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Case Number : 02-1506-GA-CRS

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Section : 1 of 4

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Application

FILE

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Date Received	Renewal Certification Number	ORIGINAL CRS Case Number
		02-1506-GA-CRS

RENEWAL CERTIFICATION APPLICATION COMPETITIVE RETAIL NATURAL GAS SUPPLIERS

Please **type or print** all required information. Identify all attachments with an exhibit label and title (***Example: Exhibit A-16 - Company History***). All attachments should bear the legal name of the Applicant. Applicants should file completed applications and all related correspondence with the Public Utilities Commission of Ohio, Docketing Division, 13th Floor, 180 East Broad Street, Columbus, Ohio 43215-3793.

This PDF form is designed so that you may directly input information onto the form. You may also download the form by saving it to your local disk.

SECTION A - APPLICANT INFORMATION AND SERVICES

A-1 Applicant intends to renew its certificate as: (check all that apply)

☑ **Retail Natural Gas Aggregator** ☑ **Retail Natural Gas Broker** ☑ **Retail Natural Gas Marketer**

A-2 Applicant information:

Legal Name Integrys Energy Services, Inc.

Address 1716 Lawrence Drive, DePere WI 54115

Telephone No. 920-617-6100 Web site Address www.integrysenergy.com

Current PUCO Certificate No. 02-0300 (4) Effective Dates August 2, 2008 through August 2, 2010

A-3 Applicant information under which applicant will do business in Ohio:

Name Integrys Energy Services, Inc.

Address 300 W. Wilson Bridge Road, Suite 350, Worthington, OH 43085

Web site Address www.integrysenergy.com Telephone No. 614-844-4304

A-4 List all names under which the applicant does business in North America:

Integrys Energy Services of New York, Inc.
Integrys Energy Services of Canada, Corp.
Integrys Energy Services - Natural Gas, LLC
Quest Energy, LLC
WPS Power Development LLC

A-5 Contact person for regulatory or emergency matters:

Name Amy Klaviter Title Regulatory Compliance Analyst

Business Address 500 W. Madison St., Suite 3300, Chicago, IL 60661

Telephone No. 312-681-1855 Fax No. 312-681-1999 Email Address AKlaviter@integrysenergy.com

A-6 Contact person for Commission Staff use in investigating customer complaints:

Name Glenda O'Bannon Title Value Support

Business address 500 W. Madison St, Suite 3300, Chicago, IL 60661

Telephone No. 312-681-1866 Fax No. 312-681-1999 Email Address GO'Bannon@integrysenergy.c

A-7 Applicant's address and toll-free number for customer service and complaints

Customer service address 300 W. Wilson Bridge Road, Suite 350, Worthington, OH 43085

Toll-Free Telephone No. 888-367-4493 Fax No. 614-844-4305 Email Address columbus@integrysenergy.

A-8 Provide "Proof of an Ohio Office and Employee," in accordance with Section 4929.22 of the Ohio Revised Code, by listing name, Ohio office address, telephone number, and Web site address of the designated Ohio Employee

Name Charles Koontz Title Managing Director - DMM

Business address 300 W. Wilson Bridge Road, Suite 350, Worthington, OH 43085

Telephone No. 614-844-4324 Fax No. 614-844-4305 Email Address CAKoontz@integrysenergy.com

A-9 Applicant's federal employer identification number 39-1802356

A-10 Applicant's form of ownership: (Check one)

- ☐ **Sole Proprietorship**
- ☐ **Partnership**
- ☐ **Limited Liability Partnership (LLP)**
- ☐ **Limited Liability Company (LLC)**
- ☑ **Corporation**
- ☐ **Other**

A-11 (Check all that apply) Identify each natural gas company service area in which the applicant is currently providing service or intends to provide service, including identification of each customer class that the applicant is currently serving or intends to serve, for example: *residential, small commercial, and/or large commercial/industrial (mercantile) customers.* (A mercantile customer, as defined in Section 4929.01(L)(1) of the Ohio Revised Code, means a customer that consumes, other than for residential use, more than 500,000 cubic feet of natural gas per year at a single location within the state or consumes natural gas, other than for residential use, as part of an undertaking having more than three locations within or outside of this state. In accordance with Section 4929.01(L)(2) of the Ohio Revised Code, "Mercantile customer" excludes a not-for-profit customer that consumes, other than for residential use, more than 500,000 cubic feet of natural gas per year at a single location within this state or consumes natural gas, other than for residential use, as part of an undertaking having more than three locations within or outside this state that has filed the necessary declaration with the Public Utilities Commission.)

✓ Columbia Gas of Ohio	✓ Residential	✓ Small Commercial	✓ Large Commercial / Industrial
✓ Dominion East Ohio	✓ Residential	✓ Small Commercial	✓ Large Commercial / Industrial
✓ Duke Energy Ohio	✓ Residential	✓ Small Commercial	✓ Large Commercial / Industrial
✓ Vectren Energy Delivery of Ohio	☐ Residential	☐ Small Commercial	✓ Large Commercial / Industrial

A-12 If applicant or an affiliated interest previously participated in any of Ohio's Natural Gas Choice Programs, for each service area and customer class, provide approximate start date(s) and/or end date(s) that the applicant began delivering and/or ended services.

✓ **Columbia Gas of Ohio**

✓ Residential	Beginning Date of Service	4/97	End Date	
✓ Small Commercial	Beginning Date of Service	4/97	End Date	
✓ Large Commercial	Beginning Date of Service	5/86	End Date	
✓ Industrial	Beginning Date of Service	5/86	End Date	

✓ **Dominion East Ohio**

✓ Residential	Beginning Date of Service	10/00	End Date	
✓ Small Commercial	Beginning Date of Service	10/00	End Date	
✓ Large Commercial	Beginning Date of Service	12/95	End Date	
✓ Industrial	Beginning Date of Service	12/95	End Date	

✓ **Duke Energy Ohio**

✓ Residential	Beginning Date of Service	2/99	End Date	
✓ Small Commercial	Beginning Date of Service	2/99	End Date	
✓ Large Commercial	Beginning Date of Service	9/98	End Date	
✓ Industrial	Beginning Date of Service	12/92	End Date	

✓ **Vectren Energy Delivery of Ohio**

☐ Residential	Beginning Date of Service		End Date	
☐ Small Commercial	Beginning Date of Service		End Date	
☐ Large Commercial	Beginning Date of Service		End Date	
✓ Industrial	Beginning Date of Service	10/01	End Date	

A-13 If not currently participating in any of Ohio's four Natural Gas Choice Programs, provide the approximate start date that the applicant proposes to begin delivering services:

☐	Columbia Gas of Ohio	Intended Start Date	
☐	Dominion East Ohio	Intended Start Date	
☐	Duke Energy Ohio	Intended Start Date	
☐	Vectren Energy Delivery of Ohio	Intended Start Date	

PROVIDE THE FOLLOWING AS SEPARATE ATTACHMENTS AND LABEL AS INDICATED.

A-14 **Exhibit A-14 "Principal Officers, Directors & Partners,"** provide the names, titles, addresses and telephone numbers of the applicant's principal officers, directors, partners, or other similar officials.

A-15 **Exhibit A-15 "Corporate Structure,"** provide a description of the applicant's corporate structure, including a graphical depiction of such structure, and a list of all affiliate and subsidiary companies that supply retail or wholesale natural gas or electricity to customers in North America.

A-16 **Exhibit A-16 "Company History,"** provide a concise description of the applicant's company history and principal business interests.

A-17 **Exhibit A-17 "Articles of Incorporation and Bylaws**, provide the articles of incorporation filed with the state or jurisdiction in which the applicant is incorporated and any amendments thereto, ***only if the contents of the originally filed documents changed since the initial application.***

A-18 **Exhibit A-18 "Secretary of State,"** provide evidence that the applicant is still currently registered with the Ohio Secretary of the State.

SECTION B - APPLICANT MANAGERIAL CAPABILITY AND EXPERIENCE

PROVIDE THE FOLLOWING AS SEPARATE ATTACHMENTS AND LABEL AS INDICATED

B-1 **Exhibit B-1 "Jurisdictions of Operation,"** provide a current list of all jurisdictions in which the applicant or any affiliated interest of the applicant is, at the date of filing the application, certified, licensed, registered, or otherwise authorized to provide retail natural gas service, or retail/wholesale electric services.

B-2 **Exhibit B-2 "Experience & Plans,"** provide a current description of the applicant's experience and plan for contracting with customers, providing contracted services, providing billing statements, and responding to customer inquiries and complaints in accordance with Commission rules adopted pursuant to Section 4929.22 of the Revised Code and contained in Chapter 4901:1-29 of the Ohio Administrative Code.

B-3 **Exhibit B-3 "Summary of Experience,"** provide a concise and current summary of the applicant's experience in providing the service(s) for which it is seeking renewed certification (e.g., number and types of customers served, utility service areas, volume of gas supplied, etc.).

B-4 **Exhibit B-4 "Disclosure of Liabilities and Investigations,"** provide a description of all existing, pending or past rulings, judgments, contingent liabilities, revocations of authority, regulatory investigations, or any other matter that could adversely impact the applicant's financial or operational status or ability to provide the services for which it is seeking renewed certification since applicant last filed for certification.

B-5 **Exhibit B-5 "Disclosure of Consumer Protection Violations,"** disclose whether the applicant, affiliate, predecessor of the applicant, or any principal officer of the applicant has been convicted or held liable for fraud or for violation of any consumer protection or antitrust laws since applicant last filed for certification.

☑ **No** ☐ **Yes**

If Yes, provide a separate attachment labeled as Exhibit B-5 "Disclosure of Consumer Protection Violations," detailing such violation(s) and providing all relevant documents.

B-6 **Exhibit B-6 "Disclosure of Certification Denial, Curtailment, Suspension, or Revocation,"** disclose whether the applicant or a predecessor of the applicant has had any certification, license, or application to provide retail natural gas or retail/wholesale electric service denied, curtailed, suspended, or revoked, or whether the applicant or predecessor has been terminated from any of Ohio's Natural Gas Choice programs, or been in default for failure to deliver natural gas since applicant last filed for certification.

☑ **No** ☐ **Yes**

If Yes, provide a separate attachment, labeled as Exhibit B-6 "Disclosure of Certification Denial, Curtailment, Suspension, or Revocation," detailing such action(s) and providing all relevant documents.

SECTION C - APPLICANT FINANCIAL CAPABILITY AND EXPERIENCE

PROVIDE THE FOLLOWING AS SEPARATE ATTACHMENTS AND LABEL AS INDICATED

C-1 **Exhibit C-1 "Annual Reports,"** provide the two most recent Annual Reports to Shareholders. If applicant does not have annual reports, the applicant should provide similar information, labeled as Exhibit C-1, or indicate that Exhibit C-1 is not applicable and why.

C-2 **Exhibit C-2 "SEC Filings,"** provide the most recent 10-K/8-K Filings with the SEC. If applicant does not have such filings, it may submit those of its parent company. If the applicant does not have such filings, then the applicant may indicate in Exhibit C-2 whether the applicant is not required to file with the SEC and why.

C-3 **Exhibit C-3 "Financial Statements,"** provide copies of the applicant's two most recent years of audited financial statements (balance sheet, income statement, and cash flow statement). If audited financial statements are not available, provide officer-certified financial statements. If the applicant has not been in business long enough to satisfy this requirement, it shall file audited or officer-certified financial statements covering the life of the business.

C-4 **Exhibit C-4 "Financial Arrangements,"** provide copies of the applicant's current financial arrangements to conduct competitive retail natural gas service (CRNGS) as a business activity (e.g., guarantees, bank commitments, contractual arrangements, credit agreements, etc.)

C-5 **Exhibit C-5 "Forecasted Financial Statements,"** provide two years of forecasted financial statements (balance sheet, income statement, and cash flow statement) for the applicant's CRNGS operation, along with a list of assumptions, and the name, address, email address, and telephone number of the preparer.

C-6 **Exhibit C-6 "Credit Rating,"** provide a statement disclosing the applicant's current credit rating as reported by two of the following organizations: Duff & Phelps, Dun and Bradstreet Information Services, Fitch IBCA, Moody's Investors Service, Standard & Poors, or a similar organization. In instances where an applicant does not have its own credit ratings, it may substitute the credit ratings of a parent or affiliate organization, provided the applicant submits a statement signed by a principal officer of the applicant's parent or affiliate organization that guarantees the obligations of the applicant.

C-7 **Exhibit C-7 "Credit Report,"** provide a copy of the applicant's current credit report from Experion, Dun and Bradstreet, or a similar organization.

C-8 **Exhibit C-8 "Bankruptcy Information,"** provide a list and description of any reorganizations, protection from creditors, or any other form of bankruptcy filings made by the applicant, a parent or affiliate organization that guarantees the obligations of the applicant or any officer of the applicant in the current year or since applicant last filed for certification.

C-9 **Exhibit C-9 "Merger Information,"** provide a statement describing any dissolution or merger or acquisition of the applicant since applicant last filed for certification.

SECTION D – APPLICANT TECHNICAL CAPABILITY

PROVIDE THE FOLLOWING AS SEPARATE ATTACHMENTS AND LABEL AS INDICATED.

D-1 **Exhibit D-1 "Operations,"** provide a current written description of the operational nature of the applicant's business. Please include whether the applicant's operations will include the contracting of natural gas purchases for retail sales, the nomination and scheduling of retail natural gas for delivery, and the provision of retail ancillary services, as well as other services used to supply natural gas to the natural gas company city gate for retail customers.

D-2 **Exhibit D-2 "Operations Expertise,"** given the operational nature of the applicant's business, provide evidence of the applicant's current experience and technical expertise in performing such operations.

D-3 **Exhibit D-3 "Key Technical Personnel,"** provide the names, titles, email addresses, telephone numbers, and background of key personnel involved in the operational aspects of the applicant's current business.

Applicant Signature and Title President

Sworn and subscribed before me this 24th **day of** June **Month** 2010 **Year**

Daniel J. Verbanac President

Signature of official administering oath Claudia M Zelinka **Print Name and Title**

My commission expires on 11/8/10

"OFFICIAL SEAL"
CLAUDIA M. ZELINKA
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES 11/8/2010

The Public Utilities Commission of Ohio

Competitive Retail Natural Gas Service
Affidavit Form
(Version 1.07)

In the Matter of the Application of	)	
Integrys Energy Services, Inc.	)	**Case No.** 02 _ 1506 **-GA-CRS**
for a Certificate or Renewal Certificate to Provide	)	
Competitive Retail Natural Gas Service in Ohio.	)	

County of Cook
State of Illinois

Daniel J. Verbanac [Affiant], being duly sworn/affirmed, hereby states that:

(1) The information provided within the certification or certification renewal application and supporting information is complete, true, and accurate to the best knowledge of affiant.

(2) The applicant will timely file an annual report of its intrastate gross receipts and sales of hundred cubic feet of natural gas pursuant to Sections 4905.10(A), 4911.18(A), and 4929.23(B), Ohio Revised Code.

(3) The applicant will timely pay any assessment made pursuant to Section 4905.10 or Section 4911.18(A), Ohio Revised Code.

(4) Applicant will comply with all applicable rules and orders adopted by the Public Utilities Commission of Ohio pursuant to Title 49, Ohio Revised Code.

(5) Applicant will cooperate with the Public Utilities Commission of Ohio and its staff in the investigation of any consumer complaint regarding any service offered or provided by the applicant.

(6) Applicant will comply with Section 4929.21, Ohio Revised Code, regarding consent to the jurisdiction of the Ohio courts and the service of process.

(7) Applicant will inform the Public Utilities Commission of Ohio of any material change to the information supplied in the certification or certification renewal application within 30 days of such material change, including any change in contact person for regulatory or emergency purposes or contact person for Staff use in investigating customer complaints.

(8) Affiant further sayeth naught.

Affiant Signature & Title Daniel J. Verbanac President

Sworn and subscribed before me this 24th **day of** June **Month** 2010 **Year**

Daniel J. Verbanac President

Signature of Official Administering Oath Claudia M Zelinka

Print Name and Title

"OFFICIAL SEAL"
CLAUDIA M. ZELINKA
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES 11/8/2010

My commission expires on 11/8/10

A-14 **Exhibit A-14 "Principal Officers, Directors & Partners"** provide the names, titles, addresses and telephone numbers of the applicant's principal officers, directors, partners, or other similar officials.

Directors:

Bradley A. Johnson Integrys Energy Group, Inc. 700 North Adams St. P.O. Box 19001 Green Bay WI. 54307 (920) 433-6094 – P (920) 433-1693 – F BAJohnson@integrysgroup.com	Mark A. Radtke Integrys Energy Services, Inc. 1716 Lawrence Drive DePere WI. 54115 (920) 617-6053 – P (920) 433-1693 – F MARadtke@integrysenergy.com
William D. Laakso Integrys Energy Group, Inc. 700 North Adams St. P.O. Box 19001 Green Bay WI. 54307 (920) 433-1293 – P (920) 433-1693 – F TPMeinz@integrysgroup.com	Joseph P. O'Leary Integrys Energy Group, Inc. 700 North Adams St. P.O. Box 19001 Green Bay WI. 54307 (920) 433-1463 – P (920) 433-1693 – F JPOLeary@integrysgroup.com
Phillip M. Mikulsky Integrys Energy Group, Inc. 700 North Adams St. P.O. Box 19001 Green Bay WI 54304 (920) 433- 1448 – P (920) 433-1693 – F PMMikulsky@integrysgroup.com	Daniel J. Verbanac Integrys Energy Services, Inc. 1716 Lawrence Drive DePere WI. 54115 (920) 617-6058 – P (920) 433-1693 – F DJVerbanac@integrysenergy.com
James F. Schott Integrys Energy Group, Inc. 700 North Adams St. P.O. Box 19001 Green Bay WI. 54307 (920) 433-1350 – P (920) 433-1693 – F JFSchott@integrysgroup.com	Charles A. Schrock Integrys Energy Group, Inc. 130 E Randolph St Prudential - 18th Floor Chicago, IL 60601 P.O. Box 19001 (312) 228-5420 – P (920) 433-1693 – F CASchrock@integrysgroup.com

Officers:

Mark A. Radtke Chief Executive Officer Integrys Energy Services, Inc. 1716 Lawrence Drive DePere WI. 54115 (920) 617-6053 – P (920) 433-1693 – F MARadtke@integrysenergy.com	Daniel J. Verbanac President Integrys Energy Services, Inc. 1716 Lawrence Drive DePere WI. 54115 (920) 617-6058 – P (920) 433-1693 – F DJVerbanac@integrysenergy.com

Richard J. Bissing Senior Vice President Integrys Energy Services, Inc. 1716 Lawrence Drive DePere WI. 54115 (920) 617-6015 – P (920) 617-6070 – F RJBissing@integrysenergy.com	Bradley A. Johnson Treasurer 700 North Adams St. P.O. Box 19001 Green Bay WI. 54307 (920) 433-6094 – P (920) 433-1693 – F BAJohnson@integrysgroup.com
William J. Guc Vice President – Finance and Accounting and Controller Integrys Energy Services, Inc. 1716 Lawrence Drive DePere WI. 54115 (920) 617-6223 – P (920) 617-6070 - F WJGuc@integrysenergy.com	Ronnie E. Cardwell Vice President Integrys Energy Services, Inc. 1716 Lawrence Drive DePere WI. 54115 (920) 617-6216 – P (920) 617-6070 - F RECaldwell@integrysenergy.com
Leonardo G. Caro Vice President Integrys Energy Services, Inc. 2211 Old Earhard Rd Suite 175 Ann Arbor, MI 48105 DePere WI. 54115 (734) 761-2301 – P (734) 761-2140 - F LGCaro@integrysenergy.com	Dane E. Allen Assistant Secretary 700 North Adams St. P.O. Box 19001 Green Bay WI 54304 (920) 433-2632 - P (920) 433-1526 - F DEAllen@integrysgroup.com
Barth J. Wolf Secretary 700 North Adams St. P.O. Box 19001 Green Bay WI 54304 (920) 433-1727 – P (920) 433-1526 - F BJWolf@integrygroup.com	

A-15 **Exhibit A-15 "Corporate Structure,"** provide a description of the applicant's corporate structure, including a graphical depiction of such structure, and a list of all affiliate and subsidiary companies that supply retail or wholesale natural gas or electricity to customers in North America.

The following description states the relationship between Integrys Energy Group, Inc. ("TEG") and Integrys Energy Services, Inc ("TEGE Inc"). Below we also list the affiliate and subsidiary companies that supply retail or wholesale natural gas and electricity in North America. The attached diagram shows a detailed picture of the TEG corporate structure. We have also included an organizational chart **(Attachment A)**

AFFILIATE/DIVISION	ADDRESS	RELATIONSHIP
INTEGRYS ENERGY GROUP, INC.	130 EAST RANDOLPH DRIVE, CHICAGO, IL 60601	PARENT COMPANY OF INTEGRYS ENERGY SERVICES, INC.
INTEGRYS ENERGY SERVICES, INC.	1716 LAWRENCE DRIVE, DEPERE, WI 54115	NON-UTILITY SUBSIDIARY OF INTEGRYS ENERGY GROUP INVOLVED IN MARKETING RETAIL ELECTRIC POWER AND NATURAL GAS

TEGE Inc has six wholly owned subsidiaries, Integrys Energy Service - Natural Gas, LLC located in DePere, WI, Quest Energy LLC located in Ann Arbor, MI, Integrys Energy Services of New York, Inc. located in Buffalo, NY, Integrys Energy Services of Canada Corp. located in DePere, WI, Integrys Energy Services – Electric, LLC located in DePere, WI and WPS Power Development, LLC located in DePere, WI .

A-16 **<u>Exhibit A-16 "Company History,"</u>** provide a concise description of the applicant's company history and principal business interests.

On February 21, 2007, WPS Energy Services, Inc.'s name changed to Integrys Energy Services, Inc. (TEGE Inc). The name of the parent corporation also changed on that date from WPS Resources Corporation to Integrys Energy Group, Inc. This new name, Integrys, reflected the integration of Peoples Energy Corporation into the holding company structure. Integrys Energy Group, Inc. is a publicly traded (NYSE: "TEG") holding company based in Chicago, Illinois. TEGE Inc is a wholly owned direct subsidiary of Integrys Energy Group, Inc. On October 21, 2009 Integrys Energy Services - Natural Gas, LLC (TEGE LLC) was created as a separate legal entity. TEGE Inc intends to assign all of TEGE Inc.'s natural gas retail business to TEGE LLC after meeting required regulatory approvals and utility requirements necessary to effectuate the transfer. As TEGE LLC was certified by the Commission in April 2010 to be a competitive retail natural gas supplier, TEGE Inc has already begun these conversations with the intent to have all transfers completed by the end of 2010.

Headquartered in DePere, WI, TEGE Inc is a diversified unregulated energy supply company with principal operations in the states of Illinois, Michigan, Maine, New York, Ohio and Wisconsin. In addition, TEGE Inc is certified to serve retail electricity and/or retail natural gas in the states of Connecticut, Delaware, District of Columbia, Maryland, Maine, Rhode Island, Massachusetts, Pennsylvania, Ohio, Illinois, Wisconsin, Michigan, New Jersey and New Hampshire.

TEGE Inc acquired an Ohio-based natural gas marketer, Fuel Services Group, in October 1996. With the acquisition, Fuel Services Group was renamed FSG Energy Services and operated as a division of TEGE Inc. However, TEGE Inc gradually transitioned all customers' agreements to the Integrys Energy Services Inc brand name and operating company. As soon as practical, after all applicable customers are assigned to TEGE LLC, TEGE Inc intends to abandon its certificate of authority to serve natural gas retail customers in Ohio. However, TEGE Inc is in that process so during this transition TEGE still requires a Competitive Retail Natural Gas Marketer Certificate.

On February 25, 2009, TEG announced to either divest entirely or partially its nonregulated energy services business segment, TEGE Inc, or significantly reduce the scope and scale of this business. In September 2009, TEGE Inc closed a transaction to sell nearly all of its Canadian natural gas and electric power contract portfolio. In December 2009, TEGE Inc closed the first transaction of a two-part sales of its wholesale natural gas marketing business and signed an agreement to sell substantially all of its wholesale electric marketing and trading business. In January 2010, TEGE Inc closed a transaction to sell two power generation companies in Northern Maine and New Brunswick, Canada. In March 2010, TEGE Inc closed the sale of its environmental markets business. In June 2010, TEGE Inc sold all of its Texas retail electric marketing business.

TEGE Inc currently serves residential, small commercial, large commercial, industrial and aggregation customers in Ohio behind Duke Energy, Dominion East Ohio Gas, Columbia Gas and Vectren Energy Delivery.

A-17 **Exhibit A-17 "Articles of Incorporation and Bylaws,"** if applicable provide the articles of incorporation filed with the state or jurisdiction in which the applicant is incorporated and any amendments thereto.

Attached is the Articles of Amendment to the Articles of Incorporation and the Bylaws of TEGE Inc. **(Attachment B)**

A-18 **<u>Exhibit A-18 "Secretary of State,"</u>** provide evidence that the applicant is still currently registered with the Ohio Secretary of the State.

As of February 21, 2007, WPS Energy Services became TEGE Inc. Attached is a certificate of registration with the Ohio Secretary of State for WPS Energy Services; the name change certificate for TEGE Inc; and a printout from the Secretary of State website showing TEGE Inc. as active. **(Attachment C)**

B-1 <u>Exhibit B-1 "Jurisdictions of Operation,"</u> provide a current list of all jurisdictions in which the applicant or any affiliated interest of the applicant is, at the date of filing the application, certified, licensed, registered, or otherwise authorized to provide retail natural gas service, or retail or wholesale electric services.

TEGE Inc is a FERC licensed power marketer with the authority to participate in wholesale electric power markets throughout the U.S. Additionally, TEGE Inc or, as noted, an affiliate, is registered to provide retail electric service in the States of Ohio, Rhode Island, Massachusetts, Maine, Illinois, New Hampshire, Connecticut, Michigan, New York (Integrys Energy Services of New York, Inc.), Delaware, Maryland, District of Columbia, New Jersey and Pennsylvania. TEGE Inc is also a registered natural gas supplier in Iowa (large customers), New York (Integrys Energy Services of New York, Inc.), and Pennsylvania. TEGE Inc and its subsidiary TEGE LLC is a certified natural gas supplier in Ohio, Illinois, and Michigan

Among the other affiliates, WPS Power Development and Wisconsin Public Service Corporation (WPSC) hold power-marketing authority for wholesale markets, and WPSC, a public utility, is a retail gas and electric service provider in Wisconsin and the Upper Peninsula of Michigan. Upper Peninsula Power Company, a public utility, is also a retail electric service provider in Michigan's Upper Peninsula. Michigan Gas Utilities Corporation, a public utility, is a retail gas service provider in southern and western Michigan. The Peoples Gas Light and Coke Company and North Shore Gas Company, each a public utility, are retail gas service providers in Illinois. Minnesota Energy Resources Corporation, a public utility, is a retail gas service provider in Minnesota.

B-2 **<u>Exhibit B-2 "Experience & Plans,"</u>** provide a description of the applicant's experience and plan for contracting with customers, providing contracted services, providing billing statements, and responding to customer inquiries and complaints in accordance with Commission rules adopted pursuant to Section 4929.22 of the Revised Code and contained in Chapter 4901:1-29 of the Ohio Administrative Code.

TEGE Inc's ability to successfully serve as a CRNGS Provider is amply demonstrated through our past and current performance as both a retail electric and natural gas provider. We have been successful to date in the Ohio retail electric and gas markets. Our efforts comply with the requirements of Commission rules adopted pursuant to Section 4929.22 of the Revised Code and contained in Chapter 4901:1-29 of the Ohio Administrative Code. This includes such activities as telephone solicitation of customers, contracting with customers, providing contracted services, providing billing statements, and responding to customer inquiries and complaint.

TEGE Inc has a local office in Worthington, OH and has participated in Ohio Choice Programs since 1986 as Fuel Services Group, since 1994 under WPS Energy Services, and since 2007 as TEGE Inc. As of December, 2009, TEGE Inc served over 99,000 Ohio customers and delivered approximately 53,000 dekatherms of gas a day for both Choice and non-Choice customers through choice and various governmental aggregation programs.

Billing is accomplished with a combination of billing through the local distribution utility and using TEGE Inc's own proprietary billing system. TEGE Inc will provide a fully staffed and trained 24/7 call center to handle all customer questions and needs. Customer complaints are handled first through normal customer service channels but appropriately raised for management attention when circumstances dictate. TEGE Inc's customer complaint handling process is attached ("**Attachment D**"). An established internet site provides customer education content, program information and customer service access. This site contains links to specific information regarding the various communities served. Secure internet and telephone based enrollment options will also be available. Additional internet-based services include online access to consumption data, energy consulting and accounting services, and energy efficiency product sales.

TEGE Inc's performance in the natural gas market, coupled with our significant Ohio operations, shows our dedication to reliable service, our commitment to customer satisfaction, and our overall quality of energy supply service.

B-3 **<u>Exhibit B-3 "Summary of Experience,"</u>** provide a concise and current summary of the applicant's experience in providing the service(s) for which it is seeking renewed certification (e.g. number and types of customers served, utility service areas, volume of gas supplied, etc.).

In 2009, TEGE Inc had wholesale and retail natural gas sales of 639 BCF. TEGE Inc. through its office in Worthington, OH has participated in Ohio Choice Programs since 1986, as Fuel Services Group, since 1994 under WPS Energy Services and beginning in 2007 as TEGE Inc. TEGE Inc currently participates in the Columbia Gas of Ohio, Dominion East Ohio, and Duke Energy Choice Programs. In Ohio's Choice Programs, as of December 2009, TEGE Inc delivered approximately 20 Mcf/per customer to over 18,000 customers on Columbia Gas of Ohio; approximately 28 Mcf/per customer to over 49,000 customers on Dominion East Ohio; and approximately 24 Mcf/per customer to over 31,000 customers on Duke Energy.

TEGE Inc also serves non-choice customers throughout Ohio. These numbers are included in the list below.

Utility	Approximate Annual Volume for Year 2009 in Mcf	Approximate Number of Customers
Columbia Gas of Ohio	364,000	18,000
Dominion East Ohio	1,366,000	49,000
Duke Energy	744,000	31,000
Vectren	1,117,000	2

B-4 <u>Exhibit B-4 "Disclosure of Liabilities and Investigations."</u> provide a description of all existing, pending or past rulings, judgments, contingent liabilities, revocations of authority, regulatory investigations, or any other matter that could adversely impact the applicant's financial or operational status or ability to provide the services for which it is seeking renewed certification.

In Docket No. IN09-2-000, the Federal Energy Regulatory Commission (FERC) issued an order on October 24, 2008 approving a Stipulation and Consent Agreement between the Office of Enforcement and TEGE Inc. The Order resolved an investigation into certain self-reported violations by TEGE Inc of the FERC's capacity release policies, including circumvention of the posting and bidding requirements for released capacity and violations of the shipper-must-have-title requirement. TEGE Inc agreed to pay a civil penalty of $800,000 and to disgorge $194,505.78, plus interest, in unjust profits. TEGE Inc has completed the reporting requirements required by the FERC Order.

B-5 **<u>Exhibit B-5 "Disclosure of Consumer Protection Violations"</u>** disclose whether the applicant, affiliate, predecessor of the applicant, or any principal officer of the applicant has been convicted or held liable for fraud or for violation of any consumer protection or antitrust laws since applicant last filed for certification.

☑ **No** **Yes**

If yes, provide a separate attachment labeled as Exhibit B-5 "Disclosure of Consumer Protection Violations" detailing such violation(s) and providing all relevant documents.

B-6 **Exhibit B-6 "Disclosure of Certification Denial, Curtailment, Suspension, or Revocation"** disclose whether the applicant or a predecessor of the applicant has had any certification, license, or application to provide retail natural gas or retail/wholesale electric service denied, curtailed, suspended, or revoked, or whether the applicant or predecessor has been terminated from any of Ohio's Natural Gas Choice programs, or been in default for failure to deliver natural gas since last filed for certification.

☑ No Yes

If yes, provide a separate attachment labeled as Exhibit B-6 "Disclosure of Certification Denial, Curtailment, Suspension, or Revocation" detailing such action(s) and providing all relevant documents.

C-1 **<u>Exhibit C-1 "Annual Reports,"</u>** provide the two most recent Annual Reports to Shareholders. If applicant does not have annual reports, the applicant should provide similar information, labeled as Exhibit C-1, or indicate that Exhibit C-1 is not applicable and why.

TEGE Inc is a wholly owned subsidiary of Integrys Energy Group, Inc ("TEG"). Attached are the 2008 and 2009 Annual Reports for TEG. **(Attachment E)**

C-2 **<u>Exhibit C-2 "SEC Filings,"</u>** provide the most recent 10-K/8-K Filings with the SEC. If applicant does not have such filings, it may submit those of its parent company. If the applicant does not have such filings, then the applicant may indicate in Exhibit C-2 whether the applicant is not required to file with the SEC and why.

The TEGE Inc is not a registered entity and does not have such filings. Attached is our parent, TEG's 10-K for the year ended December 31, 2009 and latest 10-Q for TEG. **(Attachment F)**

C-3 **<u>Exhibit C-3 "Financial Statements,"</u>** provide copies of the applicant's two most recent years of audited financial statements (balance sheet, income statement, and cash flow statement). If audited financial statements are not available, provide officer certified financial statements. If the applicant has not been in business long enough to satisfy this requirement, it shall file audited or officer certified financial statements covering the life of the business.

Copies of the Integrys Energy Group, Inc.'s 2008 and 2009 Annual Reports are attached.

Please note pages 79-80 for summary income statement and balance sheet information by business segment. Please note page 36 for Consolidated Income Statements, page 37 for Consolidated Balance Sheets and page 39 for Consolidated Cash Flow Statement for Integrys Energy Group, Inc for the year ended December 31, 2009.

Please note pages 89-90 for summary income statement and balance sheet information by business segment. Please note page 49 for Consolidated Income Statements, page 50 for Consolidated Balance Sheets and page 52 for Consolidated Cash Flow Statement for Integrys Energy Group, Inc for the year ended December 31, 2008.

C-4 <u>**Exhibit C-4 "Financial Arrangements,"**</u> provide copies of the applicant's current financial arrangements to conduct competitive retail natural gas service (CRNGS) as a business activity (e.g., guarantees, bank commitments, contractual arrangements, credit agreements, etc.,).

Integrys Energy's operations in Ohio are to be internally funded. Our parent company, Integrys Energy Group, Inc. will provide financial guarantees as necessary to support these operations with respect to specific business activities. Integrys Energy Group, Inc. can guarantee Integrys Energy's financial commitments as necessitated by specific business activities as noted on page 66 of the 2009 Annual Report. Integrys Energy Group will increase this amount or make additional guarantees to other parties as necessary during the course of our Ohio business operations.

C-5 <u>**Exhibit C-5 "Forecasted Financial Statements,"**</u> provide two years of forecasted financial statements (balance sheet, income statement, and cash flow statement) for the applicant's CRNGS operation, along with a list of assumptions, and the name, address, email address, and telephone number of the preparer.

This Exhibit contains confidential and propriety information. This information has been submitted under seal and request for confidential treatment.

C-6 **<u>Exhibit C-6 "Credit Rating,"</u>** provide a statement disclosing the applicant's credit rating as reported by two of the following organizations: Duff & Phelps, Dun and Bradstreet Information Services, Fitch IBCA, Moody's Investors Service, Standard & Poor's, or a similar organization. In instances where an applicant does not have its own credit ratings, it may substitute the credit ratings of a parent or affiliate organization, provided the applicant submits a statement signed by a principal officer of the applicant's parent or affiliate organization that guarantees the obligations of the applicant.

TEGE Inc does not have a credit rating. Credit ratings for TEG, our parent, from Moody's and S&P are attached **(Attachment G).** TEG will guarantee TEGE Inc's financial commitments as necessitated by specific business activities. TEG will increase this amount or make additional guarantees to other parties as necessary during the course of our Ohio business operations.

C-7 **<u>Exhibit C-7 "Credit Report,"</u>** provide a copy of the applicant's credit report from Experion, Dun and Bradstreet, or a similar organization.

TEGE Inc's DUNS Number is 84-173-9824. For copyright reasons we cannot provide this report for TEGE Inc: a full credit report is available from Dun and Bradstreet on its website.

For more information contact our Regulatory Compliance Analyst, Amy Klaviter, via the telephone number or e-mail address identified in section A-5.

C-8 **<u>Exhibit C-8 "Bankruptcy Information,"</u>** provide a list and description of any reorganizations, protection from creditors, or any other form of bankruptcy filings made by the applicant, a parent or affiliate organization that guarantees the obligations of the applicant or any officer of the applicant in the current year or since applicant last filed for certification.

TEG, TEGE Inc, nor any of its subsidiaries have filed for any form of bankruptcy protection, including reorganization or protection from creditors, in the current year or two most recent previous years.

C-9 **Exhibit C-9 "Merger Information,"** provides a statement describing any dissolution or merger or acquisition of the applicant since within the five most recent years preceding the application, or any times as a participant in the Ohio Natural Gas Choice Programs.

Below is a list of the applicant and its' affiliates information regarding dissolution, merger and acquisitions in the five most recent years preceding the application.

- WPS Niagara Generation, LLC was sold to USRG Niagara Biomass, LLC on January 31, 2007.
- Nova Scotia Company was dissolved on January 23, 2007.
- Wedge Acquisition Corporation was merged into Peoples Energy Corporation on February 21, 2007.
- Integrys Energy Group, Inc. acquired Peoples Energy Corporation on February 21, 2007.
- WPS Resources Capital Corporation was dissolved on March 31, 2007.
- Integrys Business Support, LLC was formed on June 6, 2007.
- Peoples Energy Business Services, LLC was dissolved on December 31, 2007
- PERC Canada, Inc. was merged into Peoples Energy Resources Company, LLC on December 31, 2007.
- Mid-American Power, LLC was sold to DTE Energy Services on May 19, 2008
- Sun Devil Solar LLC was formed on June 4, 2008.
- Solar Man, LLC was formed on June 10, 2008
- Peoples Energy Services Corporation's assets were transferred to Integrys Energy Services, Inc. effective December 31, 2008.
- Integrys Energy Services Inc sold its energy management consulting business to Minneapolis-based U.S. Energy Services, Inc. in July 2009
- Integrys Energy Services – Electric, LLC was formed September 8, 2009
- Integrys Energy Services of Canada Corp. sold nearly all of it's Canadian natural gas and electric power contract portfolio to Shell Energy North America Inc. effective October 1, 2009
- Integrys Energy Services – Natural Gas, LLC was formed October 21, 2009
- Integrys Energy Services, Inc sold its wholesale natural gas marketing business to Sequent Energy Management L.P on December 7, 2009.
- Integrys Energy Services, Inc. has sold two power generation companies that own generation assets in northern Maine and New Brunswick, Canada to Algonquin Power & Utilities Corp on February 1, 2010.
- Integrys Energy Services, Inc. has sold its Environmental Markets business to EDF Trading North America, LLC ("EDF Trading") on March 15, 2010.
- Integrys Energy Services, Inc sold substantially all of its wholesale electric marketing and trading business to Macquarie Cook Power, Inc. on April 1, 2010.
- Integrys Energy Services, Inc sold all of its Texas retail electric marketing business on June 7, 2010.

D-1 **Exhibit D-1 "Operations"** provide a current written description of the operational nature of the applicant's business. Please include whether the applicant's operations will include the contracting of natural gas purchases for retail sales, the nomination and scheduling of retail natural gas for delivery, and the provision of retail ancillary services, as well as other services used to supply natural gas to the natural gas company city gate for retail customers.

TEGE Inc is a diversified unregulated natural gas and electricity retail company with principal operations in the States of Illinois, Michigan, Maine, New York, Ohio, and Wisconsin. In addition, TEGE Inc is certified to serve retail electricity and/or retail natural gas in the States of Connecticut, Delaware, District of Columbia, Illinois, Michigan, Ohio, Maine, Rhode Island, Massachusetts, Pennsylvania, New Hampshire, Maryland, Iowa, New York and New Jersey. Subsidiaries of TEGE Inc own and/or operate energy assets in Maine, New York, Oregon, Kentucky, Pennsylvania and Wisconsin. TEGE Inc intends to assign all of its natural gas retail customers to TEGE LLC, its wholly owned subsidiary, as soon as practical to continue to serve customers seamlessly. As TEGE LLC was certified by the Commission in April 2010 to be a competitive retail natural gas supplier, TEGE Inc has already begun these conversations with the intent to have all transfers completed by the end of 2010.

TEGE Inc will be primarily offering retail gas services with various product and pricing options in Ohio. TEGE Inc will serve primarily residential and small commercial customers individually or in aggregation. TEGE Inc, will nominate, forecast and schedule retail natural gas for delivery through utility's pipelines. TEGE Inc will continue to use a combination of utility billing services as well as our own customized billing.

TEGE Inc operations' staff includes incumbents with proven technical skills. As a participant in many class categories on the distribution systems across Ohio, the company's record is easily verified. The technical operations staff performs the nominations across the many interstate pipelines that run through Ohio. TEGE Inc's staff will continue to perform their own nominations on the various LDC EBB systems. Procurement and retail supply is handled out of the Worthington office using consolidated strategy with the corporate offices of TEGE Inc to maximize opportunity to the Ohio consumer. Staff in the Worthington office balances many interstate pipeline pools as well as LDC aggregate pools in their effort to minimize balancing challenges of the retail consumer. In addition TEGE Inc will maintain a technical staff on duty or on call twenty-four (24) hours each day to operate and maintain its facilities as needed.

D-2 **<u>Exhibit D-2 "Operations Expertise,"</u>** given the operational nature of the applicant's business, provide evidence of the applicant's experience and technical expertise in performing such operations.

As demonstrated through the past and current solid performance as a retail natural gas provider on Ohio's Choice Programs and as a natural gas aggregation provider, TEGE Inc has established itself as a successful CRNGS in Ohio.

TEGE Inc has participated in Ohio Choice Programs since 1986 as Fuel Services Group, since 1994 under WPS Energy Services and since 2007 as TEGE Inc. TEGE Inc currently participates in the Columbia Gas of Ohio, Dominion East Ohio, and CG&E Choice Programs. In Ohio's Choice Programs, as of December 2009, TEGE Inc delivered approximately 20 Mcf/per customer to over 18,000 customers on Columbia Gas of Ohio, approximately 28 Mcf/per customer to over 49,000 customers on Dominion East Ohio, and approximately 24 Mcf/per customer to over 31,000 customers on Duke Energy.

TEGE Inc has successfully brought the retail Choice customer in Ohio consistent value for their energy dollar by combining every procurement advantage available. TEGE Inc will continue to deliver the same or even improved quality of service and value to Ohio customers. Describing this strategy would include the contracting of local Appalachian producers to directly deliver their local well production to our pools. TEGE Inc along with TEGE LLC will be able to provide instant execution via the brokers on the NYMEX exchange including the derivative option products available to arbitrage the purchasing dollars. TEGE Inc's contracts with the interstate pipelines for capacity and storage services at discounted rates to pass this savings on to the consumer.

TEGE Inc will employ and utilize all of our experienced and fully trained employees who will continue to work with rules and practices established by the North American Energy Standards Board. As you can see from personnel backgrounds under D-3 of this application, TEGE Inc personnel have many years in the energy industry and most have utility background in their portfolio.

TEGE Inc has extensive experience serving electric and natural gas aggregation programs in Ohio.

D-3 **Exhibit D-3 "Key Technical Personnel,"** provide the names, titles, email addresses, telephone numbers, and background of key personnel involved in the operational aspects of the applicant's current business.

Perry, Scot - Retail Gas Trader
SJPerry@integrysenergy.com / 614-844-4322

Mr. Perry has worked in the energy industry since 1995 with experience in natural gas transportation, gas supply, and natural gas sales. In regards to natural gas supply, Mr. Perry has over 8 years of experience in this area. He has developed and executed strategies for natural gas supplies, pipeline transportation, storage services, and utility services in the U.S. on several interstate pipelines and local distribution companies. In his current role, Mr. Perry is responsible for maintaining a supply portfolio with an annual load of approximately 30 BCF

Mr. Perry holds a Bachelors of Science Degree in Business Administration from Miami University in Oxford, Ohio and a Masters Degree in Business Administration from the George Washington University.

Koontz, Charles - General Manager
CAKoontz@integrysenergy.com/ 614- 844-4324

Mr. Koontz joined Integrys Energy Services, Inc in 2005 to assist in developing the company's renewable energy portfolio to position the company's generation fleet for the nationwide shift towards low carbon, sustainable resources. Since then, Mr. Koontz expanded his role to be more comprehensive so that he was responsible for managing all of Integrys Energy Services, Inc's sustainability efforts nationwide. This led to the creation of the company's first retail renewable product line, Ecovation, which comprised of 8% renewable gas or carbon offsets.

Mr. Koontz is now responsible for Integrys Energy Services – Natural Gas LLC's retail market focused on providing energy products to the small commercial and residential markets nationwide. Mr. Koontz will oversee all of the operations, marketing and regulatory compliance for this segment of the company's business.

Mr. Koontz has over than 10 years of energy industry experience, in various areas ranging from product structuring to wholesale trading and asset development. Charles has a Bachelors of Science in engineering from Rice University and is a frequent speaker at energy seminars and trade shows.

George, David - Manager, Indirect Channel
DLGeorge@integrysenergy.com / 614-844-4328

Mr. George joined Integrys Energy Services in May 2006 and brings with him over 20 years of experience in the energy management and performance contracting market. He has extensive experience working with third parties vendors and agents to develop and implement their energy and sustainability programs. Mr. George has been instrumental in developing consultative-based services programs for healthcare, public education, industrial and regulated utilities.

Furthermore, he has been involved all aspects of the strategic business process, from hands-on client program management to training and education workshops.

In his current role, Mr. George is responsible for managing the agent and vendor sales channels that Integrys Energy Services – Natural Gas, LLC will utilize to support the small commercial and residential markets nationwide. He is also responsible for fully training and ensuring regulatory compliance from the sales aspect.

Mr. George has written several articles published in Trade Magazines with respect to energy and has been a keynote speaker at trade shows and energy industry roundtable groups. David holds a Bachelor's degree in Advertising and Journalism with a concentration in business marketing from The Ohio State University.

Vukovich, Ann - Ohio Market Manager

AMVukovich@integrysenergy.com 920-617-6013

Ms. Vukovich has 25 years of energy industry experience and is known for her passion and advocacy for delighting customers by leading and developing exceptional people, processes, and systems that deliver positive, memorable business experiences for customers. She has recently resumed profit and loss responsibility for Direct Mass Market and Aggregation business for the State of Ohio.

Ms. Vukovich joined Integrys Energy Services in January 2001 and successfully led the start-up of the electric and gas opt-out aggregation programs in Ohio and assumed profit and loss responsibility for the Standard Offer Service programs in the state of Maine. She was later promoted to the Director of Aggregation and had been, responsible for providing business planning, execution leadership, and oversight for the Aggregation Income Stream, having full responsibility for profit and loss of the income stream. The development of the opt-out electric and gas aggregation programs in Ohio required extensive regulatory interactions to resolve competitive market issues such as purchase of receivables, shopping credits, and switching fee rules. Under her leadership, the peak enrollment of 120,000 Ohio residential and small commercial customers and city facilities in multiple programs were served.

In 2005, Ms. Vukovich assumed leadership responsibility to deploy the Competitive Excellence initiative for the non-regulated entities. She learned the tools and techniques of the Lean Management System and successfully led the roll-out of the initiative and ensured strategic alignment with the parent company's strategies, goals, and objectives. In 2007, Ms. Vukovich was named the Director of Account Management providing overall leadership to the Account Management team, with primary responsibility to work in collaboration with the sales organization and other functional groups to support customers and provide the highest level of customer service and delight.

Prior to joining Integrys Energy Services, Ms. Vukovich began her energy industry career at Wisconsin Public Service Corporation (WPSC) in 1985 in Customer Service. Highlights from her 16 years of service include being responsible for the overall management of the credit function for a division of WPSC (4 counties), providing leadership for district credit personnel, field collectors, and customer service representatives to ensure timely collection of all customer accounts and compliance with related laws, state administrative code, and corporate credit policy. Ms. Vukovich was also instrumental in the development and implementation of a call center designed to centralize incoming customer calls from WPSC's nineteen outlying offices. In addition to completion of the centralization project, Ms. Vukovich provided leadership for the After Hours Emergency Dispatch Center. Lastly, she provided leadership for the WPSC Wholesale Energy Services team providing for the marketing and sales of wholesale electric power to municipalities and electric cooperatives.

Ms. Vukovich's education includes a Bachelor of Science degree in Psychology and Human Development from the University of Wisconsin – Green Bay. In addition, she completed academic course work in Education to teach Secondary Education - Broad Field Social Studies. Ms. Vukovich has also taken additional training and coursework in a wide variety of business and technical areas.

Klaviter, Amy - Regulatory Compliance Analyst

AKlaviter@integrysenergy.com / 312-681-1855

Ms. Klaviter began her career at Peoples Energy Services in July 1999 as an Account Analyst with Gas Nominations learning the tariffs and balancing pools. After a short time as an Account Analyst, Ms. Klaviter moved to the Gas Billing team working on reconciling account balances, daily billing activities, implementing a new system, addressing customers' issues and streamlining processes. In late 2001, Ms. Klaviter accepted the role of Electric Billing Specialist. Her primary responsibilities included daily billing activities, reconciling account balances and publishing monthly unbilled lists. She also assisted in training new employees on the electric market. Ms. Klaviter accepted the role of Market Analyst in 2004. Her focus was on completing all compliance filings in IL, MI, OH and NY, researching any requirements for new market entry and completing new market registrations. During that time, she became very familiar with the intricacies of each of the markets, specifically their rules and requirements. Since the merger with WPS Energy Services to create Integrys Energy Services in 2007, Ms. Klaviter has been in the role of Regulatory Compliance Analyst that expanded the area of filings and requirements to the entire Integrys footprint. Not only is she responsible for managing over 600 annual filings, but Ms Klaviter also completes any registration for new markets.

Ms. Klaviter received her Bachelors degree in Finance from Butler University.

McDermid, Debbie – Director, Core Contingent Leader

DLMcDermid@integrysenergy.com / 920-617-6059

Deb McDermid is the core contingent leader at Integrys Energy Services, Inc. Ms. McDermid joined Integrys Energy Services, Inc. in 1996 and was named the Director in charge of Retail Natural Gas Commercial and Industrial Accounts in 2001. She has direct profit and loss responsibilities for the retail commercial and industrial sales originating from six (6) of our regional offices located in the U.S. and three (3) provinces in Canada. As Director of this income stream, Ms. McDermid builds on her five years in a sales and service oriented role with Integrys Energy and takes a prominent role in the marketing, sales and product development of our retail natural gas service.

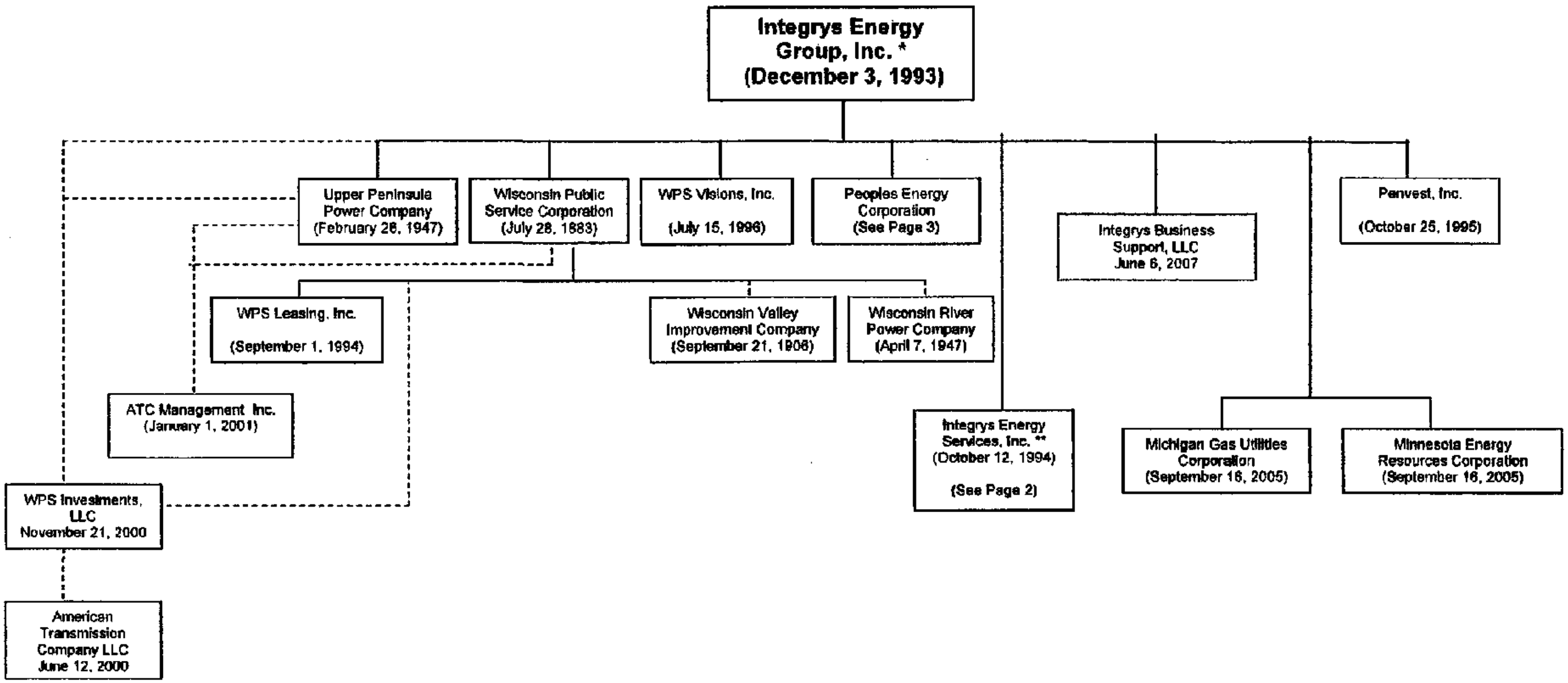
Ms. McDermid has over twelve (12) years of management experience, including over four (4) years of management experience with direct profit and loss responsibilities and nine (9) years of sales experience.

Ms. McDermid began her career with the regulated utility, Wisconsin Public Service Corporation (WPSC), in 1979, in the Customer Service Organization. While in the Customer Service Organization, she led the implementation of many key customer service initiatives including the design, development, testing, and implementation of their core customer information and billing system. In 1992, WPSC made the strategic corporate decision to centralize customer service calls from its 19 district offices and After Hours Emergency dispatch center. From 1993 until she joined Integrys Energy Services, Inc. in 1996, Ms. McDermid was responsible for providing project management and leadership for this corporate strategic initiative to centralize calls and create WPSC's Customer Communication Center.

Ms. McDermid holds a Bachelors degree in Business and an Associate degree in Accounting and participated in the Center for Creative Leadership program.

