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

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

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

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

Approximately 50% of WPS's retail jurisdictional construction work in progress expenditures are subject to the AFUDC calculation. For 2009, WPS's average AFUDC retail rate was 8.61%, and its average AFUDC wholesale rate was 7.78%. WPS's allowance for equity funds used during construction for 2009, 2008, and 2007 was $5.1 million, $5.2 million, and $0.9 million, respectively. WPS's allowance for borrowed funds used during construction for 2009, 2008, and 2007 was $2.0 million, $1.8 million, and $0.3 million, respectively.

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

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

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

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

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

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

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

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

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

(n) Asset Retirement Obligations—Integrys Energy Group recognizes legal obligations at fair value associated with the retirement of tangible long-lived assets that result from the acquisition, construction or development, and/or normal operation of the assets. A liability is recorded for these obligations as long as the fair value can be reasonably estimated, even if the timing or method of settling the obligation is unknown. The asset retirement obligations are accreted using a credit-adjusted risk-free interest rate commensurate with the expected settlement dates of the asset retirement obligations; this rate is determined at the date the obligation is incurred. The associated retirement costs are capitalized as part of the related long-lived assets and are depreciated over the useful lives of the assets. See Note 14, "*Asset Retirement Obligations*," for more information.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Level 3—Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs.

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

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

(t) New Accounting Pronouncements—SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" (now incorporated as part of the Consolidation Topic of the FASB ASC), was issued in June 2009. This statement introduces a requirement to perform ongoing assessments to determine whether an entity is a variable interest entity and whether an enterprise is the primary beneficiary of a variable interest entity. In addition, this statement clarifies that the enterprise that is required to consolidate a variable interest entity will have a controlling financial interest evidenced by:

(1) the power to direct the activities that most significantly affect the entity's economic performance, and (2) the obligation to absorb losses or the right to receive benefits that are potentially significant to the variable interest entity. Additional disclosures are required regarding involvement with variable interest entities, as well as the methodology used to determine the primary beneficiary of any variable interest entities. This standard was effective for Integrys Energy Group beginning January 1, 2010. Management is currently evaluating the impact that the adoption will have on Integrys Energy Group's first quarter 2010 consolidated financial statements.

NOTE 2—RISK MANAGEMENT ACTIVITIES

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

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

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

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

The table to the right shows Integrys Energy Group's cash collateral positions:

(Millions)	**December 31, 2009**	**December 31, 2008**
Cash collateral provided to others	**$184.9**	$262.7
Cash collateral received from others	**55.2**	18.9

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

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

Utility Segments

Non-Hedge Derivatives

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

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

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

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

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

N/A = Not Applicable

Cash Flow Hedges

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

	Purchases
Natural gas (millions of therms)	9.6

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

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

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

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

Nonregulated Segments

Non-Hedge Derivatives

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

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

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

N/A = Not Applicable

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

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

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

Fair Value Hedges

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

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

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

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

Cash Flow Hedges

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

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

N/A = Not Applicable

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

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

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

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

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

NOTE 3—RESTRUCTURING EXPENSE

Reductions in Workforce

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

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

Integrys Energy Services Strategy Change

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

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

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

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

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

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

NOTE 4—DISPOSITIONS

Integrys Energy Services Strategy Change

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

Proposed Sale of United States Wholesale Electric Marketing and Trading Business

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

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

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

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

(Millions)	
Current assets from risk management activities	**$ 50.1**
Long-term assets from risk management activities	**30.5**
Total assets	**$ 80.6**
Current liabilities from risk management activities	**$ 78.9**
Long-term liabilities from risk management activities	**42.8**
Total liabilities	**$121.7**

