

INTEGRYS ENERGY GROUP, INC.

Form 10-Q

May 02, 2014

Table of Contents

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

FORM 10-Q

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

For the quarterly period ended March 31, 2014

OR

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

For the transition period from _____ to _____

Commission File Number	Registrant; State of Incorporation; Address; and Telephone Number	IRS Employer Identification No.
1-11337	INTEGRYS ENERGY GROUP, INC. (A Wisconsin Corporation) 200 East Randolph Street (Formerly 130 East Randolph Street) Chicago, IL 60601-6207 (312) 228-5400	39-1775292

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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

Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Common stock, \$1 par value,
79,963,091 shares outstanding at
April 30, 2014

Table of Contents

INTEGRYS ENERGY GROUP, INC.
 QUARTERLY REPORT ON FORM 10-Q
 For the Quarter Ended March 31, 2014
 TABLE OF CONTENTS

	Page
<u>Forward-Looking Statements</u>	<u>1</u>
<u>PART I. FINANCIAL INFORMATION</u>	<u>2</u>
<u>Item 1. Financial Statements (Unaudited)</u>	<u>2</u>
<u>Condensed Consolidated Statements of Income</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Condensed Notes to Financial Statements</u>	<u>6</u>
	Page
<u>Note 1 Financial Information</u>	<u>6</u>
<u>Note 2 Cash and Cash Equivalents</u>	<u>6</u>
<u>Note 3 Risk Management Activities</u>	<u>7</u>
<u>Note 4 Acquisitions</u>	<u>10</u>
<u>Note 5 Dispositions</u>	<u>11</u>
<u>Note 6 Investment in ATC</u>	<u>12</u>
<u>Note 7 Inventories</u>	<u>13</u>
<u>Note 8 Goodwill and Other Intangible Assets</u>	<u>13</u>
<u>Note 9 Short-Term Debt and Lines of Credit</u>	<u>14</u>
<u>Note 10 Income Taxes</u>	<u>14</u>
<u>Note 11 Commitments and Contingencies</u>	<u>15</u>
<u>Note 12 Guarantees</u>	<u>17</u>
<u>Note 13 Employee Benefit Plans</u>	<u>18</u>
<u>Note 14 Stock-Based Compensation</u>	<u>18</u>
<u>Note 15 Common Equity</u>	<u>20</u>
<u>Note 16 Accumulated Other Comprehensive Loss</u>	<u>23</u>
<u>Note 17 Variable Interest Entities</u>	<u>23</u>
<u>Note 18 Fair Value</u>	<u>24</u>
<u>Note 19 Advertising Costs</u>	<u>28</u>
<u>Note 20 Regulatory Environment</u>	<u>29</u>
<u>Note 21 Segments of Business</u>	<u>31</u>
<u>Note 22 New Accounting Pronouncements</u>	<u>32</u>
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>34</u>
<u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>47</u>
<u>ITEM 4. Controls and Procedures</u>	<u>48</u>
<u>PART II. OTHER INFORMATION</u>	<u>49</u>
<u>ITEM 1. Legal Proceedings</u>	<u>49</u>
<u>ITEM 1A. Risk Factors</u>	<u>49</u>
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>49</u>
<u>ITEM 6. Exhibits</u>	<u>49</u>
<u>Signature</u>	<u>50</u>
<u>EXHIBIT INDEX</u>	<u>51</u>

Table of Contents

Acronyms Used in this Quarterly Report on Form 10-Q

ATC	American Transmission Company LLC
EPA	United States Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
GAAP	United States Generally Accepted Accounting Principles
IBS	Integrys Business Support, LLC
ICC	Illinois Commerce Commission
IES	Integrys Energy Services, Inc.
IRS	United States Internal Revenue Service
ITF	Integrys Transportation Fuels, LLC (doing business as Trillium CNG)
MERC	Minnesota Energy Resources Corporation
MGU	Michigan Gas Utilities Corporation
MISO	Midcontinent Independent System Operator, Inc.
MPSC	Michigan Public Service Commission
MPUC	Minnesota Public Utilities Commission
N/A	Not Applicable
NSG	North Shore Gas Company
PELLC	Peoples Energy, LLC (formerly known as Peoples Energy Corporation)
PGL	The Peoples Gas Light and Coke Company
PSCW	Public Service Commission of Wisconsin
SEC	United States Securities and Exchange Commission
UPPCO	Upper Peninsula Power Company
WDNR	Wisconsin Department of Natural Resources
WPS	Wisconsin Public Service Corporation

Table of Contents

Forward-Looking Statements

In this report, we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, and future events or performance. These statements are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of future results and conditions. Although we believe that these forward-looking statements and the underlying assumptions are reasonable, we cannot provide assurance that such statements will prove correct.

