

INTEGRYS ENERGY GROUP, INC.

Form 10-Q

August 04, 2011

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D. C. 20549

FORM 10-Q

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the quarterly period ended June 30, 2011

OR

**o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the transition period from to

Commission
File Number
1-11337

Registrant; State of Incorporation;
Address; and Telephone Number

IRS Employer
Identification No.
39-1775292

INTEGRYS ENERGY GROUP, INC.

(A Wisconsin Corporation)
130 East Randolph Street
Chicago, Illinois 60601-6207
(312) 228-5400

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common stock, \$1 par value,
78,287,906 shares outstanding at
July 28, 2011

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INTEGRYS ENERGY GROUP, INC.

QUARTERLY REPORT ON FORM 10-Q

For the Quarter Ended June 30, 2011

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EXHIBITS FILED WITH THIS 10-Q:

12	Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 for Integrys Energy Group, Inc.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 for Integrys Energy Group, Inc.
32	Written Statement of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 for Integrys Energy Group, Inc.
101*	Financial statements from the Quarterly Report on Form 10-Q of Integrys Energy Group, Inc. for the quarter ended June 30, 2011, filed on August 3, 2011, formatted in eXtensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Balance Sheets, (iii) the Condensed Consolidated Statements of Cash Flows, (iv) the Condensed Notes To Financial Statements, and (v) document and entity information

* In accordance with Rule 406T of Regulation S-T, the information in these exhibits shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

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Commonly Used Acronyms in this Quarterly Report on Form 10-Q

AMRP	Accelerated Natural Gas Main Replacement Program
ASU	Accounting Standards Update
ATC	American Transmission Company LLC
BACT	Best Available Control Technology
CAA	Clean Air Act
CSAPR	Cross State Air Pollution Rule
EEP	Enhanced Efficiency Program
EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
FTRs	Financial Transmission Rights
GAAP	United States Generally Accepted Accounting Principles
IBS	Integrys Business Support, LLC
ICC	Illinois Commerce Commission
ICR	Infrastructure Cost Recovery
IRS	United States Internal Revenue Service
ITC	Investment Tax Credit
LIFO	Last-in, First-out
MERC	Minnesota Energy Resources Corporation
MGU	Michigan Gas Utilities Corporation
MISO	Midwest Independent Transmission System Operator, Inc.
MPSC	Michigan Public Service Commission
MPUC	Minnesota Public Utility Commission
N/A	Not Applicable
NOI	Notice of Intent
NOV	Notice of Violation
NSG	North Shore Gas Company

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OCI	Other Comprehensive Income
PELLC	Peoples Energy, LLC
PGL	The Peoples Gas Light and Coke Company
PSCW	Public Service Commission of Wisconsin
SEC	United States Securities and Exchange Commission
UPPCO	Upper Peninsula Power Company
WDNR	Wisconsin Department of Natural Resources
WPS	Wisconsin Public Service Corporation
WRPC	Wisconsin River Power Company

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Forward-Looking Statements

In this report, we make statements concerning expectations, beliefs, plans, objectives, goals, strategies, and future events or performance. Such statements are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are subject to assumptions and uncertainties; therefore, actual results may differ materially from those expressed or implied by such forward-looking statements. Although 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 include, among other things, statements concerning management's expectations and projections regarding earnings, regulatory matters, fuel and natural gas costs, sources of electric energy supply, coal and natural gas deliveries, remediation costs, environmental expenditures, liquidity and capital resources, trends, estimates, completion of construction projects, and other matters.

Forward-looking statements involve a number of risks and uncertainties. Some risks that could cause results to differ from any forward-looking statement include those described in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2010, as may be amended or supplemented in Part II, Item 1A of our subsequently filed Quarterly Reports on Form 10-Q (including this report). Other risks and uncertainties include, but are not limited to:

- Resolution of pending and future rate cases and negotiations (including the recovery of deferred costs) and other regulatory decisions impacting our regulated businesses;
- The individual and cumulative impact of recent and future federal and state regulatory changes, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric and natural gas utility industries; financial reform; health care reform; changes in environmental and other regulations, including but not limited to, greenhouse gas emissions, other environmental regulations impacting coal-fired generation facilities, energy efficiency mandates, renewable energy standards, and reliability standards; and changes in tax and other laws and regulations to which we and our subsidiaries are subject;
- Current and future litigation and regulatory proceedings, enforcement actions or inquiries, including but not limited to, manufactured gas plant site cleanup, third-party intervention in permitting and licensing projects, compliance with CAA requirements at generation plants, and prudence and reconciliation of costs recovered in revenues through automatic gas cost recovery mechanisms;
- The impacts of changing financial market conditions, credit ratings, and interest rates on the liquidity and financing efforts of us and our subsidiaries;
- The risks associated with changing commodity prices (particularly natural gas and electricity) and the available sources of fuel, natural gas, and purchased power, including their impact on margins, working capital, and liquidity requirements;
- Resolution of audits or other tax disputes with the IRS and various state, local, and Canadian revenue agencies;
- The effects, extent, and timing of additional competition or regulation in the markets in which our subsidiaries operate;
- The retention of market-based rate authority;
- The risk associated with the value of goodwill or other intangible assets and their possible impairment;
- Investment performance of employee benefit plan assets and the related impact on future funding requirements;
- Changes in technology, particularly with respect to new, developing, or alternative sources of generation;
- Effects of and changes in political and legal developments, as well as economic conditions and the related impact on customer demand, including the ability to attract and retain customers for Integrys Energy Services and to adequately forecast energy usage for all of our customers;
- Potential business strategies, including mergers, acquisitions, and construction or disposition of assets or businesses, which cannot be assured to be completed timely or within budgets;
- The direct or indirect effects of terrorist incidents, natural disasters, or responses to such events;

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- The effectiveness of risk management strategies, the use of financial and derivative instruments, and the ability to recover costs from customers in rates associated with the use of those strategies and financial and derivative instruments;
- The risk of financial loss, including increases in bad debt expense, associated with the inability of our and our subsidiaries counterparties, affiliates, and customers to meet their obligations;
- Customer usage, weather, and other natural phenomena;
- The use of tax credit and loss carryforwards;
- Contributions to earnings by non-consolidated equity method and other investments, which may vary from projections;
- The effect of accounting pronouncements issued periodically by standard-setting bodies; and
- Other factors discussed elsewhere herein and in other reports we file from time to time with the SEC.

Except to the extent required by the federal securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****INTEGRYS ENERGY GROUP, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**

(Millions, except per share data)	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Utility revenues	\$ 670.8	\$ 610.8	\$ 1,839.5	\$ 1,867.4
Nonregulated revenues	340.0	404.0	798.4	1,050.8
Total revenues	1,010.8	1,014.8	2,637.9	2,918.2
Utility cost of fuel, natural gas, and purchased power	305.2	250.9	965.9	992.4
Nonregulated cost of fuel, natural gas, and purchased power	291.0	315.5	695.0	955.1
Operating and maintenance expense	260.4	242.3	523.9	510.4
Restructuring expense	0.8	6.5	2.0	9.2
Net (gain) loss on Integrys Energy Services dispositions related to strategy change	(0.1)	(25.0)	(0.2)	14.8
Depreciation and amortization expense	62.2	67.8	124.5	131.9
Taxes other than income taxes	23.8	20.6	50.6	48.8
Operating income	67.5	136.2	276.2	255.6
Miscellaneous income	21.6	24.4	42.8	44.8
Interest expense	(32.2)	(36.6)	(67.0)	(76.0)
Other expense	(10.6)	(12.2)	(24.2)	(31.2)
Income before taxes	56.9	124.0	252.0	224.4
Provision for income taxes	26.1	44.4	97.8	94.4
Net income from continuing operations	30.8	79.6	154.2	130.0
Discontinued operations, net of tax	(0.9)		(0.8)	0.1
Net income	29.9	79.6	153.4	130.1
Preferred stock dividends of subsidiary	(0.8)	(0.8)	(1.6)	(1.6)
Noncontrolling interest in subsidiaries		0.3		0.3
Net income attributed to common shareholders	\$ 29.1	\$ 79.1	\$ 151.8	\$ 128.8
Average shares of common stock				
Basic	78.7	77.4	78.5	77.2
Diluted	79.1	77.9	78.8	77.6
Earnings (loss) per common share (basic)				
Net income from continuing operations	\$ 0.38	\$ 1.02	\$ 1.94	\$ 1.67

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Discontinued operations, net of tax		(0.01)				(0.01)	
Earnings per common share (basic)	\$	0.37	\$	1.02	\$	1.93	\$