17.5)
Plan curtailment gain	-	-	-	-	-	(0.1)
Amortization of transition obligation	-	-	-	0.3	0.3	0.4
Amortization of prior service cost (credit)	5.0	5.1	5.1	(3.8)	(3.8)	(2.8)
Amortization of net actuarial (gain) loss	1.9	0.7	4.8	(1.5)	-	1.8
Amortization of merger related regulatory adjustment	20.0	9.6	14.2	3.3	2.1	0.8
Regulatory deferral *	(4.5)	-	-	1.3	-	-
Net periodic benefit cost	\$49.7	\$ 29.0	\$44.8	\$22.7	\$21.7	\$22.7

* The PSCW authorized recovery for net increased 2009 WPS pension and other postretirement benefit costs related to plan asset losses that occurred in 2008. Amortization and recovery of these deferred costs will occur in 2010.

Assumptions – Pension and Other Postretirement Benefit Plans

The weighted-average assumptions used at December 31 to determine benefit obligations for the plans were as follows:

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Discount rate	6.15%	6.45%	5.96%	6.48%
Rate of compensation increase	4.26%	4.26%	N/A	N/A
Assumed medical cost trend rate (under age 65)	N/A	N/A	8.0%	9.0%
Ultimate trend rate	N/A	N/A	5.0%	5.0%
Ultimate trend rate reached in	N/A	N/A	2013	2013
Assumed medical cost trend rate (over age 65)	N/A	N/A	8.5%	9.5%
Ultimate trend rate	N/A	N/A	5.5%	5.5%
Ultimate trend rate reached in	N/A	N/A	2013	2013
Assumed dental cost trend rate	N/A	N/A	5.0%	5.0%

The weighted-average assumptions used to determine net periodic benefit cost for the plans were as follows for the years ended December 31:

	Pension Benefits		
	2009	2008	2007
Discount rate	6.45%	6.40%	5.88%
Expected return on assets	8.50%	8.50%	8.50%
Rate of compensation increase	4.26%	4.27%	5.50%

	Other Benefits		
	2009	2008	2007
Discount rate	6.48%	6.40%	5.79%
Expected return on assets	8.50%	8.50%	8.50%
Assumed medical cost trend rate (under age 65)	9.0%	10.0%	8.0%
Ultimate trend rate	5.0%	5.0%	5.0%
Ultimate trend rate reached in	2013	2013	2010
Assumed medical cost trend rate (over age 65)	9.5%	10.5%	8.0%-10.0%
Ultimate trend rate	5.5%	5.5%	5.0%-6.5%
Ultimate trend rate reached in	2013	2013	2010-2011
Assumed dental cost trend rate	5.0%	5.0%	5.0%

Integrys Energy Group establishes its expected return on asset assumption based on consideration of historical and projected asset class returns, as well as the target allocations of the benefit trust portfolios.

Assumed health care cost trend rates have a significant effect on the amounts reported by Integrys Energy Group for the health care plans. For the year ended December 31, 2009, a one-percentage-point change in assumed health care cost trend rates would have had the following effects:

(Millions)	One-Percentage-Point	
	Increase	Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	\$ 5.8	\$ (4.8)
Effect on the health care component of the accumulated postretirement benefit obligation	58.1	(48.4)

Pension and Other Postretirement Benefit Plan Assets

Integrus Energy Group's investment policy includes various guidelines and procedures designed to ensure assets are invested in an appropriate manner to meet expected future benefits to be earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges by major asset categories. The policy is established and administered in a manner that is compliant at all times with applicable regulations.

The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters and to achieve asset returns that meet or exceed the plans' actuarial assumptions and that are competitive with like instruments employing similar investment strategies. The portfolio diversification provides protection against significant concentrations of risk in the plan assets. The target asset allocations for pension plans and other postretirement plans that have significant assets are: 70% equity securities and 30% fixed income securities. Equity securities primarily include investments in large-cap and small-cap companies. Fixed income securities primarily include corporate bonds of companies from diversified industries, United States government securities, and mortgage-backed securities.

The Board of Directors has established the Employee Benefits Administrator Committee (composed of members of management) to manage the operations and administration of all benefit plans and trusts. The committee periodically reviews the asset allocation, and the portfolio is rebalanced when necessary.

The investments recorded at fair value in the pension and other postretirement benefit plan assets at December 31, 2009, by asset category were as follows. See Note 1(r), "Summary of Significant Accounting Policies – Fair Value," for information on the fair value hierarchy and the inputs used to measure fair value.

(Millions)	Pension Plan Assets				Other Benefit Plan Assets			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset Category								
Cash and cash equivalents	\$ 2.1	\$ 32.9	\$ -	\$ 35.0	\$ -	\$ 20.1	\$ -	\$ 20.1
Equity securities:								
United States equity	261.7	171.3	-	433.0	48.0	39.6	-	87.6
International equity	31.0	144.3	-	175.3	-	26.9	-	26.9
Fixed income securities:								
United States government	-	109.6	-	109.6	-	32.4	-	32.4
Foreign government	-	12.4	0.4	12.8	-	1.5	-	1.5
Corporate debt	-	124.9	2.9	127.8	0.9	31.6	-	32.5
Asset-backed securities	-	39.3	-	39.3	-	9.0	-	9.0
Real estate securities	-	-	24.9	24.9	-	-	-	-
Other	-	-	1.1	1.1	-	2.3	-	2.3
	294.8	634.7	29.3	958.8	48.9	163.4	-	212.3
401(h) other benefit plan assets invested as pension assets *	(0.8)	(17.6)	(0.1)	(18.5)	0.8	17.6	0.1	18.5
Total	\$294.0	\$617.1	\$29.2	\$940.3	\$49.7	\$181.0	\$0.1	\$230.8

* Pension trust assets are used to pay other postretirement benefits as allowed under Internal Revenue Code Section 401(h).

The following table sets forth a reconciliation of changes in the fair value of pension plan assets categorized as Level 3 measurements:

<i>(Millions)</i>	Foreign Government Debt	Corporate Debt	Asset- Backed Securities	Real Estate Securities	Other	Total
Beginning balance at December 31, 2008	\$0.7	\$1.8	\$0.1	\$35.8	\$1.5	\$39.9
Actual return on plan assets:						
Relating to assets still held at the reporting date	0.8	1.1	-	(12.2)	1.2	(9.1)
Relating to assets sold during the period	-	(0.4)	-	-	(0.5)	(0.9)
Purchases, sales, and settlements	0.1	0.7	-	1.3	(1.1)	1.0
Transfers in and/or out of Level 3	(1.2)	(0.3)	(0.1)	-	-	(1.6)
Ending balance at December 31, 2009	\$0.4	\$2.9	\$ -	\$24.9	\$1.1	\$29.3

Cash Flows Related to Pension and Other Postretirement Benefit Plans

Integrys Energy Group's funding policy is to contribute at least the minimum amounts that are required to be funded under the Employee Retirement Income Security Act, but not more than the maximum amounts that are currently deductible for income tax purposes. Integrys Energy Group expects to contribute \$67.6 million to pension plans and \$35.7 million to other postretirement benefit plans in 2010.

The following table shows the payments, reflecting expected future service, that Integrys Energy Group expects to make for pension and other postretirement benefits. In addition, the table shows the expected federal subsidies, provided under the Medicare Prescription Drug, Improvement and Modernization Act of 2003, that will partially offset other postretirement benefits.

<i>(Millions)</i>	Pension Benefits	Other Benefits	Federal Subsidies
2010	\$ 87.6	\$ 27.8	\$ (2.2)
2011	91.9	29.9	(2.4)
2012	97.6	31.3	(2.6)
2013	105.3	32.8	(2.7)
2014	105.8	34.2	(2.9)
2015-2019	640.7	206.5	(17.0)

Defined Contribution Benefit Plans

Integrys Energy Group maintains 401(k) Savings Plans for substantially all full-time employees and matches a percentage of employee contributions through an ESOP or cash contribution up to certain limits. Certain union employees receive a contribution to their ESOP account regardless of their participation in the 401(k) Savings Plan. The ESOP held 3.4 million shares of Integrys Energy Group's common stock (market value of \$140.8 million) at December 31, 2009. Certain employees participate in a discretionary profit-sharing contribution and/or cash match. Certain employees who are not eligible to participate in the defined benefit pension plan participate in a defined contribution pension plan, in which Integrys Energy Group contributes certain amounts to an employee's account based on the employee's wages, age, and years of service. Total costs incurred under all of these plans were \$16.8 million in 2009, \$17.4 million in 2008, and \$14.4 million in 2007.

Integrys Energy Group maintains deferred compensation plans that enable certain key employees and non-employee directors to defer a portion of their compensation or fees on a pre-tax basis. Non-employee directors can defer up to 100% of their director fees. Compensation is generally deferred in the form of cash, indexed to certain investment options or Integrys Energy Group common stock with deemed dividends paid on the common stock automatically reinvested.

The deferred compensation arrangements for which distributions are made solely in Integrys Energy Group's common stock are classified as an equity instrument. Changes in the fair value of the deferred compensation obligation are not recognized. The deferred compensation obligation associated with

Integrus Energy Group common stock was \$24.2 million at December 31, 2009, and \$23.7 million at December 31, 2008.

The portion of the deferred compensation obligation associated with deferrals that allow for distribution in cash is classified as a liability on the Consolidated Balance Sheets and adjusted, with a charge or credit to expense, to reflect changes in the fair value of the deferred compensation obligation. The obligation classified within other long-term liabilities was \$32.1 million at December 31, 2009, and \$28.2 million at December 31, 2008. The costs incurred under this arrangement were \$4.0 million in 2009, \$1.9 million in 2008, and \$2.3 million in 2007.

The deferred compensation programs are partially funded through shares of Integrus Energy Group's common stock that is held in a rabbi trust. The common stock held in the rabbi trust is classified as a reduction of equity in a manner similar to accounting for treasury stock. The total cost of Integrus Energy Group's common stock held in the rabbi trust was \$17.2 million at December 31, 2009, and \$16.3 million at December 31, 2008.

NOTE 19—PREFERRED STOCK OF SUBSIDIARY

Integrus Energy Group's subsidiary, WPS, has 1,000,000 authorized shares of preferred stock with no mandatory redemption and a \$100 par value. Outstanding shares were as follows at December 31:

(Millions, except share amounts)

Series	2009		2008	
	Shares Outstanding	Carrying Value	Shares Outstanding	Carrying Value
5.00%	130,692	\$13.1	130,695	\$13.1
5.04%	29,898	3.0	29,898	3.0
5.08%	49,905	5.0	49,923	5.0
6.76%	150,000	15.0	150,000	15.0
6.88%	150,000	15.0	150,000	15.0
Total	510,495	\$51.1	510,516	\$51.1

All shares of preferred stock of all series are of equal rank except as to dividend rates and redemption terms. Payment of dividends from any earned surplus or other available surplus is not restricted by the terms of any indenture or other undertaking by WPS. Each series of outstanding preferred stock is redeemable in whole or in part at WPS's option at any time on 30 days' notice at the respective redemption prices. WPS may not redeem less than all, nor purchase any, of its preferred stock during the existence of any dividend default.

In the event of WPS's dissolution or liquidation, the holders of preferred stock are entitled to receive (a) the par value of their preferred stock out of the corporate assets other than profits before any of such assets are paid or distributed to the holders of common stock and (b) the amount of dividends accumulated and unpaid on their preferred stock out of the surplus or net profits before any of such surplus or net profits are paid to the holders of common stock. Thereafter, the remainder of the corporate assets, surplus, and net profits shall be paid to the holders of common stock.

The preferred stock has no pre-emptive, subscription, or conversion rights, and has no sinking fund provisions.

NOTE 20--COMMON EQUITY

Integrus Energy Group's reconciliation of shares outstanding at December 31, 2009, and 2008, was as follows:

	2009		2008	
	Shares	Average Cost	Shares	Average Cost
Common stock issued	76,418,843		76,430,037	
Less:				
Treasury shares	-	\$ -	7,000	\$25.19
Deferred compensation rabbi trust	402,839	\$42.58 ⁽¹⁾	367,238	\$44.36 ⁽¹⁾
Restricted stock	35,861	\$55.33 ⁽²⁾	63,031	\$54.81 ⁽²⁾
Total shares outstanding	75,980,143		75,992,768	

⁽¹⁾ Based on Integrus Energy Group's stock price on the day the shares entered the deferred compensation rabbi trust. Shares paid out of the trust are valued at the average cost of shares in the trust.

⁽²⁾ Based on the grant date fair value of the restricted stock.

During 2009 and 2008, Integrus Energy Group purchased shares of its common stock on the open market to meet the requirements of its Stock Investment Plan and certain stock-based employee benefit and compensation plans. Prior to 2008, Integrus Energy Group issued new shares of common stock under these plans. These stock issuances increased equity \$45.6 million in 2007.

Pursuant to the PEC merger, shareholders of PEC received 0.825 shares of Integrus Energy Group (then known as WPS Resources) common stock, \$1 par value, for each share of PEC common stock, no par value, that they held immediately prior to the merger. This resulted in an increase in common stock outstanding of 31,938,491 shares and increased equity \$1.6 billion as of December 31, 2007.

Integrus Energy Group's common stock shares

Balance at December 31, 2006	43,387,460
Shares issued	
Merger with PEC	31,938,491
Stock Investment Plan	529,935
Stock-based compensation	444,041
Restricted stock, net	93,339
Rabbi trust shares	40,829
Balance at December 31, 2007	76,434,095
Restricted stock shares cancelled	(4,058)
Balance at December 31, 2008	76,430,037
Restricted stock shares cancelled	(11,194)
Balance at December 31, 2009	76,418,843

Earnings Per Share

In the first quarter of 2009, Integrus Energy Group adopted FASB Staff Position (FSP) No. EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities," (now incorporated as part of FASB ASC 260-10). This FSP had no effect on previously reported basic earnings (loss) per share.

Basic earnings (loss) per share is computed by dividing net income (loss) attributed to common shareholders by the weighted average number of common stock shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) attributed to common shareholders by the weighted average number of common stock shares outstanding during the period, adjusted for the exercise and/or conversion of all potentially dilutive securities. Such dilutive items include in-the-money stock options, performance stock rights, and restricted stock. The effects of an insignificant

number of in-the-money securities were not included in the computation for 2009, because there was a net loss during the period, which would cause the impact to be anti-dilutive. The 2009 calculation of diluted earnings per share also excluded 2.7 million out-of-the-money stock options that had an anti-dilutive effect. The calculation of diluted earnings per share for 2008 excluded 2.2 million out-of-the-money stock options that had an anti-dilutive effect. The calculation of diluted earnings per share for 2007 excluded an insignificant number of stock options that had an anti-dilutive effect. The following table reconciles the computation of basic and diluted earnings (loss) per share:

<i>(Millions, except per share amounts)</i>	2009	2008	2007
Numerator:			
Net income (loss) from continuing operations	\$(71.8)	\$124.7	\$181.0
Discontinued operations, net of tax	2.8	4.7	73.3
Preferred stock dividends of subsidiary	(3.1)	(3.1)	(3.1)
Noncontrolling interest in subsidiaries	1.0	0.1	0.1
Net income (loss) attributed to common shareholders	\$(70.9)	\$126.4	\$251.3
Denominator:			
Average shares of common stock – basic	76.8	76.7	71.6
Effect of dilutive securities			
Stock-based compensation	-	0.3	0.2
Average shares of common stock – diluted	76.8	77.0	71.8
Earnings (loss) per common share			
Basic	\$(0.92)	\$1.65	\$3.51
Diluted	(0.92)	1.64	3.50

Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive loss, net of tax at December 31, 2009, and 2008, were:

<i>(Millions)</i>	2009	2008
Cash flow hedges ⁽¹⁾	\$(24.9)	\$(56.4)
Unrecognized pension and other postretirement benefit costs ⁽²⁾	(21.5)	(14.8)
Foreign currency translation	2.4	(1.7)
Available-for-sale securities ⁽³⁾	-	0.1
Total accumulated other comprehensive loss	\$(44.0)	\$(72.8)

⁽¹⁾ Includes tax benefits of \$18.6 million and \$33.8 million at December 31, 2009, and 2008, respectively.

⁽²⁾ Includes tax benefits of \$13.8 million and \$10.6 million at December 31, 2009, and 2008, respectively.

⁽³⁾ Includes tax of \$3.4 million at December 31, 2008.

NOTE 21—STOCK-BASED COMPENSATION

In May 2007, Integrys Energy Group's shareholders approved the 2007 Omnibus Incentive Compensation Plan (2007 Omnibus Plan). Under the provisions of the 2007 Omnibus Plan, the number of shares of stock that may be issued in satisfaction of plan awards may not exceed 3,500,000, and no more than 1,500,000 shares of stock can be granted as performance shares or restricted stock. No additional awards will be issued under prior plans, although the plans continue to exist for purposes of the existing outstanding stock-based compensation. At December 31, 2009, stock options, performance stock rights, restricted shares and restricted share units, and stock appreciation rights were outstanding under the various plans.

Stock Options

Under the provisions of the 2007 Omnibus Plan, no single employee who is the chief executive officer of Integrys Energy Group or any of the other four highest compensated officers of Integrys Energy Group and its subsidiaries can be granted options for more than 1,000,000 shares during any calendar year. No stock options will have a term longer than ten years. The exercise price of each stock option is equal to the fair market value of the stock on the date the stock option is granted. Generally, one-fourth of the stock options granted vest and become exercisable each year on the anniversary of the grant date.

The fair values of stock option awards granted were estimated using a binomial lattice model. The expected term of option awards is calculated based on historical exercise behavior and represents the period of time that options are expected to be outstanding. The risk-free interest rate is based on the United States Treasury yield curve. The expected dividend yield incorporates the current dividend rate as well as historical dividend increase patterns. Integrys Energy Group's expected stock price volatility was estimated using its 10-year historical volatility. The following table shows the weighted-average fair values per stock option along with the assumptions incorporated into the valuation models:

	2009	2008	2007
Weighted-average fair value per option	\$3.83	\$4.52	\$7.80
Expected term	8-9 years	7 years	7 years
Risk-free interest rate	2.50%-2.78%	3.40%	4.65%
Expected dividend yield	5.50%	5.00%	4.50%
Expected volatility	19%	17%	17%

Compensation cost recognized for stock options during the years ended December 31, 2009, 2008, and 2007, was \$2.0 million, \$2.6 million, and \$1.8 million, respectively. Compensation cost capitalized during these same years was not significant. As of December 31, 2009, \$1.5 million of compensation cost related to unvested and outstanding stock options was expected to be recognized over a weighted-average period of 2.4 years.

Cash received from option exercises during the year ended December 31, 2009, was not significant, and was \$3.3 million and \$14.0 million during the years ended December 31, 2008, and 2007, respectively. The tax benefit realized from these option exercises was not significant in 2009 and 2008, and was \$2.3 million in 2007.

A summary of stock option activity for the year ended December 31, 2009, and information related to outstanding and exercisable stock options at December 31, 2009, is presented below:

	Stock Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (Millions)
Outstanding at December 31, 2008	2,700,139	\$47.90		
Granted	511,484	42.12		
Exercised	33,659	32.64		\$0.3
Forfeited	44,101	52.14		-
Expired	577	43.10		
Outstanding at December 31, 2009	3,133,286	\$47.06	6.10	\$2.3
Exercisable at December 31, 2009	2,006,897	\$47.29	4.80	\$2.3

The intrinsic value of options exercised was not significant during the year ended December 31, 2008, and was \$4.4 million during the year ended December 31, 2007.

The aggregate intrinsic value for outstanding and exercisable options in the above table represents the total pre-tax intrinsic value that would have been received by the option holders had they all exercised their options at December 31, 2009. This is calculated as the difference between Integrys Energy Group's

closing stock price on December 31, 2009, and the option exercise price, multiplied by the number of in-the-money stock options.

Performance Stock Rights

Performance stock rights vest over a three-year performance period and are paid out in shares of Integrys Energy Group's common stock. No single employee who is the chief executive officer of Integrys Energy Group or any of the other four highest compensated officers of Integrys Energy Group and its subsidiaries can receive a payout in excess of 250,000 performance shares during any calendar year. The number of shares paid out is calculated by multiplying a performance percentage by the number of outstanding stock rights at the completion of the vesting period. The performance percentage is based on the total shareholder return of Integrys Energy Group's common stock relative to the total shareholder return of a peer group of companies. The payout may range from 0% to 200% of target.

The fair values of performance stock rights granted were estimated using a Monte Carlo valuation model, incorporating the assumptions in the table below. The risk-free interest rate is based on the United States Treasury yield curve. The expected dividend yield incorporates the current dividend rate as well as historical dividend increase patterns. The expected volatility was estimated using three years of historical data.

	2009	2008	2007
Expected term	3 years	3 years	3 years
Risk-free interest rate	1.38%	2.18%	4.71%
Expected dividend yield	5.50%	5.50%	4.50%
Expected volatility	26%	17%	15%

Compensation cost recorded for performance stock rights for the years ended December 31, 2009, 2008, and 2007 was \$4.6 million, \$5.2 million, and \$3.5 million, respectively. Compensation cost capitalized during these same years was not significant. As of December 31, 2009, \$1.8 million of compensation cost related to unvested and outstanding performance stock rights was expected to be recognized over a weighted-average period of 1.6 years.

A summary of the activity related to performance stock rights for the year ended December 31, 2009, is presented below:

	Performance Stock Rights	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2008	263,109	\$50.13
Granted	121,220	37.11
Expired	79,574	48.37
Forfeited	3,865	52.15
Outstanding at December 31, 2009	301,090	\$45.33

No performance shares were distributed in 2009 because the performance percentage was below the threshold payout level for those rights that were vested and eligible to be distributed during the year ended December 31, 2009.

Restricted Shares and Restricted Share Units

A portion of the long-term incentive is awarded in the form of restricted shares and restricted share units. Most of these awards have a four-year vesting period, with 25% of each award vesting on each anniversary of the grant date. During the vesting period, restricted share recipients have voting rights and are entitled to dividends in the same manner as other common shareholders, whereas restricted share unit recipients receive dividend credits and do not have voting rights. Restricted shares and restricted share units have a value equal to the fair market value of Integrys Energy Group's common shares on the grant date. Compensation cost recognized for these awards was \$4.9 million, \$4.2 million, and

\$1.4 million during the years ended December 31, 2009, 2008, and 2007, respectively. Compensation cost capitalized during these same years was not significant. As of December 31, 2009, \$7.4 million of compensation cost related to these awards was expected to be recognized over a weighted-average period of 2.5 years.

A summary of the activity related to restricted share and restricted share unit awards for the year ended December 31, 2009, is presented below:

	Restricted Shares and Restricted Share Unit Awards	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2008	228,615	\$50.19
Granted	206,357	42.12
Distributed	69,587	50.76
Forfeited	18,527	45.04
Outstanding at December 31, 2009	346,858	\$45.55

Stock Appreciation Rights

On February 21, 2007, all of PEC's then outstanding stock appreciation rights were converted into 14,021 Integrys Energy Group stock appreciation rights. The fair value of the stock appreciation rights is estimated with a Black-Scholes model and was not significant at December 31, 2009. No stock appreciation rights were issued during the year ended December 31, 2009.

NOTE 22--FAIR VALUE

Fair Value Measurements

In the fourth quarter of 2009, the WPS Crane Creek wind generation project became operational, and a \$6.3 million asset retirement obligation was recorded. The initial determination of the amount of the asset retirement obligation was a fair value measurement calculated in accordance with the guidance of the Asset Retirement and Environmental Obligations Topic of the FASB ASC and was categorized within Level 3 of the fair value hierarchy. This classification resulted from the use of significant unobservable inputs, including the estimated costs of removing the wind turbines.

The following table shows Integrys Energy Group's financial assets and liabilities that were accounted for at fair value on a recurring basis, categorized by level within the fair value hierarchy.

	December 31, 2009			
(Millions)	Level 1	Level 2	Level 3	Total
Assets				
Risk management assets	\$284.9	\$439.6	\$1,593.0	\$2,317.5
Other	0.1	-	-	0.1
Liabilities				
Risk management liabilities	336.4	582.2	1,471.6	2,390.2
Long-term debt hedged by fair value hedge	-	52.6	-	52.6

(Millions)	December 31, 2008			
	Level 1	Level 2	Level 3	Total
Assets				
Risk management assets	\$703.0	\$1,524.0	\$755.4	\$2,982.4
Inventory hedged by fair value hedges	-	27.4	-	27.4
Other	0.5	-	-	0.5
Liabilities				
Risk management liabilities	820.5	1,559.1	572.8	2,952.4
Liabilities held for sale	-	-	0.6	0.6
Long-term debt hedged by fair value hedge	-	53.2	-	53.2

The determination of the fair values above incorporates various factors required under the Fair Value Measurements and Disclosures Topic of the FASB ASC. These factors include not only the credit standing of the counterparties involved, but also the impact of Integrys Energy Group's nonperformance risk on its liabilities.

The risk management assets and liabilities listed in the tables include options, swaps, futures, physical commodity contracts, and other instruments used to manage market risks related to changes in commodity prices and interest rates. For more information on Integrys Energy Group's derivative instruments, see Note 2, "Risk Management Activities."

When possible, Integrys Energy Group bases the valuations of its risk management assets and liabilities on quoted prices for identical assets in active markets. These valuations are classified in Level 1. The valuations of certain contracts are based on NYMEX futures prices with an adjustment related to location differences, and certain derivative instruments are valued using broker quotes or prices for similar contracts at the reporting date. These valuations are classified in Level 2.

Certain derivatives are categorized in Level 3 due to the significance of unobservable or internally-developed inputs. The primary reasons for a Level 3 classification are as follows:

- While price curves may have been based on observable information, significant assumptions may have been made regarding seasonal or monthly shaping and locational basis differentials.
- Certain transactions were valued using price curves that extended beyond the quoted period. Assumptions were made to extrapolate prices from the last quoted period through the end of the transaction term.
- The valuations of certain transactions were based on internal models, although external inputs were utilized in the valuations.

The following table sets forth a reconciliation of changes in the fair value of items categorized as Level 3 measurements:

(Millions)	Year Ended December 31	
	2009	2008
Balance at the beginning of period	\$182.0 *	\$ 44.6
Net realized and unrealized gain (loss) included in earnings	32.0	(44.7)
Net unrealized gain (loss) recorded as regulatory assets or liabilities	2.2	(8.7)
Net unrealized gain (loss) included in other comprehensive loss	16.3	(35.0)
Net purchases and settlements	(36.0)	2.5
Net transfers in/out of Level 3	(75.1)	223.3
Balance at the end of the period	\$121.4	\$182.0 *
Net unrealized gain (loss) included in earnings related to instruments still held at the end of the period	\$35.4	\$(55.3)

* This amount includes \$0.6 million of risk management liabilities classified as held for sale, related to the sale of generation assets and the associated sales and service contracts in Northern Maine, which closed in the first quarter of 2010.

Derivatives are transferred in or out of Level 3 primarily due to changes in the source of data used to construct price curves as a result of changes in market liquidity.

Unrealized gains and losses included in earnings related to Integrys Energy Services' risk management assets and liabilities are recorded through nonregulated revenue on the Consolidated Statements of Income. Realized gains and losses on these same instruments are recorded in nonregulated revenue or nonregulated cost of fuel, natural gas, and purchased power, depending on the nature of the instrument. Unrealized gains and losses on Level 3 derivatives at the utilities are deferred as regulatory assets or liabilities. Therefore, these fair value measurements have no impact on earnings. Realized gains and losses on these instruments flow through utility cost of fuel, natural gas, and purchased power on the Consolidated Statements of Income.

Fair Value of Financial Instruments

The following table shows the financial instruments included on the Consolidated Balance Sheets of Integrys Energy Group that are not recorded at fair value.

(Millions)	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$2,511.2	\$2,543.6	\$2,443.2 *	\$2,276.0
Preferred stock	51.1	44.3	51.1	46.0

* This amount includes \$6.6 million of long-term debt classified as held for sale, related to the sale of generation assets in Northern Maine, which closed in the first quarter of 2010.

The fair values of long-term debt instruments are estimated based on the quoted market price for the same or similar issues, or on the current rates offered to Integrys Energy Group for debt of the same remaining maturity, without considering the effect of third-party credit enhancements. The fair values of preferred stock are estimated based on quoted market prices when available, or by using a perpetual dividend discount model.

Due to the short maturity of cash and cash equivalents, accounts receivable, accounts payable, notes payable, and outstanding commercial paper, the carrying amount approximates fair value.

NOTE 23—MISCELLANEOUS INCOME

Integrys Energy Group's total miscellaneous income was as follows at December 31:

(Millions)	2009	2008	2007
Equity earnings on investments	\$76.1	\$67.8	\$34.6
Equity AFUDC	6.0	5.5	0.9
Interest and dividend income	5.6	5.0	12.7
Key executive life insurance income	2.3	2.7	2.2
Gain on sale of property	1.8	4.8	1.9
Weston 4 ATC interconnection agreement interest	-	2.5	3.9
(Loss) gain on investments	(0.1)	(0.3)	3.9
(Loss) gain on foreign currency exchange	(0.1)	0.9	2.4
Other	(2.6)	(1.6)	1.6
Total miscellaneous income	\$89.0	\$87.3	\$64.1

NOTE 24—REGULATORY ENVIRONMENT**Wisconsin****2010 Rates**

On December 22, 2009, the PSCW issued a final written order for WPS authorizing no electric rate increase (net of 2009 and 2008 fuel refunds) and a retail natural gas rate increase of \$13.5 million, effective January 1, 2010. The PSCW ordered that \$18.2 million of the 2008 and 2009 electric fuel cost over-collections be used to offset the overall electric rate increase needed for 2010, and was recorded as a short-term regulatory liability as of December 31, 2009. The remaining \$10.0 million of the 2009 fuel cost over-collections accrued in 2009 as a short-term regulatory liability, plus interest, will be refunded to customers during the first half of 2010. Fuel cost over/under recovery impacts related to the Weston 4 power plant exfoliation issue remain open for 2008 and 2009 and have been delayed to a future rate proceeding.

2009 Rates

On April 23, 2009, the PSCW made the 2009 fuel cost recovery subject to refund, effective April 25, 2009, as actual and projected fuel costs for the remainder of the year were estimated to be below the 2% fuel window. As of December 31, 2009, WPS recorded a liability of \$27.1 million related to this refund.

On December 30, 2008, the PSCW issued a final written order for WPS authorizing no change in retail electric rates from the fuel surcharge adjusted rates authorized effective July 4, 2008, and a \$3.0 million decrease in retail natural gas rates. The PSCW also approved a decoupling mechanism as a four-year pilot program. The mechanism allows WPS to defer and recover or refund in future rate proceedings all or a portion of the differences between the actual and authorized margin per customer impact of variations in volumes. The annual deferral or refund is limited to \$14.0 million for electric service and \$8.0 million for natural gas service. The mechanism does not adjust for changes in volume resulting from changes in customer count and also does not cover large commercial and industrial customers.

2008 Rates

On January 15, 2008, the PSCW issued a final written order for WPS authorizing a retail electric rate increase of \$23.0 million (2.5%), which included recovery of deferred 2005 and 2006 MISO Day 2 costs over a one-year period and increased electric transmission costs, effective January 16, 2008. On February 11, 2008, WPS filed an application with the PSCW to adjust its 2008 rates for increased fuel and purchased power costs. The application requested an increase in retail electric rates due to a delay in the in-service date of the Weston 4 power plant, increased coal and coal transportation costs, and increased natural gas costs. The PSCW approved an interim annual fuel surcharge increase of \$29.7 million on March 20, 2008, and an additional final fuel surcharge increase of \$18.3 million, effective July 4, 2008.

On September 30, 2008, the PSCW reopened the 2008 fuel surcharge to review forecasted fuel costs, as WPS's current and anticipated annual fuel costs were below those projected in the fuel surcharge. As a result of the lower fuel and purchased power costs, WPS's rates from September 30, 2008, through December 31, 2008, were subject to refund. On February 9, 2009, WPS filed a request with the PSCW to refund approximately \$5 million of 2008 fuel costs to Wisconsin electric retail customers. WPS had accrued this amount as a liability at December 31, 2008. This refund resulted in a credit to customers' bills in March and April 2009. An additional \$1.1 million of the 2008 fuel cost over-recovery, including interest, was accrued in 2008 and 2009 and will be refunded as part of the 2010 rate case.

