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	Registrant; State of Incorporation; Address; and Telephone Number	IRS Employer Identification No.
1-11337	**INTEGRYS ENERGY GROUP, INC.** **(A Wisconsin Corporation)** **130 East Randolph Street** **Chicago, Illinois 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 x No o

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 x No o

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 x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

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

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

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* 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

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.

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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 2011	2010	Six Months Ended June 30 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

Discontinued operations, net of tax		**(0.01)**				**(0.01)**		
Earnings per common share (basic)	**$**	**0.37**	$	1.02	**$**	**1.93**	$	1.67
Earnings (loss) per common share (diluted)								
Net income from continuing operations	**$**	**0.38**	$	1.02	**$**	**1.94**	$	1.66
Discontinued operations, net of tax		**(0.01)**				**(0.01)**		
Earnings per common share (diluted)	**$**	**0.37**	$	1.02	**$**	**1.93**	$	1.66
Dividends per common share declared	**$**	**0.68**	$	0.68	**$**	**1.36**	$	1.36

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

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INTEGRYS ENERGY GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

(Millions)	June 30 2011	December 31 2010
Assets		
Cash and cash equivalents	$ 211.4	$ 179.0
Collateral on deposit	36.2	33.3
Accounts receivable and accrued unbilled revenues, net of reserves of $47.2 and $41.9, respectively	577.3	832.1
Inventories	161.6	247.9
Assets from risk management activities	165.3	236.9
Regulatory assets	69.7	117.9
Deferred income taxes	70.6	67.7
Prepaid taxes	300.4	269.9
Other current assets	73.0	65.7
Current assets	1,665.5	2,050.4
Property, plant, and equipment, net of accumulated depreciation of $2,968.8 and $2,900.2, respectively	5,018.0	5,013.4
Regulatory assets	1,490.2	1,495.1
Assets from risk management activities	70.2	89.4
Goodwill	642.5	642.5
Other long-term assets	544.2	526.0
Total assets	$ 9,430.6	$ 9,816.8
Liabilities and Equity		
Short-term debt	$ 57.6	$ 10.0
Current portion of long-term debt	150.9	476.9
Accounts payable	388.2	453.0
Liabilities from risk management activities	190.9	289.6
Accrued taxes	73.7	90.2
Regulatory liabilities	62.4	75.7
Temporary LIFO liquidation credit	54.8	
Other current liabilities	199.2	262.4
Current liabilities	1,177.7	1,657.8
Long-term debt	2,131.6	2,161.6
Deferred income taxes	1,008.9	860.5
Deferred investment tax credits	44.8	45.2
Regulatory liabilities	324.2	316.2
Environmental remediation liabilities	640.3	643.9
Pension and other postretirement benefit obligations	519.8	603.4
Liabilities from risk management activities	80.9	99.7
Asset retirement obligations	329.3	320.9
Other long-term liabilities	139.8	150.6
Long-term liabilities	5,219.6	5,202.0
Commitments and contingencies		
	78.3	77.8

Common stock - $1 par value; 200,000,000 shares authorized; 78,287,906 shares issued; 77,918,698 shares outstanding				
Additional paid-in capital		**2,561.7**		2,540.4
Retained earnings		**396.7**		350.8
Accumulated other comprehensive loss		**(38.2)**		(44.7)
Shares in deferred compensation trust		**(16.4)**		(18.5)
Total common shareholders equity		**2,982.1**		2,905.8
Preferred stock of subsidiary - $100 par value; 1,000,000 shares authorized; 511,882 shares issued; 510,495 shares outstanding		**51.1**		51.1
Noncontrolling interest in subsidiaries		**0.1**		0.1
Total liabilities and equity	**$**	**9,430.6**	$	9,816.8

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

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INTEGRYS ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30	
(Millions)	**2011**	**2010**
Operating Activities		
Net income	**$ 153.4**	$ 130.1
Adjustments to reconcile net income to net cash provided by operating activities		
Discontinued operations, net of tax	**0.8**	(0.1)
Depreciation and amortization expense	**124.5**	131.9
Recoveries and refunds of regulatory assets and liabilities	**23.9**	16.1
Net unrealized gains on nonregulated energy contracts	**(9.3)**	(15.6)
Bad debt expense	**20.3**	26.3
Pension and other postretirement expense	**36.1**	33.8
Pension and other postretirement contributions	**(108.9)**	(61.7)
Deferred income taxes and investment tax credits	**126.9**	64.5
(Gain) loss on sale of assets	**(0.5)**	13.5
Equity income, net of dividends	**(7.8)**	(7.2)
Other	**12.7**	11.8
Changes in working capital		
Collateral on deposit	**(3.0)**	177.5
Accounts receivable and accrued unbilled revenues	**236.7**	339.3
Inventories	**86.0**	140.4
Other current assets	**(12.1)**	(2.7)
Accounts payable	**(54.1)**	(104.5)
Temporary LIFO liquidation credit	**54.8**	45.0
Other current liabilities	**(92.2)**	(180.0)
Net cash provided by operating activities	**588.2**	758.4
Investing Activities		
Capital expenditures	**(114.5)**	(122.8)
Proceeds from the sale or disposal of assets	**3.3**	59.8
Capital contributions to equity method investments	**(11.0)**	(5.1)
Other	**(0.3)**	2.7
Net cash used for investing activities	**(122.5)**	(65.4)
Financing Activities		
Short-term debt, net	**57.6**	(199.6)
Redemption of notes payable	**(10.0)**	
Proceeds from sale of borrowed natural gas		21.3
Purchase of natural gas to repay natural gas loans		(6.0)
Repayment of long-term debt	**(355.2)**	(116.1)
Payment of dividends		
Preferred stock of subsidiary	**(1.6)**	(1.6)
Common stock	**(100.4)**	(92.7)
Issuance of common stock	**4.9**	18.8
Payments made on derivative contracts related to divestitures classified as financing activities	**(20.2)**	(118.5)
Other	**(8.4)**	(10.0)
Net cash used for financing activities	**(433.3)**	(504.4)

Change in cash and cash equivalents - continuing operations		**32.4**		188.6
Change in cash and cash equivalents - discontinued operations				
Net cash provided by investing activities				0.1
Net change in cash and cash equivalents		**32.4**		188.7
Cash and cash equivalents at beginning of period		**179.0**		44.5
Cash and cash equivalents at end of period	**$**	**211.4**	$	233.2

The accompanying condensed notes are an integral part of these statements

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INTEGRYS ENERGY GROUP, INC. AND SUBSIDIARIES

CONDENSED NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 FINANCIAL INFORMATION

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

Our financial statements have been prepared pursuant to the rules and regulations of the SEC for Quarterly Reports on Form 10-Q and in accordance with GAAP. Accordingly, these financial statements do not include all of the information and footnotes required by GAAP for annual financial statements. These financial statements should be read in conjunction with the consolidated financial statements and notes in our Annual Report on Form 10-K for the year ended December 31, 2010.

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

Reclassifications

We reclassified $127.2 million reported in other current assets at December 31, 2010, to prepaid taxes to match the current period presentation on the balance sheet.

Change in Accounting Policy

During the fourth quarter of 2010, we changed our method of accounting for ITCs from the flow-through method to the deferral method. Under the flow-through method, we reduced the provision for income taxes by the amount of the ITC in the year in which the credit was received. Under the deferral method, we record the ITC as a deferred credit and amortize such credit as a reduction to the provision for income taxes over the life of the asset that generated the ITC.

The change in accounting policy only impacted financial statement line items for Integrys Energy Services. The application of regulatory requirements resulted in deferral of such credits for the regulated utility segments.

The following table reflects the impacts of the change in accounting policy on our financial statements:

(Millions, except per share data)	For the Three Months Ended June 30, 2010 As Originally Reported	Adjustments	Retrospectively Adjusted
Statements of Income			
Depreciation and amortization expense	$ 67.9	$ (0.1)	$ 67.8
Provision for income taxes	44.5	(0.1)	44.4
Net income from continuing operations	79.4	0.2	79.6
Net income	79.4	0.2	79.6
Net income attributed to common shareholders	78.9	0.2	79.1
Earnings (loss) per common share (diluted)			
Net income from continuing operations	$ 1.01	$ 0.01	$ 1.02
Earnings per common share (diluted)	1.01	0.01	1.02

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(Millions, except per share data)	For the Six Months Ended June 30, 2010 As Originally Reported	Adjustments	Retrospectively Adjusted
Statements of Income			
Depreciation and amortization expense	$ 132.1	$ (0.2)	$ 131.9
Provision for income taxes	94.6	(0.2)	94.4
Net income from continuing operations	129.6	0.4	130.0
Net income	129.7	0.4	130.1
Net income attributed to common shareholders	128.4	0.4	128.8
Earnings (loss) per common share (basic)			
Net income from continuing operations	$ 1.66	$ 0.01	$ 1.67
Earnings per common share (basic)	1.66	0.01	1.67
Earnings (loss) per common share (diluted)			
Net income from continuing operations	$ 1.65	$ 0.01	$ 1.66
Earnings per common share (diluted)	1.65	0.01	1.66

The change in accounting policy for ITCs also impacted previously reported amounts in the Statements of Cash Flows. Although there was no overall impact on net cash provided by operating activities, we adjusted certain line items classified within this category to reflect the amounts included in the table above. These line items were: net income, depreciation and amortization expense, and deferred income taxes and investment tax credits.

