First Quarter 2010 Compared with First Quarter 2009

The change in the effective tax rate for the quarter ended March 31, 2010, compared to the same quarter in 2009, was primarily related to the tax treatment of Integrys Energy Group's $291.1 million non-cash pre-tax goodwill impairment loss recorded in 2009. Although Integrys Energy Group had a $166.7 million loss before income taxes for the quarter ended March 31, 2009, it still recorded a $12.8 million provision for income taxes because $186.2 million of the total pre-tax goodwill impairment loss was not deductible for income tax purposes.

Also contributing to the increase in the quarter-over-quarter effective tax rate was the elimination of the deductibility of prescription drug payments to retirees, to the extent those payments will be offset by the receipt of the Medicare Part D subsidy, as mandated in the recently passed federal health care legislation. See "*Other Future Considerations – Federal Health Care Reform*" for more information. As a result of the legislation, Integrys Energy Group expensed $11.8 million of deferred income tax benefits during the quarter ended March 31, 2010, which were previously recognized as a reduction in provision for income taxes. This additional provision for income taxes will not reoccur in future periods. The 2010 effective tax rate has also been adjusted to reflect an additional provision for income taxes of $1.9 million related to current year expected retiree benefits.

LIQUIDITY AND CAPITAL RESOURCES

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

Operating Cash Flows

During the quarter ended March 31, 2010, net cash provided by operating activities was $419.4 million, compared with $852.6 million for the same quarter in 2009. The $433.2 million quarter-over-quarter decrease in net cash provided by operating activities was largely driven by a $393.0 million decrease in cash provided by working capital. Because natural gas prices dropped significantly during the first quarter of 2009, accounts receivable and accrued unbilled revenues also decreased during this period, generating cash. However, the first quarter of 2010 did not see the same change in prices, therefore accounts receivable and accrued unbilled revenues increased from year-end as a result of high volumes experienced during the heating season. Also contributing to the decrease in cash provided by working capital was a $266.6 million quarter-over-quarter decrease in cash generated by inventories, driven by a larger decrease in natural gas prices over the first quarter of 2009, compared with the first quarter of 2010, and the withdrawal of a significant amount of natural gas from storage at Integrys Energy Services during the first quarter of 2009 in order to improve its liquidity position. Partially offsetting these changes was a $294.9 million quarter-over-quarter decrease in cash used to pay accounts payable balances.

Investing Cash Flows

Net cash used for investing activities was $15.8 million during the quarter ended March 31, 2010, compared with $93.5 million for the same quarter in 2009. The $77.7 million quarter-over-quarter decrease in cash used for investing activities was primarily driven by a $52.5 million quarter-over-quarter increase in proceeds received from the sale or disposal of assets (related to the Integrys Energy Services strategy change), as well as a $26.1 million quarter-over-quarter decrease in cash used to fund capital expenditures (discussed below).

Capital Expenditures

Capital expenditures by business segment for the quarter ended March 31 were as follows:

Reportable Segment *(millions)*	**2010**	**2009**	**Change**
Electric utility	**$23.7**	$43.2	$(19.5)
Natural gas utility	**23.0**	28.3	(5.3)
Integrys Energy Services	**7.6**	11.2	(3.6)
Holding company and other	**8.9**	6.6	2.3
Integrys Energy Group consolidated	**$63.2**	$89.3	$(26.1)

The decrease in capital expenditures at the electric utility segment for the quarter ended March 31, 2010, compared with the same quarter in 2009, was mainly due to decreased expenditures related to the Crane Creek Wind Farm project, which was placed in service for accounting purposes in December 2009.

Financing Cash Flows

Net cash used for financing activities was $189.1 million during the quarter ended March 31, 2010, compared with $681.5 million for the same quarter in 2009. The $492.4 million quarter-over-quarter decrease in cash used for financing activities was driven by a $647.7 million quarter-over-quarter decrease in the repayment of short-term borrowings, mainly due to the generation of more cash from operating activities in 2009 compared with 2010, partially offset by an $86.8 million quarter-over-quarter decrease in proceeds from the sale of borrowed gas, as well as $66.9 million of payments made during the first quarter of 2010 to buyers of the wholesale gas and power businesses for out-of-the-money transactions executed at the time of sale. These contracts were replacement supply trades for the retained retail operations and were transacted at the original transfer price between the wholesale and retail businesses.

Significant Financing Activities

Integrys Energy Group had outstanding commercial paper borrowings of $162.7 million and $143.6 million at March 31, 2010, and 2009, respectively. Integrys Energy Group had short-term notes payable outstanding of $10.0 million at March 31, 2010, and 2009. Integrys Energy Group had no borrowings under revolving credit facilities at March 31, 2010, and $345.0 million at March 31, 2009. See Note 9, "*Short-Term Debt and Lines of Credit*," for more information.

For information on the issuance and redemption of long-term debt at Integrys Energy Group and its subsidiaries, see Note 10, "*Long-Term Debt.*"

Beginning February 11, 2010, Integrys Energy Group issued new shares of common stock to meet the requirements of its Stock Investment Plan and certain stock-based employee benefit and compensation plans. From January 1, 2010 to February 11, 2010, and during 2009, Integrys Energy Group purchased shares of its common stock on the open market to meet the requirements of these plans.

Credit Ratings

The current credit ratings for Integrys Energy Group, WPS, PEC, PGL, and NSG are listed in the table below.

Credit Ratings	Standard & Poor's	Moody's
Integrys Energy Group		
Issuer credit rating	BBB+	N/A
Senior unsecured debt	BBB	Baa1
Commercial paper	A-2	P-2
Credit facility	N/A	Baa1
Junior subordinated notes	BBB-	Baa2
WPS		
Issuer credit rating	A-	A2
First mortgage bonds	N/A	A1
Senior secured debt	A	A1
Preferred stock	BBB	Baa1
Commercial paper	A-2	P-1
Credit facility	N/A	A2
PEC		
Issuer credit rating	BBB+	N/A
Senior unsecured debt	BBB	Baa1
PGL		
Issuer credit rating	BBB+	A3
Senior secured debt	A-	A2
Commercial paper	A-2	P-2
NSG		
Issuer credit rating	BBB+	A3
Senior secured debt	A	A2

Credit ratings are not recommendations to buy or sell securities and are subject to change, and each rating should be evaluated independently of any other rating.

On January 26, 2010, Standard and Poor's revised the outlook for Integrys Energy Group and all of its subsidiaries to "stable" from "negative." The revised outlook reflected Integrys Energy Group's decision to retain a selected portion of its nonregulated operations, which resulted in a revision to Integrys Energy Group's business risk profile to "strong" from "excellent." The revised outlook also reflected Integrys Energy Group's improved financial measures and decreasing regulatory risk, which resulted in a change in its financial risk profile to "significant" from "aggressive."

On June 9, 2009, Moody's assigned an "A3" issuer credit rating to PGL and NSG, and lowered the following ratings of Integrys Energy Group and its subsidiaries:

- The senior unsecured debt ratings of Integrys Energy Group and PEC were lowered from "A3" to "Baa1."
- The credit facility rating of Integrys Energy Group was lowered from "A3" to "Baa1."
- The junior subordinated notes rating of Integrys Energy Group was lowered from "Baa1" to "Baa2."
- The issuer credit rating of WPS was lowered from "A1" to "A2."
- The senior secured debt rating and first mortgage bonds rating of WPS were lowered from "Aa3" to "A1."
- The senior secured debt ratings of PGL and NSG were lowered from "A1" to "A2."
- The preferred stock rating of WPS was lowered from "A3" to "Baa1."
- The credit facility rating of WPS was lowered from "A1" to "A2."
- The commercial paper rating of PGL was lowered from "P-1" to "P-2."

According to Moody's, the downgrade considers management's decision to divest of its nonregulated energy marketing business, and reflects the expected improvements in Integrys Energy Group's business risk and liquidity profiles after the divestiture, as well as the expected challenge of replacing the earnings generated by this nonregulated segment. Also according to Moody's, the downgrade reflects management's decision to leave its dividend policy unchanged despite expected near-term reduction in earnings and internal cash flow generation.

On March 5, 2009, Standard & Poor's lowered the following ratings of Integrys Energy Group and its subsidiaries:

- The issuer credit ratings of Integrys Energy Group, PGL, NSG, and PEC were lowered from "A-" to "BBB+."
- The issuer credit rating of WPS was lowered from "A" to "A-."
- The senior unsecured debt ratings of Integrys Energy Group and PEC were lowered from "BBB+" to "BBB."
- The junior subordinated notes rating of Integrys Energy Group was lowered from "BBB" to "BBB-."
- The senior secured debt rating of WPS was lowered from "A+" to "A."
- The preferred stock rating of WPS was lowered from "BBB+" to "BBB."

According to Standard & Poor's, Integrys Energy Group's corporate credit downgrade reflects weak financial measures that do not support an "A" category credit profile. Standard & Poor's also stated that the downgrade reflects the changes to Integrys Energy Group's business and financial risk profiles. Standard & Poor's revised Integrys Energy Group's business risk profile to "excellent" from "strong" and changed its financial risk profile to "aggressive" from "intermediate." The change in the business risk profile reflected the strategy change with respect to Integrys Energy Services and helped to moderate the downgrade.

Future Capital Requirements and Resources

Contractual Obligations

The following table shows the contractual obligations of Integrys Energy Group, including its subsidiaries, as of March 31, 2010.

		Payments Due By Period			
(Millions)	**Total Amounts Committed**	**2010**	**2011 to 2012**	**2013 to 2014**	**2015 and Thereafter**
Long-term debt principal and interest payments [1]	$3,490.7	$ 167.6	$ 941.5	$ 571.6	$1,810.0
Operating lease obligations	67.4	9.8	20.0	13.6	24.0
Commodity purchase obligations [2]	3,247.1	729.5	1,094.7	642.2	780.7
Purchase orders [3]	405.1	398.7	5.1	1.3	-
Pension and other postretirement funding obligations [4]	682.6	102.1	267.8	138.1	174.6
Total contractual cash obligations	$7,892.9	$1,407.7	$2,329.1	$1,366.8	$2,789.3

(1) Represents bonds issued, notes issued, and loans made to Integrys Energy Group and its subsidiaries. Integrys Energy Group records all principal obligations on the balance sheet. For purposes of this table, it is assumed that the current interest rates on variable rate debt will remain in effect until the debt matures.

(2) Energy supply contracts at Integrys Energy Services included as part of commodity purchase obligations are generally entered into to meet obligations to deliver energy to customers. The utility subsidiaries expect to recover the costs of their contracts in future customer rates.

(3) Includes obligations related to normal business operations and large construction obligations.

(4) Obligations for pension and other postretirement benefit plans, other than the Integrys Energy Group Retirement Plan, cannot be estimated beyond 2012.