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

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

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

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

Sale of United States Wholesale Natural Gas Marketing and Trading Business

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

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

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

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

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

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

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

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

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

Sale of Canadian Natural Gas and Electric Power Portfolio

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

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

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

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

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

Discontinued Operations Resulting from Integrys Energy Services Strategy Change

Energy Management Consulting Business

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

Other Discontinued Operations

Stoneman

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

PEP

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

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

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

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

WPS Niagara Generation, LLC

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

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

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

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

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

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

NOTE 5—PEC MERGER

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

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

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

(Millions)	**2009**	**2008**	**2007**
Accrued employee severance costs at beginning of period	**$1.4**	$4.8	$ –
Severance expense recorded	**0.1**	2.5	7.2
Cash payments	**(1.1)**	(5.9)	(2.4)
Accrued employee severance costs at end of period	**$0.4**	$1.4	$4.8

Supplemental Pro Forma Information

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

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

NOTE 6—PROPERTY, PLANT, AND EQUIPMENT

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

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

NOTE 7—JOINTLY OWNED UTILITY FACILITIES

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8—REGULATORY ASSETS AND LIABILITIES

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

(Millions)	2009	2008
Regulatory assets		
Environmental remediation costs (net of insurance recoveries)	**$ 674.9**	$ 681.1
Pension and other postretirement benefit related items	**605.5**	634.7
Asset retirement obligations	**39.4**	30.5
De Pere Energy Center	**33.4**	35.8
Derivatives	**32.3**	162.0
Income tax related items	**29.0**	23.2
Decoupling	**28.9**	4.4
Weston 3 lightning strike	**18.1**	22.3
Bad debt expense	**17.7**	4.8
Conservation program costs	**17.4**	4.8
Costs of previously owned nuclear plant	**14.3**	24.1
Unamortized loss on debt	**12.5**	13.2
Energy costs receivable through rate adjustments	**12.3**	23.1
Rate case costs	**9.5**	5.7
Costs to achieve merger synergies	**6.1**	12.1
Other	**4.7**	7.0
Total	**$1,556.0**	$1,688.8
Balance Sheet Presentation		
Current	**$ 121.1**	$ 244.0
Long-term	**1,434.9**	1,444.8
Total	**$1,556.0**	$1,688.8
Regulatory liabilities		
Cost of removal reserve	**$ 246.6**	$ 231.6
Energy costs refundable through rate adjustments	**79.6**	34.1
Pension and other postretirement benefit related items	**23.5**	26.1
Income tax related items	**6.7**	8.2
Enhanced Efficiency Program (EEP)	**6.1**	4.8
ATC and MISO refunds	**4.6**	9.6
Derivatives	**4.3**	4.9
Decoupling	**1.4**	9.4
Other	**5.2**	5.6
Total	**$ 378.0**	$ 334.3
Balance Sheet Presentation		
Current	**$ 100.4**	$ 58.8
Long-term	**277.6**	275.5
Total	**$ 378.0**	$ 334.3

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

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

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

See Note 1(g), "*Summary of Significant Accounting Policies – Risk Management Activities*," Note 14, "*Asset Retirement Obligations*," Note 15, "*Income Taxes*," Note 16, "*Commitments and Contingencies*," Note 18, "*Employee Benefit Plans*," and Note 24, "*Regulatory Environment*," for more information on some of the more significant regulatory assets and liabilities listed in the table on page 52.

NOTE 9—INVESTMENTS IN AFFILIATES, AT EQUITY METHOD

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

(Millions)	2009	2008
ATC	**$395.9**	$346.9
Wisconsin River Power Company (WRPC)	**8.5**	8.5
Other	**1.4**	3.1
Investments in affiliates, at equity method	**$405.8**	$358.5

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

ATC

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

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

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

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

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

WRPC

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Financial Data

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

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

NOTE 10—GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

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

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

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

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

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

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

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

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

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

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

(6) Relates to easements supporting a pipeline at Integrys Energy Services. The easements are amortized on a straight-line basis, with a remaining amortization period of 14.5 years.