NOTE 2 CASH AND CASH EQUIVALENTS

Short-term investments with an original maturity of three months or less are reported as cash equivalents.

The following is supplemental disclosure to our Statements of Cash Flows:

(Millions)	Six Months Ended June 30 2011	2010
Cash paid for interest	**$ 71.1**	$ 70.7
Cash paid for income taxes	**3.2**	42.4

Significant noncash transactions were:

(Millions)	Six Months Ended June 30 2011	2010
Construction costs funded through accounts payable	**$ 23.7**	$ 16.3
Equity issued for stock-based compensation plans	**15.8**	3.0
Equity issued for reinvested dividends	**5.4**	11.2

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NOTE 3 RISK MANAGEMENT ACTIVITIES

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

		June 30, 2011	
(Millions)	Balance Sheet Presentation *	Assets from Risk Management Activities	Liabilities from Risk Management Activities
Utility Segments			
Non-hedge derivatives			
Natural gas contracts	Current	$ 2.4	$ 12.5
Natural gas contracts	Long-term	1.6	1.0
FTRs	Current	5.6	0.1
Petroleum product contracts	Current	0.7	
Coal contract	Current		1.3
Coal contract	Long-term		3.0
Cash flow hedges			
Natural gas contracts	Current		0.5
Natural gas contracts	Long-term		0.1
Nonregulated Segments			
Non-hedge derivatives			
Natural gas contracts	Current	79.2	70.7
Natural gas contracts	Long-term	44.5	38.9
Electric contracts	Current	67.0	88.6
Electric contracts	Long-term	20.2	30.3
Foreign exchange contracts	Current	0.9	0.9
Foreign exchange contracts	Long-term	0.3	0.3
Cash flow hedges			
Natural gas contracts	Current	0.6	4.0
Natural gas contracts	Long-term		0.8
Electric contracts	Current	8.9	12.3
Electric contracts	Long-term	3.6	6.5
	Current	165.3	190.9
	Long-term	70.2	80.9
Total		$ 235.5	$ 271.8

* All derivatives are recognized on the balance sheet at their fair value unless they qualify for the normal purchases and sales exception. We continually assess our contracts designated as normal and will discontinue the treatment of these contracts as normal if the required criteria are no longer met. We classify assets and liabilities from risk management activities as current or long-term based upon the maturities of the underlying contracts.

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(Millions)	Balance Sheet Presentation *	December 31, 2010 Assets from Risk Management Activities	Liabilities from Risk Management Activities
Utility Segments			
Non-hedge derivatives			
Natural gas contracts	Current	$ 2.2	$ 23.6
Natural gas contracts	Long-term	1.6	1.4
FTRs	Current	3.1	0.2
Petroleum product contracts	Current	0.6	
Coal contract	Current		1.2
Coal contract	Long-term	3.7	
Cash flow hedges			
Natural gas contracts	Current		1.0
Nonregulated Segments			
Non-hedge derivatives			
Natural gas contracts	Current	132.0	113.8
Natural gas contracts	Long-term	62.3	57.7
Electric contracts	Current	85.7	122.0
Electric contracts	Long-term	16.5	30.3
Foreign exchange contracts	Current	1.2	1.2
Foreign exchange contracts	Long-term	0.3	0.3
Fair value hedges			
Interest rate swaps	Current	0.9	
Cash flow hedges			
Natural gas contracts	Current	1.6	9.2
Natural gas contracts	Long-term	0.1	0.9
Electric contracts	Current	9.6	17.4
Electric contracts	Long-term	4.9	9.1
	Current	236.9	289.6
	Long-term	89.4	99.7
Total		$ 326.3	$ 389.3

* All derivatives are recognized on the balance sheet at their fair value unless they qualify for the normal purchases and sales exception. We continually assess our contracts designated as normal and will discontinue the treatment of these contracts as normal if the required criteria are no longer met. We classify assets and liabilities from risk management activities as current or long-term based upon the maturities of the underlying contracts.

The following table shows our cash collateral positions:

(Millions)	June 30, 2011	December 31, 2010
Cash collateral provided to others	**$ 36.2**	$ 33.3
Cash collateral received from others *	**3.4**	4.5

* Reflected in other current liabilities on the Balance Sheets.

Certain of our derivative and nonderivative commodity instruments contain provisions that could require adequate assurance in the event of a material adverse change in our creditworthiness, or the posting of additional collateral for instruments in net liability positions, if triggered by a decrease in credit ratings. The following table shows the aggregate fair value of all derivative instruments with specific credit-risk related contingent features that were in a liability position:

(Millions)	June 30, 2011	December 31, 2010
Integrys Energy Services	**$ 130.4**	$ 219.5
Utility segments	**13.3**	22.1

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If all of the credit-risk related contingent features contained in commodity instruments (including derivatives, nonderivatives, normal purchase and normal sales contracts, and applicable payables and receivables) had been triggered, our collateral requirement would have been as follows:

(Millions)	June 30, 2011	December 31, 2010
Collateral that would have been required:		
Integrys Energy Services	**$ 204.9**	$ 295.7
Utility segments	**8.0**	14.1
Collateral already satisfied:		
Integrys Energy Services Letters of credit	**16.0**	56.9
Collateral remaining:		
Integrys Energy Services	**188.9**	238.8
Utility segments	**8.0**	14.1

Utility Segments

Non-Hedge Derivatives

Utility derivatives include natural gas purchase contracts, a coal purchase contract, financial derivative contracts (futures, options, and swaps), and FTRs used to manage electric transmission congestion costs. Both the electric and natural gas utility segments use futures, options, and swaps to manage the risks associated with the market price volatility of natural gas supply costs, and the costs of gasoline and diesel fuel used by utility vehicles. The electric utility segment also uses oil futures and options to manage price risk related to coal transportation.

The utilities had the following notional volumes of outstanding non-hedge derivative contracts:

	June 30, 2011		December 31, 2010	
	Purchases	Other Transactions	Purchases	Other Transactions
Natural gas (millions of therms)	**660.6**	**N/A**	979.9	N/A
FTRs (millions of kilowatt-hours)	**N/A**	**11,076.8**	N/A	5,882.5
Petroleum products (barrels)	**43,911.0**	**N/A**	71,827.0	N/A
Coal contract (millions of tons)	**4.5**	**N/A**	4.9	N/A

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

(Millions)	Financial Statement Presentation		Three Months Ended June 30 2011	Three Months Ended June 30 2010	Six Months Ended June 30 2011	Six Months Ended June 30 2010
Natural gas contracts	Balance Sheet	Regulatory assets (current)	**$ 2.2**	$ 21.6	**$ 13.4**	$ (4.8)
Natural gas contracts	Balance Sheet	Regulatory assets (long-term)	**(1.4)**	2.8	**0.2**	(2.4)
Natural gas contracts	Balance Sheet	Regulatory liabilities (current)		0.1	**(0.1)**	(0.1)

Natural gas contracts	Balance Sheet	Regulatory liabilities (long-term)	**(0.1)**			
Natural gas contracts	Income Statement	Utility cost of fuel, natural gas, and purchased power		0.1	**0.1**	0.1
FTRs	Balance Sheet	Regulatory assets (current)	**(1.6)**	(1.5)	**(1.5)**	(0.6)
FTRs	Balance Sheet	Regulatory liabilities (current)	**1.1**	5.0	**(0.1)**	2.7
Petroleum product contracts	Balance Sheet	Regulatory assets (current)	**(0.1)**	N/A	**(0.1)**	N/A
Petroleum product contracts	Balance Sheet	Regulatory liabilities (current)	**(0.2)**	N/A	**0.2**	N/A
Petroleum product contracts	Income Statement	Operating and maintenance expense	**(0.3)**	(0.2)	**0.2**	(0.3)
Coal contract	Balance Sheet	Regulatory assets (current)	**0.3**	N/A	**(0.2)**	N/A
Coal contract	Balance Sheet	Regulatory assets (long-term)	**0.2**	N/A	**(3.0)**	N/A
Coal contract	Balance Sheet	Regulatory liabilities (long-term)		N/A	**(3.7)**	N/A