ATTACHMENT A

Integrys Energy Group, Inc. Organizational Chart
(as of April 5, 2010)

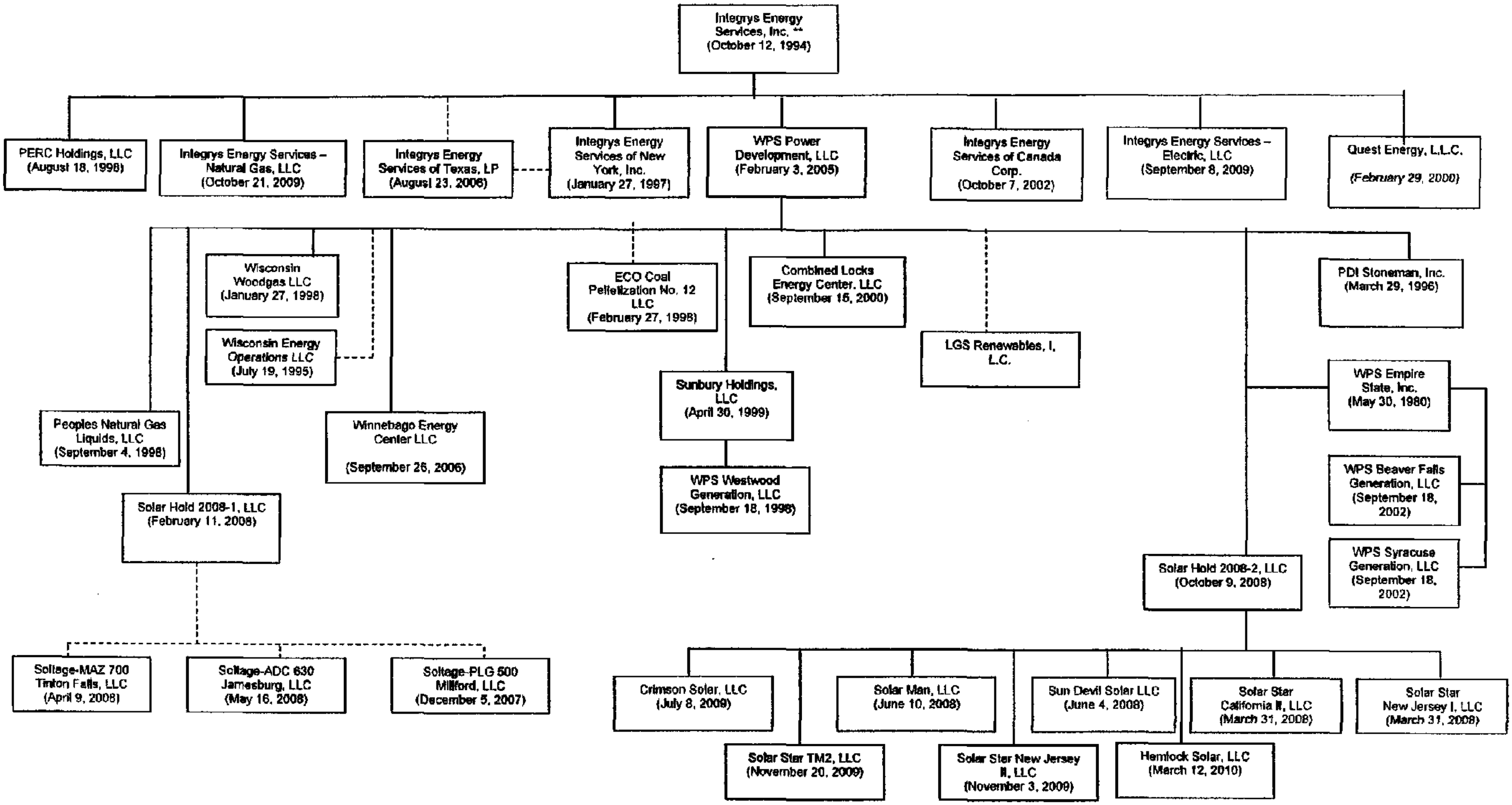


——— Wholly-owned subsidiary
- - - - Partial ownership

* Holding company structure became effective on September 9, 1994.
** FSG Energy Services is a division of Integrys Energy Services, Inc.

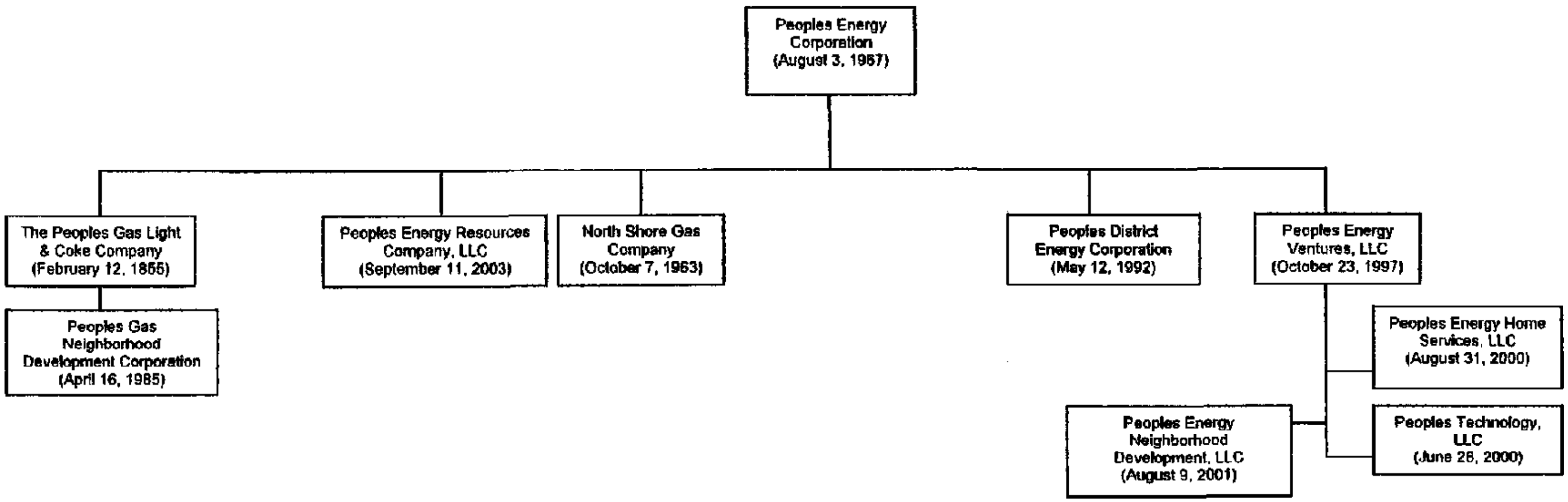
ATTACHMENT A

Integrys Energy Group, Inc. Organizational Chart
(as of April 5, 2010)



ATTACHMENT A

Integrys Energy Group, Inc. Organizational Chart
(as of April 5, 2010)



ATTACHMENT B

ARTICLES OF AMENDMENT
TO
ARTICLES OF INCORPORATION
OF
WPS ENERGY SERVICES, INC.

1. Name of the Corporation: WPS Energy Services, Inc.

2. Text of Amendment:

Article 1 of the Corporation's Articles of Incorporation is hereby amended in its entirety to provide as follows:

The name of the Corporation is Integrys Energy Services, Inc.

3. Adoption: The foregoing amendment to the Corporation's Articles of Incorporation was submitted to the Corporation's sole shareholder by the Board of Directors of the Corporation's and was approved and adopted by such sole shareholder on February 20, 2007, in accordance with Section 180.1003 of the Wisconsin Business Corporation Law.

IN WITNESS WHEREOF, the undersigned has executed these Articles of Amendment on behalf of the Corporation this 21st day of February, 2007.

By: Barth J. Wolf

Barth J. Wolf, Secretary

07 FEB 21 AM 9:40

This instrument was drafted by, and after filing should be returned to, David W. Clark of Foley & Lardner LLP, 777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202.

ATTACHMENT B

DFI Online Order

Articles of Amendment - Domestic Business - Form 4

Total price: $65.00

Received by DFI: 2/20/2007 3:33 PM

Order Details:

Name of Entity	WPS Energy Services, Inc.
Entity ID (if known)	W035184
How will Form 4 be submitted to DFI?	Walk-in
Date Form 4 will be submitted to DFI:	02/21/2007
Additional Instructions	Reference No. 083697-0160

Contact Information:

First Name	Carol
Last Name	Gunther
Company Name	Foley & Lardner LLP
Address Line 1	Foley & Lardner LLP
Address Line 2	777 East Wisconsin Avenue
City	Milwaukee
State	WI
Postal Code	53202
Country	UNITED STATES
Phone Number	414-297-5661
Email Address	cgunther@foley.com

Delivery:

Delivery Option	Express/courier delivery service (at your expense)
Carrier Name	Federal Express
Your Account Number	0532-0459-7
Ship To Name	Carol Gunther
Company Name	Foley & Lardner LLP
Phone Number	414-297-5661
Address Line 1	Foley & Lardner LLP
Address Line 2	777 East Wisconsin Avenue

ATTACHMENT B

City	Milwaukee
State/Province	WI
Postal Code	53202
Country	*UNITED STATES*

Fee Details:

Articles of Amendment - Domestic Business - Form 4:	$40.00
Expedite Fee:	$25.00
Total Fee:	**$65.00**

ATTACHMENT B

WPS ENERGY SERVICES, INC.

UNANIMOUS CONSENT OF SHAREHOLDER

Pursuant to Section 180.0704 of the Wisconsin Business Corporation Law, the undersigned, being the holder of all of the outstanding shares of WPS Energy Services, Inc., does hereby consent to the adoption of the following resolutions with the same effect as though adopted by a unanimous vote at a duly called and held meeting of shareholder of said corporation:

WHEREAS, in connection with the new management duties and responsibilities associated with the merger involving WPS Resources Corporation and Peoples Energy Corporation, it is desired to amend the By-Laws to increase the number of directors to seven and to change the current slate of directors.

RESOLVED, that the By-laws of WPS Energy Services, Inc. be amended and restated in the form attached hereto as Exhibit A.

FURTHER RESOLVED, that Larry L. Weyers be removed as Chairman of the board of directors, but remain as a director of WPS Energy Services, Inc.

FURTHER RESOLVED, that the following are elected as directors of WPS Energy Services, Inc., commencing on the effective date of this consent and until his or her successor is elected:

Thomas A. Nardi	
Mark A. Radtke	Chairman

Effective Date: February 21, 2007

WPS RESOURCES CAPITAL CORPORATION

By [signature]
Larry L. Weyers
Chairman, President and Chief Executive Officer

02-14-07

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Exhibit A

WPS ENERGY SERVICES, INC.

BY-LAWS

Effective February 21, 2007

ARTICLE I. OFFICES

1. The principal office of the Corporation in the State of Wisconsin shall be in the City of Green Bay. The Corporation may also have offices at such other places, within and outside of the State of Wisconsin, as the Board of Directors may designate or as the business of the Corporation may require.

2. Registered Office. The Board of Directors shall designate the registered office of the Corporation and may change such registered office by resolution.

ARTICLE II. SHAREHOLDERS

1. The annual meeting of the shareholders for the election of directors and for the transaction of such other business as may properly be brought before the meeting shall be held each year not later than the fourth Tuesday in May, on the date designated by the Board of Directors and specified in the notice of meeting. If the election of directors shall not be held on the day designated for any annual meeting of the shareholders, or at any adjournment thereof, the Board of Directors shall cause the election to be held at a special meeting of the shareholders as soon thereafter as convenient.

2. Special meetings of the shareholders may be called by the Chairman of the Board of Directors or the President or the Secretary, or by resolution of the Board of Directors. The Corporation shall call a special meeting of shareholders in the event that the holders of at least 10% of all the votes entitled to be cast on any issue proposed to be considered at the proposed special meeting sign, date and deliver to the Corporation one or more written demands for the meeting describing one or more purposes for which it is to be held.

3. Place of Meeting. Each meeting of shareholders, annual or special, shall be held at the principal office of the Corporation unless another place, either within or without the State of Wisconsin, has been designated by the Board of Directors and specified in the notice of such meeting, but any meeting of shareholders may be adjourned to reconvene at any place designated by a majority of the shares represented at such meeting.

4. Notice of Meetings. Written notice stating the date, time and place of the meeting and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten nor more than sixty days before the date of the meeting (unless a different time is provided by the Wisconsin Business Corporation Law or the Articles of Incorporation) to each shareholder of record entitled to vote at such meeting and to such other persons as required by the Wisconsin Business Corporation Law. Such notice shall be given by or at the direction of the officer or persons calling the meeting and shall be deemed to be delivered when deposited in the United States mail, postage prepaid, addressed to the shareholder of record at his address as it appears in the records of the Corporation. If any meeting of the shareholders is adjourned to another time or place, no notice of such adjourned meeting need be given other than by announcement thereof at the meeting at which such adjournment is taken; provided, however, that if a new record date for an adjourned meeting is or must be fixed, the Corporation shall give notice of the adjourned meeting to persons who are shareholders as of the new record date.

5. Waiver of Notice. A shareholder may waive any notice required by the Wisconsin Business Corporation Law, the Articles of Incorporation or these By-laws before or after the date and time stated in the notice. The waiver shall be in writing and signed by the shareholder entitled to the notice, contain the same information that would have been required in the notice under applicable provisions of the Wisconsin Business Corporation Law (except that the time and place of meeting need not be stated) and be delivered to the Corporation for inclusion in the corporate records. A shareholder's attendance at a meeting, in person or by proxy, waives objection to all of the following: (a) lack of notice or defective notice of the meeting, unless the shareholder at the beginning of the meeting or promptly upon arrival objects to holding the meeting or transacting business at the meeting; and (b) consideration of a particular matter at the meeting that is not within the purpose described in the meeting notice, unless the shareholder objects to considering the matter when it is presented.

6. Fixing of Record Date. The Board of Directors may fix in advance a date as the record date for the purpose of determining shareholders entitled to notice of and to vote at any meeting of shareholders, shareholders entitled to demand a special meeting as contemplated by Section 2 of this Article II, shareholders entitled to take any other action, or shareholders for any other purpose. Such record date shall not be more than seventy days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken. If no record date is fixed by the Board of Directors or by the Wisconsin Business Corporation Law for the determination of shareholders entitled to notice of and to vote at a meeting of shareholders, the record date shall be the close of business on the day before the first notice is given to shareholders. If no record date is fixed by the Board of Directors or by the Wisconsin Business Corporation Law for the determination of shareholders entitled to demand a special meeting as contemplated in Section 2 of this Article II, the record date shall be the date that the first shareholder signs the demand. Except as provided by the Wisconsin Business Corporation Law for a court-ordered adjournment, a determination of shareholders entitled to notice of and to vote at a meeting of shareholders is effective

for any adjournment of such meeting unless the Board of Directors fixes a new record date, which it shall do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting. The record date for determining shareholders entitled to a distribution (other than a distribution involving a purchase, redemption or other acquisition of the Corporation's shares) or a share dividend is the date on which the Board of Directors authorized the distribution or share dividend, as the case may be, unless the Board of Directors fixes a different record date.

7. Shareholders' List for Meetings. After a record date for a special or annual meeting of shareholders has been fixed, the Corporation shall prepare a list of the names of all of the shareholders entitled to notice of the meeting. The list shall be arranged by class or series of shares, if any, and show the address of and number of shares held by each shareholder. Such list shall be available for inspection by any shareholder, beginning two business days after notice of the meeting is given for which the list was prepared and continuing to the date of the meeting, at the Corporation's principal office or at a place identified in the meeting notice in the city where the meeting will be held. A shareholder or his or her agent may, on written demand, inspect and, subject to the limitations imposed by the Wisconsin Business Corporation Law, copy the list, during regular business hours and at his or her expense, during the period that it is available for inspection pursuant to this Section. The Corporation shall make the shareholders' list available at the meeting and any shareholder or his or her agent or attorney may inspect the list at any time during the meeting or any adjournment thereof. Refusal or failure to prepare or make available the shareholders' list shall not affect the validity of any action taken at a meeting of shareholders.

8. Quorum and Voting Requirements. Shares entitled to vote as a separate voting group may take action on a matter at a meeting only if a quorum of those shares exists with respect to that matter. Pursuant to Article IV of the Articles of Incorporation, except as otherwise provided by law or in or pursuant to the provisions of Article III of the Articles of Incorporation, the holders of a majority of the shares entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders. Once a share is represented for any purpose at a meeting, other than for the purpose of objecting to holding the meeting or transacting business at the meeting, it is considered present for purposes of determining whether a quorum exists for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for the adjourned meeting. If a quorum exists, except in the case of the election of directors, action on a matter shall be approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless the Articles of Incorporation or the Wisconsin Business Corporation Law requires a greater number of affirmative votes. Unless otherwise provided in the Articles of Incorporation, each director shall be elected by a plurality of the votes cast by the shares entitled to vote in the election of directors at a meeting at which a quorum is present. Though less than a quorum of the outstanding votes of a voting group are represented at a meeting, a majority of the votes so represented may adjourn the meeting from time to time without further notice. At such adjourned meeting at which a

quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified.

9. Proxies. At all meetings of shareholders, a shareholder may vote his or her shares in person or by proxy. A shareholder may appoint a proxy to vote or otherwise act for the shareholder by signing an appointment form, either personally or by his or her attorney-in-fact. An appointment of a proxy is effective when received by the Secretary or other officer or agent of the Corporation authorized to tabulate votes. An appointment is valid for eleven months from the date of its signing unless a different period is expressly provided in the appointment form.

10. Acceptance of Instruments Showing Shareholder Action. If the name signed on a vote, consent, waiver or proxy appointment corresponds to the name of a shareholder, the Corporation, if acting in good faith, may accept the vote, consent, waiver or proxy appointment and give it effect as the act of a shareholder. If the name signed on a vote, consent, waiver or proxy appointment does not correspond to the name of a shareholder, the Corporation, if acting in good faith, may accept the vote, consent, waiver or proxy appointment and give it effect as the act of the shareholder if any of the following apply:

a. The shareholder is an entity and the name signed purports to be that of an officer or agent of the entity.

b. The name purports to be that of a personal representative, administrator, executor, guardian or conservator representing the shareholder and, if the Corporation requests, evidence of fiduciary status acceptable to the Corporation is presented with respect to the vote, consent, waiver or proxy appointment.

c. The name signed purports to be that of a receiver or trustee in bankruptcy of the shareholder and, if the Corporation requests, evidence of this status acceptable to the Corporation is presented with respect to the vote, consent, waiver or proxy appointment.

d. The name signed purports to be that of a pledgee, beneficial owner, or attorney-in-fact of the shareholder and, if the Corporation requests, evidence acceptable to the Corporation of the signatory's authority to sign for the shareholder is presented with respect to the vote, consent, waiver or proxy appointment.

e. Two or more persons are the shareholders as co-tenants or fiduciaries and the name signed purports to be the name of at least one of the co-owners and the person signing appears to be acting on behalf of all co-owners.

The Corporation may reject a vote, consent, waiver or proxy appointment if the Secretary or other officer or agent of the Corporation who is authorized to tabulate votes, acting in good faith, has reasonable basis for doubt about the validity of the signature on it or about the signatory's authority to sign for the shareholder.

ARTICLE III. BOARD OF DIRECTORS

1. General Powers. The business and affairs of the Corporation shall be managed by its Board of Directors. The Board shall determine the nature and character of the business to be conducted by the Corporation and the method of doing so; what employees, agents and officers shall be employed and their compensation; and what purchases or contracts for purchase shall be made. The Board may delegate any of its aforesaid powers to committees or to officers, agents or employees as it may from time to time determine.

2. Number of Directors. The number of Directors of the Corporation shall be seven (7).

3. Term. At each annual meeting of shareholders, the directors shall be elected to hold office until the next annual meeting of shareholders, and until their successors are elected and qualify.

4. Qualifications. No director shall be eligible for re-election after attaining the age of seventy (70) years. Directors need not be shareholders of the Corporation or residents of the State of Wisconsin.

5. Meetings. The Board of Directors shall hold its meetings at such place or places, within or without the State of Wisconsin, as the Board may from time to time determine.

   a. A meeting of the Board of Directors, to be known as the annual meeting, may be held, without notice, immediately after and at the same place as the annual meeting of the shareholders at which such Board is elected, for the purpose of electing the officers of the Corporation and to transact such other business as may come before the Board. Such annual meeting may be held at a different place than the annual meeting of shareholders and/or on a date subsequent to the annual meeting of shareholders, if notice of such different place and/or date has been given to or waived by all the directors.

   b. Regular meetings of the Board of Directors may be held without call and without notice, at such times and in such places as the Board may by resolution from time to time determine.

   c. Special meetings of the Board of Directors may be called at any time by the Chairman of the Board or the Chief Executive Officer and shall be called by the Secretary of the Corporation upon the written request of three or more directors.

6. Notice; Waiver. Notice of each special meeting of the Board of Directors shall be given by written notice delivered or communicated in person, by telegraph, teletype, facsimile or other form of wire or wireless communication, or by mail or private carrier, to each director at his business address or at such other address as such director shall have designated in writing filed with the Secretary, in each case not less than forty-eight hours prior to the meeting. The notice need not prescribe the purpose of the special meeting of the Board of Directors or the business to be transacted at such meeting. If mailed, such notice shall be deemed to be effective when deposited in the United States mail so addressed, with postage thereon prepaid. If notice is given by telegram, such notice shall be deemed to be effective when the telegram is delivered to the telegraph company. If notice is given by private carrier, such notice shall be deemed to be effective when delivered to the private carrier. Whenever any notice whatever is required to be given to any director of the Corporation under the Articles of Incorporation or these By-laws or any provision of the Wisconsin Business Corporation Law, a waiver thereof in writing, signed at any time, whether before or after the date and time of meeting, by the director entitled to such notice shall be deemed equivalent to the giving of such notice. The Corporation shall retain any such waiver as part of the permanent corporate records. A director's attendance at or participation in a meeting waives any required notice to him or her of the meeting unless the director at the beginning of the meeting or promptly upon his or her arrival objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting.

7. Quorum. Except as otherwise provided by the Wisconsin Business Corporation Law or by the Articles of Incorporation or these By-laws, a majority of the number of directors specified in Section 2 of Article III of these By-laws shall constitute a quorum for the transaction of business at any meeting of the Board of Directors. Except as otherwise provided by the Wisconsin Business Corporation Law or by the Articles of Incorporation or by these By-laws, a quorum of any committee of the Board of Directors created pursuant to Section 3 hereof shall consist of a majority of the number of directors appointed to serve on the committee. A majority of the directors present (though less than such quorum) may adjourn any meeting of the Board of Directors or any committee thereof, as the case may be, from time to time without further notice.

8. Manner of Acting. The affirmative vote of a majority of the directors present at a meeting of the Board of Directors or a committee thereof at which a quorum is present shall be the act of the Board of Directors or such committee, as the case may be, unless the Wisconsin Business Corporation Law, the Articles of Incorporation or these By-laws require the vote of a greater number of directors.

9. Minutes of Meetings. Minutes of any regular or special meeting of the Board of Directors shall be prepared and distributed to each director.

10. Vacancies. Except as provided below, any vacancy occurring in the Board of Directors, including a vacancy resulting from an increase in the number of directors, may be filled by any of the following: (a) the shareholders; (b) the Board of Directors; or (c) if the directors remaining in office constitute fewer than a quorum of the Board of Directors, the directors, by the affirmative vote of a majority of all directors remaining in office. If the vacant office was held by a director elected by a voting group of shareholders, only the holders of shares of that voting group may vote to fill the vacancy if it is filled by the shareholders, and only the remaining directors elected by that voting group may vote to fill the vacancy if it is filled by the directors. A vacancy that will occur at a specific later date, because of a resignation effective at a later date or otherwise, may be filled before the vacancy occurs, but the new director may not take office until the vacancy occurs.

11. Compensation. The Board of Directors, irrespective of any personal interest of any of its members, may establish reasonable compensation of all directors for services to the Corporation as directors, officers or otherwise, or may delegate such authority to an appropriate committee. The Board of Directors also shall have authority to provide for or delegate authority to an appropriate committee to provide for reasonable pensions, disability or death benefits, and other benefits or payments, to directors, officers and employees and to their estates, families, dependents or beneficiaries on account of prior services rendered by such directors, officers and employees to the Corporation.

12. Presumption of Assent. A director who is present and is announced as present at a meeting of the Board of Directors or any committee thereof created in accordance with Section 13 of this Article III, when corporate action is taken, assents to the action taken unless any of the following occurs: (a) the director objects at the beginning of the meeting or promptly upon his or her arrival to holding the meeting or transacting business at the meeting; (b) the director's dissent or abstention from the action taken is entered in the minutes of the meeting; or (c) the director delivers written notice that complies with the Wisconsin Business Corporation Law of his or her dissent or abstention to the presiding officer of the meeting before its adjournment or to the Corporation immediately after adjournment of the meeting. Such right of dissent or abstention shall not apply to a director who votes in favor of the action taken.

13. Committees. The Board of Directors by resolution adopted by the affirmative vote of a majority of all of the directors then in office may create one or more committees, appoint members of the Board of Directors to serve on the committees and designate other members of the Board of Directors to serve as alternates. Each committee shall have two or more members who shall, unless otherwise provided by the Board of Directors, serve at the pleasure of the Board of Directors. A committee may be authorized to exercise the authority of the Board of Directors, except that a committee may not do any of the following: (a) authorize distributions; (b) approve or propose to shareholders action that the Wisconsin Business Corporation Law requires to be approved by shareholders; (c) fill vacancies on the Board of Directors or, unless

the Board of Directors provides by resolution that vacancies on a committee shall be filled by the affirmative vote of the remaining committee members, on any Board committee; (d) amend the Corporation's Articles of Incorporation; (e) adopt, amend or repeal By-laws; (f) approve a plan of merger not requiring shareholder approval; (g) authorize or approve reacquisition of shares, except according to a formula or method prescribed by the Board of Directors; and (h) authorize or approve the issuance or sale or contract for sale of shares, or determine the designation and relative rights, preferences and limitations of a class or series of shares, except that the Board of Directors may authorize a committee to do so within limits prescribed by the Board of Directors. Unless otherwise provided by the Board of Directors in creating the committee, a committee may employ counsel, accountants and other consultants to assist it in the exercise of its authority.

14. Telephonic Meetings. Except as herein provided and notwithstanding any place set forth in the notice of the meeting or these By-laws, members of the Board of Directors (and any committees thereof created pursuant to Section 13 of this Article III) may participate in regular or special meetings by, or through the use of, any means of communication by which all participants may simultaneously hear each other, such as by conference telephone. If a meeting is conducted by such means, then at the commencement of such meeting the presiding officer shall inform the participating directors that a meeting is taking place at which official business may be transacted. Any participant in a meeting by such means shall be deemed present in person at such meeting. If action is to be taken at any meeting held by such means on any of the following: (a) a plan of merger or share exchange; (b) a sale, lease, exchange or other disposition of substantial property or assets of the Corporation; (c) a voluntary dissolution or the revocation of voluntary dissolution proceedings; or (d) a filing for bankruptcy, then the identity of each director participating in such meeting must be verified by the disclosure at such meeting by each such director of each such director's social security number to the secretary of the meeting before a vote may be taken on any of the foregoing matters. For purposes of the preceding clause (b), the phrase "sale, lease, exchange or other disposition of substantial property or assets" shall mean any sale, lease, exchange or other disposition of property or assets of the Corporation having a net book value equal to 10% or more of the net book value of the total assets of the Corporation on and as of the close of the fiscal year last ended prior to the date of such meeting and as to which financial statements of the Corporation have been prepared but shall exclude any mortgage, pledge or encumbering of property or assets or the dedication thereof to the repayment of indebtedness, whether with or without recourse, and whether or not in the usual and regular course of business. Notwithstanding the foregoing, no action may be taken at any meeting held by such means on any particular matter which the presiding officer determines, in his or her sole discretion, to be inappropriate under the circumstances for action at a meeting held by such means. Such determination shall be made and announced in advance of such meeting.

15. Action without Meeting. Any action required or permitted by the Wisconsin Business Corporation Law to be taken at a meeting of the Board of Directors

or a committee thereof created pursuant to Section 13 of this Article III may be taken without a meeting if the action is taken by all members of the Board or of the committee. The action shall be evidenced by one or more written consents describing the action taken, signed by each director or committee member and retained by the Corporation. Such action shall be effective when the last director or committee member signs the consent, unless the consent specifies a different effective date.

ARTICLE IV. OFFICERS

1. The principal officers of the Corporation required by statute shall be a President, such number of Vice Presidents as may be elected by the Board of Directors, a Secretary, and a Treasurer. The Board of Directors may elect from among the directors a Chairman of the Board of Directors and a Vice Chairman of the Board of Directors, may designate such Chairman, Vice Chairman or any principal officer as the Chief Executive Officer, may elect such assistant secretaries and assistant treasurers and other officers as it shall deem necessary, and may prescribe by resolution their respective powers and duties.

2. The President shall be elected by the directors. Unless the Board of Directors otherwise prescribes, he shall be the Chief Executive Officer of the Corporation. In the event that the President is not the Chief Executive Officer, he shall have such powers and duties as the Board of Directors may prescribe.

3. If a Chairman of the Board of Directors shall be elected, he shall preside as Chairman of all meetings of the shareholders and of the Board of Directors. He shall have such other authority as the Board may from time to time prescribe. If there is no Chairman of the Board, or in the absence of the Chairman, the presiding officer at meetings of the shareholders, and of the Board of Directors shall be another officer in the following order of priority: Vice Chairman of the Board of Directors, President and Vice Presidents (subject, however, to Section 5 of this Article).

4. The Chief Executive Officer shall exercise active supervision over the business, property and affairs of the Corporation.

    a. The Chief Executive Officer shall have authority, subject to such rules as may be prescribed from time to time by the Board or its committees, to appoint agents or employees other than those elected by the Board, to prescribe their powers and duties, and to delegate such authority as he may see fit. Any agent or employee not elected by the Board shall hold office at the discretion of the Chief Executive Officer or other officer employing him.

    b. The Chief Executive Officer is authorized to sign, execute and acknowledge, on behalf of the Corporation, all deeds, mortgages, bonds, notes, debentures, contracts, leases, reports and other documents and instruments, except where the signing and execution thereof by some other officer or agent shall be expressly authorized and directed by law or by the Board or by these By-laws. Unless otherwise provided by law or by the Board, the Chief Executive Officer may authorize any officer, employee or agent to sign, execute and acknowledge, on behalf of the Corporation, and in his place and stead, all such documents and instruments.

c. Unless otherwise ordered by the Board of Directors, the Chief Executive Officer, or a proxy appointed by him, shall have full power and authority, in the name of and on behalf of the Corporation, to attend, act, and vote at any meeting of the shareholders of any other corporation in which the Corporation may hold shares of stock. At any such meeting, he shall possess and may exercise any and all rights and powers incident to the ownership of shares of stock.

d. The Chief Executive Officer shall have such other powers and perform such other duties as are incident to the office of Chief Executive Officer and as may be prescribed by the Board.

5. Vice Presidents. In the absence of the President or during his inability or refusal to act, his powers and duties shall temporarily devolve upon such Vice Presidents or other officers as shall be designated by the Board of Directors or, if not designated by the Board, by the Chief Executive Officer or other officer to whom such power may be delegated by the Board; provided, that no Vice President or other officer shall act as a member or chairman of any committee of the Board of Directors of which the President is a member or chairman, except at the direction of the Board.

a. Each Vice President shall have such powers and perform such other duties as may be assigned to him by the Board or by the President, including the power to sign, execute and acknowledge all documents and instruments referred to in Section 4 of this Article.

b. The Board may assign to any Vice President, general supervision and charge over any branch of the business and affairs of the Corporation, subject to such limitations as it may elect to impose.

c. The Board of Directors may, if it chooses, designate one or more of the Vice Presidents "Executive Vice President" with such powers and duties as the Board shall prescribe.

6. The Secretary shall attend, and keep the minutes of, meetings of the shareholders, of the Board of Directors and, unless otherwise directed by any such committee, of all committees, in books provided for that purpose; shall have custody of the corporate records and seal; shall see that notices are given and records and reports properly kept and filed as required by law or by these By-laws; and, in general, shall

have such other powers and perform such other duties as are incident to the office of Secretary and as may be assigned to him by the Board of Directors or the Chief Executive Officer.

7. Assistant Secretaries. In the absence of the Secretary, or during his inability or refusal to act, his powers and duties shall temporarily devolve upon such one of the Assistant Secretaries as the President or the Board of Directors may direct. The Assistant Secretaries shall have such other powers and perform such other duties as may be assigned to them by the Board, the Chief Executive Officer or the Secretary.

8. The Treasurer shall have charge and custody of the funds, securities and other evidences of value of the Corporation, and shall keep and deposit them as required by the Board of Directors. He shall keep proper accounts of all receipts and disbursements and of the financial transactions of the Corporation. He shall render statements of such accounts and of money received and disbursed by him and of property and money belonging to the Corporation as required by the Board. The Treasurer shall have such other powers and perform such other duties as are incident to the office of Treasurer and as from time to time may be prescribed by the Board or the Chief Executive Officer.

9. Assistant Treasurers. In the absence of the Treasurer, or during his inability or refusal to act, his powers and duties shall temporarily devolve upon such one of the Assistant Treasurers as the President or the Board of Directors may direct. The Assistant Treasurers shall have such other powers and perform such other duties as from time to time may be assigned to them, respectively, by the Board, the Chief Executive Officer or the Treasurer.

10. Other Assistants and Acting Officers. The Board of Directors shall have the power to appoint any person to act as assistant to any officer, or as agent for the Corporation in his or her stead, or to perform the duties of such officer whenever for any reason it is impracticable for such officer to act personally, and such assistant or acting officer or other agent so appointed by the Board of Directors or an authorized officer shall have the power to perform all the duties of the office to which he or she is so appointed to be an assistant, or as to which he or she is so appointed to act, except as such power may be otherwise defined or restricted by the Board of Directors.

11. Compensation. The salaries or other compensation of all officers elected as provided under Section 1 of this Article (other than assistant officers) shall be fixed from time to time by the Board of Directors. The salaries or other compensation of all other agents and employees of the Corporation shall be fixed from time to time by the Chief Executive Officer, but only within such limits as to amount, and in accordance with such other conditions as may be prescribed by or under the authority of the Board of Directors.

12. Tenure. Each officer shall hold office until his successor shall have been duly elected and qualified, or until his death, resignation, disqualification or

removal. Any officer, agent or employee may be removed, with or without cause, at any time by the Board of Directors notwithstanding the contract rights, if any, of the officer removed. The appointment of an officer does not of itself create contract rights.

13. Resignation. An officer may resign at any time by delivering notice to the Corporation that complies with the Wisconsin Business Corporation Law. The resignation shall be effective when the notice is delivered, unless the notice specifies a later effective date and the Corporation accepts the later effective date.

14. Vacancies. Any vacancy in any office may be filled by the Board of Directors for the unexpired portion of the term. If a resignation of an officer is effective at a later date as contemplated by Section 13 of this Article IV, the Board of Directors may fill the pending vacancy before the effective date if the Board provides that the successor may not take office until the effective date.

15. Reassignment of Duties. In case of the absence or disability of any officer of the Corporation, or for any other reason deemed sufficient by the Board of Directors, the Board may reassign or delegate the powers and duties, or any of them, to any other officer, director, or person it may select.

ARTICLE V. CERTIFICATES FOR AND TRANSFER OF SHARES

1. Form. Certificates representing shares of the Corporation shall be in such form as shall be determined by the Board of Directors. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the Corporation. All certificates surrendered for the transfer shall be cancelled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except in case of a lost or destroyed certificate provided for in Section 4 of this Article V or a certificate for shares transferred in compliance with the escheat laws of any state.

2. Signatures. Certificates representing shares of the Corporation shall be signed by the President or a Vice President and by the Secretary or an Assistant Secretary; and may be sealed with the seal of the Corporation (which may be a facsimile) and countersigned and registered in such manner, if any, as the Board of Directors may prescribe. Whenever any certificate is manually signed on behalf of a transfer agent, or a registrar, other than the Corporation itself or an employee of the Corporation, the signatures of the President, Vice President, Secretary or Assistant Secretary, upon such certificate may be facsimiles. In case any officer who has signed, or whose facsimile signature has been placed upon such certificate, ceases to be such officer before such certificate is issued, it may be issued with the same effect as if he were such officer at the date of its issue.

3. Restrictions on Transfer. The face or reverse side of each certificate representing shares shall bear a conspicuous notation of any restriction imposed by the Corporation upon the transfer of such shares.

4. Lost, Destroyed or Stolen Certificates. Where the owner claims that his certificate for shares has been lost, destroyed or wrongfully taken, a new certificate shall be issued in place thereof if the owner (a) so requests before the Corporation has notice that such shares have been acquired by a bona fide purchaser, (b) files with the Corporation a sufficient indemnity bond, and (c) satisfies such other reasonable requirements as may be prescribed by or under the authority of the Board of Directors.

5. Transfer of Shares. Prior to due presentment of a certificate for shares for registration of transfer the Corporation may treat the registered owner of such shares as the person exclusively entitled to vote, to receive notifications and otherwise to have and exercise all the rights and powers of an owner. Where a certificate for shares is presented to the Corporation with a request to register for transfer, the Corporation shall not be liable to the owner or any other person suffering loss as a result of such registration of transfer if (a) there were on or with the certificate the necessary endorsements, and (b) the Corporation had no duty to inquire into adverse claims or has discharged any such duty. The Corporation may require reasonable assurance that said endorsements are genuine and effective and compliance with such other regulations as may be prescribed by or under the authority of the Board of Directors.

6. Consideration for Shares. The Board of Directors may authorize shares to be issued for consideration consisting of any tangible or intangible property or benefit to the Corporation, including cash, promissory notes, services performed, contracts for services to be performed or other securities of the Corporation. Before the Corporation issues shares, the Board of Directors shall determine that the consideration received or to be received for the shares to be issued is adequate. The determination of the Board of Directors is conclusive insofar as the adequacy of consideration for the issuance of shares relates to whether the shares are validly issued, fully paid and nonassessable. The Corporation may place in escrow shares issued in whole or in part for a contract for future services or benefits, a promissory note, or otherwise for property to be issued in the future, or make other arrangements to restrict the transfer of the shares, and may credit distributions in respect of the shares against their purchase price, until the services are performed, the benefits or property are received or the promissory note is paid. If the services are not performed, the benefits or property are not received or the promissory note is not paid, the Corporation may cancel, in whole or in part, the shares escrowed or restricted and the distributions credited.

7. Other Rules. The Board of Directors shall have the power and authority to make all such further rules and regulations not inconsistent with the statutes of the State of Wisconsin as it may deem expedient concerning the issue, transfer and registration of certificates representing shares of the Corporation, including the appointment and designation of Transfer Agents and Registrars.

ARTICLE VI. INDEMNIFICATION OF OFFICERS AND DIRECTORS

1. Mandatory Indemnification.

a. In all cases other than those set forth in Section 1b hereof, subject to the conditions and limitations set forth hereinafter in this Article VI, the Corporation shall indemnify and hold harmless any person who is or was a party, or is threatened to be made a party, to any Action (see Section 16 of this Article VI for definitions of capitalized terms used herein) by reason of his or her status as an Executive, and/or as to acts performed in the course of such Executive's duties to the Corporation and/or an Affiliate, against Liabilities and reasonable Expenses incurred by or on behalf of an Executive in connection with any Action, including, without limitation, in connection with the investigation, defense, settlement or appeal of any Action; provided, pursuant to Section 3, that it is not determined by the Authority, or by a court, that the Executive engaged in misconduct which constitutes a Breach of Duty.

b. To the extent an Executive has been successful on the merits or otherwise in connection with any Action, including, without limitation, the settlement, dismissal, abandonment or withdrawal of any such Action where the Executive does not pay, incur or assume any material Liabilities, or in connection with any claim, issue or matter therein, he or she shall be indemnified by the Corporation against reasonable Expenses incurred by or on behalf of him or her in connection therewith. The Corporation shall pay such Expenses to the Executive (net of all Expenses, if any, previously advanced to the Executive pursuant to Section 2), or to such other person or entity as the Executive may designate in writing to the Corporation, within ten (10) days after the receipt of the Executive's written request therefore, without regard to the provisions of Section 3. In the event the Corporation refuses to pay such requested Expenses, the Executive may petition a court to order the Corporation to make such payment pursuant to Section 4.

c. Notwithstanding any other provision contained in this Article VI to the contrary, the Corporation shall not:

(i) Indemnify, contribute or advance Expenses to an Executive with respect to any Action initiated or brought voluntarily by the Executive and not by way of defense, except with respect to Actions:

(a) brought to establish or enforce a right to indemnification, contribution and/or an advance of Expenses under Section 4 of this Article VI, under the Statute as it may then be in effect or under any other statute or law or otherwise as required;

(b) Initiated or brought voluntarily by an Executive to the extent such Executive is successful on the merits or otherwise in connection with such an Action in accordance with and pursuant to Section Ib of this Article VI; or

(c) as to which the Board determines it to be appropriate.

(ii) indemnify the Executive under this Article VI for any amounts paid in settlement of any Action effected without the Corporation's written consent.

The Corporation shall not settle in any manner which would impose any Liabilities or other type of limitation on the Executive without the Executive's written consent. Neither the Corporation nor the Executive shall unreasonably withhold their consent to any proposed settlement.

d. An Executive's conduct with respect to an employee benefit plan sponsored by or otherwise associated with the Corporation and/or an Affiliate for a purpose he or she reasonably believes to be in the interests of the participants in and beneficiaries of such plan is conduct that does not constitute a breach or failure to perform his or her duties to the Corporation or an Affiliate, as the case may be.

2. Advance for Expenses.

a. The Corporation shall pay to an Executive, or to such other person or entity as the Executive may designate in writing to the Corporation, his or her reasonable Expenses incurred by or on behalf of such Executive in connection with any Action, or claim, issue or matter associated with any such Action, in advance of the final disposition or conclusion of any such Action (or claim, issue or matter associated with any such Action), within ten (10) days after the receipt of the Executive's written request therefore; provided, the following conditions are satisfied:

(i) the Executive has first requested an advance of such Expenses in writing (and delivered a copy of such request to the Corporation) from the insurance carrier(s), if any, to whom a claim has been reported under an applicable insurance policy purchased by the Corporation and each such insurance carrier, if any, has declined to make such an advance;

(ii) the Executive furnishes to the Corporation an executed written certificate affirming his or her good faith belief that he or she has not engaged in misconduct which constitutes a Breach of Duty; and

(iii) the Executive furnishes to the Corporation an executed written agreement to repay any advances made under this Section 2 if it is ultimately determined that he or she is not entitled to be indemnified by the Corporation for such Expenses pursuant to this Article VI.

b. If the Corporation makes an advance of Expenses to an Executive pursuant to this Section 2, the Corporation shall be subrogated to every right of recovery the Executive may have against any insurance carrier from whom the Corporation has purchased insurance for such purpose.

3. Determination of Right to Indemnification.

a. Except as otherwise set forth in this Section 3 or in Section 1c, any indemnification to be provided to an Executive by the Corporation under Section la of this Article VI upon the final disposition or conclusion of any Action, or any claim, issue or matter associated with any such Action, unless otherwise ordered by a court, shall be paid by the Corporation to the Executive (net of all Expenses, if any, previously advanced to the Executive pursuant to Section 2), or to such other person or entity as the Executive may designate in writing to the Corporation, within sixty (60) days after the receipt of the Executive's written request therefore. Such request shall include an accounting of all amounts for which indemnification is being sought. No further corporate authorization for such payment shall be required other than this Section 3.

b. Notwithstanding the foregoing, the payment of such requested indemnifiable amounts pursuant to Section 1a may be denied by the Corporation if:

(i) the Board by a majority vote thereof determines that the Executive has engaged in misconduct which constitutes a Breach of Duty; or

(ii) a majority of the directors of the Corporation are a party in interest to such Action.

c. In either event of nonpayment pursuant to Section 3b, the Board shall immediately authorize and direct, by resolution, that an independent determination be made as to whether the Executive has engaged in misconduct which constitutes a Breach of Duty and, therefore, whether indemnification of the Executive is proper pursuant to this Article VI.

d. Such independent determination shall be made, at the option of the Executive(s) seeking indemnification, by (i) a panel of three arbitrators (selected as set forth below in Section 3f from the panels of arbitrators of the American Arbitration Association) in Milwaukee, Wisconsin, in accordance with the Commercial Arbitration Rules then prevailing of the American

Arbitration Association; (ii) an independent legal counsel mutually selected by the Executive(s) seeking indemnification and the Board by a majority vote of a quorum thereof consisting of directors who were not parties in interest to such Action (or, if such quorum is not obtainable, by the majority vote of the entire Board); or (iii) a court in accordance with Section 4 of this Article VI.

e. In any such determination there shall exist a rebuttable presumption that the Executive has not engaged in misconduct which constitutes a Breach of Duty and is, therefore, entitled to indemnification hereunder. The burden of rebutting such presumption by clear and convincing evidence shall be on the Corporation.

f. If a panel of arbitrators is to be employed hereunder, one of such arbitrators shall be selected by the Board by a majority vote of a quorum thereof consisting of directors who were not parties in interest to such Action or, if such quorum is not obtainable, by an independent legal counsel chosen by the majority vote of the entire Board, the second by the Executive(s) seeking indemnification and the third by the previous two arbitrators.

g. The Authority shall make its independent determination hereunder within sixty (60) days of being selected and shall simultaneously submit a written opinion of its conclusions to both the Corporation and the Executive.

h. If the Authority determines that an Executive is entitled to be indemnified for any amounts pursuant to this Article VI, the Corporation shall pay such amounts to the Executive (net of all Expenses, if any, previously advanced to the Executive pursuant to Section 2), including interest thereon as provided in Section 6c, or such other person or entity as the Executive may designate in writing to the Corporation, within ten (10) days of receipt of such opinion.

i. Except with respect to any judicial determination pursuant to Section 4, the Expenses associated with the indemnification process set forth in this Section 3, including, without limitation, the Expenses of the Authority selected hereunder, shall be paid by the Corporation.

4. <u>Court-Ordered Indemnification and Advance for Expenses</u>.

a. An Executive may, either before or within two years after a determination, if any, has been made by the Authority, petition the court before which such Action was brought or any other court of competent jurisdiction to independently determine whether or not he or she has engaged in misconduct which constitutes a Breach of Duty and is, therefore, entitled to indemnification under the provisions of this Article VI. Such court shall thereupon have the exclusive authority to make such determination unless and until such court dismisses or otherwise terminates such proceeding without having made such determination. An Executive may petition a court under this Section 4 either to seek an initial determination by the court as authorized by Section 3d or to seek review by the court of a previous adverse determination by the Authority.

b. The court shall make its independent determination irrespective of any prior determination made by the Authority; provided, however, that there shall exist a rebuttable presumption that the Executive has not engaged in misconduct which constitutes a Breach of Duty and is, therefore, entitled to indemnification hereunder. The burden of rebutting such presumption by clear and convincing evidence shall be on the Corporation.

c. In the event the court determines that an Executive has engaged in misconduct which constitutes a Breach of Duty, it may nonetheless order indemnification to be paid by the Corporation if it determines that the Executive is fairly and reasonably entitled to indemnification in view of all of the circumstances of such Action.

d. In the event the Corporation does not (i) advance Expenses to the Executive within ten (10) days of such Executive's compliance with Section 2; or (ii) indemnify an Executive with respect to requested Expenses under Section 1b within ten (10) days of such Executive's written request therefore, the Executive may petition the court before which such Action was brought, if any, or any other court of competent jurisdiction to order the Corporation to pay such reasonable Expenses immediately. Such court, after giving any notice it considers necessary, shall order the Corporation to pay such Expenses if it determines that the Executive has complied with the applicable provisions of Section 2 or lb, as the case may be.

e. If the court determines pursuant to this Section 4 that the Executive is entitled to be indemnified for any Liabilities and/or Expenses, or to the advance of Expenses, unless otherwise ordered by such court, the Corporation shall pay such Liabilities and/or Expenses to the Executive (net of all Expenses, if any, previously advanced to the Executive pursuant to Section 2), including interest thereon as provided in Section 6c, or to such other person or entity as the Executive may designate in writing to the Corporation, within ten (10) days of the rendering of such determination.

f. An Executive shall pay all Expenses incurred by such Executive in connection with the judicial determination provided in this Section 4, unless it shall ultimately be determined by the court that he or she is entitled, in whole or in part, to be indemnified by, or to receive an advance from, the Corporation as authorized by this Article VI. All Expenses incurred by an Executive in connection with any subsequent appeal of the judicial determination provided for in this Section 4 shall be paid by the Executive regardless of the disposition of such appeal.

5. Termination of an Action is Nonconclusive. The adverse termination of any Action against an Executive by judgment, order settlement, conviction, or upon a plea of no contest or its equivalent, shall not, of itself, create a presumption that the Executive has engaged in misconduct which constitutes a Breach of Duty.

6. Partial Indemnification; Reasonableness; Interest.

a. If it is determined by the Authority, or by a court, that an Executive is entitled to indemnification as to some claims, issues or matters, but not as to other claims, issues or matters, involved in any Action, the Authority, or the court, shall authorize the proration and payment by the Corporation of such Liabilities and/or reasonable Expenses with respect to which indemnification is sought by the Executive, among such claims, issues or matters as the Authority, or the court, shall deem appropriate in light of all of the circumstances of such Action.

b. If it is determined by the Authority, or by a court, that certain Expenses incurred by or on behalf of an Executive are for whatever reason unreasonable in amount, the Authority, or the court, shall nonetheless authorize indemnification to be paid by the Corporation to the Executive for such Expenses as the Authority, or the court, shall deem reasonable in light of all of the circumstances of such Action.

c. Interest shall be paid by the Corporation to an Executive, to the extent deemed appropriate by the Authority, or by a court, at a reasonable interest rate, for amounts for which the Corporation indemnifies or advances to the Executive.

7. Insurance; Subrogation.

a. The Corporation may purchase and maintain insurance on behalf of any person who is or was an Executive of the Corporation, and/or is or was serving as an Executive of an Affiliate, against Liabilities and/or Expenses asserted against him or her and/or incurred by or on behalf of him or her in any such capacity, or arising out of his or her status as such an Executive, whether or not the Corporation would have the power to indemnify him or her against such Liabilities and/or Expenses under this Article VI or under the Statute as it may then be in effect. Except as expressly provided herein, the purchase and maintenance of such insurance shall not in any way limit or affect the rights and obligations of the Corporation and/or any Executive under this Article VI. Such insurance may, but need not, be for the benefit of all Executives of the Corporation and those serving as an Executive of an Affiliate.

b. If an Executive shall receive payment from any insurance carrier or from the plaintiff in any Action against such Executive in respect of indemnified amounts after payments on account of all or part of such indemnified amounts have been made by the Corporation pursuant to this Article VI, such Executive shall promptly reimburse the Corporation for the amount, if any, by which the sum of such payment by such insurance carrier or such plaintiff and payments by the Corporation to such Executive exceeds such indemnified amounts; provided, however, that such portions, if any, of such insurance proceeds that are required to be reimbursed to the insurance carrier under the terms of its insurance policy, such as deductible, retention or co-insurance amounts, shall not be deemed to be payments to such Executive hereunder.

c. Upon payment of indemnified amounts under this Article VI, the Corporation shall be subrogated to such Executive's rights against any insurance carrier in respect of such indemnified amounts and the Executive shall execute and deliver any and all instruments and/or documents and perform any and all other acts or deeds which the Corporation shall deem necessary or advisable to secure such rights. The Executive shall do nothing to prejudice such rights of recovery or subrogation.

8. Witness Expenses. The Corporation shall advance or reimburse any and all reasonable Expenses incurred by or on behalf of an Executive in connection with his or her appearance as a witness in any Action at a time when he or she has not been formally named a defendant or respondent to such an Action, within ten (10) days after the receipt of an Executive's written request therefore.

9. Contribution.

a. Subject to the limitations of this Section 9, if the indemnity provided for in Section 1 of this Article VI is unavailable to an Executive for any reason whatsoever, the Corporation, in lieu of indemnifying the Executive, shall contribute to the amount incurred by or on behalf of the Executive, whether for Liabilities and/or for reasonable Expenses in connection with any Action in such proportion as deemed fair and reasonable by the Authority, or by a court, in light of all of the circumstances of any such Action, in order to reflect:

(i) the relative benefits received by the Corporation and the Executive as a result of the event(s) and/or transaction(s) giving cause to such Action; and/or

(ii) the relative fault of the Corporation (and its other Executives, employees and/or agents) and the Executive in connection with such event(s) and/or transaction(s).

b. The relative fault of the Corporation (and its other Executives, employees and/or agents), on the one hand, and of the Executive, on the other hand, shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the circumstances resulting in such Liabilities and/or Expenses. The

Corporation agrees that it would not be just and equitable if contribution pursuant to this Section 9 were determined by pro rata allocation or any other method of allocation which does not take account of the foregoing equitable considerations.

c. An Executive shall not be entitled to contribution from the Corporation under this Section 9 in the event it is determined by the Authority, or by a court, that the Executive has engaged in misconduct which constitutes a Breach of Duty.

d. The Corporation's payment of, and an Executive's right to, contribution under this Section 9 shall be made and determined in accordance with and pursuant to the provisions in Sections 3 and/or 4 of this Article VI relating to the Corporation's payment of, and the Executive's right to, indemnification under this Article VI.

10. Indemnification of Employees. Unless otherwise specifically set forth in this Article VI, the Corporation shall indemnify and hold harmless any person who is or was a party, or is threatened to be made a party to any Action by reason of his or her status as, or the fact that he or she is or was an employee or authorized agent or representative of the Corporation and/or an Affiliate as to acts performed in the course and within the scope of such employee's, agent's or representative's duties to the Corporation and/or an Affiliate, in accordance with and to the fullest extent permitted by the Statute as it may then be in effect.

11. Severability. If any provision of this Article VI shall be deemed invalid or inoperative, or if a court of competent jurisdiction determines that any of the provisions of this Article VI contravene public policy, this Article VI shall be construed so that the remaining provisions shall not be affected, but shall remain in full force and effect, and any such provisions which are invalid or inoperative or which contravene public policy shall be deemed, without further Action or deed by or on behalf of the Corporation, to be modified, amended and/or limited, but only to the extent necessary to render the same valid and enforceable, and the Corporation shall indemnify an Executive as to Liabilities and reasonable Expenses with respect to any Action to the full extent permitted by any applicable provision of this Article VI that shall not have been invalidated and to the full extent otherwise permitted by the Statute as it may then be in effect.

12. Nonexclusivity of Article VI. The right to indemnification, contribution and advancement of Expenses provided to an Executive by this Article VI shall not be deemed exclusive of any other rights to indemnification, contribution and/or advancement of Expenses which any Executive or other employee or agent of the Corporation and/or of an Affiliate may be entitled under any charter provision, written agreement, resolution, vote of shareholders or disinterested directors of the Corporation or otherwise, including, without limitation, under the Statute as it may then be in effect, both as to acts in his or her official capacity as such Executive or other employee or agent of the Corporation and/or of an Affiliate or as to acts in any other capacity while

holding such office or position, whether or not the Corporation would have the power to indemnify, contribute and/or advance Expenses to the Executive under this Article VI or under the Statute; provided that it is not determined that the Executive or other employee or agent has engaged in misconduct which constitutes a Breach of Duty.

13. Notice to the Corporation; Defense of Actions.

a. An Executive shall promptly notify the Corporation in writing upon being served with or having actual knowledge of any citation, summons, complaint, indictment or any other similar document relating to any Action which may result in a claim of indemnification, contribution or advancement of Expenses hereunder, but the omission so to notify the Corporation will not relieve the Corporation from any liability which it may have to the Executive otherwise than under this Agreement unless the Corporation shall have been irreparably prejudiced by such omission.

b. With respect to any such Action as to which an Executive notifies the Corporation of the commencement thereof:

(i) The Corporation shall be entitled to participate therein at its own expense; and

(ii) Except as otherwise provided below, to the extent that it may wish, the Corporation (or any other indemnifying party, including any insurance carrier, similarly notified by the Corporation or the Executive) shall be entitled to assume the defense thereof, with counsel selected by the Corporation (or such other indemnifying party) and reasonably satisfactory to the Executive.

c. After notice from the Corporation (or such other indemnifying party) to the Executive of its election to assume the defense of an Action, the Corporation shall not be liable to the Executive under this Article VI for any Expenses subsequently incurred by the Executive in connection with the defense thereof other than reasonable costs of investigation or as otherwise provided below. The Executive shall have the right to employ his or her own counsel in such Action but the Expenses of such counsel incurred after notice from the Corporation (or such other indemnifying party) of its assumption of the defense thereof shall be at the expense of the Executive unless (i) the employment of counsel by the Executive has been authorized by the Corporation; (ii) the Executive shall have reasonably concluded that there may be a conflict of interest between the Corporation (or such other indemnifying party) and the Executive in the conduct of the defense of such Action; or (iii) the Corporation (or such other indemnifying party) shall not in fact have employed counsel to assume the defense of such Action, in each of which cases the Expenses of counsel shall be at the expense of the Corporation. The Corporation shall not be entitled to assume the defense of any Derivative Action or any Action as to which the Executive shall have made the conclusion provided for in clause (ii) above.