Forward-looking statements involve a number of risks and uncertainties. Some risks and uncertainties that could cause actual results to differ materially from those expressed or implied in forward-looking statements include those described in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013, as may be amended or supplemented in Part II, Item 1A of our subsequently filed Quarterly Reports on Form 10-Q (including this report), and those identified below:

The timing and resolution of rate cases and related negotiations, including recovery of deferred and current costs and the ability to earn a reasonable return on investment, and other regulatory decisions impacting our regulated businesses;

Federal and state legislative and regulatory changes, including deregulation and restructuring of the electric and natural gas utility industries, financial reform, health care reform, energy efficiency mandates, reliability standards, pipeline integrity and safety standards, and changes in tax and other laws and regulations to which we and our subsidiaries are subject;

The risk of terrorism or cyber security attacks, including the associated costs to protect our assets and respond to such events;

The risk of failure to maintain the security of personally identifiable information, including the associated costs to notify affected persons and to mitigate their information security concerns;

Federal and state legislative and regulatory changes relating to the environment, including climate change and other environmental regulations impacting generation facilities and renewable energy standards;

Costs and effects of litigation and administrative proceedings, settlements, investigations, and claims;

The ability to retain market-based rate authority;

The effects, extent, and timing of competition or additional regulation in the markets in which our subsidiaries operate;

Changes in credit ratings and interest rates caused by volatility in the financial markets and actions of rating agencies and their impact on our and our subsidiaries' liquidity and financing efforts;

The 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;

The effects of political developments, as well as changes in economic conditions and the related impact on customer energy use, customer growth, and our ability to adequately forecast energy use for our customers;

The ability to use tax credit and loss carryforwards;

The investment performance of employee benefit plan assets and related actuarial assumptions, which impact future funding requirements;

The risk associated with the value of goodwill or other intangible assets and their possible impairment;

The timely completion of capital projects within estimates, as well as the recovery of those costs through established mechanisms;

Potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed timely or within budgets;

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;

Changes in technology, particularly with respect to new, developing, or alternative sources of generation;

Unusual weather and other natural phenomena, including related economic, operational, and/or other ancillary effects of any such events;

• The impact of unplanned facility outages;

• The financial performance of ATC and its corresponding contribution to our earnings;

• The timing and outcome of any audits, disputes, and other proceedings related to taxes;

• The effectiveness of risk management strategies, the use of financial and derivative instruments, and the related recovery of these costs from customers in rates;

• The effect of accounting pronouncements issued periodically by standard-setting bodies; and

• Other factors discussed elsewhere herein and in other reports we file with the SEC.

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

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

INTEGRYS ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)	Three Months Ended	
	March 31	
(Millions, except per share data)	2014	2013
Utility revenues	\$1,616.7	\$1,123.8
Nonregulated revenues	1,308.2	554.4
Total revenues	2,924.9	1,678.2
Utility cost of fuel, natural gas, and purchased power	960.2	565.1
Nonregulated cost of sales	1,247.5	436.8
Operating and maintenance expense	364.6	295.1
Depreciation and amortization expense	71.3	60.9
Taxes other than income taxes	28.1	27.2
Operating income	253.2	293.1
Earnings from equity method investments	22.9	22.3
Miscellaneous income	6.0	5.7
Interest expense	39.1	29.3
Other expense	(10.2)	(1.3)
Income before taxes	243.0	291.8
Provision for income taxes	89.8	109.6
Net income from continuing operations	153.2	182.2
Discontinued operations, net of tax	(0.1)	6.1
Net income	153.1	188.3
Preferred stock dividends of subsidiary	(0.8)	(0.8)
Noncontrolling interest in subsidiaries	0.1	—
Net income attributed to common shareholders	\$152.4	\$187.5
Average shares of common stock		
Basic	80.2	78.7
Diluted	80.5	79.3
Earnings per common share (basic)		
Net income from continuing operations	\$1.90	\$2.30
Discontinued operations, net of tax	—	0.08
Earnings per common share (basic)	\$1.90	\$2.38
Earnings per common share (diluted)		
Net income from continuing operations	\$1.89	\$2.29
Discontinued operations, net of tax	—	0.08
Earnings per common share (diluted)	\$1.89	\$2.37

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

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

2

Table of Contents

INTEGRYS ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended	
(Millions)	March 31	
	2014	2013
Net income	\$153.1	\$188.3
Other comprehensive income (loss), net of tax:		
Cash flow hedges		
Unrealized net gains arising during period, net of tax of \$ – million and \$ – million, respectively—		0.1
Reclassification of net (gains) losses to net income, net of tax of \$0.9 million and \$0.6 million, respectively	(0.6) 0.9
Cash flow hedges, net	(0.6) 1.0
Defined benefit plans		
Pension and other postretirement benefit costs arising during period, net of tax of \$(0.1) million and \$ – million, respectively	(0.1) —
Amortization of pension and other postretirement benefit costs included in net periodic benefit cost, net of tax of \$0.3 million and \$0.4 million, respectively	0.3	0.6
Defined benefit plans, net	0.2	0.6
Other comprehensive income (loss), net of tax	(0.4) 1.6
Comprehensive income	152.7	189.9
Preferred stock dividends of subsidiary	(0.8) (0.8
Noncontrolling interest in subsidiaries	0.1	—
Comprehensive income attributed to common shareholders	\$152.0	\$189.1