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Cash Flow Hedges

PGL uses natural gas contracts designated as cash flow hedges to hedge changes in the price of natural gas used to support operations. The cost of natural gas used to support operations is not a component of the natural gas costs recovered from customers on a one-for-one basis. These contracts extend through January 2013. PGL had the following notional volumes of outstanding contracts that were designated as cash flow hedges:

	Purchases	
	June 30, 2011	**December 31, 2010**
Natural gas (millions of therms)	**7.9**	5.4

Changes in the fair values of the effective portions of these contracts are included in 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)

	Three Months Ended June 30		**Six Months Ended June 30**	
(Millions)	**2011**	**2010**	**2011**	**2010**
Natural gas contracts	**$ (0.2)**	$	**$ (0.2)**	$ (1.1)

Loss Reclassified from Accumulated OCI into Income (Effective Portion)

		Three Months Ended June 30		**Six Months Ended June 30**	
(Millions)	**Income Statement Presentation**	**2011**	**2010**	**2011**	**2010**
Settled natural gas contracts	Operating and maintenance expense	**$ (0.2)**	$ (0.3)	**$ (0.5)**	$ (0.4)

The amount reclassified from accumulated OCI into earnings as a result of the discontinuance of cash flow hedge accounting related to these natural gas contracts was not significant during the three and six months ended June 30, 2011, and 2010. Cash flow hedge ineffectiveness related to these natural gas contracts also was not significant during the three and six months ended June 30, 2011, and 2010. When testing for effectiveness, no portion of these derivative instruments was excluded. In the next 12 months, an insignificant pre-tax loss is expected to be recognized in earnings as the hedged transactions occur.

Nonregulated Segments

Non-Hedge Derivatives

Our 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.

The nonregulated segments had the following notional volumes of outstanding non-hedge derivative contracts:

	June 30, 2011		December 31, 2010	
(Millions)	**Purchases**	**Sales**	**Purchases**	**Sales**
Commodity contracts				
Natural gas (therms)	**732.2**	**790.4**	940.6	1,048.4
Electric (kilowatt-hours)	**25,304.0**	**21,974.8**	22,149.4	19,707.0
Foreign exchange contracts (Canadian dollars)	**9.5**	**9.5**	15.5	15.5

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

(Millions)	Income Statement Presentation	Three Months Ended June 30 2011	Three Months Ended June 30 2010	Six Months Ended June 30 2011	Six Months Ended June 30 2010
Natural gas contracts	Nonregulated revenue	**$ 6.2**	$ 5.6	**$ 14.3**	$ 8.8
Natural gas contracts	Nonregulated revenue (reclassified from accumulated OCI) *	**(0.1)**	(0.7)	**(0.4)**	(0.4)
Electric contracts	Nonregulated revenue	**(2.9)**	2.5	**(3.9)**	(78.2)
Electric contracts	Nonregulated revenue (reclassified from accumulated OCI) *		(1.5)	**0.2**	(1.5)
Interest rate swaps	Interest expense		0.8		0.4
Total		**$ 3.2**	$ 6.7	**$ 10.2**	$ (70.9)

* Represents amounts reclassified from accumulated OCI related to cash flow hedges that were dedesignated in the current and/or prior periods.

Fair Value Hedges

At PELLC, an interest rate swap designated as a fair value hedge was used to hedge changes in the fair value of $50.0 million of the $325.0 million Series A 6.9% notes. The interest rate swap and the notes were settled in January 2011. The changes in the fair value of this hedge were recognized in earnings, as were 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	Three Months Ended June 30 2011	Three Months Ended June 30 2010	Six Months Ended June 30 2011	Six Months Ended June 30 2010
Interest rate swap	Interest expense	**$**	$	**$ (0.9)**	$ (0.7)
Debt hedged by swap	Interest expense			**0.9**	0.7
Total		**$**	$	**$**	$

Fair value hedge ineffectiveness recorded in interest expense on the Statements of Income was not significant for the three and six months ended June 30, 2011 and 2010. No amounts were excluded from effectiveness testing related to the interest rate swap during the three and six months ended June 30, 2011 and 2010.

Cash Flow Hedges

At June 30, 2011, Integrys Energy Services had the following notional volumes of outstanding contracts that were designated as cash flow hedges:

	June 30, 2011		December 31, 2010	
(Millions)	Purchases	Sales	Purchases	Sales
Commodity contracts				
Natural gas (therms)	**189.2**		265.6	
Electric (kilowatt-hours)	**9,924.4**	**29.8**	11,569.0	29.8

The tables below show the amounts related to cash flow hedges recorded in OCI and in earnings.

Unrealized Gain (Loss) Recognized in OCI on Derivative Instruments (Effective Portion)

	Three Months Ended June 30		Six Months Ended June 30	
(Millions)	2011	2010	2011	2010
Natural gas contracts	**$ (3.5)**	$ 0.5	**$ (2.3)**	$ (3.7)
Electric contracts	**8.4**	20.6	**3.8**	(3.3)
Interest rate swaps		(3.4)		(2.4)
Total	**$ 4.9**	$ 17.7	**$ 1.5**	$ (9.4)

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Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)

(Millions)	Income Statement Presentation	Three Months Ended June 30 2011	Three Months Ended June 30 2010	Six Months Ended June 30 2011	Six Months Ended June 30 2010
Settled/Realized					
Natural gas contracts	Nonregulated revenue	**$ (0.7)**	$ (1.5)	**$ (9.3)**	$ (8.8)
Electric contracts	Nonregulated revenue	**8.3**	(9.3)	**4.2**	(14.2)
Interest rate swaps	Interest expense	**(0.3)**	0.2	**(0.6)**	0.5
Hedge Designation Discontinued					
Natural gas contracts	Nonregulated revenue			**(0.3)**	0.8
Electric contracts	Nonregulated revenue		(2.0)		(9.6)
Interest rate swaps	Interest expense	**(0.2)**		**(0.2)**	
Total		**$ 7.1**	$ (12.6)	**$ (6.2)**	$ (31.3)

Gain (Loss) Recognized in Income on Derivative Instruments (Ineffective Portion and Amount Excluded from Effectiveness Testing)

(Millions)	Income Statement Presentation	Three Months Ended June 30 2011	Three Months Ended June 30 2010	Six Months Ended June 30 2011	Six Months Ended June 30 2010
Natural gas contracts	Nonregulated revenue	**$ (0.5)**	$ 0.1	**$ 0.3**	$ 0.1
Electric contracts	Nonregulated revenue	**(0.6)**	0.5	**(0.3)**	(0.2)
Total		**$ (1.1)**	$ 0.6	**$**	$ (0.1)

As of July 1, 2011, Integrys Energy Services discontinued the use of cash flow hedge accounting. At June 30, 2011, the amount deferred in accumulated OCI related to cash flow hedges at Integrys Energy Services was a pre-tax loss of $13.7 million. This amount relates to cash flow hedges for natural gas futures, forwards, and swaps that extend through April 2014, and electric futures, forwards, and swaps that extend through May 2017. This amount will be recognized in earnings as the forecasted transactions occur, or if it becomes probable that the forecasted transactions will not occur.

In the next 12 months, pre-tax losses of $3.4 million and $3.2 million related to the discontinued cash flow hedges of natural gas contracts and electric contracts, respectively, are expected to be recognized in earnings as the forecasted transactions occur. These amounts are expected to be substantially offset by the settlement of the related nonderivative contracts. In the next 12 months an insignificant pre-tax loss related to cash flow hedges of interest rate swaps will be amortized into earnings.

NOTE 4 RESTRUCTURING EXPENSE

Reductions in Workforce

In an effort to remove costs from our operations, we developed a plan at the end of 2009 that included reductions in our workforce. In connection with this plan, an insignificant amount of employee-related and consulting costs were included in the restructuring expense line item on the Statements of Income for the three months ended June 30, 2010 and the six months ended June 30, 2011 and 2010. No expense was recorded related to this plan during the three months ended June 30, 2011. The following table summarizes the current period activity related to these restructuring costs:

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(Millions)	Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
Accrued restructuring costs at beginning of period	$		$	0.2
Add: Adjustments to accrual during the period				
Deduct: Cash payments				0.2
Accrued restructuring costs at end of period	$		$	

Integrys Energy Services Strategy Change

As part of our decision to focus Integrys Energy Services on selected retail electric and natural gas markets in the northeast quadrant of the United States and investments in energy assets with renewable attributes, the following restructuring costs were expensed:

(Millions)	Three Months Ended June 30				Six Months Ended June 30			
	2011		2010		2011		2010	
Employee-related costs	$	**(0.1)**	$	0.7	$	**(0.1)**	$	2.0
Professional fees				5.5				6.4
Accelerated lease costs and depreciation		**0.9**		0.3		**1.9**		0.5
Miscellaneous				0.2				0.3
Total restructuring expense	$	**0.8**	$	6.7	$	**1.8**	$	9.2

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

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

(Millions)	Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
Accrued employee-related costs at beginning of period	$	0.1	$	0.3
Add: Adjustments to accrual during the period		(0.1)		(0.1)
Deduct: Cash payments				0.2
Accrued employee-related costs at end of period	$		$	

We do not expect to recognize any additional restructuring costs associated with the Integrys Energy Services strategy change.