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

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

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

(Millions)	
For year ending December 31, 2010	**$4.2**
For year ending December 31, 2011	**3.3**
For year ending December 31, 2012	**2.4**
For year ending December 31, 2013	**1.6**
For year ending December 31, 2014	**1.4**

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

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

(Millions)	
For year ending December 31, 2010	**$6.1**
For year ending December 31, 2011	**2.8**
For year ending December 31, 2012	**1.1**
For year ending December 31, 2013	**0.5**
For year ending December 31, 2014	**0.3**

NOTE 11—LEASES

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

Year Ended December 31 *(Millions)*	
2010	$11.6
2011	10.5
2012	9.1
2013	8.8
2014	4.8
Later years	23.6
Total payments	$68.4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12—SHORT-TERM DEBT AND LINES OF CREDIT

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

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

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

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

(Millions)	**2009**	**2008**	**2007**
Average amount of commercial paper outstanding	**$193.8**	$305.7	$490.1
Average amount of borrowings under revolving credit facilities	**$114.5**	$166.8	$116.4
Average amount of short-term notes payable outstanding	**$48.0**	$34.3	$10.0

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 13—LONG-TERM DEBT

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 14—ASSET RETIREMENT OBLIGATIONS

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

Changes to Asset Retirement Obligation Liabilities

The table on the next page shows changes to Integrys Energy Group's asset retirement obligations through December 31, 2009.

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

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

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

NOTE 15—INCOME TAXES

Deferred Income Tax Assets and Liabilities

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Federal Income Tax Expense

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

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

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

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

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

Unrecognized Tax Benefits

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

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

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

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

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

In 2009, Integrys Energy Group closed the following examinations:

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

Integrys Energy Group has the following open examinations:

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

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

NOTE 16—COMMITMENTS AND CONTINGENCIES

Commodity Purchase Obligations and Purchase Order Commitments

Integrys Energy Group routinely enters into long-term purchase and sale commitments that have various quantity requirements and durations. The regulated natural gas utilities have obligations to distribute and sell natural gas to their customers, and the regulated electric utilities have obligations to distribute and sell electricity to their customers. The utilities expect to recover costs related to these obligations in future customer rates. Additionally, the majority of the energy supply contracts entered into by Integrys Energy Services are to meet its obligations to deliver energy to customers.

The obligations described below are as of December 31, 2009.

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

General

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

Environmental

Clean Air Act New Source Review Issues

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

Columbia Plant:
On October 10, 2009, WPS, along with its co-owners, received from the Sierra Club a Notice of Intent (NOI) to file a civil lawsuit based on allegations that major modifications were made at the Columbia generation station without complying with the CAA. Specifically, the allegations suggest that Prevention of Significant Deterioration (PSD) permits that imposed Best Available Control Technology (BACT) limits on emissions should have been obtained for the Columbia generation station, which is jointly owned by Wisconsin Power and Light (WP&L), Madison Gas and Electric Company, and WPS, and operated by WP&L. The NOI also covers similar allegations related to another generation station solely owned by WP&L. Integrys Energy Group is reviewing the allegations but is currently unable to predict the impact on its consolidated financial statements.

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

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

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

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

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

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

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

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

Weston Air Permits

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

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

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

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

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

Columbia Air Permit

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

Mercury and Interstate Air Quality Rules

Mercury

The State of Wisconsin's mercury rule, Chapter NR 446, requires a 40% reduction from the 2002 through 2004 baseline mercury emissions in Phase I, beginning January 1, 2010, through the end of 2014. In Phase II, which begins in 2015, electric generating units above 150 megawatts will be required to reduce mercury emissions by 90%. Reductions can be phased in and the 90% target can be delayed until 2021 if additional sulfur dioxide and nitrogen oxide reductions are implemented. By 2015, electric generating units above 25 megawatts but less than 150 megawatts must reduce their mercury emissions to a level defined by the BACT rule. WPS estimates capital costs of approximately $19 million for Phase I and Phase II, which includes estimates for both wholly owned and jointly owned plants, to achieve the required reductions. The capital costs are expected to be recovered in future rate cases. Because of the vacatur of the federal mercury control and monitoring rule in February 2008, the EPA is reviewing options for a new rulemaking and is expected to issue a draft rule in 2010.

