Pension and Other Postretirement Benefits

The costs of providing noncontributory defined benefit pension benefits and other postretirement benefits, described in Note 17, "*Employee Benefit Plans*," are dependent on numerous factors resulting from actual plan experience and assumptions regarding future experience.

Pension and other postretirement benefit costs are impacted by actual employee demographics (including age, compensation levels, and employment periods), the level of contributions made to the plans, and earnings on plan assets. Pension and other postretirement benefit costs may be significantly affected by changes in key actuarial assumptions, including anticipated rates of return on plan assets, discount rates, and expected health care cost trends. Changes made to the plan provisions may also impact current and future pension and other postretirement benefit costs.

Pension and other postretirement benefit plan assets are primarily made up of equity and fixed income investments. Fluctuations in actual equity and fixed income market returns, as well as changes in general interest rates, may result in increased or decreased benefit costs in future periods. We believe that such changes in costs would be recovered/refunded at the regulated utility segments through the ratemaking process.

The following table shows how a given change in certain actuarial assumptions would impact the projected benefit obligation and the reported net periodic pension cost. Each factor below reflects an evaluation of the change based on a change in that assumption only.

Actuarial Assumption *(Millions, except percentages)*	Percentage-Point Change in Assumption	Impact on Projected Benefit Obligation	Impact on 2012 Pension Cost
Discount rate	(0.5)	$ 118.9	$ 10.0
Discount rate	0.5	(99.2)	(8.0)
Rate of return on plan assets	(0.5)	N/A	6.5
Rate of return on plan assets	0.5	N/A	(6.5)

The following table shows how a given change in certain actuarial assumptions would impact the accumulated other postretirement benefit obligation and the reported net periodic other postretirement benefit cost. Each factor below reflects an evaluation of the change based on a change in that assumption only.

Actuarial Assumption *(Millions, except percentages)*	Percentage-Point Change in Assumption	Impact on Postretirement Benefit Obligation	Impact on 2012 Postretirement Benefit Cost
Discount rate	(0.5)	$ 43.4	$ 3.6
Discount rate	0.5	(40.4)	(2.7)
Health care cost trend rate	(1.0)	(69.7)	(9.6)
Health care cost trend rate	1.0	85.4	13.3
Rate of return on plan assets	(0.5)	N/A	1.7
Rate of return on plan assets	0.5	N/A	(1.7)

The discount rates are selected based on hypothetical bond portfolios consisting of noncallable (or callable with make-whole provisions), noncollateralized, high-quality corporate bonds with maturities between 0 and 30 years. The bonds are generally rated "Aa" with a minimum amount outstanding of $50 million. From the hypothetical bond portfolios, a single rate is determined that equates the market value of the bonds purchased to the discounted value of the plans' expected future benefit payments.

We establish our expected return on asset assumption based on consideration of historical and projected asset class returns, as well as the target allocations of the benefit trust portfolios. The assumed long-term rate of return was 8.25% in both 2012 and 2011, and 8.50% in 2010. For 2012, 2011, and 2010, the actual rates of return on pension plan assets, net of fees, were 14.3%, 1.5%, and 13.0%, respectively. Beginning in 2013, the expected return on assets assumption for the plans is 8.00%.

The determination of expected return on qualified plan assets is based on a market-related valuation of assets, which reduces year-to-year volatility. Cumulative gains and losses in excess of 10% of the greater of the pension or other postretirement benefit obligation or market-related value are amortized over the average remaining future service to expected retirement ages. Changes in realized and unrealized investment gains and losses are recognized over the subsequent five years for plans sponsored by WPS, while differences between actual investment returns and the expected return on plan assets are recognized over a five-year period for pension plans sponsored by IBS and PELLC. Because of this method, the future value of assets will be impacted as previously deferred gains or losses are included in market-related value.

In selecting assumed health care cost trend rates, past performance and forecasts of health care costs are considered. For more information on health care cost trend rates and a table showing future payments that we expect to make for our pension and other postretirement benefits, see Note 17, "*Employee Benefit Plans*."

Regulatory Accounting

Our natural gas and electric utility segments follow the guidance under the Regulated Operations Topic of the FASB ASC. Our financial statements reflect the effects of the ratemaking principles followed by the various jurisdictions regulating these segments. Certain items that would otherwise be immediately recognized as revenues and expenses are deferred as regulatory assets and regulatory liabilities for future recovery or refund to customers, as authorized by our regulators. Future recovery of regulatory assets is not assured, and is generally subject to review by regulators in rate proceedings for matters such as prudence and reasonableness. Once approved, the regulatory assets and liabilities are amortized into earnings over the rate recovery period. If recovery or refund of costs is not approved or is no longer deemed probable, these regulatory assets or liabilities are recognized in current period earnings. Management regularly assesses whether these regulatory assets and liabilities are probable of future recovery or refund by considering factors such as changes in the regulatory environment, earnings at the natural gas and electric utility segments, and the status of any pending or potential deregulation legislation.

The application of the Regulated Operations Topic of the FASB ASC would be discontinued if all or a separable portion of our natural gas and electric utility segment's operations no longer meet the criteria for application. Assets and liabilities recognized as a result of rate regulation would be written off as extraordinary items in income for the period in which the discontinuation occurred. A write-off of all our regulatory assets and regulatory liabilities at December 31, 2012, would result in an 18.6% decrease in total assets and a 6.0% decrease in total liabilities. The two largest regulatory assets at December 31, 2012, related to unrecognized pension and other postretirement benefit costs and environmental remediation costs. A write-off of the unrecognized pension and other postretirement benefit related regulatory asset at December 31, 2012, would result in a 7.8% decrease in total assets. A write-off of the regulatory asset related to environmental remediation costs at December 31, 2012, would result in a 6.7% decrease in total assets. See Note 7, "*Regulatory Assets and Liabilities*," for more information.

Income Tax Provision

We are required to estimate income taxes for each of the jurisdictions in which we operate as part of the process of preparing consolidated financial statements. This process involves estimating current income tax liabilities together with assessing temporary differences resulting from differing treatment of items, such as depreciation, for income tax and accounting purposes. These differences result in deferred income tax assets and liabilities, which are included within our balance sheets. We also assess the likelihood that our deferred income tax assets will be recovered through future taxable income. To the extent we believe that realization is not likely, we establish a valuation allowance, which is offset by an adjustment to the provision for income taxes in the income statements.

Uncertainty associated with the application of tax statutes and regulations and the outcomes of tax audits and appeals requires that judgments and estimates be made in the accrual process and in the calculation of effective tax rates. Only income tax benefits that meet the "more likely than not" recognition threshold may be recognized or continue to be recognized. Unrecognized tax benefits are re-evaluated quarterly and changes are recorded based on new information, including the issuance of relevant guidance by the courts or tax authorities and developments occurring in the examinations of our tax returns.