NOTE 5 DISCONTINUED OPERATIONS

Energy Management Consulting Business

During both the six months ended June 30, 2011 and 2010, Integrys Energy Services recorded a $0.1 million after-tax gain in discontinued operations when a contingent payment was earned from the sale of its energy management consulting business.

Peoples Energy Production Company

During the second quarter of 2011, we recorded a $0.9 million after-tax loss in discontinued operations when we remeasured an unrecognized tax benefits liability related to the 2007 sale of Peoples Energy Production Company. The loss represents additional state income tax expense related to the increase in our unrecognized tax benefits liability.

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NOTE 6 INVESTMENT IN ATC

Our electric transmission investment segment consists of WPS Investments LLC s ownership interest in ATC, which was approximately 34% at June 30, 2011. ATC is a for-profit, transmission-only company regulated by FERC. ATC owns, maintains, monitors, and operates electric transmission assets in portions of Wisconsin, Michigan, Minnesota, and Illinois.

The following table shows changes to our investment in ATC.

	Three Months Ended June 30		Six Months Ended June 30	
(Millions)	2011	2010	2011	2010
Balance at the beginning of period	**$ 422.7**	$ 404.2	**$ 416.3**	$ 395.9
Add: equity in net income	**19.9**	19.2	**39.1**	38.7
Add: capital contributions	**2.5**		**5.9**	5.1
Less: dividends received	**15.7**	16.0	**31.9**	32.3
Balance at the end of period	**$ 429.4**	$ 407.4	**$ 429.4**	$ 407.4

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

	Three Months Ended June 30		Six Months Ended June 30	
(Millions)	2011	2010	2011	2010
Income statement data				
Revenues	**$ 138.2**	$ 138.7	**$ 277.8**	$ 277.2
Operating expenses	**63.0**	62.9	**126.1**	125.7
Other expense	**19.5**	21.7	**41.8**	42.3
Net income *	**$ 55.7**	$ 54.1	**$ 109.9**	$ 109.2

* As most income taxes are the responsibility of its members, ATC does not report a provision for its members income taxes in its income statements.

(Millions)	June 30, 2011	December 31, 2010
Balance sheet data		
Current assets	**$ 61.4**	$ 59.9
Noncurrent assets	**2,945.5**	2,888.4
Total assets	**$ 3,006.9**	$ 2,948.3
Current liabilities	**$ 223.5**	$ 428.4
Long-term debt	**1,400.0**	1,175.0
Other noncurrent liabilities	**83.8**	84.9
Members equity	**1,299.6**	1,260.0
Total liabilities and members equity	**$ 3,006.9**	$ 2,948.3

NOTE 7 INVENTORIES

PGL and NSG price natural gas storage injections at the calendar year average of the cost of natural gas supply purchased. Withdrawals from storage are priced on the LIFO cost method. For interim periods, the difference between current projected replacement cost and the LIFO cost for quantities of natural gas temporarily withdrawn from storage is recorded as a temporary LIFO liquidation debit or credit. Due to seasonality requirements, PGL and NSG expect interim reductions in LIFO layers to be replenished by year end.

NOTE 8 GOODWILL AND OTHER INTANGIBLE ASSETS

We had no changes to the carrying amount of goodwill during the six months ended June 30, 2011, and 2010. Annual impairment tests were completed at all of Integrys Energy Group s reporting units that carried a goodwill balance in the second quarter of 2011, and no impairments resulted from these tests.

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Identifiable intangible assets other than goodwill are part of other current and long-term assets on the Balance Sheets, as listed below.

	June 30, 2011			December 31, 2010		
(Millions)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Amortized intangible assets						
Customer-related (1)	**$ 32.6**	**$ (23.3)**	**$ 9.3**	$ 32.6	$ (21.8)	$ 10.8
Natural gas and electric contract assets (2) (3)	**7.8**	**(6.3)**	**1.5**	57.1	(55.0)	2.1
Natural gas and electric contract liabilities (2)				(10.5)	10.5	
Renewable energy credits (4)	**2.8**		**2.8**	2.5		2.5
Nonregulated easements (5)	**3.8**	**(0.5)**	**3.3**	3.8	(0.4)	3.4
Emission allowances (6)	**1.7**	**(0.1)**	**1.6**	1.9	(0.2)	1.7
Other	**3.1**	**(0.5)**	**2.6**	2.4	(0.4)	2.0
Total	**$ 51.8**	**$ (30.7)**	**$ 21.1**	$ 89.8	$ (67.3)	$ 22.5
Unamortized intangible asset						
MGU trade name	**5.2**		**5.2**	5.2		5.2
Total intangible assets	**$ 57.0**	**$ (30.7)**	**$ 26.3**	$ 95.0	$ (67.3)	$ 27.7

(1) Includes customer relationship assets associated with both PELLC 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 June 30, 2011, was approximately eight years.

(2) Represents the fair value of certain PELLC natural gas and electric customer contracts acquired in the February 2007 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 $0.6 million and $0.9 million, respectively, at June 30, 2011, and $0.9 million and $1.2 million, respectively, at December 31, 2010. The remaining amortization period at June 30, 2011, was approximately three years.

(4) Used at Integrys Energy Services to comply with state Renewable Portfolio Standards and to support customer commitments.

(5) Relates to easements supporting a pipeline at Integrys Energy Services. The easements are amortized on a straight-line basis, with a remaining amortization period at June 30, 2011, of approximately 13 years.

(6) Emission allowances do not have a contractual term or expiration date. However, we are reviewing how the EPA s final CSAPR issued in July 2011 will affect our ability to use existing emission allowances in the future. See Note 12, *Commitments and Contingencies,* for more information.

Amortization related to the natural gas and electric contract intangible assets, renewable energy credits, and emission allowances is recorded as a component of nonregulated cost of fuel, natural gas, and purchased power in the Statements of Income. Amortization for the three months ended June 30, 2011, and 2010, was $0.4 million and $1.7 million, respectively. Amortization for the six months ended June 30, 2011, and 2010, was $0.7 million and $3.1 million, respectively.

Amortization related to these assets for the next five fiscal years is estimated to be:

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(Millions)		
For year ending December 31, 2011	$	3.9
For year ending December 31, 2012		0.7
For year ending December 31, 2013		0.6
For year ending December 31, 2014		0.5
For year ending December 31, 2015		0.2

Amortization expense recorded as a component of depreciation and amortization expense in the Statements of Income was $0.9 million and $1.0 million for the three months ended June 30, 2011, and 2010, respectively. Amortization expense was $1.7 million and $2.8 million for the six months ended June 30, 2011, and 2010, respectively.

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

(Millions)		
For year ending December 31, 2011	$	3.3
For year ending December 31, 2012		2.4
For year ending December 31, 2013		1.7
For year ending December 31, 2014		1.5
For year ending December 31, 2015		1.3

NOTE 9 SHORT-TERM DEBT AND LINES OF CREDIT

Our outstanding short-term borrowings consisted of sales of commercial paper and short-term notes.

(Millions, except percentages)	June 30, 2011		December 31, 2010	
Commercial paper outstanding	**$**	**57.6**		
Average discount rate on outstanding commercial paper		**0.27%**		
Short-term notes payable outstanding			$	10.0
Average interest rate on short-term notes payable outstanding				0.32%

The commercial paper outstanding at June 30, 2011, had maturity dates ranging from July 1, 2011 through July 7, 2011.

The table below presents our average amount of short-term borrowings outstanding based on daily outstanding balances during the six months ended June 30:

(Millions)	2011		2010	
Average amount of commercial paper outstanding	**$**	**73.1**	$	104.6
Average amount of short-term notes payable outstanding		**7.3**		10.0

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We manage our liquidity by maintaining adequate external financing commitments. The information in the table below relates to our short-term debt, lines of credit, and remaining available capacity:

(Millions)	Maturity	June 30, 2011	December 31, 2010
Revolving credit facility (Integrys Energy Group) (1)	04/23/13	$ 735.0	$ 735.0
Revolving credit facility (Integrys Energy Group) (2)	06/09/11		500.0
Revolving credit facility (Integrys Energy Group) (3)	05/17/16	200.0	
Revolving credit facility (Integrys Energy Group) (3)	05/17/14	275.0	
Revolving credit facility (WPS) (1)	04/23/13	115.0	115.0
Revolving credit facility (WPS) (4)	05/15/12	135.0	
Revolving credit facility (PELLC) (2)	06/13/11		400.0
Revolving credit facility (PGL) (1)	04/23/13	250.0	250.0
Revolving short-term notes payable (WPS) (2)	05/13/11		10.0
Total short-term credit capacity		$ 1,710.0	$ 2,010.0
Less:			
Letters of credit issued inside credit facilities		$ 39.3	$ 64.9
Loans outstanding under credit agreements and notes payable			10.0
Commercial paper outstanding		57.6	
Available capacity under existing agreements		$ 1,613.1	$ 1,935.1

(1) Supports commercial paper borrowing program.