14. Continuity of Rights and Obligations. The terms and provisions of this Article VI shall continue as to an Executive subsequent to the Termination Date and such terms and provisions shall inure to the benefit of the heirs, estate, executors and administrators of such Executive and the successors and assigns of the Corporation, including, without limitation, any successor to the Corporation by way of merger, consolidation and/or sale or disposition of all or substantially all of the assets or capital stock of the Corporation. Except as provided herein, all rights and obligations of the Corporation and the Executive hereunder shall continue in full force and effect despite the subsequent amendment or modification of the Corporation's Articles of Incorporation, as such are in effect on the date hereof, and such rights and obligations shall not be affected by any such amendment or modification, any resolution of directors or shareholders of the Corporation, or by any other corporate action which conflicts with or purports to amend, modify, limit or eliminate any of the rights or obligations of the Corporation and/or of the Executive hereunder.

15. Amendment. This Article VI may only be altered, amended or repealed by the affirmative vote of a majority of the shareholders of the Corporation so entitled to vote; provided, however, that the Board may alter or amend this Article VI without such shareholder approval if any such alteration or amendment:

a. is made in order to conform to any amendment or revision of the Wisconsin Business Corporation Law, including, without limitation, the Statute, which (i) expands or permits the expansion of an Executive's right to indemnification thereunder; (ii) limits or eliminates, or permits the limitation or elimination, of liability of the Executives; or (iii) is otherwise beneficial to the Executives; or

b. in the sole judgment and discretion of the Board, does not materially adversely affect the rights and protections of the shareholders of the Corporation.

Any repeal, modification or amendment of this Article VI shall not adversely affect any rights or protections of an Executive existing under this Article VI immediately prior to the time of such repeal, modification or amendment and any such repeal, modification or amendment shall have a prospective effect only.

16. Certain Definitions. The following terms as used in this Article VI shall be defined as follows:

a. "Action(s)" shall include, without limitation, any threatened, pending or completed action, claim, litigation, suit or proceeding, whether civil, criminal, administrative, arbitrative, or investigative, whether predicated on foreign, Federal, state or local law, whether brought under and/or predicated upon the

Securities Act of 1933, as amended, and/or the Securities Exchange Act of 1934, as amended, and/or their respective state counterparts and/or any rule or regulation promulgated thereunder, whether a Derivative Action and whether formal or informal.

b. "Affiliate" shall include, without limitation, any corporation, partnership, joint venture, employee benefit plan, trust, or other similar enterprise that directly or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Corporation.

c. "Authority" shall mean the panel of arbitrators or independent legal counsel selected under Section 3 of the Agreement.

d. "Board" shall mean the Board of Directors of the Corporation.

e. "Breach of Duty" shall mean the Executive breached or failed to perform his or her duties to the Corporation or an Affiliate, as the case may be, and the Executive's breach of or failure to perform those duties constituted:

(i) A willful failure to deal fairly with the Corporation (or an Affiliate) or its shareholders in connection with a matter in which the Executive has a material conflict of interest;

(ii) A violation of the criminal law, unless the Executive:

(a) Had reasonable cause to believe his or her conduct was lawful; or

(b) Had no reasonable cause to believe his or her conduct was unlawful;

(iii) A transaction from which the Executive derived an improper personal profit (unless such profit is determined to be immaterial in light of all the circumstances of the Action); or

(iv) Willful misconduct.

f. "Derivative Action" shall mean any Action brought by or in the right of the Corporation and/or an Affiliate.

g. "Executive(s)" shall mean any individual who is, was or has agreed to become a director and/or officer of the Corporation and/or an Affiliate.

h. "Expenses" shall include, without limitation, all expenses, fees, costs, charges, attorneys' fees and disbursements, other out-of-pocket costs, reasonable compensation for time spent by the Executive in connection with the

Action for which he or she is not otherwise compensated by the Corporation, any Affiliate, any third party or other entity and any and all other direct and indirect costs of any type or nature whatsoever.

i. "Liabilities" shall include, without limitation, judgments, amounts incurred in settlement, fines, penalties and, with respect to any employee benefit plan, any excise tax or penalty incurred in connection therewith, and any and all other liabilities of every type or nature whatsoever.

j. "Statute" shall mean Wisconsin Business Corporation Law Section 180.05 (or any successor provisions).

k. "Termination Date" shall mean the date an Executive ceases, for whatever reason, to serve in an employment relationship with the Company and/or any Affiliate.

ARTICLE VII. SEAL

The Board of Directors shall provide a corporate seal which shall be circular in form and shall have inscribed thereon the name of the Corporation. The continued use for any purpose of any former corporate seal or facsimile thereof shall have the same effect as the use of the corporate seal or facsimile thereof in the form provided by the preceding sentence.

ARTICLE VIII. AMENDMENTS

1. The Board of Directors shall have authority to adopt, amend, or repeal the By-laws of this Corporation upon affirmative vote of a majority of the total number of directors at a meeting of the Board, the notice of which shall have included notice of the proposed amendment; but the Board of Directors shall have no power to amend any By-law or to reinstate any By-law repealed by the shareholders unless the shareholders shall hereafter confer such authority upon the Board of Directors.

2. The shareholders shall have power to adopt, amend or repeal any of the By-laws of the Corporation, at any regular or special meeting of the shareholders, in accordance with the provisions of Article II of these By-laws. There shall be included in the notice of such regular or special meeting a statement of the nature of any amendment that is proposed for the consideration of the shareholders by the holders of at least 5% of the voting stock of the Corporation in a writing delivered to the Secretary of the Corporation not less than ninety (90) days prior to the date of such meeting or by the Board of Directors.

ATTACHMENT C

JENNIFER BRUNNER
OHIO SECRETARY OF STATE

BUSINESS FILINGS
PROMOTING BUSINESS GROWTH

Business Information

Total Row Count In Report - 1

Row(s) 1 - 1

Business Name	Charter / Registration Number	Type	Original Filing Date	Status	Expiration Date	Location / County / State	Agent / Contact Info	Business Filing Info	Prior Business Name Info
INTEGRYS ENERGY SERVICES, INC.	920666	Foreign Corporation	Oct 17 1995	Active		Wisconsin	Click for Details	Click for Details	Click for Details

help

Back to Menu

ATTACHMENT C

TEMPLATE
2-2000

United States of America

State of Wisconsin

DEPARTMENT OF FINANCIAL INSTITUTIONS

To All to Whom These Presents Shall Come, Greeting:

I, RAY ALLEN, Deputy Administrator of the Division of Corporate & Consumer Services of the Department of Financial Institutions, do hereby certify that Articles of Amendment have been filed with this department changing the name of WPS ENERGY SERVICES, INC. to the present name of INTEGRYS ENERGY SERVICES, INC. effective February 21, 2007.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the official seal of the Department on February 22, 2007.

RAY ALLEN, Deputy Administrator
Division of Corporate & Consumer Services
Department of Financial Institutions

BY:

Effective July 1, 1996, the Department of Financial Institutions assumed the functions previously performed by the Corporations Division of the Secretary of State and is the successor custodian of corporate records formerly held by the Secretary of State.

ATTACHMENT C

05130-0870

The State of Ohio

Bob Taft

Secretary of State

FL920566

Certificate

It is hereby certified that the Secretary of State of Ohio has custody of the Records of Incorporation and Miscellaneous Filings; that said records show the filing and recording of: 97N ______________________ of:

WPS ENERGY SERVICES, INC.

STATE OF INCORP:

TYPE OF LICENSE:
EXPIRATION DATE: VALID UNTIL CANCELLED FOR FAILURE TO FILE REPORTS

Recorded on Roll 6130 at Frame 0871 of the Records of Incorporation and Miscellaneous Filings.

United States of America
State of Ohio
Office of the Secretary of State

Witness my hand and the seal of the Secretary of State at Columbus, Ohio, this 12TH **day of** NOV, **A.D. 19**97.

Bob Taft

Bob Taft
Secretary of State

SEC 6002 (Rev. 12/90)

Attachment D

Integrys Energy Services Customer Complaint Procedure

Scope of Procedure: This procedure documents the process that will be followed for any Integrys Energy Services, Inc. ("TEGE Inc.") customer complaint including, but not limited to pricing, billing, usage, and other disputes. This procedure includes all small commercial and residential accounts whether active or inactive.

When TEGE Inc. receives a complaint from a customer, complete the following steps within 24 hours:

Step	Action		Owner
1	Immediately forward all customer complaints to Integrys Energy Value Support Team for timely and consistent processing.		Receiving staff members
2	Notate the complaint in the appropriate system		Value Support
3	Call customer to acknowledge and confirm receipt of the complaint.		Value Support
4	Notate customer conversation into appropriate system with specific notation as to whether the issue is resolved or requires additional follow up.		Value Support
5	If the customer is Satisfied with the explanation of the issue...	Notate the resolution in the appropriate system as being closed.	Value Support
6	If the customer is NOT satisfied with the resolution/explanation and further research is required...	Notate the conversation in the appropriate system. Note the account with possible next steps, if known, and a follow up date to provide the customer with status.	Value Support

ATTACHMENT E

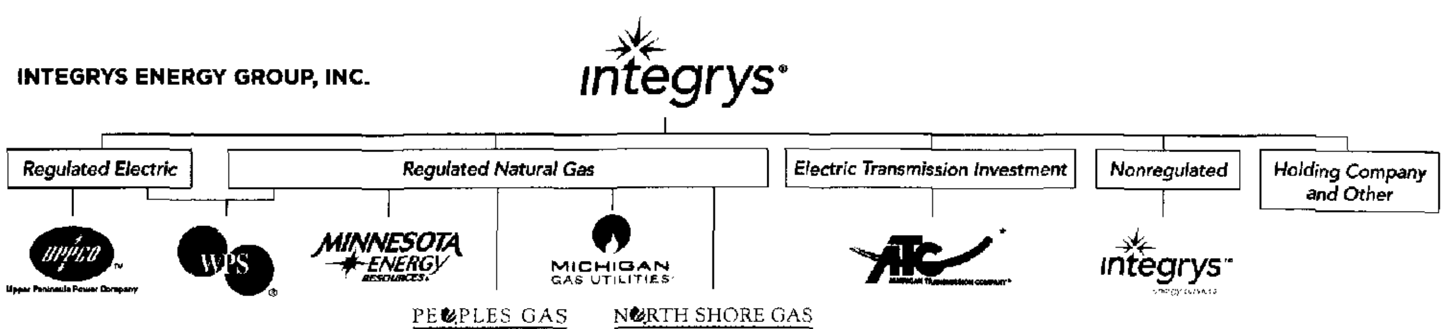
VIEW

2009 ANNUAL REPORT

integrys

Year Ended December 31	2008	Percent Change
Consolidated revenues – nonregulated *(Millions)* *	$9,737.9	(58.9)
Consolidated revenues – utility *(Millions)* *	4,309.9	(18.9)
Margins – nonregulated *(Millions)* *	83.6	262.1
Margins – utility *(Millions)* *	1,565.8	0.7
Net income (loss) from continuing operations *(Millions)* *	124.7	N/A
Net income (loss) attributed to common shareholders *(Millions)* *	126.4	N/A
Earnings (loss) per common share (basic)		
Net income (loss) from continuing operations	$1.59	N/A
Discontinued operations, net of tax	0.06	(33.3)
Earnings (loss) per common share (basic)	1.65	N/A
Earnings (loss) per common share (diluted)		
Net income (loss) from continuing operations	$1.58	N/A
Discontinued operations, net of tax	0.06	(33.3)
Earnings (loss) per common share (diluted)	1.64	N/A
Dividends per common share declared	$ 2.68	1.5
Book value per share	40.78	(7.7)
Common stock price at year end	$42.98	(2.3)
Shares outstanding at year end (excludes treasury stock and shares in deferred compensation trust)	75,992,768	–
Total assets (Millions)	**$14,272.5**	**(17.0)**

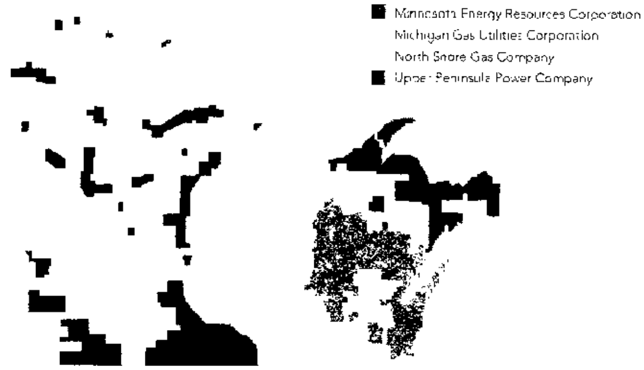
INTEGRYS ENERGY GROUP, INC.



* Integrys Energy Group owned approximately 34% of American Transmission Company LLC at December 31, 2009.

integrys

Integrys Energy Group is a holding company headquartered in Chicago, Illinois. Subsidiaries provide products and services in both regulated and nonregulated energy markets. The following descriptions are reflective as of December 31, 2009.



REGULATED OPERATIONS

Business

Established in 1855 (acquired by Integrys Energy Group in 2007).
Regulated natural gas utility.
Operates in Illinois (see map above).
1,109 employees.

Market

Serves approximately 817,400 residential, commercial, and industrial retail sales and transportation customers in the city of Chicago.
Natural gas revenues are comprised of 100% retail sales.

Facilities

Approximately 4,470 miles of transmission and distribution main, approximately 42% of which is cast iron main and 23% of which is plastic main, and 11 natural gas distribution and transmission gate stations.
Owns and operates a 36.5 billion-cubic-foot underground natural gas storage reservoir (Manlove Field) and a liquefied natural gas plant in central Illinois.
Owns a natural gas pipeline system that runs from Manlove Field to Chicago with 7 major interstate pipeline interconnects at various points.

WISCONSIN PUBLIC SERVICE CORPORATION

Business

- Established in 1883.
- Regulated electric and natural gas utility.
- Operates in northeast and central Wisconsin and an adjacent portion of Upper Michigan (see map above).
- 1,462 employees.

Market

- Serves approximately 437,000 electric and approximately 317,000 natural gas customers within its 11,000-square-mile service area.
- Provides electric and natural gas products and services to residential, farm, commercial, and industrial customers. Also provides electric power to wholesale customers.
- Electric operations accounted for 75% and natural gas operations accounted for 25% of 2009 revenues.
- Electric revenues are comprised of 78% retail sales and 22% wholesale sales.
- Wisconsin customers accounted for 98% and Michigan customers accounted for 2% of 2009 revenues.

Facilities

- Electric generating capacity based on summer capacity ratings is 2,157.6 megawatts, including its share of jointly owned facilities. A peak demand was reached on June 24, 2009, with a system demand of 2,264 megawatts. At the time of this summer peak, total firm resources (i.e., generation plus firm purchases) totaled 3,196 megawatts.
- Electric property includes approximately 21,500 miles of electric distribution lines, 97% of which are operated at 24.9 kV.
- Natural gas property includes approximately 7,830 miles of transmission and distribution main, 74% of which is plastic main, and 87 natural gas distribution and transmission gate stations.

MINNESOTA ENERGY RESOURCES CORPORATION

Business

- Natural gas distribution operations for more than 70 years (acquired by Integrys Energy Group in 2006).
- Operates in Minnesota (see map above).
- 223 employees.

Market

- Provides natural gas distribution services to more than 211,100 natural gas customers in 165 communities.
- Natural gas revenues are comprised of 100% retail sales.

Facilities

- Natural gas property includes approximately 4,500 miles of transmission and distribution main, approximately 66% of which is plastic main, and 154 natural gas distribution and transmission gate stations.

Business

Natural gas distribution operations since 1859 (acquired by Integrys Energy Group in 2006).
Operates in southern and western Michigan (see map above).
165 employees.

Market

Provides natural gas distribution services to approximately 165,400 natural gas customers in 147 communities.
Natural gas revenues are comprised of 100% retail sales.

Facilities

Owns a 3.6 billion-cubic-foot natural gas storage field.
Natural gas property includes approximately 3,800 miles of transmission and distribution main, approximately 57% of which is plastic main, and 33 natural gas distribution and transmission gate stations.

Business

Established in 1900 (acquired by Integrys Energy Group in 2007).
Regulated natural gas utility.
Operates in Illinois (see map above).
166 employees.

Market

Serves approximately 157,900 residential, commercial, and industrial retail sales and transportation customers located in 54 communities within the northern suburbs of Chicago.
Natural gas revenues are comprised of 100% retail sales.

Facilities

Approximately 2,430 miles of transmission and distribution main, approximately 39% of which is plastic main, and 6 natural gas distribution and transmission gate stations.

UPPER PENINSULA POWER COMPANY

Business

- Established in 1884 (acquired by Integrys Energy Group in 1998).
- Regulated electric utility.
- Operates primarily in rural countryside covering 10 of the 15 counties in the Upper Peninsula of Michigan (see map above).
- 146 employees.

Market

- Serves approximately 51,900 electric customers in 118 communities.
- Electric revenues are comprised of 85% retail sales and 15% wholesale sales.

Facilities

- Electric generating capacity based on summer capacity ratings is 57.5 megawatts. A peak demand was reached on July 27, 2009, with a system demand of 139 megawatts. At the time of this peak, total firm resources totaled 150 megawatts.
- Electric property includes approximately 3,300 miles of electric distribution lines.

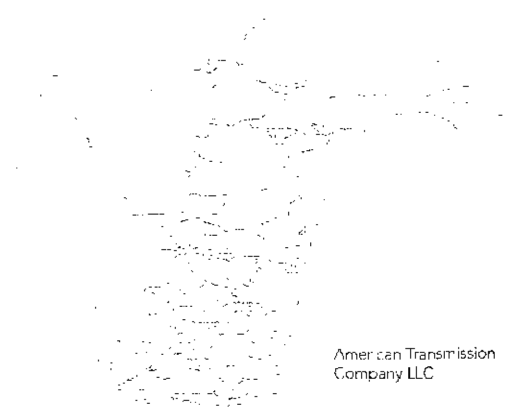
ELECTRIC TRANSMISSION INVESTMENT

Business

A federally regulated for-profit, transmission-only, company that owns, maintains, monitors, and operates electric transmission assets in Wisconsin, Michigan, Minnesota, and Illinois.
Assets were previously owned and operated by multiple electric utilities serving the upper Midwest, all of which transferred their transmission assets to American Transmission Company.
Companies that transferred transmission assets or cash to American Transmission Company are now equity owners.
The Midwest Independent System Operator (MISO) directs American Transmission Company's operation of the transmission system.
Regulated by the Federal Energy Regulatory Commission for rates and tariffs.
Regulated by states in which it operates for siting transmission infrastructure.
Domiciled in the United States and began operations in 2001.
WPS Investments, LLC, a subsidiary of Integrys Energy Group, owns approximately 34% of American Transmission Company.
WPS Investments is owned 84.5% by Integrys Energy Group, 12.8% by Wisconsin Public Service, and 2.7% by Upper Peninsula Power.
Wisconsin Public Service and Upper Peninsula Power provide construction and other services to, and receive network transmission services from, American Transmission Company.
Wisconsin Public Service and Upper Peninsula Power provide repair and maintenance services to American Transmission Company under an Operation and Maintenance Services Agreement for Transmission Facilities approved by the Public Service Commission of Wisconsin.
Integrys Energy Group has $395.9 million invested in American Transmission Company.

Facilities

$2.8 billion of transmission assets consisting of 9,400 circuit miles of transmission line and 5 0 substations (wholly or jointly owned).
American Transmission Company plans to invest approximately $2.5 billion during the next 10 years based on its 2009 Ten Year *Transmission System Assessment*.



American Transmission Company LLC

■ Integrys Energy Services, Inc.

Sale of assets located in Nova Scotia closed in January 2010

NONREGULATED OPERATIONS

INTEGRYS ENERGY SERVICES, INC.

Business

- Established in 1994.
- Competitive natural gas and electricity supply and services company, which also owns and operates various nonregulated electric generation facilities.
- Emphasis is on serving retail (industrial, commercial, and *residential*) customers.
- Principal energy marketing operations located near customers served (see map above).
- 436 employees.

Products and Services

- Provides individualized natural gas and electricity supply solutions, structured products, and strategies that allow customers to manage energy needs.
- Patented DENet® and eMiner® computer technology allows customers to monitor and manage their energy usage.
- Generation areas of expertise include cogeneration, distributed generation, renewables such as solar and landfill gas, as well as other clean fuel generation.

Facilities

- Electric generation facilities include 330.8 megawatts of summer-rated capacity as follows:
  - 316.6 megawatts of traditional fossil fuel and hydroelectric generation facilities. *
  - 7.8 megawatts of photovoltaic solar generation facilities.
  - 6.4 megawatts of landfill gas-fueled reciprocating engine facilities.

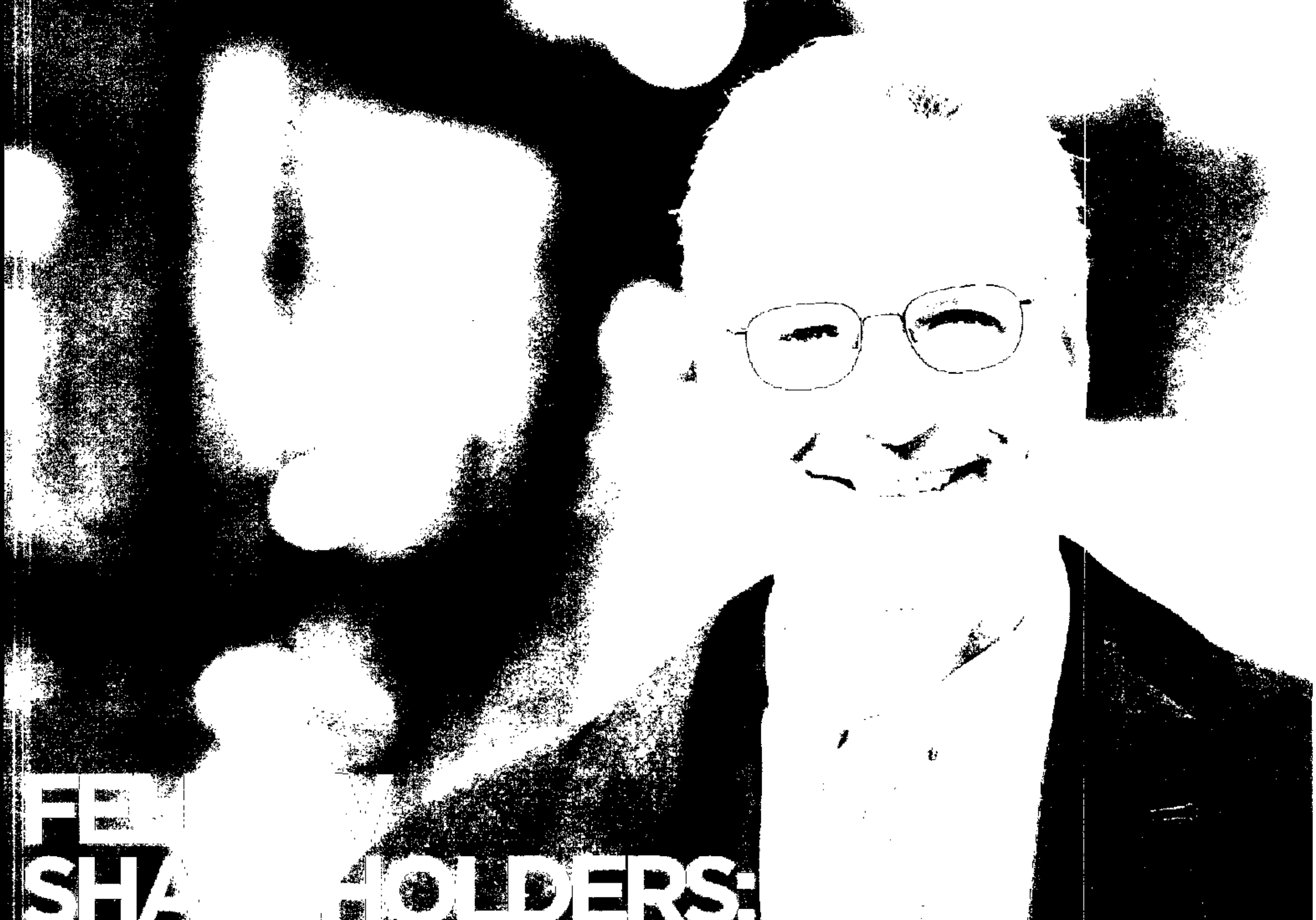
* 75.9 megawatts of the total 316.6 megawatts of traditional fossil fuel and hydroelectric generation facilities were classified as assets held for sale at December 31, 2009. For more information, see Note 4, "Dispositions," in the Notes to Consolidated Financial Statements section of this report.

OTHER

INTEGRYS BUSINESS SUPPORT, LLC

Business

- Established in 2007, became operational on January 1, 2008.
- Provides centralized business support services to Integrys Energy Group, Inc. and its subsidiaries.
- 1,3 8 employees.



FELLOW SHAREHOLDERS:

With our six utilities, Integrys has a firm foundation to provide customers with the best value in energy and energy-related services. It is a financially solid foundation that will provide investment opportunities with more predictable and increasing earnings. In 2009 we continued to strengthen our utility operations in a number of ways – through completion of our Crane Creek Wind Farm, innovative process improvements, cost controls, and working with our regulators to process rate cases.

Wisconsin Public Service's 99-megawatt Crane Creek Wind Farm in north-central Iowa was completed and declared commercially operational in December 2009 – under budget and ahead of schedule. This $251 million facility will provide clean energy for our customers and the electricity generated will contribute to our compliance with Wisconsin's Renewable Portfolio Standard. Completion of this project in 2009 allowed us to earn tax incentives that reduce the cost of energy for our customers.

Our cost-control efforts continued in 2009, and this is an ongoing commitment to continuously review our performance and ensure that we are progressing toward the top quartile among our peer companies in key areas such as sourcing, systems, and work processes. As usual, our employees found ways to reduce our costs through process improvements, often involving innovative new techniques or technology. For example, our Peoples Gas Light and Coke Company (Peoples Gas) employees worked with state of Illinois and city of Chicago officials to test a "key hole excavation and reinstatement" process for making pavement cuts and repairs to natural gas pipes buried under the streets. With the new process, the opening required for maintenance of the pipes is smaller and easier to repair. We use less material for the job, avoid disturbing and repaving a wide area of the street, and take less time to do the work.

We are continually looking for opportunities to manage costs and keep our rates as low as possible. The economy was difficult in 2009 and tough on our customers – many of whom were compelled to take challenging steps to manage their own costs. Like our business customers, we were faced with reduced work in our service areas and businesses and an increased need to reduce our costs to minimize upward rate pressure. We, too, made the difficult choice to reduce our costs through reductions in our workforce. This was a tough decision, but our employees understood the need for process improvements and general cost containment. They remained professional and customer focused throughout the process – another example of the quality and character of our employees.

In 2009, we processed five rate cases with our regulators. Of particular note is that the Illinois Commerce Commission approved our request for an infrastructure cost recovery mechanism for Peoples Gas, which will streamline the cost recovery process of prudent investments to improve the aging natural gas pipe system in Chicago. This will benefit our customers in the form of a more modern and reliable system with lower operating and maintenance costs. It will also provide investment opportunities for our investors.

We also made progress in obtaining and implementing mechanisms across our service areas that will lead to more predictable margins and earnings. These include bad debt trackers in Illinois and Michigan, and decoupling mechanisms in Michigan for Upper Peninsula Power, in addition to the decoupling mechanisms already in place in Illinois and Wisconsin.

The result is stronger utilities that always strive to provide our customers with safe, reliable service at a fair price or, in other words, the best value in energy. We have substantial investment opportunities as well, in the form of environmental projects in our electric operations and infrastructure improvements to serve our customers in our natural gas and electric operations. We estimate that these investment opportunities exceed $2 billion over the next 20 years in the service area for Peoples Gas alone.

Last year, we worked through a difficult environment to reduce the scope and scale of our nonregulated business subsidiary, Integrys Energy Services. Through the divestiture process, we sold our nonregulated energy marketing operations in Canada and our nonregulated wholesale natural gas operations in the United States and have executed an agreement to sell our nonregulated wholesale electric operations in the United States. We sold our New Brunswick and New England power generation business and related energy marketing contracts as well as a number of smaller pieces of our nonregulated operations. The result is a nonregulated retail electric and retail natural gas marketing operation with a smaller but more strategic geographic footprint, and a size and risk profile that is well suited to the size of Integrys Energy Group. The business is restructured to reduce the capital invested and credit and collateral support requirements to well within reasonable limits. With the remaining business, Integrys Energy Services will continue to contribute meaningful earnings to the company while maintaining an appropriate risk profile.

Integrys Energy Services will also focus on building a green portfolio through investments in solar power and other renewable energy technologies. We see significant opportunity here. Integrys Energy Services is already well-established in this area, and is one of the top-ten developers of customer-sited solar power in the country (see our feature section of this report where we highlight one of our solar projects).

Our efforts have resulted in a more financially sound company. In the past 15 months, we have improved our available liquidity by over $1 billion. Our financing needs in 2010 are modest, and we do not anticipate issuing additional equity, except to meet the needs of our Stock Investment Plan and certain stock based benefit and compensation plans. A good way to measure this is in terms of our credit ratings. Standard & Poor's recently moved our outlook from negative to stable, and affirmed our solid investment-grade credit ratings on all of our debt instruments. This action came shortly after we announced in January 2010 that we achieved our key objectives for the reduced scale and risk profile for Integrys Energy Services. Our credit ratings also remain strong investment grade with Moody's.

We recognize that our dividend is extremely important to many of our investors. I'm pleased that we were able to maintain our quarterly dividend going into 2010. This marks the 70th consecutive year we have paid a dividend. Our goal is to provide our equity investors with a consistent and sustainable dividend while at the same time allowing us to fund our future investment growth. We believe our recent dividend action does just that.

Integrys Energy Group has come through 2009 as a stronger company with good opportunities for growth. Our aggressive cost-management efforts will continue, as we strive to improve our operations across the company with our focus on operational excellence. Through cost management and rate cases as needed, we will improve the financial performance of our utilities, ensuring that all of our businesses will have the opportunity to earn closer to their authorized rates of return. We will make prudent investments in our infrastructure, thus improving service to our customers and creating a sustainable environment – while also providing investment growth opportunities for our investors. Integrys Energy Services will continue to delight its customers, using its best-in-class skills of delivering energy, and will contribute to our earnings while operating within an appropriate risk profile.

I am grateful for the strength and support of our employees and leadership team. This year, additional changes were made to our leadership structure. Larry Borgard was named President and Chief Operating Officer – Utilities of Integrys Energy Group, as well as President and Chief Executive Officer of Wisconsin Public Service. At Integrys Energy Services, Mark Radtke was named Chief Executive Officer and Dan Verbanac was named President. Dave Harpole was named Vice President – Information Technology and Project Services for Integrys Business Support. And, Jim Hoover was named Assistant Vice President – Total Compensation of Integrys Energy Group. I thank these individuals and the entire employee team for their contributions to our successful efforts throughout 2009.

During this past year, I have had the privilege of working closely with our Executive Chairman, Larry Weyers. It has been an enjoyable and enriching experience. Integrys Energy Group has prospered under Larry's leadership, and I am grateful for all he has done for the company. Larry will retire on March 31, and he will be missed. On behalf of Integrys Energy Group, I extend our thanks to Larry and wish him a happy and healthy retirement. Larry, thank you for all you have done for Integrys, and I look forward to building on the legacy you have established for our company.

I am excited about the future. Integrys Energy Group is well positioned to provide value to all of our key stakeholders. The management team and all of our employees are committed to keeping Integrys a profitable, respected company.

Thank you for your investment, your business, your support, and your confidence in Integrys Energy Group.

Sincerely,

Charles A. Schrock

Charles A. Schrock
February 26, 2010

THE VIEW FROM HERE

For energy companies everywhere, these are times of significant change. But for those who embrace the challenges, seeing them instead as opportunities to innovate, the future is bright. Such is the case for Integrys Energy Group—seizing opportunities, as we have done in the past.

As we emerge from 2009, we've renewed our vision of who we are and what we mean to the people who count on us.

With a strong foundation in place, we welcome any new challenge to bring energy and related services to customers in ways that best fit their needs. We commit to seeking efficiencies that hold down costs. We envision ways to minimize our impact on the environment and help our customers save energy. And we pledge to continue pursuing well-grounded business ideas that provide good returns for our shareholders.

This is our View from Here: we will build on our past successes and continue with the same focus on dedication to customers, community, shareholders, and environment.

All Eyes on Increased Efficiency

Containing costs without compromising service is an ongoing commitment at Integrys.

In 2007, we began improving our self-service tools for customers, increasing their usefulness while lowering costs. For our interactive voice response (IVR) phone systems, for example, the objective was to give customers more options and ease high-volume wait times. We wanted to increase customers' ability to find answers on their own—conveniently and on the first try.

By 2009, the return on our investment was obvious. E Source ranked the Wisconsin Public Service IVR system first among utility IVR systems in the Midwest for usability. The Peoples Gas IVR system ranked second. In 2010, similar changes for our other regulated utilities—Michigan Gas Utilities, Minnesota Energy Resources, North Shore Gas, and Upper Peninsula Power—will generate even more great customer experiences.

Keeping Customers' Needs in Sight

Increasingly, customers are looking to us for energy answers; as always, we're responding with solutions.

A safety net for those with limited incomes

In 2009, more customers faced significant financial challenges—many for the first time. Our regulated utilities began intensive outreach. In partnership with local agencies, we encouraged customers to proactively address challenges with paying their heating bills. We told them about programs like the Low-Income Home Energy Assistance Program (LIHEAP) and worked with those in arrears to make payment arrangements.

From 2008 into late 2009, $5.1 billion was appropriated at the federal level for LIHEAP—the most in the history of the program. Of that amount, $86 million went to approximately 175,000 customers across our utilities, who accessed the program to pay their bills and stay warm.

Conservation awareness in Wisconsin

Our customers care about the environment, and we do, too. We view ourselves as a leader in helping customers use energy efficiently, and our efforts this past year were no different.

In 2009, we launched the ***iCanConserve***™ Project, an energy-conservation pilot program through a partnership of Wisconsin Public Service, Focus on Energy, and the Wisconsin Citizens Utility Board. The aim of ***iCanConserve*** is simple: discover the best ways to help customers use less energy and save money. Launched in Brillion, Wisconsin, ***iCanConserve*** offers community members special energy rates and programs, along with advanced tools and technologies.

Awareness of the ***iCanConserve*** program is spreading through customers who take the ***iCanConserve*** Pledge, media promotions, and a dedicated Web site. In addition, at public gatherings, participants can speak directly with ***iCanConserve*** representatives who can help them save.

Over the next two years, lessons learned in Brillion will be used to implement the program in two more Wisconsin communities.

Clean air initiatives in Chicago

In 2009, Peoples Gas partnered with Chicago's Climate Action Plan to help ensure a clean environment. Our involvement with the plan's ***City of Chicago Retrofit Project*** was instrumental in improving the energy efficiency of buildings in the metropolitan area—which produce about 70 percent of all emissions in greater Chicago.

Through the project, retrofits were made to more than 12,000 residential units, 250 commercial and industrial units, and more than 15 million square feet of space in Chicago's public buildings, reducing energy use by 30 percent. Approximately 3,800 appliances were traded in for new energy-efficient models, 200 buildings were permitted with a new energy code, and 1.2 million square feet of green roofs were installed or are underway.

Above
Kong Ngov,
Field Technician II,
Minnesota Energy Resources,
Rochester, Minnesota

Jodi Caro
Vice President – Legal Services, Integrys Business Support, Chicago, Illinois

Pat Michalkiewicz, Manager – Commercial & Industrial Account Management, Integrys Business Support, Chicago, Illinois

Natural gas innovations in Illinois

Funded by customers of Peoples Gas and North Shore Gas, the ***Chicagoland Natural Gas Savings Program*** is also helping local energy users improve efficiency. Low-interest loans and rebates are offered for the purchase of energy-efficient natural gas furnaces, boilers, water heaters, insulation, and clothes washers.

In 2010, the program continues, with assistance from the Citizens Utility Board, the City of Chicago Department of Environment, the Environmental Law and Policy Center, and the Illinois Attorney General's Office.

To implement our utilities' energy-efficiency and environmental programs, we're leveraging expertise at Integrys Business Support to find practices that lead to excellence. For more examples of our commitment to efficiency and the environment, please visit our Web site at www.integrysgroup.com. You can also visit our site to learn about other kinds of support we give to the communities we serve, helping them grow and become increasingly vibrant.

Programs to meet Minnesota's conservation goals

Minnesota Energy Resources is committed to meeting Minnesota's Conservation Improvement Program goals. The target is for natural gas utilities to reduce natural gas throughput by 1 percent annually. It's a challenging target, but we continue working energetically toward this goal we share as one of Minnesota's corporate citizens. Recently, we increased incentives for contractors and dealers who support our programs, upped our rebate offerings, and introduced an energy audit for businesses.

Proactive efficiency measures in Michigan

In 2009, the Michigan Public Service Commission introduced ***Efficiency United***, along with 11 Michigan utilities, including Wisconsin Public Service, Upper Peninsula Power, and Michigan Gas Utilities. This partnership gives customers access to online energy analysis tools, rebates for buying energy-efficient appliances and equipment, an appliance-recycling program, and more.

Continued Strength Visible on the Horizon

Ensuring we remain a strong, diversified regional energy provider is a responsibility we take seriously. Building on a tradition of careful planning and execution, we've kept our business moving forward.

Refocused on what we do best

In late 2008, we took a hard look at where Integrys Energy Group was and where we needed to be. The high collateral support requirements of our nonregulated business, Integrys Energy Services—combined with falling energy prices at a time when the credit and financial markets limited the availability of capital—posed a substantial risk. It became increasingly evident that a change in strategy at our nonregulated subsidiary was needed.

We decided to scale back Integrys Energy Services and reduce its risk profile. The solution was to

divest of its wholesale electric and natural gas marketing businesses, Canadian wholesale and retail operations, and energy consulting practice—all set in place by the end of 2009.

Though a difficult decision, it allowed us to re-focus efforts in this business segment and limit risk. Today, Integrys Energy Group as a whole is leaner and stronger, serving regulated and nonregulated retail natural gas and electric customers in the United States, as well as continuing to invest in our infrastructure.

For years, diversifying our energy portfolio with renewable energy has been a key component of our growth strategy at Integrys Energy Services. In 2008 and 2009, Integrys Energy Services invested nearly $65 million in 19 solar projects across the United States. One of the projects brought together centuries-old architecture and modern-day solar technology. In partnership with Harvard University, Integrys Energy Services installed a 500-kilowatt solar array onto the roof of a vintage 1816 Harvard-owned property.

The solar array is expected to provide more than 600,000 kilowatt-hours of solar power annually—enough to meet the electric needs of more than 50 homes.

In May 2009, Wisconsin Public Service began construction of the Crane Creek Wind Farm, a [illegible]

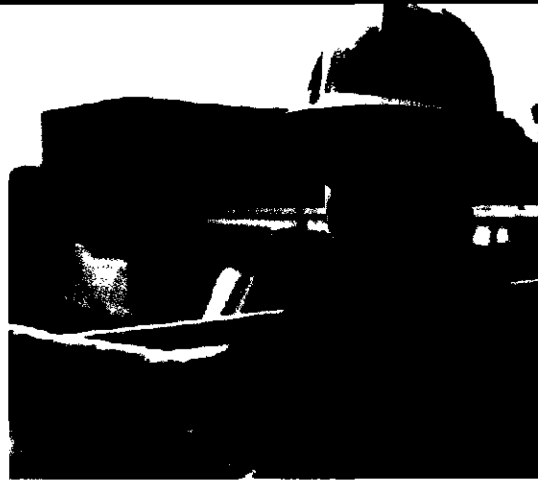
for its proximity to the transmission system and favorable winds, the 5,860-acre project was well received by residents of surrounding communities.

By December 2009, Crane Creek began producing wind power. The facility has an installed capacity of 99 megawatts, capable of producing approximately 330,000 megawatt-hours of renewable energy annually if desired wind conditions exist. That's enough power to run about 40,000 homes.

In 2009, Peoples Gas re-lined approximately 5,100 feet of large-diameter cast-iron and ductile-iron main with 12- and 18-inch diameter polyethylene piping. Corrosion-resistant and cost-effective, these large-diameter lightweight pipes were inserted into existing pipe and pushed through. This method eliminated the cost and customer inconvenience of extensive trenching and repaving, while providing adequate supplies of natural gas for customers.

The same method will be used, where applicable, to re-fit approximately 2,000 miles of cast-iron pipeline in the city of Chicago—a 20-year endeavor, which will reduce long-term operation and maintenance costs. By inserting new pipe into existing pipe and running new pipe along parkways rather than traffic ways, we'll minimize the need to break pavement during construction and maintenance. It's a cost-effective approach, because repaving can be nearly as costly as the project work itself. A special rate rider, recently approved by the Illinois Commerce Commission, will allow us same-year recovery of the costs to make these improvements.

Ed Livingston,
Operations – Maintenance Mechanic, Wisconsin Public Service, Merrill, Wisconsin



Milan Echevarria, Jr.
Distribution Operator, North Shore Gas, Waukegan, Illinois

Rate Adjustments

Investments are important as we meet the changing needs of the areas we serve. Whether adding to or improving our generating capacity, reinforcing our distribution systems, or creating a workplace that retains quality employees, we've spent the capital to remain financially strong and provide valued service. In 2009, four of our utilities—Michigan Gas Utilities, Minnesota Energy Resources, Upper Peninsula Power, and Wisconsin Public Service—received approval for new rates. North Shore Gas and Peoples Gas filed for a rate increase, receiving approval in January 2010.

Increasing rates is always difficult, because we understand our customers' concerns. The state of the economy gave us even greater pause in 2009. As always, we took steps to ensure the increases were fair and as small as possible while still recovering the costs of our investments. This is essential to remaining a strong, viable company and a good investment option for investors.

Integrys Energy Group approaches legislative matters proactively, to help create a future that bodes well for our company, our customers, our shareholders, and our environment.

In 2009, we saw a number of climate change legislative proposals introduced. The Waxman-Markey American Clean Energy and Security Act, passed by the U.S. House of Representatives, included a cap-and-trade plan; a requirement to reduce greenhouse gas emissions 17 percent by 2020, and more in future years; and new renewable energy standards for utilities. The Senate version, the Kerry-Boxer Clean Energy and American Power Act, included similar provisions. The Wisconsin Legislature introduced the Clean Energy Jobs Act, which would, among other things, increase the state's renewable portfolio standard to 25 percent by 2025; mandate the use of advanced renewable tariffs; and substantially increase energy-efficiency spending.

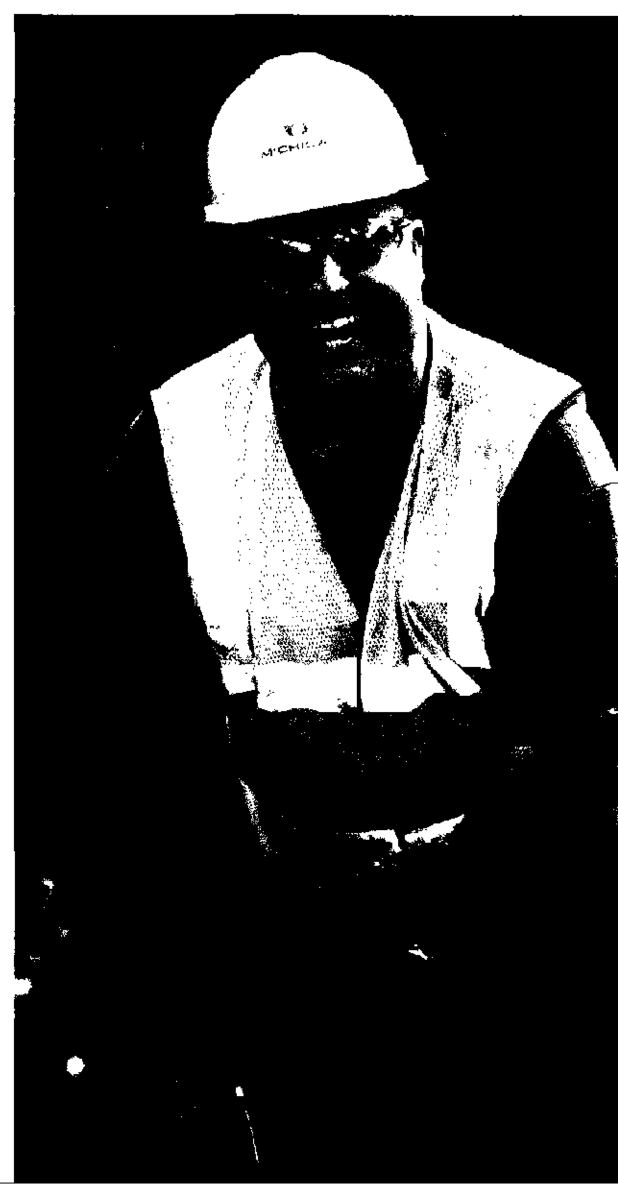
Our proactive approach in this arena never wanes, and we will continue to evaluate potential impacts and communicate our positions to policymakers. We're committed to balancing our support for the environment and energy efficiency with our customers' needs for affordable energy.

We See Good Things Coming

Yes, energy's future is changing. Cost control and environmental performance are the new realities, and our value will hinge on our ability to accomplish them. We'll be expected to provide more and better services, requiring technology and human talent. And we'll need to be there for our shareholders like never before, providing the best possible returns while minimizing risk.

As we see it from here, all of these are our tasks at Integrys Energy Group as we continue to grow.

They create a bold new vision, and we look forward to being part of it.



Dan Suffaro
Fitter Operator, Michigan Gas Utilities, Monroe, Michigan

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. You can identify these statements by the fact that they do not relate strictly to historical or current facts and often include words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," and other similar words. Forward-looking statements are subject to assumptions and uncertainties; therefore, actual results may differ materially from those expressed or implied by such forward-looking statements. Although we believe that these forward-looking statements and the underlying assumptions are reasonable, we cannot provide assurance that such statements will prove correct.

Forward-looking statements speak only as of the date on which they are made, and, except to the extent required by the federal securities laws, we undertake no obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise. We recommend that you consult any further disclosures we make on related subjects in our 10-Q, 8-K, and 10-K reports to the Securities and Exchange Commission.

The following is a cautionary list of risks and uncertainties that may affect the assumptions which form the basis of forward-looking statements relevant to our business. These factors, and other factors not listed here, could cause actual results to differ materially from those contained in forward-looking statements.

- Resolution of pending and future rate cases and negotiations (including the recovery of deferred costs) and other regulatory decisions impacting Integrys Energy Group's regulated businesses;
- The impact of recent and future federal and state regulatory changes, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric and natural gas utility industries, changes in environmental and other regulations, including but not limited to, greenhouse gas emissions, energy efficiency mandates, renewable energy standards, and reliability standards, and changes in tax and other laws and regulations to which Integrys Energy Group and its subsidiaries are subject;
- Current and future litigation and regulatory investigations, enforcement actions or inquiries, including, but not limited to, manufactured gas plant site cleanup, third party intervention in permitting and licensing projects, compliance with Clean Air Act requirements at generation plants, and prudence and reconciliation of costs recovered in revenues through an automatic gas cost recovery mechanism;
- The impacts of changing financial market conditions, credit ratings, and interest rates on the liquidity and financing efforts of Integrys Energy Group and its subsidiaries;
- The risks related to executing the strategy change associated with Integrys Energy Group's nonregulated energy services business, including the restructuring of its retail natural gas and retail electric marketing business;
- The risks associated with changing commodity prices (particularly natural gas and electricity) and the available sources of fuel and purchased power, including their impact on margins;
- Resolution of audits or other tax disputes with the Internal Revenue Service and various state, local, and Canadian revenue agencies;
- The effects, extent, and timing of additional competition or regulation in the markets in which Integrys Energy Group's subsidiaries operate;
- The retention of market-based rate authority;
- The risk associated with the value of goodwill or other intangibles and their possible impairment;
- Investment performance of employee benefit plan assets and the related impact on future funding requirements;
- Changes in technology, particularly with respect to new, developing, or alternative sources of generation;
- Effects of and changes in political and legal developments, as well as economic conditions and the related impact on customer demand;
- Potential business strategies, including mergers, acquisitions, and construction or disposition of assets or businesses, which cannot be assured to be completed timely or within budgets;
- The direct or indirect effects of terrorist incidents, natural disasters, or responses to such events;
- The effectiveness of risk management strategies, the use of financial and derivative instruments, and the ability to recover costs from customers in rates associated with the use of those strategies and financial instruments;
- The risk of financial loss, including increases in bad debt expense, associated with the inability of Integrys Energy Group's and its subsidiaries' counterparties, affiliates, and customers to meet their obligations;
- Customer usage, weather, and other natural phenomena;
- The utilization of tax credit and loss carryforwards;
- Contributions to earnings by non-consolidated equity method and other investments, which may vary from projections;
- The effect of accounting pronouncements issued periodically by standard-setting bodies; and
- Other factors discussed in the 2009 Annual Report on Form 10-K and in other reports filed by Integrys Energy Group from time to time with the United States Securities and Exchange Commission.

INTRODUCTION

Integrys Energy Group is a diversified energy holding company with regulated electric and natural gas utility operations (serving customers in Illinois, Michigan, Minnesota, and Wisconsin), nonregulated energy operations, and an approximate 34% equity ownership interest in American Transmission Company LLC (ATC) (a federally regulated electric transmission company operating in Wisconsin, Michigan, Minnesota, and Illinois).

Strategic Overview

Integrys Energy Group's goal is to create long-term value for shareholders and customers through growth in its core regulated businesses. Integrys Energy Group has substantially completed 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.

The essential components of Integrys Energy Group's business strategy are:

Maintaining and Growing a Strong Regulated Utility Base – A strong regulated utility base is essential to maintain a strong balance sheet, predictable cash flows, a desired risk profile, attractive dividends, and quality credit ratings. This is critical to Integrys Energy Group's success as a strategically focused regulated business. Integrys Energy Group believes the following projects have helped, or will help, maintain and grow its regulated utility base and meet its customers' needs:

- Wisconsin Public Service Corporation's (WPS's) continued investment in environmental projects to improve air quality and meet the requirements set by environmental regulators. Capital projects to construct and/or upgrade equipment to meet or exceed required environmental standards are planned each year.
- Integrys Energy Group's approximate 34% ownership interest in ATC, a transmission company that had over $2.8 billion of transmission assets at December 31, 2009. ATC plans to invest approximately $2.5 billion during the next ten years. Although ATC's equity requirements to fund its capital investments will primarily be met by earnings reinvestment, Integrys Energy Group plans to continue to fund its share of the equity portion of future ATC growth, as necessary.
- An accelerated annual investment in natural gas distribution facilities (replacement of cast iron mains) at The Peoples Gas Light and Coke Company (PGL).
- WPS's purchase of the 99-megawatt Crane Creek wind generation project constructed in Howard County, Iowa, which became operational in 2009.

For more detailed information on Integrys Energy Group's capital expenditure program, see *"Liquidity and Capital Resources, Capital Requirements."*

Operating a Nonregulated Energy Services Business Segment with a Controlled Risk and Capital Profile – Through its nonregulated Integrys Energy Services subsidiary, Integrys Energy Group provides retail natural gas and electric products to end-use customers in the upper Midwest and Northeastern regions of the United States. Integrys Energy Group has repositioned this subsidiary from a focus on significant growth in wholesale and retail markets across the United States and Canada, to a focus on selected retail markets 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.

Integrating Resources to Provide Operational Excellence – Integrys Energy Group is committed to integrating resources of all its businesses, while meeting all applicable legal and regulatory requirements. This will provide the best value to customers and shareholders by leveraging the individual capabilities and expertise of each business and lowering costs. Integrys Energy Group believes the following recent developments have helped, or will help, integrate resources and provide operational excellence:

- Integrys Business Support, LLC (IBS), a wholly owned service company of Integrys Energy Group, was formed to achieve consolidation and efficient delivery of various support services, and to provide more consistent and transparent allocation of costs throughout Integrys Energy Group and its subsidiaries.
- "Operational Excellence" initiatives were implemented to provide top performance in the areas of project management, process improvement, contract administration, and compliance in order to reduce costs and manage projects and activities within appropriate budgets, schedules, and regulations.

Placing Strong Emphasis on Asset and Risk Management – Integrys Energy Group's asset management strategy calls for the continuous assessment of existing assets, the acquisition of assets, and contractual commitments to obtain resources that complement its existing business and strategy. The goal is to provide the most efficient use of resources while maximizing return and maintaining an acceptable risk profile. This strategy focuses on the disposition of assets, including property, plant, and equipment and entire business units, which are no longer strategic to ongoing operations, are not performing as needed, or have an unacceptable risk profile. Integrys Energy Group maintains a portfolio approach to risk and earnings. Integrys Energy Group's decision regarding the future of Integrys Energy Services illustrates its asset management strategy.

Integrys Energy Group's risk management strategy includes the management of market, credit, and operational risks through the normal course of business. Forward purchases and sales of electric capacity, energy, natural gas, and other commodities and the use of derivative financial instruments, including commodity swaps and options, allow for opportunities to reduce the risk associated with price movement in a volatile energy market. Each business unit manages the risk profile related to these instruments consistent with Integrys Energy Group's risk management policies, which are approved by the Board of Directors. The Corporate Risk Management Group, which reports through the Chief Financial Officer, provides corporate oversight.

Continuing Emphasis on Safe, Reliable, Competitively Priced, and Environmentally Sound Energy and Energy Related Services – Integrys Energy Group's mission is to provide customers with the best value in energy and energy related services. By effectively operating a mixed portfolio of generation assets and investing in new generation and natural gas distribution assets, while maintaining or exceeding environmental standards, Integrys Energy Group is able to provide a safe, reliable, value-priced service to its customers. Integrys Energy Group concentrates its efforts on improving and operating efficiently in order to reduce costs and maintain a low risk profile. Integrys Energy Group actively evaluates opportunities for increasing its focus on energy efficiency and for adding more renewable generation to provide additional environmentally sound energy to its portfolio. Integrys Energy Group believes the following activities have helped, and will continue to help, to provide safe, reliable, competitively priced, and environmentally sound energy and energy related services:

- Managing operations to minimize the impact on the environment. WPS's Weston 4 facility, completed in 2008, is one of the most efficient pulverized coal-fired electric generation units in the country with state-of-the-art environmental controls, which allows reductions in the amount of emissions produced. Integrys Energy Group also expects to maintain or decrease the amount of greenhouse gases released over time and supports research and development initiatives that will enable further progress toward decreasing its carbon footprint.

- Effectively operating a mixed portfolio of generation assets and investing in new generation and distribution assets, such as Weston 4, wind projects, and its natural gas connection to the Guardian II pipeline, ensures continued reliability for Integrys Energy Group's customers.