Sulfur Dioxide and Nitrogen Oxide

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

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

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

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

Manufactured Gas Plant Remediation

Integrys Energy Group's natural gas utilities, their predecessors, and certain former affiliates operated facilities in the past at multiple sites for the purpose of manufacturing and storing manufactured gas. In connection with manufacturing and storing manufactured gas, waste materials were produced that may have resulted in soil and groundwater contamination at these sites. Under certain laws and regulations relating to the protection of the environment, Integrys Energy Group's natural gas utilities are required to undertake remedial action with respect to some of these materials.

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

Integrys Energy Group's natural gas utilities are coordinating the investigation and cleanup of the manufactured gas plant sites subject to EPA jurisdiction under what is called a "multi-site" program. This program involves prioritizing the work to be done at the sites, preparation and approval of documents common to all of the sites, and utilization of a consistent approach in selecting remedies.

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

Management believes that any costs incurred for environmental activities relating to former manufactured gas plant operations that are not recoverable through contributions from other entities or from insurance carriers have been prudently incurred and are, therefore, recoverable through rates for WPS, MGU, PGL, and NSG. Accordingly, management believes that the costs incurred in connection with former manufactured gas plant operations will not have a material adverse effect on the consolidated financial statements of Integrys Energy Group.

Flood Damage

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

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

Greenhouse Gases

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

Escanaba Water Permit Issues

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

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

Natural Gas Charge Reconciliation Proceedings and Related Matters

Natural Gas Charge Settlement and Pending Natural Gas Charge Cases

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

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

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

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

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

Class Action

In February 2004, a purported class action suit was filed in Cook County Circuit Court against PEC, PGL, and NSG by customers of PGL and NSG, alleging among other things, violation of the Illinois Consumer Fraud and Deceptive Business Practices Act related to matters at issue in the utilities' fiscal year 2001 Gas Charge reconciliation proceedings. In the suit, Alport et al. v. Peoples Energy Corporation, the plaintiffs seek disgorgement and punitive damages. PGL and NSG have been dismissed as defendants and the only remaining counts of the suit allege violations of the Consumer Fraud and Deceptive Business Practices Act by PEC and that PEC acted in concert with others to commit a tortious act. PEC denies the allegations and is vigorously defending the suit. On November 19, 2009, the court entered an order certifying a class composed of customers of PGL and NSG during the period April 26, 2000, through September 30, 2002. On December 17, 2009, PEC filed a Petition for Leave to Appeal to the Appellate Court challenging class certification and on February 19, 2010, this appeal was denied.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17—GUARANTEES

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

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

The following table shows outstanding guarantees at Integrys Energy Group:

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

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

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

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

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

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

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

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

NOTE 18—EMPLOYEE BENEFIT PLANS

Defined Benefit Plans

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

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

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

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

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

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

Effective May 1, 2008, and July 1, 2008, the defined benefit pension plans were closed to new union hires at PGL and NSG, respectively. Effective April 19, 2009, and December 18, 2009, the defined benefit pension plans were closed to new union hires at UPPCO and WPS, respectively. In addition, changes in the WPS union contract resulted in a plan amendment in December 2009. Effective January 15, 2010, the defined benefit pension plans were closed to new Local 12295 union hires at MGU.

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

	Pension Benefits		Other Benefits	
(Millions)	**2009**	**2008**	**2009**	**2008**
Reconciliation of benefit obligation				
Obligation at January 1	**$1,230.5**	$1,210.2	**$432.7**	$408.6
Service cost	**38.9**	38.4	**14.3**	15.7
Interest cost	**80.9**	76.2	**26.5**	26.4
Plan amendments	**3.0**	–	**–**	–
Plan curtailment	**0.2 ***	–	**–**	–
Actuarial (gain) loss, net	**78.6**	12.1	**23.2**	(12.5)
Participant contributions	**–**	–	**–**	1.8
Benefit payments	**(94.7)**	(106.4)	**(23.2)**	(22.1)
Federal subsidy on benefits paid	**–**	–	**2.0**	2.0
Other	**–**	–	**–**	12.8
Obligation at December 31	**$1,337.4**	$1,230.5	**$475.5**	$432.7