(2) These credit facilities and short-term note payable were terminated/repaid in May 2011.

(3) In May 2011, we entered into two new revolving credit agreements to support our commercial paper borrowing program.

(4) In May 2011, WPS entered into a new revolving credit agreement to support its commercial paper borrowing program. WPS has requested approval from the PSCW to extend this facility through May 17, 2014.

At June 30, 2011, we and each of our subsidiaries were in compliance with all respective financial covenants related to outstanding short-term debt. Our revolving credit agreements and those of certain of our subsidiaries 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 comply with these covenants could result in an event of default, which could result in the acceleration of outstanding debt obligations.

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NOTE 10 LONG-TERM DEBT

(Millions)	June 30, 2011	December 31, 2010
WPS (1)	$ **872.1**	$ 872.1
UPPCO (2)	**9.4**	9.4
PELLC (3)		325.9
PGL (4)	**526.0**	526.0
NSG	**74.8**	74.8
Integrys Energy Group (5)	**774.8**	805.0
Other term loan (6)	**27.0**	27.0
Total	**2,284.1**	2,640.2
Unamortized discount	**(1.6)**	(1.7)
Total debt	**2,282.5**	2,638.5
Less current portion	**(150.9)**	(476.9)
Total long-term debt	$ **2,131.6**	$ 2,161.6

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(1) In August 2011, WPS s 6.125% Senior Notes will mature. The $150.0 million balance of these notes was included in current portion of long-term debt at June 30, 2011.

(2) On November 1, 2011, UPPCO will make a $0.9 million sinking fund payment under the terms of its First Mortgage Bonds. This payment was included in current portion of long-term debt at June 30, 2011.

(3) In January 2011, PELLC s 6.9% unsecured Senior Notes matured, and the outstanding principal balance was repaid. In January 2011, we settled the interest rate swap related to $50.0 million of the senior notes. The interest rate swap was designated as a fair value hedge. See Note 3, *Risk Management Activities*, for more information.

(4) PGL has outstanding $51.0 million of Adjustable Rate, Series OO bonds, due October 1, 2037, that are currently in a 35-day Auction Rate mode (the interest rate is reset every 35 days through an auction process). Since 2008, auctions have failed to receive sufficient clearing bids. As a result, these bonds are priced each 35 days at the maximum auction rate, until such time a successful auction occurs. The maximum auction rate is determined based on the lesser of the London Interbank Offered Rate or the Securities Industry and Financial Markets Association Municipal Swap Index rate plus a defined premium. The year-to-date weighted-average interest rate at June 30, 2011, was 0.447% for these bonds.

(5) In May 2011, we bought back $30.2 million of our $300.0 million of Junior Subordinated Notes.

(6) 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. The loan has a floating interest rate that is reset weekly. At June 30, 2011, the interest rate was 0.08%. The loan is to be repaid by April 2021. In January 2011, we replaced our guarantee to provide sufficient funds to pay the loan and the related obligations and indemnities on WPS Westwood Generation s obligation with a standby letter of credit. See Note 13, *Guarantees,* for more information.

At June 30, 2011, we and each of our subsidiaries were in compliance with all respective financial covenants related to outstanding long-term debt. Our long-term debt obligations, and those of certain of our subsidiaries, 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 could result in the acceleration of outstanding debt obligations.

NOTE 11 INCOME TAXES

Our effective tax rate was 45.9% for the three months ended June 30, 2011, and 38.8% for the six months ended June 30, 2011. Our effective tax rate was 35.8% for the three months ended June 30, 2010, and 42.1% for the six months ended June 30, 2010.

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We calculate our provision for income taxes based on an interim effective tax rate that reflects our projected annual effective tax rate before certain discrete items.

Our effective tax rate for the quarter ended June 30, 2011, was higher than the federal tax rate of 35%. This difference was primarily due to tax law changes in Michigan and Wisconsin. In the second quarter of 2011, Michigan replaced its business tax with a state income tax. In accounting for this tax law change, we expensed $4.2 million of deferred income taxes related to our nonregulated operations and adjustments related to our state unitary filings. Unitary filings are required by certain states to ensure income is properly reflected in the correct tax jurisdiction. The unitary adjustments reflect additional write-offs at the holding company for deferred income tax benefits held for our consolidated tax group. Also in the second quarter of 2011, the Wisconsin tax code was conformed to the federal tax code through passage of a budget bill, retroactive to December 2010. In accounting for this tax law change, we expensed an additional $1.5 million of deferred income taxes in 2011 related to the Medicare Part D subsidy discussed below. Other state income taxes also contributed to the higher effective tax rate.

Our effective tax rate for the six months ended June 30, 2011, was higher than the federal tax rate of 35%. This difference was primarily due to state income taxes and tax law changes in Michigan and Wisconsin discussed above.

Our effective tax rate for the six months ended June 30, 2010, was higher than the federal tax rate of 35%. This difference was primarily due to state income taxes and the 2010 federal health care reform. The 2010 federal health care reform eliminated the tax deduction for retiree prescription drug charges that are paid by employers and are offset by the receipt of a federal Medicare Part D subsidy. As a result, we expensed $11.8 million of deferred income taxes during the first quarter of 2010. An increase in wind production and other tax credits partially offset the higher effective tax rate.

In the second quarter of 2011, we decreased our liability for unrecognized tax benefits by $8.9 million. For the six months ended June 30, 2011, we decreased our liability for unrecognized tax benefits by $7.9 million. The decreases were driven by the effective settlement of the following three IRS examinations in the second quarter of 2011:

- Peoples Energy Corporation and consolidated subsidiaries for the September 30, 2004 through December 31, 2006 tax years,
- Integrys Energy Group and consolidated subsidiaries for the 2006 through 2008 tax years, and
- Peoples Energy Corporation short tax year ending February 21, 2007.

In the second quarter of 2011, we also remeasured and increased our unrecognized tax benefits liability related to the sale of Peoples Energy Production Company in 2007. We expensed additional state income taxes related to this remeasurement, of which a portion was reported as discontinued operations.

NOTE 12 COMMITMENTS AND CONTINGENCIES

Commodity Purchase Obligations and Purchase Order Commitments

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

The purchase obligations described below were as of June 30, 2011.

- The electric utility segment had obligations of $176.0 million related to coal supply and transportation that extend through 2016, obligations of $1,028.2 million for either capacity or energy related to purchased power that extend through 2030, and obligations of $5.4 million for

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other commodities that extend through 2013.

- The natural gas utility segment had obligations of $1,005.0 million related to natural gas supply and transportation contracts that extend through 2028.
- Integrys Energy Services had obligations of $364.8 million, primarily related to energy and natural gas supply contracts that extend through 2020. The majority of these obligations end by 2013, with obligations of $16.9 million extending beyond 2013.
- We and our subsidiaries also had commitments of $482.5 million in the form of purchase orders issued to various vendors that relate to normal business operations, including construction projects.

Environmental

CAA New Source Review Issues

Weston and Pulliam Plants:

In November 2009, the EPA issued an NOV to WPS alleging violations of the CAA s New Source Review requirements relating to certain projects completed at the Weston and Pulliam plants from 1994 to 2009. WPS continues to meet with the EPA and exchange proposals on a possible resolution. We are currently unable to estimate the possible loss or range of loss related to this matter.

In May 2010, WPS received from the Sierra Club an NOI to file a civil lawsuit based on allegations that WPS violated the CAA at the Weston and Pulliam plants. WPS entered into a Standstill Agreement with the Sierra Club by which the parties agreed to negotiate as part of the EPA NOV process, rather than litigate. WPS is working on a possible resolution with the Sierra Club and the EPA. We are currently unable to estimate the possible loss or range of loss related to this matter.

Columbia and Edgewater Plants:

In December 2009, the EPA issued an NOV to Wisconsin Power and Light (WP&L), the operator of the Columbia and Edgewater plants, and the other joint owners of these plants (including WPS). The NOV alleges violations of the CAA s New Source Review requirements related to certain projects completed at those plants. WP&L and the other joint owners exchanged proposals with the EPA on a possible resolution. We are currently unable to estimate the possible loss or range of loss related to this matter.