2007 Rates

On January 11, 2007, the PSCW issued a final written order for WPS authorizing a retail electric rate increase of \$56.7 million (6.6%) and a retail natural gas rate increase of \$18.9 million (3.8%), effective January 12, 2007. The new rates reflected a 10.9% return on common equity. The PSCW approved a

common equity ratio of 57.4% in WPS's regulatory capital structure. The 2007 retail electric rate increase was required primarily because of increased costs associated with electric transmission, costs related to the construction of Weston 4 and the additional personnel to maintain and operate the plant, and costs to maintain the Weston 3 generation unit and the De Pere Energy Center. The 2007 retail natural gas rate increase was driven by infrastructure improvements necessary to ensure the reliability of the natural gas distribution system and costs associated with the remediation of former manufactured gas plant sites.

Weston 3 Outage

In October 2007, Weston 3, a coal-fired generating facility located near Wausau, Wisconsin, sustained damage from a major lightning strike that forced the facility out of service until January 14, 2008. The damage required the repair of the generator rotor, turbine rotors, and boiler feed pumps. WPS incurred \$8.9 million of incremental pre-tax non-fuel operating and maintenance expenditures through January 14, 2008, to repair and return Weston 3 to service. WPS has insurance in place that covered all non-fuel operating and maintenance expenditures, less a \$1.0 million deductible. WPS incurred a total of \$26.6 million of incremental pre-tax fuel and purchased power costs during the 14-week outage. WPS was granted approval from the PSCW to defer the replacement fuel and purchased power costs for the Wisconsin retail portion of these costs retroactive to the date of the lightning strike. On December 30, 2008, the PSCW granted WPS recovery of \$17.0 million of the requested \$19.6 million of Weston 3 replacement fuel and power costs from the Wisconsin retail jurisdiction, over a six-year period and without carrying costs.

WPS was granted recovery of \$0.4 million of the requested \$0.5 million of replacement purchased power costs from the Michigan retail jurisdiction through the annual PSCR mechanism.

Kewaunee

On February 20, 2005, Kewaunee was temporarily removed from service after a potential design weakness was identified in its auxiliary feedwater system. In WPS's 2006 rate case, the PSCW determined that it was reasonable for WPS to recover all deferred costs related to the 2005 Kewaunee forced outage over a five-year period, beginning on January 1, 2006. At December 31, 2009, \$9.6 million was left to be collected from ratepayers and remained recorded as a regulatory asset related to this outage.

Michigan

2010 UPPCO Rates

On December 16, 2009, the MPSC issued a final written order authorizing UPPCO a retail electric rate increase of \$6.5 million, effective January 1, 2010. The new rates reflect a 10.90% return on common equity and a common equity ratio of 54.83% in its regulatory capital structure. The order includes approval of a decoupling mechanism, as well as an uncollectibles expense tracking mechanism, which allows for the deferral and subsequent recovery or refund of 80% of the difference between actual write-offs (net of recoveries) and bad debt expense included in utility rates, both effective January 1, 2010.

2010 MGU Rates

On November 23, 2009, the MPSC issued a partial settlement authorizing MGU a retail natural gas rate increase of \$3.5 million, effective January 1, 2010. The filing includes a 10.75% return on common equity and a common equity ratio of 50.26% in its regulatory capital structure. The order includes approval of an uncollectibles expense tracking mechanism, which allows for the deferral and subsequent recovery or refund of 80% of the difference between actual write-offs (net of recoveries) and bad debt expense included in utility rates, effective January 1, 2010. The decoupling mechanism proposed in the rate case is being contested and was not part of the settlement. An MPSC decision on decoupling is expected in the second quarter of 2010.

2009 MGU Rates

On January 13, 2009, the MPSC issued a final written order for MGU approving a settlement agreement authorizing an annual retail natural gas rate increase of \$6.0 million, effective January 14, 2009. The new rates reflected a 10.45% return on common equity and a common equity ratio of 50.01% in its regulatory capital structure. The rate increase was required primarily due to general inflation, low margin revenue growth, increased costs of customer service functions, and increased environmental cleanup costs to remediate former manufactured gas plant sites.

2008 WPS Rates

On December 4, 2007, the MPSC issued a final written order authorizing WPS a retail electric rate increase of \$0.6 million, effective December 5, 2007. WPS's last retail electric rate increase in Michigan was in July 2003. The new rates reflected a 10.6% return on common equity and a common equity ratio of 56.4% in its regulatory capital structure.

Illinois

2010 Rates

On January 21, 2010, the ICC issued a final written order authorizing a retail natural gas rate increase of \$69.8 million for PGL and \$13.9 million for NSG, effective January 28, 2010. The rates for PGL reflect a 10.23% return on common equity and a common equity ratio of 56% in its regulatory capital structure. The rates for NSG reflect a 10.33% return on common equity and a common equity ratio of 56% in its regulatory capital structure. The ICC approved a rider mechanism to recover the costs, above an annual baseline, of an accelerated natural gas main replacement program by PGL through a special charge on customers' bills, known as Rider ICR; in February 2010, PGL filed Rider ICR with a \$51.85 million annual baseline. Recovery of costs for the accelerated gas main replacement program will begin in 2011 with the first Rider ICR charges being effective April 1, 2011. The rate order also approved the recovery of net dismantling costs of property, plant, and equipment over the life of the asset rather than when incurred. PGL and NSG, as well as Chicago, the AG, and the Citizens Utility Board, filed requests for rehearing in February 2010, all addressing Rider ICR.

Recent Illinois Legislation

In July 2009, Illinois Senate Bill (SB) 1918 was signed into law. SB 1918 contains a provision that allows PGL and NSG to file a rider to recover (or refund) the incremental difference between the rate case authorized uncollectible expense and the actual uncollectible expense reported to the ICC each year. PGL and NSG filed their respective riders with the ICC in September 2009, and began recording the effects of this provision at that time. The ICC approved the rider in February 2010. SB 1918 also requires a percentage of income payment plan for low-income utility customers that PGL and NSG are offering as a transition program in 2010 and 2011, with a permanent such program to begin no later than September 1, 2011, and an on-bill financing option that PGL and NSG filed in February 2010 and requested a June 2011 effective date. The on-bill financing program will allow certain residential customers of PGL and NSG to borrow funds from a third party lender to purchase natural gas energy efficiency measures and pay back the borrowed funds over time through a charge on their utility bill. No later than October 1, 2010, PGL and NSG must file an EEP to meet specified energy efficiency standards, with the first program year beginning June 2011.

2008 Rates

On February 5, 2008, the ICC issued a final written order authorizing a retail natural gas rate increase of \$71.2 million for PGL and a retail natural gas rate decrease of \$0.2 million for NSG, effective February 14, 2008. The rates for PGL reflected a 10.19% return on common equity and a common equity ratio of 56% in its regulatory capital structure. The rates for NSG reflected a 9.99% return on common

equity and a common equity ratio of 56% in its regulatory capital structure. The order included approval of a decoupling mechanism, effective March 1, 2008, as a four-year pilot program, which allows PGL and NSG to adjust rates going forward to recover or refund the difference between the actual and authorized margin impact of variations in volumes. Legislation was introduced at the Illinois state legislature to roll back decoupling but never reached a vote. This legislation was introduced again in the first quarter of 2009. Integrys Energy Group actively supports the ICC's decision to approve this rate setting mechanism. The order also approved an EEP, which allows PGL and NSG to recover up to \$6.4 million and \$1.1 million per year, respectively, of energy efficiency costs. This EEP is separate from the SB 1918 required EEP.

On March 26, 2008, the ICC denied PGL's and NSG's request for rehearing of their rate orders, and all but one such request from interveners. The only rehearing request granted by the ICC related to a change in the way PGL allocates interstate hub services revenues among customer groups. On June 6, 2008, several parties filed a stipulation to resolve the way PGL allocates interstate hub services revenues among customer groups. The ICC approved the stipulation, effective November 1, 2008, as well as a rehearing order. Following the stipulation approval, PGL and NSG and four other parties filed appeals with the Illinois appellate court. Issues on appeal include the decoupling mechanism.

Minnesota

2010 Rates

On December 4, 2009, the MPUC approved a final written order authorizing MERC a retail natural gas rate increase of \$15.4 million, effective January 1, 2010. The new rates reflect a 10.21% return on common equity and a common equity ratio of 48.77% in its regulatory capital structure. Since the final approved rate increase was lower than the interim rate increase that went into effect in October 2008, refunds will be made to customers in March 2010.

Federal

Through a series of orders issued by the FERC, Regional Through and Out Rates for transmission service between the MISO and the PJM Interconnection were eliminated effective December 1, 2004. To compensate transmission owners for the revenue they will no longer receive due to this rate elimination, the FERC ordered a transitional pricing mechanism called the Seams Elimination Charge Adjustment (SECA) be put into place. Load-serving entities paid these SECA charges during a 16-month transition period from December 1, 2004, through March 31, 2006.

For the 16-month transitional period, Integrys Energy Services received billings of \$19.2 million (pre-tax) for these charges. Integrys Energy Services expensed \$14.7 million of the \$19.2 million, as it is probable that Integrys Energy Services' total exposure will be reduced by at least \$4.5 million due to inconsistencies between the FERC's SECA order and the transmission owners' compliance filings. Integrys Energy Services has reached settlement agreements with three of its vendors for a combined \$1.6 million.

In August 2006, the administrative law judge hearing the case issued an Initial Decision that was in agreement with all of Integrys Energy Services' positions. If the Final Order is consistent with the Initial Decision of the administrative law judge, Integrys Energy Services' pre-tax exposure of \$19.2 million may be reduced by as much as \$13 million. The Final FERC Order is subject to rehearing and then court challenges. Any refunds to Integrys Energy Services will include interest for the period from payment to refund. A FERC Order addressing these issues is expected to be received by June 2010.

NOTE 25--SEGMENTS OF BUSINESS

The Segment Reporting Topic of the FASB ASC requires that companies disclose segment information based on how management makes decisions about allocating resources to segments and measuring their performance.

Integrys Energy Group manages its reportable segments separately due to their different operating and regulatory environments. At December 31, 2009, Integrys Energy Group reported five segments, which are described below.

- The electric utility segment includes the regulated electric utility operations of WPS and UPPCO.
- The natural gas utility segment includes the regulated natural gas utility operations of WPS, MGU, MERC, PGL, and NSG.
- Integrys Energy Services is a diversified nonregulated natural gas and electric power supply and services company serving retail customers (residential, commercial, and industrial).
- The electric transmission investment segment includes Integrys Energy Group's approximate 34% ownership interest in ATC. ATC is a federally regulated electric transmission company operating in Wisconsin, Michigan, Minnesota, and Illinois.
- The holding company and other segment includes the operations of the Integrys Energy Group holding company and the PEC holding company, along with any nonutility activities at WPS, MGU, MERC, UPPCO, PGL, NSG, and IBS. Equity earnings from Integrys Energy Group's investment in WRPC are also included in the holding company and other segment.

The nonregulated oil and natural gas production segment includes the results of PEP, which were reported as discontinued operations in 2007. PEP engaged in the acquisition, development and production of oil and natural gas reserves in selected onshore basins in the United States through direct ownership in oil, natural gas, and mineral leases. Integrys Energy Group completed the sale of PEP in September 2007.

The tables below present information for the respective years pertaining to Integrys Energy Group's reportable segments:

2009 (Millions)	Regulated Operations				Nonutility and Nonregulated Operations		Reconciling Eliminations	Integrys Energy Group Consolidated
	Electric Utility	Natural Gas Utility	Electric Transmission Investment	Total Regulated Operations	Integrys Energy Services	Holding Company and Other		
Income Statement								
External revenues	\$1,258.9	\$2,236.9	\$ -	\$3,495.8	\$3,992.5	\$ 11.5	\$ -	\$ 7,499.8
Intersegment revenues	42.7	0.6	-	43.3	1.5	-	(44.8)	-
Goodwill impairment loss	-	291.1	-	291.1	-	-	-	291.1
Restructuring expense	8.6	6.9	-	15.5	27.2	0.8	-	43.5
Loss on Integrys Energy Services dispositions related to strategy change	-	-	-	-	28.9	-	-	28.9
Depreciation and amortization expense	90.3	106.1	-	196.4	19.3	15.2	-	230.9
Miscellaneous income (expense)	4.8	3.1	75.3	83.2	6.0	46.5	(46.7)	89.0
Interest expense (income)	41.6	52.2	-	93.8	13.1	104.6	(46.7)	164.8
Provision (benefit) for income taxes	51.4	7.8	29.8	89.0	18.5	(24.3)	-	83.2
Net income (loss) from continuing operations	91.4	(171.5)	45.5	(34.6)	(1.3)	(35.7)	-	(71.6)
Discontinued operations	-	-	-	-	2.8	-	-	2.8
Preferred stock dividends of subsidiary	(2.5)	(0.6)	-	(3.1)	-	-	-	(3.1)
Net income (loss) attributed to common shareholders	88.9	(172.1)	45.5	(37.7)	2.5	(35.7)	-	(70.9)
Total assets	2,834.7	4,675.7	395.9	7,906.3	3,550.8	1,462.7	(1,071.8)	11,847.9
Cash expenditures for long-lived assets	250.4	136.9	-	387.3	22.4	34.5	-	444.2

2008 (Millions)	Regulated Operations				Nonutility and Nonregulated Operations			Integrus Energy Group Consolidated
	Electric Utility	Natural Gas Utility	Electric Transmission Investment	Total Regulated Operations	Integrus Energy Services	Holding Company and Other	Reconciling Eliminations	
Income Statement								
External revenues	\$1,284.6	\$3,025.3	\$ -	\$4,309.9	\$9,726.5	\$ 11.4	\$ -	\$14,047.8
Intersegment revenues	44.3	0.6	-	44.9	8.7	0.6	(54.2)	-
Goodwill impairment loss	-	6.5	-	6.5	-	-	-	6.5
Depreciation and amortization expense	84.3	108.3	-	192.6	14.5	14.3	-	221.4
Miscellaneous income (expense)	6.0	7.0	66.1	79.1	8.7	45.4	(45.9)	87.3
Interest expense (income)	36.7	58.6	-	93.3	12.1	98.6	(45.9)	158.1
Provision (benefit) for income taxes	48.1	57.1	26.4	131.6	(56.2)	(24.2)	-	51.2
Net income (loss) from continuing operations	94.7	85.5	39.7	219.9	(65.5)	(29.7)	-	124.7
Discontinued operations	-	-	-	-	3.9	0.8	-	4.7
Preferred stock dividends of subsidiary	(2.1)	(1.0)	-	(3.1)	-	-	-	(3.1)
Net income (loss) attributed to common shareholders	92.6	84.5	39.7	216.8	(61.5)	(28.9)	-	126.4
Total assets	2,752.4	5,173.8	346.9	8,273.1	5,050.2	2,144.3	(1,195.1)	14,272.5
Cash expenditures for long-lived assets	207.4	237.3	-	444.7	68.1	20.0	-	532.8

2007 (Millions)	Regulated Utilities				Nonutility and Nonregulated Operations			Integrus Energy Group Consolidated
	Electric Utility	Natural Gas Utility	Electric Transmission Investment	Total Regulated Operations	Integrus Energy Services	Oil and Natural Gas Production	Holding Company and Other	Reconciling Eliminations
Income Statement								
External revenues	\$1,202.9	\$2,102.5	\$ -	\$3,305.4	\$6,975.7	\$ -	\$ 11.3	\$ -
Intersegment revenues	43.2	1.2	-	44.4	4.0	-	1.2	(49.6)
Depreciation and amortization expense	80.1	97.7	-	177.8	14.4	-	2.9	-
Miscellaneous income (expense)	8.3	5.5	50.5	64.3	(0.3)	0.1	30.9	(30.9)
Interest expense (income)	32.4	53.4	-	85.8	13.5	2.4	93.7	(30.9)
Provision (benefit) for income taxes	51.5	14.5	20.2	86.2	26.3	(1.0)	(25.5)	-
Net income (loss) from continuing operations	89.6	29.6	30.3	149.5	83.1	(2.5)	(49.1)	-
Discontinued operations	-	-	-	-	14.8	58.5	-	-
Preferred stock dividends of subsidiary	(2.2)	(0.9)	-	(3.1)	-	-	-	-
Net income (loss) attributed to common shareholders	87.4	28.7	30.3	146.4	98.0	56.0	(49.1)	-
Total assets	2,470.8	4,777.8	296.6	7,545.2	3,150.6	-	1,614.8	(1,076.2)
Cash expenditures for long-lived assets	202.6	158.8	-	361.4	20.5	-	10.7	-

Geographic Information (Millions)	2009		2008		2007	
	Revenues	Long-Lived Assets	Revenues	Long-Lived Assets	Revenues	Long-Lived Assets
United States	\$6,628.5	\$7,540.3	\$11,639.3	\$7,576.8	\$ 8,343.8	\$7,028.2
Canada *	871.3	-	2,408.5	20.0	1,948.6	20.6
Total	\$7,499.8	\$7,540.3	\$14,047.8	\$7,596.8	\$10,292.4	\$7,048.8

* Revenues and assets of Canadian subsidiaries. Includes the impact in 2009 of the sale of Canadian operations at Integrus Energy Services.

NOTE 26--QUARTERLY FINANCIAL INFORMATION (Unaudited)

	Three Months Ended				
	2009				
	March	June	September	December	Total
Total revenues	\$3,200.8	\$1,427.6	\$1,297.8	\$1,573.6	\$7,499.8
Operating income (loss)	(145.1)	72.9	93.3	66.3	87.4
Net income (loss) from continuing operations	(179.5)	35.0	49.1	23.8	(71.6)
Discontinued operations, net of tax	-	0.3	2.3	0.2	2.8
Preferred stock dividends of subsidiary	(0.8)	(0.8)	(0.7)	(0.8)	(3.1)
Net income (loss) attributed to common shareholders	(180.2)	34.7	51.1	23.5	(70.9)
Average shares of common stock (basic)	76.7	76.8	76.8	76.8	76.8
Average shares of common stock (diluted)	76.7	76.8	76.9	77.0	76.8
Earnings (loss) per common share (basic) *					
Net income (loss) from continuing operations	(\$2.35)	\$0.45	\$0.64	\$0.31	\$(0.96)
Discontinued operations	-	-	0.03	-	0.04
Earnings (loss) per common share (basic)	(2.35)	0.45	0.67	0.31	(0.92)
Earnings (loss) per common share (diluted) *					
Net income (loss) from continuing operations	(2.35)	0.45	0.63	0.31	(0.96)
Discontinued operations	-	-	0.03	-	0.04
Earnings (loss) per common share (diluted)	(2.35)	0.45	0.66	0.31	(0.92)

* Earnings (loss) per share for the individual quarters do not total the year ended earnings (loss) per share amount because of changes to the average number of shares outstanding and changes in incremental issuable shares throughout the year.

	Three Months Ended				
	2008				
	March	June	September	December	Total
Total revenues	\$3,989.2	\$3,417.2	\$3,223.1	\$3,418.3	\$14,047.8
Operating income (loss)	234.7	53.1	(76.2)	35.1	246.7
Net income (loss) from continuing operations	136.6	24.8	(58.4)	21.7	124.7
Discontinued operations, net of tax	-	0.1	-	4.6	4.7
Preferred stock dividends of subsidiary	(0.8)	(0.8)	(0.7)	(0.8)	(3.1)
Net income (loss) attributed to common shareholders	135.8	24.1	(59.1)	25.6	126.4
Average shares of common stock (basic)	76.6	76.6	76.7	76.7	76.7
Average shares of common stock (diluted)	76.9	76.9	76.7	77.0	77.0
Earnings (loss) per common share (basic) *					
Net income (loss) from continuing operations	\$1.77	\$0.31	(\$0.77)	\$0.27	\$1.59
Discontinued operations	-	-	-	0.06	0.06
Earnings (loss) per common share (basic)	1.77	0.31	(0.77)	0.33	1.65
Earnings (loss) per common share (diluted) *					
Net income (loss) from continuing operations	1.77	0.31	(0.77)	0.27	1.58
Discontinued operations	-	-	-	0.06	0.06
Earnings (loss) per common share (diluted)	1.77	0.31	(0.77)	0.33	1.64

* Earnings (loss) per share for the individual quarters do not total the year ended earnings (loss) per share amount because of changes to the average number of shares outstanding and changes in incremental issuable shares throughout the year.

Because of various factors, the quarterly results of operations are not necessarily comparable.

H. REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS

To the Board of Directors and Shareholders of Integrys Energy Group, Inc:

We have audited the accompanying consolidated balance sheets of Integrys Energy Group, Inc. and subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of income, equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Integrys Energy Group, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 1(r) to the consolidated financial statements, at January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, "Fair Value Measurements."

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Milwaukee, WI
February 25, 2010

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Integrys Energy Group's management, with the participation of Integrys Energy Group's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of Integrys Energy Group's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report and has concluded that, as of the end of such period, Integrys Energy Group's disclosure controls and procedures were effective to ensure that information required to be disclosed by Integrys Energy Group in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to Integrys Energy Group's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There were no changes in Integrys Energy Group's internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) that occurred during the quarter ended December 31, 2009, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

Management Reports on Internal Control over Financial Reporting

For Integrys Energy Group's Management Report on Internal Control over Financial Reporting, see Section A of Item 8.

Reports of Independent Registered Public Accounting Firm

For Integrys Energy Group's Reports of Independent Registered Public Accounting Firm, see Sections B and H of Item 8.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this Item regarding the directors of Integrys Energy Group, Section 16 compliance and the members of the Audit Committee and the Audit Committee financial expert can be found in Integrys Energy Group's Proxy Statement for its Annual Meeting of Shareholders to be held May 13, 2010 (Proxy Statement), under the captions "Election of Directors," "Ownership of Voting Securities – Section 16(a) Beneficial Ownership Reporting Compliance" and "Board Committees," respectively. Such information is incorporated by reference as if fully set forth herein.

Information regarding the executive officers of Integrys Energy Group can be found in this Annual Report on Form 10-K in Item 4A.

Integrys Energy Group has adopted a Code of Conduct, which serves as our Code of Business Conduct and Ethics. The Code of Conduct applies to all of our directors, officers, and employees, including the Chief Executive Officer, Chief Financial Officer, Corporate Controller and any other persons performing similar functions. Integrys Energy Group has also adopted Corporate Governance Guidelines.

Integrys Energy Group's Code of Conduct, Corporate Governance Guidelines and charters of the board committees may be accessed on the Integrys Energy Group Web site, www.integrysgroup.com under "Investor" then select "Corporate Governance." Amendments to, or waivers from, our Code of Conduct will be disclosed on our Web site within the prescribed time period.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item regarding compensation paid by Integrys Energy Group to its directors and its "named executive officers" in 2009 can be found in Integrys Energy Group's Proxy Statement under the captions "Director Compensation" and "Executive Compensation." Such information is incorporated by reference as if fully set forth herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this Item regarding the principal securities holders of Integrys Energy Group and the security holdings of its directors and executive officers can be found in Integrys Energy Group's Proxy Statement under the caption "Ownership of Voting Securities – Beneficial Ownership." Such information is incorporated by reference as if fully set forth herein.

Information required by this Item regarding equity compensation plans of Integrys Energy Group can be found in Integrys Energy Group's Proxy Statement under the caption "Ownership of Voting Securities – Equity Compensation Plan Information." Such information is incorporated by reference as if fully set forth herein.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND
DIRECTOR INDEPENDENCE**

Information required by this Item regarding Integrys Energy Group's related person transactions and director independence can be found in Integrys Energy Group's Proxy Statement under the captions "Election of Directors – Related Person Transaction Policy" and "Election of Directors – Director Independence," respectively. Such information is incorporated by reference as if fully set forth herein.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

For a summary of the fees billed to Integrys Energy Group (including its subsidiaries) by Deloitte & Touche LLP for professional services performed for 2009 and 2008 and the Audit Committee's preapproval policies and procedures, please see Integrys Energy Group's Proxy Statement under the caption "Board Committees – Audit Committee." Such information is incorporated by reference as if fully set forth herein.

PART IV**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

Documents filed as part of this report:

- (1) Consolidated Financial Statements included in Part II at Item 8 above:

<u>Description</u>	<u>Pages in 10-K</u>
Consolidated Statements of Income for the three years ended December 31, 2009, 2008, and 2007	79
Consolidated Balance Sheets as of December 31, 2009 and 2008	80
Consolidated Statements of Common Shareholders' Equity for the three years ended December 31, 2009, 2008, and 2007	81
Consolidated Statements of Cash Flows for the three years ended December 31, 2009, 2008, and 2007	82
Notes to Consolidated Financial Statements	83
Report of Independent Registered Public Accounting Firm	148

- (2) Financial Statement Schedules.

The following financial statement schedules are included in Part IV of this report. Schedules not included herein have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

<u>Description</u>	<u>Pages in 10-K</u>
Schedule I - Condensed Parent Company Only Financial Statements	
A. Statements of Income and Retained Earnings	154
B. Balance Sheets	155
C. Statements of Cash Flows	156
D. Notes to Parent Company Financial Statements	157
Schedule II Integrys Energy Group, Inc. Valuation and Qualifying Accounts	160

- (3) Listing of all exhibits, including those incorporated by reference.

See the attached Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 25th day of February, 2010.

INTEGRYS ENERGY GROUP, INC.

(Registrant)

By: /s/ Charles A. Schrock
Charles A. Schrock
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
Keith E. Bailey *	Director	
Richard A. Bemis *	Director	
William J. Brodsky *	Director	
Albert J. Budney, Jr. *	Director	
Pastora San Juan Cafferty *	Director	
Ellen Carnahan *	Director	
Robert C. Gallagher *	Director	
Kathryn M. Hasselblad-Pascale *	Director	
John W. Higgins *	Director	
James L. Kemerling *	Director	
Michael E. Lavin *	Director	
William F. Protz, Jr. *	Director	
Charles A. Schrock *	Director	
Larry L. Weyers *	Director and Executive Chairman	
<u>/s/ Charles A. Schrock</u> Charles A. Schrock	President and Chief Executive Officer (principal executive officer)	February 25, 2010
<u>/s/ Joseph P. O'Leary</u> Joseph P. O'Leary	Senior Vice President and Chief Financial Officer (principal financial officer)	February 25, 2010
<u>/s/ Diane L. Ford</u> Diane L. Ford	Vice President and Corporate Controller (principal accounting officer)	February 25, 2010
* By: <u>/s/ Diane L. Ford</u> Diane L. Ford	Attorney-In-Fact	February 25, 2010

**SCHEDULE I - CONDENSED
PARENT COMPANY FINANCIAL STATEMENTS
INTEGRYS ENERGY GROUP, INC. (PARENT COMPANY ONLY)**

A. STATEMENTS OF INCOME AND RETAINED EARNINGS

Year Ended December 31 (Millions, except per share data)	2009	2008	2007
Equity earnings (loss) in excess of dividends from subsidiaries	(\$158.5)	\$44.2	\$116.4
Dividends from subsidiaries	147.0	134.9	120.0
Income (loss) from subsidiaries	(11.5)	179.1	236.4
Investment income and other	25.5	19.4	17.7
Total income	14.0	198.5	254.1
Operating expenses	6.3	3.4	18.5
Operating income	7.7	195.1	235.6
Interest expense	79.4	75.0	65.5
Income (loss) before taxes	(71.7)	120.1	170.1
Provision (benefit) for income taxes	2.0	(1.8)	(7.9)
Income (loss) from continuing operations	(73.7)	121.7	178.0
Discontinued operations, net of tax	2.8	4.7	73.3
Net income (loss)	(\$70.9)	\$126.4	\$251.3
Retained earnings, beginning of year	\$624.6	\$701.9	\$628.2
Common stock dividends	(206.9)	(203.9)	(177.0)
Other	(1.2)	0.2	(0.6)
Retained earnings, end of year	\$345.6	\$624.6	\$701.9
Average shares of common stock			
Basic	76.8	76.7	71.6
Diluted	76.8	77.0	71.8
Earnings (loss) per common share (basic)			
Net income (loss) from continuing operations	(\$0.98)	\$1.58	\$2.49
Discontinued operations, net of tax	0.04	0.06	1.02
Earnings (loss) per common share (basic)	(\$0.92)	\$1.65	\$3.51
Earnings (loss) per common share (diluted)			
Net income (loss) from continuing operations	(\$0.98)	\$1.58	\$2.48
Discontinued operations, net of tax	0.04	0.06	1.02
Earnings (loss) per common share (diluted)	(\$0.92)	\$1.64	\$3.50
Dividends per common share declared	\$2.72	\$2.68	\$2.56

The accompanying notes to Integrys Energy Group's parent company financial statements are an integral part of these statements.

**SCHEDULE I - CONDENSED
PARENT COMPANY FINANCIAL STATEMENTS
INTEGRYS ENERGY GROUP, INC. (PARENT COMPANY ONLY)**

B. BALANCE SHEETS

At December 31 (Millions)	2009	2008
Assets		
Cash and cash equivalents	\$19.0	\$190.9
Accounts receivable from related parties	38.7	33.9
Interest receivable from related parties	4.6	5.2
Deferred income taxes	-	0.2
Notes receivable from related parties	53.0	150.9
Assets from risk management activities	-	14.7
Other current assets	29.5	27.3
Current assets	144.8	423.1
Total investments in subsidiaries, at equity	3,962.6	4,206.1
Notes receivable from related parties	220.3	210.9
Property and equipment, net of accumulated depreciation of \$0.7 and \$0.5, respectively	5.2	5.3
Receivables from related parties	9.0	10.5
State deferred income taxes	27.9	16.5
Other	27.0	26.3
Total assets	\$4,396.8	\$4,898.7
Liabilities and Shareholders' Equity		
Short-term debt to related parties	\$315.7	\$276.1
Short-term debt	205.1	473.9
Current portion of long-term debt	65.6	150.0
Accounts payable to related parties	3.9	49.7
Interest payable to related parties	4.7	5.9
Accounts payable	0.6	0.1
Liabilities from risk management activities	1.9	1.5
Deferred income taxes	7.3	-
Other current liabilities	4.4	12.8
Current liabilities	609.2	969.8
Long-term debt to related parties	346.0	346.0
Long-term debt	554.7	465.1
Federal deferred income taxes	23.2	8.8
Liabilities from risk management activities	-	3.5
Payables to related parties	2.4	2.0
Other	2.7	3.9
Long-term liabilities	929.0	829.3
Commitments and contingencies		
Common stock equity	2,858.6	3,099.6
Total liabilities and shareholders' equity	\$4,396.8	\$4,898.7

The accompanying notes to IntegrYS Energy Group's parent company financial statements are an integral part of these statements.

**SCHEDULE I - CONDENSED
PARENT COMPANY FINANCIAL STATEMENTS
INTEGRYS ENERGY GROUP, INC. (PARENT COMPANY ONLY)**

C. STATEMENTS OF CASH FLOWS

Year Ended December 31 (Millions)	2009	2008	2007
Operating Activities			
Net Income (loss)	(\$70.9)	\$126.4	\$251.3
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Discontinued operations, net of tax	(2.8)	(4.7)	(73.3)
Equity loss (income) from subsidiaries, net of dividends	158.5	(44.2)	(116.4)
Deferred income taxes	24.4	19.7	(8.0)
Gain on sale of investment	(0.4)	-	(1.6)
Cumulative effect of change in accounting principles, net of tax	-	-	-
Other	23.7	7.9	14.0
Changes in working capital			
Accounts receivables	0.5	1.2	(2.0)
Accounts receivables from related parties	(4.2)	20.3	(30.6)
Other current assets	(2.4)	(25.2)	-
Accounts payable	0.5	(1.6)	0.8
Accounts payable to related parties	(44.6)	41.7	2.9
Other current liabilities	(7.4)	(30.4)	33.8
Net cash provided by operating activities	74.9	111.1	70.9
Investing Activities			
Capital expenditures	-	-	(10.7)
Short-term notes receivable from related parties	97.9	(84.6)	57.2
Long-term notes receivable from related parties	(10.0)	-	-
Receivables from related parties	1.5	1.6	1.8
Equity contributions to subsidiaries	(56.1)	(163.0)	(100.9)
Return of capital from subsidiaries	155.5	83.4	34.1
Proceeds from sale of investment	0.5	-	2.0
Cash paid for transaction cost related to acquisitions	-	-	(14.4)
Other	0.5	7.4	-
Net cash provided by (used for) investing activities	189.8	(155.2)	(30.9)
Financing Activities			
Commercial paper, net	(47.7)	182.5	(454.4)
Notes payable to related parties	39.6	55.2	545.9
Issuance of notes payable	-	155.7	-
Issuance of short-term debt	-	50.0	-
Redemption of notes payable	(50.0)	-	-
Redemption of short-term debt	(157.9)	-	-
Issuance of long-term debt	155.0	-	-
Redemption of long-term debt	(180.0)	-	-
Issuance of common stock	-	-	45.6
Dividends paid on common stock	(206.9)	(203.9)	(177.0)
Other	(18.7)	(4.5)	(1.7)
Net cash (used for) provided by financing activities	(436.6)	235.0	(41.6)
Change in cash and cash equivalents	(171.9)	190.9	(1.6)
Cash and cash equivalents at beginning of year	190.9	-	1.6
Cash and cash equivalents at end of year	\$19.0	\$190.9	\$ -

The accompanying notes to Integrys Energy Group's parent company financial statements are an integral part of these statements.