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

	Pension Benefits		Other Benefits	
Reconciliation of fair value of plan assets	**2009**	**2008**	**2009**	**2008**
Fair value of plan assets at January 1	**$830.3**	$1,219.5	**$191.1**	$248.3
Actual return on plan assets	**174.5**	(310.6)	**33.1**	(55.6)
Employer contributions	**23.5**	27.8	**29.8**	13.0
Participant contributions	**–**	–	**–**	1.7
Benefit payments	**(94.7)**	(106.4)	**(23.2)**	(22.1)
Other	**–**	–	**–**	5.8
Fair value of plan assets at December 31	**$933.6**	$ 830.3	**$230.8**	$191.1

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

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

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

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

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

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

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

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

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

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

	Pension Benefits			Other Benefits		
(Millions)	**2009**	**2008**	**2007**	**2009**	**2008**	**2007**
Net periodic benefit cost						
Service cost	**$38.9**	$ 38.4	$39.7	**$14.3**	$15.7	$15.4
Interest cost	**80.9**	76.2	70.4	**26.5**	26.4	24.5
Expected return on plan assets	**(92.5)**	(101.0)	(89.4)	**(17.7)**	(19.0)	(17.5)
Plan curtailment gain	**–**	–	–	**–**	–	(0.1)
Amortization of transition obligation	**–**	–	–	**0.3**	0.3	0.4
Amortization of prior service cost (credit)	**5.0**	5.1	5.1	**(3.8)**	(3.8)	(2.6)
Amortization of net actuarial (gain) loss	**1.9**	0.7	4.8	**(1.5)**	–	1.8
Amortization of merger related regulatory adjustment	**20.0**	9.6	14.2	**3.3**	2.1	0.8
Regulatory deferral *	**(4.5)**	–	–	**1.3**	–	–
Net periodic benefit cost	**$49.7**	$ 29.0	$44.8	**$22.7**	$21.7	$22.7

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

Assumptions – Pension and Other Postretirement Benefit Plans

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

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

N/A = Not Applicable

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

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

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

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

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

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

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Pension and Other Postretirement Benefit Plan Assets

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

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

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

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

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

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

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

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

Cash Flows Related to Pension and Other Postretirement Benefit Plans

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

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

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

Defined Contribution Benefit Plans

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

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

The deferred compensation arrangements for which distributions are made solely in Integrys Energy Group's common stock are classified as an equity instrument. Changes in the fair value of the deferred compensation obligation are not recognized. The deferred compensation obligation associated with Integrys Energy Group common stock was $24.2 million at December 31, 2009, and $23.7 million at December 31, 2008.

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

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

NOTE 19—PREFERRED STOCK OF SUBSIDIARY

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

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

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

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

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

NOTE 20—COMMON EQUITY

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

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

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

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

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

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

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

Earnings Per Share

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

Basic earnings (loss) per share is computed by dividing net income (loss) attributed to common shareholders by the weighted average number of common stock shares outstanding during the period. Diluted earnings (loss) per share is computed by dividing net income (loss) attributed to common shareholders by the weighted average number of common stock shares outstanding during the period, adjusted for the exercise and/or conversion of all potentially dilutive securities. Such dilutive items include in-the-money stock options, performance stock rights, and restricted stock. The effects of an insignificant number of in-the-money securities were not included in the computation for 2009, because there was a net loss during the period, which would cause the impact to be anti-dilutive. The 2009 calculation of diluted earnings per share also excluded 2.7 million out-of-the-money stock options that had an anti-dilutive effect. The calculation of diluted earnings per share for 2008 excluded 2.2 million out-of-the-money stock options that had an anti-dilutive effect. The calculation of diluted earnings per share for 2007 excluded an insignificant number of stock options that had an anti-dilutive effect. The following table reconciles the computation of basic and diluted earnings (loss) per share:

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

Accumulated Other Comprehensive Income (Loss)