The table above does not reflect any payments related to the manufactured gas plant remediation liability of $655.5 million at March 31, 2010, as the amount and timing of payments are uncertain. Integrys Energy Group anticipates incurring costs annually to remediate these sites, but management believes that any costs incurred for environmental activities relating to former manufactured gas plant operations that are not recoverable through contributions from other entities or from insurance carriers have been prudently incurred and are, therefore, recoverable through rates for WPS, MGU, PGL, and NSG. See Note 13, "*Commitments and Contingencies*," for more information about environmental liabilities. In addition, the table does not reflect any payments for the March 31, 2010, liability related to uncertain tax positions, as the amount and timing of payments are uncertain. See Note 12, "*Income Taxes*," for more information about this liability.

Capital Requirements

Estimated construction expenditures by company for the three-year period 2010 through 2012 are listed below.

(Millions)	
WPS	
Environmental projects	**$ 164.1**
Electric and natural gas distribution projects	**150.9**
Electric and natural gas delivery and customer service projects	**59.1**
Other projects	**108.0**
UPPCO	
Repairs and safety measures at hydroelectric facilities	**37.3**
Other projects	**28.0**
MGU	
Natural gas pipe distribution system, underground natural gas storage facilities, and other projects	**29.8**
MERC	
Natural gas pipe distribution system and other projects	**48.5**
PGL	
Natural gas pipe distribution system, underground natural gas storage facilities, and other projects *	**481.1**
NSG	
Natural gas pipe distribution system and other projects	**45.9**
Integrys Energy Services	
Solar and other projects	**128.9**
IBS	
Corporate services infrastructure projects	**53.7**
Total capital expenditures	**$1,335.3**

* Includes approximately $114 million of expenditures related to the accelerated replacement of cast iron mains at PGL in 2011 and 2012. On January 21, 2010, the ICC approved a rider mechanism to allow PGL to recover these incremental costs. See Note 22, "*Regulatory Environment*," for more information.

Integrys Energy Group expects to provide additional capital contributions to ATC (not included in the above table) of approximately $7 million in 2010, $8 million in 2011, and $7 million in 2012.

All projected capital and investment expenditures are subject to periodic review and may vary significantly from the estimates depending on a number of factors, including, but not limited to, industry restructuring, regulatory constraints, acquisition opportunities, market volatility, and economic trends.

Capital Resources

As of March 31, 2010, Integrys Energy Group and each of its subsidiaries were in compliance with all respective covenants related to outstanding short-term and long-term debt and expect to be in compliance with all such debt covenants for the foreseeable future.

See Note 9, "*Short-Term Debt and Lines of Credit*," for more information on Integrys Energy Group's credit facilities and other short-term credit agreements, including short-term debt covenants. See Note 10, "*Long-Term Debt*," for more information on Integrys Energy Group's long-term debt and related covenants.

Integrys Energy Group plans to meet its capital requirements for the period 2010 through 2012 primarily through internally generated funds (net of forecasted dividend payments) and debt and equity financings. Integrys Energy Group plans to maintain current debt to equity ratios at appropriate levels to support current credit ratings and corporate growth. Management believes Integrys Energy Group has adequate financial flexibility and resources to meet its future needs.

In March 2009, Integrys Energy Group filed a shelf registration statement which allows it to publicly issue debt, equity, certain types of hybrid securities, and other financial instruments. Specific terms and conditions of securities issued will be determined prior to the actual issuance of any specific security.

Under an existing shelf registration statement, WPS may issue up to $250.0 million of senior debt securities with amounts, prices, and terms to be determined at the time of future offerings. In December 2008, WPS issued $125.0 million of 6.375%, 7-year Senior Notes under this shelf registration statement.

Other Future Considerations

Customer Usage

Due to the general economic slowdown and the increased focus on energy efficiency, sales volumes excluding the impact of weather have been decreasing at the utilities. In certain jurisdictions, decoupling mechanisms have been implemented, which allow utilities to adjust rates going forward to recover or refund all or a portion of the differences between the actual and authorized margin per customer impact of variations in volumes. The mechanisms do not adjust for changes in volume resulting from changes in customer count. Decoupling for residential and small commercial and industrial sales was approved by the ICC on a four-year trial basis for PGL and NSG, effective March 1, 2008. Interveners, including the Illinois Attorney General, oppose decoupling and have appealed the ICC's approval. PGL and NSG are actively supporting the ICC's decision to approve decoupling. The PSCW approved the implementation of decoupling on a four-year trial basis, effective January 1, 2009, for WPS's natural gas and electric residential and small commercial sales. This decoupling mechanism includes an annual $14.0 million cap for electric service and an annual $8.0 million cap for natural gas service. The cap for natural gas service was reached in the first quarter of 2010, and WPS had $2.7 million remaining under the cap for electric service at the end of the first quarter of 2010. On December 16, 2009, decoupling for UPPCO was approved for all customer groups by the MPSC effective January 1, 2010. MGU requested decoupling in its rate case filed in July 2009. The partial settlement approved in that rate case did not address the decoupling request. Therefore, the request will be addressed by the MPSC through the normal rate case process, which is expected to conclude in the second quarter of 2010. In Minnesota, the legislature required the MPUC to evaluate decoupling. The MPUC is currently engaged in that process and has sought and received comments on decoupling mechanisms from utilities and interveners in Minnesota.

Uncollectible Accounts

The reserves for uncollectible accounts at Integrys Energy Group reflect management's best estimate of probable losses on accounts receivable balances. The reserves are based on known troubled accounts, historical experience, and other currently available evidence. Provisions for bad debt expense are affected by changes in various factors, including the impacts of the economy, energy prices, and weather.

The impact of the weak economic environment could cause more accounts receivable to become uncollectible. However, the majority of the bad debt expense at the utilities is recovered through rates. Additionally, recoveries (or refunds) under the bad debt riders authorized in Illinois and Michigan will mitigate the effect of bad debt expense for PGL, NSG, MGU, and UPPCO as described in Note 22, "*Regulatory Environment.*"

Goodwill Impairment Testing

Integrys Energy Group performs its required annual goodwill impairment tests each April 1. Interim impairment tests are performed between required annual testing dates if certain conditions exist. Any annual or interim goodwill impairment test could result in the recognition of a goodwill impairment loss. See Note 8, "*Goodwill and Other Intangible Assets*," for more information on goodwill balances for Integrys Energy Group's reporting units at March 31, 2010.

Climate Change

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, and the Kerry-Boxer draft bill, which was introduced in the United States Senate. 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 towards the EPA potentially regulating greenhouse gases under the Clean Air Act. A risk exists that such legislation or regulation will increase the cost of energy. However, Integrys Energy Group believes the capital expenditures being made at its generation units are appropriate under any reasonable mandatory greenhouse gas program and that future expenditures related to control of greenhouse gas emissions or renewable portfolio standards by its regulated electric utilities will be recoverable in rates. Integrys Energy Group will continue to monitor and manage potential risks and opportunities associated with future greenhouse gas legislative or regulatory actions.

The majority of Integrys Energy Group's generation and distribution facilities are located in the upper Midwest region of the United States. The same is true for the majority of its customers' facilities. The physical risks posed by climate change for these areas are not expected to be significant at this time. Ongoing evaluations will be conducted as more information on the extent of such physical changes becomes available.

Property Tax Assessment on Natural Gas

Integrys Energy Group's natural gas retailers, including its five natural gas utilities, purchase storage services from pipeline companies on the pipelines' interstate natural gas storage and transmission systems. Once a shipper delivers natural gas to the pipeline's system, that specific natural gas cannot be physically traced back to the shipper, and the physical location of that specific natural gas is not ascertainable. Some states tax natural gas as personal property and have recently sought to assess personal property tax obligations against natural gas quantities held as working natural gas in facilities located in their states. Because the pipeline does not have title to the working natural gas inventory in these facilities, the state imposes the tax on the shippers as of the assessment date, based on allocated quantities. Shippers that are being assessed a tax are actively protesting these property tax assessments. PGL and MERC are currently pursuing protests through litigation in Texas and Kansas, respectively.

Federal Health Care Reform

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (HCR) were signed into law. HCR contains various provisions that will affect the cost of providing health care coverage to active and retired employees of Integrys Energy Group and their dependents. Although these provisions become effective at various times over the next 10 years, some provisions that affect the cost of providing benefits to retirees will be reflected starting in 2010.

Most notably, there is a provision of HCR that, beginning in 2013, eliminates the tax deduction for employer-paid postretirement prescription drug charges to the extent those charges will be offset by the receipt of a federal Medicare Part D subsidy. As a result, Integrys Energy Group was required to eliminate a portion of its deferred tax asset related to postretirement benefits. The total amount of the deferred tax asset that was reduced for the loss of the deduction was $11.8 million, all of which flowed through to income as a component of income tax expense in the first quarter of 2010. This additional provision for income taxes will not reoccur in future periods. Integrys Energy Group intends to seek recovery in rates of the income impact of this tax law change related to regulated utility operations in all applicable jurisdictions, but at this time is not able to predict how much will ultimately be recovered in rates.

Other provisions of HCR include the elimination of annual and lifetime maximum benefits, elimination of pre-existing condition restrictions, an excise tax on high-cost health plans, changes to the Medicare Part D prescription drug program, and numerous other changes. Integrys Energy Group is currently evaluating what other impacts the health care legislation may have on its future results of operations, cash flows or financial positions, and if plan structure changes are necessary for its health care programs.

Wisconsin Fuel Rules

Assembly Bill (AB) 600 was introduced to streamline the current fuel rule administered by the PSCW. This bill currently awaits action by the Governor of Wisconsin. The current fuel rule results in regulatory lag and hampers the ability of the PSCW to respond to rapid changes in fuel costs. AB 600 provides for deferral of any change in approved fuel costs in excess of 2% of the fuel costs. Prior to these new rules becoming effective, the PSCW must initiate a rule-making to revise the current fuel rule. As a result, the effective date of the new rules is uncertain.

CRITICAL ACCOUNTING POLICIES

Integrys Energy Group has reviewed its critical accounting policies for new critical accounting estimates and other significant changes and has found that the disclosures made in its Annual Report on Form 10-K for the year ended December 31, 2009, are still current and that there have been no significant changes.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Integrys Energy Group has potential market risk exposure related to commodity price risk (including regulatory recovery risk), interest rate risk, and equity return and principal preservation risk. Integrys Energy Group is also exposed to other significant risks due to the nature of its subsidiaries' businesses and the environment in which it operates. Integrys Energy Group has risk management policies in place to monitor and assist in controlling these risks and may use derivative and other instruments to manage some of these exposures, as further described below.

Commodity Price Risk

To measure commodity price risk exposure, Integrys Energy Group employs a number of controls and processes, including a value-at-risk (VaR) analysis of certain of its exposures. Integrys Energy Services' VaR is calculated using non-discounted positions with a delta-normal approximation based on a one-day holding period and a 95% confidence level, as well as a ten-day holding period and 99% confidence level. For further explanation of Integrys Energy Group's VaR calculation, see the 2009 Annual Report on Form 10-K.