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

Table of Contents

INTEGRYS ENERGY GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) (Millions, except share and per share data)	March 31 2014	December 31 2013
Assets		
Cash and cash equivalents	\$56.6	\$ 22.3
Collateral on deposit	74.4	37.4
Accounts receivable and accrued unbilled revenues, net of reserves of \$61.9 and \$49.4, respectively	1,543.8	1,037.0
Inventories	134.9	253.1
Assets from risk management activities	269.9	239.5
Regulatory assets	238.8	127.4
Assets held for sale	286.7	272.6
Deferred income taxes	—	31.4
Prepaid taxes	74.5	146.9
Other current assets	37.5	50.0
Current assets	2,717.1	2,217.6
Property, plant, and equipment, net of accumulated depreciation of \$3,283.5 and \$3,236.9, respectively	6,301.2	6,216.7
Regulatory assets	1,346.7	1,361.4
Assets from risk management activities	60.3	75.4
Equity method investments	548.1	540.9
Goodwill	662.1	662.1
Other long-term assets	166.7	169.4
Total assets	\$11,802.2	\$ 11,243.5
Liabilities and Equity		
Short-term debt	\$321.9	\$ 326.0
Current portion of long-term debt	100.0	100.0
Accounts payable	864.9	604.8
Liabilities from risk management activities	175.8	163.8
Accrued taxes	111.4	80.9
Regulatory liabilities	149.9	101.1
Temporary LIFO liquidation credit	150.9	—
Liabilities held for sale	36.7	49.1
Deferred income taxes	12.8	—
Other current liabilities	218.6	228.8
Current liabilities	2,142.9	1,654.5
Long-term debt	2,956.2	2,956.2
Deferred income taxes	1,439.9	1,390.3
Deferred investment tax credits	57.6	57.6
Regulatory liabilities	438.8	383.7
Environmental remediation liabilities	588.4	600.0
Pension and other postretirement benefit obligations	95.6	200.8
Liabilities from risk management activities	46.2	62.8
Asset retirement obligations	497.0	491.0
Other long-term liabilities	133.6	133.2

Edgar Filing: INTEGRYS ENERGY GROUP, INC. - Form 10-Q

Long-term liabilities	6,253.3	6,275.6
Commitments and contingencies		
Common stock – \$1 par value; 200,000,000 shares authorized; 79,963,091 shares issued; 79,534,371 shares outstanding	80.0	79.9
Additional paid-in capital	2,653.4	2,660.5
Retained earnings	665.0	567.1
Accumulated other comprehensive loss	(23.6)	(23.2)
Shares in deferred compensation trust	(20.8)	(23.0)
Total common shareholders' equity	3,354.0	3,261.3
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	1.0
Total liabilities and equity	\$11,802.2	\$ 11,243.5

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

Table of Contents

INTEGRYS ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)	Three Months Ended	
	March 31	
(Millions)	2014	2013
Operating Activities		
Net income	\$ 153.1	\$ 188.3
Adjustments to reconcile net income to net cash provided by operating activities		
Discontinued operations, net of tax	0.1	(6.1)
Depreciation and amortization expense	71.3	60.9
Recoveries and refunds of regulatory assets and liabilities	54.1	16.5
Net unrealized gains on energy contracts	(19.7)	(65.2)
Bad debt expense	19.3	9.3
Pension and other postretirement expense	7.2	15.9
Pension and other postretirement contributions	(68.6)	(63.2)
Deferred income taxes and investment tax credits	90.2	68.3
Equity income, net of dividends	(3.9)	(4.4)
Termination of tolling agreement with Fox Energy Company LLC	—	(50.0)
Other	1.1	6.3
Changes in working capital		
Collateral on deposit	(37.0)	15.4
Accounts receivable and accrued unbilled revenues	(531.5)	(182.8)
Inventories	121.6	137.9
Other current assets	(71.7)	45.4
Accounts payable	272.1	24.7
Temporary LIFO liquidation credit	150.9	83.2
Other current liabilities	54.7	19.2
Net cash provided by operating activities	263.3	319.6
Investing Activities		
Capital expenditures	(159.6)	(147.0)
Capital contributions to equity method investments	(5.1)	(1.7)
Acquisition of Fox Energy Company LLC	—	(391.6)
Grant received related to Crane Creek wind project	—	69.0
Other	1.4	(1.9)
Net cash used for investing activities	(163.3)	(473.2)
Financing Activities		
Short-term debt, net	(4.1)	74.0
Borrowing on term credit facility	—	200.0
Repayment of long-term debt	—	(22.0)
Proceeds from stock option exercises	0.4	6.4
Shares purchased for stock-based compensation	(9.8)	(2.0)
Payment of dividends		
Preferred stock of subsidiary	(0.8)	(0.8)
Common stock	(54.1)	(50.1)
Other	(3.7)	(8.3)
Net cash (used for) provided by financing activities	(72.1)	197.2