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

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

[1] *Includes tax benefits of $18.6 million and $33.8 million at December 31, 2009, and 2008, respectively.*

[2] *Includes tax benefits of $13.8 million and $10.6 million at December 31, 2009, and 2008, respectively.*

[3] *Includes tax of $3.4 million at December 31, 2008.*

NOTE 21—STOCK-BASED COMPENSATION

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

Stock Options

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

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

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

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

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

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

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

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

The aggregate intrinsic value for outstanding and exercisable options in the table on page 73 represents the total pre-tax intrinsic value that would have been received by the option holders had they all exercised their options at December 31, 2009. This is calculated as the difference between Integrys Energy Group's closing stock price on December 31, 2009, and the option exercise price, multiplied by the number of in-the-money stock options.

Performance Stock Rights

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

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

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

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

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

	Performance Stock Rights	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2008	263,109	$50.13
Granted	121,220	37.11
Expired	79,574	48.37
Forfeited	3,665	52.15
Outstanding at December 31, 2009	**301,090**	**$45.33**

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

Restricted Shares and Restricted Share Units

A portion of the long-term incentive is awarded in the form of restricted shares and restricted share units. Most of these awards have a four-year vesting period, with 25% of each award vesting on each anniversary of the grant date. During the vesting period, restricted share recipients have voting rights and are entitled to dividends in the same manner as other common shareholders, whereas restricted share unit recipients receive dividend credits and do not have voting rights. Restricted shares and restricted share units have a value equal to the fair market value of Integrys Energy Group's common shares on the grant date. Compensation cost recognized for these awards was $4.9 million, $4.2 million, and $1.4 million during the years ended December 31, 2009, 2008, and 2007, respectively. Compensation cost capitalized during these same years was not significant. As of December 31, 2009, $7.4 million of compensation cost related to these awards was expected to be recognized over a weighted-average period of 2.5 years.

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

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

Stock Appreciation Rights

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

NOTE 22—FAIR VALUE

Fair Value Measurements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Fair Value of Financial Instruments

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

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

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

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

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

NOTE 23—MISCELLANEOUS INCOME

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

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

NOTE 24—REGULATORY ENVIRONMENT

Wisconsin

2010 Rates

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

2009 Rates

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

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

2008 Rates

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

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

2007 Rates

On January 11, 2007, the PSCW issued a final written order for WPS authorizing a retail electric rate increase of $56.7 million (6.6%) and a retail natural gas rate increase of $18.9 million (3.8%), effective January 12, 2007. The new rates reflected a 10.9% return on common equity. The PSCW approved a common equity ratio of 57.4% in WPS's regulatory capital structure. The 2007 retail electric rate increase was required primarily because of increased costs associated with electric transmission, costs related to the construction of Weston 4 and the additional personnel to maintain and operate the plant, and costs to maintain the Weston 3 generation unit and the De Pere Energy Center. The 2007 retail natural gas rate increase was driven by infrastructure improvements necessary to ensure the reliability of the natural gas distribution system and costs associated with the remediation of former manufactured gas plant sites.

Weston 3 Outage

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

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

Kewaunee

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

Michigan

2010 UPPCO Rates

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

2010 MGU Rates

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

2009 MGU Rates

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

2008 WPS Rates

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

Illinois

2010 Rates

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

Recent Illinois Legislation

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

2008 Rates

On February 5, 2008, the ICC issued a final written order authorizing a retail natural gas rate increase of $71.2 million for PGL and a retail natural gas rate decrease of $0.2 million for NSG, effective February 14, 2008. The rates for PGL reflected a 10.19% return on common equity and a common equity ratio of 56% in its regulatory capital structure. The rates for NSG reflected a 9.99% return on common equity and a common equity ratio of 56% in its regulatory capital structure. The order included approval of a decoupling mechanism, effective March 1, 2008, as a four-year pilot program, which allows PGL and NSG to adjust rates going forward to recover or refund the difference between the actual and authorized margin impact of variations in volumes. Legislation was introduced at the Illinois state legislature to roll back decoupling but never reached a vote. This legislation was introduced again in the first quarter of 2009. Integrys Energy Group actively supports the ICC's decision to approve this rate setting mechanism. The order also approved an EEP, which allows PGL and NSG to recover up to $6.4 million and $1.1 million per year, respectively, of energy efficiency costs. This EEP is separate from the SB 1918 required EEP.