The VaR for Integrys Energy Services' trading portfolio at a 95% confidence level with a one-day holding period is presented in the following table:

(Millions)	**2010**	**2009**
As of March 31	**$0.3**	$1.1
Average for 12 months ended March 31	**0.7**	1.4
High for 12 months ended March 31	**1.0**	2.3
Low for 12 months ended March 31	**0.3**	1.1

The VaR for Integrys Energy Services' trading portfolio at a 99% confidence level with a ten-day holding period is presented below:

(Millions)	**2010**	**2009**
As of March 31	**$1.4**	$ 4.7
Average for 12 months ended March 31	**3.0**	6.3
High for 12 months ended March 31	**4.3**	10.2
Low for 12 months ended March 31	**1.4**	4.7

The average, high, and low amounts were computed using the VaR amounts at each of the four quarter ends.

The quarter-over-quarter decrease in VaR was driven by a substantial reduction in trading activity, as a result of Integrys Energy Group's decision to reposition Integrys Energy Services to focus on selected retail markets and investments in energy assets with renewable attributes.

Interest Rate Risk

Integrys Energy Group is exposed to interest rate risk resulting from its variable rate long-term debt and short-term borrowings. Exposure to interest rate risk is managed by limiting the amount of variable rate obligations and continually monitoring the effects of market changes on interest rates. Integrys Energy Group enters into long-term fixed rate debt when it is advantageous to do so. Integrys Energy Group may also enter into derivative financial instruments, such as swaps, to mitigate interest rate exposure.

Due to decreases in short-term borrowings in the last year, Integrys Energy Group has decreased its exposure to variable interest rates. Based on the variable rate debt of Integrys Energy Group outstanding at March 31, 2010, a hypothetical increase in market interest rates of 100 basis points would have increased annual interest expense by $3.0 million. Comparatively, based on the variable rate debt outstanding at March 31, 2009, an increase in interest rates of 100 basis points would have increased interest expense by approximately $6.3 million. This sensitivity analysis was performed assuming a constant level of variable rate debt during the period and an immediate increase in interest rates, with no other changes for the remainder of the period.

Other than the above-mentioned changes, Integrys Energy Group's market risks have not changed materially from the market risks reported in its 2009 Annual Report on Form 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Integrys Energy Group's management, with the participation of Integrys Energy Group's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of Integrys Energy Group's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report and has concluded that, as of the end of such period, Integrys Energy Group's disclosure controls and procedures were effective to ensure that information required to be disclosed by Integrys Energy Group in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to Integrys Energy Group's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control

There were no changes in Integrys Energy Group's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2010, that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For information on material legal proceedings and matters related to Integrys Energy Group and its subsidiaries, see Note 13, "*Commitments and Contingencies.*"

Item 1A. Risk Factors

There were no material changes in the risk factors previously disclosed in Part I, Item 1A of Integrys Energy Group's 2009 Annual Report on Form 10-K, which was filed with the SEC on February 26, 2010.

Item 6. Exhibits

The documents listed in the Exhibit Index are attached as exhibits or incorporated by reference herein.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant, Integrys Energy Group, Inc., has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Integrys Energy Group, Inc.

Date: May 5, 2010

/s/ Diane L. Ford
Diane L. Ford
Vice President and Corporate Controller

(Duly Authorized Officer and Chief Accounting Officer)

INTEGRYS ENERGY GROUP
EXHIBIT INDEX TO FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 2010

Exhibit No.	**Description**
3.1	Amendments to the By-Laws of Integrys Energy Group, Inc. effective April 1, 2010 (Incorporated by reference to Exhibit 3.1 to Integrys Energy Group's Form 8-K filed April 1, 2010)
3.2	Integrys Energy Group, Inc. By-Laws as in effect at April 1, 2010 (Incorporated by reference to Exhibit 3.2 to Integrys Energy Group's Form 8-K filed April 1, 2010)
4.1	Forty-First Supplemental Indenture of WPS, dated as of December 18, 2008 (Incorporated by reference to Exhibit 4.1 to WPS's Form 10-Q filed May 5, 2010)
4.2	42^{nd} Supplemental Indenture of WPS, dated as of April 25, 2010 (Incorporated by reference to Exhibit 4.2 to WPS's Form 10-Q filed May 5, 2010)
12	Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 for Integrys Energy Group
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 for Integrys Energy Group
32	Written Statement of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 for Integrys Energy Group

INTEGRYS ENERGY GROUP
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Millions)	2010 3 months	2009	2008	2007	2006	2005
EARNINGS						
Net income (loss) from continuing operations	$50.2	($71.6)	$124.7	$181.0	$147.8	$146.1
Provision for income taxes	50.1	83.2	51.2	86.0	45.0	39.6
Income (loss) from continuing operations before income taxes	100.3	11.6	175.9	267.0	192.8	185.7
Less:						
Undistributed earnings of less than 50% owned affiliates	(3.6)	(16.2)	(16.4)	3.8	13.0	7.5
Preferred stock dividends of subsidiary (a)	(1.8)	0.6	(5.1)	(5.2)	(5.3)	(4.9)
Interest capitalized (b)	-	(0.2)	-	-	-	-
Adjusted income (loss) from continuing operations before income taxes	94.9	(4.2)	154.4	265.6	200.5	188.3
Total fixed charges as defined	42.7	172.4	170.8	174.6	107.0	69.5
Total earnings as defined	$137.6	$168.2	$325.2	$440.2	$307.5	$257.8
FIXED CHARGES						
Interest expense	$39.4	$164.8	$158.1	$164.5	$99.2	$62.0
Interest capitalized (c)	0.2	2.6	2.0	0.3	0.2	0.4
Interest factor applicable to rentals	1.3	5.6	5.6	4.6	2.3	2.2
Preferred stock dividends of subsidiary (a)	1.8	(0.6)	5.1	5.2	5.3	4.9
Total fixed charges as defined	$42.7	$172.4	$170.8	$174.6	$107.0	$69.5
RATIO OF EARNINGS TO FIXED CHARGES	3.2	(d)	1.9	2.5	2.9	3.7

(a) Preferred stock dividends of subsidiary are computed by dividing the preferred stock dividends of subsidiary by 100% minus the income tax rate.

(b) Includes interest capitalized for the unregulated segment.

(c) Includes allowance for funds used during construction.

(d) For the 12 months ended December 31, 2009, earnings as defined were inadequate to cover fixed charges as defined by $4.2 million, driven by a pre-tax non-cash goodwill impairment loss of $291.1 million.

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a)
or 15d-14(a) under the Securities Exchange Act of 1934

I, Charles A. Schrock, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Integrys Energy Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2010

/s/ Charles A. Schrock
Charles A. Schrock
Chairman, President and Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a)
or 15d-14(a) under the Securities Exchange Act of 1934

I, Joseph P. O'Leary, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Integrys Energy Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2010

/s/ Joseph P. O'Leary
Joseph P. O'Leary
Senior Vice President and Chief Financial Officer

Exhibit 32

Written Statement of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned Chief Executive Officer and Chief Financial Officer of Integrys Energy Group, Inc. (the "Company"), hereby certify, based on our knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended March 31, 2010 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Charles A. Schrock
Charles A. Schrock
Chairman, President and Chief Executive Officer

/s/ Joseph P. O'Leary
Joseph P. O'Leary
Senior Vice President and Chief Financial Officer

Date: May 5, 2010

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

FORM 10-Q

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from ________ to ________

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

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

Yes [X] No [ ]

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

Yes [X] No [ ]

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

Large accelerated filer [X] Accelerated filer [ ]
Non-accelerated filer [ ] Smaller reporting company [ ]

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

Yes [ ] No [X]

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

Common stock, $1 par value,
77,233,327 shares outstanding at
July 30, 2010

INTEGRYS ENERGY GROUP, INC.
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2010

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10.1	Credit Agreement with JPMorgan Chase Bank, N.A., U.S. Bank National Association, Wells Fargo Bank, National Association, KeyBank National Association, and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Syndication Agents; Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer; and Banc of America Securities LLC and J.P. Morgan Securities Inc., as Lead Arrangers, Book Managers, and Global Coordinators, dated as of April 23, 2010 (Incorporated by reference to Exhibit 10 to Integrys Energy Group's Form 8-K filed April 29, 2010)
10.2	Form of Amended Change in Control Severance Agreement (Incorporated by reference to Exhibit 10.1 to Integrys Energy Group's Form 8-K filed May 12, 2010)
12	Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 for Integrys Energy Group, Inc.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 for Integrys Energy Group, Inc.
32	Written Statement of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 for Integrys Energy Group, Inc.
101 *	Financial statements from the Quarterly Report on Form 10-Q of Integrys Energy Group, Inc. for the quarter ended June 30, 2010, filed on August 4, 2010, formatted in XBRL: (i) the Condensed Consolidated Statements of Income; (ii) the Condensed Consolidated Balance Sheets; (iii) the Condensed Consolidated Statements of Cash Flows; and (iv) the Condensed Notes To Financial Statements tagged as blocks of text.

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

Commonly Used Acronyms

AFUDC	Allowance for Funds Used During Construction
ASC	Accounting Standards Codification
ATC	American Transmission Company LLC
EEP	Enhanced Efficiency Program
EPA	United States Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
GAAP	United States Generally Accepted Accounting Principles
IBS	Integrys Business Support, LLC
ICC	Illinois Commerce Commission
IRS	United States Internal Revenue Service
LIFO	Last-in, first-out
MERC	Minnesota Energy Resources Corporation
MGU	Michigan Gas Utilities Corporation
MISO	Midwest Independent Transmission System Operator, Inc.
MPSC	Michigan Public Service Commission
MPUC	Minnesota Public Utility Commission
N/A	Not Applicable
NSG	North Shore Gas Company
PEC	Peoples Energy Corporation
PGL	The Peoples Gas Light and Coke Company
PSCW	Public Service Commission of Wisconsin
SEC	United States Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
UPPCO	Upper Peninsula Power Company
WDNR	Wisconsin Department of Natural Resources
WPS	Wisconsin Public Service Corporation
WRPC	Wisconsin River Power Company

Forward-Looking Statements

In this report, Integrys Energy Group and its subsidiaries make statements concerning expectations, beliefs, plans, objectives, goals, strategies, and future events or performance. Such statements are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are subject to assumptions and uncertainties; therefore, actual results may differ materially from those expressed or implied by such forward-looking statements. Although Integrys Energy Group and its subsidiaries believe that these forward-looking statements and the underlying assumptions are reasonable, they cannot provide assurance that such statements will prove correct.

Forward-looking statements include, among other things, statements concerning management's expectations and projections regarding earnings, regulatory matters, fuel costs, sources of electric energy supply, coal and natural gas deliveries, remediation costs, environmental and other capital expenditures, liquidity and capital resources, trends, estimates, completion of construction projects, and other matters.