Significant management judgment is required in determining our provision for income taxes, deferred income tax assets and liabilities, the liability for unrecognized tax benefits, and any valuation allowance recorded against deferred income tax assets. The assumptions involved are supported by historical data, reasonable projections, and interpretations of applicable tax laws and regulations across multiple taxing jurisdictions. Significant changes in these assumptions could have a material impact on our financial condition and results of operations. See Note 1(p), "*Income Taxes*," and Note 14, "*Income Taxes,*" for a discussion of accounting for income taxes.

IMPACT OF INFLATION

Our financial statements are prepared in accordance with GAAP. The statements provide a reasonable, objective, and quantifiable statement of financial results, but generally do not evaluate the impact of inflation. To the extent our regulated operations are not recovering the effects of inflation, they will file rate cases as necessary in the various jurisdictions in which they operate. Our nonregulated businesses include inflation in forecasted costs, which impacts product pricing.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have potential market risk exposure related to commodity price risk, interest rate risk, and equity return and principal preservation risk. We are also exposed to other significant risks due to the nature of our subsidiaries' businesses and the environment in which we operate. We have risk management policies in place to monitor and assist in controlling these risks, and we use derivative and other instruments to manage some of these exposures, as further described below.

Commodity Price Risk

Utilities

Prudent fuel and purchased power costs and capacity payments are recovered from customers under one-for-one recovery mechanisms by UPPCO, and by the wholesale electric operations and Michigan retail electric operations of WPS. Prudently incurred costs of natural gas used by the natural gas utilities are also recovered from customers under one-for-one recovery mechanisms. These recovery mechanisms greatly reduce commodity price risk for the utilities.

WPS's Wisconsin retail electric operations do not have a one-for-one recovery mechanism for price fluctuations. Instead, a "fuel window" mechanism substantially mitigates this price risk.

To manage commodity price risk for their customers, the regulated utilities enter into fixed-price contracts of various durations for the purchase and/or sale of natural gas, fuel for electric generation, and electricity. In addition, the electric operations of WPS and UPPCO, and the natural gas operations of WPS, PGL, NSG, and MERC, employ risk management techniques, which include the use of derivative instruments such as swaps, futures, and options.

See Note 1(f), "*Summary of Significant Accounting Policies – Revenues and Customer Receivables*," for more information.

Integrys Energy Services

Integrys Energy Services seeks to reduce market price risk from its generation and energy supply portfolios through the use of various financial and physical instruments. Additionally, Integrys Energy Services uses volume limits and stop loss limits as defined in its Risk Policy to limit its exposure to commodity price movements.

To measure commodity price risk exposure, Integrys Energy Services employs a number of controls and processes, including a value-at-risk (VaR) analysis of its exposures. The VaR amount represents an estimate of the potential change in fair value that could occur from changes in market factors, within a given confidence level, if an instrument or portfolio is held for a specified time period. The VaR calculation is used to quantify exposure to market risk associated with its open commodity positions (primarily natural gas and power positions).

The VaR calculation includes financial and physical commodity instruments, such as forwards, futures, swaps, and options, as well as natural gas inventory, natural gas storage, and transportation contracts, to the extent such positions are significant. The VaR calculation excludes the positions created by owning energy assets and associated coal, sulfur dioxide emission allowances, renewable energy credits, and other ancillary fuels. Additionally, financial transmission rights, certain electric ancillary services, and certain portions of long-dated natural gas storage and transportation contracts are also excluded from the VaR calculation. VaR is calculated using nondiscounted 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 a 99% confidence level.

The VaR model is not intended to represent actual losses in fair value that we expect to incur, but is used as a risk estimation and management tool.

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

(Millions)	2012	2011
As of December 31	$ 0.1	$ 0.2
Average for 12 months ended December 31	0.1	0.2
High for 12 months ended December 31	0.2	0.3
Low for 12 months ended December 31	0.1	0.1

The VaR for Integrys Energy Services' portfolio at a 99% confidence level and a ten-day holding period is presented in the following table:

(Millions)	2012	2011
As of December 31	$ 0.6	$ 0.7
Average for 12 months ended December 31	0.5	0.7
High for 12 months ended December 31	0.7	1.2
Low for 12 months ended December 31	0.4	0.5

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

Interest Rate Risk

We are exposed to interest rate risk resulting from our short-term commercial paper borrowings and projected near-term debt financing needs. We manage exposure to interest rate risk by limiting the amount of variable rate obligations and continually monitoring the effects of market changes on interest rates. When it is advantageous to do so, we enter into long-term fixed rate debt. We may also enter into derivative financial instruments, such as swaps, to mitigate interest rate exposure.

Based on our variable rate debt outstanding at December 31, 2012, a hypothetical increase in market interest rates of 100 basis points would have increased annual interest expense by $4.8 million. Comparatively, based on the variable rate debt outstanding at December 31, 2011, an increase in interest rates of 100 basis points would have increased annual interest expense by $3.3 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.

Equity Return and Principal Preservation Risk

We currently fund liabilities related to employee benefits through various external trust funds. The trust funds are managed by numerous investment managers and hold investments primarily in debt and equity securities. Changes in the market value of these investments can have an impact on the future expenses related to these liabilities. Declines in the equity markets or declines in interest rates may result in increased future costs for the plans and require additional contributions into the plans. We monitor the trust fund portfolio by benchmarking the performance of the investments against certain security indices. Most of the employee benefit costs relate to the regulated utilities. As such, the majority of these costs are recovered in customers' rates, reducing most of the equity return and principal preservation risk on these exposures. Also, the likelihood of an increase in the employee benefit obligations, which the investments must fund, has been partially mitigated as a result of certain employee groups no longer being eligible to participate in, or accumulate benefits in, certain pension and other postretirement benefit plans. Our defined benefit pension plans are closed to all new hires.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

A. MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Integrys Energy Group and our subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting. Our control systems were designed to provide reasonable assurance to our management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2012. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework*. Based on this assessment, management believes that, as of December 31, 2012, our internal control over financial reporting is effective.

Our independent registered public accounting firm has issued an audit report on the effectiveness of our internal control over financial reporting.

B. REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Integrys Energy Group, Inc. and subsidiaries (the "Company") as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2012 of the Company, and our report dated February 28, 2013 expressed an unqualified opinion on those financial statements and financial statement schedules.