**SCHEDULE I - CONDENSED
PARENT COMPANY FINANCIAL STATEMENTS
INTEGRYS ENERGY GROUP, INC. (PARENT COMPANY ONLY)**

D. NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

SUPPLEMENTAL NOTES

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) **Basis of Presentation**--For Parent Company only presentation, investments in subsidiaries are accounted for using the equity method. The condensed Parent Company financial statements and notes should be read in conjunction with the consolidated financial statements and notes of Integrys Energy Group appearing in this Form 10-K. The consolidated financial statements of Integrys Energy Group reflect certain businesses as discontinued operations. In the Integrys Energy Group consolidated financial statements, \$26.5 million and \$26.3 million assets were reported as held for sale and \$0.3 million and \$7.5 million liabilities were reported as held for sale at year-end 2009 and 2008, respectively. For Parent Company only presentation, the investments in discontinued operations are recorded in Investments in Subsidiary Companies. The condensed Parent Company statements of income and statements of cash flows report the earnings and cash flows of these businesses as discontinued operations.

(b) **Cash and Cash Equivalents**--Short-term investments with an original maturity of three months or less are reported as cash equivalents.

The following is supplemental disclosure to the Integrys Energy Group Parent Company Statements of Cash Flows:

<i>(Millions)</i>	2009	2008	2007
Cash paid for interest	\$57.3	\$46.1	\$55.1
Cash paid for interest -- related parties	23.6	24.9	3.8
Cash paid (received) for income taxes	(15.4)	27.2	-

Significant non-cash transactions were as follows:

<i>(Millions)</i>	2009	2008	2007
Equity issued for net assets acquired in PEC merger	\$ -	\$ -	\$1,559.3

NOTE 2--FAIR VALUE OF FINANCIAL INSTRUMENTS -- RELATED PARTIES

The following table shows the financial instruments included on the Balance Sheets of Integrys Energy Group Parent Company that are not recorded at fair value.

<i>(Millions)</i>	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term notes receivable from related parties	\$220.3	\$235.5	\$210.9	\$199.9
Long-term debt to related parties	346.0	361.3	346.0	345.8

NOTE 3--SHORT-TERM NOTES RECEIVABLE – RELATED PARTIES

<i>(Millions)</i>	2009	2008
UPPCO	\$10.4	\$ 6.8
Integrus Energy Services	-	81.7
MERC	3.6	22.3
MGU	8.7	27.0
IBS	30.3	13.1
Total	\$53.0	\$150.9

NOTE 4--LONG-TERM NOTES RECEIVABLE – RELATED PARTIES

<i>(Millions)</i>		2009	2008
WPS			
<u>Series</u>	<u>Year Due</u>		
8.76%	2015	\$ 3.8	\$ 4.0
7.35%	2016	5.5	5.9
UPPCO			
<u>Series</u>	<u>Year Due</u>		
5.25%	2013	15.0	15.0
6.06%	2017	15.0	15.0
MERC			
<u>Series</u>	<u>Year Due</u>		
6.03%	2013	29.0	29.0
6.16%	2016	29.0	29.0
6.40%	2021	29.0	29.0
MGU			
<u>Series</u>	<u>Year Due</u>		
5.72%	2013	28.0	28.0
5.76%	2016	28.0	28.0
5.98%	2021	28.0	28.0
IBS			
<u>Series</u>	<u>Year Due</u>		
6.86%	2014	10.0	-
Total		\$220.3	\$210.9

NOTE 5--SHORT-TERM NOTES PAYABLE – RELATED PARTIES

<i>(Millions)</i>	2009	2008
Integrus Energy Services	\$218.7	\$ -
PEC	97.0	276.1
Total	\$315.7	\$276.1

NOTE 6--LONG-TERM DEBT – RELATED PARTIES

(Millions)	2009	2008
Long-term notes to PEC due 2011 ⁽¹⁾	\$325.0	\$325.0
Long-term notes to Integrys Energy Services due 2021 ⁽²⁾	21.0	21.0
Total	\$346.0	\$346.0

⁽¹⁾ On September 28, 2007, Integrys Energy Group issued a \$325.0 million long-term promissory note to PEC. The note bears interest at a rate of 5.25% and matures in January 2011. Proceeds of the note were used to reduce the balance of commercial paper outstanding.

⁽²⁾ Integrys Energy Group has a long-term note payable to Integrys Energy Services at December 31, 2009 and 2008 of \$21.0 million. The note bears interest at a rate that approximates current market rates and is due in 2021.

At December 31, 2009, Integrys Energy Group (parent company) was in compliance with all covenants relating to outstanding debt to the related parties. A schedule of all principal debt payment amounts for Integrys Energy Group (parent company) is as follows:

Year ending December 31	
(Millions)	
2010	\$ -
2011	325.0
2012	-
2013	-
2014	-
Later years	21.0
Total payments	\$346.0

NOTE 7--INCOME TAXES

The principal components of Integrys Energy Group's deferred income tax assets and liabilities recognized in the balance sheet as of December 31 are as follows:

(Millions)	2009	2008
Deferred income tax assets:		
Plant related	\$ -	\$10.9
State capital and operating loss carryforwards	10.0	11.3
Employee benefits	6.1	6.8
Price risk management	-	1.8
Deferred deductions	0.5	-
Other	-	1.1
Total deferred income tax assets	16.6	31.9
Valuation allowance	-	(1.2)
Net deferred income tax assets	\$16.6	\$30.7
Deferred income tax liabilities:		
Plant related	\$12.9	\$21.7
Price risk management	0.2	-
Other	6.1	1.1
Total deferred income tax liabilities	\$19.2	\$22.8

Carryforward periods for state capital and operating loss carryforwards vary, but in the majority of states in which we do business, the period is 15 years or more. The balance of the carryforwards of state net operating losses is \$195.2 million for all states. No valuation allowances have been established due to the reasonable certainty of the ability to realize the benefit of these losses in the future.

SCHEDULE II
INTEGRYS ENERGY GROUP
VALUATION AND QUALIFYING ACCOUNTS

Allowance for Doubtful Accounts
Years Ended December 31, 2009, 2008, and 2007
(In Millions)

Fiscal Year	Balance at Beginning of Year	Acquisitions of Businesses	Additions Charged to Expense	Additions Charged to Other Accounts ⁽¹⁾	Reductions ⁽²⁾	Balance at End of Year
2007	\$17.0	\$42.9	\$39.1	\$2.8	\$45.8	\$56.0
2008	\$56.0	\$ -	\$76.8	\$5.6	\$75.9	\$62.5
2009	\$62.5	\$ -	\$54.6	\$15.1	\$74.7	\$57.5

⁽¹⁾ Represents additions charged to regulatory assets and amounts charged to tax liabilities related to revenue taxes and state use taxes uncollectible from customers.

⁽²⁾ Represents amounts written off to the reserve, including any adjustments.

EXHIBIT INDEX

Set forth below is a listing of all exhibits to this Annual Report on Form 10-K, including those incorporated by reference.

Certain other instruments, which would otherwise be required to be listed below, have not been so listed as such instruments do not authorize long-term debt securities in an amount which exceeds 10% of the total assets of Integrys Energy Group and its subsidiaries on a consolidated basis. Integrys Energy Group agrees to furnish a copy of any such instrument to the SEC upon request.

Explanatory Note: Many of the exhibits listed below were entered into when Integrys Energy Group, Inc. was known as WPS Resources Corporation but have been referred to below by reference to its current name.

<u>Exhibit Number</u>	<u>Description of Documents</u>
2.1*	Asset Contribution Agreement between ATC and Wisconsin Electric Power Company, Wisconsin Power and Light Company, WPS, Madison Gas & Electric Co., Edison Sault Electric Company, South Beloit Water, Gas and Electric Company, dated as of December 15, 2000. (Incorporated by reference to Exhibit 2A-3 to Integrys Energy Group's Form 10-K for the year ended December 31, 2000.)
2.2* #	Purchase and Sale Agreement between Integrys Energy Services, Inc., as Seller, and Macquarie Cook Power, Inc., as Purchaser, dated as of December 23, 2009.
2.3#	First Amendment to Purchase and Sale Agreement dated January 26, 2010, between Integrys Energy Services, Inc., as Seller, and Macquarie Cook Power, Inc., as Purchaser.
3.1	Restated Articles of Incorporation of Integrys Energy Group, as amended. (Incorporated by reference to Exhibit 3.2 to Integrys Energy Group's Form 8-K filed February 27, 2007.)
3.2	By-Laws of Integrys Energy Group, as amended through December 17, 2009. (Incorporated by reference to Exhibit 3.2 to Integrys Energy Group's Form 8-K filed December 22, 2009.)
4.1	Senior Indenture, dated as of October 1, 1999, between Integrys Energy Group and U.S. Bank National Association (successor to Firststar Bank Milwaukee, N.A., National Association) (Incorporated by reference to Exhibit 4(b) to Amendment No. 1 to Form S-3 filed October 21, 1999 [Reg. No. 333-88525]); First Supplemental Indenture, dated as of November 1, 1999 between Integrys Energy Group and Firststar Bank, National Association (Incorporated by reference to Exhibit 4A of Form 8-K filed November 12, 1999); Second Supplemental Indenture, dated as of November 1, 2002 between Integrys Energy Group and U.S. Bank National Association; Third Supplemental Indenture, dated as of June 1, 2009, by and between Integrys Energy Group and U.S. Bank National Association (Incorporated by reference to Exhibit 4.1 to Integrys Energy Group's Form 8-K filed June 17, 2009); and Fourth Supplemental Indenture, dated as of June 1, 2009, by and between Integrys Energy Group and U.S. Bank National Association (Incorporated by reference to Exhibit 4.2 to Integrys Energy Group's Form 8-K filed June 17, 2009). (Incorporated by reference to Exhibit 4A of Form 8-K filed November 25, 2002.) All references to filings are those of Integrys Energy Group (File No. 1-11337).

- 4.2 Subordinated Indenture, dated as of November 13, 2006, between Integrys Energy Group and U.S. Bank National Association, as trustee (Incorporated by reference to Exhibit 4(c) to Amendment No. 1 to Form S-3 filed December 4, 2006 [Reg. No. 333-133194]; and First Supplemental Indenture by and between Integrys Energy Group, Inc. and U.S. Bank National Association, as trustee, dated December 1, 2006. (Incorporated by reference to Exhibit 4 to Integrys Energy Group's Form 8-K filed December 1, 2006.)
- 4.3 Replacement Capital Covenant of Integrys Energy Group, Inc., dated December 1, 2006. (Incorporated by reference to Exhibit 99 to Integrys Energy Group Form 8-K filed December 1, 2006.)
- 4.4 Credit Agreement dated as of June 13, 2006, by and among PEC, the financial institutions party hereto, and Bank of America, N.A., JPMorgan Chase Bank, N.A., ABN AMRO Incorporated, US Bank National Association, and The Bank of Tokyo-Mitsubishi, Ltd. Chicago Branch, as agents. (Incorporated by reference to Exhibit 10(a) to PEC - Form 10-Q filed August 9, 2006 [File No. 1-05540].)
- 4.5 Guaranty, dated May 18, 2007, by and among Integrys Energy Group, Inc. and Bank of America, N.A. in its capacity as Administrative Agent. (Incorporated by reference to Exhibit 10.1 to Integrys Energy Group's Form 8-K filed May 22, 2007.)
- 4.6 First Amendment and Consent to Credit Agreement dated May 18, 2007 between PEC and Bank of America N.A., as Administrative Agent. (Incorporated by reference to Exhibit 10.2 to Integrys Energy Group's Form 8-K filed May 22, 2007.)
- 4.7 First Mortgage and Deed of Trust, dated as of January 1, 1941 from WPS to U.S. Bank National Association (successor to First Wisconsin Trust Company), Trustee (Incorporated by reference to Exhibit 7.01 - File No. 2-7229); Supplemental Indenture, dated as of November 1, 1947 (Incorporated by reference to Exhibit 7.02 - File No. 2-7602); Supplemental Indenture, dated as of November 1, 1950 (Incorporated by reference to Exhibit 4.04 - File No. 2-10174); Supplemental Indenture, dated as of May 1, 1953 (Incorporated by reference to Exhibit 4.03 - File No. 2-10716); Supplemental Indenture, dated as of October 1, 1954 (Incorporated by reference to Exhibit 4.03 - File No. 2-13572); Supplemental Indenture, dated as of December 1, 1957 (Incorporated by reference to Exhibit 4.03 - File No. 2-14527); Supplemental Indenture, dated as of October 1, 1963 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Supplemental Indenture, dated as of June 1, 1964 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Supplemental Indenture, dated as of November 1, 1967 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Supplemental Indenture, dated as of April 1, 1969 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Fifteenth Supplemental Indenture, dated as of May 1, 1971 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Sixteenth Supplemental Indenture, dated as of August 1, 1973 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Seventeenth Supplemental Indenture, dated as of September 1, 1973 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Eighteenth Supplemental Indenture, dated as of October 1, 1975 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Nineteenth Supplemental Indenture, dated as of February 1, 1977 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Twentieth Supplemental Indenture, dated as of July 15, 1980 (Incorporated by reference to Exhibit 4B to Form 10-K for the year ended December 31, 1980); Twenty-First Supplemental Indenture, dated as of December 1, 1980 (Incorporated by reference to Exhibit 4B to Form 10-K for the year ended December 31, 1980); Twenty-Second Supplemental Indenture dated as of April 1, 1981 (Incorporated by reference to Exhibit 4B to Form 10-K for the year ended December 31, 1981); Twenty-Third Supplemental Indenture, dated as of February 1, 1984 (Incorporated by reference to Exhibit 4B to Form 10-K for the year ended December 31, 1983); Twenty-Fourth Supplemental Indenture, dated as of March 15, 1984 (Incorporated by reference to Exhibit 1 to Form 10-Q for the quarter ended June 30, 1984); Twenty-Fifth Supplemental Indenture, dated as of

October 1, 1985 (Incorporated by reference to Exhibit 1 to Form 10-Q for the quarter ended September 30, 1985); Twenty-Sixth Supplemental Indenture, dated as of December 1, 1987 (Incorporated by reference to Exhibit 4A-1 to Form 10-K for the year ended December 31, 1987); Twenty-Seventh Supplemental Indenture, dated as of September 1, 1991 (Incorporated by reference to Exhibit 4 to Form 8-K filed September 18, 1991); Twenty-Eighth Supplemental Indenture, dated as of July 1, 1992 (Incorporated by reference to Exhibit 4B - File No. 33-51428); Twenty-Ninth Supplemental Indenture, dated as of October 1, 1992 (Incorporated by reference to Exhibit 4 to Form 8-K filed October 22, 1992); Thirtieth Supplemental Indenture, dated as of February 1, 1993 (Incorporated by reference to Exhibit 4 to Form 8-K filed January 27, 1993); Thirty-First Supplemental Indenture, dated as of July 1, 1993 (Incorporated by reference to Exhibit 4 to Form 8-K filed July 7, 1993); Thirty-Second Supplemental Indenture, dated as of November 1, 1993 (Incorporated by reference to Exhibit 4 to Form 10-Q for the quarter ended September 30, 1993); Thirty-Third Supplemental Indenture, dated as of December 1, 1998 (Incorporated by reference to Exhibit 4D to Form 8-K filed December 18, 1998); Thirty-Fourth Supplemental Indenture, dated as of August 1, 2001 (Incorporated by reference to Exhibit 4D to Form 8-K filed August 24, 2001); Thirty-Fifth Supplemental Indenture, dated as of December 1, 2002 (Incorporated by reference to Exhibit 4D to Form 8-K filed December 16, 2002); Thirty-Sixth Supplemental Indenture, dated as of December 8, 2003 (Incorporated by reference to Exhibit 4.2 to Form 8-K filed December 9, 2003); Thirty-Seventh Supplemental Indenture, dated as of December 1, 2006 (Incorporated by reference to Exhibit 4.2 to Form 8-K filed November 30, 2006); Thirty-Eighth Supplemental Indenture, dated as of August 1, 2006 (Incorporated by reference to Exhibit 4.1 to Form 10-K for the year ended December 31, 2006); Thirty-Ninth Supplemental Indenture, dated as of November 1, 2007 (Incorporated by reference to Exhibit 4.2 to Form 8-K filed November 16, 2007); and Fortieth Supplemental Indenture, dated as of December 1, 2008 (Incorporated by reference to Exhibit 4.2 to Form 8-K filed December 4, 2008). All references to periodic reports are to those of WPS (File No. 1-3016).

- 4.8 Indenture, dated as of December 1, 1998, between WPS and U.S. Bank National Association (successor to Firstar Bank Milwaukee, N.A., National Association) (Incorporated by reference to Exhibit 4A to Form 8-K filed December 18, 1998); First Supplemental Indenture, dated as of December 1, 1998 between WPS and Firstar Bank Milwaukee, N.A., National Association (Incorporated by reference to Exhibit 4C to Form 8-K filed December 18, 1998); Second Supplemental Indenture, dated as of August 1, 2001 between WPS and Firstar Bank, National Association (Incorporated by reference to Exhibit 4C of Form 8-K filed August 24, 2001); Third Supplemental Indenture, dated as of December 1, 2002 between WPS and U.S. Bank National Association (Incorporated by reference to Exhibit 4C of Form 8-K filed December 16, 2002); Fourth Supplemental Indenture, dated as of December 8, 2003, by and between WPS and U.S. Bank National Association (successor to Firstar Bank, National Association and Firstar Bank Milwaukee, N.A., National Association) (Incorporated by reference to Exhibit 4.1 to Form 8-K filed December 9, 2003); Fifth Supplemental Indenture, dated as of December 1, 2006, by and between WPS and U.S. Bank National Association (successor to Firstar Bank, National Association and Firstar Bank Milwaukee, N.A., National Association) (Incorporated by reference to Exhibit 4.1 to Form 8-K filed November 30, 2006); Sixth Supplemental Indenture, dated as of December 1, 2006, by and between WPS and U.S. Bank National Association (successor to Firstar Bank, National Association and Firstar Bank Milwaukee, N.A., National Association) (Incorporated by reference to Exhibit 4.2 to Form 10-K for the year ended December 31, 2006); Seventh Supplemental Indenture, dated as of November 1, 2007, by and between WPS and U.S. Bank National Association (successor to Firstar Bank, National Association and Firstar Bank Milwaukee, N.A., National Association) (Incorporated by reference to Exhibit 4.1 to Form 8-K filed November 16, 2007); and Eighth Supplemental Indenture, dated as of December 1, 2008, by and between WPS and U.S. Bank National Association (successor to Firstar Bank, National Association and Firstar Bank Milwaukee, N.A., National Association) (Incorporated by reference to Exhibit 4.1 to Form 8-K filed December 4, 2008). References to periodic reports are to those of WPS (File No. 1-3016).

- 4.9 Indenture, dated as of January 18, 2001, between PEC and Bank One Trust Company National Association. (Incorporated by reference to Exhibit 4(a) to PEC Form 10-Q filed May 15, 2001[File No. 1-05540].)
- 4.10 First Supplemental Indenture, dated as of March 5, 2007, by and among PEC, Integrys Energy Group, Inc. and The Bank of New York Trust Company, N.A., as Trustee including a Guaranty of Integrys Energy Group, Inc. (Incorporated by reference to Exhibit 4.1 to Integrys Energy Group's Form 8-K filed March 9, 2007.)
- 4.11 PGL First and Refunding Mortgage, dated January 2, 1926, from Chicago By-Product Coke Company to Illinois Merchants Trust Company, Trustee, assumed by PGL by Indenture dated March 1, 1928 (PGL - May 17, 1935, Exhibit B-6a, Exhibit B-6b A-2 File No. 2-2151, 1936); Supplemental Indenture dated as of May 20, 1936, (PGL - Form 8-K for the year 1936, Exhibit B-6f); Supplemental Indenture dated as of March 10, 1950 (PGL - Form 8-K for the month of March 1950, Exhibit B-6i); Supplemental Indenture dated as of June 1, 1951 (PGL - File No. 2-8989, Post-Effective, Exhibit 7-4(b)); Supplemental Indenture dated as of August 15, 1967 (PGL - File No. 2-26983, Post-Effective, Exhibit 2-4); Supplemental Indenture dated as of September 15, 1970 (PGL - File No. 2-38168, Post-Effective Exhibit 2-2); Supplemental Indenture dated June 1, 1995 (PGL - Form 10-K for fiscal year ended September 30, 1995); Supplemental Indenture, First and Refunding Mortgage Multi-Modal Bonds, Series HH of PGL, effective March 1, 2000 (PGL - Form 10-K for fiscal year ended September 30, 2000, Exhibit 4(b)); Supplemental Indenture dated as of February 1, 2003, First and Refunding Mortgage 5% Bonds, Series KK (PEC and PGL - Form 10-Q for the quarter ended March 31, 2003, Exhibit 4(a)); Supplemental Indenture dated as of February 1, 2003, First and Refunding Mortgage Multi-Modal Bonds, Series LL (PEC and PGL - Form 10-Q for the quarter ended March 31, 2003, Exhibit 4(b)); Supplemental Indenture dated as of February 15, 2003, First and Refunding Mortgage 4.00% Bonds, Series MM-1 and Series MM-2 (PEC and PGL - Form 10-Q for the quarter ended March 31, 2003, Exhibit 4(c)); Supplemental Indenture dated as of April 15, 2003, First and Refunding Mortgage 4.625% Bonds, Series NN-1 and Series NN-2 (PEC and PGL - Form 10-Q for the quarter ended March 31, 2003, Exhibit 4(e)); Supplemental Indenture dated as of October 1, 2003, First and Refunding Mortgage Bonds, Series OO (PEC and PGL - Form 10-Q for the quarter ended December 31, 2003, Exhibit 4(a)); PGL Supplemental Indenture dated as of October 1, 2003, First and Refunding Mortgage Bonds, Series PP (PEC and PGL - Form 10-Q for the quarter ended December 31, 2003, Exhibit 4(b)); PGL Supplemental Indenture dated as of November 1, 2003, First and Refunding Mortgage Multi-Modal Bonds, Series QQ (PEC and PGL - Form 10-Q for the quarter ended December 31, 2003, Exhibit 4(c)); PGL Supplemental Indenture dated as of January 1, 2005, First and Refunding Mortgage Bonds, Series RR (PEC and PGL - Form 10-Q for the quarter ended December 31, 2004, Exhibit 4(b)); Loan Agreement between PGL and Illinois Development Finance Authority dated October 1, 2003, Gas Supply Refunding Revenue Bonds, Series 2003C (PEC and PGL - Form 10-Q for the quarter ended December 31, 2003, Exhibit 4(d)); Loan Agreement between PGL and Illinois Development Finance Authority dated October 1, 2003, Gas Supply Refunding Revenue Bonds, Series 2003D (PEC and PGL - Form 10-Q for the quarter ended December 31, 2003, Exhibit 4(e)); Loan Agreement between PGL and Illinois Development Finance Authority dated November 1, 2003, Gas Supply Refunding Revenue Bonds, Series 2003E (PEC and PGL - Form 10-Q for the quarter ended December 31, 2003, Exhibit 4(f)); Loan Agreement between PGL and Illinois Finance Authority dated as of January 1, 2005. (Incorporated by reference to Exhibit 4(a) to PEC Form 10-Q filed February 9, 2005); Supplemental Indenture dated as of November 1, 2008, First and Refunding Mortgage 7.00% Bonds, Series SS; Supplemental Indenture dated as of November 1, 2008, First and Refunding Mortgage 8.00% Bonds, Series TT; and Supplemental Indenture dated as of September 1, 2009, First and Refunding Mortgage 4.63% Bonds, Series UU.

- 4.12 NSG Indenture, dated as of April 1, 1955, from NSG to Continental Bank, National Association, as Trustee; Third Supplemental Indenture, dated as of December 20, 1963 (NSG - File No. 2-35965, Exhibit 4-1); Fourth Supplemental Indenture, dated as of May 1 1964 (NSG - File No. 2-35965, Exhibit 4-1); Fifth Supplemental Indenture dated as of February 1, 1970 (NSG - File No. 2-35965, Exhibit 4-2); Ninth Supplemental Indenture dated as of December 1, 1987 (NSG - Form 10-K for the fiscal year ended September 30, 1987, Exhibit 4); Thirteenth Supplemental Indenture dated December 1, 1998 (NSG Gas - Form 10-Q for the quarter ended March 31, 1999, Exhibit 4); Fourteenth Supplemental Indenture dated as of April 15, 2003, First Mortgage 4.625% Bonds, Series N-1 and Series N-2 (Incorporated by reference to Exhibit 4(g) to PEC Form 10-Q filed May 13, 2003) and Fifteenth Supplemental Indenture dated as of November 1, 2008, First Mortgage 7.00% Bonds, Series O.
- 10.1+ Form of Key Executive Employment and Severance Agreement entered into between Integrys Energy Group and each of the following: Phillip M. Mikulsky and Larry L. Weyers. (Incorporated by reference to Exhibit 10.1 to Integrys Energy Group's Form 10-K filed February 25, 2009.)
- 10.2+ Form of Key Executive Employment and Severance Agreement entered into between Integrys Energy Group and each of the following: Lawrence T. Borgard, Diane L. Ford, Bradley A. Johnson, Thomas P. Meinz, Joseph P. O'Leary, Mark A. Radtke, Charles A. Schrock, and Barth J. Wolf. (Incorporated by reference to Exhibit 10.2 to Integrys Energy Group's Form 10-K filed February 25, 2009.)
- 10.3+ Form of Integrys Energy Group Performance Stock Right Agreement. (Incorporated by reference to Exhibit 10.2 to Integrys Energy Group's Form 8-K filed December 13, 2005.)
- 10.4+ Form of Integrys Energy Group 2007 Omnibus Incentive Compensation Plan Performance Stock Right Agreement approved May 17, 2007. (Incorporated by reference to Exhibit 10.5 to Integrys Energy Group's Form 10-K filed February 28, 2008.)
- 10.5+ Form of Integrys Energy Group 2007 Omnibus Incentive Compensation Plan Performance Stock Right Agreement approved February 14, 2008. (Incorporated by reference to Exhibit 10.6 to Integrys Energy Group's Form 10-K filed February 28, 2008.)
- 10.6+ Form of Integrys Energy Group 2005 Omnibus Incentive Compensation Plan Restricted Stock Award Agreement. (Incorporated by reference to Exhibit 10.1 to Integrys Energy Group Form 8-K filed December 13, 2006.)
- 10.7+ Form of Integrys Energy Group 2007 Omnibus Incentive Compensation Plan Restricted Stock Award Agreement approved May 17, 2007. (Incorporated by reference to Exhibit 10.8 to Integrys Energy Group's Form 10-K filed February 28, 2008.)
- 10.8+ Form of Integrys Energy Group 2007 Omnibus Incentive Compensation Plan Restricted Stock Unit Award Agreement approved February 14, 2008. (Incorporated by reference to Exhibit 10.9 to Integrys Energy Group's Form 10-K filed February 28, 2008.)
- 10.9+ Form of Integrys Energy Group 2007 Omnibus Incentive Compensation Plan NonQualified Stock Option Agreement approved May 17, 2007. (Incorporated by reference to Exhibit 10.10 to Integrys Energy Group's Form 10-K filed February 28, 2008.)
- 10.10+ Form of Integrys Energy Group 2007 Omnibus Incentive Compensation Plan NonQualified Stock Option Agreement approved February 14, 2008. (Incorporated by reference to Exhibit 10.11 to Integrys Energy Group's Form 10-K filed February 28, 2008.)

- 10.11+ Integrys Energy Group 1999 Stock Option Plan. (Incorporated by reference to Exhibit 10-2 in Integrys Energy Group's Form 10-Q for the quarter ended June 30, 1999, filed August 11, 1999.)
- 10.12+ Integrys Energy Group 1999 Non-Employee Directors Stock Option Plan. (Incorporated by reference to Exhibit 4.2 in Integrys Energy Group's Form S-8, filed December 21, 1999. [Reg. No. 333-93193].)
- 10.13+ Integrys Energy Group Deferred Compensation Plan as Amended and Restated Effective April 1, 2008. (Incorporated by reference to Exhibit 10.14 to Integrys Energy Group's Form 10-K filed February 28, 2008.)
- 10.14+ Integrys Energy Group Pension Restoration and Supplemental Retirement Plan, as Amended and Restated Effective April 1, 2008. (Incorporated by reference to Exhibit 10.1 to Integrys Energy Group's Form 8-K filed April 15, 2008.)
- 10.15+ Integrys Energy Group 2001 Omnibus Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.16 to Integrys Energy Group's Form 10-K for the year ended December 31, 2005, filed February 28, 2006.)
- 10.16+ Integrys Energy Group 2005 Omnibus Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.2 to Integrys Energy Group's Form 10-Q filed August 4, 2005.)
- 10.17+ Integrys Energy Group 2007 Omnibus Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.17 to Integrys Energy Group's Form 10-K filed February 28, 2008.)
- 10.18+ PEC Directors Stock and Option Plan as amended December 4, 2002. (Incorporated by reference to Exhibit 10(g) to PEC Form 10-Q, filed February 11, 2003 [File No. 1-05540].)
- 10.19+ PEC Directors Deferred Compensation Plan as amended and restated April 7, 2004. (Incorporated by reference to Exhibit 10(a) to PEC Form 10-Q filed August 4, 2005.)
- 10.20+ PEC Executive Deferred Compensation Plan amended as of December 4, 2002. (Incorporated by reference to Exhibit 10 (c) to PEC Form 10-Q filed February 11, 2003.)
- 10.21+ PEC 1990 Long-Term Incentive Compensation Plan as amended December 4, 2002. (Incorporated by reference to Exhibit 10(d) to Quarterly Report on Form 10-Q of PEC for the quarterly period ended December 31, 2002, filed February 11, 2003 [File No. 1-05540].)
- 10.22+ Amended and Restated Trust under PEC Directors Deferred Compensation Plan, Directors Stock and Option Plan, Executive Deferred Compensation Plan and Supplemental Retirement Benefit Plan, dated as of August 13, 2003. (Incorporated by reference to Exhibit 10 (a) to PEC Form 10-K filed December 11, 2003.)
- 10.23+ Amendment Number One to the Amended and Restated Trust under PEC Directors Deferred Compensation Plan, Directors Stock and Option Plan, Executive Deferred Compensation Plan and Supplemental Retirement Benefit Plan, dated as of July 24, 2006. (Incorporated by reference to Exhibit 10(e) to PEC Form 10-K filed December 14, 2006.)
- 10.24 Five Year Credit Agreement among Integrys Energy Group, Inc. and the lenders identified herein, Citibank, N.A., Wells Fargo Bank National Association, J P Morgan Chase Bank, N.A., UBS Securities LLC, U.S. Bank National Association, and U.S. Bank National Association and Citigroup Global Markets Inc., dated as of June 2, 2005. (Incorporated by reference to Exhibit 10.1 to Integrys Energy Group's and WPS's Form 10-Q for the quarter ended June 30, 2005, filed August 4, 2005.)