Forward-looking statements involve a number of risks and uncertainties. Some risks that could cause results to differ from any forward-looking statement include those described in Item 1A of Integrys Energy Group's Annual Report on Form 10-K for the year ended December 31, 2009, as may be amended or supplemented in Part II, Item 1A of Integrys Energy Group's subsequently filed Quarterly Reports on Form 10-Q (including this report). Other factors include:

- Resolution of pending and future rate cases and negotiations (including the recovery of deferred costs) and other regulatory decisions impacting Integrys Energy Group's regulated businesses;
- The individual and cumulative impact of recent and future federal and state regulatory changes, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric and natural gas utility industries, financial reform, changes in environmental and other regulations, including but not limited to, greenhouse gas emissions, energy efficiency mandates, renewable energy standards, and reliability standards, and changes in tax and other laws and regulations to which Integrys Energy Group and its subsidiaries are subject;
- Current and future litigation and regulatory proceedings, enforcement actions or inquiries, including but not limited to, manufactured gas plant site cleanup, third-party intervention in permitting and licensing projects, compliance with Clean Air Act requirements at generation plants, and prudence and reconciliation of costs recovered in revenues through an automatic gas cost recovery mechanism;
- The impacts of changing financial market conditions, credit ratings, and interest rates on the liquidity and financing efforts of Integrys Energy Group and its subsidiaries;
- The risks related to executing the strategy change associated with Integrys Energy Group's nonregulated energy services business, including the restructuring of its retail natural gas and retail electric marketing business;
- The risks associated with changing commodity prices (particularly natural gas and electricity) and the available sources of fuel and purchased power, including their impact on margins;
- Resolution of audits or other tax disputes with the IRS and various state, local, and Canadian revenue agencies;
- The effects, extent, and timing of additional competition or regulation in the markets in which Integrys Energy Group's subsidiaries operate;
- The retention of market-based rate authority;
- The risk associated with the value of goodwill or other intangibles and their possible impairment;
- Investment performance of employee benefit plan assets and the related impact on future funding requirements;
- Changes in technology, particularly with respect to new, developing, or alternative sources of generation;
- Effects of and changes in political and legal developments, as well as economic conditions and the related impact on customer demand, including the ability to attract and retain customers in Integrys Energy Group's nonregulated energy services business and to adequately forecast its energy usage for nonregulated customers;

- Potential business strategies, including mergers, acquisitions, and construction or disposition of assets or businesses, which cannot be assured to be completed timely or within budgets;
- The direct or indirect effects of terrorist incidents, natural disasters, or responses to such events;
- The effectiveness of risk management strategies, the use of financial and derivative instruments, and the ability to recover costs from customers in rates associated with the use of those strategies and financial instruments;
- The risk of financial loss, including increases in bad debt expense, associated with the inability of Integrys Energy Group's and its subsidiaries' counterparties, affiliates, and customers to meet their obligations;
- Customer usage, weather, and other natural phenomena;
- The utilization of tax credit and loss carryforwards;
- Contributions to earnings by non-consolidated equity method and other investments, which may vary from projections;
- The effect of accounting pronouncements issued periodically by standard-setting bodies; and
- Other factors discussed elsewhere herein and in other reports filed by Integrys Energy Group from time to time with the SEC.

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

INTEGRYS ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)	Three Months Ended June 30		Six Months Ended June 30	
(Millions, except per share data)	2010	2009	2010	2009
Nonregulated revenues	**$404.0**	$815.0	**$1,050.8**	$2,601.3
Utility revenues	**610.8**	612.6	**1,867.4**	2,027.1
Total revenues	**1,014.8**	1,427.6	**2,918.2**	4,628.4
Nonregulated cost of fuel, natural gas, and purchased power	**315.5**	708.9	**955.1**	2,478.0
Utility cost of fuel, natural gas, and purchased power	**250.9**	271.4	**992.4**	1,182.0
Operating and maintenance expense	**242.3**	276.0	**510.4**	567.3
Goodwill impairment loss	**-**	-	**-**	291.1
Restructuring expense	**6.5**	19.1	**9.2**	19.1
Net (gain) loss on Integrys Energy Services' dispositions related to strategy change	**(25.0)**	-	**14.8**	-
Depreciation and amortization expense	**67.9**	57.6	**132.1**	114.5
Taxes other than income taxes	**20.6**	21.7	**48.8**	48.6
Operating income (loss)	**136.1**	72.9	**255.4**	(72.2)
Miscellaneous income	**24.4**	20.6	**44.8**	41.7
Interest expense	**(36.6)**	(40.0)	**(76.0)**	(82.7)
Other expense	**(12.2)**	(19.4)	**(31.2)**	(41.0)
Income (loss) before taxes	**123.9**	53.5	**224.2**	(113.2)
Provision for income taxes	**44.5**	18.5	**94.6**	31.3
Net income (loss) from continuing operations	**79.4**	35.0	**129.6**	(144.5)
Discontinued operations, net of tax	**-**	0.3	**0.1**	0.3
Net income (loss)	**79.4**	35.3	**129.7**	(144.2)
Preferred stock dividends of subsidiary	**(0.8)**	(0.8)	**(1.6)**	(1.6)
Noncontrolling interest in subsidiaries	**0.3**	0.2	**0.3**	0.3
Net income (loss) attributed to common shareholders	**$78.9**	$34.7	**$128.4**	($145.5)
Average shares of common stock				
Basic	**77.4**	76.8	**77.2**	76.7
Diluted	**77.9**	76.8	**77.6**	76.7
Earnings (loss) per common share (basic)				
Net income (loss) from continuing operations	**$1.02**	$0.45	**$1.66**	($1.90)
Discontinued operations, net of tax	**-**	-	**-**	-
Earnings (loss) per common share (basic)	**$1.02**	$0.45	**$1.66**	($1.90)
Earnings (loss) per common share (diluted)				
Net income (loss) from continuing operations	**$1.01**	$0.45	**$1.65**	($1.90)
Discontinued operations, net of tax	**-**	-	**-**	-
Earnings (loss) per common share (diluted)	**$1.01**	$0.45	**$1.65**	($1.90)
Dividends per common share declared	**$0.68**	$0.68	**$1.36**	$1.36

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

INTEGRYS ENERGY GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) (Millions)	June 30 2010	December 31 2009
Assets		
Cash and cash equivalents	$233.2	$44.5
Collateral on deposit	18.9	184.9
Accounts receivable and accrued unbilled revenues, net of reserves of $58.9 and $57.5, respectively	598.8	958.0
Inventories	157.7	304.3
Assets from risk management activities	387.4	1,522.1
Regulatory assets	100.1	121.1
Deferred income taxes	83.3	92.9
Assets held for sale	-	26.5
Other current assets	261.1	257.9
Current assets	1,840.5	3,512.2
Property, plant, and equipment, net of accumulated depreciation of $2,930.2 and $2,847.2, respectively	4,932.7	4,945.1
Regulatory assets	1,447.7	1,434.9
Assets from risk management activities	117.3	795.4
Goodwill	642.5	642.5
Other long-term assets	530.1	517.8
Total assets	$9,510.8	$11,847.9
Liabilities and Equity		
Short-term debt	$22.5	$222.1
Current portion of long-term debt	327.8	116.5
Accounts payable	413.0	639.4
Liabilities from risk management activities	468.3	1,607.1
Regulatory liabilities	90.5	100.4
Liabilities held for sale	-	0.3
Temporary LIFO liquidation credit	45.0	-
Other current liabilities	304.2	461.8
Current liabilities	1,671.3	3,147.6
Long-term debt	2,064.8	2,394.7
Deferred income taxes	716.2	658.2
Deferred investment tax credits	36.4	36.2
Regulatory liabilities	300.2	277.6
Environmental remediation liabilities	655.4	658.8
Pension and other postretirement benefit obligations	606.7	640.7
Liabilities from risk management activities	144.6	783.1
Asset retirement obligations	200.6	194.8
Other long-term liabilities	137.8	147.4
Long-term liabilities	4,862.7	5,791.5
Commitments and contingencies		
Common stock - $1 par value; 200,000,000 shares authorized; 77,194,573 shares issued; 76,798,596 shares outstanding	77.2	76.4
Additional paid-in capital	2,532.1	2,497.8
Retained earnings	369.5	345.6
Accumulated other comprehensive loss	(35.7)	(44.0)
Treasury stock and shares in deferred compensation trust	(16.2)	(17.2)
Total common shareholders' equity	2,926.9	2,858.6
Preferred stock of subsidiary - $100 par value; 1,000,000 shares authorized; 511,882 shares issued; 510,495 shares outstanding	51.1	51.1
Noncontrolling interest in subsidiaries	(1.2)	(0.9)
Total liabilities and equity	$9,510.8	$11,847.9

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

INTEGRYS ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)	Six Months Ended June 30	
(Millions)	2010	2009
Operating Activities		
Net income (loss)	$129.7	($144.2)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Discontinued operations, net of tax	(0.1)	(0.3)
Goodwill impairment loss	-	291.1
Depreciation and amortization expense	132.1	114.5
Recoveries and refunds of regulatory assets and liabilities	16.1	25.4
Net unrealized (gains) losses on nonregulated energy contracts	(15.6)	106.8
Nonregulated lower of cost or market inventory adjustments	1.3	42.7
Bad debt expense	26.3	41.0
Pension and other postretirement expense	33.8	31.6
Pension and other postretirement contributions	(61.7)	(6.8)
Deferred income taxes and investment tax credit	64.7	(36.7)
Loss on sale of assets	13.5	-
Equity income, net of dividends	(7.2)	(8.1)
Other	10.5	(6.7)
Changes in working capital		
Collateral on deposit	177.5	(77.7)
Accounts receivable and accrued unbilled revenues	339.3	897.8
Inventories	140.4	443.4
Other current assets	(2.7)	67.7
Accounts payable	(104.5)	(532.6)
Temporary LIFO liquidation credit	45.0	34.1
Other current liabilities	(180.0)	(34.5)
Net cash provided by operating activities	758.4	1,248.5
Investing Activities		
Capital expenditures	(122.8)	(187.6)
Proceeds from the sale or disposal of assets	59.8	17.6
Purchase of equity investments	(5.1)	(15.5)
Other	2.7	(3.0)
Net cash used for investing activities	(65.4)	(188.5)
Financing Activities		
Short-term debt, net	(199.6)	(924.1)
Redemption of notes payable	-	(157.9)
Proceeds from sale of borrowed natural gas	21.3	134.4
Purchase of natural gas to repay natural gas loans	(6.0)	(204.0)
Issuance of long-term debt	-	155.0
Repayment of long-term debt	(116.1)	(2.0)
Payment of dividends		
Preferred stock of subsidiary	(1.6)	(1.6)
Common stock	(92.7)	(103.5)
Issuance of common stock	18.8	-
Payments made on derivative contracts related to divestitures classified as financing activities	(118.5)	-
Other	(10.0)	(4.0)
Net cash used for financing activities	(504.4)	(1,107.7)
Change in cash and cash equivalents - continuing operations	188.6	(47.7)
Change in cash and cash equivalents - discontinued operations		
Net cash provided by investing activities	0.1	-
Net change in cash and cash equivalents	188.7	(47.7)
Cash and cash equivalents at beginning of period	44.5	254.1
Cash and cash equivalents at end of period	$233.2	$206.4

The accompanying condensed notes are an integral part of these statements

INTEGRYS ENERGY GROUP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO FINANCIAL STATEMENTS
June 30, 2010

NOTE 1--FINANCIAL INFORMATION

The condensed consolidated financial statements of Integrys Energy Group, Inc. have been prepared pursuant to the rules and regulations of the SEC for Quarterly Reports on Form 10-Q and in accordance with GAAP. Accordingly, these condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for annual financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes in the Integrys Energy Group Annual Report on Form 10-K for the year ended December 31, 2009.