/s/ Deloitte & Touche LLP

Milwaukee, Wisconsin
February 28, 2013

C. CONSOLIDATED STATEMENTS OF INCOME

Year Ended December 31 (Millions, except per share data)	2012	2011	2010
Utility revenues	$ 2,959.5	$ 3,294.5	$ 3,368.5
Nonregulated revenues	1,252.9	1,391.4	1,801.3
Total revenues	4,212.4	4,685.9	5,169.8
Utility cost of fuel, natural gas, and purchased power	1,326.3	1,635.3	1,685.5
Nonregulated cost of sales	1,040.2	1,274.2	1,611.4
Operating and maintenance expense	1,031.3	1,025.1	1,043.7
Net (gain) loss on Integrys Energy Services' dispositions related to strategy change	—	(0.3)	14.1
Depreciation and amortization expense	250.7	247.7	260.4
Taxes other than income taxes	96.4	97.1	92.0
Operating income	467.5	406.8	462.7
Earnings from equity method investments	87.2	79.4	78.2
Miscellaneous income	9.3	5.3	13.3
Interest expense	(120.2)	(128.2)	(146.7)
Other expense	(23.7)	(43.5)	(55.2)
Income before taxes	443.8	363.3	407.5
Provision for income taxes	149.8	133.3	162.3
Net income from continuing operations	294.0	230.0	245.2
Discontinued operations, net of tax	(9.7)	0.5	(21.5)
Net income	284.3	230.5	223.7
Preferred stock dividends of subsidiary	(3.1)	(3.1)	(3.1)
Noncontrolling interest in subsidiaries	0.2	—	0.3
Net income attributed to common shareholders	$ 281.4	$ 227.4	$ 220.9
Average shares of common stock			
Basic	78.6	78.6	77.5
Diluted	79.3	79.1	78.0
Earnings (loss) per common share (basic)			
Net income from continuing operations	$ 3.70	$ 2.89	$ 3.13
Discontinued operations, net of tax	(0.12)	—	(0.28)
Earnings per common share (basic)	$ 3.58	$ 2.89	$ 2.85
Earnings (loss) per common share (diluted)			
Net income from continuing operations	$ 3.67	$ 2.87	$ 3.11
Discontinued operations, net of tax	(0.12)	—	(0.28)
Earnings per common share (diluted)	$ 3.55	$ 2.87	$ 2.83
Dividends per common share declared	$ 2.72	$ 2.72	$ 2.72

The accompanying notes to the consolidated financial statements are an integral part of these statements.

D. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Year Ended December 31 (Millions)	2012	2011	2010
Net income	$ 284.3	$ 230.5	$ 223.7
Other comprehensive income (loss), net of tax:			
Cash flow hedges			
Unrealized net gains (losses) arising during period, net of tax of $(0.1) million, $0.4 million, and $(22.3) million, respectively	(0.2)	1.5	(22.1)
Reclassification of net losses to net income, net of tax of $2.0 million, $4.4 million, and $27.0 million, respectively	6.5	7.4	26.6
Cash flow hedges, net	6.3	8.9	4.5
Defined benefit pension plans			
Pension and other postretirement benefit costs arising during period, net of tax of $(4.4) million, $(5.7) million, and $(2.3) million, respectively	(6.1)	(7.5)	(3.3)
Amortization of pension and other postretirement benefit costs included in net periodic benefit cost, net of tax of $1.0 million, $0.6 million, and $0.3 million, respectively	1.4	0.8	0.5
Defined benefit pension plans, net	(4.7)	(6.7)	(2.8)
Foreign currency translation			
Foreign currency translation adjustments arising during period net of tax of $ — million, $ — million, and $0.1 million, respectively	—	—	0.3
Foreign currency translation gain included in net income as a result of the Integrys Energy Services' strategy change, net of tax $ — million, $ — million, and $(1.6) million, respectively	—	—	(2.7)
Foreign currency translation , net	—	—	(2.4)
Other comprehensive income (loss), net of tax	1.6	2.2	(0.7)
Comprehensive income	285.9	232.7	223.0
Preferred stock dividends of subsidiary	(3.1)	(3.1)	(3.1)
Noncontrolling interest in subsidiaries	0.2	—	0.3
Comprehensive income attributed to common shareholders	$ 283.0	$ 229.6	$ 220.2

The accompanying notes to the consolidated financial statements are an integral part of these statements.

E. CONSOLIDATED BALANCE SHEETS

At December 31 (Millions)	2012	2011
Assets		
Cash and cash equivalents	$ 27.4	$ 28.1
Collateral on deposit	41.0	50.9
Accounts receivable and accrued unbilled revenues, net of reserves of $43.5 and $47.1, respectively	796.8	737.7
Inventories	271.9	297.6
Assets from risk management activities	145.4	227.2
Regulatory assets	110.8	125.1
Assets held for sale	10.1	28.8
Deferred income taxes	64.3	94.2
Prepaid taxes	152.8	209.6
Other current assets	38.6	29.0
Current assets	1,659.1	1,828.2
Property, plant, and equipment, net of accumulated depreciation of $3,114.7 and $3,006.6, respectively	5,501.9	5,175.5
Regulatory assets	1,813.8	1,658.5
Assets from risk management activities	45.3	64.4
Equity method investments	512.2	476.3
Goodwill	658.3	658.4
Other long-term assets	136.8	121.9
Total assets	$ 10,327.4	$ 9,983.2
Liabilities and Equity		
Short-term debt	$ 482.4	$ 303.3
Current portion of long-term debt	313.5	250.0
Accounts payable	457.7	426.6
Liabilities from risk management activities	181.9	311.5
Accrued taxes	83.0	70.5
Regulatory liabilities	65.6	67.5
Liabilities held for sale	0.2	27.3
Other current liabilities	229.0	217.0
Current liabilities	1,813.3	1,673.7
Long-term debt	1,931.7	1,845.0
Deferred income taxes	1,203.8	1,070.7
Deferred investment tax credits	49.3	44.0
Regulatory liabilities	370.5	332.5
Environmental remediation liabilities	651.5	615.1
Pension and other postretirement benefit obligations	625.2	749.3
Liabilities from risk management activities	58.4	102.0
Asset retirement obligations	411.2	397.2
Other long-term liabilities	135.7	141.1
Long-term liabilities	5,437.3	5,296.9
Commitments and contingencies		
Common stock – $1 par value; 200,000,000 shares authorized; 78,287,906 shares issued; 77,902,467 shares outstanding	78.3	78.3
Additional paid-in capital	2,574.6	2,579.1
Retained earnings	431.5	363.6
Accumulated other comprehensive loss	(40.9)	(42.5)
Shares in deferred compensation trust	(17.7)	(17.1)

Total common shareholders' equity	3,025.8	2,961.4
Preferred stock of subsidiary – $100 par value; 1,000,000 shares authorized; 511,882 shares issued; 510,495 shares outstanding	51.1	51.1
Noncontrolling interest in subsidiaries	(0.1)	0.1
Total liabilities and equity	$ 10,327.4	$ 9,983.2

The accompanying notes to the consolidated financial statements are an integral part of these statements.