In September 2010, the Sierra Club filed a lawsuit against WP&L, which included allegations that modifications made at the Columbia plant did not comply with the CAA. The Court stayed the proceeding until September 11, 2011, to allow the Sierra Club to participate in settlement negotiations with the EPA and the joint owners of the Columbia plant. We are currently unable to estimate the possible loss or range of loss related to this matter.

In December 2009, WPS, along with the other co-owners of the Edgewater plant, received from the Sierra Club a copy of an NOI to file a civil lawsuit against the EPA. The Sierra Club cited the EPA s failure to take actions against the joint owners and operator of the Edgewater plant based upon allegations of failure to comply with the CAA. If the EPA does not take action against us and/or the other joint owners, it is likely that the Sierra Club will.

In September 2010, the Sierra Club filed a lawsuit against WP&L, which included allegations that modifications made at the Edgewater plant did not comply with the CAA. The Court stayed the proceeding until October 4, 2011, to allow the Sierra Club to participate in settlement negotiations with the EPA and the joint owners of the Edgewater plant. We are currently unable to estimate the possible loss or range of loss related to this matter.

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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, penalties, and costs of supplemental environmental projects associated with settlements involving comparably-sized facilities to Weston and Pulliam combined ranged between $6 million and $30 million. The regulatory interpretations upon which the lawsuits or settlements are based may change depending on future court decisions made in the pending litigation.

If it were settled or determined that historical projects at the Weston, Pulliam, Columbia, and Edgewater plants required either a state or federal CAA permit, WPS may, under the applicable statutes, be required to complete the following remedial steps:

- shut down the facility,
- install additional pollution control equipment and/or impose emission limitations, and/or
- conduct a supplemental environmental project.

In addition, WPS may also be required to pay a fine. Finally, under the CAA, citizen groups may pursue a claim.

Weston Air Permits

Weston 4 Construction Permit:

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

Weston Title V Air Permit:

In November 2010, the WDNR provided a draft revised permit. WPS objected to proposed changes in mercury limits and requirements on the boiler as beyond the authority of the WDNR. WPS and the WDNR continue to meet to resolve these issues. We do not expect this matter to have a material impact on our financial statements.

WDNR Issued NOVs:

Since 2008, WPS received four NOVs from the WDNR alleging various violations of the different air permits for the Weston plant, Weston 4, Weston 1, and Weston 2, as well as one NOV for a clerical error involving pages missing from a quarterly report for Weston. Corrective actions have been taken for the events in the five NOVs. Discussions with the WDNR on the severity classification of the events continue. Management believes it is likely that the WDNR will refer at least some of the NOVs to the state Justice Department for enforcement. We do not expect this matter to have a material impact on our financial statements.

Pulliam Title V Air Permit

The WDNR issued the renewal of the permit for the Pulliam plant in April 2009. In June 2010, the EPA issued an order directing the WDNR to respond to comments raised by the Sierra Club in its June 2009 Petition objecting to this permit. WPS has been working with the WDNR to address the order.

WPS also challenged the permit in a contested case proceeding and Petition for Judicial Review. The Petition was dismissed in an order remanding the matter to the WDNR. In February 2011, the WDNR granted a contested case proceeding on the issues raised by WPS, which included averaging times in the emission limits in the permit. WPS is participating in the contested case proceeding and a hearing has been set for August 31, 2011.

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In October 2010, WPS received from the Sierra Club a copy of an NOI to file a civil lawsuit against the EPA based on what the Sierra Club alleges to be the EPA s unreasonable delay in performing its duties related to the grant or denial of the permit.

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

Columbia Title V Air Permit

In October 2009, the EPA issued an order objecting to the permit renewal issued by the WDNR for the Columbia plant. The order determined that the WDNR did not adequately analyze whether a project in 2006 constituted a major modification that required a permit. The EPA s order directed the WDNR to resolve the objections within 90 days and terminate, modify, or revoke and reissue the permit accordingly.

In July 2010, WPS, along with its co-owners, received from the Sierra Club a copy of an NOI to file a civil lawsuit against the EPA. The Sierra Club alleges that the EPA should assert jurisdiction over the permit because the WDNR failed to respond to the EPA s objection within 90 days.

In September 2010, the WDNR issued a draft construction permit and a draft revised Title V permit in response to the EPA s order. In November 2010, the EPA notified the WDNR that the EPA does not believe the WDNR s proposal is responsive to the order. In January 2011, the WDNR issued a letter stating that upon review of the submitted public comments, the WDNR has determined not to issue the draft permits that were proposed to respond to the EPA s order. In February 2011, the Sierra Club filed for a declaratory action, claiming that the EPA had to assert jurisdiction over the permits. In May 2011, the WDNR issued a second draft Title V permit in response to the EPA s order. WPS is monitoring this situation with WP&L and meeting with the WDNR. We do not expect this matter to have a material impact on our financial statements.

Mercury and Interstate Air Quality Rules

Mercury:

The State of Wisconsin s mercury rule, 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 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. As of June 30, 2011, WPS estimates capital costs of approximately $19 million, which includes estimates for both wholly owned and jointly owned plants, to achieve the required Phase I and Phase II reductions. The capital costs are expected to be recovered in future rate cases.

In March 2011, the EPA issued a draft rule that will regulate emissions of mercury and other hazardous air pollutants. A final rule is expected in November 2011.

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Sulfur Dioxide and Nitrogen Oxide:

The EPA issued the Clean Air Interstate Rule (CAIR) in 2005 in order to reduce sulfur dioxide and nitrogen oxide emissions from utility boilers located in 29 states, including Wisconsin, Michigan, Pennsylvania, and New York. In July 2008, the United States Court of Appeals (Court of Appeals) issued a decision vacating CAIR, which the EPA appealed. In December 2008, the Court of Appeals reinstated CAIR and directed the EPA to address the deficiencies noted in its previous ruling to vacate CAIR. In July 2011, the EPA issued a final CAIR replacement rule known as CSAPR. The new rule becomes effective January 1, 2012, and as such, CAIR is still in place for the remainder of 2011. In comparison to the CAIR rule, CSAPR significantly reduces the emission allowances allocated to our existing units for sulfur dioxide and nitrogen oxide in 2012, with a further reduction in 2014.

CSAPR also establishes new sulfur dioxide and nitrogen oxide emission allowances and does not allow carryover of the existing nitrogen oxide emission allowances allocated to WPS under CAIR. WPS did not acquire any CAIR nitrogen oxide emission allowances for 2011 and beyond, other than those allocated by the EPA. Sulfur dioxide emission allowances allocated under the Acid Rain Program will continue to be issued and surrendered independent of the CSAPR emission allowance program. Thus, we do not expect any material impact on our consolidated financial statements as a result of being unable to carryover existing emission allowances.

Under CAIR, units affected by the Best Available Retrofit Technology (BART) rule are considered in compliance with BART for sulfur dioxide and nitrogen oxide emissions if they are in compliance with CAIR. Although particulate emissions also contribute to visibility impairment, the WDNR s modeling has shown the impairment to be so insignificant that additional capital expenditures on controls are not warranted. The EPA has not indicated whether units in compliance with CSAPR will also be considered in compliance with BART.

We are currently reviewing the EPA s final rule and its potential impact on us. In order to be in compliance with CSAPR, additional sulfur dioxide and nitrogen oxide controls will need to be installed or we will have to make other changes in how we operate our existing units. The installation of these controls will be scheduled as part of WPS s long-term maintenance plan for its existing units. Due to the fact that the rule has only recently been finalized, we are currently unable to estimate the cost of compliance. However, WPS expects to recover capital costs incurred to comply with CSAPR in future rates. The impact on Integrys Energy Services is not expected to be material.

Manufactured Gas Plant Remediation

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

Our natural gas utilities are responsible for the environmental remediation of 54 sites, of which 20 have been transferred to the EPA Superfund Alternative Sites Program. Under the EPA s program, the remedy decisions at these sites will be made using risk-based criteria typically used at Superfund sites. As of June 30, 2011, we estimated and accrued for $638.9 million of future undiscounted investigation and cleanup costs for all

sites. We may adjust these estimates in the future due to remedial technology, regulatory requirements, remedy determinations, and any claims of natural resource damages. As of June 30, 2011, cash expenditures for environmental remediation not yet recovered in rates were $7.5 million. We recorded a regulatory asset of $646.4 million at June 30, 2011, which is net of insurance recoveries received of $59.9 million, related to the expected recovery of both cash expenditures and

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estimated future expenditures through rates.