The condensed consolidated financial statements are unaudited, but, in management's opinion, include all adjustments (which, unless otherwise noted, include only normal recurring adjustments) necessary for a fair presentation of such financial statements. Financial results for this interim period are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2010.

NOTE 2--CASH AND CASH EQUIVALENTS

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

The following is supplemental disclosure to the Integrys Energy Group Condensed Consolidated Statements of Cash Flows:

	Six Months Ended June 30	
(Millions)	**2010**	**2009**
Cash paid for interest	**$70.7**	$78.8
Cash paid for income taxes	**42.4**	21.8

Significant non-cash transactions were:

	Six Months Ended June 30	
(Millions)	**2010**	**2009**
Construction costs funded through accounts payable	**$16.3**	$51.8
Equity issued for reinvested dividends	**11.2**	-
Equity issued for stock-based compensation plans	**3.0**	-
Intangible assets (customer contracts) received in exchange for risk management assets	**-**	17.0

NOTE 3--RISK MANAGEMENT ACTIVITIES

Integrys Energy Group identified additional classes of risk management assets and liabilities as a result of the implementation of FASB Accounting Standards Update (ASU) 2010-06, "Fair Value Measurements and Disclosures (Topic 820), Improving Disclosures about Fair Value Measurements." As required, this ASU was only applied to disclosures beginning with the quarter ended March 31, 2010, and, therefore, prior periods do not reflect the expanded disclosure requirements.

The following tables show Integrys Energy Group's assets and liabilities from risk management activities.

		June 30, 2010	
(Millions)	**Balance Sheet Presentation ***	**Risk Management Assets**	**Risk Management Liabilities**
Utility Segments			
Non-hedge derivatives			
Natural gas contracts	Current	$ 2.6	$ 27.4
Natural gas contracts	Long-term	1.5	3.2
Financial transmission rights	Current	9.2	1.6
Petroleum product contracts	Current	0.2	-
Petroleum product contracts	Long-term	0.2	-
Total commodity contracts	Current	12.0	29.0
Total commodity contracts	Long-term	1.7	3.2
Cash flow hedges			
Natural gas contracts	Current	-	0.7
Natural gas contracts	Long-term	-	0.3
Nonregulated Segments			
Non-hedge derivatives			
Natural gas contracts	Current	138.8	130.2
Natural gas contracts	Long-term	78.8	74.0
Electric contracts	Current	225.2	283.5
Electric contracts	Long-term	29.0	55.8
Total commodity contracts	Current	364.0	413.7
Total commodity contracts	Long-term	107.8	129.8
Foreign exchange contracts	Current	0.9	0.9
Foreign exchange contracts	Long-term	0.4	0.4
Fair value hedges			
Interest rate swaps	Current	1.9	-
Cash flow hedges			
Natural gas contracts	Current	0.6	3.5
Natural gas contracts	Long-term	-	0.2
Electric contracts	Current	8.0	16.2
Electric contracts	Long-term	7.4	10.7
Total commodity contracts	Current	8.6	19.7
Total commodity contracts	Long-term	7.4	10.9
Interest rate swaps	Current	-	4.3
	Current	**387.4**	**468.3**
	Long-term	**117.3**	**144.6**
Total		**$504.7**	**$612.9**

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

(Millions)	Balance Sheet Presentation *	December 31, 2009 Risk Management Assets	Risk Management Liabilities
Utility Segments			
Non-hedge derivatives			
Commodity contracts	Current	$ 10.8	$ 24.7
Commodity contracts	Long-term	2.0	1.5
Cash flow hedges			
Commodity contracts	Current	-	0.2
Commodity contracts	Long-term	-	0.1
Nonregulated Segments			
Non-hedge derivatives			
Commodity contracts	Current	1,503.9	1,548.4
Commodity contracts	Long-term	787.2	769.5
Interest rate swaps	Current	-	1.0
Interest rate swaps	Long-term	-	2.5
Foreign exchange contracts	Current	1.0	0.9
Foreign exchange contracts	Long-term	0.9	0.9
Fair value hedges			
Interest rate swaps	Current	1.8	-
Interest rate swaps	Long-term	0.8	-
Cash flow hedges			
Commodity contracts	Current	4.6	30.1
Commodity contracts	Long-term	4.5	8.6
Interest rate swaps	Current	-	1.8
	Current	1,522.1	1,607.1
	Long-term	795.4	783.1
Total		$2,317.5	$2,390.2

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

The following table shows Integrys Energy Group's cash collateral positions:

(Millions)	June 30, 2010	December 31, 2009
Cash collateral provided to others	**$18.9**	$184.9
Cash collateral received from others	**7.2**	55.2

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 following table shows the aggregate fair value of all derivative instruments with specific credit-risk related contingent features that were in a liability position:

(Millions)	June 30, 2010	December 31, 2009
Integrys Energy Services	**$399.1**	$555.6
Utility segments	**29.6**	24.0

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, Integrys Energy Group's collateral requirement would have been as follows:

(Millions)	June 30, 2010	December 31, 2009
Collateral that would have been required:		
Integrys Energy Services	**$426.9**	$549.3
Utility segments	**22.1**	17.0
Collateral already satisfied:		
Integrys Energy Services		
Letters of credit	**144.5**	51.9
Cash	**-**	-
Utility segments		
Letters of credit	**-**	-
Cash	**-**	-
Collateral remaining:		
Integrys Energy Services	**282.4**	497.4
Utility segments	**22.1**	17.0

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 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.

Derivative instruments at the utilities are entered into in accordance with the terms of the risk management plans approved by their respective Boards of Directors and, if applicable, by their respective regulators. Most energy-related physical and financial derivatives at the utilities qualify for regulatory deferral. These derivatives are marked to fair value; the resulting risk management assets are offset with regulatory liabilities or decreases to regulatory assets, and risk management liabilities are offset with regulatory assets or decreases to regulatory liabilities. Management believes any gains or losses resulting from the eventual settlement of these derivative instruments will be refunded to or collected from customers in rates.

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

(Millions)	Financial Statement Presentation	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Natural gas contracts	Balance Sheet – Regulatory assets (current)	**$21.6**	**$(4.8)**
Natural gas contracts	Balance Sheet – Regulatory assets (long-term)	**2.8**	**(2.4)**
Natural gas contracts	Balance Sheet – Regulatory liabilities (current)	**0.1**	**(0.1)**
Natural gas contracts	Income Statement – Utility cost of fuel, natural gas, and purchased power	**0.1**	**0.1**
Financial transmission rights	Balance Sheet – Regulatory assets (current)	**(1.5)**	**(0.6)**
Financial transmission rights	Balance Sheet – Regulatory liabilities (current)	**5.0**	**2.7**
Petroleum product contracts	Income Statement – Operating and maintenance expense	**(0.2)**	**(0.3)**

(Millions)	Financial Statement Presentation	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Commodity contracts	Balance Sheet – Regulatory assets (current)	$38.8	$54.6
Commodity contracts	Balance Sheet – Regulatory assets (long-term)	4.0	4.3
Commodity contracts	Balance Sheet – Regulatory liabilities (current)	10.4	7.7
Commodity contracts	Balance Sheet – Regulatory liabilities (long-term)	0.1	0.1
Commodity contracts	Income Statement – Utility cost of fuel, natural gas, and purchased power	-	0.2
Commodity contracts	Income Statement – Operating and maintenance expense	0.2	0.2

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

	June 30, 2010		December 31, 2009	
	Purchases	Other Transactions	Purchases	Other Transactions
Natural gas (millions of therms)	**607.8**	**N/A**	833.2	N/A
Financial transmission rights (millions of kilowatt-hours)	**N/A**	**13,098.8**	N/A	4,546.6
Petroleum products (barrels)	**63,735**	**N/A**	42,823	N/A

Cash Flow Hedges

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

	Purchases	
	June 30, 2010	December 31, 2009
Natural gas (millions of therms)	7.4	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 Gain (Loss) Recognized in OCI on Derivative Instruments (Effective Portion)

	Three Months Ended June 30		Six Months Ended June 30	
(Millions)	2010	2009	2010	2009
Natural gas contracts	**$ -**	$0.8	**$(1.1)**	$0.2

Loss Reclassified from Accumulated OCI into Income (Effective Portion)

		Three Months Ended June 30		Six Months Ended June 30	
(Millions)	Income Statement Presentation	2010	2009	2010	2009
Settled natural gas contracts	Operating and maintenance expense	**$(0.3)**	$(0.8)	**$(0.4)**	$(1.4)

The amount reclassified from accumulated OCI into earnings as a result of the discontinuance of cash flow hedge accounting related to these natural gas contracts was not significant during the three and six months ended June 30, 2010, and 2009. Cash flow hedge ineffectiveness related to these natural gas contracts also was not significant during the three and six months ended June 30, 2010, and 2009. When testing for effectiveness, no portion of these derivative instruments was excluded. In the next 12 months, an insignificant pre-tax loss is expected to be recognized in earnings as the hedged transactions occur.

Nonregulated Segments

Non-Hedge Derivatives

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.

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

	June 30, 2010			December 31, 2009		
(Millions)	Purchases	Sales	Other Transactions	Purchases	Sales	Other Transactions
Commodity contracts						
Natural gas (therms)	**1,343.5**	**1,316.1**	**N/A**	2,990.4	2,917.1	N/A
Electric (kilowatt-hours)	**31,066.1**	**26,005.8**	**N/A**	132,200.4	125,983.1	N/A
Interest rate swaps	**N/A**	**N/A**	**$ -**	N/A	N/A	$219.2
Foreign exchange contracts	**$25.5**	**$25.5**	**N/A**	$35.1	$35.1	N/A

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

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

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

(Millions)	Income Statement Presentation	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Commodity contracts	Nonregulated revenue	$8.8	$(30.8)
Commodity contracts	Nonregulated revenue (reclassified from accumulated OCI)	1.7 *	1.7 *
Interest rate swaps	Interest expense	0.2	0.3
Foreign exchange contracts	Nonregulated revenue	(1.2)	(1.1)
Total		$9.5	$(29.9)

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

Fair Value Hedges

At 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	Three Months Ended June 30 2010	Three Months Ended June 30 2009	Six Months Ended June 30 2010	Six Months Ended June 30 2009
Interest rate swap	Interest expense	$ -	$ -	$(0.7)	$(0.3)
Debt hedged by swap	Interest expense	-	-	0.7	0.3
Total		$ -	$ -	$ -	$ -

Fair value hedge ineffectiveness recorded in interest expense on the Condensed Consolidated Statements of Income was not significant for the three and six months ended June 30, 2010, and 2009. No amounts were excluded from effectiveness testing related to the interest rate swap during the three and six months ended June 30, 2010, and 2009.