- 10.25 Five Year Credit Agreement among Integrys Energy Group, Inc., as Borrower, the Lenders Identified Therein, Citibank, N.A., as Syndication Agent, U.S. Bank National Association, Bank of America, N.A., JPMorgan Chase Bank, N.A., as Co-Documentation Agents, Wachovia Bank, National Association, as Agent, and Wachovia Bank, National Association and Citigroup Global Markets Inc, as Co-Lead Arrangers and Book Managers dated as of June 9, 2006. (Incorporated by reference to Exhibit 99.1 to Integrys Energy Group's Form 8-K filed June 15, 2006.)
- 10.26 Five Year Credit Agreement among Wisconsin Public Service Corporation, as Borrower, The Lenders Identified Herein, U.S. Bank National Association, as Syndication Agent, Wells Fargo Bank National Association, as Co-Documentation Agent, JPMorgan Chase Bank, N.A., as Co-Documentation Agent, UBS Securities LLC, as Co-Documentation Agent, Citibank, N.A., as Administrative Agent and Citigroup Global Markets, Inc. and U.S. Bank National Association, as Co-Lead Arrangers and Book Managers dated as of June 2, 2005. (Incorporated by reference to Exhibit 10.22 to WPS's Form 10-K filed February 28, 2008 [File No. 1-3016].)
- 10.27 Credit Agreement Dated as of July 12, 2005 among PGL, The Financial Institutions Party Hereto, s Banks, ABN AMRO Bank N.V., as Administrative Agent, JPMorgan Chase Bank, NA, as Syndication Agent, ABN AMRO Incorporated, as Co-Lead Arranger and Joint Bookrunner, and J.P. Morgan Securities Inc., as Co-Lead Arranger and Joint Bookrunner. (Incorporated by reference to Exhibit 10(A) to PEC Form 10-K/A filed December 14, 2005.)
- 10.28* # Joint Plant Agreement by and between WPS and Dairyland Power Cooperative, dated as of November 23, 2004. (Incorporated by reference to Exhibit 10.19 to Integrys Energy Group's and WPS's Form 10-K for the year ended December 31, 2004.)
- 10.29+ Incentive Agreement, dated as of April 2, 2009, between Integrys Energy Group and Mark A. Radtke.
- 12 Integrys Energy Group Ratio of Earnings to Fixed Charges.
- 21 Subsidiaries of Integrys Energy Group.
- 23.1 Consent of Independent Registered Public Accounting Firm for Integrys Energy Group.
- 23.2 Consent of Independent Registered Public Accounting Firm for American Transmission Company LLC.
- 24 Powers of Attorney.
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 for Integrys Energy Group.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 for Integrys Energy Group.
- 32 Written Statement of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 for Integrys Energy Group.

- 99.1 Proxy Statement for Integrys Energy Group's 2010 Annual Meeting of Shareholders. [To be filed with the SEC under Regulation 14A within 120 days after December 31, 2009; except to the extent specifically incorporated by reference, the Proxy Statement for the 2010 Annual Meeting of Shareholders shall not be deemed to be filed with the SEC as part of this Annual Report on Form 10-K.]
- 99.2 Financial Statements of American Transmission Company LLC.
- * Schedules and exhibits to this document are not filed therewith. The registrant agrees to furnish supplementally a copy of any such schedule or exhibit to the SEC upon request.
 - + A management contract or compensatory plan or arrangement.
 - # Portions of this exhibit have been redacted and are subject to a confidential treatment request filed with the Secretary of SEC pursuant to Rule 24b-2 under the Securities and Exchange Act of 1934, as amended. The redacted material was filed separately with the SEC.

CONFIDENTIAL TREATMENT REQUESTED FOR PORTIONS OF THIS DOCUMENT. PORTIONS FOR WHICH CONFIDENTIAL TREATMENT IS REQUESTED ARE DENOTED BY [CONFIDENTIAL TREATMENT REQUESTED]. MATERIAL OMITTED HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

PURCHASE AND SALE AGREEMENT

BETWEEN AND AMONG

INTEGRYS ENERGY SERVICES, INC.,

as Seller,

AND

MACQUARIE COOK POWER INC.,

as Purchaser

DATED AS OF DECEMBER 23, 2009

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PURCHASE AND SALE AGREEMENT

This Purchase and Sale Agreement, dated December 23, 2009, is entered into between Integrys Energy Services, Inc., a Wisconsin corporation (the "Seller"), and Macquarie Cook Power Inc., a Delaware corporation (the "Purchaser"). Integrys Energy Group, Inc., a Wisconsin corporation ("IEG"), joins herein solely for purposes of manifesting its agreement with the terms and conditions set forth in Section 2.13, Section 7.9, and Section 10.11.

RECITALS

WHEREAS, the Seller, through the use of the Transferred Assets, is engaged in a commodities trading and marketing business involved in the wholesale electricity market in the United States (such use of the Transferred Assets, considered as a whole, the "Business");

WHEREAS, in the course of the Business, the Seller has negotiated and managed the Trading Contracts, has received certain benefits and performed certain obligations under the Transferred Contracts, has entered into the Exchange Traded Transactions and owns the Other Assets;

WHEREAS, the Seller desires to sell to the Purchaser all of the Seller's rights and obligations under the Transferred Assets, and the Purchaser desires to assume all of the Seller's rights and obligations under the Transferred Assets, in each case, upon the terms and subject to the conditions contained in this Agreement;

WHEREAS, in connection with the consummation of the Contemplated Transactions, the Parties intend to enter into the Related Agreements on or prior to the Closing Date; and

WHEREAS, on the Mirror Effective Date, the Seller and the Purchaser will enter into the Mirror Transactions (documented pursuant to the Mirror Confirms), pursuant to which only the economic benefits of and risks under each of the Trading Contracts will be borne by the Purchaser from and after the Mirror Effective Date.

NOW, THEREFORE, the Parties, in consideration of the mutual promises contained herein and intending to be legally bound, agree as follows:

ARTICLE I DEFINITIONS AND USAGE

Section 1.1 Definitions. For purposes of this Agreement, the following terms and variations thereof have the meanings specified or referred to in this Section 1.1:

"Affiliate" means, with respect to any Person, any Person directly or indirectly controlling, controlled by, or under common control with, such other Person as of the date on

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which, or at any time during the period for which, the determination of affiliation is being made. For purposes of this definition, the term "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management policies of such Person, whether through the ownership of shares or by contract or otherwise.

"Agreement" means this Purchase and Sale Agreement, as the same may be amended, restated, modified or supplemented from time to time in accordance with its terms, and the Exhibits and Schedules hereto.

"Assignment and Assumption Agreement" means the Assignment and Assumption Agreement substantially in the form attached hereto as Exhibit A.

"Assumed Liabilities" means collectively:

(i) all Liabilities relating to or arising out of any of the Trading Contracts on or after the Novation Date with respect to any such Trading Contracts, as the case may be;

(ii) all Liabilities relating to or arising out of any of the Transferred Contracts (other than the ISO Contracts) on or after the Transfer Date with respect to any such Transferred Contracts, as the case may be;

(iii) all Liabilities relating to or arising out of any of the Other Assets on or after the Transfer Date with respect to any such Other Assets, as the case may be;

(iv) all Liabilities relating to or arising out of any of the Exchange Traded Transactions on or after the Mirror Effective Date with respect to any such Exchange Traded Transactions, as the case may be; and

(v) all Liabilities relating to or arising out of any of the ISO Contracts on or after the Mirror Effective Date with respect to any such ISO Contracts, as the case may be, which for avoidance of doubt does not include any liability resulting from adjustments or resettlement with respect to such ISO Contracts for any period before the Mirror Effective Date.

"Bangor Agreement" means the Entitlement Agreement between Bangor-Hydro Electric Company and Seller, dated January 12, 2009.

"Bangor Financial Trade Agreement" means the financially-settled transaction transferring certain economic risks of the Bangor Agreement, to be entered into between the Seller and Purchaser on the Mirror Effective Date and confirmed via a confirmation substantially in the form attached hereto as Exhibit C-1, under an ISDA Master Agreement, as such confirmation may be amended, restated, modified or supplemented from time to time in accordance with its terms.

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"Bangor Supply Trade Agreement" means the Bangor Supply Trade Agreement, substantially in the form attached hereto as Exhibit C-2, to be entered into between the Purchaser and the Seller on the Effective Date, and confirmed under the MCP-IES ISDA Master Agreement, as such confirmation may be amended, restated, modified or supplemented from time to time in accordance with its terms.

"Bill of Sale" means the Bill of Sale substantially in the form attached hereto as Exhibit B.

"Business" has the meaning provided in the recitals of this Agreement. For purposes of this Agreement, however, Business excludes any and all business conducted by the Seller through the use of any and all Excluded Assets.

"Business Day" means a day other than Saturday, Sunday and any day on which banks located in New York City are authorized or obligated by law or executive order to close.

"Cash" means all cash and cash equivalents computed in accordance with US GAAP or, as applied to Purchaser, in accordance with internationally accepted accounting principles.

"Chosen Courts" has the meaning provided in Section 10.5

"Closing" has the meaning provided in Section 2.4.

"Closing Date" has the meaning provided in Section 2.4.

"Code" means the Internal Revenue Code of 1986, as amended.

"Confidential Information" is defined in the Confidentiality Agreement and includes this Agreement (including the Schedules and Exhibits) and the Ancillary Agreements.

"Confidentiality Agreement" means the First Amended and Restated Confidentiality Agreement by and among IEG, and its subsidiaries, and Purchaser, and its affiliates, dated July 28, 2009, as the same may be amended, restated, modified or supplemented from time to time in accordance with its terms.

"Consent" means any approval, consent, ratification, filing, waiver or other authorization.

"Contemplated Transactions" means all of the transactions contemplated to be consummated under this Agreement and the Related Agreements.

"Contract" means any contract, lease, license, evidence of Indebtedness, mortgage, indenture, security agreement or other commitment, undertaking or agreement (whether written or oral) that is legally binding.

ATTACHMENT G

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"Counterpart Trading Contract" means each Trading Contract that relates to the Business and not to any other business of the Seller or its Affiliates.

"Counterparty" means a counterparty with respect to a Trading Contract.

"Damages" means, with respect to any Indemnified Party, any and all losses, Liabilities, claims, obligations, penalties, actions, judgments, suits, Proceedings, damages or Taxes of any kind or nature whatsoever actually suffered or incurred by such Indemnified Party after Closing (together with all reasonably incurred cash disbursements, costs and expenses, including costs of investigation, defense and appeal and reasonable attorneys' fees and expenses), whether or not involving a Third-Party Claim but not, for the avoidance of doubt, including any diminution of value of the Transferred Assets; provided, however, that the foregoing limitation shall not limit in any manner the determination or quantification of Damages arising out of or relating to any Misbooking. In no event shall Damages include Non-Reimbursable Damages.

"Defaulting Party" means, with respect to any termination of this Agreement, (i) the Party whose breach, default or other action gives rise to a termination right of the other Party pursuant to Section 8.1(c), (ii) the Party that suffers the occurrence of an Insolvency Event, or (iii) the Party whose obligations are guaranteed by a Person that suffers an Insolvency Event.

"Draft Allocation" has the meaning provided in Section 10.3(b).

"EEI" means the Edison Electric Institute.

"EEI Master Agreement" means the Master Power Purchase and Sale Agreement published by the EEI, together with the cover sheet, any annexes and confirmations thereto, as amended from time to time.

"Effective Date" means (i) if the Closing Date is the last day of a calendar month, the Closing Date, and (ii) if the Closing Date is not the last day of a calendar month, the last day of the calendar month in which the Closing Date occurs.

"Electricity" has the meaning provided in Section 2.16.

"Encumbrance" means any lien, option, pledge, charge, security interest, mortgage, easement, or similar restriction or limitation.

"ERCOT" means the Electric Reliability Council of Texas.

"Exchange Request" has the meaning provided in Section 2.9(a).

"Exchange Traded Transactions" means the trades listed in Schedule 2.1(a)(iv).

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"Excluded Assets" means any assets of the Seller or its Affiliates of any kind other than the Transferred Assets, including those assets identified on Schedule 1.1(c).

"Excluded Liabilities" means all Liabilities of the Seller and its Affiliates other than the Assumed Liabilities.

"Excluded Transactions" means those Trading Contracts that the Purchaser does not acquire in connection with the Contemplated Transactions.

"FCM" has the meaning provided in Section 2.9(a).

"FERC" means the Federal Energy Regulatory Commission or any successor Governmental Body.

"Final Allocation" has the meaning provided in Section 10.3(b).

"Final Purchase Price Adjustment" means the adjustment (positive or negative) to the Initial Purchase Price set forth in Schedule 2.2(c) calculated as of February 3, 2010.

"Financial Assurances" means guarantees, letters of credit, comfort letters, "keep whole" agreements, bonds or other financial security arrangements or other credit support arrangements (including for the provision and maintenance of Cash collateral) of any type or kind whatsoever, whether or not accrued, absolute, contingent or otherwise.

"Governing Documents" means, with respect to any particular entity, (a) if a corporation or a limited company, the articles or certificate of incorporation and the articles of association or bylaws; (b) if a general partnership, the partnership agreement and any statement of partnership; (c) if a limited partnership, the limited partnership agreement and the certificate of limited partnership; and (d) if a limited liability company, the certificate of formation and limited liability company agreement.

"Governmental Authorization" means any consent, license, permit, certificate, clearance or other authorization or approval issued, granted, given or otherwise made available by or under the authority of any Governmental Body.

"Governmental Body" means any federal, state, local, municipal, or other governmental or quasi-governmental authority or self-regulatory organization of any nature (including any agency, branch, department, board, commission, court, tribunal or other entity exercising governmental or quasi-governmental powers) or exercising, or entitled to exercise, any administrative, executive, judicial, legislative, enforcement, regulatory or taxing authority or power.

"Guarantee Agreements" means, collectively, the Purchaser Guarantee Agreement and the Seller Guarantee Agreement.

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"ICE" means the Intercontinental Exchange.

"Identified Transactions" has the meaning provided in Section 2.13.

"IEG" has the meaning provided in the preamble of this Agreement.

"Indebtedness" means, with respect to any Person, any obligations of such Person (a) for borrowed money, (b) evidenced by notes, bonds, debentures or similar instruments, (c) for the deferred purchase price of goods or services (other than payables or accruals incurred in the Ordinary Course of Business, including in connection with any trades, hedges or other transactions entered into in connection with the Business), (d) under capital leases and (e) in the nature of Financial Assurances of the obligations described in clauses (a) through (d) above of any other Person; provided, that "Indebtedness" shall not include any Cash collateral or any obligation under any credit support agreement to return any posted collateral (including Cash collateral) in each case relating to any Trading Contracts.

"Indemnified Party" has the meaning provided in Section 9.4(a).

"Indemnifying Party" has the meaning provided in Section 9.4(a).

"Initial Purchase Price" means [CONFIDENTIAL TREATMENT REQUESTED].

"Insolvency Event" means, with respect to any entity, such entity (i) files a petition or otherwise commences, authorizes, or acquiesces in the commencement of a proceeding or cause of action under any bankruptcy, insolvency, reorganization or similar law, or has any such petition filed or commenced against it (i.e., an involuntary proceeding) that is not dismissed within thirty (30) calendar days; (ii) makes an assignment or any general arrangement for the benefit of creditors; (iii) otherwise becomes bankrupt or insolvent (however evidenced); (iv) has a liquidator, administrator, receiver, trustee, conservator or similar official appointed with respect to it or any substantial portion of its property or assets; or (v) is generally unable to pay its debts as they fall due.

"Interbook Matching Trade" has the meaning provided in Section 2.8(f)(ii).

"Interbook Trades" means, subject to Section 7.1(b), any intracompany transactions or transactions between Seller and any Affiliates of Seller which are listed in Schedule 2.1(a)(ii)(C).

"Initial Purchase Price Adjustment" means the adjustment (positive or negative) to the Initial Purchase Price set forth in Schedule 2.2(b) and calculated as of January 29, 2010.

"ISDA" means the International Swaps and Derivatives Association, Inc.

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"ISDA Master Agreement" means the 2002 master commodity trading agreement in the form promulgated by the ISDA, together with any schedules, annexes and confirmations thereto, as amended from time to time

"ISO Contracts" means those Contracts identified on Schedule 2.1(a)(v).

"ISO Request" has the meaning provided in Section 2.11(a).

"Knowledge" means (i) with respect to the Seller, the actual knowledge (as opposed to any constructive or imputed knowledge) of the individuals listed on Schedule 1.1(a) and (ii) with respect to Purchaser, the actual knowledge (as opposed to any constructive or imputed knowledge) of the individuals listed on Schedule 1.1(b); provided, however, that, notwithstanding the foregoing, a Person identified in Schedule 1.1(a) or Schedule 1.1(b) charged with responsibility for the aspect of the business relevant or related to the matter at issue shall be deemed to have actual knowledge of a particular matter if, in the prudent and reasonable exercise of his or her duties and responsibilities in the Ordinary Course of Business, such Person should have reasonably known of such matter.

"Law" means any binding laws, statutes, treaties, rules, regulations, ordinances, judgments, decrees, principles of common law, codes, Orders and other pronouncements having the effect of law of any Governmental Body, including all Governmental Authorizations.

"Letter of Credit" means an irrevocable, transferable, standby letter of credit, in form and substance reasonably acceptable to Purchaser, issued by (a) a major U.S. commercial bank or the U.S. branch office of a major foreign bank assigned, in either case, a Credit Rating of at least (i) "A-" by S&P and "A3" by Moody's, if such entity is rated by both S&P and Moody's or (ii) "A-" by S&P or "A3" by Moody's, if such entity is rated by either S&P or Moody's but not both, or (b) any other entity as may be acceptable to Purchaser in its discretion.

"Liability" means, with respect to any Person, any and all Indebtedness, liabilities and other obligations of any kind or nature of such Person, whether fixed, contingent or absolute, matured or unmatured or accrued or unaccrued, including those arising under any Contract, agreement, arrangement, commitment or undertaking.

"Loss" or "Losses" means losses, Liabilities, Damages, obligations, payments, costs, and expenses, including the costs and expenses of any and all related actions, suits, Proceedings, assessments, judgments, settlements, and compromises and all related reasonable attorneys' fees and reasonable disbursements.

"Material Adverse Effect" means any effect, change, occurrence, development, condition or event that, individually or in the aggregate, has had or would reasonably be expected to have a material adverse effect (financial or otherwise) on the Business or the Transferred Assets, taken as a whole; provided, however, that the following shall not be considered when determining

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whether a Material Adverse Effect has occurred: any effect resulting from (a) any change in economic conditions generally or in the industry or geographic areas in which the Business is conducted or otherwise operated; (b) any change in currency rates; (c) any continuation of an adverse trend or condition; (d) any change in any Laws or accounting rules applicable to the Business or the Transferred Assets; (e) any change resulting from changes in the international, national, regional or local wholesale or retail power markets; (f) any changes, circumstances or effects directly attributable to the announcement or pendency of the Contemplated Transactions, or resulting from or relating to compliance with the terms of, or the taking of any action required by, this Agreement; (g) the commencement, occurrence or intensification of any war, sabotage or armed hostilities; (h) acts of terrorism; (i) any failure by the Seller to meet internal or published projections, forecasts or revenue or earnings predictions with respect to the Business; (j) any materially adverse change in the Business or the Transferred Assets which is cured (including by payment of money) before the Closing Date; (k) the performance of or compliance with any of the terms and conditions of this Agreement; (l) any matter disclosed in this Agreement, or any Schedule or Exhibit hereto; or (m) any actions taken at the request of Purchaser.

"MCP-IES ISDA Master Agreement" means the ISDA Master Agreement, and the related schedules thereto, dated as of October 7, 2009, between the Purchaser and the Seller.

"Mirror Confirm" means the confirmation and associated ISDA Master Agreement, with terms and conditions substantially similar to the terms contained in Exhibit D attached hereto, to be entered into between the Purchaser and the Seller on Mirror Effective Date and, if the Purchaser exercises its rights pursuant to Section 2.12, the date on which the Mirror Confirm is novated to the Purchaser in accordance with the requirements of Section 2.12.

"Mirror Effective Date" means January 29, 2010, as may be amended from time to time; provided, however, that in the case of Exchange Traded Transactions, Mirror Effective Date means either (i) such date or (ii) if such date is not a day on which the Relevant Exchange is open for trading, the next day on which the Relevant Exchange is open for trading.

"Mirror Transaction" the transaction pursuant to the Mirror Confirm effective as of the Mirror Effective Date.

"Misbooked Trading Contract" has the meaning provided in Section 2.6.

"Misbooking" means, with regard to any Trading Contract prior to the Novation Date with respect thereto, (i) any discrepancy between (A) the terms set forth on Schedule 1 to the Mirror Confirm (including the terms of any "New Transaction" (as defined in the Mirror Confirm) deemed to be added to Schedule 1 in accordance with "Portfolio Additions" in the Mirror Confirm) and (B) the actual terms and conditions of such Trading Contract, which discrepancy can be reasonably substantiated, and (ii) any Trading Contract identified on Schedule 2.1(a)(ii)(B) (Trading Contracts) for which the Seller cannot, prior to the Effective Date, provide the Purchaser with written documentation confirming or evidencing the

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Counterparty's assent to the material terms of such Trading Contract, which assent may be confirmed or evidenced by, among other things, the Counterparty executing a Novation Agreement any time prior to the Effective Date.

"Misbooking Trigger Date" has the meaning provided in Section 8.1(e).

"Moody's" means Moody's Investor Services, Inc. or its successor.

"Non-Defaulting Party" means, with respect to any termination of this Agreement, the Party that is not the Defaulting Party.

"Non-Reimbursable Damages" has the meaning provided in Section 9.7(c).

"Novation Agreement" means a novation agreement substantially in the form attached hereto as Exhibit E.

"Novation Condition" has the meaning provided in Section 2.8(b)(ii).

"Novation Date" has the meaning provided in Section 2.8(d).

"NYMEX" means the New York Mercantile Exchange, Inc.

"Order" means any order, writ, injunction, judgment, decree, ruling, assessment or arbitration award of any Governmental Body or arbitrator (in each case whether preliminary or final).

"Ordinary Course of Business" means the conduct of the business of a Person in accordance with such Person's normal day-to-day customs, practices and procedures consistent with past practice and which is commercially reasonable in light of the circumstances.

"Other Assets" means those assets that are identified on Schedule 2.1(a)(iii).

"Party" means each of the Seller and the Purchaser and, solely for purposes of Section 2.13, 7.9 and 10.11, IEG.

"Permitted Encumbrance" means those Encumbrances identified in Schedule 3.6.

"Person" means any natural person, corporation, general partnership, limited partnership, limited liability company, joint venture, trust, union, proprietorship, Governmental Body or other entity, association or organization of any nature, however and wherever organized or constituted (whether or not having a separate legal personality).

"Post-Mirror Trade" has the meaning assigned in Section 2.10(b).

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"PPL Financial Trade Agreement" means the PPL Financial Trade Agreement, substantially in the form attached hereto as Exhibit I, to be entered into between the Purchaser and the Seller on Mirror Effective Date and confirmed under an ISDA Master Agreement, as such confirmation may be amended, restated, modified or supplemented from time to time in accordance with its terms.

"Pre-Closing Guidelines" means those guidelines enumerated in Schedule 7.1(b).

"Proceeding" means any action, arbitration, audit, hearing, investigation, litigation or suit (whether civil, criminal, administrative, judicial or investigative, whether public or private) commenced, brought, conducted or heard by or before any Governmental Body or arbitrator.

"Purchaser" has the meaning provided in the preamble of this Agreement.

"Purchaser Guarantee Agreement" means the Guarantee Agreement, substantially in the form attached hereto as Exhibit F, entered into between Purchaser Parent, as guarantor thereunder, and the Seller, as beneficiary thereunder, dated as of the date hereof, as the same may be amended, restated, modified or supplemented from time to time in accordance with its terms, guaranteeing the obligations of Purchaser under this Agreement and the Mirror Confirm.

"Purchaser Group" has the meaning provided in Section 9.2.

"Purchaser Key Employees" mean employees of the Purchaser and any Affiliate of Purchaser that uses the term "Macquarie" in its name, in each case, performing services in or for the Energy Markets Division of the Fixed Income, Currencies & Commodities Group of the Purchaser, in each case, with the position and title of Associate Director, Managing Director, Division Director or Executive Director.

"Purchaser Parent" means Macquarie Bank Limited.

"Purchase Price" means the Initial Purchase Price, as initially adjusted by the Initial Purchase Price Adjustment and then finally adjusted by the Final Purchase Price Adjustment

"Purchaser Required Consents" means the Consents and Governmental Authorizations that are required to be obtained and are listed in Schedule 4.5.

"Related Agreements" means, collectively, the Assignment and Assumption Agreement, the Bill of Sale, the Guarantee Agreements, the Supply Trade Agreements, the Mirror Confirm, and the Novation Agreements.

"Related Purchaser Parties" means each Affiliate of Purchaser that is a party to this Agreement or any Related Agreement.

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"Related Seller Parties" means each Affiliate of Seller that is a party to this Agreement or any Related Agreement.

"Relevant Exchange" means the NYMEX or ICE, as applicable.

"Relevant ISO" means the PJM Interconnection, the Midwest ISO, the New York ISO, ISO New England, ERCOT, or the California ISO, as applicable.

"Representative" means, with respect to a particular Person, any director, officer, manager, employee, agent, consultant, advisor, accountant, financial advisor, legal counsel or other representative of that Person.

"Required Consents" means the Purchaser Required Consents and the Seller Required Consents.

"Restricted Business" has the meaning provided in Section 7.9(a).

"Restricted Period" has the meaning provided in Section 7.9(a).

"S&P" means the Standard & Poor's Rating Group (a division of McGraw Hill, Inc.) or its successor.

"Schedules" means, with respect to Seller or Purchaser, the schedules delivered by Seller or Purchaser, as the case may be, pursuant to Article III or Article IV, respectively.

"Seller" has the meaning provided in the preamble of this Agreement.

"Seller Guarantee Agreement" means the Guarantee Agreement, substantially in the form attached hereto as Exhibit G, entered into between IEG, as guarantor thereunder, and the Purchaser, as beneficiary thereunder, and to be delivered and enforceable as of the Mirror Effective Date, as the same may be amended, restated, modified or supplemented from time to time in accordance with its terms, guaranteeing the obligations of Seller under this Agreement.

"Seller Group" has the meaning provided in Section 9.3.

"Seller Required Consents" means the Consents and Governmental Authorizations that are required to be obtained and are listed in Schedule 3.5.

"Subsidiary" means any Person (i) whose securities or other ownership interests having by their terms the power to elect a majority of the board of directors or other persons performing similar functions, are owned or controlled, directly or indirectly, by the Seller and/or one or more Subsidiaries, or (ii) whose business and policies the Seller and/or one or more Subsidiaries have the power to direct.

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"Substitute Exchange Traded Transaction" has the meaning provided in Section 2.9(b).

"Successor Liability Taxes" means any Taxes imposed on the Seller or any entity that has ever been a member of the Seller's consolidated group in respect of the Transferred Assets and the Business for a period or portion thereof ending on or before the Closing Date, and for which Purchaser may become liable by operation of Law, by assessment, or pursuant to the terms of an agreement entered into by the Seller as a result of being treated as a transferee of or successor to the Seller due to the transfer of the Transferred Assets and the Business pursuant to this Agreement.

"Supply Trade Agreements" means, collectively, the Bangor Financial Trade Agreement, the Bangor Supply Trade Agreement and the PPL Financial Trade Agreement.

"Tax" means (a) any income, gross receipts, license, payroll, employment, excise, capital gains or corporation tax on capital gains, severance, stamp, stamp duty reserve tax, occupation, premium, property, environmental, windfall profit, customs, capital stock, franchise, employees' income withholding, foreign or domestic withholding, social security, unemployment, disability, real property, personal property, sales, use, transfer, documentary, value added, alternative, add on minimum and other tax, fee, assessment, levy, tariff, charge or duty of any kind whatsoever and any interest, penalty, addition or additional amount thereon imposed, assessed or collected by or under the authority of any Governmental Body, (b) any liability for the payment of any amounts of the type described in the immediately preceding clause as a result of being (or ceasing to be) a member of an affiliated, consolidated, combined, unitary or aggregate group, under Treasury Regulation Section 1.1502-6 or any analogous or similar provision of state, local or foreign Law, or being included (or required to be included) in any Tax Return related thereto, and (c) all liabilities for the payment of amounts of the type described in clauses (a) or (b) as a result of being a transferee of or successor to any Person, by contract or otherwise.

"Tax Laws" means any Law of any Governmental Body relating to any Tax.

"Tax Return" means any return (including any information return), report, statement, schedule, notice, form, declaration, or claim for refund (including any amended return, report, statement, schedule, notice, form, declaration, or claim for refund) filed with or submitted to, or required to be filed with or submitted to, any Governmental Body with respect to Taxes.

"Termination Fee" means a fee payable pursuant to Section 8.2 in the amount of ten million dollars (\$10,000,000.00).

"Third Party" means a Person other than the Seller or the Purchaser or any of their respective Affiliates.

"Third-Party Claim" has the meaning provided in Section 9.4(b).

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"Trading Contracts" means, subject to Sections 2.6 and 7.1(b), those transactions and/or master trading agreements evidenced by written Contracts (i.e., not including any oral agreement or other undocumented transaction), including any Interbook Trades (whether or not documented on agreement such as the ISDA Master Agreement, WSPP Master Agreement, or EEI Master Agreement), to which the Seller is a party and that are identified on Schedule 2.1(a)(ii)(A) (Master Agreements), Schedule 2.1(a)(ii)(B) (Trading Contracts), and Schedule 2.1(a)(ii)(C) (Interbook Trades); provided, however, that, notwithstanding anything else to the contrary herein, "Trading Contract" shall for all purposes hereunder only refer to the rights and Liabilities under such Contracts to the extent relating to or constituting a Counterpart Trading Contract and not to any other rights or Liabilities under such Contracts.

[CONFIDENTIAL TREATMENT REQUESTED].

"Transfer Condition" means, collectively:

- (i) the receipt of all Governmental Authorizations and all Consents (including any required Third Party consent) necessary to permit the transfer or conveyance of such Transferred Assets to the Purchaser; and
- (ii) the applicable Third Party having (x) released the Seller and IEG from any and all obligations and Liabilities under such Transferred Contract or Other Asset and (y) released or agreed in writing, with the Seller and IEG as third party beneficiaries, to release within a reasonable period of time after the execution of such release the Seller and IEG from any and all obligations and Liabilities under any Financial Assurances related to such Transferred Contract and Other Asset, including the return by the applicable Third Party of any collateral held by such Third Party to the Seller or IEG.

"Transfer Date" means, with respect to any Transferred Contract or Other Asset, the later of (i) the last day of the calendar month in which the Transfer Condition has been satisfied and (ii) the Effective Date.

"Transfer Taxes" has the meaning provided in Section 10.3(a).

"Transferred Assets" means the Transferred Contracts, the Trading Contracts, the Exchange Traded Transactions, and the Other Assets, in each case, sold by the Seller to the Purchaser in accordance with, and subject to, the terms and conditions of, this Agreement.

"Transferred Contracts" means, subject to Section 7.1(b), those written Contracts (i.e., not including any oral agreement or other undocumented transaction) that are used by or in support of the Business and that are identified on Schedule 2.1(a)(i) (Transferred Contracts), including any ISO Contracts, but excluding any Trading Contracts.

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"US GAAP" means US generally accepted accounting principles in effect from time to time.

"US" or "United States" means the United States of America.

"WSPP" means the Western Systems Power Pool.

"WSPP Master Agreement" means the Western Systems Power Pool Agreement, as such agreement may be amended by the WSPP from time-to-time, including any Master Confirmation Agreement (as defined in the WSPP Agreement) or other modifications made by the parties thereto.

Section 1.2 Rules of Construction and Usage, and Other Definitional and Interpretive Matters.

(a) Interpretation. In this Agreement, unless a clear contrary intention appears:

(i) *Singular*. The singular number includes the plural number and vice versa.

(ii) *Successors*. Reference to any Person includes such Person's successors and assigns but, if applicable, only if such successors and assigns are not prohibited by this Agreement, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually.

(iii) *Gender and Number*. Any reference in this Agreement to gender includes all genders, and the meaning of defined terms applies to both the singular and the plural of those terms.

(iv) *Agreements as Amended*. Reference to any agreement, document or instrument means such agreement, document or instrument as amended or modified and in effect from time to time in accordance with the terms thereof.

(v) *Laws as Amended*. Reference to any Law means such Law as amended, modified, codified, replaced or reenacted, in whole or in part, and in effect from time to time, including rules and regulations promulgated thereunder, and reference to any section or other provision of any Law means that provision of such Law from time to time in effect and constituting the substantive amendment, modification, codification, replacement or reenactment of such section or other provision, in each case except to the extent that this would increase or alter the Liability of the Seller under this Agreement.

(vi) *Hereunder and Similar Words*. "Hereunder," "hereof," "hereto," and words of similar import shall be deemed references to this Agreement as a whole and not to any particular Article, Section or other provision hereof.

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(vii) *Headings*. The division of this Agreement into Articles, Sections, and other subdivisions and the insertion of headings are for convenience of reference only and do not affect, and will not be utilized in construing or interpreting, this Agreement.

(viii) *Section and Articles*. All references in this Agreement to a particular "Section" or "Articles" refers to the corresponding Section or Article of this Agreement unless otherwise specified.

(ix) *Dollars*. Any reference in this Agreement to "dollars" or "\$" means US dollars.

(x) *Calculation of Time Period*. With respect to the determination of any period of time, "from" means "from and including" and "to" means "to but excluding." If the last day of any time period is a non-Business Day, the time period will be extended to the next Business Day. Unless otherwise specified, all times are New York City time.