RESULTS OF OPERATIONS

(Millions, except per share amounts)	Year Ended December 31 2009	2008	2007	Change in 2009 Over 2008	Change in 2008 Over 2007
Natural gas utility operations	**$(172.1)**	$ 84.5	$ 28.7	N/A	194.4 %
Electric utility operations	**88.9**	92.6	87.4	(4.0)%	5.9 %
Integrys Energy Services operations	**2.5**	(61.5)	98.0	N/A	N/A
Electric transmission investment	**45.5**	39.7	30.3	14.6 %	31.0 %
Holding company and other operations	**(35.7)**	(28.9)	(49.1)	23.5 %	(41.1)%
Oil and natural gas operations	**-**	-	56.0	N/A	(100.0)%
Net income (loss) attributed to common shareholders	**$ (70.9)**	$126.4	$251.3	N/A	(49.7)%
Basic earnings (loss) per share	**$(0.92)**	$1.65	$3.51	N/A	(53.0)%
Diluted earnings (loss) per share	**$(0.92)**	$1.64	$3.50	N/A	(53.1)%
Average shares of common stock					
Basic	**76.8**	76.7	71.6	0.1 %	7.1 %
Diluted	**76.8**	77.0	71.8	(0.3)%	7.2 %

N/A= Not Applicable

Financial Results – 2009 Compared with 2008

Integrys Energy Group recognized a net loss attributed to common shareholders of $70.9 million ($0.92 net loss per share) in 2009 compared with net income attributed to common shareholders of $126.4 million ($1.64 diluted earnings per share) in 2008. Significant factors impacting the $197.3 million decrease in earnings were as follows (and are discussed in more detail thereafter).

- Earnings at the regulated natural gas utility segment decreased $256.6 million, driven by a $242.3 million increase in after-tax non-cash goodwill impairment losses period-over-period. A $16.2 million after-tax decrease in margin from lower period-over-period volumes, net of decoupling, also negatively impacted earnings. An $8.0 million after-tax increase in employee benefit costs, a $9.6 million after-tax increase in other operating and maintenance expenses related primarily to natural gas maintenance costs and workers compensation claims, and $4.1 million after-tax of restructuring costs related to workforce reductions also contributed to the decrease in earnings. These negative impacts were partially offset by a $17.4 million after-tax net positive impact that increased rates at certain natural gas utilities had on margin and a $10.6 million after-tax decrease in bad debt expense.
- Earnings at the regulated electric utility segment decreased $3.7 million, driven by a $20.2 million after-tax increase in operating expenses, including restructuring costs, a $3.7 million after-tax increase in other expenses primarily related to an increase in interest expense at WPS, and a $3.3 million increase in income taxes. Partially offsetting these increases in expenses was a $23.8 million after-tax increase in margin.
- Earnings at Integrys Energy Services increased $64.0 million, driven by a $127.3 million after-tax increase in Integrys Energy Services' margin year-over-year, primarily related to the positive year-over-year impact of inventory valuation adjustments recorded in prior periods, partially offset by non-cash accounting losses due to derivative fair value adjustments. Partially offsetting the increase in Integrys Energy Services' margin were an increase in the provision for income taxes, primarily due to an $18.4 million year-over-year decrease in income tax credits recognized, after-tax restructuring expenses of $17.4 million, after-tax losses of $17.3 million related to dispositions completed in connection with the strategy change primarily driven by timing differences caused by the accounting treatment for derivative and non-derivative contracts, and an after-tax increase in operating and maintenance expenses of $5.5 million.
- Earnings at the electric transmission investment segment increased $5.8 million year-over-year, due to an increase in income from Integrys Energy Group's approximate 34% ownership interest in ATC.
- Net loss at the holding company and other segment increased $6.8 million, driven by an increase in interest expense.

Financial Results – 2008 Compared with 2007

Integrys Energy Group recognized net income attributed to common shareholders of $126.4 million ($1.64 diluted earnings per share) in 2008 compared with $251.3 million ($3.50 diluted earnings per share) in 2007. Significant factors impacting the $124.9 million decrease in earnings were as follows (and are discussed in more detail thereafter).

- Earnings at the regulated natural gas utility segment increased $55.8 million, driven by the inclusion of PGL and North Shore Gas Company (NSG) for all of 2008 compared with only a partial year of operations in 2007 and by the positive impact of PGL's 2008 rate increase. From 2007 to 2008, earnings related to PGL and NSG increased $43.3 million. Also positively impacting earnings was an increase in natural gas sales volumes at WPS, Minnesota Energy Resources Corporation (MERC), and Michigan Gas Utilities Corporation (MGU), which drove a $6.6 million after-tax increase in margin.
- Earnings at the regulated electric utility segment increased $5.2 million, driven by a $7.0 million after-tax decrease in electric maintenance expenses, an approximate $6 million after-tax positive impact related to retail electric rate increases, and an approximate $6 million after-tax increase in wholesale margins, partially offset by an $8.3 million after-tax increase in electric transmission expenses and an approximate $7 million after-tax decrease in margin due to lower residential and commercial and industrial sales volumes as a result of cooler weather during the cooling season and customer conservation efforts.
- Earnings at Integrys Energy Services decreased $159.5 million, driven by a $131.0 million after-tax decrease in Integrys Energy Services' margin year-over-year, primarily related to non-cash accounting losses

due to derivative fair value and inventory valuation adjustments, partially offset by an increase in retail electric margin. Also contributing to the decrease in Integrys Energy Services' earnings was a $13.4 million after-tax increase in operating and maintenance expenses, the year-over-year impact of the recognition of $17.1 million of after-tax earnings from Integrys Energy Services' investment in a synthetic fuel production facility in 2007, and a $10.9 million decrease in after-tax income from discontinued operations as a result of the sale of Niagara Generation, LLC in 2007. Partially offsetting the decrease in earnings was the recognition of $10.0 million of investment tax credits related to solar projects completed in the fourth quarter of 2008.

- Earnings at the oil and natural gas operations segment decreased $56.0 million. In connection with the Peoples Energy Corporation (PEC) merger, Integrys Energy Group announced its intent to divest of PEC's oil and natural gas production operations, Peoples Energy Production Company (PEP). PEP was sold in the third quarter of 2007. In 2007, PEP recognized earnings of $56.0 million, including $58.5 million of earnings reported as discontinued operations. The sale of PEP resulted in a $7.6 million after-tax gain in 2007.

- Earnings at the electric transmission investment segment increased $9.4 million year-over-year, due to an increase in income from Integrys Energy Group's ownership interest in ATC.

- Net loss at the holding company and other segment decreased $20.2 million, driven by lower operating expenses at the holding company, partially offset by the negative year-over-year impact on operating income of the reallocation of external costs to achieve merger synergies in 2007.

- Diluted earnings per share was impacted by a 5.2 million share (7.2%) increase in the weighted average number of outstanding shares of Integrys Energy Group common stock from 2007 to 2008. Integrys Energy Group issued 31.9 million shares of common stock on February 21, 2007, in conjunction with the PEC merger. Additional shares were also issued under the Stock Investment Plan and certain stock-based employee benefit plans in 2007.

Utility Operations

For 2009 and 2008, utility operations included the regulated natural gas utility segment, consisting of the natural gas operations of PGL, WPS, MERC, MGU, and NSG, and the regulated electric segment, consisting of the regulated electric operations of WPS and Upper Peninsula Power Company (UPPCO). The regulated natural gas operations of WPS, MERC, and MGU were included in results of operations for all of 2007, while the regulated natural gas operations of PGL and NSG were included in results of operations beginning on February 22, 2007.

Regulated Natural Gas Utility Segment Operations

	Year Ended December 31				
(Millions, except degree days)	**2009**	**2008**	**2007**	**Change in 2009 Over 2008**	**Change in 2008 Over 2007**
Revenues	**$2,237.5**	$3,025.9	$2,103.7	(26.1)%	43.8 %
Purchased natural gas costs	**1,382.0**	2,147.7	1,453.5	(35.7)%	47.8 %
Margins	**855.5**	878.2	650.2	(2.6)%	35.1 %
Operating and maintenance expense	**532.6**	539.1	427.4	(1.2)%	26.1 %
Goodwill impairment loss [1]	**291.1**	6.5	–	4,378.5 %	N/A
Restructuring expense [2]	**6.9**	–	–	N/A	N/A
Depreciation and amortization expense	**106.1**	108.3	97.7	(2.0)%	10.8 %
Taxes other than income taxes	**33.4**	32.1	33.1	4.0 %	(3.0)%
Operating income (loss)	**(114.6)**	192.2	92.0	N/A	108.9 %
Miscellaneous income	**3.1**	7.0	5.5	(55.7)%	27.3 %
Interest expense	**(52.2)**	(56.6)	(53.4)	(7.8)%	6.0 %
Other expense	**(49.1)**	(49.6)	(47.9)	(1.0)%	3.5 %
Income (loss) before taxes	**$ (163.7)**	$ 142.6	$ 44.1	N/A	223.4 %
Throughput in therms					
Residential	**1,602.8**	1,708.9	1,251.8	(6.2)%	36.5 %
Commercial and industrial	**501.4**	550.8	439.2	(9.0)%	25.4 %
Interruptible	**51.3**	60.1	59.4	(14.6)%	1.2 %
Interdepartmental	**9.5**	28.6	47.1	(66.8)%	(39.3)%
Transport	**1,641.6**	1,834.0	1,505.6	(10.5)%	21.8 %
Total sales in therms	**3,806.6**	4,182.4	3,303.1	(9.0)%	26.6 %
Weather					
Average heating degree days	**7,061**	7,257	N/M [3]	(2.7)%	N/A

[1] *See Note 10, "Goodwill and Other Intangible Assets," for more information.*
[2] *See Note 3, "Restructuring Expense," for more information.*
[3] *Not meaningful as the PEC merger was completed on February 21, 2007.*

2009 Compared with 2008

Revenues

Regulated natural gas utility segment revenue decreased $788.4 million, driven by:

- An approximate $648 million decrease in revenue as a result of an approximate 30% decrease in the average per-unit cost of natural gas sold by the regulated natural gas utilities during 2009 compared with 2008. For all of Integrys Energy Group's regulated natural gas utilities, prudently incurred natural gas commodity costs are passed directly through to customers in current rates.

- An approximate $166 million decrease in revenue as a result of lower year-over-year natural gas throughput volumes, driven by:

  - An approximate $83 million decrease related to lower overall volumes, including residential customer volumes, resulting from customer conservation and efficiency efforts. Lower volumes were also driven by decreased commercial and industrial customer volumes resulting from reduced demand related to changes in customers' plant operations and a decline in customer base at PGL and MGU, both of which Integrys Energy Group attributed to the general economic slowdown.

  - An approximate $70 million decrease as a result of warmer year-over-year weather during the heating season as indicated by the 2.7% decrease in average heating degree days.

  - An approximate $19 million decrease related to a reduction in volumes sold to the electric utility segment driven by the availability of lower cost power from Midwest Independent Transmission System Operator, Inc. (MISO), resulting in a decrease in the need for the electric utility to run its natural gas-fired peaking generation units.

  - This decrease in revenue was partially offset by the $6.0 million positive impact of decoupling mechanisms that were first effective for PGL and NSG on March 1, 2008, and for WPS on January 1, 2009. Under decoupling, these utilities are allowed to defer the difference between the actual and rate case authorized delivery charge components of margin from certain customers and adjust future rates in accordance with rules applicable to each jurisdiction.

- An approximate $20 million year-over-year net decrease in revenue from lower recovery of environmental cleanup expenditures at PGL and NSG related to former manufactured gas plant sites, partially offset by higher recovery of Enhanced Efficiency Program (EEP) expenses. The EEP was established in the 2008 PGL and NSG rate cases and is designed to encourage energy efficiency initiatives.

- The decrease in revenue was partially offset by the approximate $29 million year-over-year net positive impact of natural gas distribution rate cases and changes in rate design at the regulated natural gas utilities. See Note 24, "Regulatory Environment," for more information on these rate cases.

  - Effective January 14, 2009, MGU received a final rate order from the Michigan Public Service Commission (MPSC) for a natural gas distribution rate increase. On June 29, 2009, MERC received a final rate order granting a natural gas distribution rate increase. Prior to this final order, MERC had been granted interim rate relief effective October 1, 2008. Together, these rate increases had an approximate $19 million positive impact on revenue.

  - In 2009, PGL and NSG received the full impact of their 2008 natural gas distribution rate orders, which were effective February 14, 2008, and drove an approximate $5 million increase in revenue year-over-year.

  - Effective January 1, 2009, the Public Service Commission of Wisconsin (PSCW) required WPS to change its retail natural gas distribution rate design, which incorporates higher volumetric rates and lower fixed customer charges. In 2009, revenue increased approximately $5 million related to this change in rate design.

Margins

Regulated natural gas utility segment margin decreased $22.7 million, driven by:

- An approximate $27 million year-over-year decrease in margin resulting from the 9.0% decrease in natural gas throughput volumes attributed to the negative impact of the general economic slowdown, customer conservation and efficiency efforts, and warmer year-over-year weather. This decrease in margin includes the impact of decoupling mechanisms that were first effective for PGL and NSG on March 1, 2008, and for WPS on January 1, 2009. The decoupling mechanism for WPS's natural gas utility includes an annual $8.0 million cap for the deferral of any excess or shortfall from the rate case authorized margin. Approximately $7 million of additional margin was recognized at WPS due to a shortfall from the rate case authorized margin during 2009.

- An approximate $20 million year-over-year net decrease in margin due to lower recovery of environmental cleanup expenditures at PGL and NSG related to former manufactured gas plant sites, partially offset by an increase in recovery of EEP expenses. This decrease in margin was offset by a net decrease in operating expense from both the amortization of the related regulatory asset and EEP expenses and, therefore, had no impact on earnings.

- An approximate $2 million year-over-year decrease in margin at MGU related to an adjustment in the third quarter of 2008 for recovery of prior natural gas costs in a MPSC proceeding.

- The decrease in margin was partially offset by the approximate $29 million net positive year-over-year impact of rate orders and impacts of rate design changes at the regulated natural gas utilities.

Operating Income (Loss)

Operating results at the regulated natural gas utility segment decreased $306.8 million, from operating income of $192.2 million in 2008, to an operating loss of $114.6 million in 2009. This decrease was primarily driven by a year-over-year increase in non-cash goodwill impairment losses of $284.6 million and the $22.7 million decrease in natural gas margin, partially offset by a $0.5 million decrease in other operating expenses. See Note 10, "Goodwill and Other Intangible Assets," for information related to the goodwill impairment losses recorded in 2009 and 2008.

The year-over-year decrease in other operating expenses primarily related to:

- An approximate $20 million net decrease in amortization of the regulatory asset related to environmental cleanup expenditures of manufactured gas plant sites, partially offset by an increase in EEP expenses. Both of these costs were recovered from customers in rates.

- A $17.7 million decrease in bad debt expense driven by the impact lower energy prices had on overall accounts receivable balances and the implementation of bad debt expense tracking mechanisms at PGL, NSG, and MGU. PGL and NSG elected during the third quarter of 2009, under a new Illinois state law, to file for recovery from or refund to customers the difference between actual bad debt expense reported as a component of earnings and the bad debt expense included in utility rates retroactive to January 1, 2008. Bad debt expense also decreased as a result of MGU's rate order effective January 1, 2010, which established a bad debt expense tracking mechanism that allows for the deferral and subsequent recovery or refund of 80% of the difference between actual bad debt write-offs (net of recoveries) and bad debt expense included in utility rates. The bad debt mechanism allowed recovery of a portion of the December 31, 2009 accounts receivable reserve representing future bad debt write-offs. The decrease in bad debt expense attributed to the implementation of bad debt expense tracking mechanisms at the natural gas utilities was $9.3 million.

- These decreases were partially offset by:
  - A $13.4 million increase in employee benefit costs, partially related to an increase in pension expense resulting from negative pension investment returns in 2008, as well as higher health care related expenses in 2009.
  - Restructuring expenses of $6.9 million related to a reduction in workforce. See Note 3, *"Restructuring Expense,"* for more information.
  - A $5.5 million increase in natural gas maintenance costs, primarily related to increased system inspection and maintenance requirements.
  - A $5.0 million increase in expenses related to workers compensation claims.
  - A $3.0 million charge related to an expected settlement at PGL and NSG.
  - A $2.5 million increase in amortization of a regulatory asset related to conservation program initiatives.

2008 Compared with 2007

Revenues

Regulated natural gas utility segment revenue increased $922.2 million, driven by:

- A combined increase in PGL and NSG natural gas utility revenue of $780.5 million, from $1,118.5 million during 2007, to $1,899.0 million during 2008. The increase in revenue at both of these natural gas utilities was driven primarily by the fact that they were not included in regulated natural gas utility results until after the PEC merger on February 21, 2007. Other factors that contributed to this combined increase include:
  - PGL's annualized rate increase effective February 14, 2008, which increased revenue year-over-year by approximately $61 million. See Note 24, *"Regulatory Environment,"* for more information on the PGL and NSG rate cases.
  - Higher year-over-year natural gas prices. Increases in natural gas commodity costs are passed directly through to customers in rates.
  - Colder weather during the 2008 heating season, partially offset by energy conservation efforts by natural gas utility customers and a larger number of customer disconnections, which Integrys Energy Group believes resulted from high energy prices and a general slowdown in the economy.
- An increase in natural gas revenue of $141.7 million at the remaining natural gas utilities (WPS, MERC, and MGU) from $985.1 million during 2007, to $1,126.8 million during 2008, which resulted primarily from:
  - A combined $112.2 million increase in revenue driven by the approximate 13% increase in the per-unit cost of natural gas in 2008 compared with 2007.
  - A $43.4 million increase in revenue from colder weather during the 2008 heating season compared with 2007, evidenced by an approximate 11% year-over-year increase in heating degree days across these three utilities.
  - An increase in revenue from MERC's interim rate increase, effective October 1, 2008, for retail natural gas customers.
  - The combined increase in revenue at WPS, MGU, and MERC, was partially offset by a $17.9 million decrease in revenue driven by a decrease in year-over-year volumes normalized for the impact of weather, $15.6 million of which was driven by a 39.3% decrease in natural gas throughput volumes sold by WPS to its electric utility segment. The decrease in volumes sold to the electric utility segment was a result of a decrease in the need for the electric utility to run its peaking generation units during the 2008 summer cooling season because of cooler year-over-year weather. Additional electricity was also available within the electric utility segment from Weston 4, a coal-fired generating facility that became commercially operational in June 2008. The remaining decrease in weather normalized volumes was driven by energy conservation efforts of residential customers and a larger number of customer disconnections year-over-year, which Integrys Energy Group believes resulted from high energy prices and a general slowdown in the economy.

Margins

Regulated natural gas utility segment margin increased $228.0 million, primarily due to:

- An increase in the combined margin at PGL and NSG of $208.6 million, from $387.2 million in 2007 to $595.8 million in 2008. The increase in combined margin was driven by:
  - The acquisition of PGL and NSG on February 21, 2007. The combined operations for the entire heating season were included in the 2008 natural gas utility margin. However, only operations from the merger date through December 31, 2007, were included in the 2007 natural gas utility margin. Due to the seasonal nature of natural gas utilities, higher margins are generally derived during the heating season (first and fourth quarters).
  - The 2008 rate increase for PGL which resulted in an approximate $61 million increase in margin.
  - Colder than normal weather experienced by both PGL and NSG resulted in an approximate $7 million increase in 2008 margin before the decoupling mechanism went into effect on March 1, 2008.
- An increase in natural gas margin of $19.4 million at the remaining natural gas utilities (WPS, MERC, and MGU), primarily driven by:
  - A combined 5.2% increase in natural gas throughput volumes at WPS, MERC, and MGU, which had an approximate $11 million positive impact on natural gas utility margins. Colder year-over-year weather had an approximate $14 million positive impact on margins. Partially offsetting the positive impact of colder weather were energy conservation efforts by residential customers and a larger number of customer disconnections year-over-year, which had an approximate $3 million negative impact on margins.
  - The interim rate increase for MERC, effective October 1, 2008, which had a positive impact on natural gas margin.
  - An approximate $2 million year-over-year increase in margin at MGU related to an adjustment for recovery of prior natural gas costs in a MPSC proceeding.

Operating Income

Operating income at the regulated natural gas utility segment increased $100.2 million, driven by the $228.0 million increase in the natural gas utility margin, partially offset by a $127.8 million increase in operating expenses.

The increase in operating expenses was primarily related to an increase in combined operating expenses at PGL and NSG of $125.8 million, from $368.7 million for 2007 to $494.5 million for 2008.

The increase in operating expenses related to PGL and NSG was primarily driven by:

- The acquisition of these natural gas utilities on February 21, 2007. As a result, operating expenses for the period January 1, 2007 to the acquisition date were not included in the 2007 operating results.
- A non-cash goodwill impairment charge of $6.5 million recognized in the second quarter of 2008 related to NSG.
- A combined increase in bad debt expense, driven by the impact of high energy prices and worsening economic conditions on overall accounts receivable balances.

Other Expense

Other expense at the regulated natural gas utilities increased $1.7 million, driven by a $3.2 million increase in interest expense, partially offset by a $1.5 million increase in miscellaneous income. The increase in other expense was a result of:

- A $6.1 million increase in combined interest expense at PGL and NSG, from $30.3 million in 2007 to $36.4 million in 2008. The increase in interest expense at PGL and NSG is primarily due to the fact that these utilities were first acquired on February 21, 2007, and, therefore, did not recognize a full year of interest expense in 2007. The increase in interest expense was also due to additional long-term debt borrowings and higher interest rates on new and remarketed long-term debt.
- The increase in other expense was offset by:
  - A $2.6 million increase in Allowance for Funds Used During Construction (AFUDC) at WPS related to the construction of natural gas laterals for connection to the Guardian II pipeline.
  - A decrease in interest expense resulting from a decrease in short-term borrowing levels and a decrease in interest rates for WPS's natural gas segment.

Regulated Electric Utility Segment Operations

	Year Ended December 31				
(Millions, except degree days)	**2009**	**2008**	**2007**	**Change in 2009 Over 2008**	**Change in 2008 Over 2007**
Revenues	**$1,301.6**	$1,328.9	$1,246.1	(2.1)%	6.6 %
Fuel and purchased power costs	**584.5**	651.5	636.5	(10.3)%	2.4 %
Margins	**717.1**	677.4	609.6	5.9 %	11.1 %
Operating and maintenance expense	**392.0**	375.3	321.1	4.4 %	16.9 %
Restructuring expense	**8.6**	–	–	N/A	N/A
Depreciation and amortization expense	**90.3**	84.3	80.1	7.1 %	5.2 %
Taxes other than income taxes	**46.6**	44.3	43.2	5.2 %	2.5 %
Operating income	**179.6**	173.5	165.2	3.5 %	5.0 %
Miscellaneous income	**4.8**	6.0	8.3	(20.0)%	(27.7)%
Interest expense	**(41.6)**	(36.7)	(32.4)	13.4 %	13.3 %
Other expense	**(36.8)**	(30.7)	(24.1)	19.9 %	27.4 %
Income before taxes	**$ 142.8**	$ 142.8	$ 141.1	– %	1.2 %
Sales in kilowatt-hours					
Residential	**3,043.0**	3,064.5	3,173.6	(0.7)%	(3.4)%
Commercial and industrial	**8,155.5**	8,632.8	8,750.9	(5.5)%	(1.3)%
Wholesale	**5,079.1**	4,764.6	4,024.9	6.6 %	18.4 %
Other	**40.0**	42.6	42.4	(6.1)%	0.5 %
Total sales in kilowatt-hours	**16,317.6**	16,504.5	15,991.8	(1.1)%	3.2 %
Weather – WPS:					
Heating degree days	**7,962**	7,969	7,102	(0.1)%	12.2 %
Cooling degree days	**274**	464	634	(40.9)%	(26.8)%
Weather – UPPCO:					
Heating degree days	**9,317**	9,348	8,625	(0.3)%	8.4 %
Cooling degree days	**99**	138	352	(28.3)%	(60.8)%

2009 Compared with 2008

Revenues

Regulated electric utility segment revenues decreased $27.3 million, driven by:

- A 5.5% decrease in commercial and industrial sales volumes and a 0.7% decrease in residential sales volumes, which resulted in an approximate $23 million year-over-year decrease in revenue, after the impact of decoupling. The primary drivers of the decrease were:
  - An approximate $31 million year-over-year decrease due to lower demand related to changes in commercial and industrial customers' plant operations, which Integrys Energy Group attributed mainly to the general economic slowdown.
  - An approximate $6 million decrease primarily related to cooler year-over-year weather during the cooling season as evidenced by the decrease in cooling degree days at both WPS and UPPCO.
  - These decreases in volumes were partially offset by the $14.0 million impact that decoupling, which went into effect on January 1, 2009, had on WPS's revenue. Under decoupling, WPS is allowed to defer the difference between its actual margin and the rate case authorized margin recognized from residential and small commercial and industrial customers. This four-year pilot program for electric decoupling has an annual $14.0 million cap for the deferral of any excess or shortfall from the rate case authorized margin. This cap was reached during the second quarter of 2009; therefore, no additional decoupling deferral was allowed for additional shortfalls from authorized margin for the second half of the year.
- An approximate $22 million year-over-year reduction in revenue related to refunds due to customers in both 2009 and 2008 related to WPS's over-collection of fuel costs. On April 23, 2009, the PSCW made 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. See Note 24, *"Regulatory Environment,"* for more information on WPS's fuel window.
- An approximate $14 million year-over-year decrease in opportunity sales driven by lower demand and the availability of lower-cost power from the MISO market.
- These decreases in regulated electric utility segment revenue were partially offset by:
  - An approximate $19 million increase driven by higher wholesale volumes due to an increase in contracted sales volumes to a large wholesale customer and an increase in the wholesale demand rate, effective January 1, 2009, to recover costs related to Weston 4.
  - An approximate $15 million increase in revenue from the combined effect of the July 4, 2008 fuel surcharge, a portion of which was incorporated into WPS's 2009 non-fuel base retail electric rates, and the full year's benefit of the 2008 retail electric rate increase, effective January 16, 2008, for WPS.

Margins

The regulated electric utility segment margin increased $39.7 million, driven by:

- An approximate $20 million year-over-year increase in margin from wholesale customers related to increases in contracted sales volumes with an existing customer and an increase in the wholesale demand rate, effective January 1, 2009, to recover costs related to Weston 4.
- An approximate $14 million year-over-year increase in margin from the combined effect of the July 4, 2008 fuel surcharge, a portion of which was incorporated into WPS's 2009 non-fuel base retail electric rates, and the full year's benefit of the 2008 retail electric rate increase, effective January 16, 2008, for WPS.
- An approximate $11 million year-over-year increase in WPS's regulated electric utility margin due to fuel and purchased power costs that were approximately $12 million lower than what was recovered in rates during 2009, compared with fuel and purchased power costs that were approximately $1 million lower than what was recovered in rates during 2008.
- The increase in margin was partially offset by an approximate $4 million year-over-year decrease in margin, after the impact of the WPS decoupling mechanism, caused by a 4.3% year-over-year decrease in sales volumes to residential and commercial and industrial customers. The $14.0 million impact of decoupling partially offset the approximate $18 million decrease in margin due to lower sales volumes, which was attributed to the general economic slowdown and cooler year-over-year weather during the cooling season.

Operating Income

Operating income at the regulated electric utility segment increased $6.1 million, driven by the $39.7 million increase in margin, partially offset by a $33.6 million increase in operating expenses.

The increase in operating expenses was driven by:

- $8.6 million in restructuring expenses related to a reduction in workforce. See Note 3, *"Restructuring Expense,"* for more information.
- An $8.2 million increase in electric maintenance expenses at WPS, primarily related to a greater number of planned outages at the generation plants during 2009, compared with 2008.
- An $8.1 million increase in employee benefit costs, primarily related to an increase in pension expense driven partially by negative pension investment returns in 2008, as well as higher health care related expenses in 2009.
- A $5.6 million increase in depreciation and amortization expense at WPS, primarily related to Weston 4 being placed in service for accounting purposes in April 2008.

Other Expense

Other expense at the regulated electric utilities increased $6.1 million, driven by:

- A $4.9 million increase in interest expense, primarily related to increased long-term borrowings at WPS in December 2008. The additional borrowings were utilized to fund various construction projects, most notably the Crane Creek wind generation project in Iowa.
- A $2.5 million decrease in interest earned on the transmission facilities WPS funded on ATC's behalf. WPS was reimbursed by ATC for these transmission facilities in April 2008.

2008 Compared with 2007

Revenues

Regulated electric utility segment revenue increased $82.8 million, driven by:

- A 3.2% increase in electric sales volumes, which resulted in an approximate $26 million increase in revenue year-over-year, related to:

- An 18.4% increase in wholesale volumes year-over-year, which drove an approximate $48 million increase in revenue. There was an approximate $36 million increase in opportunity sales year-over-year as the electric utility had more low-cost generation with Weston 4 becoming commercially operational in 2008, combined with available capacity from lower sales volumes to residential customers. In addition, WPS experienced an approximate $12 million increase in wholesale revenue, driven by higher contracted sales volumes to a large wholesale customer year-over-year.

- The increase in revenue related to wholesale volumes was partially offset by a 3.4% decrease in residential sales volumes and a 1.3% decrease in commercial and industrial sales volumes year-over-year, which drove an approximate $22 million decrease in revenue. Of this decrease in revenue, approximately $13 million related to energy conservation efforts on the part of residential customers, which is believed to be the result of high energy prices and the general economic slowdown. Approximately $6 million related to decreased demand by commercial and industrial customers in the third and fourth quarters of 2008 as the economy weakened. In addition, cooler weather during the 2008 cooling season compared with 2007 contributed approximately $3 million to the decrease in revenue.

- An interim fuel surcharge approved by the PSCW for WPS's retail electric customers effective March 22, 2008, related to higher fuel and purchased power costs. In addition, a surcharge increase was approved by the PSCW effective July 4, 2008. Both orders combined had an overall impact on revenue of approximately $25 million. Contributing factors in this rate change were increased purchased power costs due to lower-than-expected generation from the new Weston 4 power plant during the start-up phases, increased coal and coal transportation costs, and increased natural gas costs. 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 these lower costs, WPS accrued at December 31, 2008, a refund payable in 2009 to its electric customers of approximately $5 million, which is excluded from the $25 million noted above. See Note 24, *"Regulatory Environment,"* for more information on WPS's interim fuel surcharges.

- A retail electric rate increase, effective January 16, 2008, which contributed an approximate $23 million increase in revenue. The full benefit of the 2007 retail electric rate increase, effective January 12, 2007, also contributed to the increase in revenue year-over-year. Per the PSCW's order approving the PEC merger, WPS was not permitted to increase its base rates for natural gas or electric service prior to January 1, 2009. However, WPS was allowed to adjust rates for changes in purchased power costs as well as fuel costs related to electric generation due to changes in New York Mercantile Exchange (NYMEX) natural gas futures prices, delivered coal prices, and transmission costs. The increase also included recovery of deferred 2005 and 2006 MISO Day 2 costs over a one-year period. See Note 24, *"Regulatory Environment,"* for more information on WPS's rate increase.

- An approximate $5 million increase in revenue at UPPCO related to increased energy and transmission costs in 2008 compared with 2007. Increases in fuel and purchased power costs at UPPCO are passed directly through to customers in rates.

Margins

The regulated electric utility segment margin increased $67.8 million, driven by an increase in electric margin at WPS. The $68.4 million increase in the electric margin at WPS was a result of:

- A $54.0 million partial refund to Wisconsin retail customers in 2007 for their portion of proceeds from the liquidation of the Kewaunee nonqualified decommissioning trust fund. Pursuant to regulatory accounting, the decrease in the 2007 margin related to the refund was offset by a corresponding decrease in operating and maintenance expense in 2007 and, therefore, did not have an impact on earnings. WPS completed this refund in 2007.

- An approximate $10 million increase in margin from the 2008 retail electric rate increase effective January 16, 2008, and the full benefit of the 2007 retail electric rate increase effective January 12, 2007.

- An approximate $10 million increase in margin driven by higher contracted sales volumes to a large wholesale customer year-over-year.

- An approximate $5 million increase in regulated electric utility margin year-over-year driven by fuel and purchased power costs that were approximately $1 million lower than what was recovered in rates during 2008, compared with fuel and purchased power costs that were approximately $4 million higher than what was recovered in rates during 2007. As a result of approximately $23 million of under-recovered fuel and purchased power costs in the first quarter of 2008, the PSCW approved an interim rate surcharge effective March 22, 2008, and subsequently approved a higher final surcharge effective July 4, 2008. The $5 million increase in electric margin includes lower fuel costs from the fuel window reset and the net impact of the refund accrued at December 31, 2008, payable in 2009 to electric customers from the reopening of the 2008 fuel surcharge on September 30, 2008, by the PSCW.

- These increases in the electric margin were partially offset by an approximate $11 million decrease in margin due to a decline in residential, commercial and industrial sales volumes. Of this decrease, approximately $8 million related to energy conservation efforts on the part of residential customers, which is believed to be the result of high energy prices and the general economic slowdown. Approximately $1 million related to decreased demand by commercial and industrial customers in the third and fourth quarters of 2008 as the economy worsened. In addition, cooler weather during the 2008 cooling season compared with 2007 contributed approximately $2 million to the decrease in gross margin.

Operating Income

Operating income at the regulated electric utility segment increased $8.3 million, driven by the $67.8 million increase in the electric utility margin, partially offset by a $59.5 million increase in operating expenses.

The increase in operating expenses was driven by:

- A $54.0 million year-over-year increase related to the partial amortization in 2007 of the regulatory liability previously recorded for WPS's obligation to refund proceeds received from the liquidation of the Kewaunee nonqualified decommissioning trust fund to Wisconsin retail electric ratepayers.

- A $13.8 million increase in electric transmission expenses, primarily related to higher rates charged by MISO and ATC due to additional transmission costs.

- A $6.1 million increase in cost of capital and depreciation expense charged by IBS for assets transferred from WPS to IBS in the beginning of 2008 and reported as operating and maintenance expense in 2008. Similar costs were reported as depreciation and amortization expense in 2007, prior to the start-up of IBS.

- A $4.2 million increase in depreciation and amortization expense, primarily related to $9.2 million of depreciation expense from Weston 4 being placed in service for accounting purposes in April 2008, partially offset by a decrease in depreciation related to assets transferred to IBS and reported in operating and maintenance expense in 2008.

These increases in operating expenses were partially offset by:

- An $11.6 million decrease in electric maintenance expenses at WPS, primarily due to major planned outages at the Weston 2 and Weston 3 generation stations, the De Pere Energy Center, and the Pulliam generation station, as well as several unplanned outages at the Weston 3 generation station in 2007, compared with fewer outages in 2008.
- A decrease in external costs to achieve merger synergies of $6.6 million related to the merger with PEC, from $12.3 million in 2007, to $5.7 million in 2008. This decrease occurred primarily because all external costs to achieve merger synergies incurred from July 2006 through March 2007 were reallocated in 2007 from the holding company segment to the other reportable segments, including the regulated electric segment. These reportable segments are the beneficiaries of the synergy savings resulting from the costs to achieve merger synergies. In addition, the reduction in 2008 external costs to achieve merger synergies was due to less integration work required in 2008 compared with 2007.

Other Expense

Other expense at the regulated electric utilities increased $6.6 million, driven by a $4.3 million increase in interest expense and a $2.3 million decrease in miscellaneous income.

- The increase in interest expense was due to higher long-term borrowings at WPS, primarily utilized to fund various construction projects and to retire short-term borrowing levels related to construction.
- The decrease in miscellaneous income was driven by:
  - A $1.4 million decrease in interest income recognized related to the construction of transmission facilities WPS funded on ATC's behalf related to Weston 4. WPS was reimbursed for these transmission facilities by ATC in April 2008.
  - A $1.8 million gain on the sale of a generation facility by UPPCO in July 2007.
  - The decrease in miscellaneous income was partially offset by an increase in AFUDC related to the wind generation project.

Integrys Energy Services' Operations

Integrys Energy Services is a diversified nonregulated energy supply and services company serving residential, commercial, and industrial customers. See "*Introduction*," for a discussion of the revised strategy for Integrys Energy Services.

	Year Ended December 31				
(Millions, except natural gas sales volumes)	**2009**	**2008**	**2007**	**Change in 2009 Over 2008**	**Change in 2008 Over 2007**
Revenues	**$3,994.0**	$9,735.2	$6,979.7	(59.0)%	39.5 %
Cost of fuel, natural gas, and purchased power	**3,696.1**	9,649.5	6,675.6	(61.7)%	44.5 %
Margins	**297.9**	85.7	304.1	247.6 %	(71.8)%
Margin Detail					
Electric and other margins	**190.1**	(15.7)	164.9	N/A	N/A
Natural gas margins	**107.8**	101.4	139.2	6.3 %	(27.2)%
Operating and maintenance expense	**190.8**	181.7	159.4	5.0 %	14.0 %
Restructuring expense	**27.2**	–	–	N/A	N/A
Loss on Integrys Energy Services dispositions related to strategy change	**28.9**	–	–	N/A	N/A
Depreciation and amortization	**19.3**	14.5	14.4	33.1 %	0.7 %
Taxes other than income taxes	**7.4**	7.8	7.1	(5.1)%	9.9 %
Operating income (loss)	**24.3**	(118.3)	123.2	N/A	N/A
Miscellaneous income (expense)	**6.0**	8.7	(0.3)	(31.0)%	N/A
Interest expense	**(13.1)**	(12.1)	(13.5)	8.3 %	(10.4)%
Other expense	**(7.1)**	(3.4)	(13.8)	108.8 %	(75.4)%
Income (loss) before taxes	**$ 17.2**	$ (121.7)	$ 109.4	N/A	N/A
Gross volumes (includes volumes both physically delivered and net settled)					
Wholesale electric sales volumes in kwh	**222,178.5**	184,446.3	132,623.6	20.5 %	39.1 %
Retail electric sales volumes in kwh	**15,264.3**	16,680.9	14,849.7	(8.5)%	12.3 %
Wholesale natural gas sales volumes in bcf	**424.0**	642.8	483.1	(34.0)%	33.1 %
Retail natural gas sales volumes in bcf	**239.3**	339.2	368.8	(29.5)%	(8.0)%
Physical volumes (includes only transactions settled physically for the periods shown)					
Wholesale electric sales volumes in kwh *	**3,965.2**	4,634.1	3,599.7	(14.4)%	28.7 %
Retail electric sales volumes in kwh *	**15,045.3**	16,561.3	14,584.4	(9.2)%	13.6 %
Wholesale natural gas sales volumes in bcf *	**402.5**	594.9	445.6	(32.3)%	33.5 %
Retail natural gas sales volumes in bcf *	**236.7**	336.0	319.4	(29.6)%	5.2 %

** Represents gross physical volumes.*
kwh – kilowatt-hours, bcf – billion cubic feet

2009 Compared with 2008

Revenues

- Revenues decreased $5,741.2 million in 2009, compared with 2008, primarily due to:
  - Lower energy prices, as the average market price of natural gas and electricity decreased approximately 45% and 40% year-over-year, respectively.
  - Lower sales volumes, as wholesale transactions were scaled back in conjunction with the global credit crisis in the latter half of 2008, and continue to be scaled back with Integrys Energy Services' strategy change and ultimate decision to exit its wholesale natural gas and electric businesses. See *"Introduction"* above and Note 4, *"Dispositions,"* for a discussion of the current strategy for Integrys Energy Services.

Margins

Changes in commodity prices subject a portion of the nonregulated operations to earnings volatility, driven primarily by its wholesale trading and marketing operations. Integrys Energy Services uses financial instruments to economically hedge risks associated with physical transactions. The financial instruments essentially lock in margin on these transactions by mitigating the impact of fluctuations in market conditions, changing commodity prices, volumetric exposure, and other associated risks. Because many of the derivative instruments utilized in these transactions may not qualify, or are not designated, as hedges under United States Generally Accepted Accounting Principles (GAAP), reported earnings for the Integrys Energy Services segment includes changes in the fair values of many of the derivative instruments. These values may change significantly from period to period and are reflected as unrealized gains or losses within margin. Fluctuations in the fair value of the nonderivative instruments (such as certain customer contracts, as well as natural gas storage and transportation contracts) do not impact margin until settlement, as these transactions do not meet the GAAP definition of derivative instruments.

Integrys Energy Services' margins increased $212.2 million in 2009, compared with 2008. The significant items contributing to the change in margin were as follows:

Electric and Other Margins

Integrys Energy Services' electric and other margins increased $205.8 million during 2009, compared with 2008. The following items were the most significant contributors to the change in Integrys Energy Services' electric and other margins.

Realized wholesale electric margin

Realized wholesale electric margin increased $18.8 million, from $59.4 million during 2008, to $78.2 million during 2009.

Wholesale transactions and structured origination activity were scaled back in conjunction with the global credit crisis in the latter half of 2008 and continue to be scaled back with Integrys Energy Services' strategy change and ultimate decision to exit its wholesale electric business. See *"Introduction"* above and Note 4, *"Dispositions,"* for a discussion of the current strategy for Integrys Energy Services.

In general, realized margins are impacted by transaction activity in prior periods, as Integrys Energy Services recognizes realized margin when the contracts actually settle, which typically occurs over a 12- to 24-month period from the time the contract was actually entered into. In 2009, realized margins benefited from the settlement of contracts that were entered into prior to the implementation of Integrys Energy Services' strategy change.

Realized retail electric margin

The realized retail electric margin increased $19.7 million, from $62.3 million in 2008, to $82.0 million in 2009. The increase was driven by:

- A $14.1 million increase in the more mature markets, such as Illinois and New York, as Integrys Energy Services realized the benefits of including higher capital costs in its pricing in the first half of the year.
- A $6.5 million increase from operations in the Texas market. This increase is a result of the positive year-over-year impact of lower ancillary service costs compared to the prior year and the effects of Hurricane Ike in the third quarter of 2008. Hurricane Ike disrupted the electric infrastructure in Texas for a period of time, causing some of Integrys Energy Services' customers to be without electricity or buy only a fraction of their normal energy usage during that period.

Retail and wholesale electric fair value adjustments

Integrys Energy Services' margin from retail and wholesale electric fair value adjustments increased $167.3 million, as it recognized $137.4 million of non-cash unrealized losses related to derivative instruments in 2008, compared with $29.9 million of non-cash unrealized gains during 2009.

The non-cash unrealized gains and losses resulted from the application of GAAP derivative accounting rules to Integrys Energy Services' portfolio of electric customer supply contracts, requiring that these derivative instruments be adjusted to fair market value. The fair value adjustments recorded in 2009 include margin reductions of $2.0 million related to the settlement of derivative contracts entered into with the purchaser of the Canadian electric power portfolio, as discussed in Note 4, *"Dispositions."*

Natural Gas Margins

Integrys Energy Services' natural gas margins increased $6.4 million in 2009, compared with 2008. The following items were the most significant contributors to the change in Integrys Energy Services' natural gas margins.

Lower-of-cost-or-market inventory adjustments

The combined effect of lower-of-cost-or-market inventory write-downs and withdrawals from storage of natural gas for which write-downs had previously been recorded resulted in a $322.7 million year-over-year increase in the natural gas margin. The average market price of natural gas decreased approximately 5% during 2009 and decreased approximately 22% during 2008, driving a positive year-over-year change in natural gas margins of $129.2 million related to lower-of-cost-or-market inventory write-downs. These lower-of-cost-or-market inventory write-downs were required to reflect natural gas in storage at the end of the period at its net realizable value, as required by GAAP. The natural gas withdrawn from storage and sold to customers in 2009 had a $193.5 million lower cost basis as a result of lower-of-cost-or-market inventory write-downs recorded in prior periods. At December 31, 2009, natural gas inventory had a lower cost basis as a result of lower-of-cost-or-market inventory write-downs recorded in prior periods of $11.6 million.

Other realized retail natural gas margins

Other realized retail natural gas margins increased $17.2 million, from $51.5 million in 2008, to $68.7 million in 2009. The increase was due to Integrys Energy Services' withdrawal of a significant amount of natural gas during 2009 in order to improve its liquidity position, recognizing realized gains on these natural gas storage withdrawals. Also, per-unit retail natural gas margins were higher period-over-period as more recently contracted sales commitments reflect increased business risk and financing costs in the pricing. Offsetting the increase was a decrease in Integrys Energy Services' natural gas sales volumes year-over-year. Integrys Energy Services significantly reduced the number of natural gas storage transactions entered into as Integrys Energy Group implemented its strategy change for its nonregulated energy services business segment.

Other realized wholesale natural gas margins

Other realized wholesale natural gas margins decreased $23.3 million, from $64.1 million in 2008, to $40.8 million in 2009. In conjunction with the global credit crisis in the latter half of 2008, wholesale natural gas transactions were scaled back and continue to be scaled back with Integrys Energy Services' strategy change and ultimate decision to exit its wholesale natural gas business. The reduced activity had a negative impact on realized margins in 2009. See "*Introduction*" above, and Note 4, "*Dispositions*," for a discussion of the current strategy for Integrys Energy Services.

Fair value adjustments

Fair value adjustments required under derivative accounting rules primarily related to changes in the fair market value of contracts utilized to mitigate market price risk associated with certain natural gas storage contracts, as well as basis swaps utilized to mitigate market price risk associated with natural gas transportation contracts and certain natural gas sales contracts.

The fair value adjustments (excluding lower-of-cost-or-market inventory adjustments) drove a $310.2 million decrease in natural gas margins as unrealized losses on these instruments were $157.1 million during 2009, compared with unrealized gains of $153.1 million during 2008. The fair value adjustments recorded in 2009 include a net increase in margin of $14.4 million related to the settlement of derivative contracts entered into with the purchasers of the wholesale natural gas marketing business and the Canadian natural gas portfolio, as discussed in Note 4, "*Dispositions*."

Operating Income (Loss)

Integrys Energy Services' operating income increased $142.6 million year-over-year. This increase resulted from the $212.2 million increase in margin discussed above, partially offset by losses of $28.9 million related to dispositions completed in connection with the strategy change; $27.2 million of restructuring expenses, which included employee-related costs, the write-off of capitalized development costs related to software that will not be utilized because of the restructuring, and consulting and legal fees; a $9.1 million increase in operating and maintenance expense; and a $4.8 million increase in depreciation and amortization expense primarily related to renewable energy asset additions.

The increase in operating and maintenance expense was driven by a one-time $9.0 million novation fee related to an agreement with a counterparty that enabled Integrys Energy Services to consolidate certain wholesale financial and physical contracts that were previously entered into with multiple counterparties, allowing Integrys Energy Services to reduce collateral support requirements.

See Note 3, "*Restructuring Expense*," for a discussion of restructuring charges.

2008 Compared with 2007

Revenues

Revenues increased $2,755.5 million in 2008 compared with 2007, primarily due to increased volumes (in part due to the PEC merger in 2007) and higher average sales prices in 2008. Average sales prices rose in 2008 due to large market price increases from January 1, 2008 through June 30, 2008. Market prices began to decline beginning in the third quarter of 2008 and continued to decline through the end of the year to levels below that of January 1, 2008. Integrys Energy Services recognizes revenue at the time energy is delivered. As a result, revenues at the end of the year were recognized based on the higher market prices from contracts entered into earlier in the year.

Margins

Integrys Energy Services' margin decreased $218.4 million from 2007 to 2008. The significant items contributing to the change in margin were as follows:

Electric and Other Margins

Integrys Energy Services' electric and other margins decreased $180.6 million from 2007 to 2008. The 2008 and 2007 electric and other margin included the negative impact of $8.8 million and $15.2 million, respectively, of amortization related to purchase accounting adjustments required as a result of the PEC merger. The following items were the most significant contributors to the change in Integrys Energy Services' electric and other margins.

Realized gains on structured origination contracts

Realized gains on structured origination transactions increased $6.2 million, from $18.1 million in 2007 to $24.3 million in 2008. Origination transactions are physical, customer-based agreements with municipalities, merchant generators, cooperatives, and regulated utilities. The increase was primarily due to growth in existing markets with an emphasis on structured transactions with small environmentally friendly generators.

All other realized wholesale electric margin

All other realized wholesale electric margin decreased $19.4 million from 2007 to 2008. In general, realized margins are impacted by trading activity in prior periods. Integrys Energy Services recognizes realized margins when the contracts actually settle, which can lag as much as 12 to 24 months from the time the contract was actually entered into. The reduced volume of proprietary trading that began in 2007 reduced realized margins in 2008.

Realized retail electric margin

The realized retail electric margin increased $28.1 million from $34.2 million in 2007, to $62.3 million in 2008. The change was primarily due to the following:

- An increase of $19.5 million from operations in Illinois due to the addition of new customers as a result of the PEC merger, as well as a reduced impact from purchase accounting in 2008.
- A $12.7 million increase due to expansion in the Mid-Atlantic region and the resolution of certain regulatory issues in northern Maine.
- Partially offsetting these increases was a $3.4 million decrease from operations in Texas. This reduction was a result of higher ancillary costs in Texas and the effects of Hurricane Ike, which disrupted the electric infrastructure in Texas for a period of time, causing some of Integrys Energy Services' customers to be without electricity or take only a fraction of their normal load during that period.

Retail and wholesale fair value adjustments

From 2007 to 2008, Integrys Energy Services' margin from electric retail and wholesale fair value adjustments decreased $176.8 million, as it recognized $137.4 million of non-cash unrealized losses related to derivative instruments in 2008, compared with $39.4 million of non-cash unrealized gains during 2007.

Although energy prices rose approximately 20% in the first half of 2008, they declined approximately 45% in the second half of the year, which led to the recognition of large non-cash unrealized losses in 2008 on these electric customer supply contracts. These unrealized losses turn around in future years as the contracts settle. The mark-to-market activity also reflects increases in portfolio reserves in recognition of the increased risk of credit losses and reduced market liquidity. Finally, the mark-to-market activity was also negatively impacted as the short-term cost of borrowing increased. The discount rate is a component of the fair value of Integrys Energy Services' derivative portfolio and, therefore, increased interest rates resulted in a reduction in the fair value presented on the balance sheet. In 2007, energy prices increased, resulting in unrealized gains.

Oil option activity

Oil option activity drove a $19.6 million decrease in electric and other margins from 2007 to 2008. There was no activity related to these oil options in 2008. Prior to 2008, oil options were utilized to protect the value of a portion of Integrys Energy Services' Section 29/45K federal tax credits. However, companies can no longer generate tax credits from the production of synthetic fuel as the provisions of Section 29/45K of the Internal Revenue Code expired effective December 31, 2007. As a result, Integrys Energy Services exercised substantially all of its remaining oil options in 2007.

2005 liquidation of electric supply contract

In the fourth quarter of 2005, an electricity supplier exiting the wholesale market in Maine requested that Integrys Energy Services liquidate a firm contract to buy power in 2006 and 2007. At that time, Integrys Energy Services recognized an $8.2 million gain related to the liquidation of the contract and entered into a new contract with another supplier for firm power in 2006 and 2007 to supply its customers in Maine. The cost to purchase power under the new contract was more than the cost under the liquidated contract. The replacement contract increased the cost of purchased power needed to serve customers in Maine by $0.9 million in 2007. There was no impact on electric margin in 2008, resulting in a $0.9 million increase in realized wholesale electric margins from 2007 to 2008.

Natural Gas Margins
Integrys Energy Services' natural gas margins decreased $37.8 million from 2007 to 2008. The 2008 and 2007 natural gas margins included the negative impact of $5.0 million and $6.1 million, respectively, of amortization related to purchase accounting adjustments required as a result of the PEC merger. The following items were the most significant contributors to the change in Integrys Energy Services' natural gas margins.

Lower-of-cost-or-market inventory adjustments

The spot price of natural gas decreased significantly during the second half of 2008 (below the average cost of natural gas in inventory which Integrys Energy Services had acquired and injected earlier in 2008), which resulted in a lower-of-cost-or-market inventory write-down, as required by GAAP. This write-down resulted in a $160.3 million decrease in non-cash realized natural gas margins from 2007 to 2008. The negative impact on realized margin related to these inventory write-downs was offset by unrealized gains recognized in 2008 and 2007 on derivative instruments utilized to mitigate the price risk on natural gas inventory underlying natural gas storage transactions (See "Fair value adjustments" below).

Other realized natural gas margins

Other realized natural gas margins increased $8.0 million, from $107.6 million in 2007, to $115.6 million in 2008, primarily related to realized gains on wholesale natural gas storage transactions. In 2008, Integrys Energy Services increased its storage withdrawals, which drove the year-over-year increase in other realized natural gas margins. In addition, Integrys Energy Services placed greater emphasis on structured wholesale natural gas transactions in 2008 in existing markets, which also contributed to the increase. These structured transactions involve serving customers such as regulated utilities, pipelines, retail marketers, and other large end users of natural gas.

Spot to forward differential

Integrys Energy Services experiences earnings volatility associated with the natural gas storage cycle, which runs annually from April through March of the next year. Generally, injections of natural gas into storage inventory take place in the summer months and natural gas is withdrawn from storage in the winter months. Integrys Energy Services' policy is to hedge the value of natural gas storage with contracts in the over-the-counter and futures markets, effectively locking in a margin on the natural gas in storage. However, hedge accounting rules require the natural gas in storage to be marked-to-market using spot prices, while the future sales contracts are marked-to-market using forward prices. When the spot price of natural gas changes disproportionately to the forward price of natural gas, Integrys Energy Services experiences volatility in its earnings. Consequently, earnings volatility may occur within the contract period for natural gas in storage. The accounting treatment does not impact the underlying cash flows or economics of these transactions.

The natural gas storage cycle had a positive $5.5 million impact on natural gas margins from 2007 to 2008. There was no material impact on margin as a result of the natural gas storage cycle in 2007 compared with a $5.5 million positive impact in 2008. At December 31, 2008, the market value of natural gas in storage was not significantly different than the market value of future sales contracts related to the 2008/2009 natural gas storage cycle.

Fair value adjustments

In 2008, fair value adjustments drove a $109.0 million increase in the natural gas margins as unrealized gains on these instruments were $147.6 million in 2008, compared with unrealized gains of $38.6 million in 2007.

Operating Income (Loss)
Operating income at Integrys Energy Services decreased $241.5 million year-over-year. This decrease resulted primarily from the $218.4 million decrease in margin discussed above. In addition, operating and maintenance expense increased $22.3 million, driven largely by a $9.1 million increase in bad debt expense, $7.3 million of which resulted from the bankruptcy of Lehman Brothers in the third quarter of 2008; a $5.1 million increase in broker commissions as a result of higher transaction volumes; and higher employee benefit costs.

Other Expense
Other expense at Integrys Energy Services decreased $10.4 million year-over-year. This decrease resulted primarily from an increase in miscellaneous income of $9.0 million, driven by a $13.8 million decrease in pre-tax net losses related to Integrys Energy Services' former investment in a synthetic fuel facility. This increase in miscellaneous income was partially offset by a decrease of $1.5 million in foreign currency gains related to Integrys Energy Services' Canadian subsidiaries and a $3.7 million decrease in interest and dividend income on margin deposits.

Electric Transmission Investment Segment Operations

2009 Compared with 2008

Other Income

Other income at the electric transmission investment segment increased $9.2 million during 2009 compared with 2008, due to an increase in income from Integrys Energy Group's approximate 34% ownership interest in ATC. The increase in income was driven by ATC's continuing capital expenditure program, resulting in an increase in its rate base.

2008 Compared with 2007

Other Income

Other income at the electric transmission investment segment increased $15.6 million during 2008 compared with 2007, due to an increase in income from Integrys Energy Group's ownership interest in ATC. The increase in income was driven by ATC's continuing capital expenditure program, resulting in an increase in its rate base.

Holding Company and Other Segment Operations

	Year Ended December 31				
(Millions)	**2009**	**2008**	**2007**	**Change in 2009 Over 2008**	**Change in 2008 Over 2007**
Operating loss	**$ (1.9)**	$ (0.7)	$(11.8)	171.4%	(94.1)%
Other expense	**(58.1)**	(53.2)	(62.8)	9.2%	(15.3)%
Loss before taxes	**$(60.0)**	$(53.9)	$(74.6)	11.3%	(27.7)%

2009 Compared with 2008

Operating Loss

Operating loss at the holding company and other segment increased $1.2 million during 2009 compared with 2008, driven by restructuring expenses related to Integrys Energy Group's reduction in workforce, and by a decrease in operating income from MERC's nonutility home services business.