F. CONSOLIDATED STATEMENTS OF EQUITY

(Millions)	Integrys Energy Group Common Shareholders' Equity: Shares in Deferred Compensation Trust	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Common Shareholders' Equity	Preferred Stock of Subsidiary	Noncontrolling Interest in Subsidiaries	Total Equity
Balance at December 31, 2009	$ (17.2)	$ 76.4	$ 2,497.8	$ 337.0	$ (44.0)	$ 2,850.0	$ 51.1	$ (0.9)	$ 2,900.2
Net income attributed to common shareholders	—	—	—	220.9	—	220.9	—	(0.3)	220.6
Other comprehensive loss	—	—	—	—	(0.7)	(0.7)	—	—	(0.7)
Issuance of common stock	—	1.3	54.5	—	—	55.8	—	—	55.8
Stock based compensation	—	—	4.0	—	—	4.0	—	—	4.0
Dividends on common stock	—	—	—	(208.7)	—	(208.7)	—	—	(208.7)
Other	(1.3)	0.1	(15.9)	1.6	—	(15.5)	—	1.3	(14.2)
Balance at December 31, 2010	$ (18.5)	$ 77.8	$ 2,540.4	$ 350.8	$ (44.7)	$ 2,905.8	$ 51.1	$ 0.1	$ 2,957.0
Net income attributed to common shareholders	—	—	—	227.4	—	227.4	—	—	227.4
Other comprehensive income	—	—	—	—	2.2	2.2	—	—	2.2
Issuance of common stock	—	0.5	21.7	—	—	22.2	—	—	22.2
Stock based compensation	—	—	7.5	(2.1)	—	5.4	—	—	5.4
Dividends on common stock	—	—	—	(211.8)	—	(211.8)	—	—	(211.8)
Other	1.4	—	9.5	(0.7)	—	10.2	—	—	10.2
Balance at December 31, 2011	$ (17.1)	$ 78.3	$ 2,579.1	$ 363.6	$ (42.5)	$ 2,961.4	$ 51.1	$ 0.1	$ 3,012.6
Net income attributed to common shareholders	—	—	—	281.4	—	281.4	—	(0.2)	281.2
Other comprehensive income	—	—	—	—	1.6	1.6	—	—	1.6
Issuance of common stock	—	—	—	—	—	—	—	—	—
Stock based compensation	—	—	(4.1)	(0.7)	—	(4.8)	—	—	(4.8)
Dividends on common stock	—	—	—	(211.9)	—	(211.9)	—	—	(211.9)
Other	(0.6)	—	(0.4)	(0.9)	—	(1.9)	—	—	(1.9)
Balance at December 31, 2012	$ (17.7)	$ 78.3	$ 2,574.6	$ 431.5	$ (40.9)	$ 3,025.8	$ 51.1	$ (0.1)	$ 3,076.8

The accompanying notes to the consolidated financial statements are an integral part of these statements.

G. CONSOLIDATED STATEMENTS OF CASH FLOWS

Year Ended December 31 (Millions)	2012	2011	2010
Operating Activities			
Net income	$ 284.3	$ 230.5	$ 223.7
Adjustments to reconcile net income to net cash provided by operating activities			
Discontinued operations, net of tax	9.7	(0.5)	21.5
Depreciation and amortization expense	250.7	247.7	260.4
Recoveries and refunds of regulatory assets and liabilities	49.9	56.1	28.7
Net unrealized (gains) losses on energy contracts	(40.3)	45.2	(51.4)
Bad debt expense	26.2	35.0	48.0
Pension and other postretirement expense	62.1	59.9	67.5
Pension and other postretirement contributions	(287.5)	(131.5)	(201.4)
Deferred income taxes and investment tax credits	148.2	174.1	250.5
Equity income, net of dividends	(17.5)	(14.8)	(14.5)
Other	20.1	45.9	45.2
Changes in working capital			
Collateral on deposit	9.6	(17.3)	163.6
Accounts receivable and accrued unbilled revenues	(26.2)	93.4	97.8
Inventories	28.5	(37.1)	49.6
Other current assets	6.1	55.3	(84.3)
Accounts payable	22.0	(37.3)	(25.8)
Other current liabilities	23.1	(86.8)	(164.4)
Net cash provided by operating activities	569.0	717.8	714.7
Investing Activities			
Capital expenditures	(594.3)	(310.1)	(257.7)
Proceeds from the sale or disposal of assets	10.4	7.6	66.0
Capital contributions to equity method investments	(27.4)	(37.6)	(6.9)
Acquisition of compressed natural gas fueling companies, net of cash acquired	1.3	(42.6)	—
Other	5.0	(10.8)	—
Net cash used for investing activities	(605.0)	(393.5)	(198.6)
Financing Activities			
Short-term debt, net	179.1	303.3	(212.1)
Repayment of notes payable	—	(10.0)	—
Proceeds from sale of borrowed natural gas	—	—	21.9
Purchase of natural gas to repay natural gas loans	—	—	(6.5)
Issuance of long-term debt	428.0	50.0	250.0
Repayment of long-term debt	(278.2)	(565.8)	(117.2)
Proceeds from stock option exercises	55.8	10.3	18.8
Shares purchased for stock-based compensation	(89.9)	(17.0)	(2.1)
Payment of dividends			
Preferred stock of subsidiary	(3.1)	(3.1)	(3.1)
Common stock	(211.9)	(206.4)	(186.1)
Issuance of common stock	—	2.0	14.6
Payments made on derivative contracts related to divestitures classified as financing activities	(23.7)	(31.9)	(157.8)
Other	(1.0)	(9.5)	(11.8)
Net cash provided by (used for) financing activities	55.1	(478.1)	(391.4)
Change in cash and cash equivalents – continuing operations	19.1	(153.8)	124.7
Change in cash and cash equivalents – discontinued operations			

Net cash provided by operating activities	4.8	4.1	10.5
Net cash provided by (used for) investing activities	2.4	(0.9)	(0.7)
Net cash used for financing activities	(27.0)	(0.3)	—
Net change in cash and cash equivalents	(0.7)	(150.9)	134.5
Cash and cash equivalents at beginning of year	28.1	179.0	44.5
Cash and cash equivalents at end of year	$ 27.4	$ 28.1	$ 179.0

The accompanying notes to the consolidated financial statements are an integral part of these statements.

H. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Nature of Operations—We are a holding company whose primary wholly owned subsidiaries at December 31, 2012, included MERC, MGU, NSG, PGL, UPPCO, WPS, IBS, Integrys Energy Services, and ITF. Of these subsidiaries, six are regulated electric and/or natural gas utilities, one, IBS, is a centralized service company, one, Integrys Energy Services, is a nonregulated retail energy supply and services company, and one, ITF, is a nonregulated compressed natural gas fueling business. In addition, we have an approximate 34% interest in ATC.

As used in these notes, the term "financial statements" refers to the consolidated financial statements. This includes the consolidated statements of income, consolidated statements of comprehensive income, consolidated balance sheets, consolidated statements of equity, and consolidated statements of cash flows, unless otherwise noted.

The term "utility" refers to the regulated activities of the electric and natural gas utility companies, while the term "nonutility" refers to the activities of the electric and natural gas utility companies that are not regulated. The term "nonregulated" refers to activities at Integrys Energy Services, ITF, the Integrys Energy Group holding company, and the PELLC holding company.