(xi) *Exhibits and Schedules*. Unless otherwise expressly indicated, any reference in this Agreement to an "Exhibit" or a "Schedule" refers to an Exhibit or Schedule to this Agreement. The Exhibits and Schedules to this Agreement are incorporated and made a part of this Agreement as if set forth in full in this Agreement and are an integral part of this Agreement. Capitalized terms used but not otherwise defined in a Schedule or Exhibit have the meanings set forth in this Agreement.

(xii) *Including*. The word "including" or any variation thereof means "including without limitation" and does not limit any general statement that it follows to the specific or similar items or matters immediately following it.

(b) Equal Drafting. All Parties acknowledge that it and its attorneys have been given an equal opportunity to negotiate the terms and conditions of this Agreement and that any rule of construction to the effect that ambiguities are to be resolved against the drafting Party or any similar rule operating against the drafter of an agreement shall not be applicable to the construction or interpretation of this Agreement.

(c) Accounting Terms and Determinations. Unless otherwise specified herein, all accounting terms used herein shall be interpreted and all accounting determinations hereunder shall be made in accordance with US GAAP, consistently applied or, with respect to Purchaser and its Affiliates, in accordance with internationally accepted accounting principles.

(d) Ejusdem Generis. General words shall not be given a restrictive meaning by reason of the fact that they are followed by particular examples intended to be embraced by the general words.

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ARTICLE II SALE OF THE TRANSFERRED CONTRACTS AND TRADING AGREEMENTS; CLOSING

Section 2.1 Purchase and Sale of Transferred Contracts, Trading Contracts and Other Assets.

(a) Subject to the satisfaction or waiver of the conditions precedent set forth in Article V and Article VI, upon the terms and subject to the conditions set forth in this Agreement:

(i) **Transferred Contracts:** Subject to Section 2.7, the Seller agrees to sell to the Purchaser, free and clear of all Encumbrances (except Permitted Encumbrances), and the Purchaser agrees to purchase from the Seller, all of the rights, title and interests of the Seller in, and assume all of the Liabilities of the Seller under, each of the Transferred Contracts (other than the ISO Contracts), in each case, with effect from 11:59 p.m. New York City time on the Transfer Date with respect to each of such Transferred Contracts;

(ii) **Trading Contracts:** Subject to Section 2.8, the Seller agrees to sell to the Purchaser, free and clear of all Encumbrances (except Permitted Encumbrances), and the Purchaser agrees to purchase from the Seller, by way of novation, all of the rights, title and interests of the Seller in, and assume all of the Liabilities of the Seller under, each of the Trading Contracts, in each case, with effect from 11:59 p.m. New York City time on the Novation Date with respect to each of such Trading Contract;

(iii) **Other Assets:** The Seller agrees to sell to the Purchaser, free and clear of all Encumbrances (except Permitted Encumbrances), and the Purchaser agrees to purchase from the Seller, all of the rights, title and interests of the Seller in and to each of the Other Assets, with effect from 11:59 p.m. New York City time on the Transfer Date with respect to each of such Other Assets;

(iv) **Exchange Traded Transactions:** Subject to Section 2.9, the Seller agrees to sell to the Purchaser, free and clear of all Encumbrances (except Permitted Encumbrances), and the Purchaser agrees to purchase from the Seller, by way of novation, all of the rights, title and interests of the Seller in and to the Exchange Traded Transactions, with effect from 11:59 p.m. New York City time on the Mirror Effective Date; and

(v) **ISO Contracts:** Subject to Section 2.11, the Seller agrees to sell the Purchaser, free and clear of all Encumbrances (except Permitted Encumbrances), and the Purchaser agrees to purchase from the Seller, all of the rights, title and interest of the Seller in, and assume all the Liabilities of the Seller under, each of the ISO Contracts, with effect from 11:59 p.m. on the Mirror Effective Date.

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(b) At all times, the Seller and its Affiliates shall retain all of their existing rights, title and interests in and to the Excluded Assets, and the Purchaser shall have no rights to the Excluded Assets.

Section 2.2 Payment of Purchase Price.

(a) **Payment on the Mirror Effective Date.** On the terms and subject to the terms and conditions hereof and in consideration of the Contemplated Transactions, on the Mirror Effective Date, the Purchaser shall pay to the Seller the Initial Purchase Price, plus Initial Purchase Price Adjustment; provided, that any amount due pursuant to this Section 2.2 shall be payable on a net basis with respect to any other amounts due under the Mirror Confirm or under the PPL Financial Trade Agreement, in each case on Mirror Effective Date. Such amount shall be delivered by wire transfer in immediately available funds to the account or accounts designated by Seller.

(b) **Payment on February 3, 2010.** On the terms and subject to the terms and conditions hereof and in consideration of the Contemplated Transactions, on February 3, 2010, the Final Purchase Price Adjustment shall be paid (i) if positive, by the Purchaser to the Seller, or (ii) if negative, by the Seller to the Purchaser. Such amount shall be delivered by wire transfer in immediately available funds to the account or accounts designated by Purchaser or Seller, as the case may be; provided, however, that should the Parties not agree on the amount of the Final Purchase Price Adjustment, the undisputed amount of such adjustment shall be paid by the February 3, 2010 deadline by the Purchaser or Seller (as the case may be), and thereafter the Parties shall use commercially reasonable efforts to resolve promptly their disagreement about the amount of the Final Purchase Price Adjustment in accordance with the dispute resolution process set forth in Schedule 2.2(c).

Section 2.3 Assumed Liabilities; Excluded Liabilities.

(a) In consideration of the transactions contemplated by Section 2.1(a), the Purchaser shall perform, discharge and satisfy, as and when due, all of the Assumed Liabilities from and after (i) with respect to any Transferred Contract (other than the ISO Contracts) or Other Asset, the Transfer Date with respect to such Transferred Contract (other than the ISO Contracts) and Other Asset, (ii) with respect to any Trading Contract, the Novation Date with respect to such Trading Contract, (iii) with respect to any Exchange Traded Transaction, the Mirror Effective Date; and (iv) with respect to the ISO Contracts, the Mirror Effective Date.

(b) At all times, the Seller and its Affiliates shall retain and be responsible for all Excluded Liabilities, and the Purchaser shall not have any Liability with respect to the Excluded Liabilities, the Excluded Assets and the Excluded Transactions.

Section 2.4 Closing. The consummation of the Contemplated Transactions (the "Closing") shall take place at the offices of Foley & Lardner LLP, 321 North Clark Street, Suite

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2800, Chicago, IL 60654-5313 (or such other place as the Parties may agree), three (3) Business Days following the satisfaction or waiver of the conditions set forth in Articles V and VI (other than those conditions that by their terms are to be satisfied at the Closing, but subject to the satisfaction or waiver of such conditions) or at such other place, time and date as the Parties may agree (the "Closing Date"). For the avoidance of doubt, certain components of the Contemplated Transactions will be undertaken prior to the Closing Date as required hereby.

Section 2.5 Closing Obligations. In addition to any other documents to be delivered under other provisions of this Agreement, at the Closing:

(a) **Seller's Deliveries.** The Seller shall deliver or cause to be delivered to the Purchaser:

(i) the Novation Agreements for each of the Trading Contracts for which the Novation Condition has been satisfied, duly executed by Seller;

(ii) the Assignment and Assumption Agreement, duly executed by Seller;

(iii) the Bill of Sale, duly executed by Seller;

(iv) evidence of the filing with respect to and/or receipt of all the Seller
Required Consents;

(v) a duly executed certification pursuant to Treasury Regulation Section 1.1445-2(b)(2) that the Seller is not a foreign Person within the meaning set forth in Section 1445(f)(3) of the Code;

(vi) a certificate duly executed by the Seller, dated as of the Closing Date, in accordance with Section 5.1(f);

(vii) all consents, waivers or approvals obtained by Seller from Third Parties in connection with this Agreement;

(viii) terminations or releases of Encumbrances on the Transferred Assets that are not Permitted Encumbrances;

(ix) a certificate of status with respect to the Seller (dated as of a recent date), issued by the Wisconsin Department of Financial Institutions;

(x) a copy, certified by an authorized officer of the Seller, of the resolutions authorizing the execution and delivery of this Agreement and the Related Agreements and instruments attached as exhibits to this Agreement and to the Related Agreements, and the consummation of the Contemplated Transactions, together with a certificate

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by the Secretary of the Seller as to the incumbency of those officers authorized to execute and deliver this Agreement and the Related Agreements; and

(xi) such other customary instruments of transfer, assumptions, filings or documents, in form and substance reasonably satisfactory to the Purchaser, as may be required to give effect to the Contemplated Transactions.

(b) **Purchaser's Deliveries.** The Purchaser shall deliver to the Seller:

(i) the Novation Agreements for each of the Trading Contracts for which the Novation Condition has been satisfied, duly executed by Purchaser;

(ii) the Assignment and Assumption Agreement, duly executed by Purchaser;

(iii) the Bill of Sale, duly executed by Purchaser;

(iv) evidence of the filing with respect to and/or receipt of all the Purchaser Required Consents;

(v) the releases of Financial Assurances with respect to any Trading Contracts, or the agreement of the Counterparty to do so, in either case obtained on or prior to the Closing Date pursuant to Section 2.8(b)(ii) and, to the extent applicable, for any Transferred Contract or Other Asset for which the Transfer Condition has been satisfied;

(vi) a certificate duly executed by the Purchaser, dated as of the Closing Date, in accordance with Section 6.1(e);

(vii) evidence reasonably acceptable to the Seller of the Purchaser's existence and good standing (as of a recent date) under the laws of the State of Delaware;

(viii) a copy, certified by an authorized officer of the Purchaser, of the resolutions authorizing the execution and delivery of this Agreement and the Related Agreements and instruments attached as exhibits to this Agreement and to the Related Agreements, and the consummation of the Contemplated Transactions, together with a certificate by the Secretary of the Purchaser as to the incumbency of those officers authorized to execute and deliver this Agreement and the Related Agreements; and

(ix) such other customary instruments of transfer, assumptions, filings or documents, in form and substance reasonably satisfactory to the Seller, as may be required to give effect to the Contemplated Transactions.

(c) Without prejudice to any other rights of the Parties under this Agreement or to any other remedy they may have, if a Party has not complied in full with its obligations under

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this Section 2.5 on or before the Closing Date, the non-breaching Party may, at its discretion, waive the requirement to fulfill the unsatisfied obligations in whole or in part and proceed to Closing to the extent reasonably practicable.

Section 2.6 Misbooking Adjustments. Until [CONFIDENTIAL TREATMENT REQUESTED], the Purchaser may provide, within a commercially reasonable time period, written notice to the Seller of any Misbooking identified or determined to exist at any time with respect to a Trading Contract (a "Misbooked Trading Contract").

(a) **Misbooked Trades Accepted.** Within [CONFIDENTIAL TREATMENT REQUESTED] of the date upon which such notice is received by the Seller, the Purchaser shall determine the economic impact of the Misbooked Trading Contract by calculating (i) [CONFIDENTIAL TREATMENT REQUESTED], as of the date notice is given pursuant to this Section 2.6, as determined by reference to the actual characteristics of such Misbooked Trading Contract (giving effect to any errors discovered in connection therewith), *less* (ii) [CONFIDENTIAL TREATMENT REQUESTED]. Depending on the result of such calculation, (x) if negative, the Seller shall pay the absolute value of the amount resulting from such calculation to the Purchaser, or (y) if positive, the Purchaser shall pay the amount resulting from such calculation to the Seller, which payment shall, in either case, be paid within three (3) Business Days of such amount being determined.

(b) **Misbooked Trades Rejected.** Notwithstanding the foregoing, the Purchaser shall have the right to [CONFIDENTIAL TREATMENT REQUESTED] of the date of such notice of Misbooking is received by the Seller; provided, however, that if such Misbooked Trading Contract, after giving effect to the error with respect thereto, would nonetheless be substantially similar to the Transferred Assets (excluding Misbooked Trading Contracts), then the Purchaser shall not reject the acceptance of such Misbooked Trading Contract. If the Purchaser determines pursuant to this Section 2.6(b) [CONFIDENTIAL TREATMENT REQUESTED], of such amount being determined, and such Trading Contract shall become an Excluded Transaction and shall not be considered or otherwise deemed a Transferred Asset for any purpose hereunder from and after such date of rejection; provided, that, for purposes of determining the value of the economic impact of rejecting any such Misbooked Trading Contract, the Parties shall use the market value of such Misbooked Trading Contract as of the Mirror Effective Date, as determined by reference to Schedule 2.2(b). Upon rejection of a Misbooked Trading Contract pursuant to this Section 2.6(b), the term "Trading Contracts" shall thereafter not include any such rejected Trading Contract for any purpose hereunder.

(c) **Misbooking Calculations.** For any determination of the amount payable pursuant to Section 2.6(a) or 2.6(b), Purchaser will act in good faith and use commercially reasonable procedures in order to produce a commercially reasonable result. In determining such amount(s), Purchaser may consider (i) quotations (either firm or indicative) for replacement transactions supplied by one or more Third Parties that may take into account the creditworthiness of the Purchaser or the Seller at the time such quotation is provided and the terms of relevant

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documentation, including credit support documentation; (ii) information consisting of relevant market data in the relevant market supplied by one or more Third Parties including relevant rates, prices, yields, yield curves, volatilities, spreads, correlations or other relevant market data in the relevant market; or (iii) information of the type described in clause (i) or (ii) from internal sources (including any Affiliates) if that information is of the same type used by the Purchaser in the regular course of business for the valuation of similar transactions. Third Parties that supply quotations pursuant to the foregoing clause (i) or market data pursuant to the foregoing clause (ii) may include dealers in the relevant markets, end-users of the relevant products or services, information vendors, brokers and other sources of market information.

(d) **Disputes of Misbooking Calculations.** Seller shall have the right acting in good faith in accordance with commercially reasonable standards to dispute any determination of the amount payable pursuant to Section 2.6(a) or 2.6(b), provided that payment of the undisputed amount shall first be paid by the Purchaser or Seller, as the case may be, to the other Party.

Section 2.7 Transferred Contracts; Other Assets.

(a) On the terms and subject to the conditions set forth herein, on the Transfer Date with respect to any Transferred Contracts (other than the ISO Contracts) or Other Assets, the Seller shall convey, assign and transfer to, and the Purchaser or one of its Affiliates (subject to Section 2.12) shall receive, undertake and assume, all such Transferred Contracts and Other Assets. To the extent that the transfer or conveyance of any such Transferred Contracts or Other Assets to the Purchaser requires the Consent of a Third Party or Governmental Authorization, the Seller and the Purchaser shall use commercially reasonable efforts, and cooperate with each other, to obtain promptly the relevant Consent or Governmental Authorization prior to the Closing Date.

(b) Notwithstanding anything to the contrary contained in this Agreement but subject to the requirements of Section 2.7(d), to the extent that the transfer or conveyance of any Transferred Contract or Other Asset to the Purchaser pursuant to this Section 2.7 requires the Consent of a Third Party or Governmental Authorization and such Consent or Governmental Authorization shall not have been obtained prior to the Closing Date:

(i) this Agreement shall not constitute an assignment or attempted assignment of such Transferred Contract or Other Asset on the Effective Date if such assignment or attempted assignment would constitute a breach or violation of such Transferred Contract or Other Asset;

(ii) such Transferred Contract or Other Asset shall not be deemed to be a Transferred Asset hereunder until the Transfer Date occurs with respect thereto; and

(iii) the Closing shall proceed without regard to the transfer or conveyance of such Transferred Contract or Other Asset.

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(c) With respect to any Transferred Contracts or Other Assets which are the subject of Section 2.7(b), the Seller and the Purchaser shall use commercially reasonable efforts, and cooperate with each other, to obtain promptly the relevant Consent or Governmental Authorization required to transfer or convey any such Transferred Contracts or Other Assets from the Seller to the Purchaser after the Closing Date. Following Closing, if and when the relevant Consent or Governmental Authorization is thereafter obtained with respect to such Transferred Contracts or Other Assets:

(i) the Seller and the Purchaser shall use commercially reasonable efforts to cooperate with each other in any mutually agreeable, reasonable and lawful arrangements designed to allow the Purchaser to obtain all of the rights, title, interests in, and assume all Liabilities under, such relevant Transferred Contract or Other Assets, and such Transferred Contracts or Other Assets shall be deemed to be a Transferred Asset from and after the relevant Transfer Date for all purposes hereunder; and

(ii) the Seller shall transfer or convey such relevant Transferred Contract or Other Assets to the Purchaser at no additional cost.

(d) Notwithstanding anything to the contrary contained in this Agreement, with respect to any Transferred Contracts (other than the ISO Contracts) or Other Assets which are the subject of Section 2.7(b), pending the receipt of the applicable Consent or Governmental Authorization, the Parties shall cooperate with each other in any mutually agreeable, reasonable and lawful arrangements designed to provide to the Purchaser the benefits of use of such Transferred Contracts or Other Assets and to the Seller or its Affiliates the benefits, including any indemnities, that they would have obtained had the Transferred Contracts or Other Assets been conveyed to the Purchaser at the Effective Date. To the extent that any such Transferred Contracts or Other Assets cannot be transferred or conveyed or the full benefits of use of any such Transferred Contracts or Other Assets cannot be provided to the Purchaser following the Effective Date pursuant to this Section 2.7(d), then the Purchaser and the Seller shall enter into such arrangements (including subleasing, sublicensing or subcontracting) to provide to the Parties the economic (taking into account Tax costs and benefits) and operational equivalent, to the extent permitted by applicable Law, of obtaining such Consent or Governmental Authorization and the performance by the Purchaser of the obligations thereunder. The Seller shall hold in trust for and pay to the Purchaser promptly upon receipt thereof, all income, proceeds and other monies received by the Seller or any of its Affiliates in connection with its use of any Transferred Contracts or Other Assets (net of any Taxes and any other costs incurred by the Seller or any of its Affiliates) following the Effective Date in connection with the arrangements under this Section 2.7(d).

(e) To the extent any Other Assets constitute the intellectual property of Seller, Seller hereby acknowledges, grants, and confirms that Purchaser shall in perpetuity have all right, title, permission, license and interest to own and use such intellectual property from and after the

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relevant Transfer Date as required for the use of such Other Assets without restriction or other limitation.

Section 2.8 Trading Contracts.

(a) On the terms and subject to the conditions set forth herein and subject to Section 2.8(f) with respect to Interbook Trades, on the Novation Date with respect to any Trading Contract, the Seller shall convey, assign and transfer to, and the Purchaser or one of its Affiliates shall receive from, undertake and assume, such Trading Contract, in each case, pursuant to a Novation Agreement by and among the Seller, the Purchaser and the Counterparty to each of such Trading Contracts. To the extent that the transfer of any of the Trading Contracts to the Purchaser requires the Consent of a Third Party or Governmental Authorization, the Seller and the Purchaser shall use commercially reasonable efforts, and cooperate with each other, to obtain promptly the relevant Consent or Governmental Authorization prior to the Closing Date.

(b) Subject to Sections 2.8(c) and (d), the sale, transfer and novation of any Trading Contract shall be conditional on:

(i) the receipt of all Governmental Authorizations and all Consents (including any required Counterparty consent) necessary to permit the novation of such Trading Contract to the Purchaser; and

(ii) the applicable Counterparty having (x) released the Seller, IEG and all of IEG's other Affiliates from any and all obligations and Liabilities under such Trading Contract and (y) released or agreed in writing, with the Seller, IEG and all of IEG's other Affiliates as Third Party beneficiaries, to release within a reasonable period of time after the execution of such release the Seller, IEG and all of IEG's other Affiliates from any and all obligations and Liabilities under any Financial Assurances related to such Trading Contracts, including the return by the applicable Counterparty of any collateral held by such Counterparty to the Seller, IEG or IEG's other Affiliates (clauses (i) and (ii), collectively, the "Novation Condition").

(c) If the Purchaser has an existing master trading agreement with any Counterparty to a Trading Contract, [CONFIDENTIAL TREATMENT REQUESTED], the Purchaser and the Seller shall have the right to seek the consent of such Counterparty to make the Counterpart Trading Contracts under such Trading Contract subject to the existing master trading agreement between the Purchaser and such Counterparty or to negotiate changes to Seller's existing master trading agreement or a new master trading agreement with such Counterparty. To the extent possible, the Parties shall use the form of Novation Agreement, with such amendments as may be necessary or advisable, to accommodate the particular circumstances relating to the relevant Counterpart Trading Contract. [CONFIDENTIAL TREATMENT REQUESTED]

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(d) Subject to Section 2.8(f) with respect to Interbook Trades, the novation of any Trading Contract shall become effective on the later to occur of (i) the last day of the calendar month in which the Novation Condition with respect thereto is satisfied by each of the Seller and the Purchaser and (ii) the Effective Date (the "Novation Date").

(e) To the extent that the Novation Date has not occurred with respect to any Trading Contract prior to or after the Closing Date:

(i) this Agreement shall not constitute a novation, assignment or attempted assignment with respect to such Trading Contract at or after the Effective Date;

(ii) the Seller and the Purchaser shall use commercially reasonable efforts (without the obligation on the part of either Party to pay any money, assume or incur any Liability or agree to any material changes of the Closing in the terms or conditions of such Trading Contract), and cooperate with each other, to obtain promptly the relevant Consent or Governmental Authorization after the Closing Date to the extent necessary to satisfy any Novation Condition; and

(iii) such Trading Contract shall not be deemed to be a Transferred Asset until the Novation Date with respect to such Trading Contract has occurred;

provided, that, upon the occurrence of the Novation Date with respect to such Trading Contract, such Trading Contract shall be deemed to be a Transferred Asset from and after such Novation Date for all purposes hereunder.

(f) With respect to each Interbook Trade, such Trading Contract will not be novated from Seller to Purchaser and is not subject to Section 2.8 (a) through (e) above, but rather:

(i) If the Interbook Trade is financially-settled, such Interbook Trade will be included as a Trading Contract under the Mirror Confirm and shall remain subject to the terms of such Mirror Confirm; and

(ii) If the Interbook Trade is physically-settled, such Interbook Trade will be included as a Trading Contract under the Mirror Confirm (and be financially-settled) and shall remain as a financially-settled transaction subject to the terms of such Mirror Confirm until the earlier of (y) the date the Interbook Trade expires or terminates in accordance with its terms, or (z) the occurrence of the Effective Date. Upon the occurrence of the Effective Date, any remaining Interbook Trades shall no longer be subject to the Mirror Confirm and the corresponding Mirror Transaction shall terminate without a Portfolio Deletion Payment (as such term is defined in the Mirror Confirm) coming due as a result of such termination, and in lieu thereof a new physically-settled transaction between Seller and Purchaser shall be deemed to be automatically entered into as of the Effective Date, which transaction shall be subject to, and

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confirmed in accordance with, the MCP-IES ISDA Master Agreement (each such transaction, a "Interbook Matching Trade"). Each Interbook Matching Trade shall be between Purchaser and Seller only (and not with any Seller Affiliate) for the remaining term of the corresponding Interbook Trade, shall mirror the terms of the Interbook Trade, and shall terminate automatically upon the termination or expiration of the Interbook Trade.

Section 2.9 Exchange Traded Transactions.

(a) On the Mirror Effective Date, the Seller shall request of the Relevant Exchange (the "Exchange Request") that the Exchange Traded Transactions be transferred to the Purchaser in accordance with the rules and procedures of the Relevant Exchange from the commodity futures brokerage accounts of the Seller listed on Schedule 2.9(a) attached hereto, carried by the futures commission merchants (each an "FCM") listed thereon, to the account of the Purchaser via an ex-pit, ex-Ring or ex-order book transfer, and the Purchaser shall assume each Exchange Traded Transaction, by a novation effected pursuant to the applicable rules of the Relevant Exchange. Each such transfer shall be effected at the settlement price as of the close of trading on the Relevant Exchange on the Mirror Effective Date, and other than payment of the Purchase Price, the Parties intend that no consideration will be paid in respect of the Exchange Traded Transactions. The Exchange Request shall be in form and substance reasonably satisfactory to the Seller and the Purchaser. To the extent that the transfer or conveyance of any of the Exchange Traded Transactions to the Purchaser requires the Consent of a Third Party or Governmental Authorization, the Seller and the Purchaser shall use commercially reasonable efforts, and cooperate with each other, to obtain promptly the relevant Consent or Governmental Authorization prior to the Mirror Effective Date.

(b) If following the Mirror Effective Date this Agreement is terminated in accordance with the terms and conditions set forth in Article VIII, then on the Business Day immediately following the date that this Agreement is terminated, the Purchaser shall submit to the Relevant Exchange an Exchange Request that the Exchange Traded Transactions, or trades cleared on the Relevant Exchange that are substantially similar to the Exchange Traded Transactions (each a "Substitute Exchange Traded Transaction") be transferred to the Seller in accordance with the rules and procedures of the Relevant Exchange from the commodity futures brokerage accounts of the Purchaser listed on Schedule 2.9(b) attached hereto, carried by each FCM listed thereon, to the account of the Seller via an ex-pit, ex-Ring or ex-order book transfer, and the Seller shall assume each Substitute Exchange Traded Transaction, by a novation effected pursuant to the applicable rules of the Relevant Exchange. Each such transfer pursuant to this Section 2.9(b) shall be effected at the settlement price as of the close of trading on the Relevant Exchange on the trading date immediately preceding the date of such transfer, and other than as provided in Article VIII, the Parties intend that no consideration will be paid in respect of the Substitute Exchange Traded Transactions. The Exchange Request shall be in same form and have the same substance as that which was provided to the Relevant Exchange under Section 2.9(a).

Section 2.10 Mirror Transactions.

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(a) Upon the Mirror Effective Date, the Seller and the Purchaser shall enter into the Mirror Confirm whereby only the economic benefits of and risks under each of the Trading Contract will be borne by the Purchaser from and after the Mirror Effective Date, pursuant to the terms and subject to the conditions set forth in the Mirror Confirm.

(b) After the Mirror Effective Date until the Closing Date, and subject to Section 2.16, all trading agreements, interbook trades and other contracts that the Seller enters into, which are substantially similar to the Transferred Assets, in accordance with the Pre-Closing Guidelines or as otherwise consented to by Purchaser, in its sole discretion, shall be deemed "Trading Contracts", "Interbook Trades", "Transferred Contracts" or "ISO Contracts", as the case may be (each a "Post-Mirror Trade"), and shall for all purposes hereunder be encompassed by the Mirror Confirm without any further action being taken by either the Purchaser or Seller. Thereafter, the sale, transfer and novation of each Post-Mirror Trade shall be conditional on:

(i) the receipt of all Governmental Authorizations and all Consents (including any required Third Party Consent) necessary to permit the transfer or conveyance of such Post-Mirror Trade to the Purchaser; and

(ii) the applicable Third Party having (x) released the Seller, IEG and all of IEG's other Affiliates from any and all obligations and Liabilities under such Post-Mirror Trade and (y) released or agreed in writing, with the Seller, IEG and all of IEG's other Affiliates as Third Party beneficiaries, to release within a reasonable period of time after the execution of such release the Seller, IEG and all of IEG's other Affiliates from any and all obligations and Liabilities under any Financial Assurances related to such Post-Mirror Trade, including the return by the applicable Third Party of any collateral held by such Third Party to the Seller, IEG or all of IEG's other Affiliates.

(c) If following the Mirror Effective Date this Agreement is terminated in accordance with the terms and conditions set forth in Article VIII, then following such termination, the Mirror Confirm shall be terminated and the Termination Payment (as such term is defined in the Mirror Confirm) paid pursuant to the Mirror Confirm and the ISDA Master Agreement governing the Mirror Confirm.

(d) For the avoidance of doubt, the Parties expressly acknowledge and agree that, while a Mirror Transaction is in effect, any potential or actual event of default or performance failure (except force majeure as specifically set forth in the Mirror Confirm) of whatever description and for whatever reason by a Counterparty with respect to a Trading Contract shall not affect or in any way diminish the respective obligations of the Purchaser and Seller under the Mirror Transaction that corresponds to such Trading Contract.

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Section 2.11 ISO Contracts.

(a) On the Mirror Effective Date, the Seller shall request of the Relevant ISO (the "ISO Request") that the ISO Contracts be transferred to the Purchaser in accordance with the rules and procedures of the Relevant ISO. Upon such transfer, all required collateral obligations to the Relevant ISO related to the ISO Contracts will become the responsibility of Purchaser. The Parties intend that, other than the Purchase Price, no consideration will be paid in respect of the ISO Contracts. The ISO Request shall be in form and substance reasonably satisfactory to the Seller and the Purchaser. To the extent that the transfer or conveyance of any of the ISO Contracts to the Purchaser requires the Consent of a Third Party or Governmental Authorization, the Seller and the Purchaser shall use commercially reasonable efforts, and cooperate with each other, to obtain promptly the relevant Consent or Governmental Authorization prior to the Mirror Effective Date.

(b) If following the Mirror Effective Date, this Agreement is terminated in accordance with the terms and conditions set forth in Article VIII, then following such termination, the Purchaser shall convey, assign and transfer to, and the Seller shall receive, undertake and assume, the ISO Contracts; provided, that if (x) the aggregate marked-to-market value for all such ISO Contracts on the termination date is greater than zero, then the Seller shall pay to the Purchaser an amount equal to such amount, and (y) the aggregate marked-to-market value for all such ISO Contracts on the termination date is less than zero, then the Purchaser shall pay to the Seller an amount equal to the absolute value of such amount. To the extent that the transfer or conveyance of any of the ISO Contracts requires the Consent of a Third Party or Governmental Authorization, the Purchaser and the Seller shall use commercially reasonable efforts, and cooperate with each other, to obtain promptly the relevant Consent or Governmental Authorization. The Parties shall cooperate in good faith and in a commercially reasonable manner to establish the values required by the foregoing calculation.

Section 2.12 Purchaser's Designee. Notwithstanding anything to the contrary herein, the Purchaser may designate in writing an Affiliate of the Purchaser to exercise and perform the rights and obligations of Purchaser, as its designate, for purposes of Sections 2.5, 2.7, 2.8, 2.9, 2.10, 2.11, 2.13, 2.14, 2.15 and 2.16, in which event, the term "Purchaser" as set forth in any such section shall be deemed to mean and include "Purchaser's Affiliate" as the context so requires; provided, that in the event that the Mirror Confirm and/or the PPL Financial Trade Agreement is entered into by an Affiliate of Purchaser pursuant to Sections 2.10 and 2.14 and this Section 2.12, then (i) the Purchaser agrees that such Mirror Confirm and/or PPL Financial Trade Agreement shall be novated to the Purchaser no later than the Effective Date such that the Mirror Confirm and/or PPL Financial Trade Agreement shall be under the MCP-IES ISDA Master Agreement and the Purchaser shall fulfill the rights and obligations set forth in Section 2.10 and/or Section 2.14 (as the case may be) from and after the Effective Date (without regard to this Section 2.12), and (ii) the Seller agrees that it shall consent or otherwise agree to such novation and shall execute and deliver any documents or agreements reasonably necessary to give effect thereto. Notwithstanding the foregoing, in no event will any such designation by the

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Purchaser relieve or discharge the Purchaser from any of its obligations hereunder, nor shall any such designation be made without the Seller's prior written consent if such designation would reasonably be expected to (a) prevent or materially impede, interfere with or delay the Contemplated Transactions, (b) cause the Seller reasonably to incur additional Third Party out of pocket costs and expenses in excess of \$10,000, in the aggregate, in connection with the consummation of Contemplated Transactions or (c) result in the Seller or its Affiliates incurring a Tax Liability in excess of the Tax Liability Seller or its Affiliates would otherwise incur without such designation; provided, that with respect to any costs reasonably incurred by the Seller in excess of the dollar limitation of clause (b) above, the Purchaser may avail itself of the rights under this Section 2.12 so long as the Purchase reimburses the Seller promptly for any such costs in excess of that amount.

Section 2.13 Identified Transactions. For all transactions (the "Identified Transactions") reflected in the Trading Contracts with the Counterparties identified on Schedule 2.13, Seller shall retain the risk of [CONFIDENTIAL TREATMENT REQUESTED] for each Identified Transaction as follows:

(a) With respect to each Identified Transaction, in the event that the Purchaser has the right to terminate such Identified Transaction as a result of a breach thereof by the Counterparty to such Identified Transaction and the Purchaser notifies such Counterparty in writing of the Purchaser's election to terminate such Identified Transaction, the Seller shall provide the Purchaser within [CONFIDENTIAL TREATMENT REQUESTED] of the Seller's receipt of written demand therefor [CONFIDENTIAL TREATMENT REQUESTED] under such Identified Transaction, which [CONFIDENTIAL TREATMENT REQUESTED]. Notwithstanding anything in the foregoing sentence to the contrary, with respect to each Counterparty with whom the Purchaser has agreed to a [CONFIDENTIAL TREATMENT REQUESTED] in no event shall the Seller be obligated to deliver any credit support in respect of any amounts owing from such Counterparty under any such Identified Transactions [CONFIDENTIAL TREATMENT REQUESTED].