Other Expense

Other expense at the holding company and other segment increased $4.9 million during 2009 compared with 2008, driven by a $4.3 million increase in interest expense at the holding company primarily due to an increase in long-term borrowings in the second quarter of 2009 and an increase in the amortization of deferred financing fees related to credit facilities entered into in the second quarter of 2009 and the fourth quarter of 2008, partially offset by a decrease in interest expense on commercial paper.

2008 Compared with 2007

Operating Loss

Operating loss at the holding company and other segment improved $11.1 million during 2008 compared with 2007. The decrease in the operating loss was driven by:

- Reductions in operating expenses related to consulting fees, compensation and benefits, and contractor costs at the holding company.
- Operating income of $1.9 million generated at IBS, which related to return on capital included in its service charges beginning in 2008.
- Partially offsetting the decrease in operating loss, was a $6.5 million increase in the year-over-year operating loss related to external costs to achieve merger synergies associated with the PEC merger. This increase occurred primarily because in March 2007 all external costs to achieve merger synergies incurred from July 2006 through March 2007 were allocated from the holding company and other segment (where they were initially recorded) to the other reportable segments, which are the beneficiaries of the synergy savings resulting from these costs. This resulted in lower operating expenses at the Holding Company and Other segment during 2007.

Other Income (Expense)

Other income increased $9.6 million, driven by a $10.5 million decrease in external interest expense due to lower interest rates and lower average short-term borrowings used for working capital requirements at Integrys Energy Group. A portion of the proceeds received from the sale of PEP in September 2007 was used to pay down the short-term debt.

Provision for Income Taxes

	Year Ended December 31		
	2009	**2008**	**2007**
Effective Tax Rate	**717.2%**	29.1%	32.2%

2009 Compared with 2008

The increase in the effective tax rate for 2009 was primarily related to the tax treatment of Integrys Energy Group's $291.1 million non-cash pre-tax goodwill impairment loss. Although Integrys Energy Group had $11.6 million of income before taxes for 2009, it recorded an $83.2 million provision for income taxes because $186.2 million of the total pre-tax goodwill impairment loss was not deductible for income tax purposes.

2008 Compared with 2007

The decrease in the effective tax rate for 2008 was primarily driven by the impact of large permanent tax deductions pertaining to items that exceeded the related book expense being applied to the lower income before taxes in 2008, compared with 2007. In addition, in 2008 Integrys Energy Group recognized $10.0 million of investment tax credits related to solar projects completed in the fourth quarter of 2008. These were offset by the reduction in Section 29/45K tax credits in 2008 due to the December 31, 2007, expiration of Section 29/45K of the Internal Revenue Code that made tax credits available from the production and sale of synthetic fuel. In 2007, Integrys Energy Group's ownership in the synthetic fuel operation resulted in recognizing the tax benefit of Section 29/45K federal tax credits of $13.6 million compared with $0.8 million of Section 29/45K tax credits recognized in 2008.

Discontinued Operations, Net of Tax

2009 Compared with 2008

Income from discontinued operations, net of tax, decreased $1.9 million in 2009 compared with 2008.

During 2009, Integrys Energy Services completed the sale of its energy management consulting business. The historical financial results of this business were not significant. The gain on the sale of this business recorded in discontinued operations during the third quarter of 2009 was $3.9 million ($2.4 million after-tax).

During 2008, Integrys Energy Services recognized a $6.3 million ($3.8 million after-tax) gain on the sale of its subsidiary, Mid-American Power, LLC, in discontinued operations when a previously contingent payment was paid by the buyer.

For more information on the discontinued operations discussed above, see Note 4, *"Dispositions,"* and Note 25, *"Segments of Business."*

2008 Compared with 2007

Income from discontinued operations, net of tax, decreased $68.6 million in 2008, compared with 2007.

During 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 passed in the fourth quarter of 2008, which extended the production tax credits available for certain biomass facilities.

During 2007, Integrys Energy Group recognized $58.5 million of income from discontinued operations related to the sale of PEP, which included an after-tax gain of $7.6 million on the sale. In 2008, discontinued operations reflect the $0.8 million positive impact of tax adjustments related to the 2007 PEP sale.

During 2007, WPS Niagara Generation, LLC recognized after-tax income of $14.8 million from discontinued operations, primarily related to the $14.7 million after-tax gain on the sale of this business.

BALANCE SHEET

Cash and cash equivalents decreased $209.6 million, from $254.1 million at December 31, 2008, to $44.5 million at December 31, 2009. For a detailed explanation of the change in the cash and cash equivalents balance, see *"Liquidity and Capital Resources."*

Net accounts receivable and accrued unbilled revenues decreased $934.6 million (49.4%) from $1,892.6 million at December 31, 2008, to $958.0 million at December 31, 2009. The decrease was driven by a reduction in Integrys Energy Services' wholesale transactions and natural gas storage transactions as a result of the change in strategy for this business segment. Also contributing to the decrease were lower revenues due to lower natural gas prices and warmer weather during the fourth quarter of 2009, compared with the same period in 2008.

Inventories decreased $428.5 million (58.5%), from $732.8 million at December 31, 2008, to $304.3 million at December 31, 2009. The inventory balance at Integrys Energy Services decreased $326.2 million (79.4%), primarily due to lower natural gas prices year-over-year and the sale of its wholesale natural gas marketing and trading business in December 2009. See Note 4, *"Dispositions,"* for more information.

Goodwill decreased $291.4 million (31.2%), from $933.9 million at December 31, 2008, to $642.5 million at December 31, 2009, driven by the impairment loss recorded in the first quarter of 2009 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, as well as the negative impact that the global decline in equity markets had on the valuation of natural gas distribution companies in general.

Detailed explanations for changes in the short-term and long-term debt balances year-over-year are included in Note 12, *"Short-Term Debt and Lines of Credit,"* and Note 13, *"Long-Term Debt."*

Accounts payable decreased $894.9 million (58.3%), from $1,534.3 million at December 31, 2008, to $639.4 million at December 31, 2009. Accounts payable at Integrys Energy Services decreased $813.0 million, primarily due to lower natural gas prices and the reduction in natural gas payables and natural gas loans associated with its wholesale natural gas marketing and trading business. See Note 4, *"Dispositions,"* for more information.

LIQUIDITY AND CAPITAL RESOURCES

Integrys Energy Group believes that its cash balances, liquid assets, operating cash flows, access to equity and debt capital markets, and available borrowing capacity provide adequate resources to fund ongoing operating requirements and future capital expenditures related to expansion of existing businesses and development of new projects. Integrys Energy Group's borrowing costs can be impacted by short-term and long-term debt ratings assigned by independent credit rating agencies. Integrys Energy Group's operating cash flows and access to capital markets can be impacted by macroeconomic factors outside of its control.

The previously announced strategy change at Integrys Energy Services and other operating activities resulted in the generation of a significant amount of positive cash flow from operations during 2009, which drove an approximate $1 billion reduction in consolidated short-term debt outstanding during 2009.

Operating Cash Flows

2009 Compared with 2008

Net cash provided by operating activities was $1,606.3 million in 2009, compared with net cash used for operating activities of $250.0 million in 2008. The $1,856.3 million year-over-year increase in cash provided by operating activities was mainly driven by a $1,734.8 million increase related to lower working capital requirements, partially due to a $444.1 million decrease in inventories during 2009, compared with a $312.0 million increase in inventories in 2008. This change was primarily a result of an increase in natural gas withdrawn from storage in 2009 due to the previously announced strategy change at Integrys Energy Services, as well as lower year-over-year natural gas prices. Also contributing to the decrease in working capital requirements was an $864.8 million decrease in accounts receivables and accrued unbilled revenues in 2009, compared with a $207.7 million increase in accounts receivables and accrued unbilled revenues in 2008, primarily the result of lower natural gas prices and the Integrys Energy Services strategy change. Additionally, during 2009, Integrys Energy Services had a $45.5 million net return of margin posted to various exchanges, compared with the net payment of $239.2 million of margin posted to various exchanges in 2008, primarily due to the strategy change. Partially offsetting these changes was a $604.7 million decrease in accounts payable in 2009, compared with a $53.2 million decrease in accounts payable in 2008, primarily the result of lower natural gas prices.

2008 Compared with 2007

Net cash used for operating activities was $250.0 million in 2008, compared with net cash provided by operating activities of $238.5 million in 2007. The $488.5 million year-over-year increase in cash used for operating activities was driven by:

- A $177.0 million decrease in cash provided by accounts receivable collections, as colder weather conditions led to higher natural gas throughput volumes in the fourth quarter 2008, compared with the same quarter in 2007, contributing to higher accounts receivable balances. Also contributing to the increase in cash used for operating activities, Integrys Energy Group and its subsidiaries, primarily Integrys Energy Services, had net cash collateral payments of $239.2 million in 2008, compared with net cash collateral receipts of $82.0 million in 2007. The net cash collateral payments made in 2008 were driven by large mark-to-market losses incurred by Integrys Energy Services during the latter part of 2008, due to declining prices.
- A $139.1 million increase in cash used for natural gas inventory purchases due to an increase in the average price of natural gas during the summer of 2008 (when natural gas is generally injected into inventory), compared with the same period in 2007.
- Partially offset by an $88.7 million increase in cash related to net refunds of regulatory assets and liabilities, driven by a decrease in the refund to ratepayers in 2008, compared with 2007, of proceeds WPS received from the liquidation of the nonqualified decommissioning trust fund upon the sale of Kewaunee.

Investing Cash Flows

2009 Compared with 2008

Net cash used for investing activities was $440.7 million in 2009, compared with $452.2 million in 2008. The $11.5 million year-over-year decrease in cash used for investing activities was primarily driven by the $88.6 million decrease in cash used to fund capital expenditures (discussed below) and the payment of $17.4 million in 2008 related to WPS's funding of the construction of the transmission facilities required to support Weston 4, partially offset by the 2008 reimbursement of $99.7 million from ATC related to WPS's construction of the transmission facilities required to support Weston 4.

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
Integrys Energy Services	**22.4**	68.1	20.5
Holding company and other	**34.5**	20.0	10.7
Integrys 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 Integrys 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 Integrys 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 Integrys 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, Integrys 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 to the right.

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 & 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 $869.2 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.

		Payments Due By Period			
(Millions)	**Total Amounts Committed**	**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 Illinois Commerce Commission (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.

<u>*Customer Usage*</u>

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 Minnesota Public Utility Commission (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.

<u>*Uncollectible Accounts*</u>

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.*"

<u>*Goodwill Impairment Testing*</u>

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.

<u>*Climate Change*</u>

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 United States Environmental Protection Agency (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.

<u>*New Laws*</u>

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.

Integrys 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 Integrys 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 Integrys 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 Integrys 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."*

Integrys Energy Services Risk Management Contract Aging at Fair Value As of December 31, 2009 *(Millions)*	**Maturity Less Than 1 Year**	**Maturity 1 to 3 Years**	**Maturity 4 to 5 Years**	**Maturity in Excess of 5 Years**	**Total Fair Value**
Fair Value Hierarchy Level					
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

Integrys 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. Integrys Energy Group's management has discussed these critical accounting policies with the Audit Committee of the Board of Directors.

Risk Management Activities

Integrys 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 Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements" (now incorporated as part of the Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (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:

Change in Components	Effect on Fair Value of Net Risk Management Liabilities at December 31, 2009 (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

Integrys 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 Integrys Energy Group, goodwill has been assigned to each of the five reporting units that comprise the natural gas utility segment and also to the Integrys Energy Services segment. The carrying value of goodwill by reporting unit and reportable segment for the year ended December 31, 2009 was:

(Millions)	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**
Integrys 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 Integrys 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 Integrys 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 Integrys 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, Integrys Energy Group announced a strategy change for Integrys Energy Services. Because it was likely that Integrys Energy Group would sell a significant portion of Integrys Energy Services, the goodwill at Integrys 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 Integrys Energy Services exceeded its carrying amount. Based on the interim test performed at December 31, 2009, the fair value of Integrys 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.

<u>Other</u>

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**	**(64.1)**	**(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)**

Integrys 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 Integrys 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.

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. 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 Integrys 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 Integrys 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 Integrys 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 Integrys 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

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. 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

Integrys Energy Group is required to estimate income taxes for each of the jurisdictions in which it operates as part of the process of preparing Integrys 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 Integrys Energy Group's Consolidated Balance Sheets. Integrys Energy Group must also assess the likelihood that its deferred tax assets will be recovered through future taxable income. To the extent Integrys 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.

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.

CONSOLIDATED BALANCE SHEETS

At December 31 *(Millions)*	2009	2008
Assets		
Cash and cash equivalents	**$ 44.5**	$ 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**	1,892.6
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	**26.5**	26.3
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**	469.6
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	**100.4**	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**	36.9
Regulatory liabilities	**277.6**	275.5
Environmental remediation liabilities	**658.8**	640.6
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	**2,497.8**	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.

CONSOLIDATED STATEMENTS OF EQUITY

	Integrys Energy Group Common Shareholder's 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
Peoples Energy Corporation 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	(0.8)	–	1.9	–	–	1.9
Balance at December 31, 2008	$(16.5)	$76.4	$2,487.9	$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.

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)	(70.6)
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)	(59.5)
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	864.8	(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	1,606.3	(250.0)	238.5
Investing Activities			
Capital expenditures	(444.2)	(532.8)	(392.6)
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 Peoples Energy Corporation 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)	(452.2)	(451.5)
Financing Activities			
Short-term debt, net	(815.7)	569.7	(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)	(177.5)
Issuance of long-term debt	230.0	181.5	125.2
Repayment of long-term debt	(157.8)	(58.1)	(26.5)
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.

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 Wisconsin Public Service Corporation (WPS), Upper Peninsula Power Company (UPPCO), Michigan Gas Utilities Corporation (MGU), Minnesota Energy Resources Corporation (MERC), The Peoples Gas Light and Coke Company (PGL), North Shore Gas Company (NSG), Integrys Business Support, LLC (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 American Transmission Company LLC (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 Peoples Energy Corporation (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:

(Millions)	**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:

(Millions)	**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
Peoples Energy Production Company (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 two-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 Public Service Commission of Wisconsin (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' creditworthiness 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 Midwest Independent Transmission System Operator, Inc. (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 Last-in, First-out (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.

Financial Accounting Standards Board (FASB) Accounting Standards Codification (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 Allowance for Funds Used During Construction (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 Illinois Commerce Commission (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.

Integrys 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.

Integrys 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 Integrys 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 United States Generally Accepted Accounting Principles (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 Statement of Financial Accounting Standards (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 table to the right shows Integrys Energy Group's cash collateral positions:

(Millions)	**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.

(Millions)	**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**

N/A = Not Applicable

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**

N/A = Not Applicable

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**

N/A = Not Applicable

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.

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

(Millions)	**Income Statement Presentation**	**Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)** 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)**

(Millions)	**Income Statement Presentation**	**Loss Recognized in Income on Derivative Instruments (Ineffective Portion and Amount Excluded from Effectiveness Testing)** 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**
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:

(Millions)	**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.

(Millions)	
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:

(Millions)	**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.

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:

(Millions)	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:

(Millions)	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.

(Millions, except per share amounts)	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:

(Millions)	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:

(Millions, except for percentages and megawatts)	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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	**4.7**	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
Enhanced Efficiency Program (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 Minnesota Public Utility Commission (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 table on page 52.

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:

(Millions)	**2009**	2008
ATC	**$395.9**	$346.9
Wisconsin River Power Company (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
Integrys 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

Integrys 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	Integrys 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, Integrys 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 on the next page.

	December 31, 2009			December 31, 2008		
(Millions)	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 shown on right:

Year Ended 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

Integrys 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:

(Millions, except percentages)	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 Integrys Energy Group's average amount of short-term borrowings outstanding based on daily outstanding balances during the years ended December 31:

(Millions)	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**	$166.8	$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

(Millions)				December 31 2009	2008
WPS First Mortgage Bonds [1]					
	Series	Year Due			
	7.125%	2023		$ 0.1	$ 0.1
WPS Senior Notes [1]					
	Series	Year Due			
	6.125%	2011		150.0	150.0
	4.875%	2012		150.0	150.0
	4.80%	2013		125.0	125.0
	3.95%	2013		22.0	22.0
	6.375%	2015		125.0	125.0
	5.65%	2017		125.0	125.0
	6.08%	2028		50.0	50.0
	5.55%	2036		125.0	125.0
UPPCO First Mortgage Bonds [2]					
	Series	Year Due			
	9.32%	2021		10.8	11.7
PEC Unsecured Senior Note [3]					
	Series	Year Due			
	A, 6.90%	2011		325.0	325.0
Fair value hedge adjustment				2.6	3.2
PGL Fixed First and Refunding Mortgage Bonds [4] [5]					
	Series	Year Due			
	HH, 4.75%	2030	Adjustable after July 1, 2014	50.0	50.0
	KK, 5.00%	2033		50.0	50.0
	LL, 3.75%	2033	Adjustable after February 1, 2012	50.0	50.0
	MM-2, 4.00%	2010		50.0	50.0
	NN-2, 4.625%	2013		75.0	75.0
	QQ, 4.875%	2038	Adjustable after November 1, 2018	75.0	75.0
	RR, 4.30%	2035	Adjustable after June 1, 2016	50.0	50.0
	SS, 7.00%	2013		45.0	45.0
	TT, 8.00%	2018		5.0	5.0
	UU, 4.63%	2019		75.0	–
PGL Adjustable First and Refunding Mortgage Bonds [5] [6]					
	Series	Year Due			
	OO	2037		51.0	51.0
NSG First Mortgage Bonds [7]					
	Series	Year Due			
	M, 5.00%	2028		28.5	28.8
	N-2, 4.625%	2013		40.0	40.0
	O, 7.00%	2013		6.5	6.5
Integrys Energy Group Unsecured Senior Notes [8]					
	Series	Year Due			
	5.375%	2012		100.0	100.0
	7.00%	2009		-	150.0
	7.27%	2014		100.0	–
	8.00%	2016		55.0	–
Integrys Energy Group Unsecured Junior Subordinated Notes [9]					
	Series	Year Due			
	6.11%	2066		300.0	300.0
Unsecured term loan due 2010 – Integrys Energy Group [10]				65.6	65.6
Other term loan [11]				27.0	27.0
Total				2,509.1	2,430.9
Unamortized discount and premium on bonds and debt				2.1	5.7
Total debt				2,511.2	2,436.6
Less current portion				(116.5)	(150.9)
Total long-term debt				$2,394.7	$2,285.7

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[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 as 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 table on the next page 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:

(Millions)	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.

	2009		2008		2007	
(Millions, except for percentages)	**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.

Integrys Energy Group records accrued interest and penalties related to income taxes as a component of the provision for income taxes. Integrys 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. Integrys 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:

- United States Internal Revenue Service (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 United States Environmental Protection Agency (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 a 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 a 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 Wisconsin Department of Natural Resources (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, a 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, a 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. A 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 Michigan Public Service Commission (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 under way 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 toward 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:

		Expiration			
(Millions)	**Total Amounts Committed at December 31, 2009**	**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 in the next column. Integrys Energy Group's exposure under these guarantees related to open transactions at December 31, 2009, was approximately $513 million.

(Millions)	**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 in the previous chart, 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.

	Pension Benefits		Other Benefits	
(Millions)	**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

** 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.*

	Pension Benefits		Other Benefits	
Reconciliation of fair value of plan assets	**2009**	**2008**	**2009**	**2008**
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

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

	Pension Benefits		Other Benefits	
(Millions)	**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 table to the right.

	December 31	
(Millions)	**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.

	Pension Benefits		Other Benefits	
(Millions)	**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:

	Pension Benefits			Other Benefits		
(Millions)	**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	**80.9**	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)	(2.6)
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%

N/A - Not Applicable

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:

	One-Percentage-Point	
(Millions)	**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

Integrys 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.

	Pension Plan Assets				Other Benefit Plan Assets			
(Millions)	**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:

(Millions)	**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.

(Millions)	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 Employee Stock Ownership Plan (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 Integrys 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 Integrys 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 Integrys 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

Integrys 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)	2009		2008	
Series	**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

Integrys 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 Integrys 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, Integrys 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, Integrys 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 Integrys 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.

Integrys 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, Integrys 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:

(Millions, except per share amounts)	**2009**	**2008**	**2007**
Numerator:			
Net income (loss) from continuing operations	**$(71.6)**	$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:

(Millions)	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 table on page 73 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	3,665	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**

	December 31, 2008			
(Millions)	**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 New York Mercantile Exchange (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:

	Year Ended December 31	
(Millions)	**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.

	2009		2008	
(Millions)	**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 Federal Energy Regulatory Commission (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:

	Regulated Operations				Nonutility and Nonregulated Operations			
2009 *(Millions)*	**Electric Utility**	**Natural Gas Utility**	**Electric Transmission Investment**	**Total Regulated Operations**	**Integrys Energy Services**	**Holding Company and Other**	**Reconciling Eliminations**	**Integrys Energy Group Consolidated**
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	(1,071.9)	11,847.9
Cash expenditures for long-lived assets	**250.4**	**136.9**	-	**387.3**	22.4	34.5	-	**444.2**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2008 (Millions)	Regulated Operations: Electric Utility	Regulated Operations: Natural Gas Utility	Regulated Operations: Electric Transmission Investment	Total Regulated Operations	Nonutility and Nonregulated Operations: Integrys Energy Services	Nonutility and Nonregulated Operations: Holding Company and Other	Reconciling Eliminations	Integrys Energy Group Consolidated
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	56.6	–	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: Electric Utility	Regulated Utilities: Natural Gas Utility	Regulated Utilities: Electric Transmission Investment	Total Regulated Operations	Nonutility and Nonregulated Operations: Integrys Energy Services	Nonutility and Nonregulated Operations: Oil and Natural Gas Production	Nonutility and Nonregulated Operations: Holding Company and Other	Reconciling Eliminations	Integrys Energy Group Consolidated
Income Statement									
External revenues	$1,202.9	$2,102.5	$ –	$3,305.4	$6,975.7	$ –	$ 11.3	$ –	$10,292.4
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	–	195.1
Miscellaneous income (expense)	8.3	5.5	50.5	64.3	(0.3)	0.1	30.9	(30.9)	64.1
Interest expense (income)	32.4	53.4	–	85.8	13.5	2.4	93.7	(30.9)	164.5
Provision (benefit) for income taxes	51.5	14.5	20.2	86.2	26.3	(1.0)	(25.5)	–	86.0
Net income (loss) from continuing operations	89.6	29.6	30.3	149.5	83.1	(2.5)	(49.1)	–	181.0
Discontinued operations	–	–	–	–	14.8	58.5	–	–	73.3
Preferred stock dividends of subsidiary	(2.2)	(0.9)	–	(3.1)	–	–	–	–	(3.1)
Net income (loss) attributed to common shareholders	87.4	28.7	30.3	146.4	98.0	56.0	(49.1)	–	251.3
Total assets	2,470.8	4,777.8	296.6	7,545.2	3,150.6	–	1,614.8	(1,076.2)	11,234.4
Cash expenditures for long-lived assets	202.6	158.8	–	361.4	20.5	–	10.7	–	392.6

Geographic Information (Millions)	2009 Revenues	2009 Long-Lived Assets	2008 Revenues	2008 Long-Lived Assets	2007 Revenues	2007 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 Integrys Energy Services.*

NOTE 26—QUARTERLY FINANCIAL INFORMATION (Unaudited)

	Three Months Ended 2009				
(Millions, except share amounts)	**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				
(Millions, except share amounts)	**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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte.

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. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements 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.

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."

Deloitte & Touche LLP

Milwaukee, WI
February 25, 2010

FINANCIAL AND OTHER STATISTICS

As of or for Year Ended December 31 (Millions, except per share amounts, stock price, return on average equity and number of shareholders and employees)	**2009**	**2008**	**2007** [1]	**2006** [2]	**2005**
Total revenues	**$ 7,499.8**	$14,047.8	$10,292.4	$6,890.7	$6,825.5
Net income (loss) from continuing operations	**(71.6)**	124.7	181.0	147.8	146.1
Net income (loss) attributed to common shareholders	**(70.9)**	126.4	251.3	155.8	157.4
Total assets	**11,847.9**	14,272.5	11,234.4	6,861.7	5,462.5
Preferred stock of subsidiary	**51.1**	51.1	51.1	51.1	51.1
Long-term debt (excluding current portion)	**2,394.7**	2,285.7	2,265.1	1,287.2	867.1
Shares of common stock (less treasury stock and shares in deferred compensation trust)					
Outstanding	**76.0**	76.0	76.0	43.1	39.8
Average	**76.8**	76.7	71.6	42.3	38.3
Earnings (loss) per common share (basic)					
Net income (loss) from continuing operations	**$(0.96)**	$1.59	$2.49	$3.51	$3.85
Earnings (loss) per common share	**(0.92)**	1.65	3.51	3.68	4.11
Earnings (loss) per common share (diluted)					
Net income (loss) from continuing operations	**(0.96)**	1.58	2.48	3.50	3.81
Earnings (loss) per common share	**(0.92)**	1.64	3.50	3.67	4.07
Dividends per common share declared	**2.72**	2.68	2.56	2.28	2.24
Stock price at year-end	**$41.99**	$42.98	$51.69	$54.03	$55.31
Book value per share	**$37.62**	$40.78	$42.58	$35.61	$32.76
Return on average equity	**(2.5)%**	3.7%	8.5%	10.6%	13.6%
Number of common stock shareholders	**32,755**	34,016	35,212	19,837	20,701
Number of employees	**5,025**	5,191	5,231	3,326	2,945

[1] Includes the impact of the Peoples Energy Corporation merger on February 21, 2007.

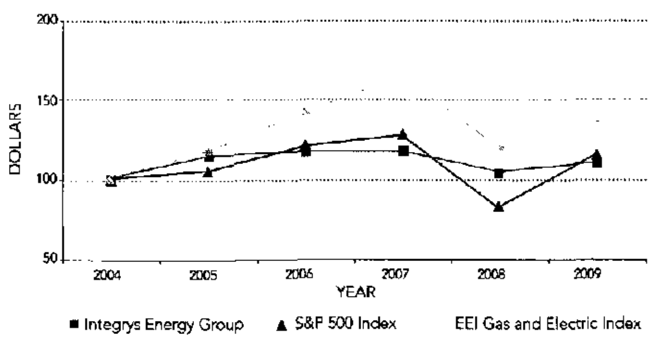
[2] Includes the impact of the acquisition of natural gas distribution operations from Aquila by Michigan Gas Utilities Corporation on April 1, 2006 and Minnesota Energy Resources Corporation on July 1, 2006.

Comparative Five-Year Investment Performance Graph [1]

The following graph presents a five-year comparison of:

- Integrys Energy Group's common stock cumulative total return,
- Standard & Poor's (S&P) 500 Index, and
- Edison Electric Institute (EEI) Gas and Electric Index for the last five fiscal years.

Comparison of Five-Year Cumulative Total Return [2]



	2004	2005	2006	2007	2008	2009
Integrys Energy Group	100	115	118	118	104	**110**
S&P 500 Index	100	105	121	128	81	**115**
EEI Gas and Electric Index	100	117	142	165	119	**137**

Assumes $100 invested on December 31, 2004, in Integrys Energy Group Common Stock, S&P 500 Index, and EEI Gas and Electric Index.

[1] This performance graph is not to be deemed to be filed with the Securities and Exchange Commission, except to the extent specifically requested by Integrys Energy Group or incorporated by reference in documents otherwise filed.

[2] Total return assumes reinvestment of dividends.

BOARD OF DIRECTORS *

Keith E. Bailey
Age 67 – Tulsa, Oklahoma
Former Chairman and Chief Executive Officer – The Williams Companies, Inc.
(Director since 2005)
Audit Committee
Financial Committee

Richard A. Bemis
Age 68 – Sheboygan, Wisconsin
Co-chairman of the Board of Directors – Bemis Manufacturing Company
(Director since 1983)
Compensation Committee *(Chair)*

William J. Brodsky
Age 65 – Chicago, Illinois
Chairman and Chief Executive Officer – The Chicago Board Options Exchange
(Director since 1997)
Compensation Committee
Financial Committee

Albert J. Budney, Jr.
Age 62 – Dover, Massachusetts
Former President – Niagara Mohawk Holdings, Inc. and Niagara Mohawk Power Corporation
(Director since 2002)
Governance Committee *(Chair)*

Pastora San Juan Cafferty
Age 69 – Chicago, Illinois
Professor emerita – University of Chicago
(Director since 1988)
Environmental Committee
Governance Committee

Ellen Carnahan
Age 54 – Chicago, Illinois
Former Managing Director – William Blair Capital Management, LLC
(Director since 2003)
Financial Committee
Governance Committee

Robert C. Gallagher
Age 71 – Green Bay, Wisconsin
Former Chairman of the Board – Associated Banc-Corp
(Director since 1992)
Lead Director

Kathryn M. Hasselblad-Pascale
Age 61 – Green Bay, Wisconsin
Managing Partner – Hasselblad Machine Company, LLP
(Director since 1987)
Environmental Committee *(Chair)*

John W. Higgins
Age 63 – Chicago, Illinois
Chairman and Chief Executive Officer – Higgins Development Partners, LLC
(Director since 2003)
Audit Committee
Compensation Committee

James L. Kemerling
Age 70 – Wausau, Wisconsin
President and Chief Executive Officer – Riiser Oil Company, Inc.
(Director since 1988)
Financial Committee *(Chair)*

Michael E. Lavin
Age 63 – Chicago, Illinois
Former Midwest Area Managing Partner – KPMG LLP
(Director since 2003)
Audit Committee *(Chair)*

William F. Protz, Jr.
Age 65 – Lake Forest, Illinois
Former President and Chief Executive Officer – Santa's Best, LLP
(Director since 2001)
Audit Committee
Environmental Committee

Charles A. Schrock
Age 56 – Chicago, Illinois
President and Chief Executive Officer – Integrys Energy Group
(Director since 2009)

Larry L. Weyers **
Age 64 – Green Bay, WI
Executive Chairman – Integrys Energy Group, Inc.
(Director since 1996)

* *Information is as of December 31, 2009. Years as director take into consideration service with Integrys Energy Group or Peoples Energy Corporation.*
** *Will retire from the Board of Directors and the Company on March 31, 2010.*

MANAGEMENT TEAM *

Lawrence T. Borgard
President and Chief Operating Officer – Utilities
Age 48 // Years of service 25

Charles A. Cloninger
President – Minnesota Energy Resources Corporation and
President – Michigan Gas Utilities Corporation
Age 51 // Years of service 28

Willard S. Evans, Jr.
President – The Peoples Gas Light and Coke Company and
President – North Shore Gas Company
Age 54 // Years of service 32

Diane L. Ford
Vice President and Corporate Controller
Age 56 // Years of service 34

Bradley A. Johnson
Vice President and Treasurer
Age 55 // Years of service 30

William D. Laakso
Vice President – Human Resources
Age 47 // Years of service 4

Thomas P. Meinz
Executive Vice President and Chief External Affairs Officer
Age 63 // Years of service 40

Phillip M. Mikulsky
Executive Vice President – Corporate Development and Shared Services
Age 61 // Years of service 38

Barbara A. Nick
President – Upper Peninsula Power Company
Age 51 // Years of service 25

Joseph P. O'Leary
Senior Vice President and Chief Financial Officer
Age 55 // Years of service 8

Mark A. Radtke
Chief Executive Officer – Integrys Energy Services, Inc. **
Age 48 // Years of service 26

Charles A. Schrock
President and Chief Executive Officer
Age 56 // Years of service 30

Daniel J. Verbanac
President – Integrys Energy Services, Inc. **
Age 46 // Years of service 25

Larry L. Weyers ***
Executive Chairman
Age 64 // Years of service 24

Barth J. Wolf
Vice President, Chief Legal Officer and Secretary
Age 52 // Years of service 21

* *Title, age, and years of service are as of December 31, 2009. Years of service take into consideration service with Integrys Energy Group or a system company.*
** *Appointed to this position as of January 1, 2010.*
*** *Will retire from the Board of Directors and the Company on March 31, 2010.*

Common Stock

The New York Stock Exchange is the principal market for Integrys Energy Group, Inc. common stock, which trades under the ticker symbol of TEG. On December 31, 2009, we had 75,980,143 shares of common stock outstanding, which were owned by 32,755 holders of record.

Dividends

We have paid quarterly cash dividends on our common stock since 1953, and we expect to continue that trend subject to Board approval. Future dividends are dependent on regulatory limitations, earnings, capital requirements, cash flows, and other financial considerations.

Year Ended December 31 ***(By Quarter)***

		Dividends Per Share	Price Range High	Price Range Low
2009	**1st quarter**	**$ .68**	**$45.10**	**$19.44**
	2nd quarter	**.68**	**30.40**	**24.95**
	3rd quarter	**.68**	**36.75**	**28.31**
	4th quarter	**.68**	**42.99**	**34.20**
		$2.72		
2008	1st quarter	$ .67	$53.26	$44.04
	2nd quarter	.67	52.74	46.89
	3rd quarter	.67	53.92	43.88
	4th quarter	.67	51.47	36.91
		$2.68		

Stock Investment Plan

We maintain a Stock Investment Plan for the purchase of common stock, which allows persons who are not already shareholders to become participants by making a minimum initial cash investment of $100. Our Plan enables you to maintain registration with us in your own name rather than with a broker in "street name." As a participant in the Stock Investment Plan, you may transfer shares of common stock registered in your name into a Plan account for safekeeping.

The Stock Investment Plan also provides you with options for reinvesting your dividends and making optional cash purchases of common stock directly through the Plan without paying brokerage commissions, fees, or service charges. Optional cash payments of not less than $25 per payment may be made subject to a maximum of $100,000 per calendar year. An automatic investment option allows you to authorize the deduction of payments from your checking or savings account automatically once each month, on the third day of the month, by electronic means for investment in the Plan. Cash for investment must be received by the 3rd or 18th day of the month. Investment generally commences on or about the 5th or 20th day of the month, or as soon thereafter as practicable.

The shares you hold in our Stock Investment Plan may be sold by the agent for the Plan as you direct us, or you may request a certificate for sale through a broker you select. We will accumulate sale requests from participants and, approximately every five business days, will submit a sale request to the independent broker-dealer on behalf of those participants.

Participation in the Stock Investment Plan is being offered only by means of a prospectus. If you would like a copy of the Stock Investment Plan prospectus, you may use the American Stock Transfer & Trust Company, LLC Web site at www.amstock.com, call American Stock Transfer & Trust Company, LLC at 800-236-1551, contact us by sending an e-mail to investor@integrysgroup.com, or order or download the prospectus and enrollment forms from our Web site at www.integrysgroup.com under "Investor."

Stock Transfer Agent and Registrar

Our transfer agent, American Stock Transfer & Trust Company, LLC, can be reached via telephone between 7 a.m. and 6 p.m., Central time, Monday through Thursday, or 7 a.m. and 4 p.m., Central time, Friday, by calling 800-236-1551. You also have direct access to your account 24 hours a day through the Internet at www.amstock.com.

Questions about transferring stock, lost certificates, or changing the name in which certificates are registered should be directed to American Stock Transfer & Trust Company, LLC at the addresses or telephone numbers listed on the back cover. If your address changes, write to American Stock Transfer & Trust Company, LLC at the address on the back of this report or use their Web site at www.amstock.com.

Availability of Information

Company financial information is available on our Web site at www.integrysgroup.com under "Investor."

You may obtain, without charge, a copy of our 2009 Form 10-K, without exhibits, as filed with the Securities and Exchange Commission, by contacting the Corporate Secretary at the corporate office mailing address listed on the back cover, or by using our Web site.

Internet

Visit our Web site at www.integrysgroup.com to find a wealth of information about our company and its subsidiaries. The site will give you instant access to Annual Reports, SEC filings, proxy statements, financial news, presentations, news releases, corporate governance, career opportunities, and much more. You may also download a copy of the prospectus for the Stock Investment Plan and the associated forms for participation in the Plan.

Annual Shareholders' Meeting

Our Annual Shareholders' Meeting will be held on Thursday, May 13, 2010, at 10 a.m. Central daylight time at the Chase Auditorium in the Chase Tower, 10 South Dearborn, Chicago, Illinois. Proxy statements for our May 13, 2010, Annual Shareholders' Meeting were mailed to shareholders of record on April 2, 2010.

Annual Report

If you or another member of your household receives more than one Annual Report because of differences in the registration of your accounts, please contact American Stock Transfer & Trust Company, LLC so account mailing instructions can be modified accordingly.

This Annual Report is prepared primarily for the information of our shareholders and is not given in connection with the sale of any security or offer to sell or buy any security.

Corporate Governance Information

Corporate governance information, including our Corporate Governance Guidelines, our Code of Conduct, charters for the committees of our Board of Directors, By-Laws, and Articles of Incorporation, is available on our Web site at www.integrysgroup.com under "Investor." You may also obtain the information by written request to the Corporate Secretary at the mailing address for the corporate office indicated on the back cover of this report.

Certifications

We have filed as exhibits to our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, the certifications of our Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act. We also submitted to the New York Stock Exchange during 2009 the Annual CEO Certification required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual.

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700 North Adams Street
Green Bay, WI 54301

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Telephone: 800-228-6888
Fax: 920-433-1526
E-Mail: investor@integrysgroup.com

Steven P. Eschbach, CFA
Vice President – Investor Relations
Integrys Energy Group, Inc.
130 East Randolph Drive
Chicago, IL 60601
Telephone: 312-228-5408
E-Mail: speschbach@integrysgroup.com

TEG LISTED **NYSE**
New York Stock Exchange
Ticker Symbol: TEG
Listing Abbreviation: IntegrysEngy

For General Information:
American Stock Transfer & Trust Company, LLC
59 Maiden Lane
New York, NY 10038
Web Site: www.amstock.com
E-Mail: info@amstock.com
Telephone: 800-236-1551 (toll free), 718-921-8124 (international)
Fax: 718-236-2641

For Dividend Reinvestment and Direct Stock Purchase
American Stock Transfer & Trust Company, LLC
Wall Street Station
P. O. Box 922
New York, NY 10269-0560
Telephone: 800-236-1551 (toll free)

With over 16,000 members, Wisconsin Utility Investors, Inc. (WUI) is an independent, non-profit organization representing the collective voices of all shareholders in Wisconsin utilities. It monitors and evaluates industry issues and trends and is a resource for its members, regulators, and the public. WUI can be reached by calling 608-663-5813 or by e-mail at contact@wuiinc.org.

Minnesota Utility Investors, Inc. (MUI) is an independent, non-profit organization representing the collective voices of nearly 27,000 shareholders in electric and gas utilities operating in Minnesota. For more information, MUI can be reached by calling toll-free 888-850-5171 or by e-mail at mui@mnutilityinvestors.org.

Integrys Energy Group, Inc. is committed to equal employment opportunity for all qualified individuals without regard to race, color, religion, sex, national origin, age, sexual orientation, gender identity, genetic information, disability, disabled veterans, recently separated veterans, other protected veterans, and armed forces service medal veterans, or any other protected class. To this end, we support and will cooperate fully with all applicable laws, regulations, and executive orders in all of our employment policies, practices, and decisions.

integrys

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Telephone: 312-228-5400
Web Site: www.integrysgroup.com

Mixed Sources
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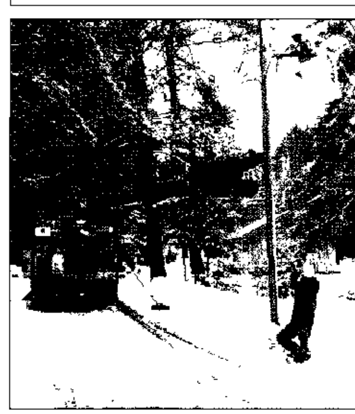
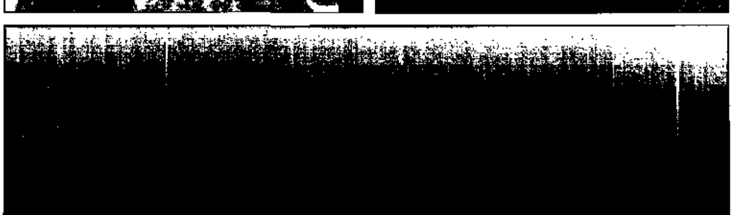
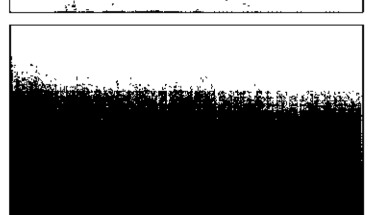
Subjects in photos were not placed in unsafe conditions for the production of this Annual Report.

ATTACHMENT E

AN ENVIRONMENT OF ENERGY

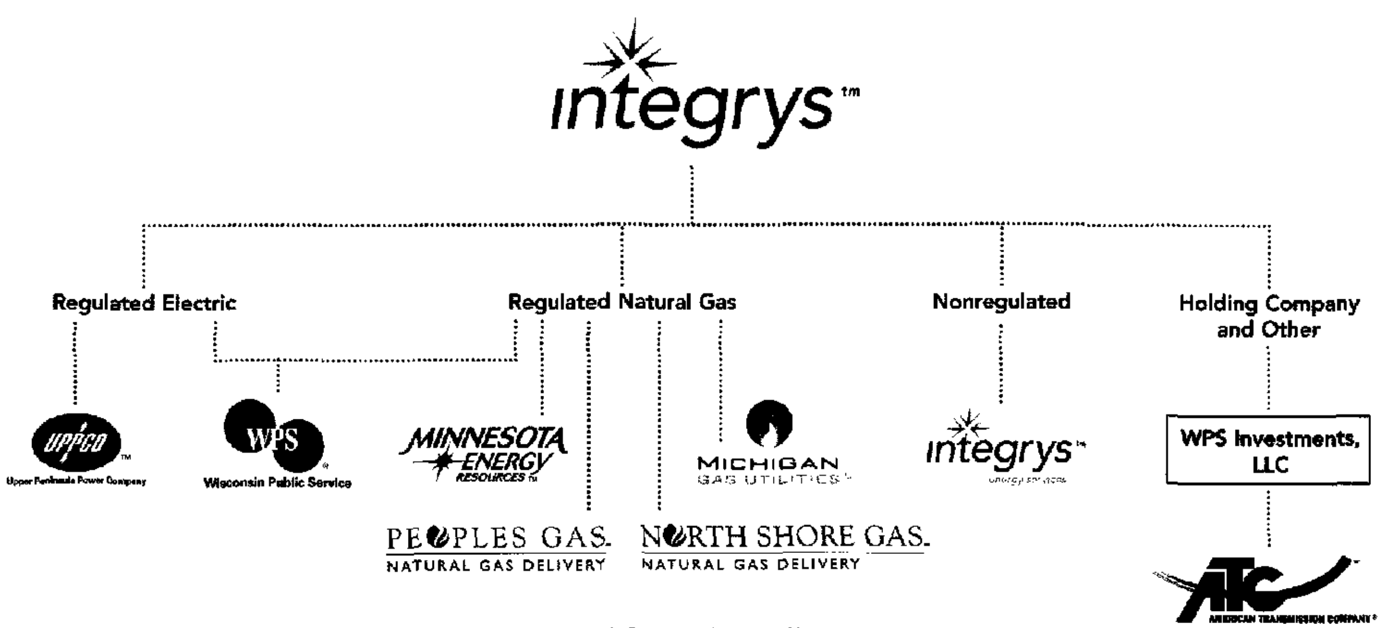






integrys™

INTEGRYS ENERGY GROUP, INC.



* WPS Investments owned approximately 34% of American Transmission Company, LLC at December 31, 2008.

Pictured on front cover:
Our front cover features images from Integrys Energy Group's environment of energy. From caring for our natural environment (*top left*) to providing natural gas, electricity from natural resources, reliable service in any weather and investments in new renewable resources (*bottom left to right*), our energy is focused on the future.

Robin Langlais is a meter reader with Minnesota Energy Resources. Zachary Warden is a line electrician and Mark Slusarek is a lead line electrician with Wisconsin Public Service.

Pictured on next page:
Carlos Coronado, a gas supply administrator with Integrys Gas Group in Illinois, helps ensure a steady supply of clean-burning natural gas for customers.

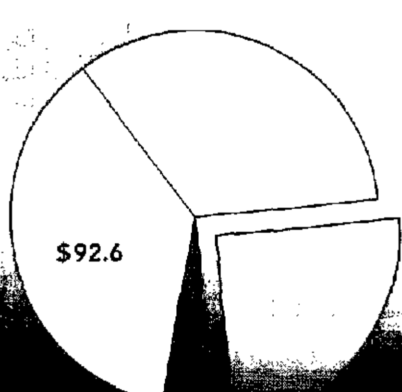
Year Ended December 31	2008	2007	Percent Change
Consolidated revenues – nonregulated (Millions) *	**$9,737.9**	$6,987.0	39.4
Consolidated revenues – utility *(Millions)*	**4,309.9**	3,305.4	30.4
Margins – nonregulated segment *(Millions)* *	**83.6**	310.8	(271.8)
Margins – utility segments *(Millions)*	**1,565.8**	1,261.2	24.2
Income from continuing operations *(Millions)* *	**124.8**	181.1	(31.1)
Income available for common shareholders *(Millions)*	**126.4**	251.3	(49.7)
Earnings per common share (basic)			
Income from continuing operations	**$1.59**	$2.49	(36.1)
Discontinued operations, net of tax	**0.06**	1.02	(94.1)
Earnings per common share (basic)	**1.65**	3.51	(53.0)
Earnings per common share (diluted)			
Income from continuing operations	**$1.58**	$2.48	(36.3)
Discontinued operations, net of tax	**0.06**	1.02	(94.1)
Earnings per common share (diluted)	**1.64**	3.50	(53.1)
Dividends per share	**$ 2.68**	$ 2.56	4.7
Book value per share	**40.79**	42.58	(4.2)
Common stock price at year end	**$42.98**	$51.69	(16.9)
Shares outstanding at year end (excludes treasury stock and shares in deferred compensation trust)	**75,992,768**	75,992,234	–
Total assets *(Millions)*	**$14,272.5**	$11,234.4	27.0

* *Refer to Management's Discussion and Analysis for an explanation of changes from prior year.*

Year Ended December 31 *(Millions)*	2008	2007	2006
Net cash operating activities *	**$(249.8)**	$238.5	$ 72.9
Net cash investing activities *	**(452.2)**	(451.5)	(1,030.1)
Net cash financing activities *	**911.1**	(459.2)	891.7
Net cash discontinued operations *	**3.8**	690.2	61.0
Change in cash and cash equivalents *	**$ 212.9**	$ 18.0	$ (4.5)

* *Refer to Management's Discussion and Analysis for an explanation of changes from prior year.*

2008 Earnings (Loss) By Segment *(Millions)*

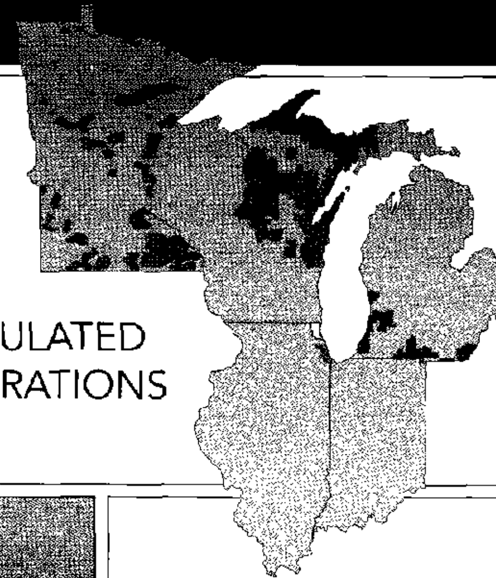


Electric Utility	$ 92.6
Holding Company and Other	10.8
Total Earnings	**$126.4**

integrys™

Integrys Energy Group, Inc. is a holding company headquartered in Chicago, Illinois. Subsidiaries provide products and services in both regulated and nonregulated energy markets.

REGULATED OPERATIONS



THE PEOPLES GAS LIGHT AND COKE COMPANY

BUSINESS

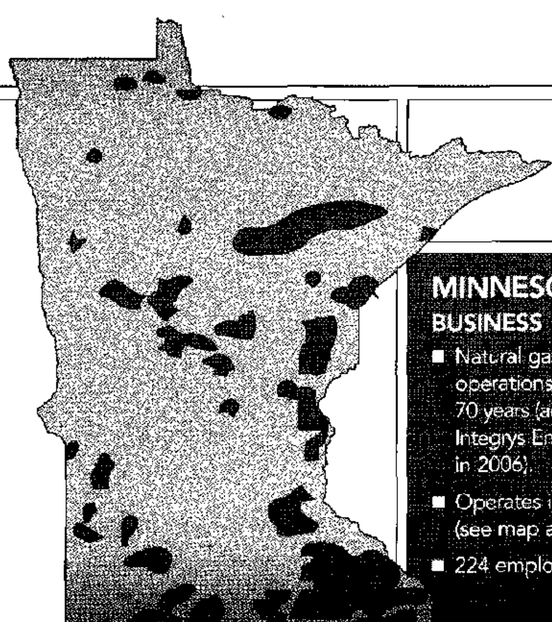
- Established in 1855 (acquired by Integrys Energy Group on February 21, 2007).
- Regulated natural gas utility.
- Operates in Illinois (see map at right).
- 1,085 employees.

MARKET

- Serves approximately 819,000 residential, commercial, and industrial retail sales and transportation customers in the city of Chicago.
- Natural gas revenues are comprised of 100% retail sales.

FACILITIES

- Approximately 4,400 miles of transmission and distribution main, approximately 43% of which is cast iron main and 22% of which is plastic main, and 11 natural gas distribution and transmission gate stations.
- Owns and operates an underground natural gas storage reservoir (Manlove Field) and a liquefied natural gas plant in central Illinois.
- Owns a natural gas pipeline system that runs from Manlove Field to Chicago with seven major interstate pipeline interconnects at various points.



MINNESOTA ENERGY RESOURCES CORPORATION

BUSINESS

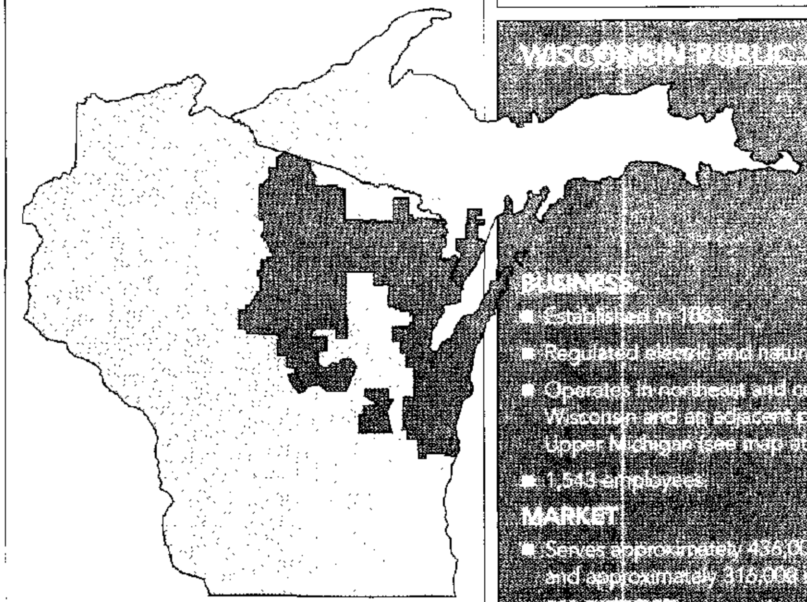
- Natural gas distribution operations for more than 70 years (acquired by Integrys Energy Group in 2006).
- Operates in Minnesota (see map at left).
- 224 employees.

MARKET

- Provides natural gas distribution services to more than 210,000 natural gas customers in 165 communities.
- Natural gas revenues are comprised of 100% retail sales.

FACILITIES

- Natural gas property includes approximately 4,400 miles of transmission and distribution main, approximately 64% of which is plastic main, and 157 natural gas distribution and transmission gate stations.



WISCONSIN PUBLIC SERVICE CORPORATION

BUSINESS

- Established in 1883.
- Regulated electric and natural gas utility.
- Operates in northeast and central Wisconsin and an adjacent portion of Upper Michigan (see map at left).
- 1,543 employees.

MARKET

- Serves approximately 436,000 electric and approximately 316,000 natural gas customers.
- Provides electric and natural gas products and services to residential, farm, commercial, and industrial customers. Also provides electric power to wholesale customers.
- Electric operations accounted for 69.1% and natural gas operations accounted for 30.9% of 2008 revenues.
- Electric revenues are comprised of 79% retail sales and 21% wholesale sales.
- Wisconsin customers accounted for 96.5% and Michigan customers accounted for 3.5% of 2008 revenues.

FACILITIES

- Electric generating capacity based on summer capacity ratings is 2,149.8 megawatts, including share of jointly owned facilities. A peak demand was reached on July 15, 2008, with a system demand of 2,171 megawatts.
- Electric property includes approximately 21,500 miles of electric distribution lines, 96% of which are operated at 24.9 kV.
- Natural gas property includes approximately 7,900 miles of transmission and distribution main, 74% of which is plastic main, and 51 natural gas distribution and transmission gate stations.

MICHIGAN GAS UTILITIES CORPORATION

BUSINESS

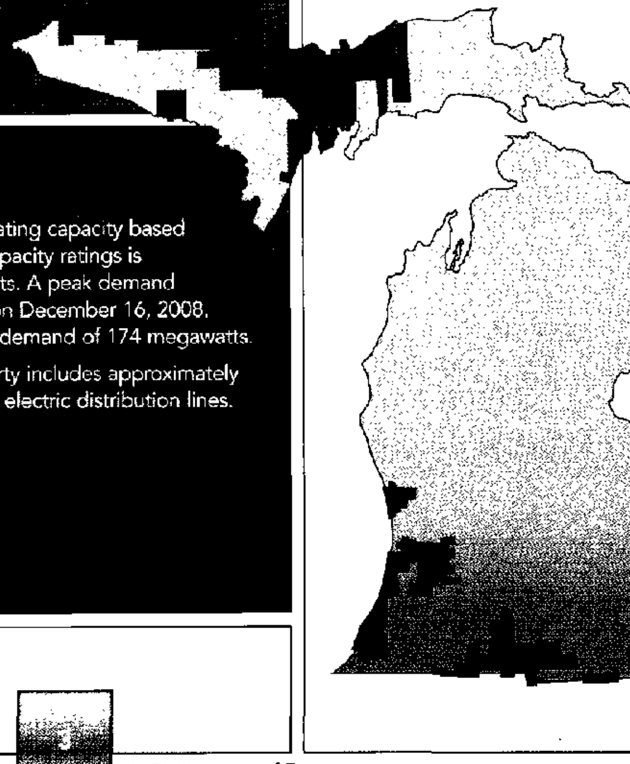
- Natural gas distribution operations since 1859 (acquired by Integrys Energy Group in 2006).
- Operates in southern and western Michigan (see map at right).
- 167 employees.

MARKET

- Provides natural gas distribution services to approximately 166,000 natural gas customers in 147 communities.
- Natural gas revenues are comprised of 100% retail sales.

FACILITIES

- Owns a 3.6 billion-cubic-foot natural gas storage field.
- Natural gas property includes approximately 3,800 miles of transmission and distribution main, approximately 50% of which is plastic main, and 33 natural gas distribution and transmission gate stations.



UPPER PENINSULA POWER COMPANY

BUSINESS

- Established in 1884 (acquired by Integrys Energy Group in 1998).
- Regulated electric utility.
- Operates in primarily rural countryside covering 10 of the 15 counties in the Upper Peninsula of Michigan (see map at right).
- 153 employees.