Cash Flow Hedges

Natural gas and electric futures, forwards, and swaps that are designated as cash flow hedges extend through December 2013. These contracts are used to mitigate the risk of cash flow variability associated with future purchases and sales of natural gas and electricity. In the second quarter of 2010, Integrys Energy Group entered into two interest rate swaps designated as cash flow hedges to hedge the variability in forecasted interest payments on the first $100.0 million of a debt issuance planned for the fourth quarter of 2010. The nonregulated segments had the following notional volumes of outstanding contracts that were designated as cash flow hedges:

(Millions)	June 30, 2010 Purchases	June 30, 2010 Sales	June 30, 2010 Other Transactions	December 31, 2009 Purchases	December 31, 2009 Sales	December 31, 2009 Other Transactions
Commodity contracts						
Natural gas (therms)	114.4	-	N/A	5.9	8.6	N/A
Electric (kilowatt-hours)	9,170.9	-	N/A	7,116.2	-	N/A
Interest rate swaps	N/A	N/A	$100.0	N/A	N/A	$65.6 *

* Notional amount of two interest rate swaps designated as cash flow hedges to hedge the variability in interest payments on an unsecured term loan through June 2010. These interest rate swaps settled in the second quarter of 2010.

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)	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
Natural gas contracts	$ 0.5	$(3.7)
Electric contracts	20.6	(3.3)
Interest rate swaps	(3.4)	(2.4)
Total	$17.7	$(9.4)

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

(Millions)	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Commodity contracts	$(0.5)	$(50.5)
Interest rate swaps	0.6	1.5
Total	$0.1	$(49.0)

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

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

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

(Millions)	Income Statement Presentation	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Settled/Realized			
Commodity contracts	Nonregulated revenue	$(21.1)	$(4.4)
Interest rate swaps	Interest expense	0.3	0.6
Hedge Designation Discontinued			
Commodity contracts	Nonregulated revenue	0.1	(0.4)
Total		$(20.7)	$(4.2)

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

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

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

(Millions)	Income Statement Presentation	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Commodity contracts	Nonregulated revenue	$(0.5)	$(1.3)

In the next 12 months, subject to changes in market prices of natural gas and electricity, pre-tax losses of $4.4 million and $12.3 million related to cash flow hedges of natural gas contracts and electric contracts, respectively, are expected to be recognized in earnings as the hedged transactions occur. These amounts are expected to be substantially offset by the settlement of the related nonderivative hedged contracts. In the next 12 months, subject to changes in interest rates, an insignificant pre-tax loss related to cash flow hedges of interest rate swaps is expected to be amortized into earnings beginning when the related debt is issued.

NOTE 4--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 included reductions in its workforce. The following table summarizes the activity related to these restructuring costs:

(Millions)	**Three Months Ended June 30, 2010**	**Six Months Ended June 30, 2010**
Accrued restructuring costs at beginning of period	**$10.0**	**$18.0**
Add: Adjustments to accrual during the period	**(0.2)**	**0.3 ***
Less: Cash payments	**5.8**	**14.3**
Accrued restructuring costs at end of period	**$ 4.0**	**$ 4.0**

* These restructuring costs were billed to certain companies in accordance with provisions in the operating agreements with these companies that allow Integrys Energy Group to recover a portion of its administrative and general expenses.

Integrys Energy Services Strategy Change

Integrys Energy Group has substantially completed the process of repositioning Integrys Energy Services from focusing on significant growth in competitive wholesale and retail markets across the United States and Canada, to focusing on selected retail markets in the United States and investments in energy assets with renewable attributes. In connection with this strategy, the following restructuring costs were expensed:

(Millions)	**Three Months Ended June 30, 2010**	**Three Months Ended June 30, 2009**	**Six Months Ended June 30, 2010**	**Six Months Ended June 30, 2009**
Employee-related costs	**$0.7**	$10.8	**$2.0**	$10.8
Professional fees	**5.5**	3.0	**6.4**	3.0
Software write-offs	**-**	5.2	**-**	5.2
Miscellaneous	**0.5**	0.1	**0.8**	0.1
Total restructuring expense	**$6.7**	$19.1	**$9.2**	$19.1

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

The following table summarizes the activity related to employee-related restructuring expense in 2010. During the first six months of 2009, no payments were made related to this expense.

(Millions)	**Three Months Ended June 30, 2010**	**Six Months Ended June 30, 2010**
Accrued employee-related costs at beginning of period	**$4.4**	**$8.2**
Add: Employee-related costs expensed	**0.7**	**2.0**
Less: Cash payments	**2.5**	**7.6**
Accrued employee-related costs at end of period	**$2.6**	**$2.6**

Integrys Energy Group expects to incur total employee-related restructuring expense of approximately $13 million related to the Integrys Energy Services strategy change by the end of 2010, including $12.1 million expensed through June 30, 2010, of which $10.1 million was expensed in 2009.

NOTE 5--DISPOSITIONS

Integrys Energy Services Strategy Change

As part of Integrys Energy Group's decision to reposition its nonregulated energy services business segment to focus on selected retail markets in the United States and investments in energy assets with renewable attributes, Integrys Energy Services completed the following sales in 2010.

Sale of Integrys Energy Services of Texas, LP

In June 2010, Integrys Energy Services sold its Texas retail electric marketing business. The pre-tax gain on the sale of Integrys Energy Services of Texas, LP was $25.3 million and was reported as a component of net (gain) loss on Integrys Energy Services' dispositions related to strategy change in the Condensed Consolidated Statements of Income. Customer sales contracts related to the Texas retail electric marketing business were transferred to the buyer effective June 1, 2010. The underlying commodity supply contracts outstanding at June 30, 2010, were all assigned to the buyer in July 2010. Integrys Energy Services had transferred all of the market risk associated with the underlying commodity supply contracts by entering into trades with the buyer that mirrored Integrys Energy Services' underlying commodity supply contracts. Because all underlying commodity supply contracts have now been assigned to the buyer as of the end of July 2010, the corresponding mirror transactions have been terminated.

The following table shows the carrying values of the major classes of assets and liabilities included in the sale at the closing date:

(Millions)	
Current assets from risk management activities	**$14.0**
Other current assets	**2.2**
Long-term assets from risk management activities	**13.8**
Other long-term assets	**1.9**
Total assets	**$31.9**
Current liabilities from risk management activities	**$35.2**
Long-term liabilities from risk management activities	**27.3**
Total liabilities	**$62.5**

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

The following table shows the carrying values of the commodity supply contracts that had not been assigned to the buyer as of June 30, 2010:

(Millions)	
Current assets from risk management activities	**$ 6.5**
Current liabilities from risk management activities	**$64.5**

The following table shows the carrying values of the remaining mirror transactions associated with the commodity supply contracts referenced above that had not been assigned to the buyer as of June 30, 2010:

(Millions)	
Current assets from risk management activities	**$65.7**
Current liabilities from risk management activities	**$ 7.7**

Sale of Remaining Canadian Wholesale Electric Marketing and Trading Portfolio

The majority of Integrys Energy Services' Canadian natural gas and electric power portfolio was sold in September 2009. In May 2010, Integrys Energy Services completed the sale of its remaining Canadian wholesale electric marketing and trading portfolio. The pre-tax loss on the sale was $0.4 million and was reported as a component of net (gain) loss on Integrys Energy Services' dispositions related to strategy change in the Condensed 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 May 2010 closing date:

(Millions)	
Current assets from risk management activities	**$13.8**
Long-term assets from risk management activities	**10.5**
Total assets	**$24.3**
Current liabilities from risk management activities	**$15.2**
Long-term liabilities from risk management activities	**9.5**
Total liabilities	**$24.7**

Sale of Renewable Energy Certificates Portfolio

In March 2010, Integrys Energy Services sold its environmental markets business, which consisted of a portfolio of long-term renewable energy certificate contracts with generators, wholesalers, municipalities, cooperatives, and large industrial companies. The pre-tax gain on the sale of the renewable energy certificate contracts was $2.8 million and was reported as a component of net (gain) loss on Integrys Energy Services' dispositions related to strategy change in the Condensed Consolidated Statements of Income.

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. 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 mirrored Integrys Energy Services' underlying wholesale electric contracts. On March 31, 2010, Integrys Energy Services closed on the sale and transferred title to the majority of the underlying commodity contracts, upon which time the corresponding mirror transactions terminated. The majority of the remaining underlying commodity contracts that had not been transferred as of March 31, 2010 are expected to be either transferred, or if title is never transferred, will be settled through the normal course of business, at which time the corresponding mirror transactions will terminate. As of June 30, 2010, approximately 85% of the commodity contracts have been transferred, and the corresponding mirror transactions have been terminated.

In connection with this sale, for a two-year period following the closing, Integrys Energy Services will retain counterparty default risk with approximately 50% of the counterparties to the commodity contracts transferred. The fair value of the counterparty payment default risk was $0.8 million and was reported as a component of other long-term liabilities.

The following table shows the carrying values of the major classes of assets and liabilities included in the sale at the closing date:

(Millions)	
Current assets from risk management activities	**$1,375.5**
Long-term assets from risk management activities	**683.3**
Total assets	**$2,058.8**
Current liabilities from risk management activities	**$1,389.8**
Long-term liabilities from risk management activities	**654.3**
Total liabilities	**$2,044.1**

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

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

(Millions)	
Current assets from risk management activities	**$20.3**
Long-term assets from risk management activities	**10.3**
Total assets	**$30.6**
Current liabilities from risk management activities	**$65.6**
Long-term liabilities from risk management activities	**23.9**
Total liabilities	**$89.5**

The following table shows the carrying values of the remaining underlying commodity contracts that had not been novated at June 30, 2010:

(Millions)	
Current assets from risk management activities	**$66.0**
Current liabilities from risk management activities	**$19.7**

The following table shows the carrying values of the remaining mirror transactions associated with the underlying commodity contracts referenced above that had not been novated at June 30, 2010:

(Millions)	
Current assets from risk management activities	**$22.2**
Current liabilities from risk management activities	**$68.5**

The pre-tax loss on the sale of the United States wholesale electric marketing and trading business was $64.9 million and was reported as a component of net (gain) loss on Integrys Energy Services' dispositions related to strategy change in the Condensed Consolidated Statements of Income.

In March 2010, Integrys Energy Services closed on its remaining wholesale electric commodity contract business with another buyer. The pre-tax gain on the sale of the commodity contract was $8.7 million and was reported as a component of net (gain) loss on Integrys Energy Services' dispositions related to strategy change in the Condensed Consolidated Statements of Income.

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

During January 2010, Integrys Energy Services closed on the sale of two of its power generation businesses, which owned generation assets in New Brunswick, Canada and Northern Maine, and subsequently closed on the sale of the associated retail electric contracts and standard offer service contracts in Northern Maine in February 2010. The proceeds from the sale of the generation companies and associated retail electric contracts were $38.5 million. The pre-tax gain on the sale was $15.7 million and was reported as a component of net (gain) loss on Integrys Energy Services' dispositions related to strategy change in the Condensed Consolidated Statements of Income.