(b) Consolidated Basis of Presentation—The financial statements include our accounts and the accounts of all of our majority owned subsidiaries, after eliminating intercompany transactions and balances. These financial statements also reflect our proportionate interests in certain jointly owned utility facilities. The cost method of accounting is used for investments when we do not have significant influence over the operating and financial policies of the investee. Investments in businesses not controlled by us, but over which we have significant influence regarding the operating and financial policies of the investee, are accounted for using the equity method. For more information on equity method investments, see Note 8, "*Equity Method Investments*."

(c) Reclassifications—We reclassified $49.0 million of materials and supplies reported in other current assets at December 31, 2011, to inventories to be consistent with the current year presentation on the balance sheets.

We adjusted changes in working capital on the statements of cash flows by reclassifying $(9.0) million and $(1.7) million related to materials and supplies at December 31, 2011, and 2010, respectively, from the change in other current assets line item to the change in inventories line item. We reclassified $2.9 million and $18.6 million reported in the issuance of common stock line item at December 31, 2011, and 2010, respectively, and $7.4 million and $0.2 million reported in other financing activities at December 31, 2011, and 2010, respectively, to the proceeds from stock option exercises line item. These reclassifications were made to be consistent with the current year presentation on the statements of cash flows. They had no impact on total cash flows from operating or financing activities.

(d) Use of Estimates—We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America. We make estimates and assumptions that affect assets, liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

(e) Cash and Cash Equivalents—Short-term investments with an original maturity of three months or less are reported as cash equivalents.

The following is a supplemental disclosure to our statements of cash flows:

(Millions)	2012	2011	2010
Cash paid for interest	$ 109.7	$ 130.7	$ 138.7
Cash received for income taxes	(47.6)	(80.0)	(2.2)

Significant noncash transactions were:

(Millions)	2012	2011	2010
Construction costs funded through accounts payable	$ 92.4	$ 58.6	$ 18.3
Portion of Westwood sale financed with note receivable *	4.0	—	—
Equity issued for stock-based compensation plans	—	15.8	3.0
Equity issued for reinvested dividends	—	5.4	22.6

* See Note 4, "*Dispositions,*" for more information.

(f) Revenues and Customer Receivables—Revenues related to the sale of energy are recognized when service is provided or energy is delivered to customers. We also accrue estimated amounts of revenues for services provided or energy delivered but not yet billed to customers. Estimated unbilled revenues are calculated using a variety of judgments and assumptions related to customer class, contracted rates, weather, and customer use. At December 31, 2012 and 2011, our unbilled revenues were $298.2 million and $282.1 million, respectively.

At December 31, 2012, there were no customers or industries that accounted for more than 10% of our revenues.

We present revenues net of pass-through taxes on the income statements.

Our utility subsidiaries have various rate-adjustment mechanisms in place that allow subsequent adjustments to rates for changes in prudently incurred costs. A summary of significant rate-adjustment mechanisms follows:

- Fuel and purchased power costs are recovered from customers on a one-for-one basis by UPPCO, WPS's wholesale electric operations, and WPS's Michigan retail electric operations.
- WPS's Wisconsin retail electric operations use a "fuel window" mechanism to recover fuel and purchased power costs. Under the fuel window rule, a deferral is required for under or over-collections of actual fuel and purchased power costs that exceed a 2% price variance from the costs included in the rates charged to customers. Under or over-collections deferred in the current year are recovered or refunded in a future rate proceeding.
- The rates for all of our natural gas utilities include one-for-one recovery mechanisms for natural gas commodity costs.
- The rates of PGL and NSG include riders for cost recovery of both environmental cleanup and energy conservation and management program costs.
- MERC's rates include a conservation improvement program rider for cost recovery of energy conservation and management program costs as well as recovery of a financial incentive for meeting energy savings goals.
- The rates of PGL, NSG, and MGU include riders for cost recovery or refund of bad debts based on the difference between actual bad debt expense (as defined in the latest rate order) and the amount recovered in rates.
- The rates of MGU, NSG, PGL, UPPCO, and WPS include a decoupling mechanism. These mechanisms differ state by state and allow utilities to adjust rates going forward to recover or refund differences between actual and authorized margins. However, see Note 25, "*Regulatory Environment,*" for more information on accounting for decoupling in 2012 at NSG and PGL.

Revenues are also impacted by other accounting policies related to PGL's natural gas hub and our utility subsidiaries' participation in the MISO market. Amounts collected from PGL's wholesale customers that use the natural gas hub are credited to natural gas costs, resulting in a reduction to retail customers' charges for natural gas and services. WPS and UPPCO both sell and purchase power in the MISO market. If WPS or UPPCO is a net seller in a particular hour, the net amount is reported as revenue. If WPS or UPPCO is a net purchaser in a particular hour, the net amount is recorded as utility cost of fuel, natural gas, and purchased power on the income statements.

ITF accounts for revenues from construction management projects with the percentage of completion method. Revenue is measured by the percentage of costs incurred to date to the estimated total costs for each contract. This method is used because management considers total costs to be the best available measure of progress on these contracts.

See Note 1(h), "*Risk Management Activities*," for more information on the classification of certain unrealized gains and losses on derivative instruments in revenues.

(g) Inventories—Inventories consist of materials and supplies, natural gas in storage, liquid propane, and fossil fuels, including coal. Average cost is used to value materials and supplies, fossil fuels, liquid propane, and natural gas in storage for the regulated utilities, excluding PGL and NSG. PGL and NSG price natural gas storage injections at the calendar year average of the costs of natural gas supply purchased. Withdrawals from storage are priced on the LIFO cost method. Inventories stated on a LIFO basis represented approximately 30% of total inventories at December 31, 2012, and 31% of total inventories at December 31, 2011. The estimated replacement cost of natural gas in inventory at December 31, 2012, and December 31, 2011, exceeded the LIFO cost by approximately $95.3 million and $65.7 million, respectively. In calculating these replacement amounts, PGL and NSG used a Chicago city-gate natural gas price per dekatherm of $3.58 at December 31, 2012, and $3.06 at December 31, 2011.

Inventories at Integrys Energy Services are valued at the lower of cost or market. As a result, Integrys Energy Services recorded net write-downs of $3.4 million, $11.6 million, and $0.9 million in 2012, 2011, and 2010, respectively.

(h) Risk Management Activities—As part of our regular operations, we enter into contracts, including options, swaps, futures, forwards, and other contractual commitments, to manage market risks such as changes in commodity prices and interest rates, which are described more fully in Note 2, "*Risk Management Activities*." 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.

All derivatives are recognized on the balance sheets at their fair value unless they are designated as and qualify for the normal purchases and sales exception. We continually assess our contracts designated as normal and will discontinue the treatment of these contracts as normal if the required criteria are no longer met. 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.