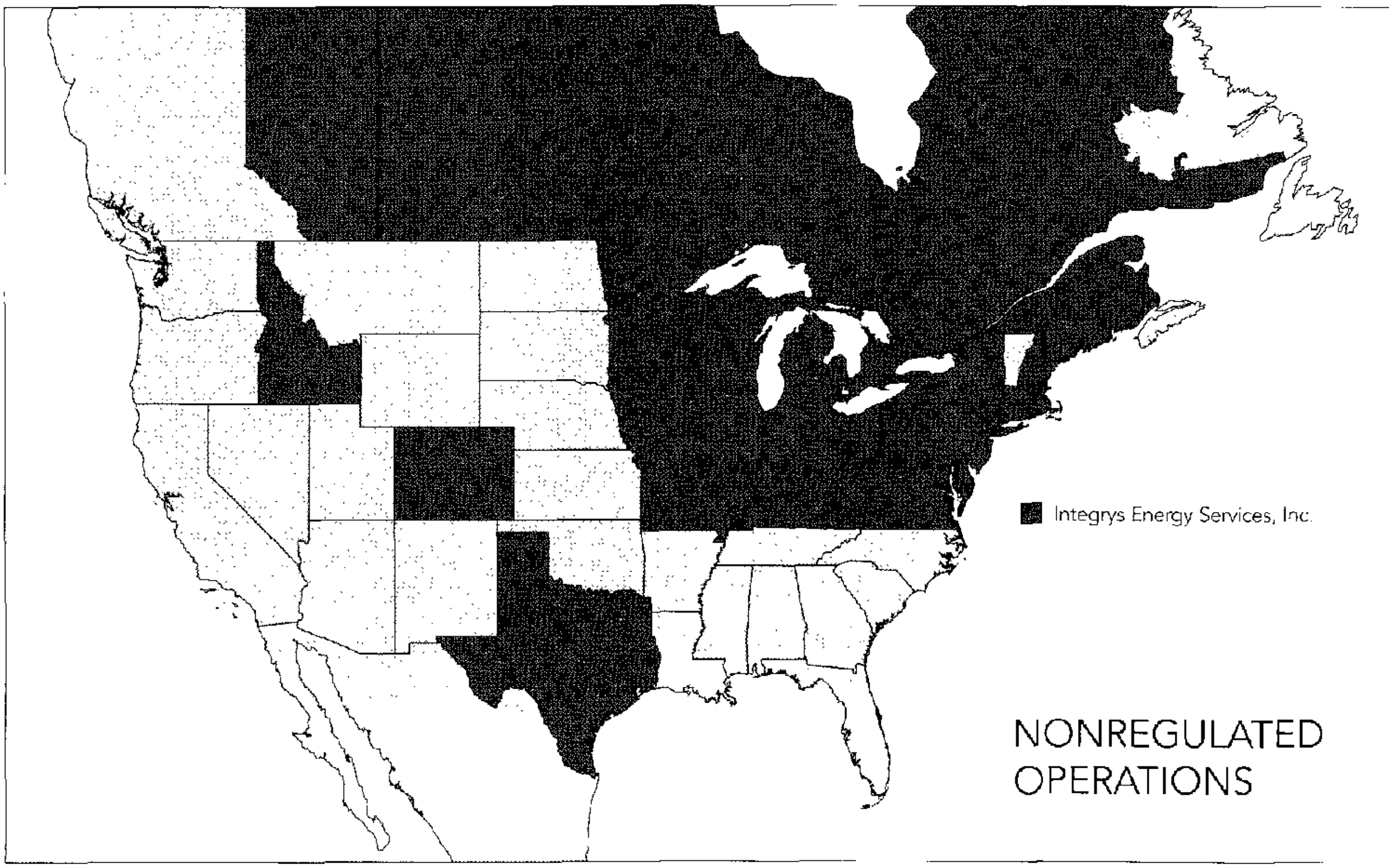
MARKET

- Serves approximately 52,000 electric customers in 118 communities.
- Electric revenues are comprised of 84.7% retail sales and 15.3% wholesale sales.

FACILITIES

- Electric generating capacity based on summer capacity ratings is 56.3 megawatts. A peak demand was reached on December 16, 2008, with a system demand of 174 megawatts.
- Electric property includes approximately 3,300 miles of electric distribution lines.

AT-A-GLANCE



NONREGULATED OPERATIONS

INTEGRYS ENERGY SERVICES, INC.

BUSINESS

- Established in 1994.
- Competitive energy supply and services company, which also owns and operates various nonregulated electric generation facilities.
- Principal energy marketing operations and energy assets located near customers served (see map above).
- Provides retail and wholesale products in deregulated energy markets in the United States and Canada.
- 555 employees.

MARKET

- Geographic footprint targets services to organized markets, most heavily concentrated in the northeast quadrant of the United States and adjacent portions of Canada, and also includes services targeted toward energy-intensive regions of Texas and Alberta, Canada.
- Emphasis is on serving retail (industrial, commercial, and residential) and wholesale customers.

PRODUCTS AND SERVICES

- Provides individualized energy supply solutions, structured products, and strategies that allow customers to manage energy needs while capitalizing on opportunities resulting from deregulation.
- Provides natural gas, electric, and alternate fuel products, real-time energy management services and energy utilization consulting.
- Patented DENet® and eMiner® computer technology allows customers to monitor and manage their energy usage.
- Generation areas of expertise include cogeneration, distributed generation, renewables and clean fuel generation.

FACILITIES

- Electric generation facilities include 329.2 megawatts of summer-rated capacity as follows:
  - 210.7 megawatts of combined cycle generation facilities
  - 51.7 megawatts of steam generation facilities
  - 36.8 megawatts of hydroelectric generation facilities
  - 17.4 megawatts of combustion turbine and diesel generation facilities
  - 6.2 megawatts of photovoltaic solar generation facilities
  - 6.4 megawatts of landfill gas-fueled reciprocating engine facilities

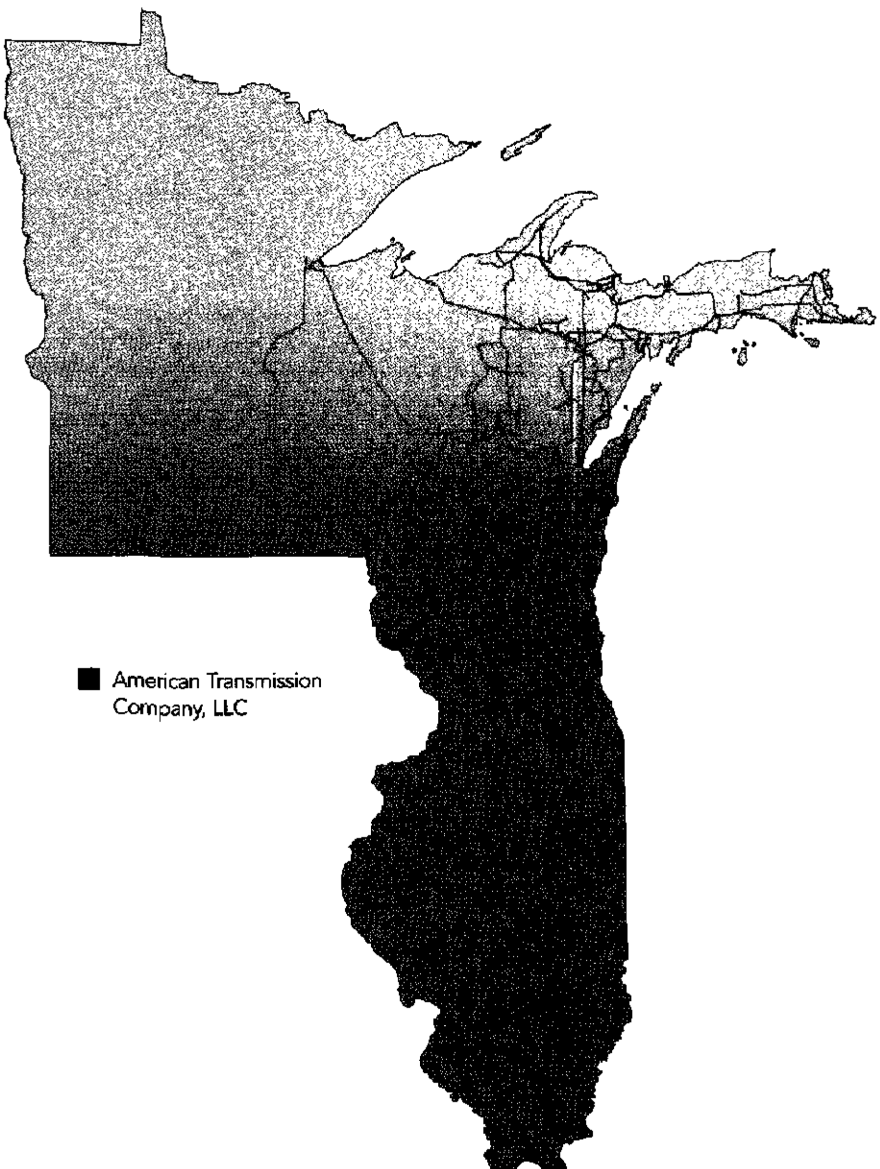
OTHER

INTEGRYS BUSINESS SUPPORT, LLC
BUSINESS

- Established in 2007, became operational on January 1, 2008.
- Provides centralized business support services to Integrys Energy Group and its subsidiaries.
- 1,296 employees.

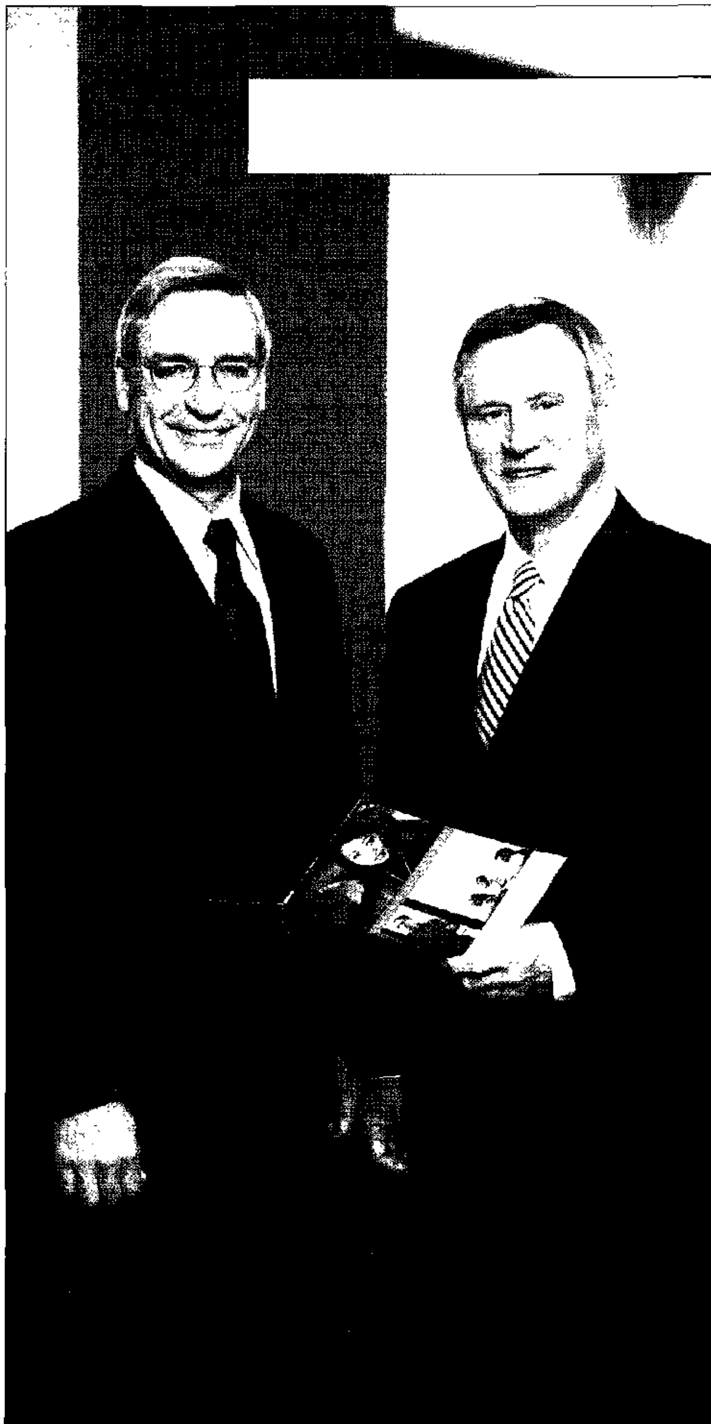
WPS INVESTMENTS, LLC
BUSINESS

- Organized in 2000.
- A nonutility company that holds the investment of Integrys Energy Group and its subsidiaries in American Transmission Company, LLC.
- As of December 31, 2008, WPS Investments owned an approximate 34% interest in American Transmission Company.
- As of December 31, 2008, Integrys Energy Group, Inc. owns 82.9%, Wisconsin Public Service Corporation owns 14.1%, and Upper Peninsula Power Company owns 3.0% of the outstanding membership interest of WPS Investments, LLC.



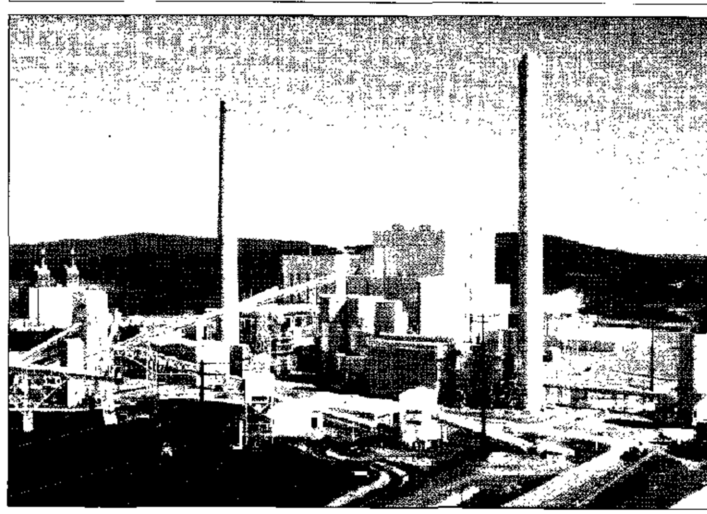
AMERICAN TRANSMISSION COMPANY, LLC
BUSINESS

- Organized in 2000.
- A for-profit, transmission-only utility company.
- Owns, maintains, monitors, and operates electric transmission assets in portions of Wisconsin, Michigan, Minnesota, and Illinois.
- Assets were previously owned and operated by multiple electric utilities serving the upper Midwest, all of which transferred their transmission assets to American Transmission Company in exchange for an ownership interest. A Wisconsin law encouraged utilities in the state to transfer ownership and control of their transmission assets to a state-wide transmission company.
- The Midwest Independent System Operator (MISO) directs American Transmission Company's operation of the transmission system.
- WPS Investments, LLC, a subsidiary of Integrys Energy Group, owned approximately 34% of American Transmission Company at December 31, 2008.



The worldwide financial crisis has presented a significant challenge for businesses throughout America. Contractions in liquidity, volatility in commodity prices, and a general downturn in business activity have affected our customers, the communities we serve, and Integrys Energy Group. It has been, and continues to be, a difficult environment for all.

Our financial strength and conservative business model have aided us in dealing with the challenges. However, the global financial crisis has negatively impacted our shareholders, and we are modifying our business model and risk profile to provide more protection for our company, customers, and shareholders. I will address this later in the letter. First, let's review our actions in 2008.



left:
Charlie Schrock, President and Chief Executive Officer, Integrys Energy Group, Inc.

right:
Larry Weyers, Executive Chairman, Integrys Energy Group, Inc.

at right:
The Weston 4 electric generating unit began serving Wisconsin Public Service customers in June 2008. The unit's steam generator uses efficient supercritical boiler technology to reduce fuel consumption, air emissions, and ash disposal.

Throughout the past year, our employees have kept their focus and used their energy to produce results that we expect will build value for our stakeholders for years to come. We have made progress on several initiatives.

AN ENVIRONMENT OF "GETTING IT DONE RIGHT"

We completed major construction projects, including the 500-megawatt Weston 4 generating facility. Weston 4 was placed into service on July 1, 2008, and garnered two national recognition awards—*POWER* magazine's 2008 Plant of the Year award, and *Power Engineering* magazine's 2008 Best Coal-Fired Project award. The project was completed on schedule and under budget, at a cost well below comparable projects.

We completed construction of the natural gas laterals for the Guardian II pipeline project on schedule and slightly under budget, at $79 million versus a revised estimate of $85 million. The Guardian II trunkline was completed on February 26, 2009. As a result, our customers now enjoy the benefits of competitive natural gas pipeline service to northeastern Wisconsin.

American Transmission Company, of which Integrys is a 34 percent owner, completed major components of its $2.8 billion building plans. Our investment in American Transmission Company is adding significant value for shareholders today and will continue doing so for many years.

Completing these projects provides benefits for customers, reduces our future capital expenditures, and reduces our cash requirements. This represents a significant improvement in our overall risk profile.

We have made good progress integrating the Michigan and Minnesota natural gas distribution operations we acquired in 2006 and the Illinois natural gas distribution companies we acquired in 2007 with the Peoples Energy merger. We captured $83 million of annual synergy savings in 2008, surpassing our target by $10 million. We expect the savings to increase to $114 million annually by 2011. In addition, we reduced the costs to achieve the integration by $39 million, to $147 million in total costs to achieve.

We have successfully established Integrys Business Support as a separate business unit within Integrys Energy Group to provide centralized services to all subsidiaries and the parent company. This business unit has helped us lower costs for services provided, increase service quality, and provide transparency to regulators.

Demonstrating leadership in protecting the environment and using energy efficiently, we have also been involved in the design and construction of four new buildings that are LEED (Leadership in Energy and Environmental Design) certified. The new office buildings for Minnesota Energy Resources Corporation in Rochester, Minnesota; Wisconsin Public Service Corporation in Rhinelander, Wisconsin; Integrys Energy Services in De Pere, Wisconsin; and the American Transmission Company in Pewaukee are all being designed and/or constructed in accordance with these new environmental and efficiency standards.

A WORKABLE REGULATORY ENVIRONMENT

During 2008, we were very active in several regulatory arenas. We successfully completed rate cases in Wisconsin, Illinois, and Michigan. We also received an interim rate increase in Minnesota. These rate cases were critical to our continuing success. They are the first authorized rate increases following our significant merger activity in 2006 and 2007, and the successful completion of the rate cases acknowledges that the business systems and processes we are using are accepted by regulators. The conclusion of these cases also improves our return on investment by correcting for the regulatory lag that typically follows a merger or acquisition. The rate orders received in Illinois and Wisconsin have also approved the use of an energy-efficiency and conservation tool known as "decoupling." This will enhance our ability to help customers conserve energy and use energy more efficiently. The decoupling mechanism also reduces our company's exposure to the risk of fluctuating demand by helping to stabilize our margins and net income. We have approximately 2.2 million regulated utility customers, and about 80 percent are now served through decoupling mechanisms.

STRATEGY CHANGES FOR THE NEW ENVIRONMENT

Our accomplishments during the past year have been many and varied, but the economic environment and financial crisis throughout the world continues. In light of this, and with a determination to remain a strong company, our management team has taken steps to re-evaluate our strategy and business model for the near and far term. Success during this period of illiquidity requires timely and swift action.

In the short-term, we have taken steps to reduce our cash requirements, improve the liquidity in our business model, and thereby lower our risk profile. We increased our credit facilities for the 2008-2009 winter heating season by $400 million in November 2008. We reduced our capital expenditures by 28 percent, or $186 million, for 2009 and another 41 percent, or $213 million, for 2010. We are continuing to scrutinize our capital expenditure programs and our working capital requirements with the intent of improving cash flow. We have reduced wage increases for 2009, and the senior management team and the Board of Directors have accepted zero wage increases for this year. We have also initiated a hiring freeze and announced a general reduction in the use of contractors throughout our organization.

These initiatives will help improve our liquidity and risk profile in the near term, but a strategic shift in our business model is required for the long term.

As a result, in February 2009, we announced a strategic shift affecting our nonregulated subsidiary, Integrys Energy Services. This subsidiary has been very successful and has enhanced shareholder value for over a decade, but its success has outgrown our ability to adequately support its growth. This situation is exacerbated by the uncertain financial markets. The risk would be less of an issue for an owner larger than Integrys. We are, therefore, pursuing a full divestiture of this business segment, with alternatives including divestiture of portions of this business or scaling back by further modifying the scope of the products offered and/or the markets we serve. The goal is to reduce the demands on our balance sheet and capital support obligations that are driven by commodity prices, which, at this time, have demonstrated unprecedented volatility. We are seeking to deploy our capital to areas with more desirable risk-adjusted rates of return. We expect to significantly reduce corporate guarantees and invested capital that have been required by our nonregulated energy services segment. If we do not divest of this business segment entirely, our ultimate objective is a size and scope for Integrys Energy Services that will reduce the liquidity, capital, and credit support requirements for our nonregulated energy services segment to an insignificant level and will give us greater control of our own destiny.

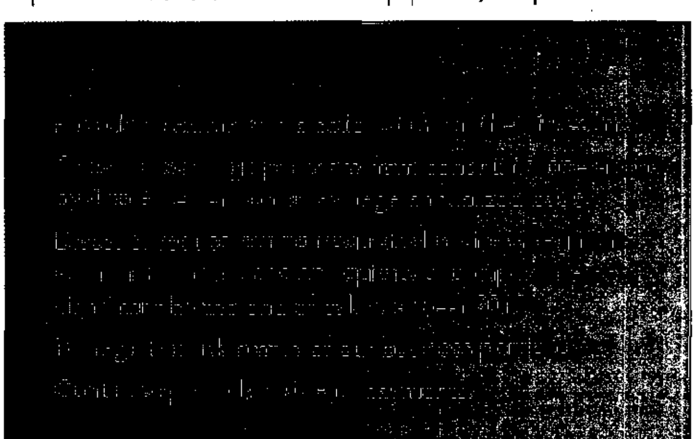
Certain business activities within the nonregulated subsidiary may remain. These will be identified through our strategic planning process but could revolve around our expertise in renewable energy and energy efficiency.

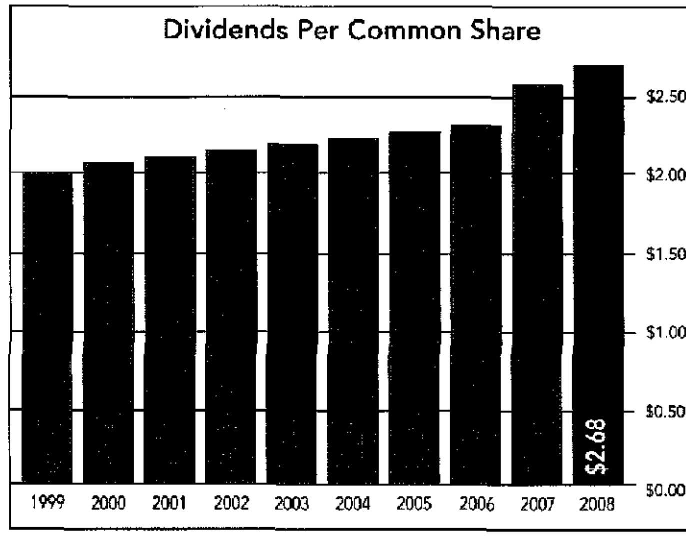
Though we are seeking to divest of or reduce the size of our nonregulated business, we are planning to expand the regulated side of our business. The regulated utilities within Integrys Energy Group have significant opportunities for investment, which will enhance shareholder value. These investments will focus on energy efficiency, conservation, renewable energy sources, environmental improvements, and infrastructure improvements.

Over the long-term, our utilities have investment opportunities exceeding $3 billion. Much of this investment will be required for infrastructure improvements at Peoples Gas. Wisconsin Public Service and Upper Peninsula Power will also require investments in additional renewable projects and environmental improvements.

During 2009, we committed to developing a 99-megawatt wind farm project known as Crane Creek. The project, located in Iowa, will be completed in 2009 at a projected cost of $251 million, and it will provide renewable energy for our customers.

These projects, combined with our investments in infrastructure improvements and environmental equipment, will provide substantial growth opportunities and help us reach our financial goal of creating long-term value for investors. We expect our strategic modifications will improve our earnings quality. Capital investments combined with timely rate relief should provide earnings per share growth of 4 to 6 percent on an average annualized basis, subject to some fluctuations depending on the economic environment. From a financial perspective, our goal is to provide solid returns to investors, manage our risk profile to acceptable levels, and continue providing consistent and dependable dividends to our shareholders.





AN ENVIRONMENT OF LEADERSHIP

Dealing effectively with financial challenges and meeting our obligations to shareholders will require effective leadership for years to come. Charles (Charlie) Schrock, the new president and chief executive officer of Integrys Energy Group, effective January 1, 2009, is well qualified to provide that leadership. He brings over 30 years of utility industry experience and a strong record of accomplishment to the job.

The board of directors also elected Charlie a director effective in February 2009.

Charlie will be supported by a very capable and talented group of leaders throughout our company. There have been numerous changes in our leadership team during the past year, and I will only mention a few of those changes here. Phillip (Phil) Mikulsky, executive vice president – corporate development and shared services of Integrys Energy Group, is now also president of Integrys Business Support. William (Bill) Laakso is our new vice president – human resources. Willard (Will) Evans, Jr., is our new president of Peoples Gas and North Shore Gas. Charles (Chuck) Cloninger is now president of Michigan Gas Utilities as well as Minnesota Energy Resources, and Jodi Caro joined us as vice president – legal services.

Membership on the board of directors also changed, and I want to express our gratitude to departing members Jim Boris, Diana Ferguson, and Jack Meng. We thank each of them for the contributions they have made to our success.

We have also made progress in creating a single culture throughout Integrys Energy Group. Over 674 of our leaders have graduated from our Leadership Development classes, which are based on Integrys Energy Group's values and expectations.

We are delivering on our core values and expectations daily. And we continue to gain recognition for our efforts, as was recently evidenced when we were recognized by *FORTUNE* magazine when it designated Integrys Energy Group as the World's Most Admired Energy Company on its prestigious 2009 list of "Most Admired Companies" (in its March 16, 2009, issue). In fact, Integrys rated well against the 363 companies that appear on *FORTUNE*'s most admired list, where we were the 8th most-admired company in the Use of Corporate Assets category, the 9th most-admired company in the Innovation category, the 10th most-admired company in the Long-Term Investment category, and the 11th highest-rated company overall by total score.

AN ENVIRONMENT OF ENERGY

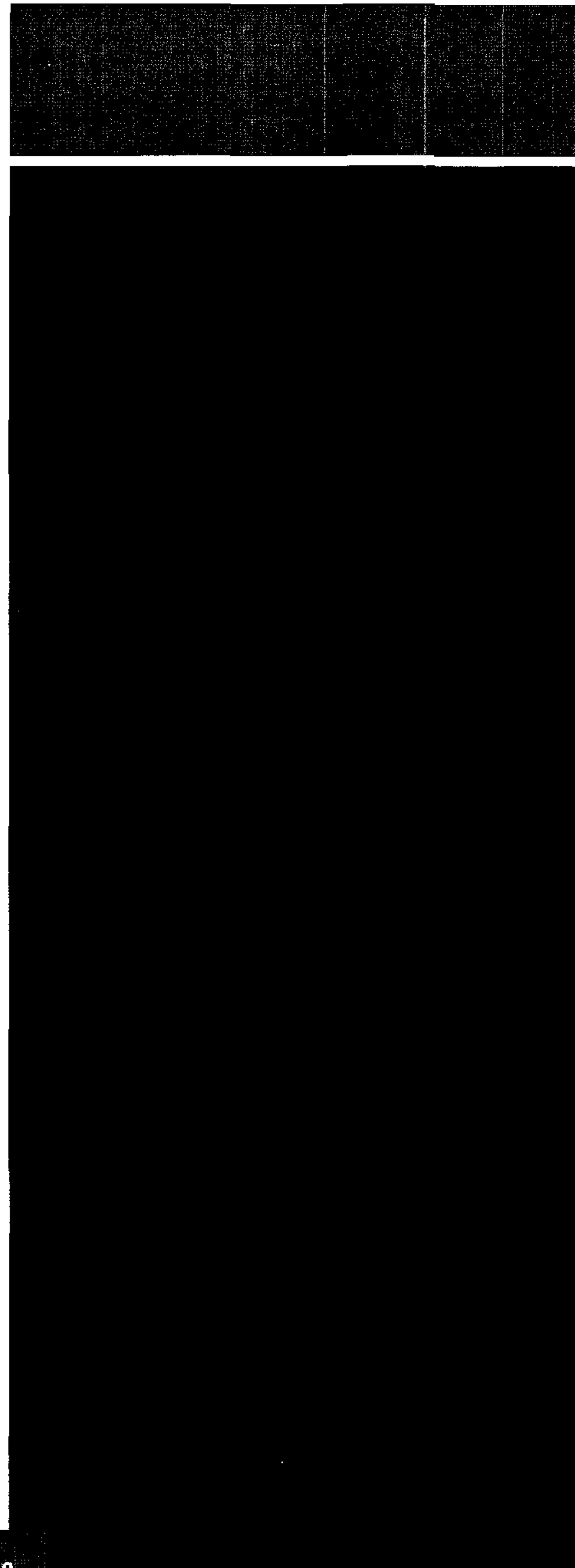
I can assure you that the Integrys team is dedicated to operational excellence and has the expertise and energy needed to enhance shareholder value for our investors.

We thank you for your investment in Integrys Energy Group (TEG), and we assure you that we will protect your investment as our own. Thank you for the faith you have placed in us.

Sincerely,

Larry L. Weyers
Executive Chairman

March 6, 2009



AN ENVIRONMENT OF ENERGY

The energy world is evolving at an unprecedented pace. From escalating concerns about climate change to volatile energy costs, environmental issues have moved front and center among our stakeholders. These issues have a profound impact on the expectations of an energy company.

Increasingly, we are being asked how we will meet the energy needs of today while ensuring a safe, responsible energy future. At Integrys Energy Group, we stand ready for the challenge.

Over the last year, we've revisited our environmental vision and principles. We've retooled our enterprise to become significantly more efficient, from the facilities we work in to the processes we use. We're reducing our risk profile, finding ways to conserve cash in a challenging economy, and bringing forward new solutions in how energy is produced, delivered, and consumed.

We invite you to learn more about our Environment of Energy.

Hydroelectric power is a longstanding method of using a renewable energy resource. David Grigg, Jr. (left), a maintenance mechanic operator in Upper Peninsula Power's hydroelectric operations, performs inspections in the confined and wet environment of the embankment at the Hoist Hydroelectric Project. His job is to fulfill the facility's surveillance and monitoring requirements. Jeff Benda (below left), lead line electrician, and Jamie Sundberg (below right), line electrician with Upper Peninsula Power, conduct pole maintenance for electric distribution lines.

THE NATURAL ENVIRONMENT

Throughout our company, we've forged a long-term, sustainable approach: finding ways to become more environmentally responsible while upholding responsibilities to stakeholders; providing reliable energy while safeguarding the well-being of the places where we work and live.

In 2008 we revisited our environmental vision, taking a fresh look at our environmental ideals and activities as they affect and protect the environmental landscape.

Our renewed environmental vision—"Creating Energy Solutions for a Sustainable Tomorrow"—points to how we will live out our environmental responsibility, and helped us fashion new, environmentally focused strategies and principles. With these foundations in place, leaders across all business units are charged with incorporating an environmental focus into short- and long-range plans and embedding it within the Integrys culture.

THE NEW FACE OF EFFICIENCY

Transforming environmental aspirations into actionable opportunities for customers and shareholders is the charge of Integrys' newly chartered Energy-Efficiency Steering Committee.

In 2008, the team crystallized its plans, targeting both immediate energy-efficiency projects to help customers save money and manage resources, and critical long-term business opportunities created by a changing energy marketplace.

In mid to late 2009, innovative programs will test ways for our customers to save money and conserve resources. The programs will promote a variety of methods—from traditional rebates to Smart Grid pilots—so customers can enhance their energy efficiency. We will partner with stakeholders, including local communities, organizations, state commissions, and customers. We will test innovative rate options that cause energy users to think about their energy use and change their energy behavior. These pilot programs will allow the market itself to weigh in on the value of the tools, technologies, and information.

On a parallel track, the Energy-Efficiency Steering Committee will also evaluate long-term business opportunities that take advantage of emerging technologies in the growing energy-efficiency industry—models with potential to grow the business and create even more value.

"LEEDING" EDGE EXAMPLE

Another way we're demonstrating our commitment to corporate responsibility is to "green" the places where we do business.

In 2008, we reduced the environmental impact of our office operations by integrating LEED (Leadership in Energy and Environmental Design) principles into three of our buildings. These high-performance buildings will help us improve energy efficiency and lower operating costs.

LEED construction uses materials with a high percentage of recycled content; natural lighting to decrease energy use and enhance indoor aesthetics; water savings through use of low-impact plumbing technologies; motion sensor lighting; computer technologies that use substantially less energy; and waste management to recycle construction materials.

Minnesota Energy Resources' new LEED building in Rochester, Minnesota, brings all office, warehouse, and work center functions together in one highly efficient facility.

Integrys Energy Services' De Pere office building incorporates LEED principles in a wing successfully built using recycled materials from old buildings, such as bricks and insulation.

And in the new Wisconsin Public Service office in Rhinelander, Wisconsin, two office facilities and a warehouse have been integrated into one 76,000-square-foot environmentally friendly, energy-efficient service center.

REWARDING RESPONSIBLE CHOICES

Partnering with the Arbor Day Foundation, we've rewarded our customers for making economical, earth-friendly choices.

Planting the seed of paperless billing among nearly 1.5 million customers from four of Integrys' regulated utilities, we raised awareness about the environmental benefits of enrolling in e-Bill electronic billing. More than 5,000 trees were purchased to plant in our national forests, one for each customer who signed up for e-Bill from April through June 2008. The impact of these online transactions truly adds up: by using e-Bill, 25,000 customers of Wisconsin Public Service alone save more than 19,000 pounds of paper and 55,000 pounds of greenhouse gas emissions every year.

A total of 14,000 trees were also planted on behalf of nonregulated natural gas customers in Ohio, who chose Integrys Energy Services' new Ecovations™ biogas. This incredible response was generated in the first three months of the program, showing the impact sustainable choices can have when they are both convenient and cost-effective.

THE GENERATION ENVIRONMENT

Ensuring a sustainable energy future means bringing increased supply and alternative sources of clean, renewable power to our customers in an increasingly carbon-constrained world.

To that end, Wisconsin Public Service entered into an agreement for wind generation with enXco Service Company, a wind developer that will construct and maintain our Crane Creek Wind Farm, a 99-megawatt wind facility in Howard County in northeastern Iowa. The wind farm will help Wisconsin Public Service reach its state-mandated renewable portfolio standard of generating 10% of retail electric sales with renewable power by 2015. The wind farm is on a site with favorable wind speed, access to transmission, and community support. It is expected to be operational in December 2009.

The Crane Creek Wind Farm joins our other wind generation assets, including the Glenmore Wind Energy Facility—the first utility-grade wind terminal in the state of Wisconsin, and the Lincoln Wind Energy Facility, a 9.24-megawatt wind farm.

RENEWABLE GAS REVOLUTION

Ecovations™ renewable biogas is harnessing the power of waste to offer customers an eco-friendly choice at no extra cost. Available to Integrys Energy Services customers in Ohio for the first time last year, the renewable gas is delivered and performs like regular natural gas. But that's where the similarities stop.

Ecovations biogas is methane generated from renewable sources like manure digesters, sewage treatment plants, and landfill gas collection systems.

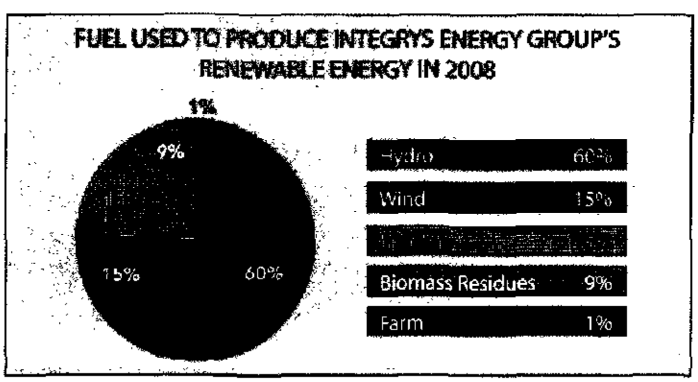
For customers who select Ecovations, 8% of the carbon dioxide that would have been emitted by the natural gas they use each year is offset by a blend of the renewable gas and carbon offsets (emission reduction credits for emitting fewer greenhouse gases into the atmosphere).

The highly successful offering demonstrates that renewable options, attractively priced, can delight customers and generate true competitive advantage.

SHINING SUCCESS

We're also adding solar power to our renewable mix. Late last year, Integrys Energy Services tapped the power of the sun in 16 projects across four states, making this subsidiary one of the nation's top five retail providers of solar electricity.

Unlike our wind farms, which generate power for customers across the energy grid, Integrys Energy Services is placing solar energy systems directly on customer sites. Customers purchase the power without having to make an up-front capital investment in solar-generating facilities. Better yet, they are able to leverage legislative incentives, including tax benefits and incentives, for the lowest possible cost.



Recent projects include a 341.6-kilowatt solar-generating system mounted to the roof of Pilgrim Furniture Showroom in Milford, Connecticut—which generates enough energy to reduce greenhouse emissions by 225 tons a year—as well as multi-state installations for the J.C. Penney Company.

Integrys Energy Services also has one of the largest university installations in the United States at Arizona State University. Beginning operation in December 2008, the project is anticipated to generate more than 3 million kilowatt-hours of electricity annually, enough to run 3,680 computers at the school, power 260 Arizona households, or reduce carbon emissions equivalent to taking 425 cars off the road.

HYDRO—THE ORIGINAL RENEWABLE

Driven by an abundant natural resource and creating no greenhouse gas emissions, hydroelectric power is perhaps the first and best-known "renewable" energy source. Nowhere does hydroelectric power play more of a role in our system than at Upper Peninsula Power Company, operating in Michigan's Upper Peninsula.

Upper Peninsula Power is poised to capitalize on regional environmental momentum: Besides providing a carbon-neutral energy source for the company's own portfolio, hydroelectric energy's value has greatly increased as renewable energy connects to the market. The Michigan legislature's recent renewable energy portfolio standard requires electric utilities to have 10% of their energy come from in-state renewable sources by 2015 and establishes renewable credit opportunities.

To care for these assets, improvement projects are underway for Upper Peninsula Power's turn-of-the century facilities.

WESTON 4 WOWS POWER INDUSTRY

In June 2008, we moved to a more secure energy future as Wisconsin Public Service placed its world-class 525-megawatt Weston 4 generating unit into service. One of the cleanest coal-fired generating units in the nation, Weston 4's supercritical technology offers higher efficiency and lower carbon dioxide emissions per megawatt-hour of electricity produced as compared to a standard sub-critical coal-fired unit.

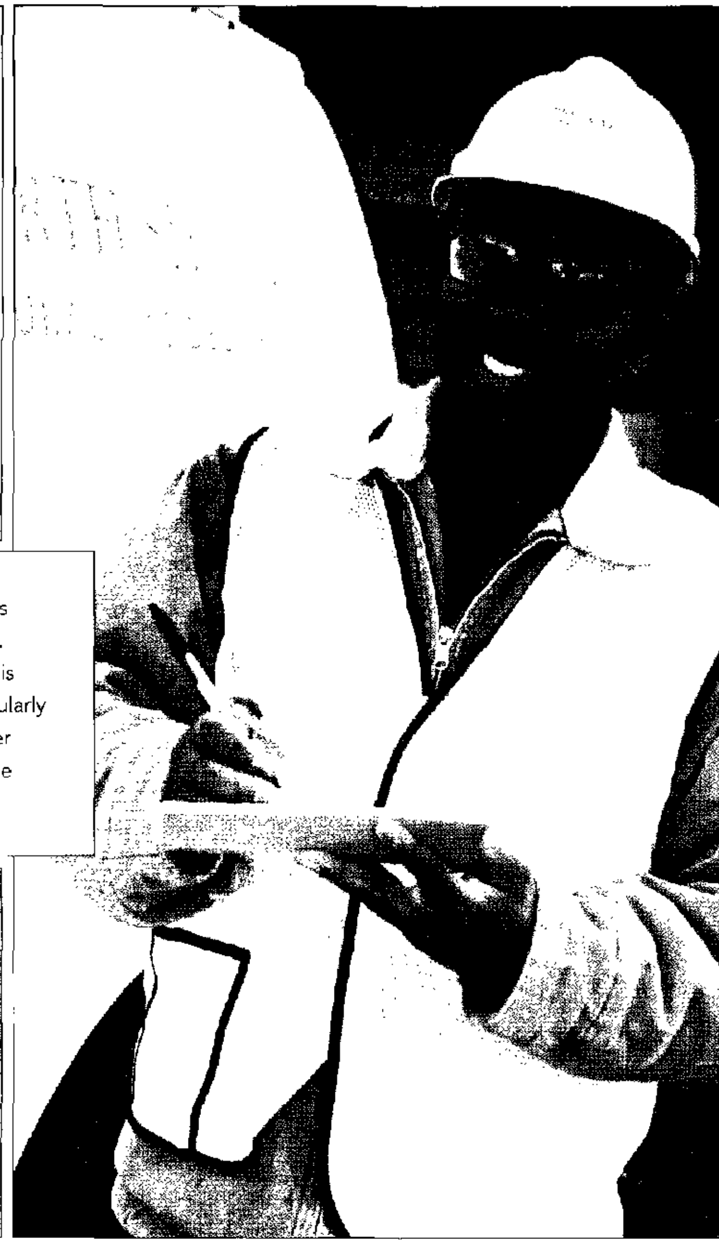
Construction of the $774 million project began in October 2004 and was completed on an aggressive 3.5-year schedule. It was built in close cooperation with the local community, using local trades and suppliers whenever possible. In August 2008, community leaders, local neighbors, elected officials, regulators, contractors, management, union representatives, and others turned out to officially dedicate the new facility.

In the short time since it began operation, the clean-coal plant is generating not only electricity, but also national and global energy awards:

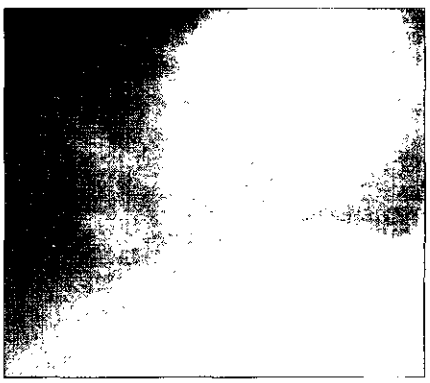
- 2008 Plant of the Year from *POWER* magazine, citing "unequalled environmental protection credentials employing without a doubt the most advanced coal-fired steam generation technology in the U.S. today";
- Best Coal-Fired Project for 2008 from *Power Engineering* magazine, which recognizes projects that set quality standards in the worldwide energy industry; and
- 2008 Big Diverter Award from WasteCap, Wisconsin, for a high recycling rate, diverting more than 9,000 tons of waste from being placed in a landfill over four years.

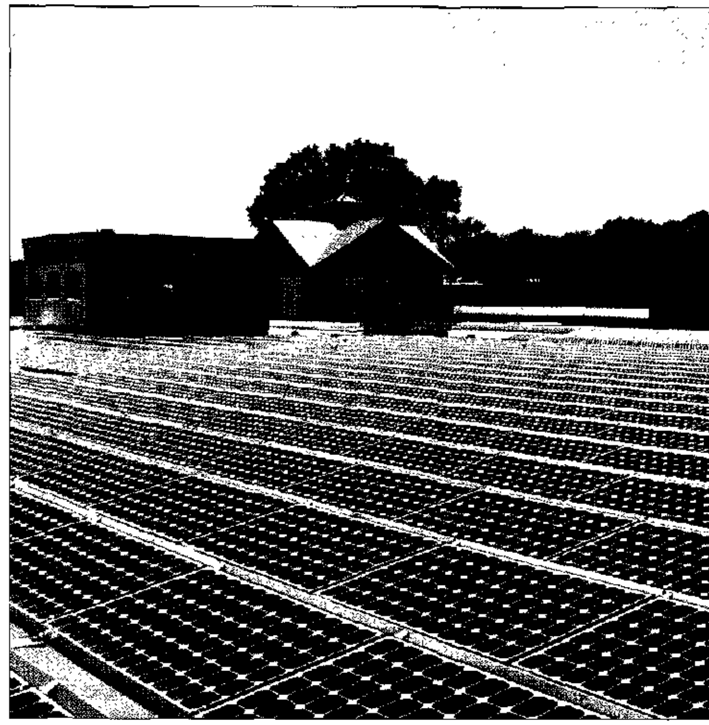
RENEWING AGING ASSETS

Many of our older generating plants are still "go-to" sources for reliable energy at a reasonable cost. Yet often, their environmental performance isn't as impressive as that of newer generation resources. So we're investing capital and brainpower to make these assets smarter, cleaner, and more efficient.



Serving customers well brings an environment of comfort to their homes and lives, *and it brings an environment of satisfaction to our employees.* Trevor Gates (right), a fitter with North Shore Gas in Waukegan, Illinois, is on the scene if customers suspect they have a natural gas leak, and regularly performs in-home safety inspections. Angeles Herrera, a senior customer service associate with Integrys Gas Group in Chicago, Illinois, is the voice of the company when customers call her with questions or concerns.





Integrys Energy Services launched Ecovations™ in 2008, giving its natural gas customers in Ohio the opportunity to choose eco-friendly renewable gas at no additional cost. Joanne Weycker (left), senior marketing communications coordinator in Integrys Energy Services' De Pere, Wisconsin, headquarters, and Susanne Buckley (right), direct mass markets income stream lead in Ohio, were instrumental in launching the new product.

Projects developed, constructed, and owned by Integrys Energy Services in 2008 positioned the nonregulated company as one of the nation's top five providers of solar electricity through power purchase agreements. The solar panels above are installed on the rooftop of Pilgrim Furniture Showroom in Milford, Connecticut. The panels' first year of electricity production is projected to be about 370,000 kilowatt-hours—reducing greenhouse emissions by 225 tons and roughly equal to the power consumed by 37 average homes.

At Wisconsin Public Service's Pulliam coal-fired generating plant, for example, we significantly reduced excess opacity (visible emissions) incidents. While new emission-control equipment helped remediate the problem, the main gains came from listening and engaging the people closest to the problem.

Five crews of front-line operators focused intensely on the challenge and identified practical, ongoing corrective actions that delivered out-of-the park results. Solutions ranged from a more controlled boiler firing process that lowered emissions to improved crew training and day-to-day corrective equipment repairs. Thanks to the employees at Pulliam, the plant achieved a dramatic ten-fold increase in opacity performance in 2008 for four active operating coal units (Pulliam units 5-8) compared to average performance from 2000 to 2005.

We've also ramped up efforts to equip our older coal-fired power plants with new combustion technology that promises to reduce nitrogen oxide (NOx) emissions by 40% to 50% overall. In 2008, retrofits were completed on Weston 1 (commissioned in 1954), and work was begun on Weston 2 (1960). Retrofits will also be made at Pulliam 6, Pulliam 7, Weston 3, and Pulliam 8 in 2009.

THE ECONOMIC ENVIRONMENT

Helping customers during the economic downturn was a key focus for our organization in 2008, as surging energy costs and tough times created unprecedented challenges.

SAFETY NET CATCHES VULNERABLE CUSTOMERS

Across all of our utilities, our concern rose for our most vulnerable customers—those with limited income, who are most affected by economic hardships. Beginning in July 2008, we turned our energies to helping customers anticipate winter energy costs and learn about applying for heating assistance.

The federal government made an unprecedented level of Low Income Home Energy Assistance Program (LIHEAP) funds available to help customers. So our first priority was to make sure struggling customers knew about this important safety net.

Peoples Gas and North Shore Gas exemplified our tactics with nothing short of a community blitz. Community relations teams reached out person by person, neighborhood by neighborhood, agency by agency, to educate, inform, and jumpstart the assistance program.

Customers were contacted through many touch points, from bill inserts and Web content to phone calls and community meetings. We worked with community agencies and city officials. And we found more ways than ever to connect people in need with help in walking through the application process.

And our teams didn't stop there. To encourage safety during the heating months, our utilities offered discounts on carbon monoxide and smoke detectors. They promoted budget billing plans. And they continued the successful utility-sponsored heating funds—with the utilities matching customer donations to cover heating costs for low- and fixed-income neighbors.

It was an outreach effort echoed throughout our companies. And for many, it brought comfort in an increasingly harsh economic environment.

GRASSROOTS MARKETING AT MICHIGAN GAS UTILITIES

In the landscape of Michigan's struggling economy, employees at Michigan Gas Utilities formed a game plan to grow the utility's base of natural gas customers when new development faltered.

Relying on service crews, meter readers, and other team members, the utility mapped and identified existing mains that could be cost-effectively extended to reach new natural gas customers, who might be using oil or propane to heat their homes.

Employees identified 23 new projects, and the information sharing began. The team used competitive cost modeling to demonstrate the attractive cost of natural gas against propane, making dollars and sense of switching to natural gas.

Two hundred and fifty service lines later, nearly half the identified potential customers had come online, increasing Michigan Gas Utilities' customer base. Today, the momentum continues, proving our employees' ability to be innovative in demanding times.

"GETTING IT RIGHT" (ALWAYS)

For our utility customer relations group, the mantra "Getting It Right" to create great service experiences for customers remained a core goal.

We began with a first-ever benchmark of capabilities and customer satisfaction throughout our utilities, so we knew where we stood. We identified which areas required work. Then we raised the bar—and met it—leveraging best practices.

ONE CALL DOES IT ALL

Resolving customer issues immediately—on the first call—was a core focus for a more seamless customer experience. Across our organization, we shared best practices to reduce the need for customers to contact us more than once to address their questions or concerns.

We spent considerable effort coaching our front-line service teams and monitoring call quality. We fine-tuned our processes and systems; we deepened our teams' technical and people skills; we took time to ensure we clearly understood and answered each customer's question. And when we were done, we asked, "Is there anything else we can do for you today?"

The outcome speaks for itself. Each quarter we made improvements in call center performance, lowering the amount of repeat calls, lowering cost, and bettering our customers' experience.

A SELF-SERVICE WORLD

Our companies accelerated self-service options to match our customers' increasing use of Internet and interactive voice technologies, providing low-cost, easy-to-use ways to do business.

ENVIRONMENTAL POLICY STATEMENT

At Integrys, we act responsibly to balance the economic, social, and environmental objectives of the company and our stakeholders. We strive for operational excellence and factor environmental protection into our business planning and operating decisions. We are committed to continually improving our environmental performance and will seek opportunities that benefit the environment as we grow our business. We partner with others to promote energy efficiency, conservation, environmental awareness, and stewardship of our natural resources.

ENVIRONMENTAL PRINCIPLES

Protect the environment. We are a leader in environmental stewardship. We execute strategies to reduce our impact on the environment and operate our facilities to meet or surpass environmental standards.

Use natural resources responsibly. We use natural resources responsibly, conserve resources through efficient use, minimize the creation of waste and recycle whenever possible.

Use energy wisely. We promote efficiency in the generation, distribution and end use of energy. We invest in energy efficiency and conservation in our own operations and help our customers to do the same.

Improve environmental performance. We commit, at all levels in the organization, to implement these principles, make continuous improvements in our environmental performance, meet our obligations with integrity and reduce environmental risk. Employees draw upon their expertise, innovation, and energy to achieve our vision.

Safeguard a healthy environment. We supply energy in a manner that minimizes adverse impacts and protects the health and safety of our employees, customers, and the public. We continue to inform and educate customers about using energy safely.

Engage stakeholders. We draw upon an open and honest dialog with our employees, stakeholders, and the public to improve our environmental performance. We forge partnerships with educators, communities, and other organizations as we consider their environmental expectations in our business planning and decision-making.

Embrace environmental sustainability. We strive to meet the energy needs of today while ensuring a reliable energy future. This includes being stewards of the environment and making business decisions that will protect and enhance the quality of the environment for current and future generations.

Measure and report performance. We regularly review our environmental policy and performance, and assess and audit our operations from an environmental perspective.

We worked diligently, identifying changes that would make our automated voice recognition systems and Web sites easy to use. We invested in studies of our automated call flow and Web site navigation to make sure choices were clear and customer-friendly. We automated back-end systems to deliver immediate response.

Popular self-service functions were added to Web sites at Wisconsin Public Service, Upper Peninsula Power, Peoples Gas, and North Shore Gas, including options to set up budget billing and search for payment locations.

Moving to a "self-service" world for simple transactions is truly a win/win/win proposition: delivering 24/7 support for customers; the ability for employees to focus on more complex, value-added customer contacts; and greater value for shareholders.

DELIGHTING NONREGULATED CUSTOMERS

At our nonregulated operations, delighting customers is also a focus for delivering value.

Using customers' feedback, we worked to improve key aspects of delight, from easy-to-understand billing to knowledgeable customer care. By the end of the year, we had moved from a score of 3.88 to 4.09 in customer satisfaction, an 18.75% gain on our aspiration of achieving a perfect 5.0 score.

FUTURE FOCUS

Moving forward, Integrys will continue to seek great experiences for our customers while improving our cost effectiveness. Our work has only begun.

We're pursuing new ways to make it easy to do business with us. Customers told us they wanted even more self-service options, so we're expanding self-service options even further, sharing effective tactics and technologies from sister company to sister company.

Yet we know that knowledgeable one-on-one customer care will never be replaced—nor should it be. So we continue helping our call centers and our account executives be more effective listeners and more expert problem solvers than ever before.

THE COMMUNITY AROUND US

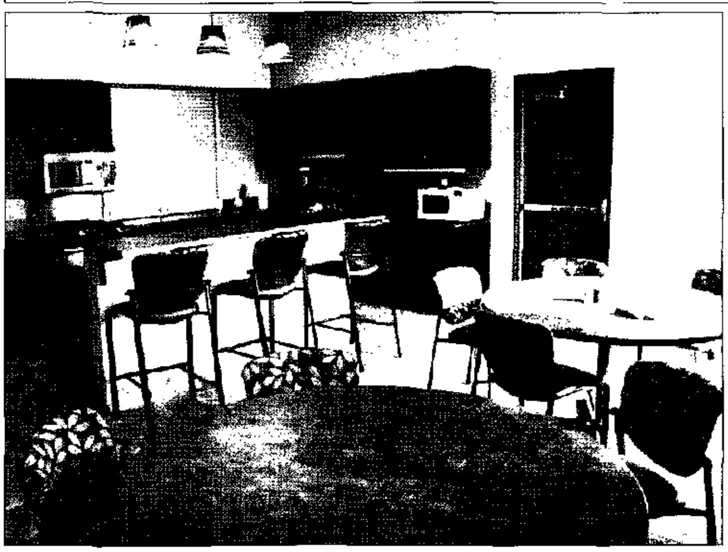
In difficult economic times, Integrys' community support remains vibrant. It's bedrock to our belief that business sustainability is connected to the well-being of the places where we live and work.

Our responsibility takes many forms, from encouraging employee volunteerism and matching contributions to their favorite charities to sharing expertise on boards and community task forces. Sometimes our efforts are a direct extension of our business. For example, each fall, our employees give their time to bring energy efficiency to customers by weatherizing homes for those who are elderly or disabled.

And we've also come together across Integrys to support community needs through United Way.

It's a true measure of our corporate values, giving back a measure of what our communities give to us.