The carrying values of the major classes of assets and liabilities included in the sale as of the closing dates and classified as held for sale on the Condensed Consolidated Balance Sheets at December 31, 2009 were as follows:

(Millions)	**As of the Closing Dates**	**December 31, 2009**
Inventories	**$ 0.1**	$ 0.1
Property, plant, and equipment, net	**25.1**	25.1
Other long-term assets	**1.3**	1.3
Total assets	**$26.5**	$26.5
Other current liabilities	**$ 0.1**	$ -
Asset retirement obligations	**0.3**	0.3
Total liabilities	**$ 0.4**	$ 0.3

In conjunction with the sale, Integrys Energy Services entered into derivative contracts with the buyer of the Northern Maine retail electric sales contracts to offset the retained economic hedges associated with the customer contracts sold. As of the closing date, the carrying values of the derivative contracts were as follows:

(Millions)	
Current assets from risk management activities	**$3.6**
Long-term assets from risk management activities	**0.2**
Total assets	**$3.8**
Current liabilities from risk management activities	**$0.4**
Total liabilities	**$0.4**

Sale of United States Wholesale Natural Gas Marketing and Trading Business & Other Wholesale Natural Gas Storage Contracts

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 the transaction consisted of an option for the buyer to purchase certain natural gas storage and related transportation contracts. In January 2010, the buyer exercised its option to purchase these wholesale natural gas storage and related transportation contracts. The pre-tax loss on the sale of these natural gas storage contracts was $1.3 million and was reported as a component of net (gain) loss on Integrys Energy Services' dispositions related to strategy change in the Condensed Consolidated Statements of Income.

In March 2010 and May 2010, Integrys Energy Services closed on the sale of its remaining natural gas storage and related transportation contracts. The pre-tax net loss on the sale of these natural gas storage contracts was $0.7 million and was reported as a component of net (gain) loss on Integrys Energy Services' dispositions related to strategy change in the Condensed Consolidated Statements of Income. The carrying value of inventories included in the sales was $1.8 million as of the closing date.

Discontinued Operations Resulting from Integrys Energy Services Strategy Change

Energy Management Consulting Business

During the six months ended June 30, 2010, Integrys Energy Services recorded a $0.1 million after-tax gain in discontinued operations when a contingent payment was earned from the sale of its energy management consulting business. This contingent payment resulted from the ability of the buyer to retain the energy management consulting services for customers who previously contracted with Integrys Energy Services prior to the July 2009 sale.

WPS Niagara Generation, LLC

During the six months ended June 30, 2009, Integrys Energy Services recorded a $0.3 million after-tax gain in discontinued operations related to a refund received in connection with the overpayment for auxiliary power service in prior years.

NOTE 6--INVESTMENTS IN AFFILIATES, AT EQUITY METHOD

Integrys Energy Group's electric transmission investment segment consists of WPS Investments LLC's ownership interest in ATC, which was approximately 34% at June 30, 2010. 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 three and six months ended June 30, 2010, and 2009.

	Three Months Ended June 30		Six Months Ended June 30	
(Millions)	**2010**	**2009**	**2010**	**2009**
Balance at the beginning of period	**$404.2**	$358.8	**$395.9**	$346.9
Equity in net income	**19.2**	18.4	**38.7**	36.4
Capital contributions	**-**	6.9	**5.1**	15.4
Dividends received	**(16.0)**	(14.9)	**(32.3)**	(29.5)
Balance at the end of period	**$407.4**	$369.2	**$407.4**	$369.2

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

(Millions)	Three Months Ended June 30 2010	Three Months Ended June 30 2009	Six Months Ended June 30 2010	Six Months Ended June 30 2009
Income statement data				
Revenues	**$138.7**	$129.0	**$277.2**	$255.2
Operating expenses	**62.5**	56.6	**125.3**	113.6
Other expense	**22.1**	19.7	**42.7**	38.0
Net income *	**$ 54.1**	$ 52.7	**$109.2**	$103.6

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

(Millions)	June 30, 2010	December 31, 2009
Balance sheet data		
Current assets	**$ 61.7**	$ 51.1
Noncurrent assets	**2,816.0**	2,767.3
Total assets	**$2,877.7**	$2,818.4
Current liabilities	**$ 463.1**	$ 285.5
Long-term debt	**1,099.8**	1,259.7
Other noncurrent liabilities	**83.1**	76.8
Members' equity	**1,231.7**	1,196.4
Total liabilities and members' equity	**$2,877.7**	$2,818.4

NOTE 7--INVENTORIES

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

NOTE 8--GOODWILL AND OTHER INTANGIBLE ASSETS

Integrys Energy Group had no changes to the carrying amount of goodwill during the first half of 2010. Annual impairment tests were completed at all of Integrys Energy Group's reporting units that carry a goodwill balance in the second quarter of 2010, and no impairments resulted from these tests. The goodwill recorded at Integrys Energy Group as of June 30, 2010, was as follows:

(Millions)	Natural Gas Utility Segment	Integrys Energy Services	Total
Total goodwill	**$635.9**	**$6.6**	**$642.5**

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.

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 Condensed Consolidated Balance Sheets as listed below.

(Millions)	June 30, 2010			December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets (liabilities)						
Customer-related [1]	**$32.6**	**$(20.1)**	**$12.5**	$ 32.6	$(18.3)	$14.3
Natural gas and electric contract assets [2] [3]	**57.1**	**(53.3)**	**3.8**	71.4	(60.5)	10.9
Natural gas and electric contract liabilities [2]	**(10.5)**	**10.5**	**-**	(10.5)	10.4	(0.1)
Renewable energy credits [4]	**4.8**	**(2.6)**	**2.2**	3.4	(2.1)	1.3
Nonregulated easements [5]	**3.8**	**(0.3)**	**3.5**	3.6	(0.1)	3.5
Emission allowances [6]	**1.9**	**(0.1)**	**1.8**	2.1	(0.2)	1.9
Other	**2.4**	**(0.4)**	**2.0**	2.5	(0.5)	2.0
Total	**$92.1**	**$(66.3)**	**$25.8**	$105.1	$(71.3)	$33.8
Unamortized intangible assets						
MGU trade name	**5.2**	**-**	**5.2**	5.2	-	5.2
Total intangible assets	**$97.3**	**$(66.3)**	**$31.0**	$110.3	$(71.3)	$39.0

(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 June 30, 2010, was approximately 7 years.

(2) Represents the fair value of certain PEC natural gas and electric customer contracts acquired in the February 2007 PEC 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 $2.3 million and $1.5 million, respectively, at June 30, 2010, and $6.2 million and $4.7 million, respectively, at December 31, 2009. The remaining weighted-average amortization period for these intangible assets at June 30, 2010, was approximately 4 years.

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

(5) Relates to easements supporting a pipeline at Integrys Energy Services. The easements are amortized on a straight-line basis, with a remaining amortization period of approximately 14 years.

(6) 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 expense for the three months ended June 30, 2010, and 2009, was $1.0 million and $1.6 million, respectively. Amortization expense for the six months ended June 30, 2010, and 2009, was $2.8 million and $3.0 million, respectively.

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

(Millions)	
For year ending December 31, 2010	$7.0
For year ending December 31, 2011	3.5
For year ending December 31, 2012	2.6
For year ending December 31, 2013	1.8
For year ending December 31, 2014	1.6

Amortization of the natural gas and electric contract intangible assets and liabilities was recorded as a component of nonregulated cost of fuel, natural gas, and purchased power. Amortization of these contracts for the three months ended June 30, 2010, and 2009, resulted in an increase to nonregulated cost of fuel, natural gas, and purchased power of $1.7 million and $1.1 million, respectively. Amortization of these contracts for the six months ended June 30, 2010, resulted in an increase to nonregulated cost of fuel, natural gas, and purchased power of $3.1 million. Amortization of these contracts for the six months ended June 30, 2009, resulted in a decrease to nonregulated cost of fuel, natural gas, and purchased power of $0.3 million.

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

(Millions)	
For year ending December 31, 2010	$4.7
For year ending December 31, 2011	0.9
For year ending December 31, 2012	0.5
For year ending December 31, 2013	0.4
For year ending December 31, 2014	0.3

NOTE 9--SHORT-TERM DEBT AND LINES OF CREDIT

Integrys Energy Group's outstanding short-term borrowings consisted of sales of commercial paper and short-term notes.

(Millions, except percentages)	**June 30, 2010**	**December 31, 2009**
Commercial paper outstanding	**$12.5**	$212.1
Average discount rate on outstanding commercial paper	**0.43%**	0.52%
Short-term notes payable outstanding	**$10.0**	$10.0
Average interest rate on outstanding short-term notes payable	**0.30%**	0.18%

The commercial paper outstanding at June 30, 2010, matured on July 1, 2010.

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

(Millions)	**2010**	**2009**
Average amount of commercial paper outstanding	**$104.6**	$242.4
Average amount of borrowings under revolving credit facilities	**-**	231.8
Average amount of short-term notes payable outstanding	**10.0**	87.0

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:

(Millions)	Maturity	June 30, 2010	December 31, 2009
Revolving credit facility (Integrys Energy Group) [1]	4/23/13	**$ 735.0**	$ -
Revolving credit facility (Integrys Energy Group)	6/09/11	**500.0**	500.0
Revolving credit facility (Integrys Energy Group) [2]	6/02/10	**-**	500.0
Revolving credit facility (Integrys Energy Group) [2]	5/26/10	**-**	425.0
Revolving credit facility (Integrys Energy Group) [2]	6/04/10	**-**	35.0
Revolving credit facility (WPS) [3]	4/23/11	**115.0**	-
Revolving credit facility (WPS) [2]	6/02/10	**-**	115.0
Revolving credit facility (PEC)	6/13/11	**400.0**	400.0
Revolving credit facility (PGL) [4]	4/23/13	**250.0**	-
Revolving credit facility (PGL) [2]	7/12/10	**-**	250.0
Revolving short-term notes payable (WPS)	11/13/10	**10.0**	10.0
Total short-term credit capacity		**2,010.0**	2,235.0
Less:			
Letters of credit issued inside credit facilities		**174.8**	130.4
Loans outstanding under credit agreements and notes payable		**10.0**	10.0
Commercial paper outstanding		**12.5**	212.1
Available capacity under existing agreements		**$1,812.7**	$1,882.5

(1) In April 2010, Integrys Energy Group entered into a new revolving credit agreement to provide support for its commercial paper borrowing program.

(2) These facilities were replaced with new revolving credit agreements in April 2010. Upon entering into the new agreements, the maturing facilities were terminated.

(3) In April 2010, WPS entered into a new revolving credit agreement to provide support for its commercial paper borrowing program. WPS has requested authority from the PSCW to enter into a multi-year credit agreement, and, if granted, the credit facility will mature on April 23, 2013.

(4) In April 2010, PGL entered into a new revolving credit agreement to provide support for its commercial paper borrowing program.