The EPA identified NSG, the Outboard Marine Corporation, General Motors Corporation (GM), and certain other parties as potentially responsible parties (PRPs) at the Waukegan Coke Plant Site located in Waukegan, Illinois. 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 $21.0 million. NSG 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, the EPA was granted access to the bond funds, which are expected to support 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 these costs will not have a material adverse effect on our consolidated financial statements. However, any changes in the approved rate mechanisms for recovery of these costs, or any adverse conclusions by the various regulatory commissions with respect to the prudence of costs actually incurred, could materially adversely affect rate recovery of such costs.

Greenhouse Gases

The EPA began regulating greenhouse gas emissions under the CAA in January 2011, by applying the BACT requirements (associated with the New Source Review program) to new and modified larger greenhouse gas emitters. Technology to remove and sequester greenhouse gas emissions is not commercially available at scale. Therefore, the EPA issued guidance that defines BACT in terms of improvements in energy efficiency as opposed to relying on pollution control equipment. In December 2010, the EPA announced its intent to develop new source performance standards for greenhouse gas emissions. The standards would apply to new and modified, as well as existing, electric utility steam generating units. The EPA plans to propose these standards in 2011 and finalize them in 2012. Currently there is no applicable federal or state legislation pending that specifically addresses greenhouse gas emissions.

We periodically evaluate 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 that caps emissions or imposes a carbon tax will increase costs for us and our customers. The greatest impact is likely to be on fossil fuel-fired generation, with a less significant impact on natural gas storage and distribution operations. Efforts are underway within the utility industry to find a feasible method for capturing carbon dioxide from pulverized coal-fired units and to develop cleaner ways to burn coal.

A risk exists that any greenhouse gas legislation or regulation will increase the cost of producing energy using fossil fuels. However, we believe the capital expenditures being made at our plants are appropriate under any reasonable mandatory greenhouse gas program. We also believe that future expenditures by our regulated electric and natural gas utilities to control greenhouse gas emissions or meet renewable portfolio standards will be recoverable in rates. We will continue to monitor and manage potential risks and opportunities associated with future greenhouse gas legislative or regulatory actions.

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NOTE 13 GUARANTEES

The following table shows our outstanding guarantees:

(Millions)	Total Amounts Committed at June 30, 2011	Expiration Less Than 1 Year	Expiration 1 to 3 Years	Expiration Over 3 Years
Guarantees supporting commodity transactions of subsidiaries (1)	**$ 625.3**	$ 402.8	$ 4.5	$ 218.0
Standby letters of credit (2)	**69.7**	41.6	28.0	0.1
Surety bonds (3)	**10.9**	10.2	0.7	
Other guarantees (4)	**58.7**		35.0	23.7
Total guarantees	**$ 764.6**	$ 454.6	$ 68.2	$ 241.8

(1) Consists of parental guarantees of $409.2 million to support the business operations of Integrys Energy Services; $142.2 million and $61.9 million, respectively, related to natural gas supply at MERC and MGU; and $5.0 million at both PELLC and IBS, and $2.0 million at UPPCO to support business operations. These guarantees are not reflected on our Balance Sheets.

(2) At our request or the request of our subsidiaries, financial institutions have issued standby letters of credit for the benefit of third parties that have extended credit to our subsidiaries. This amount consists of $66.9 million issued to support Integrys Energy Services operations and $2.8 million related to letters of credit issued to support UPPCO, WPS, MGU, NSG, MERC, and PGL operations. These amounts are not reflected on our Balance Sheets.

(3) Primarily for workers compensation coverage and obtaining various licenses, permits, and rights of way. These guarantees are not reflected on our Balance Sheets.

(4) Consists of (a) $35.0 million related to the sale agreement for Integrys Energy Services United States wholesale electric marketing and trading business, which included a number of customary representations, warranties, and indemnification provisions. In addition, for a two-year period, counterparty payment default risk was retained with approximately 50% of the counterparties associated with the commodity contracts transferred in this transaction. An insignificant liability was recorded related to the fair value of this counterparty payment default risk; (b) $10.0 million related to the sale agreement for Integrys Energy Services Texas retail marketing business, which included a number of customary representations, warranties, and indemnification provisions. An insignificant liability was recorded related to the possible imposition of additional miscellaneous gross receipts tax in the event of a change in law or interpretation of the tax law; (c) $5.0 million related to an environmental indemnification provided by Integrys Energy Services as part of the sale of the Stoneman generation facility, under which we expect that the likelihood of required performance is remote (this amount is not reflected on the Balance Sheets); and (d) $8.7 million related to other indemnifications and workers compensation coverage. This amount is not reflected on our Balance Sheets.

We have provided total parental guarantees of $529.3 million on behalf of Integrys Energy Services as shown in the table below. Our exposure under these guarantees related to open transactions at June 30, 2011, was approximately $265.8 million.

(Millions)	June 30, 2011
Guarantees supporting commodity transactions	**$ 409.2**
Standby letters of credit	**66.9**
Surety bonds	**2.7**
Other	**50.5**

Total guarantees	**$**	**529.3**

NOTE 14 EMPLOYEE BENEFIT PLANS

Our defined benefit pension plans are closed to all new hires, except Local 401 union hires at MGU.

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The following table shows the components of net periodic benefit cost for our benefit plans:

	Pension Benefits				Other Postretirement Benefits			
	Three Months Ended June 30		Six Months Ended June 30		Three Months Ended June 30		Six Months Ended June 30	
(Millions)	2011	2010	2011	2010	2011	2010	2011	2010
Service cost	**$ 9.4**	$ 9.2	**$ 20.7**	$ 20.1	**$ 4.5**	$ 3.7	**$ 9.5**	$ 8.2
Interest cost	**19.6**	19.4	**40.1**	40.0	**7.1**	6.6	**14.8**	13.7
Expected return on plan assets	**(25.3)**	(23.8)	**(50.0)**	(46.1)	**(5.7)**	(4.8)	**(10.7)**	(9.5)
Amortization of transition obligation							**0.1**	0.1
Amortization of prior service cost (credit)	**1.3**	1.3	**2.6**	2.6	**(1.1)**	(0.9)	**(2.0)**	(1.9)
Amortization of net actuarial loss	**4.3**	1.2	**9.0**	4.1	**0.9**	0.2	**2.0**	0.9
Regulatory deferral *		1.1		2.2		(0.3)		(0.6)
Net periodic benefit cost	**$ 9.3**	$ 8.4	**$ 22.4**	$ 22.9	**$ 5.7**	$ 4.5	**$ 13.7**	$ 10.9

* The PSCW authorized WPS to recover its net increased 2009 pension costs and to refund its net decreased 2009 other postretirement benefit costs as part of the limited rate case re-opener for 2010. Amortization and recovery/refund of these costs occurred in 2010.

Transition obligations, prior service costs (credits), and net actuarial losses that have not yet been recognized as a component of net periodic benefit cost are included in accumulated OCI for our nonregulated entities and are recorded as net regulatory assets for our utilities.

We make contributions to our plans in accordance with legal and tax requirements. These contributions do not necessarily occur evenly throughout the year. We contributed $88.8 million to our pension plans and $20.1 million to our other postretirement benefit plans during the six months ended June 30, 2011. We expect to contribute an additional $2.8 million to our pension plans and $21.1 million to our other postretirement benefit plans during the remainder of 2011. Additional contributions are dependent on various factors, including our liquidity position and the impact of tax law changes.

NOTE 15 STOCK-BASED COMPENSATION

Stock Options

The fair value of stock option awards granted is 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 and historical dividend rate. Our expected stock price volatility is 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:

	February 2011 Grant
Weighted-average fair value per option	**$6.57**

Expected term	**10 years**
Risk-free interest rate	**0.27% - 3.90%**
Expected dividend yield	**5.34%**
Expected volatility	**24.72%**

Compensation cost recognized for stock options during the three and six months ended June 30, 2011, and 2010, was not significant. As of June 30, 2011, $2.0 million of compensation cost related to unvested and outstanding stock options was expected to be recognized over a weighted-average period of three years.

Cash received from option exercises during the six months ended June 30, 2011, was $1.7 million. The tax benefit realized from these option exercises was $0.7 million.

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A summary of stock option activity for the six months ended June 30, 2011, and information related to outstanding and exercisable stock options at June 30, 2011, 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, 2010	2,992,699	$ 47.59		
Granted	**241,207**	**49.40**		
Exercised	**(184,258)**	**42.84**		**$ 1.7**
Expired	**(13,234)**	**51.93**		
Outstanding at June 30, 2011	**3,036,414**	**$ 48.00**	**6.15**	**$ 14.1**
Exercisable at June 30, 2011	**2,073,904**	**$ 49.54**	**5.14**	**$ 7.1**

The aggregate intrinsic value for outstanding and exercisable options in the above table represents the total pre-tax value that would have been received by the option holders had they all exercised their options at June 30, 2011. This is calculated as the difference between our closing stock price on June 30, 2011, and the option exercise price, multiplied by the number of in-the-money stock options.