We classify unrealized gains and losses on derivative instruments that do not qualify for hedge accounting or regulatory deferral as a component of margins or operating and maintenance expense, depending on the nature of the transactions. Unrealized gains and losses on fair value hedges are recognized in current earnings, as are the changes in fair value of the hedged items. Fair value hedge ineffectiveness is recorded in revenue, operating and maintenance expense, or interest expense on the statements of income, based on the nature of the transactions. Cash flows from derivative activities are presented in the same category as the item being hedged within operating activities on the statements of cash flows unless the derivative contracts contain an other-than-insignificant financing element, in which case the cash flows are classified within financing activities.

Derivative accounting rules provide the option to present certain asset and liability derivative positions net on the balance sheets and to net the related cash collateral against these net derivative positions. We elected not to net these items. On the balance sheets, cash collateral provided to others is shown separately as collateral on deposit, and cash collateral received from others is reflected in other current liabilities.

We have risk management contracts with various counterparties. We monitor credit exposure levels and the financial condition of our counterparties on a continuous basis to minimize credit risk. At December 31, 2012, we did not have risk management contracts with any one counterparty or industry that accounted for more than 10% of our total credit risk exposure.

(i) Emission Allowances—Integrys Energy Services accounts for emission allowances as intangible assets, with cash inflows and outflows related to purchases and sales of emission allowances recorded as investing activities in the statements of cash flows. The utilities account for emission allowances as inventory at average cost by vintage year. Charges to income result when allowances are used in operating the utilities' generation plants. Gains on sales of allowances at the utilities are returned to ratepayers. Losses on emission allowances at the utilities are included in the costs subject to the fuel window rules.

(j) Property, Plant, and Equipment—Utility plant is stated at cost, including any associated AFUDC and asset retirement costs. The costs of renewals and betterments of units of property (as distinguished from minor items of property) are capitalized as additions to the utility plant accounts. Maintenance, repair, replacement, and renewal costs associated with items not qualifying as units of property are considered operating expenses. The utilities record a regulatory liability for cost of removal accruals, which are included in rates. Actual removal costs are charged against the regulatory liability as incurred. Except for land, no gains or losses are recognized in connection with ordinary retirements of utility property units. The utilities charge the cost of units of property retired, sold, or otherwise disposed of, less salvage value, to accumulated depreciation.

We record straight-line depreciation expense over the estimated useful life of utility property using depreciation rates as approved by the applicable regulators. Annual utility composite depreciation rates are shown below. WPS received approval from the PSCW for lower depreciation rates, effective January 1, 2011.

Annual Utility Composite Depreciation Rates	2012	2011	2010
WPS – Electric	2.87%	2.88%	3.05%
WPS – Natural gas	2.21%	2.22%	3.28%
UPPCO	3.31%	3.33%	3.18%
MGU	2.71%	2.73%	3.55%
MERC	3.07%	3.10%	3.08%
PGL	3.16%	3.18%	3.10%
NSG	2.43%	2.42%	2.35%

The majority of nonregulated plant is stated at cost, net of impairments recorded, and includes capitalized interest. The costs of renewals, betterments, and major overhauls are capitalized as additions to plant. Nonregulated plant acquired as a result of mergers and acquisitions have been recorded at fair value. The gains or losses associated with ordinary retirements are recorded in the period of retirement. Maintenance, repair, and minor replacement costs are expensed as incurred. Depreciation is computed for the majority of the nonregulated subsidiaries' assets using the straight-line method over the assets' useful lives.

We capitalize certain costs related to software developed or obtained for internal use and amortize those costs to operating expense over the estimated useful life of the related software, which ranges from 3 to 15 years. If software is retired prior to being fully amortized, the difference is recorded as a loss on the income statements.

See Note 5, "*Property, Plant, and Equipment*," for details regarding our property, plant, and equipment balances.

(k) AFUDC and Capitalized Interest—Our utilities capitalize the cost of funds used for construction using a calculation that includes both internal equity and external debt components, as required by regulatory accounting. The internal equity component is accounted for as other income. The external debt component is accounted for as a decrease to interest expense.

Approximately 50% of WPS's retail jurisdictional construction work in progress expenditures are subject to the AFUDC calculation. For 2012, WPS's average AFUDC retail rate was 7.71%, and its average AFUDC wholesale rate was 0.27%.

WPS's total AFUDC was as follows for the years ended December 31:

	2012	2011	2010
Allowance for equity funds used during construction	$ 2.6	$ 0.6	$ 0.7
Allowance for borrowed funds used during construction	0.9	0.2	0.3

The AFUDC calculation for the other utilities and IBS is determined by their respective state commissions, each with specific requirements. Based on these requirements, the other utilities and IBS did not record significant AFUDC for 2012, 2011, or 2010.

Our nonregulated subsidiaries capitalize interest for construction projects. However, the nonregulated subsidiaries did not capitalize significant interest during 2012, 2011, and 2010.

(l) Regulatory Assets and Liabilities—Regulatory assets represent probable future revenue associated with certain costs or liabilities that have been deferred and are expected to be recovered from customers through the ratemaking process. Regulatory liabilities represent amounts that are expected to be refunded to customers in future rates or amounts collected in rates for future costs. If at any reporting date a previously recorded regulatory asset is no longer probable of recovery, the regulatory asset is reduced to the amount considered probable of recovery with the reduction charged to expense in the year the determination is made. See Note 7, "*Regulatory Assets and Liabilities*," for more information.

(m) Asset Impairment—Goodwill and other intangible assets with indefinite lives are not amortized, but are subject to an annual impairment test. Interim impairment tests are performed when impairment indicators are present. Intangible assets with definite lives are reviewed for impairment on a quarterly basis. Other long-lived assets require an impairment review when events or circumstances indicate that the carrying amount may not be recoverable. We base our evaluation of other long-lived assets on the presence of impairment indicators such as the future economic benefit of the assets, any historical or future profitability measurements, and other external market conditions or factors.

Our reporting units containing goodwill perform annual goodwill impairment tests during the second quarter of each year. The carrying amount of the reporting unit's goodwill is considered not recoverable if the carrying amount of the reporting unit exceeds the reporting unit's fair value. An impairment loss is recorded for the excess of the carrying amount of the goodwill over its implied fair value. For more information on our goodwill and other intangible assets, see Note 9, "*Goodwill and Other Intangible Assets*."

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

The carrying amount of assets held for sale is not recoverable if the carrying amount exceeds the fair value less estimated costs to sell the asset. An impairment loss is recorded for the excess of the asset’s carrying amount over the fair value, less estimated costs to sell.

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

Integrys Energy Services evaluates emission allowances for impairment by comparing the expected undiscounted future cash flows to the carrying amount. When allowances are expected to be used for generation, the allowances are grouped with the related power plant in the impairment evaluation.

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

(o) Asset Retirement Obligations—We recognize at fair value legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction or development, and/or normal operation of the assets. A liability is recorded for these obligations as long as the fair value can be reasonably estimated, even if the timing or method of settling the obligation is unknown. The asset retirement obligations are accreted using a credit-adjusted risk-free interest rate commensurate with the expected settlement dates of the asset retirement obligations; this rate is determined at the date the obligation is incurred. The associated retirement costs are capitalized as part of the related long-lived assets and are depreciated over the useful lives of the assets. Subsequent changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease in the carrying amount of the liability and the associated retirement cost. See Note 13, "*Asset Retirement Obligations*," for more information.