(b) With regard to any Identified Transaction for which the Seller has provided a [CONFIDENTIAL TREATMENT REQUESTED] pursuant to Section 2.13(a), if the Purchaser determines (reasonably in accordance International Financial Reporting Standards, consistently applied), [CONFIDENTIAL TREATMENT REQUESTED] the Purchaser shall have the right, upon giving the Seller [CONFIDENTIAL TREATMENT REQUESTED] prior written notice, to [CONFIDENTIAL TREATMENT REQUESTED], provided, however, that the Seller shall have the right within such [CONFIDENTIAL TREATMENT REQUESTED] period to deliver to the Purchaser [CONFIDENTIAL TREATMENT REQUESTED] amount, in which case the Purchaser may not [CONFIDENTIAL TREATMENT REQUESTED].

(c) Until such time as the Purchaser exercises its rights pursuant to Section 2.13(b), the Purchaser shall exercise commercially reasonable efforts to collect on amounts owing in respect of non-payment by the relevant Counterparty to relevant Identified Transactions, and

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Purchaser and the Seller shall coordinate and cooperate each other in their commercially reasonable discretion with respect to such collection efforts. Upon the Purchaser exercising its rights pursuant to Section 2.13(b), but prior to the Purchaser, [CONFIDENTIAL TREATMENT REQUESTED] in respect of the applicable the Identified Transaction(s) giving rise to such exercise by Purchaser [CONFIDENTIAL TREATMENT REQUESTED] to such Identified Transaction(s).

(d) In the event that the Purchaser exercises its rights under Section 2.13(a), prior to the Purchaser [CONFIDENTIAL TREATMENT REQUESTED], the Purchaser shall [CONFIDENTIAL TREATMENT REQUESTED] all of the Identified Transactions with the Counterparty that is the subject of the payment default giving rise to such exercise by the Purchaser.

Section 2.14 Financial and Physical Settlement. Not later than the Mirror Effective Date, the Seller and the Purchaser shall execute and deliver the PPL Financial Trade Agreement and the Bangor Financial Trade Agreement.

Section 2.15 ERCOT Trading Contracts. If requested by the Purchaser, in its discretion, from time to time until the first anniversary of the Effective Date, the Seller shall act for and on behalf of the Purchaser as its Qualified Scheduling Entity (as such term is defined by ERCOT) with respect to the Trading Contracts that provide for physically-delivered electric energy in ERCOT, in accordance with terms and conditions to be agreed by the Parties, acting reasonably and in good faith. The Purchaser shall compensate the Seller for any services Seller provided in accordance with this Section 2.15 by paying to Seller any Third Party out of pocket costs and expenses reasonably incurred by Seller in providing such services, plus ten thousand dollars (\$10,000) for each month in which such services are provided.

Section 2.16 Flattening Trades and New Trades. On the Mirror Effective Date and from time-to-time thereafter until the Mirror Confirm terminates, Purchaser and Seller shall enter into one or more physically-settled transactions under the MCP-IES ISDA Master Agreement representing sales to Seller with respect to all requirements of the Seller to purchase additional physically-delivered electric energy, capacity, ancillary services, renewable energy certificates, or related products ("Electricity") or representing purchases from Seller for any excess Electricity Seller may have in order to establish and maintain, to the extent reasonably practicable, a flattened position in Electricity for Seller (such transactions, the "Flattening Trades"). All Flattening Trades shall be priced using the same or equivalent index price, ISO-published price or mutually-agreed price as specified in the relevant Mirror Transaction or Post-Mirror Trade.

ARTICLE III REPRESENTATIONS AND WARRANTIES OF THE SELLER

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Section 3.1 Scope. As an inducement to the Purchaser to enter into this Agreement and to consummate the Contemplated Transactions, the Seller makes the representations and warranties to Purchaser set forth in this Article III on the date hereof and on the Closing Date (unless any such representation or warranty is made as of a specific date, in which case such representation and warranty is made as of only such date), except as set forth in, or as qualified by, the Schedules. References to specific, numbered Schedules in this Article III do not limit the general applicability of the exceptions, qualifications, and other matters set forth in all other Schedules to each and every representation and warranty set forth in this Article III.

Section 3.2 Corporate Organization and Authority of Seller. The Seller is corporation validly existing and in active status under the Laws of the State of Wisconsin and has all requisite company power and authority to own the Transferred Assets and to carry on the Business as now being conducted. Each of the Related Seller Parties is corporation, limited liability company or partnership validly existing and in active status under the laws of the jurisdiction of organization. The Seller and each of the Related Seller Parties, as the case may be, has all requisite corporate power and authority necessary to execute, deliver and perform this Agreement and each of the Related Agreements to which it is a party. The Seller is duly qualified or authorized to do business as a foreign entity and is in good standing under the Laws of each jurisdiction in which the conduct of the Business occurs, except where the failure to be so qualified, authorized or in good standing would not reasonably be expected to have a Material Adverse Effect. The execution and delivery by the Seller and each of the Related Seller Parties of this Agreement and each of the Related Agreements to which it is a party and the performance by Seller and each of the Related Seller Parties, as the case may be, of the Contemplated Transactions to which it is a party have been duly authorized by all necessary company action on the part of Seller and each of the Related Seller Parties, as the case may be.

Section 3.3 Enforceability. This Agreement is, and each Related Agreement to be executed and delivered by the Seller and each of the Related Seller Parties, as the case may be, at or prior to the Closing will be, duly and validly executed and delivered by the Seller and each of the Related Seller Parties, as the case may be, and this Agreement is and each Related Agreement to be executed and delivered by the Seller and each of the Related Seller Parties, as the case may be, will be when executed and delivered, a valid and legally binding obligation of the Seller and each of the Related Seller Parties, as the case may be, enforceable against the Seller and each of the Related Seller Parties, as the case may be, in accordance with their respective terms, except as enforceability may be limited by applicable bankruptcy, insolvency or other similar Laws affecting or relating to enforcement of creditors' rights generally or general principles of equity.

Section 3.4 No Conflict. Neither the execution and delivery of this Agreement or any Related Agreement by the Seller or any of the Related Seller Parties, as the case may be, nor the performance by Seller or any of the Related Seller Parties, as the case may be, of the provisions of this Agreement or any Related Agreement to which it is a party will (a) violate the Governing Documents of the Seller or any of the Related Seller Parties, as the case may be, (b) violate any

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Law or Order by which Seller, any of the Related Seller Parties or any of the Transferred Assets is bound, or (c) except as set forth on Schedule 3.4, result in a breach or violation of any provision of, constitute a default under, or give rise to any right of termination or cancellation under, or result in or permit an acceleration of, any material indenture, mortgage, lease or other agreement or instrument to which the Seller or any of the Related Seller Parties is a party or by which the Seller, any of the Related Seller Parties or any of the Transferred Assets are bound, except in the case of the foregoing clauses (b) and (c), as would not reasonably be expected to have a Material Adverse Effect or a material adverse effect on the Seller's or any of the Related Seller Parties' ability to perform its obligations under this Agreement or any of the Related Agreements to which it is a party.

Section 3.5 Third Party Consents. Except as otherwise set forth on Schedule 3.5, no material authorization, consent, waiver or approval of or filing with or notification to any Third Party (including a Governmental Body) is required to be obtained by the Seller or any of the Related Seller Parties, as the case may be, in connection with (i) the Seller's or any of the Related Seller Parties' execution and delivery of this Agreement or any of the Related Agreements, as the case may be, (ii) the Seller's sale and transfer of the Transferred Assets to Purchaser on the terms and conditions set forth in this Agreement, (iii) the Seller's or any of the Related Seller Parties' performance of their respective obligations under this Agreement and any Related Agreement to which it is a party other than, in each case, (a) the Seller Required Consents or (b) an authorization, consent, waiver, approval, filing or notification which, if not obtained or made, would not, individually or in the aggregate, be reasonably expected to have a Material Adverse Effect.

Section 3.6 Transferred Assets. Except as otherwise set forth on Schedule 3.6, the Seller has good and defensible title to all of the tangible and intangible personal property constituting part of the Transferred Assets, and subject to obtaining any necessary material Consents pursuant to this Agreement, at the Closing, the Purchaser shall receive the Transferred Assets free and clear of all Encumbrances other than the Permitted Encumbrances.

Section 3.7 Contracts; No Default.

(a) (i) Schedules 2.1(a)(ii)(A), (B) and (C) contain, as of the date hereof, an accurate and complete list of each Trading Contract (or in the case of forms described in clause (ii), a listing of such forms) and (ii) except for multiple agreements that are documented under a standard form ISDA Master Agreement, EEI Master Agreement or WSPP Master Agreement without amendments, in which case only such form need be made available, the Seller has made available to the Purchaser accurate and complete copies of each such Trading Contract, together with any and all material amendments or modifications thereto through and including the date hereof. Schedule 2.1(a)(i) contains, as of the date hereof, an accurate and complete list of each Transferred Contract and the Seller has made available to the Purchaser accurate and complete copies of each Transferred Contract, together with any and all material amendments or modifications thereto through and including the date hereof.

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(b) As of the date hereof:

(i) each Trading Contract and Transferred Contract is in full force and effect and is a valid and enforceable obligation of the Seller except as such enforceability may be limited by bankruptcy, insolvency, reorganization or similar laws affecting the enforcement of creditors' rights generally and general principles of equity (whether considered in a Proceeding at law or in equity);

(ii) no event or condition exists that constitutes or, after notice or a lapse of time or both, will constitute, a material default on the part of the Seller or, to Seller's Knowledge, any Counterparty or other party under, in each case, any such Trading Contract or Transferred Contract; and

(iii) there is no contract, agreement or other arrangement granting any Person any preferential right to purchase any of the Transferred Assets.

Section 3.8 Taxes.

(a) All Taxes and Tax liabilities due with respect to the Transferred Assets (whether or not shown as due on a Tax Return) have been timely paid. Seller has timely filed or caused to be timely filed all Tax Returns that are required to be filed with respect to the Transferred Assets. All such Tax Returns have accurately and completely reflected, and will accurately reflect, all liability for Taxes relating to the Transferred Assets for the period covered thereby and was prepared and filed in accordance with all applicable Laws.

(b) There are no liens for Taxes upon any of the Transferred Assets nor, to the Knowledge of the Seller, is any taxing authority in the process of imposing any lien for Taxes on any of the Transferred Assets, other than liens for Taxes that are not yet due and payable.

(c) Seller has not, as of the Closing Date, entered into an agreement or waiver or requested to enter into an agreement or waiver extending any statute of limitations relating to the payment or collection of Taxes relating to the Transferred Assets. There is no dispute or claim concerning any Tax liability relating to the Transferred Assets either (A) claimed or raised by any Governmental Body or (B) to which the Seller has Knowledge.

(d) All Taxes which Seller is (or was) required to withhold or collect in connection with the Transferred Assets have been duly withheld or collected, and have been timely paid over the proper authorities to the extent due and payable, and all Forms W-2 and 1099 with respect thereto have been properly completed and timely filed.

(e) There are no tax sharing, allocation, indemnification or similar agreements in effect as between Seller and any other party under which Purchaser could be liable for any Taxes or other claims of any party.

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(f) The Seller is not a party to any closing agreement as described in Code Section 7121 (or any corresponding or similar provision of state, local or foreign income Tax law) with respect to the Transferred Assets.

(g) No event has occurred that could reasonably be expected to impose upon Purchaser any transferee liability for any Taxes due or to become due from Seller.

Section 3.9 Litigation. There are no claims, actions, suits or Proceedings now pending or, to the Seller's Knowledge, threatened against or affecting the Seller or the Transferred Assets, at law or in equity, or before or by any Governmental Body which (a) may impair the ability of the Seller or the Seller Related Parties to perform this Agreement or any Related Agreement, (b) questions the validity or propriety of this Agreement or any Related Agreement or of any action taken under this Agreement or any Related Agreement or (c) would reasonably be expected to result in a Material Adverse Effect.

Section 3.10 No Commissions. No commissions or brokers' or finders' fees are payable by, through or on account of any acts of the Seller in connection with this Agreement or the Contemplated Transaction for which the Purchaser could be liable or obligated.

Section 3.11 Reserved.

Section 3.12 Compliance with Laws. The Seller is in compliance with all Laws applicable to the Transferred Assets, except where any such non-compliance would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 3.13 Ability to Perform. The Seller currently has or, as of the relevant time, will have available to it sufficient funding (in the form of Cash reflected on the Seller's balance sheet, under existing credit facilities or otherwise) to enable the Seller to consummate the Contemplated Transactions on the terms set forth in this Agreement, to pay all expenses to be incurred by the Seller in connection with this Agreement and to perform all of its other obligations under this Agreement and any Related Agreement to which it is a party.

Section 3.14 Seller's Knowledge. The Seller has informed Purchaser of any material mistakes or omissions on the Purchaser's Schedules of which the Seller is aware or any breach by the Purchaser of any of the representations and warranties set forth in Article IV, including anything that the Seller is aware of that might give rise to a claim by the Seller against Purchaser under the terms of this Agreement or any Related Agreement.

Section 3.15 Disclaimer. EXCEPT AS EXPRESSLY SET FORTH IN THIS ARTICLE III, THE PURCHASER IS ACQUIRING THE TRANSFERRED ASSETS "AS IS, WHERE IS" AND THE SELLER HAS NOT MADE AND DOES NOT MAKE ANY REPRESENTATION OR WARRANTY OF ANY NATURE AS TO THE TRANSFERRED ASSETS (INCLUDING ANY WARRANTY OF MERCHANTABILITY OR FITNESS FOR A

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PARTICULAR PURPOSE OR ANY REPRESENTATION OR WARRANTY AS TO THE VALUE, CONDITION, NATURE, OR CAPABILITY OF ANY TRANSFERRED ASSET), AND THE PURCHASER BY THIS AGREEMENT EXPRESSLY ACKNOWLEDGES THAT NO SUCH OTHER REPRESENTATIONS OR WARRANTIES HAVE BEEN MADE BY THE SELLER OR RELIED UPON BY THE PURCHASER. THE SELLER IS NOT LIABLE OR BOUND IN ANY MANNER BY ANY EXPRESSED OR IMPLIED WARRANTIES, GUARANTIES, PROMISES, STATEMENTS, REPRESENTATIONS OR INFORMATION PERTAINING TO THE TRANSFERRED ASSETS MADE OR FURNISHED BY ANY AGENT, EMPLOYEE, SERVANT OR OTHER PERSON REPRESENTING OR PURPORTING TO REPRESENT THE SELLER, UNLESS THE WARRANTIES, GUARANTIES, PROMISES, STATEMENTS, REPRESENTATIONS OR INFORMATION ARE EXPRESSLY AND SPECIFICALLY SET FORTH IN THIS ARTICLE III.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

Section 4.1 Scope. As an inducement to the Seller to enter this Agreement and to consummate the Contemplated Transactions, the Purchaser makes the representations and warranties to the Seller set forth in this Article IV on the date hereof and on the Closing Date (unless any such representation or warranty is made as of a specific date, in which case such representation and warranty is made as of only such date).

Section 4.2 Corporate Organization and Authority. The Purchaser is a corporation duly incorporated, validly existing and in good standing under the Laws of the State of Delaware and has full power and authority to execute, deliver and perform this Agreement and each of the Related Agreements to which it is a party. Each of the Related Purchaser Parties that are a party to this Agreement or any of the Related Agreements is a corporation, limited liability company or partnership validly existing and in active status under the Laws of the jurisdiction of organization. Each of the Purchaser and the Related Purchaser Parties has all requisite corporate power and authority necessary to execute, deliver and perform this Agreement and each of the Related Agreements to which it is a party. The Purchaser is duly qualified or authorized to do business as a foreign corporation and is in good standing under the Laws of each jurisdiction in which the conduct of its business or the ownership of its properties requires such qualification or authorization, except where the failure to be so qualified, authorized or in good standing would not reasonably be expected to have a Material Adverse Effect on the Purchaser's ability to consummate the Contemplated Transactions. The execution and delivery by the Purchaser and each of each of the Related Purchaser Parties of this Agreement and each Related Agreement to which it is a party and the performance by the Purchaser and each of the Related Purchaser Parties, as the case may be, of the Contemplated Transactions have been duly authorized by all necessary corporate or other actions and Proceedings on the part of the Purchaser and such Related Purchaser Parties, as the case may be.

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Section 4.3 Enforceability. This Agreement is, and each Related Agreement to be executed and delivered by the Purchaser and each of the Related Purchaser Parties, as the case may be, at or prior to the Closing will be, duly and validly executed and delivered by the Purchaser and each of the Related Purchaser Parties, as the case may be, and this Agreement is and each Related Agreement to be executed and delivered by the Purchaser and each of the Related Purchaser Parties, as the case may be, will be when executed and delivered, a valid and legally binding obligation of the Purchaser and each of the Related Purchaser Parties, as the case may be, enforceable against the Purchaser and each of the Related Purchaser Parties, as the case may be, in accordance with their respective terms, except as such enforceability may be limited by applicable bankruptcy, insolvency or other similar Laws affecting or relating to enforcement of creditors' rights generally or general principles of equity.

Section 4.4 No Conflict. Neither the execution of this Agreement or any Related Agreement by the Purchaser or any of the Related Purchaser Parties, as the case may be, nor the performance by the Purchaser or any of the Related Purchaser Parties, as the case may be, of the provisions of this Agreement or any Related Agreement will (a) violate the Governing Documents of the Purchaser or any of the Related Purchaser Parties, as the case may be, (b) violate any Law or Order by which the Purchaser or any of the Related Purchaser Parties is bound, or (c) result in a breach or violation of any provision of, constitute a default under, or give rise to any right of termination or cancellation under, or result in or permit an acceleration of, any material indenture, mortgage, lease or other agreement or instrument to which the Purchaser or any of the Related Purchaser Parties is a party or by which the Purchaser or any of the Related Purchaser Parties is bound, except in the case of the foregoing clauses (b) and (c), as would not reasonably be expected to result in a Material Adverse Effect on the Purchaser's or any of the Related Purchaser Parties' ability to perform its obligations under this Agreement or any of the Related Agreements to which it is a party.

Section 4.5 Third Party Consents. Except as otherwise set forth on Schedule 4.5, no material authorization, consent, waiver or approval of or filing with or notification to any Third Party (including a Governmental Body) is required to be obtained by the Purchaser or any of the Related Purchaser Parties, as the case may be, in connection with the Purchaser's purchase of the Transferred Assets from the Seller and any of the Related Purchaser Parties, as the case may be, on the terms and conditions set forth in this Agreement and to permit the Purchaser or any of the Related Purchaser Parties, as the case may be, to perform its other obligations under this Agreement and any Related Agreements to which it is a party other than (a) the Purchaser Required Consents or (b) an authorization, consent, waiver, approval, filing or notification which, if not obtained or made, would not, individually or in the aggregate, prevent or materially delay the consummation of the Contemplated Transactions.

Section 4.6 Litigation. There are no claims, actions, suits or Proceedings now pending or, to the Purchaser's Knowledge, threatened against or affecting the Purchaser or the Purchaser Related Parties, at law or in equity, or before or by any Governmental Body which may impair the ability of the Purchaser or the Purchaser Related Parties to perform this

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Agreement or any Related Agreement or which questions the validity or propriety of this Agreement or any Related Agreement or of any action taken under this Agreement or Related Agreement.

Section 4.7 Purchaser's Investigation. The Purchaser is an informed and sophisticated purchaser of assets similar to the Transferred Assets and, in connection with the Contemplated Transactions, has sought the advice of experts who are experienced in the evaluation and purchase of assets similar to the Transferred Assets. The Purchaser has undertaken such investigation of the Transferred Assets as it has deemed necessary to enable it to make an informed decision with respect to this Agreement and the Contemplated Transactions. The Purchaser acknowledges that the Seller has provided the Purchaser with such access to the personnel, properties, leased premises and records (including copies of the material Trading Contracts) of the Seller and relating to the Business as the Purchaser has requested, subject to the limitations set forth in Section 7.2. In entering into this Agreement, in purchasing the Transferred Assets and in consummating the Contemplated Transactions, the Purchaser has relied solely upon its own investigation and the express representations and warranties of the Seller set forth in Article III, and neither the Seller nor any of its officers, directors, shareholders, employees, Affiliates, agents or Representatives has made any representation or warranty as to the Seller, the Transferred Assets, or this Agreement, except as expressly set forth in this Agreement. To the fullest extent permitted by Law, neither the Seller nor any of its officers, directors, shareholders, employees, Affiliates, agents or Representatives shall have any liability to the Purchaser for any information made available to, or statements made to, the Purchaser (or any of its agents, officers, directors, employees, Affiliates or Representatives), other than the representations and warranties of Seller expressly set forth in Article III and the express obligation of the Seller to indemnify the Purchaser following the Closing to the extent set forth in Article IX.

Section 4.8 Ability to Perform. The Purchaser currently has available to it sufficient funding (in the form of Cash reflected on the Purchaser's balance sheet, under existing credit facilities or otherwise) to enable the Purchaser to consummate the purchase of the Transferred Assets on the terms set forth in this Agreement, to pay all expenses to be incurred by the Purchaser in connection with this Agreement and to perform all of its other obligations under this Agreement and any Related Agreement to which it is a party.

Section 4.9 No Commissions. No commissions or brokers' or finders' fees are payable by, through or on account of any acts of the Purchaser or its Representatives in connection with this Agreement or the Contemplated Transactions for which the Seller could be liable or obligated.

Section 4.10 Purchaser's Knowledge. The Purchaser has informed Seller of any material mistakes or omissions on the Seller's Schedules of which the Purchaser is aware or any breach by the Seller of any of the representations and warranties set forth in Article III, including

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anything that the Purchaser is aware of that might give rise to a claim by the Purchaser against the Seller under the terms of this Agreement or any Related Agreement.

Section 4.11 No Other Representation or Warranty. Except for the representations and warranties contained in this Article IV, and as may be made by the Purchaser in any Related Agreement, neither the Purchaser nor any other Person acting on behalf of the Purchaser makes any representation or warranty, express or implied, regarding the Purchaser or the Contemplated Transactions.

Section 4.12 Disclaimer. THE PURCHASER IS NOT LIABLE OR BOUND IN ANY MANNER BY ANY EXPRESSED OR IMPLIED WARRANTIES, GUARANTIES, PROMISES, STATEMENTS, REPRESENTATIONS OR INFORMATION PERTAINING TO THE TRANSFERRED ASSETS MADE OR FURNISHED BY ANY AGENT, EMPLOYEE, SERVANT OR OTHER PERSON REPRESENTING OR PURPORTING TO REPRESENT THE PURCHASER, UNLESS THE WARRANTIES, GUARANTIES, PROMISES, STATEMENTS, REPRESENTATIONS OR INFORMATION ARE EXPRESSLY AND SPECIFICALLY SET FORTH IN THIS ARTICLE IV.

ARTICLE V CONDITIONS PRECEDENT TO THE PURCHASER'S OBLIGATION TO CLOSE

Section 5.1 Purchaser Closing Conditions. The obligation of the Purchaser to consummate the Contemplated Transactions is subject to the satisfaction, as of the Closing, of each of the following conditions (any of which may be waived in writing by the Purchaser, in whole or in part):

- (a) all agreements and covenants required by this Agreement to be complied with or performed by the Seller at or prior to the Closing shall have been complied with or performed in all material respects;
- (b) all representations and warranties of the Seller in this Agreement (i) that are qualified as to materiality or Material Adverse Effect shall be true and correct, in all respects, as of the Closing or other time stated as if made at and as of that time and (ii) that are not so qualified shall be true and correct, in all material respects, as of the Closing or other time stated as if made at and as of that time;
- (c) the Purchaser Required Consents shall have been obtained or occurred, as applicable;
- (d) the [CONFIDENTIAL TREATMENT REQUESTED] shall have been satisfied;

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(e) no Order which prevents the consummation of any material aspect of the Contemplated Transactions shall have been issued and remain in effect (each Party agreeing to use its commercially reasonable efforts to have any such Order lifted) and no Law shall have been enacted which prohibits the consummation of the Contemplated Transactions;

(f) the Seller shall have delivered to the Purchaser a certificate of a duly authorized officer of the Seller, dated as of the Closing Date, certifying that, to the knowledge of such officer, the conditions set forth in Section 5.1(a) and (b) have been satisfied as of the Closing Date;

(g) the Seller Guarantee Agreement shall be in full force and effect and no material default or breach shall have occurred thereunder;

(h) the Mirror Confirm shall be in full force and effect and no material default or breach by Seller shall have occurred thereunder;

(i) the Supply Trade Agreements shall each be in full force and effect and no material default or breach by Seller shall have occurred thereunder; and

(j) the Purchaser shall have received those documents to be delivered to the Purchaser in accordance with Section 2.5(a).

ARTICLE VI

CONDITIONS PRECEDENT TO THE SELLER'S OBLIGATION TO CLOSE

Section 6.1 Seller Closing Conditions. The obligation of the Seller to consummate the Contemplated Transactions is subject to the satisfaction, as of the Closing, of each of the following conditions (any of which may be waived in writing by the Seller in whole or in part):

(a) all agreements and covenants required by this Agreement to be complied with or performed by Purchaser at or prior to the Closing shall have been complied with and performed in all material respects;

(b) all representations and warranties of the Purchaser in this Agreement (i) that are qualified as to materiality or material adverse effect shall be true and correct, in all respects, as of the Closing or other time stated as if made at and as of that time and (ii) that are not so qualified shall be true and correct, in all material respects, as of the Closing or other time stated as if made at and as of that time;

(c) the Seller Required Consents described in items 1 and 2 on Schedule 3.5 shall have been obtained or occurred, as applicable;

(d) no Order which prevents the consummation of any material aspect of the Contemplated Transactions shall have been issued and remain in effect (each Party agreeing to use

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its commercially reasonable efforts to have any such Order lifted) and no Law shall have been enacted which prohibits the consummation of the Contemplated Transactions;

(e) the Purchaser shall have delivered to the Seller a certificate of a duly authorized officer of the Seller, dated as of the Closing Date, certifying that, to the knowledge of such officer, the conditions set forth in Section 6.1(a) and (b) have been satisfied as of the Closing Date;

(f) the Purchaser Guarantee Agreement shall be in full force and effect and no material default or breach shall have occurred thereunder;

(g) the Mirror Confirm shall be in full force and effect and no material default or breach by Purchaser shall have occurred thereunder;

(h) the Supply Trade Agreements shall be in full force and effect and no material default or breach by Purchaser shall have occurred thereunder; and

(i) the Seller shall have received those documents to be delivered to the Seller in accordance with Section 2.5(b).

ARTICLE VII ADDITIONAL COVENANTS

Section 7.1 Conduct of Business.

(a) From and after the date hereof until the Effective Date (the "Interim Period"), the Seller shall not (and shall cause its Affiliates not to), with respect to the Transferred Assets:

(i) cease to provide any material services previously provided in support of the Business except in accordance with the Ordinary Course of Business;

(ii) make any sale, transfer or other disposition of any Transferred Asset that is material to the conduct and operations of the Business other than any such sale, transfer, or other disposition that is made in the Ordinary Course of Business;

(iii) with respect to the Seller and its controlled Affiliates, create or permit to be created any Encumbrance on any Transferred Asset, other than (i) in the Ordinary Course of Business to the extent that such Encumbrance does not materially and adversely affect the Business, (ii) Permitted Encumbrances to the extent that such Encumbrance does not materially and adversely affect the Business, (iii) that which would not materially and adversely affect such Transferred Asset after the Effective Date or (iv) as contemplated in this Agreement or any of the Related Agreements;

ATTACHMENT G

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(iv) change any accounting methods, policies or practices applicable to the Business;

(v) amend, assign, terminate, cancel, or compromise any material claims of the Seller against any Counterparty other than any such amendment, assignment, termination, cancellation or compromise made in the Ordinary Course of Business;

(vi) make any material changes in the methods of operations of the Business except in the Ordinary Course of Business, including, without limitation, risk management practices and policies relating thereto;

(vii) enter into any agreement that is material to the Transferred Assets or the conduct of the Business, except as in accordance with Schedule 7.1(b), that the Purchaser would assume, or for which the Purchaser would otherwise become liable, as part of the Contemplated Transaction, or terminate, amend, or otherwise modify in any material respect or waive any material rights under any Transferred Asset that is material to the conduct of the Business other than any such termination, amendment, or modification that is made in the Ordinary Course of Business;

(viii) incur any Indebtedness in connection with the Business other than in the Ordinary Course of Business; or

(ix) take any action to do or engage (or commit to do or engage) in any of the foregoing.

(b) Notwithstanding anything herein to the contrary, the foregoing shall not apply to the taking of any action (i) that is required (including by virtue of being an express condition to Closing) or explicitly permitted by the terms of this Agreement or the Related Agreements, (ii) that is reasonably necessary in connection with the execution and implementation of the Contemplated Transactions, (iii) to which the Purchaser gives its prior written consent (such consent not to be unreasonably withheld or delayed), (iv) that is set forth in Schedule 7.1(b), or (v) that is required in order to comply with applicable Law or Orders.

Section 7.2 Information and Access. From the date hereof until the last Transfer Date or Novation Date, as the case may be, to occur with respect to the Transferred Assets hereunder, the Seller shall (and shall cause its controlled Affiliates to): (a) permit the Purchaser and its Representatives to have reasonable access during normal business hours, and in a manner so as not to interfere with the normal operations, to all premises, properties, personnel, accountants, books, records, contracts and documents of or pertaining to the Transferred Assets (subject to the Seller's right to redact information unrelated to the Transferred Assets); and (b) furnish the Purchaser and its Representatives with all such information and data concerning the Transferred Assets as the Purchaser or its Representatives reasonably may request in connection with their review of information in accordance with clause (a), except to the extent that such

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information is subject to attorney-client privilege or furnishing any such information or data would create any Liability under applicable Law, including antitrust Law, or would violate any Law, Order or Contract applicable to the Seller or any of its Affiliates or by which any of the Transferred Assets are bound. The Purchaser will indemnify and hold harmless the Seller and its Affiliates (separate and apart from the Purchaser's obligations in Article IX and without regard to any basket, cap or other conditions or limitations contained in Article IX) from and against any Losses caused to the Seller or any of its Affiliates by the gross negligence or willful misconduct of the Purchaser or its Representatives in connection with such access.

Notwithstanding anything in this Section 7.2 the Seller will not be required to permit access to or furnish Tax Returns, books, records, contracts, documents, information or data relating to Taxes to the extent that such Taxes do not relate exclusively to the Transferred Assets, and the Purchaser will not have access to personnel and medical records if such access could, in the Seller's good faith judgment, subject the Seller to risk of liability or otherwise violate any applicable Law.

Section 7.3 Filings; Commercially Reasonable Efforts to Close.

(a) In addition to the obligations set forth in Sections 2.5, 2.6, 2.7, 2.8 and 2.11 from the date hereof until the Closing Date, the Seller and the Purchaser shall (and shall cause their respective Affiliates to, as applicable), as promptly as practicable, (i) use commercially reasonable efforts to obtain all Consents of, make all filings with and give all notices to any Governmental Body or any other Person required in order to consummate the Contemplated Transactions, including all Required Consents; (ii) provide such other information and communications to any such Governmental Body or other Persons as such Governmental Body or other Persons may reasonably request in connection with the activities listed in this Section 7.3; and (iii) reasonably cooperate with each other to perform their respective obligations under this Section 7.3. The Parties will provide prompt notification to each other when any such Consent, filing or notice referred to in clauses (i) and (ii) above is obtained, taken, made or given, as applicable, will keep each other reasonably informed as to the progress of any such actions and will advise each other of any communications (and, unless precluded by any Law, provide copies of any such communications that are in writing) with any Governmental Body or other Person regarding any of the Contemplated Transactions. In furtherance of the foregoing covenants, any filings with and notices to any Governmental Body or any other Person shall be submitted or made as soon as practicable, but in no event later than January 15, 2010 for filings with FERC, and the Parties shall request expedited treatment of such filings, shall promptly make any appropriate or necessary subsequent or supplemental filings and shall cooperate in the preparation of such filings as is reasonably necessary and appropriate.

(b) Notwithstanding anything else to the contrary herein, each of the Seller and the Purchaser shall (and shall cause their respective Affiliates to, as applicable) use commercially reasonable efforts (except to the extent a different standard is expressly provided for in this Agreement) to consummate the Contemplated Transactions.