Performance Stock Rights

Performance stock rights are accounted for as liability awards and are remeasured each reporting period during the requisite service period. The fair value of performance stock rights is 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 and historical dividend rate. The expected volatility is estimated using three years of historical data.

	February 2011 Grant
Risk-free interest rate	**1.27%**
Expected dividend yield	**5.34%**
Expected volatility	**35.51%**

Compensation cost recognized for performance stock rights during the three months ended June 30, 2011, was $1.9 million, and was not significant for the three months ended June 30, 2010. Compensation cost recognized for performance stock rights during the six months ended June 30, 2011, and 2010, was $1.2 million and $2.5 million, respectively. As of June 30, 2011, $4.5 million of compensation cost related to unvested and outstanding performance stock rights was expected to be recognized over a weighted-average period of 2.1 years.

The tax benefit realized from the distribution of performance shares during the six months ended June 30, 2011, was $2.5 million.

A summary of the activity related to performance stock rights for the six months ended June 30, 2011, is presented below:

	Performance Stock Rights
Outstanding at December 31, 2010	341,638
Granted	**84,749**
Distributed	**(129,237)**
Adjustment for final payout	**25,013**
Outstanding at June 30, 2011	**322,163**

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The total intrinsic value of performance stock rights distributed during the 6 months ended June 30, 2011, and 2010 was $6.3 million and $1.9 million, respectively.

Restricted Shares and Restricted Share Units

Restricted shares and restricted share units are accounted for as liability awards and are remeasured each period based on our closing stock price at the reporting date.

Compensation cost recognized for restricted share and restricted share unit awards was $3.1 million during the three months ended June 30, 2011, and was not significant for the three months ended June 30, 2010. Compensation cost recognized for these awards during the six months ended June 30, 2011, and 2010 was $5.3 million and $2.8 million, respectively. As of June 30, 2011, $16.7 million of compensation cost related to unvested and outstanding restricted share and restricted share unit awards was expected to be recognized over a weighted-average period of 2.8 years.

A summary of the activity related to restricted share and restricted share unit awards for the six months ended June 30, 2011, is presented below:

	Restricted Share and Restricted Share Unit Awards
Outstanding at December 31, 2010	405,362
Granted	**170,784**
Vested	**(133,128)**
Outstanding at June 30, 2011	**443,018**

The total intrinsic value of restricted share and restricted share unit awards vested during the 6 months ended June 30, 2011, and 2010 was $6.6 million and $3.9 million, respectively.

NOTE 16 COMPREHENSIVE INCOME

Our total comprehensive income was as follows:

	Three Months Ended June 30				Six Months Ended June 30			
(Millions)	**2011**		**2010**		**2011**		**2010**	
Net income attributed to common shareholders	**$**	**29.1**	$	79.1	**$**	**151.8**	$	128.8
Cash flow hedges, net of tax (1)		**1.7**		20.1		**6.0**		7.7
Foreign currency translation, net of tax (2)				(0.7)				0.1

Amortization of unrecognized pension and other postretirement benefit costs, net of tax (2)	**0.3**		**0.5**	0.5
Total comprehensive income	**$ 31.1**	$ 98.5	**$ 158.3**	$ 137.1

(1) For the three months ended June 30, 2011 and 2010, the tax was $1.3 million and $13.0 million, respectively. For the six months ended June 30, 2011 and 2010, the tax was $4.0 million and $7.3 million, respectively.

(2) For both the three and six months ended June 30, 2011, and June 30, 2010, the tax was not significant.

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The following table shows the changes to our accumulated other comprehensive loss from December 31, 2010, to June 30, 2011.

(Millions)		
December 31, 2010 balance	$	(44.7)
Cash flow hedges, net of tax		**6.0**
Amortization of unrecognized pension and other postretirement benefit costs, net of tax		**0.5**
June 30, 2011 balance	**$**	**(38.2)**

NOTE 17 COMMON EQUITY

We had the following changes to issued common stock during the six months ended June 30, 2011:

Integrys Energy Group s common stock shares	
Common stock at December 31, 2010	77,781,685
Shares issued	
Stock Investment Plan	**233,103**
Stock-based compensation	**231,443**
Rabbi trust shares	**43,888**
Restricted stock shares retired	**(2,213)**
Common stock at June 30, 2011	**78,287,906**

From February 11, 2010 through April 30, 2011, we issued new shares of common stock to meet the requirements of our Stock Investment Plan and certain stock-based employee benefit and compensation plans. These stock issuances increased equity $22.2 million in 2011. Beginning May 1, 2011, we began purchasing shares on the open market to meet the requirements of these plans.

The following table reconciles common shares issued and outstanding:

	June 30, 2011			December 31, 2010		
	Shares		Average Cost	Shares		Average Cost
Common stock issued	**78,287,906**			77,781,685		
Less:						
Deferred compensation rabbi trust	**369,208**	**$**	**44.26**(1)	425,273	$	43.55(1)
Restricted stock				6,333	$	58.65(2)
Total common shares outstanding	**77,918,698**			77,350,079		

(1) Based on our 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.

Earnings Per Share

Basic earnings per share is computed by dividing net income attributed to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed by dividing net income attributed to common shareholders by the weighted average number of common 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 calculation of diluted earnings per share for the three months ended June 30, 2011, and 2010, excluded 0.8 million and 2.1 million, respectively, out-of-the-money stock options that had an anti-dilutive effect. The calculation of diluted earnings per share for the six months ended June 30, 2011, and 2010, excluded 0.8 million and 1.9 million, respectively, out-of-the-money stock options that had an anti-dilutive effect. The following table reconciles our computation of basic and diluted earnings per share:

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(Millions, except per share amounts)	Three Months Ended June 30 2011	2010	Six Months Ended June 30 2011	2010
Numerator:				
Net income from continuing operations	**$ 30.8**	$ 79.6	**$ 154.2**	$ 130.0
Discontinued operations, net of tax	**(0.9)**		**(0.8)**	0.1
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
Denominator:				
Average shares of common stock basic	**78.7**	77.4	**78.5**	77.2
Effect of dilutive securities Stock-based compensation	**0.4**	0.5	**0.3**	0.4
Average shares of common stock diluted	**79.1**	77.9	**78.8**	77.6
Earnings per common share				
Basic	**$ 0.37**	$ 1.02	**$ 1.93**	$ 1.67
Diluted	**0.37**	1.02	**1.93**	1.66

Dividend Restrictions

Our ability as a holding company to pay dividends is largely dependent upon the availability of funds from our subsidiaries. Various laws, regulations, and financial covenants impose restrictions on the ability of certain of our regulated utility subsidiaries to transfer funds to us in the form of dividends. Our regulated utility subsidiaries are prohibited from loaning funds to us, either directly or indirectly.

The PSCW allows WPS to pay normal dividends on its common stock of no more than 103% of the previous year s common stock dividend. In addition, the PSCW currently requires WPS to maintain a financial common equity ratio of 50.24% or higher. WPS must obtain PSCW approval if the payment of dividends would cause it to fall below this authorized level of common equity. Our right to receive dividends on the common stock of WPS is also subject to the prior rights of WPS s preferred shareholders and to provisions in WPS s restated articles of incorporation, which limit the amount of common stock dividends that WPS may pay if its common stock and common stock surplus accounts constitute less than 25% of its total capitalization.

UPPCO s indentures relating to its first mortgage bonds contain certain limitations on the payment of cash dividends on its common stock.

NSG s long-term debt obligations contain provisions and covenants restricting the payment of cash dividends and the purchase or redemption of its capital stock.

PGL and WPS have short-term debt obligations containing 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 could result in the acceleration of their outstanding debt obligations.

We also have short-term and long-term debt obligations that 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 could result in the acceleration of outstanding debt obligations. At June 30, 2011, these covenants did not restrict the payment of any dividends beyond the amount restricted under our subsidiary requirements described above.

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As of June 30, 2011, total restricted net assets were approximately $1,366.2 million. Included in this amount is our equity in undistributed earnings of 50% or less owned investees accounted for by the equity method, which was approximately $101.2 million at June 30, 2011.

We also have the option to defer interest payments on our outstanding Junior Subordinated Notes, from time to time, for one or more periods of up to ten consecutive years per period. During any period in which we defer interest payments, we may not declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment on, any of our capital stock.

Except for the restrictions described above and subject to applicable law, we do not have any other significant dividend restrictions.

Capital Transactions with Subsidiaries

During the six months ended June 30, 2011, capital transactions with subsidiaries were as follows (in millions):

Subsidiary	Common stock dividend to parent	Return of capital to parent	Equity con