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

Minnesota

2010 Rates

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

Federal

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

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

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

NOTE 25—SEGMENTS OF BUSINESS

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

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

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

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

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

	Regulated Operations				Nonutility and Nonregulated Operations			
2009 *(Millions)*	**Electric Utility**	**Natural Gas Utility**	**Electric Transmission Investment**	**Total Regulated Operations**	**Integrys Energy Services**	**Holding Company and Other**	**Reconciling Eliminations**	**Integrys Energy Group Consolidated**
Income Statement								
External revenues	$1,258.9	$2,236.9	$ –	$3,495.8	$3,992.5	$ 11.5	$ –	$ 7,499.8
Intersegment revenues	42.7	0.6	–	43.3	1.5	–	(44.8)	–
Goodwill impairment loss	–	291.1	–	291.1	–	–	–	291.1
Restructuring expense	8.6	6.9	–	15.5	27.2	0.8	–	43.5
Loss on Integrys Energy Services dispositions related to strategy change	–	–	–	–	28.9	–	–	28.9
Depreciation and amortization expense	90.3	106.1	–	196.4	19.3	15.2	–	230.9
Miscellaneous income (expense)	4.8	3.1	75.3	83.2	6.0	46.5	(46.7)	89.0
Interest expense (income)	41.6	52.2	–	93.8	13.1	104.6	(46.7)	164.8
Provision (benefit) for income taxes	51.4	7.8	29.8	89.0	18.5	(24.3)	–	83.2
Net income (loss) from continuing operations	91.4	(171.5)	45.5	(34.6)	(1.3)	(35.7)	–	(71.6)
Discontinued operations	–	–	–	–	2.8	–	–	2.8
Preferred stock dividends of subsidiary	(2.5)	(0.6)	–	(3.1)	–	–	–	(3.1)
Net income (loss) attributed to common shareholders	88.9	(172.1)	45.5	(37.7)	2.5	(35.7)	–	(70.9)
Total assets	2,834.7	4,675.7	395.9	7,906.3	3,550.8	1,462.7	(1,071.9)	11,847.9
Cash expenditures for long-lived assets	250.4	136.9	–	387.3	22.4	34.5	–	444.2

2008 (Millions)	Regulated Operations: Electric Utility	Regulated Operations: Natural Gas Utility	Regulated Operations: Electric Transmission Investment	Regulated Operations: Total Regulated Operations	Nonutility and Nonregulated Operations: Integrys Energy Services	Nonutility and Nonregulated Operations: Holding Company and Other	Reconciling Eliminations	Integrys Energy Group Consolidated
Income Statement								
External revenues	$1,284.6	$3,025.3	$ –	$4,309.9	$9,726.5	$ 11.4	$ –	$14,047.8
Intersegment revenues	44.3	0.6	–	44.9	8.7	0.6	(54.2)	–
Goodwill impairment loss	–	6.5	–	6.5	–	–	–	6.5
Depreciation and amortization expense	84.3	108.3	–	192.6	14.5	14.3	–	221.4
Miscellaneous income (expense)	6.0	7.0	66.1	79.1	8.7	45.4	(45.9)	87.3
Interest expense (income)	36.7	56.6	–	93.3	12.1	98.6	(45.9)	158.1
Provision (benefit) for income taxes	48.1	57.1	26.4	131.6	(56.2)	(24.2)	–	51.2
Net income (loss) from continuing operations	94.7	85.5	39.7	219.9	(65.5)	(29.7)	–	124.7
Discontinued operations	–	–	–	–	3.9	0.8	–	4.7
Preferred stock dividends of subsidiary	(2.1)	(1.0)	–	(3.1)	–	–	–	(3.1)
Net income (loss) attributed to common shareholders	92.6	84.5	39.7	216.8	(61.5)	(28.9)	–	126.4
Total assets	2,752.4	5,173.8	346.9	8,273.1	5,050.2	2,144.3	(1,195.1)	14,272.5
Cash expenditures for long-lived assets	207.4	237.3	–	444.7	68.1	20.0	–	532.8