Being part of the local community means putting our words into action—demonstrating our commitment to the future energy environment. Mary Frank (right), a community relations specialist at Wisconsin Public Service, spends countless hours talking with customers and explaining easy changes that can make a difference in energy use and costs. Minnesota Energy Resources built its new office building in Rochester, Minnesota, using LEED principles. The employee breakroom (below), for example, incorporates lights that adjust to the natural light in the room, Energy Star® appliances, and a low-flow sink aerator. And Wisconsin Public Service Foundation funded unique solar panel installations (bottom) at the Green Bay Botanical Garden, powering an educational building and helping the public become more familiar with solar energy.



THE REGULATORY ENVIRONMENT

Navigating the complexities of the changing regulatory environment has become increasingly important for Integrys Energy Group.

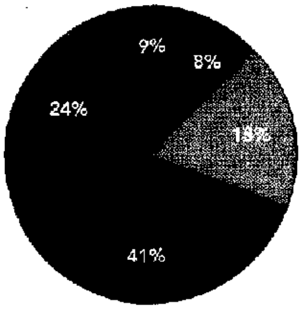
We're at work on a number of core regulatory activities: providing energy efficiency services and information in new state programs; complying with all environmental rules and regulations; and forging new rate structures that encourage, not inhibit, energy-saving programs.

EMPOWERING ENERGY PARTNERSHIPS

In our regulated utilities, we're building on a history of encouraging energy efficiency.

Wisconsin Public Service has provided energy-efficiency programs for customers since the 1970s. Today, these programs are administered, with our guidance, through a statewide energy-efficiency program called Focus on Energy. Minnesota Energy Resources has also provided programs to its customers and is increasing its efforts to meet recently enacted Minnesota legislation, which established aggressive energy-savings goals.

Similar legislation has been passed in Michigan, and both Upper Peninsula Power and Michigan Gas Utilities will participate in state-administered energy-efficiency programs. Peoples Gas and North Shore Gas are a part of the newly created Chicagoland Natural Gas Savings Program, offering energy-efficiency and weatherization programs to customers of the two utilities.



Integrys supports the giving initiatives of Wisconsin Public Service Foundation, Inc., in Michigan, Minnesota, and Wisconsin. Other significant giving by Integrys occurs through programs operated by Peoples Gas and North Shore Gas in Illinois.

	Wisconsin Public Service Foundation, Inc.	Peoples Gas and North Shore Gas	Total
Environmental	$ 74,960	$ 147,750	$ 222,710
Arts and Culture	148,392	56,921	205,313
Community and Neighborhood Development	[illegible]	[illegible]	[illegible]
Human Services and Health	540,901 *	484,429 *	1,025,330 *
Education	297,420	293,847	591,267
Total	**$1,410,539**	**$1,073,182**	**$2,483,721**

* Includes corporate gifts to United Way agencies.

All these efforts by Integrys companies contribute to a better use of energy, protection for the environment, and lower energy bills for customers.

INNOVATIVE RATES REWARD EFFICIENCY

Another initiative is to remove current disincentives for utilities to encourage energy efficiency—known in the energy industry as "decoupling." Pioneering projects make Peoples Gas, North Shore Gas, and Wisconsin Public Service the first utilities in Illinois and Wisconsin to gain approval for decoupling. This tool separates the amount the utilities charge to deliver natural gas and electricity from the amount that customers use.

For our companies, revenue becomes less dependent on the volume of natural gas and electricity we deliver—so we can actively promote energy efficiency without hurting our bottom line. Equally important, decoupling benefits customers. Generally, when weather is colder, customers will receive a credit, and when it is warmer than normal, customers will see a charge. And customers will see a direct benefit from saving energy: reducing energy use will reduce their bill.

THE FUTURE ENVIRONMENT

We are leveraging best practices across our companies and embedding them in our culture. We have become leaner, more disciplined, and even more customer-centric. And despite competing business and environmental pressures, we are confident we have a practical and proactive path forward.

POSITIONING AND INVESTING IN THE FUTURE

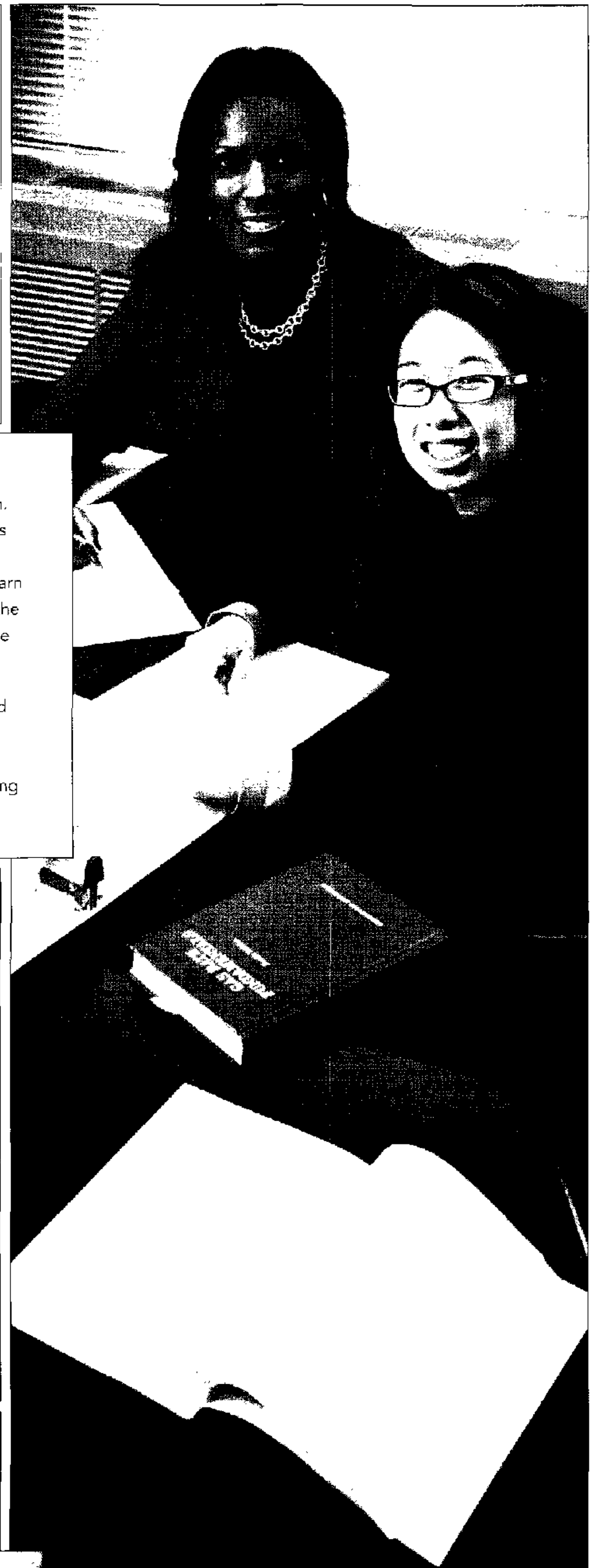
Integrys Energy Group is a larger, stronger, and more competitive regional energy company than ever before. Our growth since 2006 has diversified our company's regulatory and geographic risk and provided a larger, more stable regulated utility base.

Regulatory and industry forces demand a strong emphasis on asset and risk management. We are constantly evaluating strategies to provide the best return on our resources while maintaining an acceptable risk profile. Moving forward, we will continue to adjust our energy portfolio, evaluate existing assets, the acquisition of assets, and contracts for resources that complement our business.

As we look to the future, we will make well-planned investments to meet changing expectations of energy companies.

Part of our obligation is to anticipate future energy demand while making sense for our environment. As the market calls for more environmentally friendly sources, we will respond with continued investment in renewables, energy efficiency, emission reduction and conservation, focusing on options that offer the greatest returns in efficiency and savings.

Sustaining our vision, we are confident that wise planning of our resources will deliver stability and continued value in an ever-changing energy future.

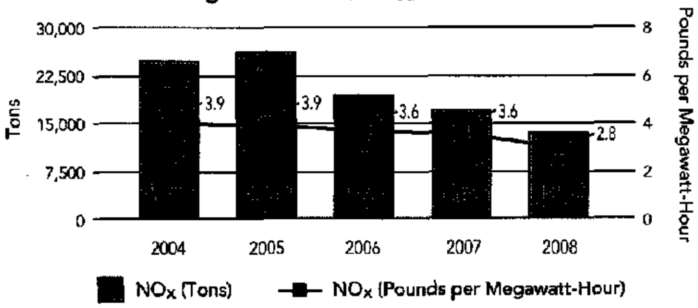


In 2008, our regulated utilities introduced the concept of natural gas rate decoupling to the regulatory environment in Illinois and Wisconsin. Valerie Grace (left), manager of gas regulatory services for Peoples Gas and North Shore Gas, and Sharon Moy (right), rate case consultant in Illinois, focused on this rate concept as a way to allow the utilities to earn their approved revenue requirement while removing disincentives for the utilities to support energy conservation. Decoupling also provides value to customers, particularly when weather is colder than normal.

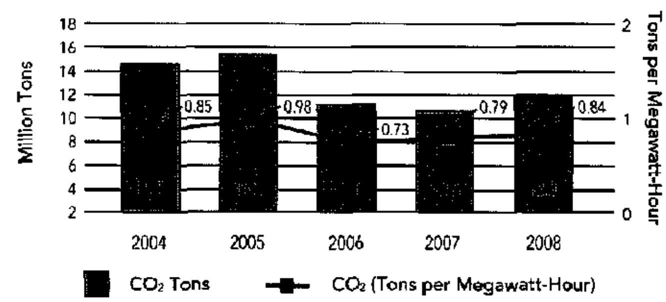
Peoples Gas demonstrated natural gas conservation by sponsoring and providing natural gas for the Museum of Science and Industry's Smart Home in 2008. The home, visited by more than 100,000 people over eight months, is an example of eco-friendly and sustainable design using technologies available today.

above:
Photo courtesy of J.B. Spector/Museum of Science and Industry

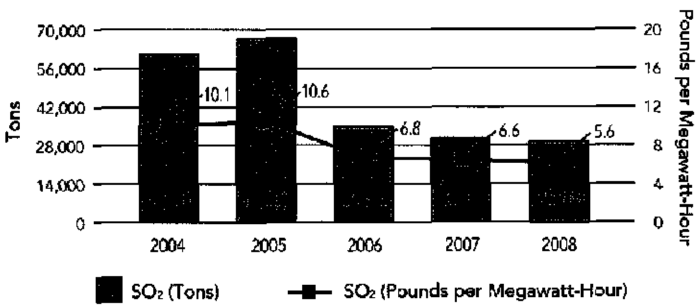
Integrys Energy Group's Nitrogen Oxide (NO_X) Emissions



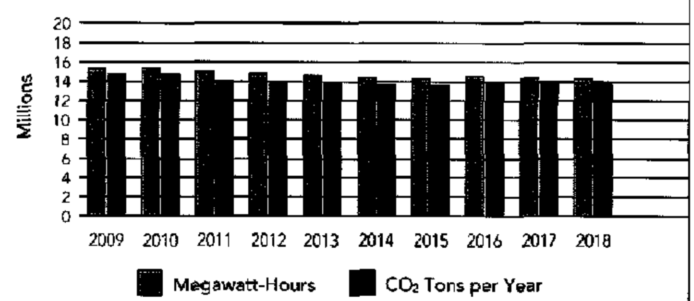
Integrys Energy Group's Carbon Dioxide (CO_2) Emissions



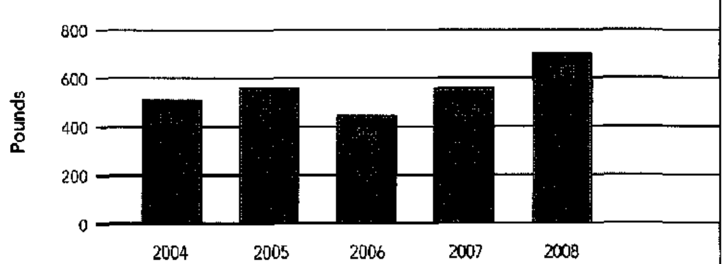
Integrys Energy Group's Sulfur Dioxide (SO_2) Emissions



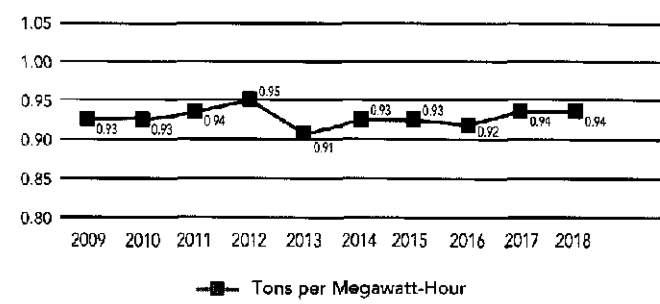
Integrys Energy Group's Carbon Dioxide (CO_2) Projected Emissions



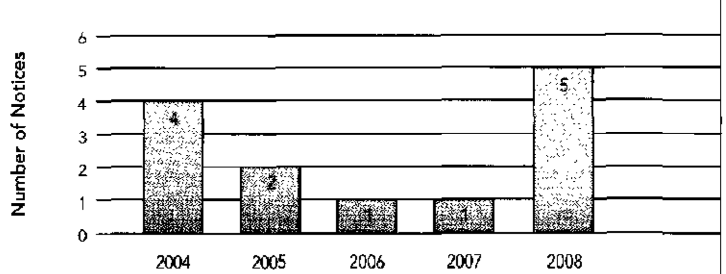
Integrys Energy Group's Mercury Emissions



Integrys Energy Group's Carbon Dioxide (CO_2) Projected Emission Rates



Integrys Energy Group's Notices of Violation (NOVs)



Notes:
There was an extended Kewaunee Nuclear Plant outage in 2005.
The Sunbury Generation facility was sold in 2006.
Warden and Niagara Falls Generating facilities were sold in 2007.
The Stoneman Generating facility was sold in 2008.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934. You can identify these statements by the fact that they do not relate strictly to historical or current facts and often include words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," and other similar words. Forward-looking statements are subject to assumptions and uncertainties; therefore, actual results may differ materially from those expressed or implied by such forward-looking statements. Although we believe that these forward-looking statements and the underlying assumptions are reasonable, we cannot provide assurance that such statements will prove correct.

Forward-looking statements speak only as of the date on which they are made, and, except to the extent required by the federal securities laws, we undertake no obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise. We recommend that you consult any further disclosures we make on related subjects in our 10-Q, 8-K, and 10-K reports to the Securities and Exchange Commission.

The following is a cautionary list of risks and uncertainties that may affect the assumptions which form the basis of forward-looking statements relevant to our business. These factors, and other factors not listed here, could cause actual results to differ materially from those contained in forward-looking statements.

- Resolution of pending and future rate cases and negotiations (including the recovery of deferred costs) and other regulatory decisions impacting Integrys Energy Group's regulated businesses;
- The impact of recent and future federal and state regulatory changes, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric and natural gas utility industries and possible future initiatives to address concerns about global climate change, changes in environmental, tax, and other laws and regulations to which Integrys Energy Group and its subsidiaries are subject, as well as changes in the application of existing laws and regulations;
- Current and future litigation, regulatory investigations, proceedings, or inquiries, including but not limited to, manufactured gas plant site cleanup, reconciliation of revenues from the Gas Charge and related natural gas costs, and the contested case proceeding regarding the Weston 4 air permit;
- The impacts of changing financial market conditions, credit ratings, and interest rates on the liquidity and financing efforts of Integrys Energy Group and its subsidiaries;
- The risks associated with executing Integrys Energy Group's plan to significantly reduce the scope and scale of, or divest in its entirety, the nonregulated energy services business;
- The risks associated with changing commodity prices (particularly natural gas and electricity) and the available sources of fuel and purchased power, including their impact on margins;
- Resolution of audits or other tax disputes with the Internal Revenue Service and various state, local, and Canadian revenue agencies;
- The effects, extent, and timing of additional competition or regulation in the markets in which Integrys Energy Group's subsidiaries operate;
- The retention of market-based rate authority;
- The risk associated with the value of goodwill or other intangibles and their possible impairment;
- Investment performance of employee benefit plan assets;
- Advances in technology;
- Effects of and changes in political and legal developments, as well as economic conditions and the related impact on customer demand;
- Potential business strategies, including mergers, acquisitions, and construction or disposition of assets or businesses, which cannot be assured to be completed timely or within budgets;
- The direct or indirect effects of terrorist incidents, natural disasters, or responses to such events;
- The effectiveness of risk management strategies and the use of financial and derivative instruments;
- The risks associated with the inability of Integrys Energy Group's and its subsidiaries' counterparties, affiliates, and customers to meet their obligations;
- Weather and other natural phenomena, in particular the effect of weather on natural gas and electricity sales;
- The utilization of tax credit carryforwards;
- The effect of accounting pronouncements issued periodically by standard-setting bodies; and
- Other factors discussed in the 2008 Annual Report on Form 10-K and in other reports filed by Integrys Energy Group from time to time with the Securities and Exchange Commission.

INTRODUCTION

Integrys Energy Group is a diversified energy holding company with regulated electric and natural gas utility operations (serving approximately 2.2 million customers in Illinois, Michigan, Minnesota, and Wisconsin), nonregulated energy operations, and an equity ownership interest in American Transmission Company, LLC (ATC) (a federally regulated electric transmission company operating in Wisconsin, Michigan, Minnesota, and Illinois) of approximately 34%.

Strategic Overview

Integrys Energy Group's goal is to create long-term value for shareholders and customers primarily through growth in its core regulated businesses. The company has made a decision to either fully or partially divest of its nonregulated energy services business segment, Integrys Energy Services, or reduce its size, risk, and financial requirements in response to increased collateral requirements at a time when global credit and financial markets are constraining the availability and increasing the cost of capital. In order to create value, Integrys Energy Group focuses on:

Maintaining and Growing a Strong Regulated Utility Base—A strong regulated utility base is necessary to maintain a strong balance sheet, predictable cash flows, a desired risk profile, attractive dividends, and quality credit ratings, which are critical to our success. Integrys Energy Group believes the following investments have helped, or will help, maintain and grow its regulated utility base:

- The February 2007 merger with Peoples Energy Corporation (PEC), which added the natural gas distribution operations of The Peoples Gas Light and Coke Company (PGL) and North Shore Gas Company (NSG) to the regulated utility base of Integrys Energy Group.
- Our ownership interest in ATC, which owned over $2.5 billion of assets at December 31, 2008. Integrys Energy Group will continue to fund its share of the equity portion of future ATC growth. ATC plans to invest $2.7 billion in the next ten years to ensure that the power grid will continue to meet the needs of its customers.
- Weston 4, a 537-megawatt coal-fired base-load power plant located near Wausau, Wisconsin, was completed and became operational June 30, 2008. Wisconsin Public Service Corporation (WPS) holds a 70% ownership interest in the Weston 4 power plant.
- A proposed accelerated annual investment in natural gas distribution facilities (replacement of cast iron mains) at PGL.
- The investment of approximately $79 million to connect WPS's natural gas distribution system to the Guardian II natural gas pipeline to be completed in 2009.
- WPS's purchase of a 99-megawatt wind generation project to be constructed in 2009 in Howard County, Iowa.
- WPS's continued investment in environmental projects to improve air quality and meet the requirements set by environmental regulators. Capital projects to construct and upgrade equipment to meet or exceed required environmental standards are planned each year.

For more detailed information on Integrys Energy Group's capital expenditure program, see *"Liquidity and Capital Resources, Capital Requirements."*

Systematically Reduce the Size and the Capital and Liquidity Commitments of the Nonregulated Energy Services Business Segment—Unprecedented energy price volatility, combined with significant growth in the forward customer business, has increased the collateral requirements of Integrys Energy Services at a time when global credit and financial market conditions are both constraining the availability and increasing the cost of capital. As a result, Integrys Energy Group has decided to take steps to protect its financial position and liquidity by either fully or partially divesting of its nonregulated energy services business segment or significantly scaling it back. On an operational level, Integrys Energy Group's short-term strategy will be to reduce and refocus its financial, credit, and risk capital on those aspects of Integrys Energy Services' business that yield the highest return, with consideration given toward lower risk. Integrys Energy Services has recently, and as necessary in the future, expects it will continue to adjust pricing strategies to capture margins that are commensurate with its increasing capital costs and collateral requirements.

Longer term, in the event that a full divestiture of Integrys Energy Services does not occur and a portion of the nonregulated energy services business segment remains, it will be a smaller segment that requires significantly less capital, parental guarantees, and overall financial liquidity from Integrys Energy Group. Integrys Energy Group is seeking to deploy its capital to areas with more desirable risk-adjusted rates of return. Although Integrys Energy Group anticipates a reduction in future earnings capacity from this business segment going forward, an improvement in the liquidity position and reduced business risk profile of Integrys Energy Group is expected.

Integrating Resources to Provide Operational Excellence—Integrys Energy Group is committed to integrating resources of all its regulated and nonregulated businesses, while meeting all applicable regulatory and legal requirements. This will provide the best value to customers and shareholders by leveraging the individual capabilities and expertise of each business and lowering costs. Integrys Energy Group believes the following recent developments have helped, or will help, integrate resources and provide operational excellence:

- The PEC merger provides the opportunity to align the best practices and expertise of both companies, which will continue to result in efficiencies by eliminating redundant and overlapping functions and systems.
- Integrys Business Support, LLC (IBS), a wholly owned service company of Integrys Energy Group, became operational on January 1, 2008. IBS was formed to achieve a significant portion of the cost synergies anticipated from the PEC merger through the consolidation and efficient delivery of various support services and to provide more consistent and transparent allocation of costs throughout Integrys Energy Group and its subsidiaries.
- "Operational Excellence" initiatives were implemented to provide top performance in the areas of project management, process improvement, and contract administration and compliance in order to reduce costs and manage projects and activities within appropriate budgets, schedules, and regulations.

Placing Strong Emphasis on Asset and Risk Management—Our asset management strategy calls for the continuous assessment of our existing assets, the acquisition of assets, and contractual commitments to obtain resources that complement our existing business and strategy. The goal is to provide the most efficient use of our resources while maximizing return and maintaining an acceptable risk profile. This strategy focuses on the disposition of assets, including plants and entire business units, which are no longer strategic to ongoing operations, are not performing as needed, or have an unacceptable risk profile. We maintain a portfolio approach to risk and earnings. Our decision regarding the future of Integrys Energy Services noted above illustrates our asset management strategy.

Our risk management strategy includes the management of market, credit, and operational risk through the course of business. Forward purchases and sales of electric capacity, energy, natural gas, and other commodities allow opportunities to secure prices in a volatile energy market. Each business unit monitors daily oversight of the risk profile related to these instruments consistent with the company's risk management policy. The Corporate Risk Management Group, which reports through the Chief Financial Officer, provides corporate oversight.

RESULTS OF OPERATIONS

(Millions, except per share amounts)		Year Ended December 31,		Change in 2008 Over 2007	Change in 2007 Over 2006
		2007	2006		
Natural gas utility operations		$ 28.7	$ (2.3)	194.4 %	N/A
Electric utility operations		87.4	85.5	5.9 %	2.2 %
Nonregulated energy operations		98.0	72.3	N/A	35.5 %
Holding company and other operations		(18.8)	0.3	N/A	N/A
Oil and natural gas operations		56.0	–	(100.0)%	N/A
Income available for common shareholders		$251.3	$155.8	(49.7)%	61.3 %
Average basic shares of common stock		71.6	42.3	7.1 %	69.3 %
Average diluted shares of common stock		71.8	42.4	7.2 %	69.3 %
Basic earnings per share		$3.51	$3.68	(53.0)%	(4.6)%
Diluted earnings per share		$3.50	$3.67	(53.1)%	(4.6)%

Earnings Summary

From 2007 to 2008, income available for common shareholders decreased $124.9 million and diluted earnings per share decreased $1.86. From 2006 to 2007, income available for common shareholders increased $95.5 million and diluted earnings per share decreased $0.17. Significant factors impacting the change in earnings and diluted earnings per share were as follows (and are discussed in more detail thereafter).

Natural Gas Utility Operations:

Earnings improved $55.8 million in 2008, compared with 2007, primarily due to the following:

- The inclusion of PGL and NSG for all of 2008 compared with only a partial year of operations in 2007 since they were acquired on February 21, 2007. A rate increase for PGL in February 2008 also contributed to the increase in earnings in 2008. From 2007 to 2008, after-tax earnings related to PGL and NSG operations increased $43.3 million, after including a $6.5 million after-tax goodwill impairment loss related to NSG in 2008.

- An increase in natural gas sales volumes, which drove an approximate $11 million ($6.6 million after-tax) increase in margin for WPS, Minnesota Energy Resources Corporation (MERC), and Michigan Gas Utilities Corporation (MGU).

- An interim rate increase for MERC, effective October 1, 2008, which had a positive impact on margin.

Financial results improved $31.0 million in 2007, compared with 2006, primarily due to the following:

- Financial results for MGU and MERC increased $18.1 million, from a combined net loss of $11.3 million in 2006, to earnings of $6.8 million in 2007. The positive change in earnings at MGU and MERC was driven by the fact that these natural gas utilities operated during the first quarter heating season in 2007, but were not acquired by Integrys Energy Group until after the first quarter 2006 heating season. In addition, MGU and MERC incurred a combined $11.8 million ($7.1 million after-tax) of transition costs in 2006 for the start-up of outsourcing activities and other legal and consulting fees. In 2007, MGU and MERC were allocated $1.7 million ($1.0 million after-tax) of external costs to achieve merger synergies related to the PEC merger.

- Regulated natural gas utility earnings at WPS increased $13.5 million, from earnings of $9.6 million in 2006, to earnings of $23.1 million in 2007. Higher earnings were driven by increased volumes due to colder weather during the heating season. The full year impact of the natural gas rate increase that was effective January 12, 2007, also contributed to the increase.

- PGL and NSG, which were acquired effective February 21, 2007, recognized a combined net loss of approximately $1 million in 2007, primarily related to the seasonal nature of natural gas utilities, which derive earnings during the heating season (first and fourth quarters). Because of the late February acquisition date, results for the majority of the two coldest months of the year were not included in natural gas utility earnings in 2007. The 2007 net income for PGL was less than the level we would normally expect, primarily due to increased costs of providing service.

Electric Utility Operations:

Earnings increased $5.2 million in 2008 compared with 2007, resulting primarily from:

- A combined $17.7 million ($10.6 million after-tax) decrease in electric maintenance expense and costs to achieve merger synergies related to the PEC merger.

- An approximate $10 million ($6 million after-tax) increase in margin from WPS's 2008 retail electric rate increase effective January 16, 2008, and the full benefit of WPS's 2007 retail electric rate increase effective January 12, 2007.

- An approximate $10 million ($6 million after-tax) increase in margin driven by higher contracted sales volumes to a large wholesale customer year-over-year.

- An approximate $5 million ($3 million after-tax) increase in regulated electric utility margin year-over-year, driven by fuel and purchased power costs that were approximately $1 million lower than what was recovered in rates during 2008, compared with fuel and purchased power costs that were approximately $4 million higher than what was recovered in rates during 2007.

The above increases were partially offset by:

- A \$13.8 million (\$8.3 million after-tax) increase in electric transmission expenses primarily related to higher rates charged by Midwest Independent Transmission System Operator, Inc. (MISO) and ATC due to additional transmission costs.
- An increase in depreciation and amortization expense of \$4.2 million (\$2.5 million after-tax) driven by depreciation related to Weston 4, which was placed in service for accounting purposes in April 2008.
- An approximate \$11 million (\$6.6 million after-tax) decrease in margin due to a decline in residential and commercial and industrial sales volumes at WPS as a result of cooler weather during the cooling season and customer conservation efforts.
- A \$4.3 million (\$2.6 million after-tax) increase in interest expense.

Earnings increased \$1.9 million in 2007 over 2006, resulting primarily from the following:

- Retail electric rate increases at both WPS and Upper Peninsula Power Company (UPPCO) had a positive year-over-year impact on operating income.
- Favorable weather at WPS contributed an approximate \$6 million (\$3.6 million after-tax) year-over-year increase in operating income; however, this increase was partially offset by a decrease in weather normalized residential and commercial and industrial customer usage.
- Fuel and purchased power costs were higher than what was recovered in rates during the year ended December 31, 2007, compared with fuel and purchased power costs that were less than what was recovered in rates during the same period in 2006, driving a \$14.4 million (\$8.6 million after-tax) negative variance in operating income.
- Maintenance expense related to WPS's power plants was higher in 2007 compared with 2006, driven by an increase in unplanned outages in 2007 as well as longer than anticipated 2007 planned outages.

Nonregulated Energy/Integrys Energy Services' Operations:

Financial results decreased \$159.5 million in 2008, compared with 2007, primarily due to the following:

- A \$133.6 million after-tax decrease in Integrys Energy Services' United States Generally Accepted Accounting Principles (GAAP) margin year-over-year related to non-cash activity, of which \$106.1 million was related to non-cash activity associated with electric operations, with the remaining \$27.5 million related to non-cash activity associated with natural gas operations. An overview of this non-cash activity has been provided below.

  Non-cash electric operations:
  A decline in energy prices during 2008 drove an \$82.4 million net after-tax non-cash loss, compared with a \$23.7 million net after-tax non-cash gain recognized in 2007, related to an increase in energy prices during 2007. The non-cash unrealized gains and losses recognized resulted from the application of derivative accounting rules to Integrys Energy Services' portfolio of derivative electric customer supply contracts, requiring that these derivative instruments be adjusted to fair market value. The derivative instruments are utilized to economically hedge the price, volume, and ancillary risks associated with related electric customer sales contracts. The associated electric customer sales contracts are not adjusted to fair value, as they do not meet the definition of derivative instruments under GAAP, creating an accounting mismatch. As such, the non-cash unrealized gains and losses related to the electric customer supply contracts will vary each period, with non-cash unrealized gains being recognized in periods of increasing energy prices and non-cash unrealized losses being recognized in periods of declining energy prices, and will ultimately reverse when the related customer sales contracts settle.

  Non-cash natural gas operations:
  The spot price of natural gas decreased significantly during the second half of 2008 (below the average cost of natural gas in inventory which Integrys Energy Services had injected into storage earlier in 2008), which resulted in a lower-of-cost-or-market adjustment, as required by GAAP. This adjustment contributed a \$96.2 million year-over-year decrease in the non-cash natural gas margin, driven by non-cash inventory write-downs in the third and fourth quarters of 2008. The negative impact on realized margin related to these inventory adjustments was substantially offset by \$91.9 million of net after-tax non-cash unrealized gains recognized in 2008, primarily related to derivative instruments utilized to mitigate the price risk on natural gas inventory underlying natural gas storage transactions. In 2007, natural gas derivative instruments resulted in the recognition of \$23.2 million of net after-tax non-cash unrealized gains. Similar to the electric operations discussed above, non-cash gains and losses related to derivative natural gas sales and customer supply contracts will vary each period, and will ultimately reverse when the physical contracts settle, or when natural gas is withdrawn from inventory.

- The recognition of \$17.1 million of after-tax earnings from Integrys Energy Services' investment in a synthetic fuel production facility during the year ended December 31, 2007. Production and sale of synthetic fuel by Integrys Energy Services ended when Section 29/45K of the Internal Revenue Code, which provided for Section 29/45K federal tax credits from the production and sale of synthetic fuel, expired effective December 31, 2007.
- After-tax income from discontinued operations decreased \$10.9 million as a result of the sale of Niagara Generation in 2007, which was partially offset by a contingent gain that was realized in the fourth quarter of 2008 related to the sale of the Stoneman generating facility in the third quarter of 2008.
- Operating and maintenance expenses at Integrys Energy Services increased \$22.3 million (\$13.4 million after-tax) in 2008 compared with 2007, driven by an increase in bad debt expense, broker commissions, a full year of operations from businesses acquired in the PEC merger, and employee benefit costs.
- Partially offsetting the above decreases, the realized retail electric margin increased \$28.1 million (\$16.9 million after-tax), driven primarily from operations in Illinois, due to the addition of new customers as a result of the PEC merger, and the reduced impact from purchase accounting in 2008.

Earnings increased \$25.7 million in 2007, compared with 2006, primarily due to the following:

- Operating income at Integrys Energy Services increased \$40.2 million (\$24.1 million after-tax).
- After-tax income from discontinued operations at Integrys Energy Services increased \$7.5 million, driven by the sale of Niagara Generation, LLC in the first quarter of 2007.
- Miscellaneous expense at Integrys Energy Services decreased \$11.1 million (\$6.7 million after-tax), driven by a decrease in pre-tax losses recognized for the period related to Integrys Energy Services' investment in a synthetic fuel facility.

- Minority interest income decreased $3.7 million ($2.2 million after-tax) as Integrys Energy Services' partner elected to stop receiving production from the synthetic fuel facility and, therefore, did not share in losses from this facility in 2007.

- Section 29/45K federal tax credits recognized from Integrys Energy Services' investment in a synthetic fuel facility decreased $15.9 million, from $29.5 million in 2006, to $13.6 million in 2007. The decrease in Section 29/45K federal tax credits recognized was driven by the impact of high oil prices on our ability to realize the benefit of Section 29/45K federal tax credits.

Holding Company and Other Operations:

Financial results increased $29.6 million from 2007 to 2008, largely due to higher earnings from our investment in ATC, lower interest expense, and lower operating expenses at the holding company, partially offset by the negative year-over-year impact on operating income related to the reallocation of external costs to achieve merger synergies in 2007.

In 2007, financial results decreased $19.1 million, from earnings of $0.3 million in 2006, to a net loss of $18.8 million.

See "Overview of Holding Company and Other Segment Operations" for more information.

Oil and Natural Gas Operations:

In connection with the PEC merger, Integrys Energy Group announced its intent to divest of PEC's oil and natural gas production operations, Peoples Energy Production Company (PEP). PEP was sold in the third quarter of 2007. In 2007, PEP recognized earnings of $56.0 million, including $58.5 million of earnings reported as discontinued operations. The sale of PEP resulted in a $7.6 million after-tax gain in 2007. In 2008, tax adjustments of $0.8 million related to the 2007 PEP sale were recorded as discontinued operations.

Earnings Per Share:

Diluted earnings per share was impacted by a 5.2 million share (7.2%) increase in the weighted average number of outstanding shares of Integrys Energy Group common stock from 2007 to 2008, as well as an increase of 29.4 million shares (69.3%) in the weighted average number of outstanding shares of Integrys Energy Group's common stock from 2006 to 2007. Integrys Energy Group issued 31.9 million shares of common stock on February 21, 2007, in conjunction with the merger with PEC, and issued an additional 2.7 million shares of common stock in May 2006 in order to settle its forward equity agreement with an affiliate of J.P. Morgan Securities. Additional shares were also issued under the Stock Investment Plan and certain stock-based employee benefit plans in 2007 and 2006.

The following discussion provides the analysis of Integrys Energy Group's four segments: regulated natural gas utility, regulated electric utility, Integrys Energy Services, and its holding company and other segment.

<u>*Utility Operations*</u>

In 2008, the utility operations included the regulated natural gas utility segment, consisting of the natural gas operations of PGL, WPS, MERC, MGU, and NSG. The regulated natural gas operations of WPS, MERC, and MGU, were included in results of operations for all of 2007, while the regulated natural gas operations of PGL and NSG were included in results of operations beginning February 22, 2007 through December 31, 2007. The natural gas operations of WPS were included for all of 2006, while the natural gas operations of MGU and MERC were included from April 1, 2006 through December 31, 2006, and July 1, 2006 through December 31, 2006, respectively.

Utility operations also included the regulated electric segment, consisting of the regulated electric operations of WPS and UPPCO for all of 2008, 2007, and 2006.

Regulated Natural Gas Utility Segment Operations

(Millions)	Year Ended December 31, 2008	2007	2006	Change in 2008 Over 2007	Change in 2007 Over 2006
Revenues	[illegible]	$2,103.7	$676.9	43.8 %	210.8%
Purchased natural gas costs	2,147.7	1,453.5	493.8	47.8 %	194.4%
Margins	[illegible]	650.2	183.1	35.1 %	255.1%
Operating and maintenance expense	[illegible]	427.4	121.3	26.1 %	252.4%
Goodwill impairment loss *	4.5	–	–	N/A	–%
Depreciation and amortization expense	[illegible]	97.7	32.7	10.8 %	198.8%
Taxes other than income taxes	32.1	33.1	11.8	(3.0)%	180.5%
Operating income	192.2	92.0	17.3	108.9 %	431.8%
Miscellaneous income	7.0	5.5	1.0	27.3 %	450.0%
Interest expense	[illegible]	(53.4)	(18.1)	6.0 %	195.0%
Other expense	[illegible]	(47.9)	(17.1)	3.5 %	180.1%
Income before taxes	$ 142.6	$ 44.1	$ 0.2	223.4 %	21,950.0%
Throughput in therms					
Residential	1,708.9	1,251.8	351.5	36.5 %	256.1%
Commercial and industrial	[illegible]	439.2	190.6	25.4 %	130.4%
Interruptible	[illegible]	59.4	40.1	1.2 %	48.1%
Interdepartmental	[illegible]	47.1	27.6	(39.3)%	70.7%
Transport	[illegible]	1,505.6	657.5	21.8 %	129.0%
Total sales in therms	[illegible]	3,303.1	1,267.3	26.6 %	160.6%

** See Note 9, "Goodwill and Other Intangible Assets," for more information.*

Revenue

2008 Compared with 2007:

Regulated natural gas utility segment revenue increased $922.2 million, driven by:

- A combined increase in PGL and NSG natural gas utility revenue of $780.5 million, from $1,118.5 million during 2007, to $1,899.0 million during 2008. The increase in revenue at both of these natural gas utilities was driven primarily by the fact that they were not included in regulated natural gas utility results until after the merger with PEC on February 21, 2007. Other factors that contributed to this combined increase include:
  - PGL's annualized rate increase effective February 14, 2008, which increased revenue year-over-year by approximately $61 million. See Note 23, *"Regulatory Environment,"* for more information on the PGL and NSG rate cases.
  - Higher year-over-year natural gas prices. Increases in natural gas commodity costs are passed directly through to customers in rates.
  - Colder weather during the 2008 heating season, partially offset by energy conservation efforts by natural gas utility customers and a larger number of customer disconnections, which we believe resulted from high energy prices and a general slowdown in the economy.
- An increase in natural gas revenue of $141.7 million at the remaining natural gas utilities (WPS, MERC, and MGU) from $985.1 million during 2007, to $1,126.8 million during 2008, which resulted primarily from:
  - A combined $112.2 million increase in revenue driven by the approximate 13% increase in the per-unit cost of natural gas in 2008 compared with 2007.
  - A $43.4 million increase in revenue from colder weather during the 2008 heating season compared with 2007, evidenced by an approximate 11% year-over-year increase in heating degree days across these three utilities.
  - An increase in revenue from MERC's interim rate increase, effective October 1, 2008, for retail natural gas customers. This interim rate increase is subject to refund pending the final rate order, which is expected in the second quarter of 2009. See Note 23, *"Regulatory Environment,"* for more information on MERC's interim rate increase.
  - The combined increase in revenue at WPS, MGU, and MERC, was partially offset by a $17.9 million decrease in revenue driven by a decrease in year-over-year volumes normalized for the impact of weather, $15.6 million of which was driven by a 39.3% decrease in natural gas throughput volumes sold by WPS to its electric utility segment. The decrease in volumes sold to the electric utility segment was a result of a decrease in the need for the electric utility to run its peaking generation units during the 2008 summer cooling season because of cooler year-over-year weather. In addition, additional electricity was available within the electric utility segment from Weston 4, a coal-fired generating facility that became commercially operational in June 2008. The remaining decrease in weather normalized volumes was driven by energy conservation efforts of residential customers and a larger number of customer disconnections year-over-year, which we believe resulted from high energy prices and a general slowdown in the economy.

2007 Compared with 2006:

Regulated natural gas utility segment revenue increased $1,426.8 million, driven by the following:

- PGL and NSG (acquired February 21, 2007) generated $1,118.5 million of natural gas utility revenue and contributed approximately 1.5 billion therms of natural gas throughput volumes in 2007.
- MERC (which acquired natural gas distribution operations in Minnesota on July 1, 2006) generated $294.0 million of natural gas utility revenue and approximately 705 million therms of natural gas throughput volumes in 2007, compared with $123.0 million of natural gas utility revenue and approximately 348 million therms of natural gas throughput volumes in 2006.
- MGU (which acquired natural gas distribution operations in Michigan on April 1, 2006) generated $220.2 million of natural gas utility revenue and approximately 311 million therms of natural gas throughput volumes in 2007, compared with $110.1 million of natural gas revenue and approximately 193 million therms of natural gas throughput volumes during 2006.
- WPS's natural gas utility revenue increased $27.2 million, from $443.8 million in 2006, to $471.0 million in 2007, driven by the following:
  - On January 11, 2007, the Public Service Commission of Wisconsin (PSCW) issued a final written order to WPS authorizing a retail natural gas distribution rate increase of $18.9 million (3.8%), effective January 12, 2007. See Note 23, *"Regulatory Environment,"* for more information related to the retail natural gas rate increase at WPS.
  - An 8.6% increase in natural gas throughput volumes. The increase in natural gas throughput volumes was driven by a 10.3% increase in residential volumes and a 70.7% increase in natural gas volumes sold to the electric utility. The increase in sales volumes to residential customers was driven in part by colder year-over-year weather during the 2007 heating season. The increase in natural gas volumes sold to the electric utility was driven by an increase in the need for the electric utility to run its peaking generation units.
  - Natural gas prices were 10.1% lower on a per-unit basis, compared with 2006, resulting in a decrease in natural gas utility revenue, which partially offset the overall increase in natural gas utility revenue at WPS.

Margin

2008 Compared with 2007:

The regulated natural gas utility segment margin increased $228.0 million, primarily due to:

- An increase in the combined margin at PGL and NSG of $208.6 million, from $387.2 million in 2007 to $595.8 million in 2008. The increase in combined margin was driven by:
  - The acquisition of PGL and NSG on February 21, 2007. The combined operations for the entire heating season were included in the 2008 natural gas utility margin. However, only operations from the merger date through December 31, 2007, were included in the 2007 natural gas utility margin. Due to the seasonal nature of natural gas utilities, higher margins are generally derived during the heating season (first and fourth quarters).

- The 2008 rate increase for PGL, which resulted in an approximate $61 million increase in margin.

- Colder than normal weather experienced by both PGL and NSG resulted in an approximate $7 million increase in 2008 margin before the decoupling mechanism went into effect on March 1, 2008.

■ An increase in natural gas margin of $19.4 million at the remaining natural gas utilities (WPS, MERC, and MGU), primarily driven by:

- A combined 5.2% increase in natural gas throughput volumes at WPS, MERC, and MGU, which had an approximate $11 million positive impact on natural gas utility margins. Colder year-over-year weather had an approximate $14 million positive impact on margins. Partially offsetting the positive impact of colder weather, were energy conservation efforts by residential customers and a larger number of customer disconnections year-over-year, which had an approximate $3 million negative impact on margins.

- The interim rate increase for MERC, effective October 1, 2008, which had a positive impact on natural gas margin.

- An approximate $2 million year-over-year increase in margin at MGU related to an adjustment for recovery of prior natural gas costs in a Michigan Public Service Commission (MPSC) proceeding.

2007 Compared with 2006:

The regulated natural gas utility segment margin increased $467.1 million, driven by the following:

■ The combined margin provided by PGL and NSG in 2007 of $387.2 million.

■ The combined margin at MGU and MERC increased $55.1 million, from $59.1 million in 2006, to $114.2 million in 2007. The increase in natural gas margin at MGU and MERC was driven primarily by the fact that MGU and MERC operated during the first quarter heating season in 2007, but were not acquired by Integrys Energy Group until after the first quarter heating season in 2006.

■ WPS's natural gas margin increased $24.8 million, from $124.0 million in 2006, to $148.8 million in 2007. The increase in WPS's margin was driven by the retail natural gas rate increase and an increase in throughput volumes to higher margin residential customers due in part to colder year-over-year weather during the heating season. The increase in throughput volumes sold to the electric utility did not have a significant impact on WPS's natural gas utility margin.

Operating Income

2008 Compared with 2007:

Operating income at the regulated natural gas utility segment increased $100.2 million, driven by the $228.0 million increase in the natural gas utility margin, partially offset by a $127.8 million increase in operating expenses.

The increase in operating expenses was primarily related to an increase in combined operating expenses at PGL and NSG of $125.8 million, from $368.7 million for 2007 to $494.5 million for 2008.

The increase in operating expenses related to PGL and NSG was primarily driven by:

■ The acquisition of these natural gas utilities on February 21, 2007. As a result, operating expenses for the period January 1, 2007, to the acquisition date were not included in the 2007 operating results.

■ A non-cash goodwill impairment charge of $6.5 million recognized in the second quarter of 2008 related to NSG.

■ A combined increase in bad debt expense, driven by the impact of high energy prices and worsening economic conditions on overall accounts receivable balances.

2007 Compared with 2006:

Operating income increased $74.7 million, driven by the $467.1 million increase in the regulated natural gas utility margin, partially offset by a $306.1 million increase in operating and maintenance expense, a $65.0 million increase in depreciation and amortization expense, and a $21.3 million increase in taxes other than income taxes.

■ The increase in operating and maintenance expense was primarily related to the following:

- Combined operating and maintenance expenses of $292.9 million incurred by PGL and NSG in 2007.

- Combined operating and maintenance expense at MGU and MERC that increased approximately $9 million, primarily due to the fact that operating expenses at both of these utilities incurred prior to the acquisition were not included in earnings in 2006, compared to incurring a full year of operating and maintenance expenses in 2007. For the year ended December 31, 2006, $11.8 million of combined operating and maintenance expense related to external transition costs, primarily for the start-up of outsourcing activities and other legal and consulting fees. For the year ended December 31, 2007, MGU and MERC were allocated $1.7 million of external costs to achieve merger synergies related to the PEC merger.

- Operating expenses related to WPS's natural gas operations increased $3.7 million year-over-year, due primarily to the allocation of $2.8 million of external costs to achieve merger synergies related to the PEC merger.

■ The increase in depreciation and amortization expense was primarily related to the merger with PEC (a combined $59.0 million of depreciation and amortization expense was recognized at PGL and NSG from February 21, 2007 to December 31, 2007) and an increase in depreciation expense at MERC and MGU (these businesses were not included in results of operations for the full year in 2006). Depreciation and amortization expense at WPS's natural gas utility was relatively flat year-over-year.

■ The increase in taxes other than income taxes from 2006 to 2007 was primarily related to the merger with PEC ($16.8 million of taxes other than income taxes were recognized at PGL and NSG in 2007), and the acquisition of the Michigan and Minnesota natural gas distribution operations, which were not included in results of operations for the full year in 2006. Taxes other than income taxes are primarily related to property taxes, gross receipts taxes, and payroll taxes paid by these companies.

Other Expense

2008 Compared with 2007:

Other expense at the regulated natural gas utilities increased $1.7 million, driven by a $3.2 million increase in interest expense, partially offset by a $1.5 million increase in miscellaneous income. The increase in other expense was a result of:

- A $6.1 million increase in combined interest expense at PGL and NSG, from $30.3 million in 2007 to $36.4 million in 2008. The increase in interest expense at PGL and NSG is primarily due to the fact that these utilities were first acquired on February 21, 2007, and, therefore, did not recognize a full year of interest expense in 2007. The increase in interest expense was also due to additional long-term debt borrowings and higher interest rates on new and remarketed long-term debt.
- The increase in other expense was offset by:
  - A $2.6 million increase in Allowance for Funds Used During Construction (AFUDC) at WPS related to the construction of natural gas laterals for connection to the Guardian II pipeline.
  - A decrease in interest expense resulting from a decrease in short-term borrowing levels and a decrease in interest rates for WPS's natural gas segment.

2007 Compared with 2006:

Other expense at the regulated natural gas utilities increased $30.8 million, driven by a $35.3 million increase in interest expense, partially offset by a $4.5 million increase in miscellaneous income. The increase in other expense was a result of combined interest expense of $30.3 million, partially offset by $4.5 million of miscellaneous income, recorded both at PGL and NSG from February 22, 2007, through December 31, 2007.

Regulated Electric Segment Operations

(Millions)	Year Ended December 31, 2008	2007	2006	Change in 2008 Over 2007	Change in 2007 Over 2006
Revenues	$1,328.9	$1,246.1	$1,099.4	6.6 %	13.3 %
Fuel and purchased power costs	651.5	636.5	551.0	2.4 %	15.5 %
Margins	677.4	609.6	548.4	11.1 %	11.2 %
Operating and maintenance expense	375.3	321.1	265.3	16.9 %	21.0 %
Depreciation and amortization expense	84.3	80.1	78.5	5.2 %	2.0 %
Taxes other than income taxes	44.3	43.2	41.6	2.5 %	3.8 %
Operating income	173.5	165.2	163.0	5.0 %	1.3 %
Miscellaneous income	6.0	8.3	3.2	(27.7)%	159.4 %
Interest expense	(36.7)	(32.4)	(30.0)	13.3 %	8.0 %
Other expense	(30.7)	(24.1)	(26.8)	27.4 %	(10.1)%
Income before taxes	$ 142.8	$ 141.1	$ 136.2	1.2 %	3.6 %
Sales in kilowatt-hours					
Residential	[illegible]	3,173.6	3,144.8	(3.4)%	0.9 %
Commercial and industrial	[illegible]	8,750.9	8,645.2	(1.3)%	1.2 %
Wholesale	[illegible]	4,024.9	4,093.1	18.4 %	(1.7)%
Other	42.6	42.4	42.2	0.5 %	0.5 %
Total sales in kilowatt-hours	[illegible]	15,991.8	15,925.3	3.2 %	0.4 %
Weather – WPS:					
Heating degree days	[illegible]	7,102	6,785	12.2 %	4.7 %
Cooling degree days	[illegible]	634	521	(26.8)%	21.7 %
Weather – UPPCO:					
Heating degree days	[illegible]	8,625	8,386	8.4 %	2.8 %
Cooling degree days	[illegible]	352	297	(60.8)%	18.5 %

Revenue

2008 Compared with 2007:

Regulated electric utility segment revenue increased $82.8 million, driven by:

- A 3.2% increase in electric sales volumes, which resulted in an approximate $26 million increase in revenue year-over-year, related to:
  - An 18.4% increase in wholesale volumes year-over-year, which drove an approximate $48 million increase in revenue. There was an approximate $36 million increase in opportunity sales year-over-year as the electric utility had more low-cost generation with Weston 4 becoming commercially operational in 2008, combined with available capacity from lower sales volumes to residential customers. In addition, WPS experienced an approximate $12 million increase in wholesale revenue, driven by higher contracted sales volumes to a large wholesale customer year-over-year.

- The increase in revenue related to wholesale volumes was partially offset by a 3.4% decrease in residential sales volumes and a 1.3% decrease in commercial and industrial sales volumes year-over-year, which drove an approximate $22 million decrease in revenue. Of this decrease in revenue, approximately $13 million related to energy conservation efforts on the part of residential customers, which we believe was the result of high energy prices and the general economic slowdown. Approximately $6 million related to decreased demand by our commercial and industrial customers in the third and fourth quarters of 2008 as the economy weakened. In addition, cooler weather during the 2008 cooling season compared to 2007 contributed approximately $3 million to the decrease in revenue.

- An interim fuel surcharge approved by the PSCW for WPS's retail electric customers effective March 22, 2008, related to higher fuel and purchased power costs. In addition, a surcharge increase was approved by the PSCW effective July 4, 2008. Both orders had an overall impact on revenue of approximately $25 million. Contributing factors in this rate change were increased purchased power costs due to lower-than-expected generation from the new Weston 4 power plant during the start-up phases, increased coal and coal transportation costs, and increased natural gas costs. 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 these lower costs, WPS accrued at December 31, 2008, a refund payable in 2009 to its electric customers of approximately $5 million, which is already excluded from the $25 million noted above. See Note 23, *"Regulatory Environment,"* for more information on WPS's interim fuel surcharges.

- A retail electric rate increase, effective January 16, 2008, which contributed an approximate $23 million increase in revenue. The full benefit of the 2007 retail electric rate increase, effective January 12, 2007, also contributed to the increase in revenue year-over-year. Per the PSCW's order approving the PEC merger, WPS was not permitted to increase its base rates for natural gas or electric service prior to January 1, 2009. However, WPS was allowed to adjust rates for changes in purchased power costs as well as fuel costs related to electric generation due to changes in New York Mercantile Exchange (NYMEX) natural gas futures prices, delivered coal prices, and transmission costs. The increase also included recovery of deferred 2005 and 2006 MISO Day 2 costs over a one-year period. See Note 23, *"Regulatory Environment,"* for more information on WPS's interim rate increase.

- An approximate $5 million increase in revenue at UPPCO related to increased energy and transmission costs in 2008 compared with 2007. Increases in fuel and purchased power costs at UPPCO are passed directly through to customers in rates.

2007 Compared with 2006:

Regulated electric revenue increased $146.7 million, driven by the following:

- On January 11, 2007, the PSCW issued a final written order to WPS authorizing a retail electric rate increase of $56.7 million (6.6%), effective January 12, 2007, for Wisconsin electric customers.

- In June 2006, the MPSC issued a final written order to UPPCO authorizing an annual retail electric rate increase for UPPCO of $3.8 million (4.8%), effective June 28, 2006. See Note 23, *"Regulatory Environment,"* for more information related to the retail electric rate increases at WPS and UPPCO.

- On a per-unit basis, fuel and purchased power costs were approximately 17% higher in 2007 compared with 2006. In addition, sales volumes increased 0.4%, primarily related to an increase in sales volumes to residential and commercial and industrial customers, driven by warmer weather during the cooling season and colder weather during the heating season (a portion of heating load is electric) in 2007, compared with 2006. The increase in sales volumes related to weather was partially offset by an approximate 2% decrease in weather normalized residential and commercial and industrial customer usage, driven by customer conservation resulting from higher energy costs and weaker general economic conditions.

Margin

2008 Compared with 2007:

The regulated electric utility segment margin increased $67.8 million, driven by an increase in electric margin at WPS. The $68.4 million increase in the electric margin at WPS was a result of:

- A $54.0 million partial refund to Wisconsin retail customers for 2007 of their portion of proceeds from the liquidation of the Kewaunee nonqualified decommissioning trust fund. Pursuant to regulatory accounting, the decrease in the 2007 margin related to the refund was offset by a corresponding decrease in operating and maintenance expense in 2007 and, therefore, did not have an impact on earnings. WPS completed this refund in 2007.

- An approximate $10 million increase in margin from the 2008 retail electric rate increase effective January 16, 2008, and the full benefit of the 2007 retail electric rate increase effective January 12, 2007.

- An approximate $10 million increase in margin driven by higher contracted sales volumes to a large wholesale customer year-over-year.

- An approximate $5 million increase in regulated electric utility margin year-over-year driven by fuel and purchased power costs that were approximately $1 million lower than what was recovered in rates during 2008, compared with fuel and purchased power costs that were approximately $4 million higher than what was recovered in rates during 2007. As a result of approximately $23 million of under-recovered fuel and purchased power costs in the first quarter of 2008, the PSCW approved an interim rate surcharge effective March 22, 2008, and subsequently approved a higher final surcharge effective July 4, 2008. The $5 million increase in electric margin includes lower fuel costs from the fuel window reset and the net impact of the refund accrued at December 31, 2008, payable in 2009 to electric customers from the reopening of the 2008 fuel surcharge on September 30, 2008, by the PSCW.

- These increases in the electric margin were offset by an approximate $11 million decrease in margin due to a decline in residential and commercial and industrial sales volumes. Of this decrease, approximately $8 million related to energy conservation efforts on the part of residential customers, which we believe were the result of high energy prices and the general economic slowdown. Approximately $1 million related to decreased demand by our commercial and industrial customers in the third and fourth quarters of 2008 as the economy worsened. In addition, cooler weather during the 2008 cooling season compared with 2007 contributed approximately $2 million to the decrease in gross margin.