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(c) The Seller and the Purchaser shall each pay 50% of any consideration payable to Third Parties or filing, recordation or similar fees arising, in each case, in connection with the actions undertaken pursuant to Section 2.7, 2.8, 2.9, 2.11, or 7.6; provided, however, that the foregoing shall not apply to any Governmental Authorizations that are specifically required by Purchaser to consummate the Contemplated Transactions.

(d) Subject to the other terms and conditions hereof, the Purchaser acknowledges that certain Consents required in connection with certain Trading Contracts and/or Transferred Contracts may not have been obtained prior to the Closing Date. Except with respect to obligations of the Seller set forth in Sections 2.7, 2.8, 2.9, and this 7.3, the Purchaser agrees that the Seller shall otherwise not be subject to Liability hereunder for the failure to obtain any Consent or the termination of any Trading Contract or Transferred Contract as a result of the Contemplated Transactions.

(e) Notwithstanding anything else herein to the contrary, the Seller and the Purchaser agree that, in the event that any Consent or Governmental Authorization that is necessary or desirable to preserve for the Business any right or benefit under any Transferred Assets is not obtained prior to the Closing Date, the Seller will, subsequent to the Closing Date, use commercially reasonable efforts to obtain, or cooperate with the Purchaser in obtaining, such Consent or Governmental Authorization as promptly thereafter as practicable.

Section 7.4 Retention of and Access to Records.

(a) After the Closing Date, the Seller shall (and shall cause its Affiliates to) provide the Purchaser and its Representatives reasonable access to such books and records, or portions thereof, relating in any manner to the Transferred Assets during normal business hours and on reasonable notice, for any reasonable business purpose, including to enable them to prepare financial statements or Tax Returns, deal with Tax audits or as they may otherwise reasonably request. Notwithstanding anything in this Section 7.4(a), the Seller and its Affiliates will only be required to deliver to the Purchaser the portions of such books and records that relate primarily to the Transferred Assets and may redact any statements or other information on the portions of such books and records that do not relate to the Transferred Assets (subject to the Seller's right to redact information unrelated to the Transferred Assets). Notwithstanding anything in this Section 7.4(a), the Seller will not be required to permit access to or furnish Tax Returns, books, records, contracts, documents, information or data relating to Taxes to the extent that such Taxes do not relate exclusively to the Transferred Assets. Such access will be afforded during normal business hours by the Party in possession of the books and records upon receipt of reasonable advance notice, but (a) any review of books and records will be conducted in such a manner as not to interfere unreasonably with the operation of the business of any Party or its Affiliates, (b) no Party will be required to take any action which would constitute a waiver of the attorney-client privilege, and (c) no Party need supply the other Party with any information which that Party is under a contractual or other legal obligation not to supply.

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(b) After the seventh (7th) anniversary of the Closing Date (or such later date as may be required under Laws applicable to the Purchaser or Purchaser's document retention policies), the Seller or its Affiliates may elect to destroy any books and records described in Section 7.4(a). The Purchaser shall, prior to the seventh (7th) anniversary of the Closing Date or thereafter during the effective term of the requirements under this Section 7.4(b), advise the Seller as to the Law referred to in the immediately preceding sentence.

Section 7.5 Further Assurances.

(a) The Parties shall (and shall cause their respective Affiliates to, as applicable) cooperate reasonably with each other and with their respective Representatives in connection with any steps required to be taken as part of their respective obligations under this Agreement, and, subject to any restrictions set forth in Section 7.2, shall furnish upon request to each other such further information as the other Party may reasonably request for the purpose of carrying out the intent of this Agreement and the Contemplated Transactions.

(b) Subject to the terms and conditions of this Agreement, at any time or from time to time after the date of this Agreement, at any Party's reasonable request and without further consideration, each Party shall do all acts and things as may be necessary or desirable and are within its control to carry out the intent of this Agreement and the Related Agreements, including executing and delivering further instruments of sale, transfer, conveyance, assignment, novation, confirmation or other documents that may be reasonably required and providing additional materials and information.

(c) Both after the date hereof and after the Closing Date, each of the Seller and the Purchaser shall use commercially reasonable efforts to take, or cause to be taken, all appropriate action, do or cause to be done all things necessary, proper or advisable under applicable Law, and to execute and deliver such documents and other papers, as may be necessary or appropriate to carry out the terms and conditions of this Agreement and to consummate the Contemplated Transactions, including obtaining any and all outstanding Required Consents.

(d) The Parties shall (and shall cause their respective Affiliates to, as applicable) use commercially reasonable efforts in connection with the steps required to be taken to effectuate any leasing arrangements required hereby.

Section 7.6 Transition Plans.

(a) Within five (5) Business Days after the date of this Agreement, the Seller and the Purchaser shall form one or more joint transition teams to plan for and perform the various activities set forth in this Section 7.6, as well as other activities that are to be performed between the date of this Agreement and Closing.

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(b) With respect to each Financial Assurance relating to any Transferred Asset, the Purchaser shall use commercially reasonable efforts, with the assistance of the Seller and its Affiliates as reasonably requested by the Purchaser, to (i) cause IEG and its Affiliates to be released from any such Financial Assurances, including obtaining waivers and Consents from any applicable Persons to replace any such Financial Assurances with appropriate Financial Assurances from the Purchaser and/or Purchaser Parent and (ii) to perform the actions required by Section 2.8(b).

Section 7.7 Confidentiality.

(a) Unless and until the Contemplated Transactions have been consummated, the Purchaser and Seller will abide by the Confidentiality Agreement. If the Contemplated Transactions are consummated, the Confidentiality Agreement will no longer apply to Confidential Information related solely to the Transferred Assets, but will continue in full force and effect with respect to all other Confidential Information.

(b) From and after the Closing, the Seller shall treat as confidential and shall safeguard any and all information, knowledge and data relating to the Transferred Assets in its possession by using the same degree of care, but no less than a reasonable standard of care, to prevent the unauthorized use, dissemination or disclosure of such information, knowledge and data as the Seller used with respect thereto prior to the date hereof, it being understood that the Seller may disclose such information (i) to the extent required to comply with Law, the rules of any exchange or pursuant to regulatory request; provided, that the Seller shall provide as much prior written notice to the Purchaser of such disclosure as is practical under the circumstances and shall seek to limit such disclosure, and (ii) to its representatives and advisors to the extent that such representatives and advisors have a reasonable basis to know such information in connection with any services or work to be performed for or on behalf of the Seller.

(c) From and after the Closing, the Purchaser shall treat as confidential and shall safeguard any and all information, knowledge or data included in any information relating to the business of the Seller and its Affiliates and the Transferred Assets that becomes known to the Purchaser as a result of the Contemplated Transactions except as otherwise agreed to by the Seller in writing by using the same degree of care, but no less than a reasonable standard of care, to prevent the unauthorized use, dissemination or disclosure of such information, knowledge and data as the Purchaser uses with respect to its own information, knowledge and data, it being understood that the Purchaser may disclose such information (i) to the extent required to comply with Law, the rules of any exchange or pursuant to regulatory request; provided, that the Purchaser shall provide as much prior written notice to the Seller of such disclosure as is practical under the circumstances and shall seek to limit such disclosure, and (ii) to its representatives and advisors to the extent that such representatives and advisors have a reasonable basis to know such information in connection with any services or work to be performed for or on behalf of the Purchaser.

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(d) The Purchaser and the Seller acknowledge that the confidentiality obligations set forth in this Section 7.7 shall not extend to information, knowledge and data that is publicly available or becomes publicly available through no act or omission of the party owing a duty of confidentiality, or is or becomes available on a non-confidential basis from a source other than the party owing a duty of confidentiality so long as such source is not known by such party to be bound by a confidentiality agreement with, or other obligations of secrecy to, the other party.

(e) In the event of a breach of the obligations hereunder by the Purchaser or the Seller, the other party, in addition to all other available remedies, shall be entitled to injunctive relief to enforce the provisions of this Section 7.7 in any court of competent jurisdiction.

Section 7.8 Related Agreements. Each of the Seller and the Purchaser agrees that it shall, and shall cause their respective Affiliates to, as applicable, enter into and deliver, at or prior to the Mirror Effective Date or the Closing Date, as applicable, each of the Related Agreements, to which it or its Affiliates is intended to be a party.

Section 7.9 Non-Competition

(a) Each of the Seller and IEG agrees that for a period of thirty-six (36) calendar months beginning at the Closing (the "Restricted Period"), none of the Seller, IEG or any of their Affiliates, whether or not a party to this Agreement or any Related Agreement, shall offer, participate through ownership or engage, either directly or indirectly, in the sale or marketing of wholesale electricity in the United States, or otherwise operate, control or manage, either directly or indirectly, any business substantially similar to the Business (the "Restricted Business").

(b) Notwithstanding the foregoing, this Section 7.9 shall not operate to prevent or restrict:

(i) the regulated public utility Affiliates of each of the Seller and IEG that are identified on Schedule 7.9;

(ii) the Seller, IEG or their Affiliates from managing, servicing, operating, using or otherwise transacting business with any of the Excluded Assets or Excluded Transactions;

(iii) any Person or Persons acquiring any of the Seller, IEG or their respective Affiliates by merger, consolidation, amalgamation, share purchase or purchase of substantially all of the assets of the Seller, IEG or any such Affiliates where such Person was not, prior to such acquisition, an Affiliate of the Seller or IEG, as the case may be;

(iv) the Seller, IEG and their Affiliates from purchasing or selling wholesale electricity, or related hedge positions, in connection with (A) the generation facilities owned by the Seller, IEG or their Affiliates, and (B) the retained retail electricity business

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encompassed by the Excluded Assets; provided, that the primary purpose of the Seller, IEG or any of their Affiliates in conducting such activity is not to compete with the Restricted Business;

(v) the direct or indirect acquisition by the Seller, IEG or any of their Affiliates (through acquisition, merger or other strategic transaction) of an interest in any Person that engages in the Restricted Business; provided, that the primary purpose of the Seller, IEG or any of their Affiliates in conducting such activity is not to compete with the Restricted Business; and

(c) The Restricted Period shall be extended by the length of any period during which the Seller, IEG or its Affiliates are in breach of the terms of this Section 7.9.

(d) As a separate and independent covenant of each of the Seller and IEG, for a period of one (1) year following the Effective Date, each of the Seller and IEG shall, and shall cause their respective Affiliates not to, (i) employ or receive or accept the performance of services by any Purchaser Key Employee, or (ii) solicit for employment any Purchaser Key Employee; provided, that clause (i) or (ii) shall not limit the Seller's, IEG's or their respective Affiliates' ability to engage in general solicitations of employment not targeted at Purchaser Key Employees or employing an individual who contacts Seller, IEG or their respective Affiliates on his or her own initiative.

(e) Each of the Seller and IEG acknowledges and agrees that its obligations set forth in this Section 7.9 are an essential element of this Agreement and that, but for the agreement of the Seller and IEG in this Section 7.9, the Purchaser would not have entered into this Agreement. Each of the Seller, IEG and the Purchaser acknowledges and agrees that the undertakings of the Seller and IEG in this Section 7.9 constitute an independent covenant of the Seller and IEG and shall not be affected by the performance or nonperformance by any Party hereto of any other term or provision of this Agreement. Each of the Seller, IEG and the Purchaser acknowledges that it has consulted with its own counsel with regard to this Section 7.9 and, after such consultation, agrees that the obligations of the Seller and IEG set forth in this Section 7.9 are reasonable and proper, have been negotiated fully and fairly and represent an agreement based on the totality of the Contemplated Transactions.

Section 7.10 Notice of Material Developments. Prior to the Closing Date, the Purchaser and the Seller shall use commercially reasonable efforts to communicate promptly with each other about material events, circumstances, facts and occurrences relating to the Transferred Assets and arising subsequent to the date hereof; provided, however, that no such notification shall otherwise affect in any manner the liability of such party hereunder, including with respect to indemnification.

Section 7.11 The Seller's Employees.

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(a) No later than thirty (30) Business Days prior to the Closing, the Purchaser will give a Qualifying Offer of employment to each of the employees of the Seller that Purchaser identifies on a Schedule to be provided to Seller by Purchaser not later than the Mirror Effective Date; provided, however, that each such Qualifying Offer shall be subject to the customary hiring policies and procedures of the Purchaser, including, but not limited to, appropriate screening procedures, as applicable. Each such person who becomes employed by the Purchaser pursuant to this Section 7.11 is referred to herein as a "Transferred Employee". For purposes hereof, a "Qualifying Offer" means an offer that provides for employment with the Purchaser or one of its Affiliates commencing on the Closing Date. All of such Qualifying Offers shall be made in accordance with applicable Laws, and shall remain open for a period expiring no earlier than five (5) Business Days prior to the Closing Date. Any such offer which is accepted before it expires shall thereafter be irrevocable, except for good cause. Following acceptance of such offers, the Purchaser will provide written notice thereof to the Seller.

(b) The Purchaser, for a period of one (1) year following the Effective Date, shall, and shall cause its Affiliates not to, (i) employ or receive or accept the performance of services by any employee of the Seller or any of its Affiliates (other than the Transferred Employees), or (ii) solicit for employment any employee of the Seller or any of its Affiliates; provided, that clause (i) or (ii) shall not limit the Purchasers or its Affiliates' ability to engage in general solicitations of employment not targeted at such employees of the Seller or any of its Affiliates or employing an individual who contacts the Purchaser or its Affiliates on his or her own initiative.

ARTICLE VIII TERMINATION

Section 8.1 Termination. This Agreement may be terminated prior to the Closing solely as follows:

- (a) by mutual written consent of the Seller and the Purchaser;
- (b) [CONFIDENTIAL TREATMENT REQUESTED] by the Seller or the Purchaser by not less [CONFIDENTIAL TREATMENT REQUESTED] prior written notice to the other Party (if the terminating Party is not, at such time, in material breach of this Agreement which breach has caused the Closing not to occur prior to such date), if the Closing has not occurred on or before the date such notice is given; or
- (c) if the Seller or the Purchaser fails in any material respect to perform or comply with any covenant hereunder or under any Related Agreement to be performed or complied with on or prior to the Closing Date or any representation or warranty made or deemed made by the Seller or the Purchaser proves to be incorrect or misleading in any material respect when made or deemed made and as a result thereof the non-defaulting Party would not under the terms of this Agreement be obligated to consummate the Closing, then, in each case, upon

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[CONFIDENTIAL TREATMENT REQUESTED] written notice from the non-defaulting Party (unless the defaulting Party shall have cured, within such [CONFIDENTIAL TREATMENT REQUESTED] period, the condition giving rise to such notice in a manner that would cause the conditions to Closing of this Agreement to be satisfied, in which case, this Agreement shall continue in effect notwithstanding any such notice or,); or

(d) by either Party immediately upon the occurrence of an Insolvency Event with respect to the other Party or the Person guaranteeing the obligations of such Party; or

(e) by the Purchaser if on any date the sum of all payments made pursuant to Section 2.6 either to the Purchaser or to the Seller aggregate to (i) \$ [CONFIDENTIAL TREATMENT REQUESTED] (in each instance, a "Misbooking Trigger Date") upon written notice to the Seller within the earlier [CONFIDENTIAL TREATMENT REQUESTED] following the relevant Misbooking Trigger Date and [CONFIDENTIAL TREATMENT REQUESTED].

Section 8.2 Termination Fee; Sole and Exclusive Remedy. In the event this Agreement is terminated pursuant to Section 8.1(c) or (d), in addition to any amounts payable by either Party pursuant to Sections 2.9, 2.10 and 2.11, the Defaulting Party with respect to such termination shall pay to the Non-Defaulting Party, within five (5) Business Days of the date of termination of this Agreement, the Termination Fee by wire transfer in immediately available funds to the account or accounts designated by the Non-Defaulting Party. Each of the Seller and the Purchase hereby expressly acknowledge, agree and stipulate that (i) the Termination Fee represents compensation for costs and losses associated with the termination of this Agreement and the failure to consummate the Contemplated Transactions, which costs and losses are difficult or impossible to ascertain with any certainty, including costs and losses relating, but not limited, to hedging costs, attorneys fees, other professional services fees, costs of capital and opportunity costs related to the Transferred Assets, but particularly to the Transferred Contracts and Other Assets, (ii) the amount of the Termination Fee, in addition to any amounts payable by either Party pursuant to Sections 2.9, 2.10 and 2.11, constitutes a reasonable approximation of the costs and losses to the Non-Defaulting Party as a result of termination of this Agreement and the failure to consummate the Contemplated Transactions, (iii) it hereby waives its right to contest the payment or amount the Termination Fee, including on the grounds that the payment of the Termination Fee constitutes a penalty or otherwise, (iv) except in the case of fraud, willful breach or willful misconduct, the payment of the Termination Fee by the Defaulting Party constitutes, together with any amounts payable by either Party pursuant to Sections 2.9, 2.10 and 2.11, the sole and exclusive remedy available to the Non-Defaulting Party for any breach or default under this Agreement or any Related Agreement. For the avoidance of doubt, the remedy of specific performance set forth in Section 10.11 shall not be available to any Party upon termination of this Agreement and payment of the Termination Fee in accordance with this Section 8.2.

Section 8.3 Effect of Termination.

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(a) In the event this Agreement is terminated pursuant to Section 8.1, all further obligations of the Parties hereunder shall terminate and this Agreement shall become null and void and of no further force and effect, except with respect to Section 2.9(b), Section 2.10(b), Section 2.11(b), Section 8.2, this Section 8.3 and Article X and except that nothing in this Section 8.3 shall relieve any Party from liability for any breach of this Agreement that arose prior to such termination, for which liability the provisions of Article IX shall remain in effect in accordance with the provisions and limitations of such Article. Such termination shall not relieve any Party of any Liability for any intentional breach of this Agreement or fraud prior to such termination. The provisions of the Confidentiality Agreement shall survive termination of this Agreement for a period of two (2) years from the date of termination.

(b) Any payments to be made between the Parties pursuant to (i) this Agreement, including any payments to be made pursuant to Sections 2.9(b), 2.10(c), 2.11(b), and 8.2, (ii) the Guarantee Agreements, (iii) the Supply Trade Agreements, (iv) the Mirror Confirm, and (v) the MCP-IES ISDA Master Agreement as it relates to Section 2.16, may be made on a net basis, with the Party owing the greater amount paying to the Party owing the lesser amount the difference between such amounts; provided, in calculating any such payment on a net basis, such calculation shall be performed by, first, calculating the payments to be made on a net basis with respect to each agreement individually and, second, by calculating the payment to be made on a net basis among all the foregoing agreements collectively; provided, however, that the foregoing provision shall not apply to any rights, claims or payments made, owing or relating to the terms and conditions set forth in Article IX.

ARTICLE IX INDEMNIFICATION

Section 9.1 Survival.

(a) All covenants and other agreements in this Agreement to be performed after the Closing shall survive the Closing until so performed. All representations and warranties in this Agreement shall survive the Closing for a period of eighteen (18) months after the Closing Date; provided, however, that the representations and warranties set forth in Sections 3.2, 3.3, 3.4, 3.6 and 3.8 shall survive the Closing for a period of three (3) years after the Closing Date.

(b) Subject to Section 9.1(c), the Seller shall not be liable for the exacerbation of any Losses with respect to any claim, action or Proceeding in connection with this Agreement unless the Seller receives from the Purchaser written notice (i) as soon as reasonably practicable after the Purchaser becomes aware of such claim, action or Proceeding, and (ii) containing specific details of the claim, action or Proceeding, including the Purchaser's estimate, or for a claim, action or Proceeding with respect to Taxes, the Purchaser's estimate resulting from its best efforts, on a without prejudice basis, in each case, of the amount at issue with respect to such the claim, action or Proceeding.

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(c) Notwithstanding anything to the contrary herein, the Seller shall not be liable for any Losses with respect to any claim, action or Proceeding in connection with this Agreement unless the Seller receives from the Purchaser written notice prior to the expiration of the applicable survival period set forth in Section 9.1(a) with respect to any claim for indemnification pursuant to Section 9.2(a).

Section 9.2 Indemnification by Seller

From and after the Closing Date, the Seller shall indemnify and hold the Purchaser and each of its Affiliates, directors, shareholders, officers and employees (collectively, the "Purchaser Group"), harmless from and against Losses imposed upon or incurred by any of them which arise out of:

- (a) any misrepresentation or inaccuracy of a representation or warranty made by the Seller in this Agreement, pursuant to any certificate delivered by the Seller pursuant hereto or as may be made by the Seller in any Related Agreements;
- (b) any breach or non-fulfillment of any covenant or agreement on the part of the Seller or its Affiliates in this Agreement or any Related Agreement to which it is a party, as the case may be;
- (c) any (A) Liabilities for Successor Liability Taxes or any other Taxes with respect to any of the Transferred Assets or the Business, in each case related to a Tax period (or portion of any period) which ends, with respect to each Transferred Asset or the Business, on or before the earlier of (i) the date that such Transferred Asset or the Business is novated (if applicable), and (ii) the date that such Transferred Asset or the Business is treated by the Law imposing such Taxes as transferred from the Seller to the Purchaser, or (B) liability of the Seller for Transfer Taxes pursuant to Section 10.3(a); and
- (d) the Excluded Assets, the Excluded Transactions and the Excluded Liabilities.

Section 9.3 Indemnification by Purchaser. From and after the Closing Date, the Purchaser shall indemnify and hold the Seller and each of its Affiliates, directors, shareholders, officers and employees (the "Seller Group"), harmless from and against Losses imposed upon or incurred by any of them which arise out of:

- (a) any misrepresentation or inaccuracy of a representation or warranty made by the Purchaser in this Agreement, pursuant to any certificate delivered by the Purchaser pursuant hereto or as may be made by the Seller in any Related Agreements;
- (b) any breach or non-fulfillment of any covenant or agreement on the part of the Purchaser in this Agreement;

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(c) any (A) Liabilities for any Taxes with respect to the Transferred Assets or the Business, in each case related to a Tax period (or portion of any period) which begins, with respect to each Transferred Asset or the Business, after the earlier of (i) the date that such Transferred Asset or the Business is novated (if applicable), and (ii) the date that such Transferred Asset or the Business is treated by the Law imposing such Taxes as transferred from the Seller to the Purchaser, or (B) liability of the Purchaser for Transfer Taxes pursuant to Section 10.3(a); or

(d) the ownership, possession, use, maintenance, administration, or operation of the Transferred Assets after the Closing; and

(e) the Assumed Liabilities.

Section 9.4 Indemnification Procedures.

(a) **Asserting a Claim.** Without limiting the provisions of Section 9.1, if a Party (an "**Indemnified Party**") wishes to assert a claim for indemnification against the other Party (the "**Indemnifying Party**"), the Indemnified Party shall give notice to the Indemnifying Party, setting forth with particularity the basis for the claim, promptly after the Indemnified Party becomes aware of any fact, condition, or event which gives rise to a Claim for which indemnification may be sought under this Article IX. Failure to notify the Indemnifying Party shall not relieve the Indemnifying Party of liability it may have to the Indemnified Party, except to the extent that the Indemnifying Party has been materially prejudiced by such failure and except that nothing in this Agreement shall be deemed to extend the time limits set forth in Section 9.1. Each Indemnified Party shall use commercially reasonable efforts to mitigate Losses for which it seeks indemnification under this Article IX.

(b) **Third Party Claims.** If any lawsuit, enforcement action, demand or claim is brought or made by any other Person (a "**Third Party Claim**") against an Indemnified Party is the basis for an indemnification claim pursuant to Section 9.2 or Section 9.3, the Indemnifying Party shall be entitled, if it so elects, to take control of the defense and investigation of the Third Party Claim and to employ and engage attorneys of its own choice reasonably acceptable to the Indemnified Party to handle and defend the Third Party Claim, at the Indemnifying Party's cost, risk and expense. Any election by the Indemnifying Party to take control of the defense and investigation of a Third Party Claim shall not be deemed a waiver of the Indemnifying Party's right to determine at a later date that the Third Party Claim is not entitled to indemnification under this Agreement, in which case Indemnifying Party may, in the exercise of its sole discretion, determine not to continue to defend that Third Party Claim and any action taken by the Indemnifying Party in connection with that determination shall be undertaken in a manner so as not to materially prejudice the defense or the rights of the Indemnified Party. The Indemnified Party shall cooperate with the Indemnifying Party so as to minimize the risk of any such prejudice. The Indemnified Party shall cooperate in all reasonable respects with the Indemnifying Party and such attorneys in the investigation, trial and defense of any Third Party Claim and any resulting appeal, which shall include: (a) furnishing such records, information and testimony, and

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attending such conferences, discovery proceedings, hearings, trials and appeals, as reasonably may be requested in connection with the Third Party Claim, (b) affording access during normal business hours to the Indemnifying Party to, and reasonable retention by the Indemnified Party of, records and information which are reasonably relevant to the Third Party Claim, and (c) making its employees available on a mutually convenient basis to provide additional information and explanation of any material provided to the Indemnifying Party under this Agreement. The Indemnified Party nevertheless may, at its own cost, participate in the investigation, trial and defense of such Third Party Claim or any resulting appeal.

Section 9.5 Settlement or Compromise of Third Party Action; Failure to Assume Defense. If the Indemnifying Party has assumed control of the defense of a Third Party Claim pursuant to Section 9.4, the Indemnifying Party may consent to a settlement or compromise of, or the entry of any monetary judgment arising from the Third Party Claim without the prior consent of the Indemnified Party if, and only if, the proposed settlement, compromise or entry (a) does not contain an admission of guilt or wrongdoing on the part of the Indemnified Party, and (b) does not provide for any remedy or sanction against the Indemnified Party other than the payment of money which the Indemnifying Party agrees to pay and does pay. If the Indemnifying Party does not assume the defense of the Third Party Claim in accordance with Section 9.4 within twenty (20) Business Days after the receipt of notice of the Third Party Claim, the Indemnified Party may, at the Indemnifying Party's expense, defend the Third Party Claim, but may settle or compromise the Third Party Claim only with the consent of the Indemnifying Party.

Section 9.6 Adjustment to Purchase Price. Amounts paid with respect to indemnification pursuant to Section 9.2(a) or Section 9.3(a) shall be treated as an adjustment to the Purchase Price.

Section 9.7 General Limitations.

(a) **Basket.** Except in the case of (i) fraud, willful breach or willful misconduct, (ii) Liability for Taxes that are the responsibility of the Seller, and (iii) as provided in Section 10.11, the Seller shall not be liable to any member of the Purchaser Group under Section 9.2(a), and the Purchaser shall not be liable to any member of the Seller Group under Section 9.3(a) unless and until the aggregate cumulative amount of all such Losses exceeds one million dollars (\$1,000,000.00), and then shall be liable only to the extent of such excess; provided, however, that the limitation pursuant to this Section 9.7(a) shall not apply (i) to any adjustment to the Purchase Price occurring pursuant to the terms and provisions of Article II, including without limitation with respect to any Misbooking and Identified Transactions, or (ii) to any claim for indemnification arising from a breach of Section 3.2, 3.3, 3.4 or 3.6.

(b) **Cap.** Except in the case of (i) fraud, willful breach or willful misconduct, (ii) Liability for Taxes that are the responsibility of the Seller, and (iii) as provided in Section 10.11, in no event shall the aggregate cumulative amount of the Seller's Liabilities under Section 9.2(a),

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or the Purchaser's Liabilities under Section 9.3(a), exceed twenty-five million dollars (\$25,000,000.00); provided, however, that the limitation pursuant to this Section 9.7(b) shall not apply (i) to any adjustment to the Purchase Price occurring pursuant to the terms and provisions of Article II, including without limitation with respect to any Misbooking and Identified Transactions, or (ii) to any claim for indemnification arising from a breach of Section 3.2, 3.3, 3.4, 3.6, 3.9, 3.12 or 3.13.

(c) **Limitation**. NOTWITHSTANDING ANYTHING TO THE CONTRARY ELSEWHERE IN THIS AGREEMENT OR PROVIDED FOR UNDER ANY APPLICABLE LAW, NO PARTY WILL, IN ANY EVENT, BE LIABLE, EITHER IN CONTRACT OR IN TORT, FOR ANY CONSEQUENTIAL, INCIDENTAL, INDIRECT, SPECIAL, OR PUNITIVE DAMAGES, INCLUDING LOSS OF FUTURE REVENUE, INCOME, OR PROFITS, DIMINUTION OF VALUE, OR LOSS OF BUSINESS REPUTATION OR OPPORTUNITY, RELATING TO THE BREACH OR ALLEGED BREACH OF THIS AGREEMENT OR OTHERWISE, WHETHER OR NOT THE POSSIBILITY OF SUCH DAMAGES HAS BEEN DISCLOSED IN ADVANCE OR COULD HAVE BEEN REASONABLY FORESEEN ("Non-Reimbursable Damages").

(d) **Collateral Sources**. In calculating the amount of Losses for which an Indemnified Party is entitled to indemnification under Section 9.2(a) or Section 9.3(a), as applicable, the amount of Losses shall be reduced by (a) any insurance proceeds actually received by the Indemnified Party from an insurance carrier with respect to those Losses, provided that if the Indemnified Party fails to either diligently pursue any such insurance proceeds reasonably available to it or assign a valid right to the Indemnifying Party to pursue such insurance proceeds, the Indemnifying Party's obligation shall be reduced by the amount of insurance proceeds that would have been reasonably available to and obtainable by the Indemnified Party, (b) any amounts actually received by the Indemnified Party from Third Parties with respect to Losses pursuant to indemnification, warranty or other similar rights, provided that if the Indemnified Party fails to diligently pursue such rights, the Indemnifying Party's obligation shall be reduced by the amounts available to the Indemnified Party, and (c) Tax benefits. If any Losses for which indemnification is provided under Section 9.2(a) or Section 9.3(a), as applicable, subsequently are reduced by any insurance payment or recovery from a Third Party or loss of Tax benefits, the Indemnified Party promptly shall remit the amount of such reduction to the Indemnifying Party.

(e) **Duty to Mitigate Losses**. Each Indemnified person shall use its commercially reasonable efforts to mitigate any indemnifiable Losses.

(f) **Additional Limitations**. Neither Indemnifying Party shall have any indemnification obligations under this Article IX to the extent that, as a result of any gross negligence or willful misconduct of an Indemnified Party after the Closing Date, the amount of Losses subject to indemnification by such Indemnifying Party is exacerbated.

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Section 9.8 Exclusive Remedies. Except in the case of fraud, willful breach and willful misconduct, and except as provided in Section 10.11, the Seller and the Purchaser acknowledge and agree that, from and after the Closing, the sole and exclusive remedy for any breach or inaccuracy, or alleged breach or inaccuracy, of any representation or warranty in this Agreement, any certificate delivered pursuant hereto, as the case may be, or any Related Agreement or any covenant or agreement to be performed under this Agreement or any Related Agreement on or prior to the Closing Date, will be indemnification in accordance with this Article IX. In furtherance of the foregoing, the Seller and the Purchaser waive, to the fullest extent permitted by applicable Law, any and all other rights, claims, and causes of action (including rights of contributions, if any) that may be based upon, arise out of, or relate to this Agreement or any such certificate or Related Agreement, or the negotiation, execution, or performance of this Agreement or any Related Agreement (including any tort or breach of contract claim or cause of action based upon, arising out of, or related to any representation or warranty made in or in connection with this Agreement or any Related Agreement or as an inducement to enter into this Agreement or any Related Agreement), known or unknown, foreseen or unforeseen, which exist or may arise in the future, that it may have against the other arising under or based upon any Law (including any such Law under or relating to environmental matters), common law, or otherwise.

Section 9.9 Non-Recourse. No past, present or future director, officer, employee, incorporator, member, partner, stockholder, affiliate, agent or Representative of the Seller or the Purchaser, respectively, or their respective Affiliates, shall have any Liability for any obligations or Liabilities of Seller under this Agreement or the other documents delivered by the Seller or the Purchaser in connection with this Agreement, of or for any claim based on, in respect of, or by reason of, the Contemplated Transactions.

ARTICLE X GENERAL PROVISIONS

Section 10.1 Expenses. Except as otherwise expressly provided in this Agreement (including in Section 7.3(c)), whether or not the Contemplated Transactions are consummated, the Parties shall bear their own costs and expenses in connection with the preparation, negotiation and execution of this Agreement and the Related Agreements and the consummation of the Contemplated Transactions.

Section 10.2 Public Announcements and Confidentiality. None of the Parties nor their respective Subsidiaries or Affiliates, as the case may be, shall issue or cause the publication of this Agreement, any Related Agreement or any press release or other public announcement or communication with respect to the Contemplated Transactions without the prior written consent of the other Parties hereto, which consent shall not be unreasonably withheld or withdrawn, except to the extent a Party's counsel deems necessary or advisable in order to comply with any Law or the regulations or policies of any securities exchange or other similar regulatory body (in which case the disclosing Party shall give the other Parties notice as is reasonably practicable of

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any required disclosure, shall limit such disclosure to the information required to comply with such Law or regulations, and shall use commercially reasonable efforts to accommodate any suggested changes to such disclosure from the other Parties to the extent reasonably practicable).