At June 30, 2010, Integrys Energy Group and its subsidiaries were in compliance with all financial covenants related to outstanding short-term debt. Integrys Energy Group's 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 10--LONG-TERM DEBT

(Millions)	June 30, 2010	December 31, 2009
WPS	**$ 872.1**	$ 872.1
UPPCO (1)	**10.3**	10.8
PEC (2)	**326.9**	327.6
PGL (3)	**526.0**	576.0
NSG	**75.0**	75.0
Integrys Energy Group	**555.0**	555.0
Unsecured term loan – Integrys Energy Group (4)	**-**	65.6
Other term loan (5)	**27.0**	27.0
Total	**2,392.3**	2,509.1
Unamortized discount and premium	**0.3**	2.1
Total debt	**2,392.6**	2,511.2
Less current portion	**(327.8)**	(116.5)
Total long-term debt	**$2,064.8**	$2,394.7

(1) On May 3, 2010, UPPCO repaid $0.5 million of its 9.32% First Mortgage Bonds. Prior to November 1, 2010, UPPCO will make a $0.9 million sinking fund payment under the terms of its First Mortgage Bonds. As a result, this payment is included in current portion of long-term debt on Integrys Energy Group's Condensed Consolidated Balance Sheets at June 30, 2010.

(2) In January 2011, PEC's 6.9% unsecured Senior Notes will mature. As a result, the $326.9 million balance of these notes is included in current portion of long-term debt on Integrys Energy Group's Condensed Consolidated Balance Sheets at June 30, 2010.

(3) 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 a successful auction occurs. The maximum auction rate is determined based on the lesser of the London Interbank Offered Rate or the Securities Industry and Financial Markets Association Municipal Swap Index rate plus a defined premium. The year-to-date weighted-average interest rate at June 30, 2010, was 0.49% for these bonds.

On March 1, 2010, $50.0 million of PGL's Series MM-2 First and Refunding Mortgage Bonds matured. PGL repaid the outstanding principal balance on these 4.00% bonds.

(4) On May 13, 2010, $65.6 million of Integrys Energy Group's term loans matured. Integrys Energy Group repaid the outstanding principal balance on this unsecured term loan.

(5) 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 June 30, 2010, the interest rate was 4.23%. 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.

At June 30, 2010, 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's 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.

NOTE 11--ASSET RETIREMENT OBLIGATIONS

The following table shows changes to Integrys Energy Group's asset retirement obligations through June 30, 2010.

(Millions)	Utilities	Integrys Energy Services	Total
Asset retirement obligations at December 31, 2009	$194.8	$0.3 *	$195.1
Accretion	**5.8**	**-**	**5.8**
Asset retirement obligations transferred in sale	**-**	**(0.3)**	**(0.3)**
Asset retirement obligations at June 30, 2010	**$200.6**	**$ -**	**$200.6**

* This amount was classified as held for sale at December 31, 2009, as it was related to the sale of generation assets in Northern Maine, which closed in the first quarter of 2010.

NOTE 12--INCOME TAXES

Integrys Energy Group's effective tax rate for the three and six months ended June 30, 2010, was 35.9% and 42.2%, respectively. The effective tax rate for the three and six months ended June 30, 2009, was 34.6% and (27.7)%, respectively.

Integrys Energy Group calculates its provision for income taxes based on an interim effective tax rate that reflects its projected annual effective tax rate before certain discrete items such as the 2009 goodwill impairment loss.

The effective tax rate for the six months ended June 30, 2010, was higher than the federal tax rate of 35%, primarily due to the elimination of the deductibility of prescription drug payments to retirees, to the extent those payments will be offset by the receipt of the Medicare Part D subsidy, as mandated in the federal Patient Protection and Affordable Care Act and Health Care and Education Reconciliation Act of 2010 (HCR). As a result of the legislation, Integrys Energy Group expensed $11.8 million of deferred income tax benefits during the first quarter of 2010, which were previously recognized as a reduction of the provision for income taxes. Also contributing to the higher effective tax rate in 2010 as compared with the federal tax rate of 35% was the impact of state income taxes.

The effective tax rate for the six months ended June 30, 2009, was lower than the federal tax rate of 35%, primarily because a large portion (approximately $186.2 million) of the $291.1 million goodwill impairment loss recognized in the first quarter of 2009 was not deductible for income tax purposes.

For the three and six months ended June 30, 2010, Integrys Energy Group's liability for unrecognized tax benefits decreased $4.4 million and $4.5 million, respectively, related to favorable results on IRS examinations.

NOTE 13--COMMITMENTS AND CONTINGENCIES

General

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

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 June 30, 2010.

- The electric utility segment has obligations of $224.3 million related to coal supply and transportation that extend through 2016, obligations of $1,068.1 million for either capacity or energy related to purchased power that extend through 2027, and obligations of $9.8 million for other commodities that extend through 2013.
- The natural gas utility segment has obligations of $1,200.1 million related to natural gas supply and transportation contracts that extend through 2028.
- Integrys Energy Services has obligations of $537.4 million related to energy and natural gas supply contracts that extend through 2019. The majority of these obligations end by 2012, with obligations of $90.3 million extending beyond 2012.
- Integrys Energy Group also has commitments of $565.7 million in the form of purchase orders issued to various vendors that relate to normal business operations, including construction projects.

Environmental

Clean Air Act New Source Review Issues

Weston and Pulliam Plants:
On November 18, 2009, the 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 on several occasions and has exchanged proposals related to a possible resolution. Integrys Energy Group continues to review the allegations but is currently unable to predict the impact on its condensed consolidated financial statements.

On May 20, 2010, WPS received from the Sierra Club a Notice of Intent (NOI) to file a civil lawsuit based on allegations and violations of the CAA at the Weston and Pulliam generation stations. WPS is in the process of analyzing the allegations and has had discussions with the Sierra Club, but is currently unable to predict the impact on its condensed consolidated financial statements.

Columbia Plant:
On October 10, 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 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 (MG&E), and WPS, and operated by WP&L. The NOI also covers similar allegations related to another generation station solely owned by WP&L.

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. The parties received the Sierra Club's initial demand and are in the process of analyzing the allegations, as well as the demand, and have had discussions with the Sierra Club regarding a possible resolution. Integrys Energy Group is reviewing the allegations but is currently unable to predict the impact on its condensed consolidated financial statements.

Edgewater Plant:
On December 11, 2009, WPS, along with its co-owners, received from the Sierra Club a copy of an 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 (Units 3, 4, and 5), Wisconsin Electric (Unit 5), and WPS (Unit 4) and operated by WP&L. The parties are 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 condensed 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. The parties are in the process of analyzing the allegations and have had discussions with the Sierra Club. Integrys Energy Group is reviewing the allegations but is currently unable to predict the impact on its condensed consolidated financial statements.

Columbia and Edgewater Plants:
On December 14, 2009, the EPA issued an 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. The joint owners met with the EPA to begin discussions on a possible resolution and have received the EPA's initial demand. WP&L is the operator of these plants and, along with the joint owners, is in the process of analyzing the NOV and has responded to the EPA's initial demand. Integrys Energy Group is also reviewing the allegations but is currently unable to predict the impact on its condensed 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 and/or impose emission limitations,
- pay a fine, and/or
- conduct a supplemental environmental project.

In addition, under the CAA, citizen groups may pursue a claim.

Weston Air Permits

In November 2004, the Sierra Club filed a petition with the 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. On May 13, 2010, the Wisconsin Court of Appeals issued a ruling affirming that the WDNR's decisions on BACT, sulfur dioxide, and nitrogen oxide were reasonable. One issue, visible emissions, was sent back to the WDNR for further proceedings. The WDNR and WPS filed a Motion for Clarification on the issue of further proceedings on the visibility issue. The Court of Appeals withdrew its May 13, 2010 decision, and on June 24, 2010, it reaffirmed its decision on all other matters but clarified the visibility issue and directed the WDNR to reopen the permit and establish specific visibility limits. Integrys Energy Group is currently unsure how the WNDR will respond and is considering all of its options, including appeal.

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 impact, if any, of compliance with any changes to the Weston 4 air permit on its future costs.

In December 2008, an 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, an 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. An 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 very 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 condensed 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.

Pulliam Air Permit

The renewal of the Title V air permit for the Pulliam generating station was issued by the WDNR on April 30, 2009. On June 28, 2010, the EPA issued an order granting the Sierra Club's petition to object to the Title V permit. The order directs the WDNR to respond to the comments raised by the Sierra Club in its Petition (filed June 25, 2009). Integrys Energy Group will be working with the WDNR to address the order.

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. As of March 22, 2010, the WDNR has reopened the permit to address the EPA's order and, although final resolution is unknown, potential outcomes could include a revised permit. The parties continue to discuss the matter with the WDNR to seek a resolution. On July 14, 2010, WPS, along with its co-owners, received from the Sierra Club a copy of an NOI to file a civil lawsuit against the EPA based on the EPA's unreasonable delay in performing its duties related to the granting or denial of the Title V permit. Specifically, they allege that the EPA has failed to take actions against the WDNR for its failure to take action regarding the Title V permit as ordered by the EPA. Integrys Energy Group is reviewing the allegations but is currently unable to predict the impact on its condensed consolidated financial statements.

Mercury and Interstate Air Quality Rules

Mercury

The State of Wisconsin's mercury rule, Chapter NR 446, requires a 40% reduction from the 2002 through 2004 baseline mercury emissions in Phase I, beginning January 1, 2010, through the end of 2014. In Phase II, which begins in 2015, electric generating units above 150 megawatts will be required to reduce mercury emissions by 90%. Reductions can be phased in and the 90% target 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. As of June 30, 2010, 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 to address hazardous air pollutants, including mercury, and is expected to issue a draft rule in 2011.

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 issued a draft CAIR replacement rule for comment on July 6, 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. Integrys Energy Group will continue to evaluate the impacts of any subsequent rulemaking.

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 WPS's share of 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.

<u>*Manufactured Gas Plant Remediation*</u>

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 $653.9 million of future undiscounted investigation and cleanup costs for all sites as of June 30, 2010. 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 $665.7 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 June 30, 2010.

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, the EPA contacted the surety and the surety 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 condensed consolidated financial statements of Integrys Energy Group.

Greenhouse Gases

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 underway within the utility industry to find a feasible method for capturing carbon dioxide from pulverized coal-fired units and to develop cleaner ways to burn coal. The use of alternate fuels is also being explored by the industry, but there are many cost and availability issues.

Unless there is a successful legal challenge that stays the rule (several lawsuits have been filed), the EPA will begin regulating greenhouse gas emissions under the CAA in 2011. At that time, the EPA and the states will apply the BACT requirements associated with the new source review program to new and modified larger greenhouse gas emitters. Technology to remove and sequester greenhouse gas emissions is not commercially available at scale, hence, the EPA is considering defining BACT in terms of improvements in energy efficiency as opposed to relying on pollution control equipment. In addition, federal legislation related to greenhouse gas emissions may be enacted in the future, and 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. 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.