2007 Compared with 2006:

The regulated electric margin increased $61.2 million, driven by the following:

- A $57.0 million (11.5%) increase in the electric utility margin at WPS.

- WPS's margin was positively impacted by the retail electric rate increases discussed above and by higher electric sales volumes to residential and commercial and industrial customers related to weather. Favorable weather during both the heating and cooling seasons positively impacted margin by an estimated $6 million.

- The year-over-year change in WPS's margin was also positively impacted by a $16.2 million decrease in the 2006 margin related to the accrual of the refund to wholesale customers in 2006 of their portion of the Kewaunee nonqualified decommissioning trust fund. Pursuant to regulatory accounting, the decrease in the 2006 margin related to this refund was offset by a corresponding decrease in operating and maintenance expenses in 2006 and, therefore, did not have an impact on earnings. No such accrual to wholesale customers occurred in 2007; however, the payment of the refund was made in 2007.

- Partially offsetting the increase in WPS's margin, fuel, and purchased power costs were 3.7% higher than what was recovered in rates during the year ended December 31, 2007, compared with fuel and purchased power costs that were 10.5% less than what was recovered in rates during the same period in 2006, driving a $14.4 million negative variance in WPS's electric margin. In 2007, fuel and purchased power prices were above what was projected in the rate case primarily due to higher than anticipated commodity costs and the market effects of unplanned plant outages. On October 6, 2007, lightning hit Weston 3, and the unit returned to full service on January 14, 2008. The unscheduled outage did not have a significant impact on the electric utility margin as the PSCW approved deferral of unanticipated fuel and purchased power costs directly related to the outage. The outage did, however, cause the price of purchased power from other sources to increase. Excluding the additional purchased power which resulted from the Weston 3 outage, fuel and purchased power costs at WPS increased 17% in 2007, compared with the same period in 2006, primarily related to the higher per-unit cost of fuel and purchased power required from the market to serve WPS's customers.

- UPPCO's margin increased approximately $4 million, primarily due to its retail electric rate increase, effective June 2006, and higher retail sales volumes.

<u>Operating Income</u>

2008 Compared with 2007:

Operating income at the regulated electric utility segment increased $8.3 million, driven by the $67.8 million increase in the electric utility margin, partially offset by a $59.5 million increase in operating expenses.

The increase in operating expenses was driven by:

- A $54.0 million year-over-year increase related to the partial amortization in 2007 of the regulatory liability previously recorded for WPS's obligation to refund proceeds received from the liquidation of the Kewaunee nonqualified decommissioning trust fund to Wisconsin retail electric ratepayers.

- A $13.8 million increase in electric transmission expenses, primarily related to higher rates charged by MISO and ATC due to additional transmission costs.

- A $6.1 million increase in cost of capital and depreciation expense charged by IBS for assets transferred from WPS to IBS in the beginning of 2008 and reported as operating and maintenance expense in 2008. Similar costs were reported as depreciation and amortization expense in 2007, prior to the start-up of IBS.

- A $4.2 million increase in depreciation and amortization expense, primarily related to $9.2 million of depreciation expense from Weston 4 being placed in service for accounting purposes in April 2008, partially offset by a decrease in depreciation related to assets transferred to IBS and reported in operating and maintenance expense in 2008.

These increases in operating expenses were partially offset by:

- An $11.6 million decrease in electric maintenance expenses at WPS, primarily due to major planned outages at the Weston 2 and Weston 3 generation stations, the De Pere Energy Center, and the Pulliam generation station, as well as several unplanned outages at the Weston 3 generation station in 2007, compared with fewer outages in 2008.

- A decrease in external costs to achieve merger synergies of $6.6 million related to the merger with PEC, from $12.3 million in 2007, to $5.7 million in 2008. This decrease occurred primarily because all external costs to achieve merger synergies incurred from July 2006 through March 2007 were reallocated in 2007 from the holding company segment to the other reportable segments, including the regulated electric segment. These reportable segments are the beneficiaries of the synergy savings resulting from the costs to achieve. In addition, the reduction in 2008 external costs to achieve merger synergies was due to less integration work required in 2008 compared with 2007.

2007 Compared with 2006:

Operating income increased $2.2 million, driven by the $61.2 million increase in regulated electric margin discussed above, partially offset by a $54.3 million (23.7%) increase in operating and maintenance expenses at WPS, and a combined $3.2 million increase in depreciation and taxes other than income taxes at the regulated electric utilities.

- The change in operating and maintenance expense at WPS was primarily related to the following:

  - Regulated electric maintenance expenses increased $15.3 million, driven by longer than anticipated planned outages and a higher number of unplanned outages year-over-year (which included major overhauls planned at the Weston 2 and Weston 3 generation stations and the De Pere Energy Center, planned major turbine and generator work performed at the Pulliam generation station, and several unplanned outages at the Weston 3 generation station).

  - Regulated electric transmission expenses increased $14.2 million, primarily related to higher rates charged by MISO and ATC due to additional transmission investment.

  - The regulated electric segment of WPS was allocated external costs to achieve merger synergies of $11.4 million for the year ended December 31, 2007.

  - Amortization in 2006 of the regulatory liability recorded for WPS's obligation to refund proceeds received from the liquidation of the Kewaunee nonqualified decommissioning trust fund to wholesale electric ratepayers contributed $16.2 million to the increase in WPS's operating and maintenance expense. Pursuant to regulatory accounting, the 2006 increase in operating and maintenance expense related to this refund was offset by a corresponding increase in 2006 margin and, therefore, did not have an impact on earnings.

  - Lower pension, postretirement, and other employee benefit costs partially offset the increase in regulated electric operating and maintenance expense at WPS.

- An increase in depreciation expense related to continued capital investment at the electric utilities, while the increase in taxes other than income taxes reflected an increase in sales year-over-year.

Other Expense

2008 Compared with 2007:

Other expense at the regulated electric utilities increased $6.6 million, driven by a $4.3 million increase in interest expense and a $2.3 million decrease in miscellaneous income.

- The increase in interest expense was due to higher long-term borrowings at WPS, primarily utilized to fund various construction projects and to retire short-term borrowing levels related to construction.
- The decrease in miscellaneous income was driven by:
    - A $1.4 million decrease in interest income recognized related to the construction of transmission facilities WPS funded on ATC's behalf related to Weston 4. WPS was reimbursed for these transmission facilities by ATC in April 2008.
    - A $1.8 million gain on the sale of a generation facility by UPPCO in July 2007.
    - The decrease in miscellaneous income was partially offset by an increase in AFUDC related to the wind generation project.

2007 Compared with 2006:

Other expense at the regulated electric utilities decreased $2.7 million, driven by a $5.1 million increase in miscellaneous income, partially offset by a $2.4 million increase in interest expense.

- The increase in miscellaneous income was driven by:
    - A $2.9 million increase in interest income recognized related to the construction of transmission facilities WPS funded on ATC's behalf pending the start-up of Weston 4.
    - A $1.8 million gain on the sale of a generation facility by UPPCO in July 2007.
- The increase in interest expense was due to higher borrowings at WPS, primarily utilized to fund various construction projects.

Integrys Energy Services' Operations

Integrys Energy Services is a diversified nonregulated energy supply and services company serving residential, commercial, industrial, and wholesale customers in developed competitive markets in the United States and Canada.

(Millions, except natural gas sales volumes)	Year Ended December 31, 2008	2007	2006	Change in 2008 Over 2007	Change in 2007 Over 2006
Revenues	**$9,735.2**	$6,979.7	$5,159.1	39.5 %	35.3 %
Cost of fuel, natural gas, and purchased power	**9,649.5**	6,675.6	4,978.0	44.5 %	34.1 %
Margins	**$ 85.7**	$ 304.1	$ 181.1	(71.8)%	67.9 %
Margin Detail					
Electric and other margins	**$ (15.7)**	$164.9	$ 60.5	N/A	172.6 %
Natural gas margins	**$101.4**	$139.2	$120.6	(27.2)%	15.4 %
Operating and maintenance expense	**$181.7**	$159.4	$81.5	14.0 %	95.6 %
Depreciation and amortization	**14.5**	14.4	9.4	0.7 %	53.2 %
Taxes other than income taxes	**7.8**	7.1	7.2	9.9 %	(1.4)%
Operating income (loss)	**(118.3)**	123.2	83.0	N/A	48.4 %
Miscellaneous income (expense)	**8.7**	(0.3)	(11.4)	N/A	97.4 %
Interest expense	**(12.1)**	(13.5)	(15.4)	(10.4)%	(12.3)%
Minority interest	**0.1**	0.1	3.8	– %	(97.4)%
Other expense	**(3.3)**	(13.7)	(23.0)	(75.9)%	(40.4)%
Income (loss) before taxes	**$(121.6)**	$109.5	$60.0	N/A	82.5 %
Gross volumes (includes volumes both physically delivered and net settled)					
Wholesale electric sales volumes in kilowatt-hours	[illegible]	132,623.6	58,794.9	39.1 %	125.6 %
Retail electric sales volumes in kilowatt-hours	[illegible]	14,849.7	6,554.1	12.3 %	126.6 %
Wholesale natural gas sales volumes in billion cubic feet	[illegible]	483.1	402.2	33.1 %	20.1 %
Retail natural gas sales volumes in billion cubic feet	[illegible]	368.8	314.5	(8.0)%	17.3 %
Physical volumes (includes only transactions settled physically for the periods shown)					
Wholesale electric sales volumes in kilowatt-hours *	[illegible]	3,599.7	968.2	28.7 %	271.8 %
Retail electric sales volumes in kilowatt-hours *	[illegible]	14,584.4	4,565.6	13.6 %	219.4 %
Wholesale natural gas sales volumes in billion cubic feet *	[illegible]	445.6	373.5	33.5 %	19.3 %
Retail natural gas sales volumes in billion cubic feet *	[illegible]	319.4	264.0	5.2 %	21.0 %

** Represents gross physical volumes.*

Revenue

2008 Compared with 2007:

- Revenues increased $2.8 billion in 2008 compared with 2007, primarily due to increased volumes, (in part due to the merger with PEC in 2007) and higher average sales prices in 2008. Average sales prices rose in 2008 due to large market price increases from January 1, 2008 through June 30, 2008. Market prices began to decline beginning in the third quarter of 2008 and continued to decline through the end of the year to levels below that of January 1, 2008. Integrys Energy Services recognizes revenue at the time energy is delivered. As a result, Integrys Energy Services is currently recognizing revenue based on the higher market prices from contracts entered into earlier in the year.

2007 Compared with 2006:

- Year-over-year, revenues increased approximately $1.8 billion. The increase was primarily due to increased volumes as a result of the addition of the nonregulated energy operations of PEC and an average increase in 2007 electric prices of over 10%. In addition to revenue and volume contributions from the merger with PEC, retail electric sales volumes and related revenue increased as a result of Integrys Energy Services' new retail electric product offerings to existing markets and expansion into new retail electric markets. Wholesale electric sales volumes and revenue increased as a result of the additional wholesale origination transactions. Wholesale natural gas volumes increased as a result of an increase in the profitability of wholesale origination structured natural gas transactions throughout 2006 and into 2007. Some of these transactions were entered into in prior periods for future delivery; therefore, Integrys Energy Services saw an increase in volumes in the periods in which these transactions settle. Retail natural gas volumes also increased, driven by favorable pricing compared with 2006, which encouraged new and existing customers to enter into or extend supply contracts with Integrys Energy Services.

Margins

Changes in commodity prices subject a portion of our nonregulated operations to earnings volatility. Integrys Energy Services uses financial instruments to economically hedge risks associated with physical transactions. The financial instruments mitigate the impacts of significant economic loss caused by fluctuations in market conditions, changing commodity prices, volumetric exposure, and other associated risks. Because derivative instruments utilized in these transactions may not qualify, or are not designated, as hedges under GAAP, reported earnings for the nonregulated energy operations segment include the changes in the fair values of the derivative instruments. These values may change significantly from period to period and are reflected as unrealized gains or losses within margin. However, on the other side of these transactions, fluctuations in the fair value of the physical instruments that are subject to the economic hedges do not impact margin until settlement, as they do not meet the GAAP definition of derivative instruments.

Integrys Energy Services' margin decreased $218.4 million from 2007 to 2008 and increased $123.0 million from 2006 to 2007. The table that follows provides a summary of the significant items contributing to the change in margin. "Other significant items" in the table below are primarily related to timing of gain and loss recognition of certain transactions and, prior to January 1, 2008, the settlement of the derivative instruments used to protect the value of Section 29/45K federal tax credits.

(Millions, except natural gas sales volumes)	Increase (Decrease) in Margin in [illegible]	2007
Electric and other margins		
Realized gains on structured origination contracts	[illegible]	$ 11.8
All other realized wholesale electric margin	[illegible]	(21.6)
Realized retail electric margin	[illegible]	15.9
Other significant items:		
Retail and wholesale fair value adjustments *	[illegible]	70.8
Oil option activity	[illegible]	22.0
2005 liquidation of electric supply contract	[illegible]	5.5
Net increase (decrease) in electric and other margins	[illegible]	104.4
Natural gas margins		
Lower of cost or market inventory adjustments	[illegible]	(6.1)
Other realized natural gas margins	[illegible]	14.1
Other significant items:		
Spot to forward differential	[illegible]	(0.2)
Other fair value adjustments *	[illegible]	10.8
Net increase (decrease) in natural gas margins	[illegible]	18.6
Net increase (decrease) in Integrys Energy Services' margin	[illegible]	$123.0

* *For 2008, these two line items included a total of $11.5 million of gains resulting from the adoption of Statement of Financial Accounting Standards (SFAS) No. 157, "Fair Value Measurements," in the first quarter of 2008. See Note 21, "Fair Value," for more information.*

Electric and Other Margins

Integrys Energy Services' electric and other margins decreased $180.6 million from 2007 to 2008 and increased $104.4 million from 2006 to 2007. The 2008 and 2007 electric and other margin included the negative impact of $8.8 million and $15.2 million, respectively, of amortization related to purchase accounting adjustments required as a result of the merger with PEC. The following items were the most significant contributors to the change in Integrys Energy Services' electric and other margins.

Realized gains on structured origination contracts

- Realized gains on structured origination transactions increased $6.2 million, from $18.1 million in 2007 to $24.3 million in 2008. Origination transactions are physical, customer-based agreements with municipalities, merchant generators, cooperatives, and regulated utilities. The increase was primarily due to continued growth in existing markets with an emphasis on structured transactions with small environmentally friendly generators.

- Realized gains on structured origination contracts increased $11.8 million, from $6.3 million in 2006 to $18.1 million in 2007. The increase was primarily due to continued growth in existing markets in the Midwest and northeastern United States, as well as expansion into the markets in the western United States.

All other realized wholesale electric margin
All other realized wholesale electric margin decreased $19.4 million from 2007 to 2008. In general, realized margins are impacted by trading activity in prior periods. Integrys Energy Services recognizes realized margin when the contracts actually settle, which lag as much as 12 to 24 months from the time the contract was actually entered into. The reduced volume of proprietary trading that began in 2007 continued to reduce realized margin in 2008.

All other realized wholesale electric margin decreased $21.6 million from 2006 to 2007. The decrease from 2006 to 2007 is due to the overall reduced level of proprietary trading in 2007, due primarily to a decrease in electric price volatility during the first three quarters of 2007, increased emphasis on structured electric transactions in 2007, and the departure of several key traders in the third quarter of 2006.

Integrys Energy Services seeks to reduce market price risk and extract additional value from its generation and energy contract portfolios through various financial and physical instruments (such as forward contracts, options, financial transmission rights, and capacity contracts). Period-by-period variability in the margin contributed by Integrys Energy Services' optimization strategies, generation facilities, and trading activities is expected due to changing market conditions and the timing associated with the settlement of these transactions. A diverse mix of products and markets, combined with disciplined execution and exit strategies, generally allows Integrys Energy Services to generate economic value and earnings from these activities while staying within the value-at-risk (VaR) limits authorized by Integrys Energy Group's Board of Directors. For more information on VaR, see Item 3, "Quantitative and Qualitative Disclosures About Market Risk."

Realized retail electric margin
The realized retail electric margin increased $28.1 million from $34.2 million in 2007 to $62.3 million in 2008. The change was primarily due to the following:

- An increase of $19.5 million from operations in Illinois due to the addition of new customers as a result of the PEC merger and a reduced impact from purchase accounting in 2008.
- A $12.7 million increase due to expansion in the Mid-Atlantic region and the resolution of certain regulatory issues in northern Maine.
- Partially offsetting these increases was a $3.4 million decrease from operations in Texas. This reduction is a result of higher ancillary costs in Texas and the effects of Hurricane Ike, which disrupted the electric infrastructure in Texas for a period of time, causing some of Integrys Energy Services' customers to be without electricity or take only a fraction of their normal load during that period.

The realized retail electric margin increased $15.9 million from $18.3 million in 2006 to $34.2 million in 2007. The change was primarily due to the following:

- A $13.9 million increase related to operations in Illinois, driven by the merger with PEC's nonregulated business and the addition of new customers due to the expiration of certain regulatory provisions in the state in 2007 that effectively opened the market to nonregulated energy suppliers.
- A $6.0 million increase related to operations in Texas, as a result of further penetration into this market resulting from continued marketing efforts. Retail offerings in Texas first began in the third quarter of 2006.
- A $3.6 million increase related to operations in New England as new customers were added due to an increased sales focus in this region.
- Partially offsetting the increases discussed above was a $4.4 million decrease related to Michigan operations as many customers continued to return to utility suppliers as a result of high wholesale energy prices and changes in utility tariffs, which continued to make the Michigan energy market less competitive. Also offsetting these increases was a $3.3 million decrease related to operations in the state of New York, due to a change in the product mix offered to customers in response to utility rate structure changes.

Retail and wholesale fair value adjustments
From 2007 to 2008, Integrys Energy Services' margin from electric retail and wholesale fair value adjustments decreased $176.8 million, as it recognized $137.4 million of non-cash unrealized losses related to derivative instruments in 2008, compared with $39.4 million of non-cash unrealized gains during 2007. From 2006 to 2007, margin from retail and wholesale fair value adjustments increased $70.8 million, from $31.4 million of non-cash unrealized losses in 2006 to $39.4 million of non-cash unrealized gains in 2007.

The non-cash unrealized gains and losses resulted from the application of GAAP derivative accounting rules to Integrys Energy Services' portfolio of electric customer supply contracts, requiring that these derivative instruments be adjusted to fair market value. The derivative instruments are utilized to mitigate the price, volume, and ancillary risks associated with related customer sales contracts. These customer sales contracts are not adjusted to fair value, as they do not meet the definition of derivative instruments under GAAP, creating an accounting mismatch. As such, the non-cash unrealized gains and losses related to the customer supply contracts will vary each period, with non-cash unrealized gains being recognized in periods of increasing energy prices and non-cash unrealized losses being recognized in periods of declining energy prices, and will ultimately reverse when the related customer sales contracts settle. Although energy prices rose approximately 20% in the first half of 2008, they declined approximately 45% in the second half of the year, which led to the recognition of large non-cash unrealized losses in 2008 on these electric customer supply contracts. These unrealized losses will turnaround in future years as the contracts settle. Our mark-to-market activity also reflects increases in portfolio reserves in recognition of the increased risk of credit losses and reduced market liquidity. Finally, our mark-to-market activity was also negatively impacted as our short-term cost of borrowing increased. The discount rate is a component of the fair value of our derivative portfolio and, therefore, the current increased interest rates resulted in a reduction in the fair value presented on the balance sheet. In 2007, energy prices increased, resulting in unrealized gains.

Oil option activity

- Oil option activity drove a $19.6 million decrease in electric and other margins from 2007 to 2008. There was no activity related to these oil options in 2008. Prior to 2008, oil options were utilized to protect the value of a portion of Integrys Energy Services' Section 29/45K federal tax credits from 2005 to 2007. However, companies can no longer generate tax credits from the production of synthetic fuel as the provisions of Section 29/45K of the Internal Revenue Code expired effective December 31, 2007. As a result, Integrys Energy Services exercised substantially all of its remaining oil options in 2007.
- Oil option activity drove a $22.0 million increase in electric and other margins from 2006 to 2007. Net mark-to-market and realized losses on oil options of $2.4 million were recognized in 2006, compared with net mark-to-market and realized gains on oil options of $19.6 million in 2007. These derivative instruments were not designated as hedging instruments and, as a result, changes in the fair value were recorded in earnings. The increase in the fair value of these instruments in 2007 over 2006 reflects increased oil prices.

2005 liquidation of electric supply contract
In the fourth quarter of 2005, an electricity supplier exiting the wholesale market in Maine requested that Integrys Energy Services liquidate a firm contract to buy power in 2006 and 2007. At that time, Integrys Energy Services recognized an $8.2 million gain related to the liquidation of the contract and entered into a new contract with another supplier for firm power in 2006 and 2007 to supply its customers in Maine. The cost to purchase power under the new contract was more than the cost under the liquidated contract. The liquidation and subsequent replacement of this contract resulted in a $0.9 million increase in realized wholesale electric margins from 2007 to 2008 and a $5.5 million increase in realized wholesale electric margins from 2006 to 2007. The replacement contract increased the cost of purchased power needed to serve customers in Maine by $6.4 million in 2006, compared with $0.9 million in 2007. There was no impact on electric margin in 2008.

Natural Gas Margins
Integrys Energy Services' natural gas margins decreased $37.8 million from 2007 to 2008 and increased $18.6 million from 2006 to 2007. The 2008 and 2007 natural gas margins included the negative impact of $5.0 million and $6.1 million, respectively, of amortization related to purchase accounting adjustments required as a result of the merger with PEC. The following items were the most significant contributors to the change in Integrys Energy Services' natural gas margins.

Lower of cost or market inventory adjustments
The spot price of natural gas decreased significantly during the second half of 2008 (below the average cost of natural gas in inventory which Integrys Energy Services had acquired and injected earlier in 2008), which resulted in a lower of cost or market adjustment, as required by GAAP. This adjustment contributed a $160.3 million decrease in non-cash realized natural gas margins from 2007 to 2008, and a $6.1 million decrease in non-cash realized natural gas margins from 2006 to 2007. The negative impact on realized margin related to these inventory adjustments was offset by unrealized gains recognized in 2008 and 2007 on derivative instruments utilized to mitigate the price risk on natural gas inventory underlying natural gas storage transactions (see "Other fair value adjustments" below).

Other realized natural gas margins
Other realized natural gas margins increased $8.0 million, from $107.6 million in 2007, to $115.6 million in 2008, primarily related to realized gains on wholesale natural gas storage transactions. In 2008 over 2007, Integrys Energy Services increased its storage withdrawals, which drove the year-over-year increase in other realized natural gas margins. In addition, Integrys Energy Services placed greater emphasis on structured wholesale natural gas transactions in 2008 in existing markets, which also contributed to the increase. These structured transactions involve serving customers such as regulated utilities, pipelines, retail marketers, and other large end users of natural gas.

Other realized natural gas margins increased $14.1 million, from $93.6 million in 2006, to $107.6 million in 2007. The majority of this increase, $5.7 million, was driven by margin contributed by the nonregulated retail natural gas marketing operations added with the PEC merger and improved supply optimization, as Integrys Energy Services was able to secure lower supply costs for firm sales commitments to retail natural gas customers in Ohio and Illinois. The remaining increase in realized natural gas margins was driven by the nonregulated wholesale natural gas marketing operations added with the PEC merger.

Spot to forward differential
Integrys Energy Services experiences earnings volatility associated with the natural gas storage cycle, which runs annually from April through March of the next year. Generally, injections of natural gas into storage inventory take place in the summer months and natural gas is withdrawn from storage in the winter months. Integrys Energy Services' policy is to hedge the value of natural gas storage with contracts in the over-the-counter and futures markets, effectively locking in a margin on the natural gas in storage. However, fair market value hedge accounting rules require the natural gas in storage to be marked-to-market using spot prices, while the future sales contracts are marked-to-market using forward prices. When the spot price of natural gas changes disproportionately to the forward price of natural gas, Integrys Energy Services experiences volatility in its earnings. Consequently, earnings volatility may occur within the contract period for natural gas in storage. The accounting treatment does not impact the underlying cash flows or economics of these transactions.

- The natural gas storage cycle had a positive $5.5 million impact on natural gas margins from 2007 to 2008. There was no material impact on margin as a result of the natural gas storage cycle in 2007 compared with a $5.5 million positive impact in 2008. At December 31, 2008, the market value of natural gas in storage was not significantly different than the market value of future sales contracts related to the 2008/2009 natural gas storage cycle.

- The natural gas storage cycle had a negative $0.2 million impact on natural gas margins from 2006 to 2007. There was no material impact on margin as a result of the natural gas storage cycle in 2007 compared with a $0.2 million positive impact in 2006. At December 31, 2007, the market value of natural gas in storage was $5.6 million less than the market value of future sales contracts (net unrealized loss) related to the 2007/2008 natural gas storage cycle.

Other fair value adjustments
Other derivative accounting required fair value adjustments primarily relate to changes in the fair market value of contracts utilized to mitigate market price risk related to certain natural gas storage contracts, as well as basis swaps utilized to mitigate market price risk associated with natural gas transportation contracts and certain natural gas sales contracts. Earnings volatility results from the application of derivative accounting rules to the transactions used to mitigate price risk (requiring that these derivative instruments be reflected at fair market value), without a corresponding offset related to the physical natural gas storage contracts, the natural gas transportation contracts, or the natural gas sales contracts (as these contracts are not considered derivative instruments). Therefore, there is no gain or loss recognized on the natural gas storage contracts (unless the inventory underlying these storage contracts becomes subject to lower of cost or market adjustments, as was the case in 2008, and to a lesser extent in 2007 and 2006 as well), the transportation contracts, or the customer sales contracts until physical settlement of these contracts occurs.

In 2008, the impact of these fair value adjustments drove a $109.0 million increase in the natural gas margins as unrealized gains on these instruments were $147.6 million in 2008, compared with unrealized gains of $38.6 million in 2007.

In 2007, the impact of these fair value adjustments drove a $10.8 million increase in the natural gas margins as unrealized gains on these instruments were $38.6 million in 2007, compared with unrealized gains of $27.8 million in 2006.

Operating Income (Loss)

2008 Compared with 2007:

Operating income at Integrys Energy Services decreased $241.5 million, from $123.2 million in 2007 to a $118.3 million operating loss in 2008. This decrease resulted primarily from the $218.4 million decrease in margin discussed above. In addition, there was a $22.3 million increase in operating and maintenance expense. Operating and maintenance expense increased from $159.4 million in 2007 to $181.7 million in 2008, driven largely by a $9.1 million increase in bad debt expense, $7.3 million of which resulted from the bankruptcy of Lehman Brothers in the third quarter of 2008, a $5.1 million increase in broker commissions as a result of higher transaction volumes, and higher employee benefit costs.

2007 Compared with 2006:

Operating income at Integrys Energy Services increased $40.2 million, from $83.0 million in 2006, to $123.2 million in 2007, driven by the $123.0 million increase in margin discussed above, partially offset by a $77.9 million increase in operating and maintenance expense. The increase in operating and maintenance expense was driven by higher payroll and benefit costs related to additional employees required as a result of continued business expansion activities at Integrys Energy Services (the most significant of which related to the merger of PEC's nonregulated operation into Integrys Energy Services). A $9.0 million pre-tax gain on the 2006 sale of WPS ESI Gas Storage, LLC, $7.7 million of costs to achieve merger synergies and additional costs related to plant outages of $2.6 million in 2007 also contributed to the increase in operating and maintenance expense.

Other Expense

2008 Compared with 2007:

Other expense at Integrys Energy Services decreased $10.4 million, from $13.7 million in 2007 to $3.3 million in 2008. This decrease resulted primarily from an increase in miscellaneous income of $9.0 million, driven by a $13.8 million decrease in pre-tax net losses related to Integrys Energy Services' former investment in a synthetic fuel facility. This increase in miscellaneous income was partially offset by a decrease of $1.5 million in foreign currency gains related to Integrys Energy Services' Canadian subsidiaries and a $3.7 million decrease in interest and dividend income on margin deposits.

2007 Compared with 2006:

Other expense decreased $9.3 million, from $23.0 million in 2006, to $13.7 million in 2007. The decrease resulted primarily from a $5.7 million decrease in pre-tax net losses recognized year-over-year related to Integrys Energy Services' investment in a synthetic fuel facility. Integrys Energy Services took less production from this facility in 2007 compared with 2006. A $3.8 million increase in foreign currency gains at Integrys Energy Services' Canadian subsidiaries in 2007, which was offset by related losses in gross margin, also contributed to the decrease. These transactions are substantially hedged from an economic perspective, resulting in no significant impact on income (loss) available for common shareholders.

Minority Interest

2007 Compared with 2006:

A decrease of $3.7 million in minority interest related to Integrys Energy Services' synthetic fuel operations. In 2007, Integrys Energy Services' partner elected to stop receiving production from the synthetic fuel facility and, therefore, did not share in losses from this facility.

Holding Company and Other Segment Operations

(Millions)	Year Ended December 31, 2008	2007	2006	Change in 2008 Over 2007	Change in 2007 Over 2006
Operating loss	$0.7	$(11.8)	$(14.1)	(94.1)%	(16.3)%
Other income (expense)	12.9	(12.3)	14.3	N/A	N/A
Income (loss) before taxes	[illegible]	$(24.1)	$ 0.2	N/A	N/A

Operating Loss

2008 Compared with 2007:

Operating loss at the Holding Company and Other segment improved $11.1 million during 2008 compared with 2007. The decrease in the operating loss was driven by:

- Reductions in operating expenses related to consulting fees, compensation and benefits, and contractor costs at the holding company.
- Operating income of $1.9 million generated at IBS, which related to return on capital included in its service charges beginning in 2008.
- Partially offsetting the decrease in operating loss, was a $6.5 million increase in the year-over-year operating loss related to external costs to achieve merger synergies associated with the PEC merger. This increase occurred primarily because in March 2007 all external costs to achieve merger synergies incurred from July 2006 through March 2007 were allocated from the Holding Company and Other segment (where they were initially recorded) to the other reportable segments, which are the beneficiaries of the synergy savings resulting from these costs. This resulted in lower operating expenses at the Holding Company and Other segment during 2007.

2007 Compared with 2006:

The operating loss at the Holding Company and Other segment decreased $2.3 million during 2007 compared with 2006. The change was driven by a $1.7 million decrease in operating expenses, primarily related to the reallocation of external costs to achieve merger synergies associated with the PEC merger incurred from July 2006 through March 2007. In March 2007, all external costs to achieve were reallocated from the Holding Company and Other segment (where they were initially recorded) to other reportable segments, which are the beneficiaries of the synergy savings resulting from the costs to achieve.

Other Income (Expense)

2008 Compared with 2007:

Other income increased $25.2 million and was driven by:

- A $15.6 million increase in income from Integrys Energy Group's approximate 34% ownership interest in ATC. Integrys Energy Group recorded $66.1 million of pre-tax equity earnings from ATC during 2008, compared with $50.5 million of pre-tax equity earnings during 2007. ATC's earnings continue to increase due to a significant capital expansion program.

- A $10.5 million decrease in external interest expense due to lower interest rates and lower average short-term borrowings used for working capital requirements at Integrys Energy Group. A portion of the proceeds received from the sale of PEP in September 2007 was used to pay down the short-term debt.

2007 Compared with 2006:

Other income decreased $26.6 million and was driven by:

- A $31.8 million increase in external interest expense, driven by additional borrowings assumed in the merger with PEC, as well as an increase in short-term and long-term borrowings required to fund the acquisitions of the natural gas distribution operations in Michigan and Minnesota, and transaction and transition costs related to the merger with PEC.

- A $6.2 million gain on the sale of Integrys Energy Group's one-third interest in Guardian Pipeline, LLC in April 2006 also contributed to the decrease in year-over-year earnings.

- The decrease in other income was partially offset by an $11.5 million increase in earnings from Integrys Energy Group's approximate 34% ownership interest in ATC. Integrys Energy Group recorded $50.5 million of pre-tax equity earnings from ATC during the year ended December 31, 2007, compared with $39.0 million for the same period in 2006.

Provision for Income Taxes

	[redacted]	Year Ended December 31,	
	[redacted]	2007	2006
Effective Tax Rate	[redacted]	32.2%	22.9%

The decrease in the effective tax rate was primarily driven by the impact of large permanent tax deductions pertaining to items that exceeded the related book expense being applied to the lower income before taxes in 2008, compared with 2007. In addition, in 2008 we recognized $10.0 million of investment tax credits related to solar projects completed in the fourth quarter of 2008. These were offset by the reduction in Section 29/45K tax credits in 2008 due to the December 31, 2007, expiration of Section 29/45K of the Internal Revenue Code that made tax credits available from the production and sale of synthetic fuel. In 2007, our ownership in the synthetic fuel operation resulted in recognizing the tax benefit of Section 29/45K federal tax credits of $13.6 million compared with $0.8 million of Section 29/45K tax credits recognized in 2008.

The 2007 increase in the effective tax rate was driven by a decrease in Section 29/45K federal tax credits recognized in 2007 compared with 2006. The decrease in Section 29/45K federal tax credits recognized was driven by the impact of high oil prices on our ability to realize the benefit of Section 29/45K federal tax credits. Section 29/45K federal tax credits recognized from the production and sale of synthetic fuel were $13.6 million in 2007, compared with $29.5 million in 2006.

Discontinued Operations, Net of Tax

2008 Compared with 2007:

Income from discontinued operations, net of tax, decreased $68.6 million in 2008, compared with 2007.

In 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 revenue, expenses, and effects of disposing of this facility were not significant. In the fourth quarter of 2008, Integrys Energy Services recognized an additional $3.8 million after-tax gain on the sale of this facility in discontinued operations when a previously contingent payment was paid by the buyer. This contingent payment resulted from legislation that passed in the fourth quarter of 2008, which extended the production tax credits available for certain biomass facilities.

During 2007, $58.5 million of after-tax income from discontinued operations was recognized related to PEP. This included an after-tax gain of $7.6 million on the sale. In 2008, discontinued operations reflect the $0.8 million impact of tax adjustments related to the 2007 PEP sale.

During 2007, WPS Niagara Generation, LLC recognized after-tax income of $14.8 million from discontinued operations, primarily related to the $14.7 million after-tax gain on the sale of this facility.

2007 Compared with 2006:

Income from discontinued operations, net of tax, increased $66.0 million, from after-tax income of $7.3 million in 2006 to after-tax income of $73.3 million in 2007.

- In September 2007, Integrys Energy Group completed the sale of PEP for approximately $879.1 million. Post-closing adjustments in the amount of $9.9 million were settled in February 2008 related to this sale, which reduced the sale price to $869.2 million. These post-closing adjustments were funded through other current liabilities at December 31, 2007. During the year ended December 31, 2007, $58.5 million of income from discontinued operations was recognized related to PEP, which included an after-tax gain of $7.6 million on the sale.

- Discontinued operations, net of tax, related to WPS Niagara Generation, LLC (Niagara), which was sold in January 2007, increased $14.4 million, from income of $0.4 million in 2006 to income of $14.8 million in 2007. The increase in income generated from Niagara was mostly due to a $14.7 million after-tax gain on the sale of the facility.

- Partially offsetting these increases were discontinued operations related to Sunbury Generation, LLC (Sunbury). Income from discontinued operations related to Sunbury was $6.9 million for the period January 1, 2006, through the date of sale in July 2006, including a $12.5 million after-tax gain on the sale of this facility.

For more information on the discontinued operations discussed above, see Note 3, *"Discontinued Operations"* and Note 24, *"Segments of Business."*

BALANCE SHEET

Cash and cash equivalents increased $212.9 million, from $41.2 million at December 31, 2007, to $254.1 million at December 31, 2008. For a detailed explanation for the change in the cash and cash equivalents balance, see *"Liquidity and Capital Resources."*

Net accounts receivable and accrued unbilled revenues increased $285.3 million (15.3%), from $1,870.0 million at December 31, 2007, to $2,155.3 million at December 31, 2008, primarily due to the following:

- Net accounts receivable and accrued unbilled revenues at Integrys Energy Services increased $223.6 million (20.9%), driven primarily by an increase in electric and natural gas revenues in the fourth quarter of 2008, compared with the same period in 2007, due mainly to higher volumes sold.

- Net accounts receivable and accrued unbilled revenues at PGL increased $102.2 million (34.2%), driven primarily by an increase in revenues in the fourth quarter of 2008, compared with the same period in 2007. The increase in revenues was primarily due to higher natural gas prices.

- These increases were partially offset by a $72.2 million (22.1%) decrease in WPS's net accounts receivable and accrued unbilled revenues, primarily due to an $82.3 million receivable at December 31, 2007, from ATC related to the transmission facilities required to support Weston 4 that WPS funded on ATC's behalf. WPS received payment for the ATC receivable in 2008. This decrease was partially offset by a $16.2 million year-over-year increase in accrued unbilled revenues.

Inventories increased $69.5 million (10.5%), from $663.4 million at December 31, 2007, to $732.9 million at December 31, 2008. The inventory balance at WPS increased $33.5 million (41.2%), driven by a $22.2 million (43.4%) increase in natural gas in storage due to an increase in natural gas prices year-over-year, and an increase in fossil fuel inventory of $11.3 million (37.3%), primarily due to an increase in coal prices and an increase in coal quantities, related to Weston 4 becoming operational in June 2008. PGL's inventory increased $26.2 million (30.9%) due to an increase in natural gas prices and volumes year-over-year.

At December 31, 2008, compared to December 31, 2007, total assets from risk management activities increased $1,682.4 million and total liabilities from risk management activities increased $1,767.5 million. The increase in assets and liabilities from risk management activities was driven by changes in the fair values of the underlying derivative contracts, driven by extremely volatile energy prices in 2008. Total liabilities from risk management activities also increased at PGL and NSG, primarily due to changes in the fair values of the underlying derivative contracts.

Total regulatory assets increased $444.8 million (35.8%), from $1,244.0 million at December 31, 2007, to $1,688.8 million at December 31, 2008. The regulatory asset related to pension and other postretirement related items increased $412.8 million, primarily related to an increase in the unfunded status of the pension and other postretirement benefit plans due to decreases in the value of plan assets during 2008. Also contributing to the increase was the regulatory asset related to derivatives, which increased $127.6 million year-over-year, due to an increase in PGL's and NSG's net risk management liabilities arising from changes in natural gas prices. Partially offsetting these increases was the regulatory asset related to environmental remediation costs, which decreased $77.7 million year-over-year, mainly due to PGL collecting these costs in rates. See Note 7, *"Regulatory Assets and Liabilities,"* for more information.

Net property, plant, and equipment increased $309.5 million (6.9%), from $4,463.8 million at December 31, 2007, to $4,773.3 million at December 31, 2008, due primarily to the following:

- Net property, plant, and equipment at WPS increased $151.8 million. Capital expenditures in 2008 were $275.4 million, in part due to $71.3 million related to the construction of the Crane Creek Wind Farm, $55.6 million related to natural gas service laterals to the Guardian II natural gas transmission pipeline, $48.0 million related to the construction of Weston 4, $12.3 million related to the purchase of new line transformers, and $12.1 million related to electric and natural gas service for new and existing customers. The increase due to capital expenditures was partially offset by depreciation and amortization expense of $99.5 million in 2008.

- Net property, plant, and equipment at PGL increased $54.5 million, primarily due to capital expenditures of $113.3 million, partially offset by depreciation and amortization expense of $67.4 million. Capital expenditures in 2008 related mainly to the natural gas distribution systems.

- Net property, plant, and equipment at Integrys Energy Services increased $47.4 million, primarily due to capital expenditures related to solar energy and landfill gas projects.

Accounts payable increased $202.5 million (15.2%), from $1,331.8 million at December 31, 2007, to $1,534.3 million at December 31, 2008. Accounts payable at Integrys Energy Services increased $252.8 million, primarily due to an increase in the volume of natural gas borrowed. This increase was partially offset by a $62.8 million year-over-year decrease in accounts payable at WPS driven by the completion of Weston 4, which became commercially operational in June 2008. WPS paid contractors related to work performed at Weston 4 during 2008 as these contracts were completed and closed out, and purchased power decreased, mainly as a result of Weston 4 becoming operational.

Detailed explanations for changes in the short-term and long-term debt balances year-over-year are included in Note 11, *"Short-Term Debt and Lines of Credit,"* and Note 12, "Long-Term Debt."

Environmental remediation liabilities decreased $65.0 million (9.2%), from $705.6 million at December 31, 2007, to $640.6 million at December 31, 2008. The decrease related mainly to expenditures for manufactured gas plant remediation at PGL. See Note 15, *"Commitments and Contingencies,"* for more information.

The $388.6 million year-over-year increase in long-term pension and other postretirement liabilities and the $101.4 million year-over-year decrease in pension and other postretirement assets were primarily related to a decrease in the value of plan assets during 2008 related to losses on investments, which caused an increase in the unfunded status of the pension and other postretirement benefit plans.

LIQUIDITY AND CAPITAL RESOURCES

We believe that our cash balances, liquid assets, operating cash flows, access to equity capital markets and available borrowing capacity provide adequate resources to fund ongoing operating requirements and future capital expenditures related to expansion of existing businesses and development of new projects. Our borrowing costs can be impacted by short-term and long-term debt ratings assigned by independent credit rating agencies. Our operating cash flows and access to capital markets can be impacted by macroeconomic factors outside of our control.

Due to unprecedented volatility within the global financial markets beginning in the second half of 2008, Integrys Energy Group has been exposed to increased interest costs and challenges, at times, accessing short-term capital markets. Due to disruptions in the commercial paper markets, Integrys Energy Group made draws under its syndicated revolving credit agreements for funds that would normally have been borrowed in the commercial paper market, and $300 million of these borrowings were outstanding at December 31, 2008.

Operating Cash Flows

2008 Compared with 2007:

Net cash used for operating activities was $250.0 million in 2008, compared with net cash provided by operating activities of $238.5 million in 2007. The $488.5 million year-over-year increase in cash used for operating activities was driven by:

- A $498.2 million decrease in cash provided by accounts receivable collections, as colder weather conditions led to higher natural gas throughput volumes in the fourth quarter 2008, compared with the same quarter in 2007, contributing to higher accounts receivable balances. Also contributing to higher accounts receivable balances, Integrys Energy Group and its subsidiaries, primarily Integrys Energy Services, had cash collateral payments outstanding at December 31, 2008, that were $232.9 million higher than cash collateral payments outstanding at December 31, 2007. The increase in cash collateral payments was driven by large mark-to-market losses incurred by Integrys Energy Services during the latter part of 2008, due to declining prices, as discussed in more detail in "Results of Operations—Integrys Energy Services' Operations."

- A $139.1 million increase in cash used for natural gas inventory purchases due to an increase in the average price of natural gas during the summer of 2008 (when natural gas is generally injected into inventory), compared with the same period in 2007.

- An $88.7 million decrease in net refunds of regulatory assets and liabilities, driven by a decrease in the refund to ratepayers in 2008, compared with 2007, of proceeds WPS received from the liquidation of the nonqualified decommissioning trust fund upon the sale of Kewaunee.

2007 Compared with 2006:

During 2007, net cash provided by operating activities was $238.5 million, compared with $72.9 million in 2006. The $165.6 million increase in net cash provided by operating activities was driven by a $64.8 million decrease in working capital requirements year-over-year. It is important to note that changes in working capital balances at February 21, 2007, as a result of the PEC merger are not incorporated in the Consolidated Statement of Cash Flows, as the merger was a noncash transaction. Only PEC changes in working capital from the merger date to December 31, 2007, are included. Inventory levels at Integrys Energy Services increased from December 31, 2006, to December 31, 2007, but this change was less than the increase from December 31, 2005, to December 31, 2006, driving the majority of the decrease in working capital requirements. Integrys Energy Services continued to see growth in its natural gas business in both new and existing markets. The year-over-year change in natural gas inventories at the regulated utilities was not significant. The remaining increase in net cash provided by operating activities was driven by a year-over-year increase in income available for common shareholders.

Investing Cash Flows

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.

2007 Compared with 2006:

Net cash used for investing activities was $451.5 million in 2007, compared with $1,030.1 million in 2006. The $578.6 million decrease was driven by $659.3 million of cash used by Integrys Energy Group to acquire natural gas operations in Michigan and Minnesota in 2006. Also contributing $44.0 million to the decrease in net cash used for investing activities in 2007 was WPS's liquidation of the cash that was deposited into an escrow account in 2006, which was used for the payment of the outstanding principal balance of first mortgage bonds in January 2007 (discussed below in significant financing activities). Partially offsetting these decreases were $58.4 million of proceeds received from the sale of our investment in Guardian Pipeline LLC and WPS ESI Gas Storage, LLC in 2006 and a $50.6 million year-over-year increase in capital expenditures (discussed below).

Capital Expenditures
Capital expenditures by business segment for the years ended December 31, 2008, 2007, and 2006 were as follows:

Reportable Segment *(Millions)*	[illegible]	**2007**	**2006**
Electric utility	[illegible]	$202.6	$282.1
Natural gas utility	[illegible]	158.8	54.6
Integrys Energy Services	[illegible]	20.5	5.5
Holding company and other	[illegible]	10.7	(0.2)
Integrys Energy Group	[illegible]	$392.6	$342.0

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 will connect WPS's natural gas distribution system to the Guardian II natural gas pipeline. The increase in capital expenditures at Integrys 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.

The decrease in capital expenditures at the electric utility in 2007 compared with 2006 was mainly due to a decrease in capital expenditures associated with the construction of Weston 4. The increase in capital expenditures at the natural gas utility was primarily driven by capital requirements of PGL and NSG, which were acquired in the PEC merger on February 21, 2007. Capital expenditures in 2007 for PGL and NSG related mainly to the natural gas distribution systems. The increase in capital expenditures at Integrys Energy Services was due to capital required to open new offices in Colorado, Michigan, and Washington, D.C., as well as to move the Chicago office; improvements at various generation facilities; new systems infrastructure; and the Winnebago Energy Center landfill gas project. The increase in capital expenditures at the Holding Company and Other segment was driven by the purchase of a corporate airplane.

Financing Cash Flows

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.

2007 Compared with 2006:

Net cash used for financing activities was $459.2 million in 2007, compared with net cash provided by financing activities of $891.7 million in 2006. The $1.4 billion change was driven by $458.0 million of short-term debt borrowings during 2006, compared with the repayment of $463.7 million of short-term debt 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. The remaining net change in financing activity was driven by a $321.8 million decrease in long-term debt issuances year-over-year and a $119.0 million year-over-year decrease in common stock issued. Short-term borrowings in 2006 and the long-term debt and stock issuances in 2006 were used primarily for the acquisitions of the natural gas distribution operations in Michigan and Minnesota. An $81.0 million increase in dividends paid in 2007, compared with 2006, was driven by an increase in shares outstanding and higher dividend rates. These items were partially offset by net natural gas loan proceeds at Integrys Energy Services of $34.4 million in 2007, compared with the net repayment of $68.4 million of natural gas loans during 2006. An increase in natural gas spreads made it more conducive to enter into natural gas loan deals in 2007 compared with 2006.

Significant Financing Activities

Dividends paid increased in 2008 compared with 2007. In February 2008, Integrys Energy Group increased its quarterly common stock dividend to 67 cents per share. The quarterly common stock dividend was increased from 57.5 cents per share to 66 cents per share in 2007.

Integrys Energy Group had outstanding commercial paper borrowings of $552.9 million and $308.2 million at December 31, 2008, and 2007, respectively. Integrys Energy Group had short-term notes payable outstanding of $181.1 million as of December 31, 2008, and $10.0 million as of December 31, 2007, respectively. Integrys Energy Group had borrowings under revolving credit facilities of $475.0 million and $150.0 million as of December 31, 2008, and 2007, respectively. See Note 11, *"Short-Term Debt and Lines of Credit"* for more information.

In December 2008, WPS issued $125.0 million of Series 6.375%, 7-year Senior Notes. The net proceeds from the issuance of the Senior Notes were used to fund construction costs and capital additions, retire short-term indebtedness, and for general corporate utility purposes.

In November 2008, Integrys Energy Group entered into an approximate $156 million short-term debt agreement extending through March 2009 to finance its working capital requirements and for general corporate purposes. The agreement requires principal and interest payments to be made in yen. Integrys Energy Group entered into two forward foreign currency exchange contracts to hedge the exchange rate variability of these principal and interest payments.

In November 2008, Integrys Energy Group entered into a $250.0 million revolving credit agreement to finance its working capital requirements and for general corporate purposes, which extends to May 2009.

In November 2008, PGL issued $45.0 million of Series SS, 7.0%, 5-year First and Refunding Mortgage Bonds and $5 million of Series TT, 8.0%, 10-year First and Refunding Mortgage Bonds. The net proceeds from the issuance of these bonds were used to reduce short-term debt and for general corporate utility purposes.

In November 2008, NSG issued $6.5 million of Series O, 7.0%, 5-year First Mortgage Bonds. The net proceeds from the issuance of the First Mortgage Bonds were used for general corporate utility purposes.

On April 17, 2008, PGL completed the purchase of $51.0 million of Illinois Development Finance Authority Series 2003D Bonds, due October 1, 2037, and backed by PGL Series PP Bonds. Upon repurchase, the Auction Rate Mode was converted from a 35-day mode to a weekly variable rate mode. This transaction was treated as a repurchase of the Series PP Bonds by PGL. As a result, the liability related to the Series PP Bonds was extinguished. The Company intends to hold the bonds while it continues to monitor the tax-exempt market and assess potential remarketing or refinancing opportunities.

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 $45.7 million and $25.0 million in 2007 and 2006, respectively. During 2008, Integrys 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. Integrys Energy Group did not repurchase any existing common stock during 2007 or 2006.

In November 2007, WPS issued $125.0 million of 5.65%, 10-year Senior Notes. The net proceeds from the issuance were used to fund construction costs and capital additions, retire short-term indebtedness, and for general corporate utility purposes.

On December 14, 2006, the Village of Weston, Wisconsin, issued $22.0 million of 3.95% Pollution Control Refunding Revenue Bonds and loaned the proceeds from the sale of the bonds to WPS. In return, WPS issued $22.0 million of 3.95% Senior Notes, due in 2013, to the Village of Weston. At December 31, 2006, the $22.0 million of proceeds received from the Village of Weston were classified as restricted cash. In January 2007, WPS used the restricted cash to repay the outstanding principal balance of its 6.90% First Mortgage Bonds which originally were to mature in 2013.

In December 2006, WPS issued $125.0 million of 5.55% 30-year Senior Notes. The net proceeds from the issuance were used to fund construction costs and capital additions, retire short-term indebtedness, and for general corporate utility purposes.

On December 1, 2006, Integrys Energy Group issued $300.0 million of Junior Subordinated Notes. Interest has been fixed at 6.22% through the use of forward-starting interest rate swaps for the first ten years, after which, the interest rate will float for the remainder of the term.

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.

WPS, PEC, 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	[illegible]
Integrys Energy Group	
Issuer credit rating	[illegible]
Senior unsecured debt	[illegible]
Commercial paper	[illegible]
Credit facility	[illegible]
Junior subordinated notes	[illegible]
WPS	
Issuer credit rating	[illegible]
First mortgage bonds	[illegible]
Senior secured debt	[illegible]
Preferred stock	[illegible]
Commercial paper	[illegible]
Credit facility	[illegible]
PEC	
Issuer credit rating	[illegible]
Senior unsecured debt	[illegible]
PGL	
Issuer credit rating	[illegible]
Senior secured debt	[illegible]
Commercial paper	[illegible]
NSG	
Issuer credit rating	[illegible]
Senior secured debt	[illegible]

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

On November 25, 2008, Standard & Poor's revised the outlook on Integrys Energy Group and all of its subsidiaries to negative from stable. The revised outlook reflects pressure on the current credit ratings given Integrys Energy Group's liquidity needs for its nonregulated business, as well as cash flow measures that have not met Standard & Poor's expectations since the PEC merger.

On March 13, 2008, Standard & Poor's raised the senior secured debt rating for WPS one notch from A to A+. The new rating was a result of a review and changes made to the collateral coverage requirements Standard and Poor's uses when assigning recovery ratings to United States Utility First Mortgage Bonds.

In December 2007, Standard & Poor's and Moody's withdrew the ratings assigned to PEC's commercial paper at the request of Integrys Energy Group.

On November 13, 2007, Standard & Poor's revised the outlook on Integrys Energy Group and all of its subsidiaries to stable from negative. Standard & Poor's outlook had been negative since February 21, 2007, for all Integrys Energy Group companies, as discussed below. The revised outlook reflected Integrys Energy Group's progress to improve its financial position and business profiles since its one-notch downgrade on February 21, 2007. On November 13, 2007, Standard & Poor's also reaffirmed its A rating on WPS's senior secured debt.

On September 6, 2007, Standard & Poor's raised the senior secured debt for NSG one notch from A- to A. The new rating was the result of a review and changes made to the collateral coverage requirements Standard and Poor's uses when assigning recovery ratings to United States Utility First Mortgage Bonds.

On February 21, 2007, Standard & Poor's lowered the corporate credit rating on Integrys Energy Group to A- from A and removed it from CreditWatch with negative implications. Standard & Poor's also lowered Integrys Energy Group's unsecured ratings to BBB+ from A and all other issue-specific ratings by one notch. Standard & Poor's stated that the ratings actions were due to concerns related to plans to expand its energy marketing business, the dividend requirements resulting from the PEC merger, moderate capital expenditure requirements, lower than expected performance at MGU and MERC, uncertainty regarding future rate relief, and full integration of the newly acquired PEC utilities. At the same time, Standard & Poor's lowered all WPS's issue-specific ratings by one notch as they stated "WPS's liquidity is being pressured by its ongoing construction program." Standard & Poor's affirmed all PEC, PGL, and NSG ratings. Standard & Poor's outlook for all Integrys Energy Group related companies was negative pending successful integration of recent acquisitions.

On February 21, 2007, Moody's downgraded the senior unsecured rating of Integrys Energy Group to A3 from A1, the bank credit facility to A3 from A1, the commercial paper rating to Prime-2 from Prime-1, and the Junior Subordinated Notes to Baa1 from A2. Moody's also downgraded WPS's senior secured rating to Aa3 from Aa2, its senior unsecured bank credit facility to A1 from Aa3, and its preferred stock to A3 from A2 and confirmed WPS's commercial paper rating at Prime-1. At the same time, Moody's affirmed the ratings of PGL and NSG. Moody's stated that the rating actions to downgrade were due to concerns about increases in Integrys Energy Group's consolidated debt levels and business risk profile evidenced by the increased scale and scope of the post merger non-regulated energy marketing business plus the entry into the historically more challenging regulatory jurisdiction of Illinois. Moody's outlook for all Integrys Energy Group related companies is stable.

On February 21, 2007, Moody's also upgraded the senior unsecured rating of PEC to A3 from Baa2, conforming it with those of Integrys Energy Group, and affirmed all other ratings for PEC. Moody's actions to upgrade the senior unsecured rating were due to the expected business risk improvement from the merger with Integrys Energy Group, which resulted in the sale of PEP and transferred PEC's energy and marketing business to Integrys Energy Services, leaving PEC holding only the two regulated subsidiaries, PGL and NSG. In addition, the upgrade reflects Integrys Energy Group's guaranty of the $325.0 million of PEC 6.90% notes due in 2011.

Discontinued Operations

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 $869.2 million of proceeds received from the sale of PEP.

2007 Compared with 2006:

Net cash provided by discontinued operations was $690.2 million in 2007 compared with $61.0 million in 2006. The increase in net cash provided by discontinued operations was driven by approximately $879.1 million of proceeds received from the sale of PEP in the third quarter of 2007. Post-closing adjustments in the amount of $9.9 million were settled in February 2008 related to this sale, which reduced the