(p) Income Taxes—We file a consolidated United States income tax return that includes domestic subsidiaries of which our ownership is 80% or more. We and our consolidated subsidiaries are parties to a federal and state tax allocation arrangement under which each entity determines its provision for income taxes on a stand-alone basis. In several states, combined or consolidated filings are required for certain subsidiaries doing business in that state.

Deferred income taxes have been recorded to recognize the expected future tax consequences of events that have been included in the financial statements by using currently enacted tax rates for the differences between the income tax basis of assets and liabilities and the basis reported in the financial statements. We record valuation allowances for deferred income tax assets unless it is more likely than not that the benefit will be realized in the future. Our regulated utilities defer certain adjustments made to income taxes that will impact future rates and record regulatory assets or liabilities related to these adjustments.

We use the deferral method of accounting for investment tax credits (ITCs). Under this method, we record the ITCs as deferred credits and amortize such credits as a reduction to the provision for income taxes over the life of the asset that generated the ITCs. Prior to 2012, we earned production tax credits (PTCs) on certain qualifying facilities. PTCs generally reduce the provision for income taxes in the year that electricity from the qualifying facility is generated and sold. ITCs and PTCs that do not reduce income taxes payable for the current year are eligible for carryover and recognized as a deferred income tax asset.

In 2012, we elected to claim and subsequently received a Section 1603 Grant for WPS's Crane Creek Wind Project in lieu of the PTCs. The grant proceeds reduced the depreciable basis of the qualifying facility and will be reflected in income over a 12-year period through a reduction of depreciation and amortization expense. As a result, we no longer claim PTCs on any of our qualifying facilities.

We report interest and penalties accrued related to income taxes as a component of provision for income taxes in the income statements, as well as regulatory assets or regulatory liabilities on the balance sheets.

We record excess tax benefits from stock-based compensation awards when the actual tax benefit is realized. We follow the tax law ordering approach to determine when the tax benefit has been realized. Under this approach, the tax benefit is realized in the year it reduces taxable income. Current year stock-based compensation deductions are assumed to be used before any net operating loss carryforwards.

For more information regarding accounting for income taxes, see Note 14, "*Income Taxes*."

(q) Guarantees—Integrys Energy Group follows the guidance of the of the FASB ASC, which requires that the guarantor recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. For additional information on guarantees, see Note 16, "*Guarantees*."

(r) Employee Benefits —The costs of pension and other postretirement benefits are expensed over the periods during which employees render service. Our transition obligation related to other postretirement benefit plans was recognized over a 20-year period that began in 1993, and ended in 2012. In computing the expected return on plan assets, we use a market-related value of plan assets. Changes in realized and unrealized investment gains and losses are recognized over the subsequent five years for plans sponsored by WPS, while differences between actual investment returns and the expected return on plan assets are recognized over a five-year period for pension plans sponsored by IBS and PELLC. The benefit costs associated with employee benefit plans are allocated among our subsidiaries based on employees' time reporting and actuarial calculations, as applicable. Our regulators allow recovery in rates for the regulated utilities' net periodic benefit cost calculated under GAAP.

We recognize the funded status of defined benefit postretirement plans on the balance sheet, and recognize changes in the plans' funded status in the year in which the changes occur. Our nonregulated segments record changes in the funded status in other comprehensive income, and the regulated utilities record these changes in regulatory asset or liability accounts.

For additional information on our employee benefits, see Note 17, "*Employee Benefit Plans*."

(s) Fair Value—A fair value measurement is required to reflect the assumptions market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model.

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

Fair value accounting rules provide a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are defined as follows:

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

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

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

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

We determine fair value using a market-based approach that uses observable market inputs where available, and internally developed inputs where observable market data is not readily available. For the unobservable inputs, consideration is given to the assumptions that market participants would use in valuing the asset or liability. These factors include not only the credit standing of the counterparties involved, but also the impact of our nonperformance risk on our liabilities.

When possible, we base the valuations of our risk management assets and liabilities on quoted prices for identical assets in active markets. These valuations are classified in Level 1. The valuations of certain contracts include inputs related to market price risk (commodity or interest rate), price volatility (for option contracts), price correlation (for cross commodity contracts), probability of default, and time value. These inputs are available through multiple sources, including brokers and over-the-counter and online exchanges. Transactions valued using these inputs are classified in Level 2.

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

- While forward price curves may have been based on observable information, significant assumptions may have been made regarding monthly shaping and locational basis differentials.
- Certain transactions were valued using price curves that extended beyond an observable period. Assumptions were made to extrapolate prices from the last observable period through the end of the transaction term, primarily through the use of historically settled data or correlations to other locations.

We conduct a thorough review of fair value hierarchy classifications on a quarterly basis.

We have established risk oversight committees whose primary responsibility includes directly or indirectly ensuring that all valuation methods are applied in accordance with predefined policies. The development and maintenance of our forward price curves has been assigned to our risk management department, which is part of the corporate treasury function. This group is separate and distinct from any of the trading functions within the organization. To validate the reasonableness of our fair value inputs, our risk management department compares changes in valuation and researches any significant differences in order to determine the underlying cause. Changes to the fair value inputs are made if necessary.

We recognize transfers between the levels of the fair value hierarchy at the value as of the end of the reporting period.

See Note 22, "*Fair Value*," for additional information.

(t) New Accounting Pronouncements—

Recently Issued Accounting Guidance Not Yet Effective

Accounting Standards Update (ASU) 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," was issued in February 2013. This guidance requires disclosure of amounts reclassified out of accumulated other comprehensive income by component. Significant amounts are required to be presented by the respective line items of net income or should be cross-referenced to other disclosures. These disclosures may be presented on the income statement or in the notes to the financial statements. This guidance is effective prospectively for reporting periods beginning after December 15, 2012. Adoption of this guidance will result in new disclosures in a footnote for the reporting period ending March 31, 2013.

ASU 2011-11, "Disclosures about Offsetting Assets and Liabilities," was issued in December 2011. The guidance requires enhanced disclosures about offsetting and related arrangements. ASU 2013-01, "Clarifying the Scope of Disclosures About Offsetting Assets and Liabilities," was issued in January 2013. This guidance clarifies that the scope of ASU 2011-11 applies to certain derivatives included in the Derivatives and Hedging Topic of the FASB ASC. The guidance for both of these updates is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. Adoption of this guidance will result in new disclosures in Note 2, "*Risk Management Activities,*" for the reporting period ending March 31, 2013.

ASU 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment," was issued in July 2012. This guidance gives companies an option to first perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If a company concludes that this is the case, the fair value of the indefinite-lived intangible asset must be determined, and a quantitative impairment test is required. Otherwise, a company can bypass the quantitative impairment test. This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. Adoption of this guidance is not expected to have a significant impact on our financial statements.