2007 (Millions)	Regulated Utilities: Electric Utility	Regulated Utilities: Natural Gas Utility	Regulated Utilities: Electric Transmission Investment	Regulated Utilities: Total Regulated Operations	Nonutility and Nonregulated Operations: Integrys Energy Services	Nonutility and Nonregulated Operations: Oil and Natural Gas Production	Nonutility and Nonregulated Operations: Holding Company and Other	Reconciling Eliminations	Integrys Energy Group Consolidated
Income Statement									
External revenues	$1,202.9	$2,102.5	$ –	$3,305.4	$6,975.7	$ –	$ 11.3	$ –	$10,292.4
Intersegment revenues	43.2	1.2	–	44.4	4.0	–	1.2	(49.6)	–
Depreciation and amortization expense	80.1	97.7	–	177.8	14.4	–	2.9	–	195.1
Miscellaneous income (expense)	8.3	5.5	50.5	64.3	(0.3)	0.1	30.9	(30.9)	64.1
Interest expense (income)	32.4	53.4	–	85.8	13.5	2.4	93.7	(30.9)	164.5
Provision (benefit) for income taxes	51.5	14.5	20.2	86.2	26.3	(1.0)	(25.5)	–	86.0
Net income (loss) from continuing operations	89.6	29.6	30.3	149.5	83.1	(2.5)	(49.1)	–	181.0
Discontinued operations	–	–	–	–	14.8	58.5	–	–	73.3
Preferred stock dividends of subsidiary	(2.2)	(0.9)	–	(3.1)	–	–	–	–	(3.1)
Net income (loss) attributed to common shareholders	87.4	28.7	30.3	146.4	98.0	56.0	(49.1)	–	251.3
Total assets	2,470.8	4,777.8	296.6	7,545.2	3,150.6	–	1,614.8	(1,076.2)	11,234.4
Cash expenditures for long-lived assets	202.6	158.8	–	361.4	20.5	–	10.7	–	392.6

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

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

NOTE 26—QUARTERLY FINANCIAL INFORMATION (Unaudited)

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

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

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

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

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte.

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

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

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Integrys Energy Group, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

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

Deloitte & Touche LLP

Milwaukee, WI
February 25, 2010

FINANCIAL AND OTHER STATISTICS

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

(1) Includes the impact of the Peoples Energy Corporation merger on February 21, 2007.

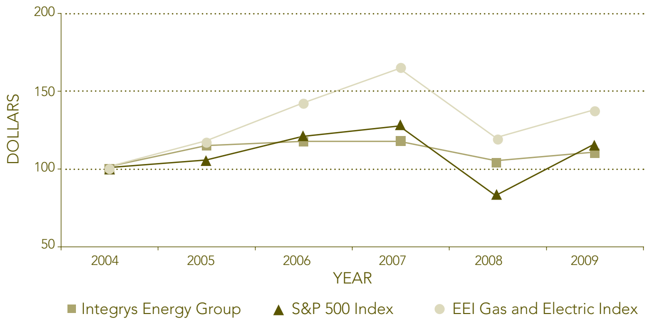
(2) Includes the impact of the acquisition of natural gas distribution operations from Aquila by Michigan Gas Utilities Corporation on April 1, 2006 and Minnesota Energy Resources Corporation on July 1, 2006.

Comparative Five-Year Investment Performance Graph (1)

The following graph presents a five-year comparison of:

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

Comparison of Five-Year Cumulative Total Return (2)



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

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

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

(2) Total return assumes reinvestment of dividends.

BOARD OF DIRECTORS *

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MANAGEMENT TEAM *

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Year Ended December 31 *(By Quarter)*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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