Section 10.3 Tax Matters.

(a) Notwithstanding any provision of this Agreement to the contrary, the Purchaser and the Seller shall each pay one-half of all Transfer Taxes incurred in connection with this Agreement and the Contemplated Transactions. The Seller and the Purchaser shall cooperate in timely making all filings, Tax Returns, reports and forms as may be required to comply with the provisions of Tax Laws. For purposes of this Agreement, "Transfer Taxes" shall mean all transfer, sales and use, stamp duty, stamp duty reserve tax, documentary, registration and other such taxes (including all applicable real estate transfer taxes).

(b) Within sixty (60) days of the Closing Date, the Seller shall prepare a draft allocation of the consideration paid for the Transferred Assets among the Transferred Assets, which allocation will also include a determination as to the total gross value of all Transferred Assets that have a positive value, and a determination as to the total gross value of all Transferred Assets that have a negative value (the "Draft Allocation"). The Purchaser shall have sixty (60) days after receipt of the Draft Allocation to object in writing to the Draft Allocation. If the Purchaser does not object to the Draft Allocation within such 60-day period, the Draft Allocation shall become final (the "Final Allocation"). If the Purchaser objects to the Draft Allocation in writing within such 60-day period, the Seller and the Purchaser shall attempt in good faith to resolve the disputed items in the Draft Allocation, and any such resolution shall constitute the Final Allocation. If, within thirty (30) days after the Purchaser has objected in writing to the Draft Allocation, the Parties have not resolved all disputed items with respect to the Draft Allocation, the remaining disputed items shall be resolved by a nationally recognized accounting firm, and its resolution shall constitute the Final Allocation. The Seller and the Purchaser (1) shall be bound by the Final Allocation for purposes of determining any and all consequences with respect to Taxes of the Transferred Assets, (2) shall prepare and file all Tax Returns to be filed with any taxing authority in a manner consistent with the Final Allocation, and (3) shall take no position inconsistent with the Final Allocation in any Tax Return, in any discussion with or Proceeding before any taxing authority, or otherwise.

(c) To the extent necessary to determine the liability for Taxes for a portion of a taxable year or period that begins before and ends after the Closing Date, the determination of the Taxes for the portion of the year or period ending on, and the portion of the year or period beginning after, the Closing Date shall be determined by assuming that the taxable year or period ended as of the close of business on the Closing Date, except that those annual property taxes and exemptions, allowances or deductions that are calculated on an annual basis shall be prorated on a time basis.

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Section 10.4 Notices. All notices, Consents, waivers and other communications required or permitted by this Agreement shall be in writing and shall be deemed given to a Party when (a) delivered to the appropriate address by hand or by nationally recognized overnight courier service (costs prepaid), (b) sent by facsimile or e-mail with confirmation of transmission by the transmitting equipment or (c) received or rejected by the addressee, if sent by certified mail, return receipt requested, in each case to the following addresses, facsimile numbers or e-mail addresses and marked to the attention of the person (by name or title) designated below (or to such other address, facsimile number, e-mail address or person as a Party may designate by notice to the other Parties):

If to the Seller:

Integrus Energy Services, Inc.
1716 Lawrence Drive
De Pere, WI 54115
Attention: Daniel J. Verbanac, COO
Facsimile: (920) 617-6070

With copies to:

Foley & Lardner LLP
777 East Wisconsin Avenue
Milwaukee, WI 53202
Attention: Allen W. Williams, Jr.
Jason W. Allen
Facsimile: (414) 297-4900

If to the Purchaser:

Macquarie Cook Power Inc.
One Allen Center
500 Dallas Street, Suite 3100
Houston, TX 77002
Attention: Benjamin Preston
Telephone: +1-713-275-6142
Facsimile: +1-713-275-6115

With a copy to:

Macquarie Cook Power Inc.
One Allen Center
500 Dallas Street, Suite 3100

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Houston, TX 77002

Attention: Patricia Jones, Legal Risk Management

Telephone: +1-713-275-6107

Facsimile: +1-713-275-6115

If to IEG:

Integrus Energy Group, Inc.

700 North Adams Street

Green Bay, WI 54301

Attention: Barth J. Wolf, Vice President, Chief Legal Officer and Secretary

Facsimile: (920) 433-1526

With copies to:

Foley & Lardner LLP

777 East Wisconsin Avenue

Milwaukee, WI 53202

Attention: Allen W. Williams, Jr.

Jason W. Allen

Facsimile: (414) 297-4900

Section 10.5 Governing Law; Submission to Jurisdiction; Selection of Forum; Waiver of Trial by Jury. THE AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT SUCH PRINCIPLES WOULD PERMIT OR REQUIRE THE APPLICATION OF LAWS OF ANOTHER JURISDICTION. Each Party hereto agrees that it shall bring any action or Proceeding in respect of any claim arising out of or related to this Agreement or the transactions contained in or contemplated by this Agreement and the Related Agreements, exclusively in the United States District Court for the Southern District of New York (or if subject matter jurisdiction before the federal court does not exist, then before the New York State Supreme Court for the Borough of Manhattan, in New York, New York) (the "Chosen Courts"), and solely in connection with claims arising under this Agreement or the transactions that are the subject of this Agreement or any of the Related Agreements (i) irrevocably submits to the exclusive jurisdiction of the Chosen Courts, (ii) waives any objection to laying venue in any such action or Proceeding in the Chosen Courts, (iii) waives any objection that the Chosen Courts are an inconvenient forum or do not have jurisdiction over any Party hereto and (iv) agrees that service of process upon such Party in any such action or Proceeding shall be effective if notice is given in accordance with Section 10.4 of this Agreement. Each Party hereto irrevocably

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designates C.T. Corporation as its agent and attorney in fact for the acceptance of service of process and making an appearance on its behalf in any such claim or Proceeding and for the taking of all such acts as may be necessary or appropriate in order to confer jurisdiction over it before the Chose Courts and each Party hereto stipulates that such consent and appointment is irrevocable and coupled with an interest. Each Party hereto irrevocably waives any and all right to trial by jury in any legal Proceeding arising out of or relating to this Agreement or the Contemplated Transactions.

Section 10.6 Amendment and Waiver. Any provision of this Agreement may be amended or waived if, and only if, such amendment or waiver is in writing and signed, in the case of an amendment, by the Purchaser and the Seller, or in the case of a waiver, by the Party against whom the waiver is to be effective. No failure or delay by any Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law except as otherwise provided in Article IX hereof.

Section 10.7 Entire Agreement.

(a) This Agreement, together with the Related Agreements, supersedes all prior agreements, whether written or oral, between the Parties with respect to its subject matter (including any letter of intent between the Parties related to the subject matter of this Agreement) and constitutes (along with the Schedules, Exhibits and other documents delivered pursuant to this Agreement) the entire agreement between the Parties with respect to its subject matter except for the Confidentiality Agreement, which shall remain in full force and effect until the Closing.

(b) In the case of any conflict between this Agreement and any of the Related Agreements, the relevant Related Agreement shall prevail except as expressly set forth in such Related Agreement.

Section 10.8 Assignments, Successors and No Third-Party Rights. No Party may, in whole or in part, assign any of its rights or interests or delegate any of its obligations under this Agreement without the prior written consent of both the Purchaser and the Seller, and any attempt to do so will be void; provided, however, that without prior written consent either the Purchaser or the Seller may pursuant to a corporate reorganization assign any of its rights or interests under this Agreement to any Affiliate so long as (a) the assignee is bound by this Agreement, (b) the assignee remains an Affiliate of the Purchaser or the Seller, as the case may be, and (c) such assignment does not prevent or materially impede, interfere with, or delay the Contemplated Transaction, increase the costs to non-assigning Party of the consummation of Contemplated Transaction or result in any Seller or its Affiliates incurring a Tax Liability in excess of the Tax Liability Seller or its Affiliates would otherwise incur without such designation. Subject to the preceding sentence, and except as otherwise expressly provided in

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Sections 9.2 and 9.3, this Agreement will apply to, be binding in all respects upon and inure to the benefit of the successors and permitted assigns of the Parties. Nothing expressed or referred to in this Agreement will be construed to give any Person other than the Parties to this Agreement any legal or equitable right, remedy or claim under or with respect to this Agreement or any provision of this Agreement, except such rights as shall inure to a successor or permitted assignee pursuant to this Section 10.8.

Section 10.9 Severability. The provisions of this Agreement shall be deemed severable and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof. If any provision of this Agreement, or the application thereof to any Person or any circumstance, is invalid or unenforceable, (a) a suitable and equitable provision shall be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision, and (b) the remainder of this Agreement and the application of such provision to other Persons or circumstances shall not be affected by such invalidity or unenforceability, nor shall such invalidity or unenforceability affect the validity or enforceability of such provision, or the application thereof, in any other jurisdiction.

Section 10.10 Execution of Agreement. This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original copy of this Agreement and all of which, when taken together, will be deemed to constitute one and the same agreement. The exchange of copies of this Agreement and of signature pages by facsimile or e-mail transmission shall constitute effective execution and delivery of this Agreement as to the Parties and may be used in lieu of the original Agreement for all purposes. Signatures of the Parties transmitted by facsimile or e-mail shall be deemed to be their original signatures for all purposes.

Section 10.11 Specific Performance. Subject to Section 8.2, the Parties hereto, including IEG (solely with respect to Section 7.9), acknowledge and agree that irreparable harm for which monetary damages would not be an adequate remedy would occur in the event of a breach of any of the terms or provisions of this Agreement related to effecting the Closing or Section 2.7(a) and (d) (Transferred Contracts; Other Assets), Section 2.8(a) (Trading Contracts), Section 2.9 (Exchange Traded Transactions), Section 2.10 (Mirror Transactions), Section 2.11 (ISO Contracts), Section 7.3 (Filings; Commercially Reasonable Efforts to Close), Section 7.6 (Transition Plans), Section 7.7 (Confidentiality) and Section 7.9 (Non-Competition). Accordingly, the Parties hereto, including IEG, agree that, in addition to other remedies, each of the Parties shall be entitled to specific performance without the necessity of proving the inadequacy of monetary damages as a remedy and to obtain injunctive relief against any such breaches or threatened breaches of this Agreement.

Section 10.12 Disclosures. Prior to the Closing Date, the Seller may, at its option, supplement or amend the Schedules with items that are not material in order to avoid any misunderstanding; provided, however, that any such inclusion, or any references to dollar amounts, shall not be deemed to effectuate an acknowledgment or representation that such items

ATTACHMENT G

CONFIDENTIAL TREATMENT REQUESTED FOR PORTIONS OF THIS DOCUMENT. PORTIONS FOR WHICH CONFIDENTIAL TREATMENT IS REQUESTED ARE DENOTED BY [CONFIDENTIAL TREATMENT REQUESTED]. MATERIAL OMITTED HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

are material, to establish any standard of materiality, or to define further the meaning of such terms for purposes of this Agreement. Other than with respect to supplements and amendments made in accordance with Section 2.10(b), (i) in the event that the Purchaser reasonably believes that the changes to the Schedules resulting from such supplements and amendments, considered collectively, will cause a closing condition set forth in Section 5.1 to fail to be satisfied, the Purchaser shall have the right to terminate this Agreement upon fifteen (15) Business Days notice from the date of such relevant supplement or amendment pursuant to Article VIII, and (ii) if the Purchaser does not exercise its right pursuant to clause (i) above, any supplement or amendment made pursuant this Section 10.12 shall not diminish, limit or waive the Seller's indemnification obligations under this Agreement.

[Remainder of page left blank intentionally]

Exhibit I Form of PPL Financial Trade Agreement

☒ Form Attached ☐

CONFIDENTIAL TREATMENT REQUESTED FOR PORTIONS OF THIS DOCUMENT. PORTIONS FOR WHICH CONFIDENTIAL TREATMENT IS REQUESTED ARE DENOTED BY [CONFIDENTIAL TREATMENT REQUESTED]. MATERIAL OMITTED HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

FIRST AMENDMENT TO PURCHASE AND SALE AGREEMENT

This **FIRST AMENDMENT TO PURCHASE AND SALE AGREEMENT** (this "**Amendment**") is dated and executed as of January 26, 2010, by and between Macquarie Cook Power Inc., ("**MCP**") a corporation organized and existing under the laws of the State of Delaware, Integrys Energy Services, Inc., ("**IES**") a Wisconsin corporation, and Integrys Energy Group, Inc., ("**IEG**") a Wisconsin corporation (collectively, the "**Parties**" and individually, a "**Party**").

BACKGROUND

WHEREAS, reference is made to that certain Purchase and Sale Agreement (the "**Agreement**"), dated December 23, 2009, between and among MCP, IES and IEG.

WHEREAS, the Parties wish to amend certain terms of the Agreement.

NOW, THEREFORE, the Parties hereby agree as follows:

1. DEFINITIONS.

Capitalized terms used in this Amendment, to the extent not otherwise defined herein, have the same meanings assigned to such terms in the Agreement, as amended hereby.

2. AMENDMENTS TO AGREEMENT.

2.1 Definition of "Initial Purchase Price"

The definition of "Initial Purchase Price" set forth in the Agreement shall be deleted in its entirety and replaced with the following: "**Initial Purchase Price**" means [CONFIDENTIAL TREATMENT REQUESTED]."

2.2 Section 2.9: Exchange Traded Transactions

The terms of Section 2.9 shall be deleted in their entirety and replaced with the terms set forth on Exhibit A hereto.

2.3 Section 2.16: Flattening Trade and New Trades

The terms of Section 2.16 shall be deleted in their entirety and replaced with the following:

"Flattening Trades and New Trades. On the Mirror Effective Date and on a monthly basis thereafter until the Mirror Confirm is terminated in its entirety,

Purchaser and Seller shall enter into one or more physically-settled transactions under the MCP-IES ISDA Master Agreement representing sales to Seller with respect to all requirements of the Seller during the applicable month to purchase additional physically-delivered electric energy, capacity, ancillary services, renewable energy certificates, or related products ("Electricity") or representing purchases from Seller during such month for any excess Electricity Seller may have in order to establish and maintain, to the extent reasonably practicable, a flattened position in Electricity for Seller during such month (such transactions, the "Flattening Trades"). All Flattening Trades shall be priced using the same or equivalent index price, ISO-published price or mutually-agreed price as specified in the relevant Mirror Transaction or Post-Mirror Trade."

2.4 Schedule 2.1(a)(ii)(A) – Master Agreements

The following is added as an additional Master Agreement on Schedule 2.1(a)(ii)(A): **"Kentucky Municipal Power Agency"**

2.5 Schedule 2.2(b): Initial Purchase Price Adjustment

Paragraph 1 in Schedule 2.2(b) is deleted in its entirety and replaced with the following: **"Initial Purchase Price Adjustment Amount" is defined as \$[CONFIDENTIAL TREATMENT REQUESTED]."**

2.6 Schedule 2.2(c): Final Purchase Price Adjustment

- (a) The "First Valuation Difference" referenced in the first sentence of Paragraph 2 shall be deleted and replaced with **"[CONFIDENTIAL TREATMENT REQUESTED]."**
- (b) The last sentence of Paragraph 2 of the Schedule is deleted in its entirety and replaced with the following: **"For purposes hereof, the MCPI First Valuation is [CONFIDENTIAL TREATMENT REQUESTED] and the IES First Valuation is [CONFIDENTIAL TREATMENT REQUESTED]."**
- (c) Paragraph 9, "Exchange Traded Contract Adjustment," is deleted in its entirety and replaced with the following:

"Exchange Traded Contract Adjustment" means the dollar amount (positive or negative) of the negative value of those Exchange Traded Transactions which are natural gas forward exchange traded transactions, calculated at the settlement price as of the close of trading on the Relevant Exchange on the Mirror Effective Date. For the avoidance of doubt, the parties acknowledge and agree that the Exchange Traded Transactions referenced above do not include power trades or option trades."

3. GENERAL PROVISIONS.

3.1 **Section Headings.** Headings and numbers have been set forth herein for convenience only. Unless the contrary is compelled by the context, everything contained in each Section applies equally to this entire Amendment.

3.2 **Severability of Provisions.** Each provision of this Amendment will be severable from every other provision of this Amendment for the purpose of determining the legal enforceability of any specific provision.

3.3 **Counterparts; Electronic Execution.** This Amendment may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, will be deemed to be an original, and all of which, when taken together, will constitute but one and the same Amendment. Delivery of an executed counterpart of this Amendment by facsimile or other then generally accepted means of electronic transmission (such as portable document format ("PDF")) will be equally as effective as delivery of an original executed counterpart of this Amendment. Any party delivering an executed counterpart of this Amendment by electronic means also will deliver an original executed counterpart of this Amendment but the failure to deliver an original executed counterpart will not affect the time of deemed delivery, validity, enforceability, or binding effect of this Amendment.

3.4 **Reference to Agreement; Effectiveness.** The Agreement, as amended hereby, and all other agreements, documents or instruments now or hereafter executed and delivered pursuant to the terms thereof are hereby amended so that any reference in the Agreement or such other agreements, documents and instruments will mean a reference to the Agreement, as amended hereby. This Amendment shall be deemed effective on and as of the date of execution of this Amendment. Except as hereby amended, the Agreement remains in full force and effect, and is hereby, in all respects, ratified and confirmed.

3.5 **Successors and Assigns.** This Amendment is binding upon and will inure to the benefit of Parties and their respective successors and assigns, subject to the provisions of Section 10.8 of the Agreement.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered as of the date first above written.

INTEGRYS ENERGY SERVICES, INC.

By: _____
Name:
Title:

INTEGRYS ENERGY GROUP, INC.

By: _____
Name:
Title:

MACQUARIE COOK POWER INC.

By: _____
Name: Benjamin Preston
Title: Executive Director

By: _____
Name: Patricia Jones
Title: Associate Director

EXHIBIT A**Section 2.9 Exchange Traded Transactions.**

(a) The Seller shall request of the Relevant Exchange (the "Exchange Request") that the Exchange Traded Transactions be transferred to the Purchaser in accordance with the rules and procedures of the Relevant Exchange (if applicable) from the commodity futures brokerage accounts of the Seller listed on Schedule 2.9(a) attached hereto, carried by the futures commission merchants (each an "FCM") listed thereon, to the account of the Purchaser as set forth below, and the Purchaser shall assume each Exchange Traded Transaction, by a novation effected pursuant to the applicable rules of the Relevant Exchange, if applicable. The Exchange Request shall be in form and substance reasonably satisfactory to the Seller and the Purchaser. To the extent that the transfer or conveyance of any of the Exchange Traded Transactions to the Purchaser requires the Consent of a Third Party or Governmental Authorization, the Seller and the Purchaser shall use commercially reasonable efforts, and cooperate with each other, to obtain promptly the relevant Consent or Governmental Authorization prior to the Mirror Effective Date.

(i) **Exchange Power Forwards.** On the Mirror Effective Date, Exchange Traded Transactions which are power forward transactions shall be transferred to Purchaser in one account at historical (original) prices via an ex-pit book transfer in accordance with the applicable rules of the Relevant Exchange. The Parties acknowledge that the Relevant Exchange shall transfer such transactions at the settlement price as of the close of trading on the Relevant Exchange on the Mirror Effective Date. Any difference between such transfer calculations shall be resolved by mutual agreement between the Parties and their respective brokerage accounts, such that the Parties are kept whole to the Relevant Exchange. The Purchase Price will not require adjustment due to the transfer of Exchange Power Forwards.

(ii) **Exchange Power Options.** On the Mirror Effective Date, Exchange Traded Transactions which are power option transactions shall be transferred to Purchaser in one account at historical (original) strike prices with no additional premium via an ex-pit book transfer in accordance with the applicable rules of the Relevant Exchange. The Purchase Price will not require adjustment due to the transfer of Exchange Power Options.

(iii) **Exchange Gas Options.** On the Mirror Effective Date, Exchange Traded Transactions which are natural gas option transactions with contract months on or after March 2010 shall be transferred from Seller to Purchaser through the execution of a new exchange-cleared options between Seller and Purchaser, such that the transactions will be transferred to Purchaser at the original strike prices of such transactions with no added premium. The Purchase Price will not require adjustment due to the transfer of Exchange Gas Options.

(iv) **Exchange Gas Forwards.** On February 1, 2010, Exchange Traded Transactions which are natural gas forward transactions with contract months on or after March 2010 shall be transferred from Seller to Purchaser through the execution of a new exchange-cleared swap between Seller and Purchaser, such that the transactions will be transferred to Purchaser at the settlement price as of the close of trading on the Relevant Exchange on January

29, 2010. The Purchase Price will be adjusted for such transactions in accordance with the Final Purchase Price Adjustment.

(b) If following the Mirror Effective Date this Agreement is terminated in accordance with the terms and conditions set forth in Article VIII, then with respect to **Exchange Power Forwards and Exchange Power Options**, on the Business Day immediately following the date that this Agreement is terminated, the Purchaser shall submit to the Relevant Exchange an Exchange Request that such Exchange Traded Transactions, or trades cleared on the Relevant Exchange that are substantially similar to such Exchange Traded Transactions (each a "Substitute Exchange Traded Transaction") be transferred to the Seller in accordance with the rules and procedures of the Relevant Exchange from the commodity futures brokerage accounts of the Purchaser listed on Schedule 2.9(b) attached hereto, carried by each FCM listed thereon, to the account of the Seller via an ex-pit, ex-Ring or ex-order book transfer, and the Seller shall assume each Substitute Exchange Traded Transaction, by a novation effected pursuant to the applicable rules of the Relevant Exchange. Each such transfer pursuant to this Section 2.9(b) shall be effected at the historic (original) price. The Exchange Request shall be in same form and have the same substance as that which was provided to the Relevant Exchange under Section 2.9(a).

(c) If following the Mirror Effective Date this Agreement is terminated in accordance with the terms and conditions set forth in Article VIII, then with respect to **Exchange Gas Options and Exchange Gas Forwards**, on the Business Day immediately following the date that this Agreement is terminated, the Purchaser and Seller shall enter into equal and off-setting exchange-cleared option and swap transactions, respectively, such that the Exchange Gas Options and Exchange Gas Forwards positions are transferred back to Seller. Each such transfer of Exchange Gas Options pursuant to this Section 2.9(c) shall be effected at the original strike prices of such transactions (with no premium payable), and each such transfer of Exchange Gas Forwards pursuant to this Section 2.9(c) shall be effected at the settlement price as of the close of trading on the Relevant Exchange on the trading date immediately preceding the date of such transfer. Other than as provided in Article VIII, the Parties intend that no additional consideration will be paid in respect of the Substitute Exchange Traded Transactions.

IN WITNESS WHEREOF, the Parties have executed this Agreement, all as of the date first above written.

INTEGRYS ENERGY SERVICES, INC.

By: _____
Name:
Title:

INTEGRYS ENERGY GROUP, INC. (solely with
respect to Section 2.13, Section 7.9, and Section
10.11)

By: _____
Name:
Title:

MACQUARIE COOK POWER INC.

By: _____
Name: Benjamin Preston
Title: Executive Director

By: _____
Name: Patricia Jones
Title: Associate Director

Exhibit A – Form of Assignment and Assumption Agreement

[X]Form Attached[X]

Exhibit B – Form of Bill of Sale

☒ Form Attached ☐

Exhibit C-1 – Form of Bangor Financial Trade Agreement

☒ Form Attached ☐

Exhibit C-2 Form of Bangor Supply Trade Agreement

☒ Form Attached ☒

Exhibit D – Form of Mirror Confirm

☒ Form Attached ☐

Exhibit E – Form of Novation Agreement

☒ Form Attached ☐

Exhibit F – Form of Purchaser Guarantee Agreement

☒ Form Attached ☐

Exhibit G – Form of Seller Guarantee Agreement

☒ Form Attached ☐

Exhibit H – Form of Indicated Transactions Letter of Credit

☒ Form Attached ☐

PERSONAL AND CONFIDENTIAL

April 2, 2009

Mark A. Radtke
3240 Crystal Creek Ct
Green Bay, WI 54313-8554

Re: Incentive Agreement

Dear Mark:

As you know, Integrys Energy Group, Inc., (the "Company") is engaged in a restructuring process for its wholly owned subsidiary, Integrys Energy Services, Inc. ("TEGE"). This restructuring may involve the sale or transfer of all or portions of TEGE's and its subsidiaries' business, and/or an internal reorganization or re-sizing of that business (collectively, the "TEGE Restructuring"). In an effort to ensure business continuity, preserve value and facilitate the TEGE Restructuring (the "Objective"), the Company is therefore willing to enter into this Incentive agreement (this "Agreement") with you, subject to the provisions set forth herein.

1. **Definitions.** In this Agreement, the following terms have the meanings indicated: (a) "Purchaser" means any person or entity that acquires part or all of TEGE or TEGE's business in connection with the TEGE Restructuring, specifically excluding TEGE itself, the Company, and any entity 80% or more of whose equity interest is owned, directly or indirectly, by the Company; and (b) "Acquisition" means the acquisition of part or all of TEGE or TEGE's business by a Purchaser in connection with the TEGE Restructuring.
2. **Eligibility Guidelines.** The Company, in its reasonable discretion, will determine whether you are eligible to receive an award of the target incentive ("TEGE Restructuring Incentive") under this Agreement. In determining your eligibility for the TEGE Restructuring Incentive, the Company will consider several factors including but not limited to the following:
 - a. The Company and TEGE obtain the Objective pursuant to the TEGE Restructuring;
 - b. You accomplish a sale of all or major core portions of the TEGE business obtaining full value for the forward book and the return of working capital;
 - c. You accomplish a sale of substantial parts of the TEGE business such as product or regional forward books;
 - d. You accomplish a timely wind-down of the TEGE business;
 - e. You accomplish an alternative result agreed to and approved by the Company;
 - f. You maintain a Company value perspective in all decisions;
 - g. You cooperate fully in achieving the TEGE Restructuring and meeting the Objective, including but not limited to cooperating with all constituents such as the Company management team, internal service provider, and third party service providers (investment bankers, consultants, outside counsel and others associated with the TEGE Restructuring.)

You have no entitlement to a TEGE Restructuring Incentive unless and until you are awarded a TEGE Restructuring Incentive by the Company.

3. **Amount and Payment.** The amount of your target TEGE Restructuring Incentive is **\$1,500,000 (One Million Five Hundred Thousand Dollars)**. This is a target amount only and may be modified by the Company in its discretion. As soon as practicable after the date on which the Company determines that the TEGE Restructuring has been completed (the "TEGE Restructuring Completion Date"), the Company shall determine under Paragraph 2 whether a TEGE Restructuring Incentive will be awarded. Unless a forfeiture condition identified in Paragraph 4 applies, or the Company determines you are otherwise ineligible to receive the TEGE Restructuring Incentive pursuant to Paragraph 2, the TEGE Restructuring Incentive will be paid as soon as reasonably possible after the date on which the Company awards a TEGE Restructuring Incentive to you but not later than March 15 of the calendar year following the calendar year in which the Company awards a TEGE Restructuring Incentive to you. The payment will be reflected as a bonus payment subject to usual and customary withholding amounts. It will be directly deposited into your primary account as shown in our records.

4. **Forfeiture.** You shall forfeit your right to the TEGE Restructuring Incentive if (i) you voluntarily terminate your employment with TEGE or the Company before the TEGE Restructuring Completion Date, except for a termination in conjunction with your accepting employment, with Company's consent, with a Purchaser in connection with an Acquisition; (ii) your employment is terminated by TEGE or the Company for cause before the TEGE Restructuring Completion Date; or (iii) you die or become disabled before the TEGE Restructuring Completion Date. For purposes of this Agreement, "cause" shall mean (I) your violation of Paragraph 5 (Confidentiality) or any other provision of this Agreement, (II) willful misconduct by you or regular neglect in the performance of your duties and responsibilities to TEGE or the Company, or unsatisfactory job performance by you, or (III) your violation of any written agreement between you and TEGE and/or the Company, or your violation of any TEGE or Company policy or agreement, including but not limited to any policy concerning fair employment practices, confidentiality, non-solicitation or non-competition. "Disability" or "disabled", shall have the meaning set forth in the long-term disability benefits plan (permanent disability) covering employees of TEGE or the Company.

5. **Confidentiality.** The TEGE Restructuring Incentive is payable to you only if you keep the existence and terms of this Agreement strictly confidential. You agree not to disclose this Agreement or any information concerning this Agreement to other employees of TEGE, the Company or its affiliates, or to any TEGE or Company customers or suppliers, or to any other third party, except your spouse, attorney, financial advisor, accountant, or as may be required by law. This confidentiality commitment on your part is material to this Agreement and will remain in full force and effect after any TEGE Restructuring Incentive is paid.

6. **Terms and Conditions.** The following terms and conditions also apply to this Agreement:
 - (i) The offer or provision of any TEGE Restructuring Incentive under this Agreement is not an offer of a contract of employment by TEGE or the Company and does not alter your current employment status with TEGE or the Company.

 - (ii) You may not sell, assign, pledge or otherwise transfer your right to any portion of the TEGE Restructuring Incentive, and any purported sale, assignment, pledge or transfer is void.

 - (iii) In the event that any arbitrator or court of competent jurisdiction holds or finds any term or provision of this Agreement to be invalid or illegal under applicable law, the remaining terms and provisions shall continue to be fully effective.

(iv) It is expressly understood and agreed that if you receive payment of the TEGE Restructuring Incentive in accordance with this Agreement, that payment is in addition to any other compensation or benefits for which you may be eligible by reason of your employment with TEGE or the Company. Notwithstanding the foregoing, in the event your Key Executive Employment and Severance Agreement with the Company dated January 1, 2009, is triggered prior to the TEGE Restructuring Completion Date, the Company reserves the right to modify the target TEGE Restructuring Incentive set forth herein.

(vi) Any amounts paid hereunder are not intended to constitute "deferred compensation" subject to the election and distribution requirements of Section 409A of the Internal Revenue Code.

(vii) Notwithstanding any other provision of this Agreement, if any portion of any TEGE Restructuring Incentive awarded to you, in conjunction with any other payment to which you are entitled under any other agreement with or plan of the Company or its affiliates (in its aggregate, "Total Payments"), would constitute an "excess parachute payment" that is subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any successor provision, then the Total Payments to be made to you shall be reduced such that the value of the aggregate Total Payments that you are entitled to receive shall be One Dollar (\$1) less than the maximum amount which you may receive without becoming subject to the tax imposed by Section 4999 of the Code (or any successor provision); provided that the foregoing reduction in the amount of Total Payments shall not apply if the after-tax value to you of the Total Payments prior to reduction in accordance with this paragraph is greater than the after-tax value to you if Total Payments are reduced in accordance with this paragraph. For purposes of determining the after-tax value of Total Payments, you will be deemed to pay federal income taxes and employment taxes at the highest marginal rate of federal income and employment taxation in the calendar year in which the TEGE Restructuring Incentive is to be paid and state and local income taxes at the highest marginal rates of taxation in the state and locality of your domicile for income tax purposes on the date the TEGE Restructuring Incentive payment is made, net of the maximum reduction in federal income taxes that may be obtained from deduction of such state and local taxes.

(viii) No verbal or written representations made by TEGE or Company employees or others that are contrary or in addition to the terms set forth in this Agreement shall be binding upon TEGE, the Company, or any other affiliate of the Company, or their respective shareholders, directors, officers, employees or agents. As used in this Agreement, the term "TEGE" also includes any successor in interest to TEGE. This Agreement may be amended only in a writing signed by you and by the Executive Chairman or President and CEO of the Company.

(ix) In the event of any dispute or controversy over the meaning or application of any provision of this Agreement, you and the Company shall meet to discuss the dispute and attempt to resolve it in good faith. If you and the Company are unable to resolve the dispute, however, you agree that it will be submitted to an arbitrator for final and binding resolution, pursuant to the rules of the American Arbitration Association. Any such arbitration shall take place in Wisconsin. This Agreement shall be governed by the internal laws of the State of Wisconsin.

(x) Any amounts paid hereunder shall not constitute compensation for purposes of any retirement plan or other plan, program, policy or contract covering the Company and its affiliates and shall not entitle you to a benefit under any plan, program, policy or

contract which is greater than the benefit to which you would have been entitled had such amounts not been paid.

Please confirm your agreement with and acceptance of the terms of this Agreement by dating and signing the enclosed copy and returning it to me no later than April 24, 2009.

Sincerely yours,

Larry L. Weyers
Executive Chairman
Integrus Energy Group, Inc.

Accepted and Agreed to:

Signature: _____

Print Name: _____

Date: _____