NOTE 2—RISK MANAGEMENT ACTIVITIES

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

		December 31, 2012	
(Millions)	Balance Sheet Presentation *	Assets from Risk Management Activities	Liabilities from Risk Management Activities
Utility Segments			
Nonhedge derivatives			
Natural gas contracts	Current	$ 2.5	$ 14.0
Natural gas contracts	Long-term	0.9	0.8
Financial transmission rights (FTRs)	Current	2.1	0.1
Petroleum product contracts	Current	0.2	—
Coal contracts	Current	0.3	4.7
Coal contracts	Long-term	2.2	4.3
Cash flow hedges			
Natural gas contracts	Current	—	0.4
Nonregulated Segments			
Nonhedge derivatives			
Natural gas contracts	Current	51.7	48.5
Natural gas contracts	Long-term	11.5	7.6
Electric contracts	Current	88.6	114.2
Electric contracts	Long-term	30.7	45.7
	Current	145.4	181.9
	Long-term	45.3	58.4
Total		$ 190.7	$ 240.3

* We classify assets and liabilities from risk management activities as current or long-term based on the maturities of the underlying contracts.

		December 31, 2011		
(Millions)	Balance Sheet Presentation (1)	Assets from Risk Management Activities	Liabilities from Risk Management Activities	
Utility Segments				
Nonhedge derivatives				
Natural gas contracts	Current	$ 9.1	$ 35.4	
Natural gas contracts	Long-term	0.1	8.2	
FTRs	Current	2.3	0.1	
Petroleum product contracts	Current	0.1	—	
Coal contract	Current	—	2.5	
Coal contract	Long-term	—	4.4	
Cash flow hedges				
Natural gas contracts	Current	—	0.9	
Natural gas contracts	Long-term	—	0.2	
Nonregulated Segments				
Nonhedge derivatives				
Natural gas contracts	Current	121.6	120.5	
Natural gas contracts	Long-term	41.9	40.5	
Electric contracts	Current	93.9	152.0	(2)
Electric contracts	Long-term	22.4	48.7	
Foreign exchange contracts	Current	0.2	0.2	
	Current	227.2	311.6	
	Long-term	64.4	102.0	
Total		$ 291.6	$ 413.6	

(1)We classify assets and liabilities from risk management activities as current or long-term based on the maturities of the underlying contracts.

(2) Includes a $0.1 million risk management liability that was classified as held for sale at Integrys Energy Services. See Note 4, "*Dispositions*," for more information.

The following table shows our cash collateral positions:

(Millions)	December 31, 2012	December 31, 2011
Cash collateral provided to others	$ 41.0	$ 50.9
Cash collateral received from others	0.2	2.3

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

(Millions)	December 31, 2012	December 31, 2011
Integrys Energy Services	$ 108.9	$ 193.8
Utility segments	14.0	39.1

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

(Millions)	December 31, 2012	December 31, 2011
Collateral that would have been required:		
Integrys Energy Services	$ 173.8	$ 272.3
Utility segments	10.1	28.7
Collateral already satisfied:		
Integrys Energy Services – Letters of credit	3.2	11.0
Collateral remaining:		
Integrys Energy Services	170.6	261.3
Utility segments	10.1	28.7

Utility Segments

Nonhedge Derivatives

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

The utilities had the following notional volumes of outstanding nonhedge derivative contracts:

	December 31, 2012			December 31, 2011	
	Purchases	Sales	Other Transactions	Purchases	Other Transactions
Natural gas (millions of therms)	1,072.6	0.1	N/A	1,122.7	N/A
FTRs (millions of kilowatt-hours)	N/A	N/A	4,057.2	N/A	5,077.5
Petroleum products (barrels)	62,811.0	N/A	N/A	46,872.0	N/A
Coal contracts (millions of tons)	5.1	N/A	N/A	4.1	N/A

The tables below show the unrealized gains (losses) recorded related to nonhedge derivatives at the utilities:

(Millions)	Financial Statement Presentation	2012	2011	2010
Natural gas contracts	Balance Sheet – Regulatory assets (current)	$ 24.6	$ (11.3)	$ (1.7)
Natural gas contracts	Balance Sheet – Regulatory assets (long-term)	8.3	(7.6)	0.1
Natural gas contracts	Balance Sheet – Regulatory liabilities (current)	(7.8)	8.4	—
Natural gas contracts	Balance Sheet – Regulatory liabilities (long-term)	0.3	—	—
Natural gas contracts	Income Statement – Utility cost of fuel, natural gas, and purchased power	0.2	—	—
FTRs	Balance Sheet – Regulatory assets (current)	0.1	(0.4)	1.0
FTRs	Balance Sheet – Regulatory liabilities (current)	0.1	(1.3)	(2.1)
Petroleum product contracts	Balance Sheet – Regulatory assets (current)	0.1	(0.1)	—
Petroleum product contracts	Balance Sheet – Regulatory liabilities (current)	—	—	0.1
Petroleum product contracts	Income Statement – Operating and maintenance expense	—	(0.1)	0.1
Coal contracts	Balance Sheet – Regulatory assets (current)	(2.2)	(1.3)	(1.2)
Coal contracts	Balance Sheet – Regulatory assets (long-term)	0.1	(4.4)	—
Coal contracts	Balance Sheet – Regulatory liabilities (current)	0.3	—	—
Coal contracts	Balance Sheet – Regulatory liabilities (long-term)	2.2	(3.7)	3.7

Nonregulated Segments

Nonhedge Derivatives

Integrys Energy Services enters into derivative contracts such as futures, forwards, options, and swaps that are used to manage commodity price risk primarily associated with retail electric and natural gas customer contracts.

Integrys Energy Services had the following notional volumes of outstanding nonhedge derivative contracts:

	December 31, 2012		December 31, 2011	
(Millions)	Purchases	Sales	Purchases	Sales
Commodity contracts				
Natural gas (therms)	782.0	679.0	959.2	797.1
Electric (kilowatt-hours)	54,127.6	31,809.6	34,405.7	20,374.0
Foreign exchange contracts (Canadian dollars)	0.4	0.4	4.2	4.2

Gains (losses) related to nonhedge derivatives are recognized currently in earnings, as shown in the tables below:

(Millions)	Income Statement Presentation	2012	2011	2010
Natural gas contracts	Nonregulated revenue	$ 6.8	$ 14.0	$ 30.9
Natural gas contracts	Nonregulated revenue (reclassified from accumulated OCI) *	(2.0)	(2.3)	(1.6)
Electric contracts	Nonregulated revenue	(2.0)	(79.0)	(92.7)
Electric contracts	Nonregulated revenue (reclassified from accumulated OCI) *	(4.3)	(1.7)	(3.7)
Interest rate swap	Interest expense	—	—	0.4
Total		$ (1.5)	$ (69.0)	$ (66.7)

* Represents amounts reclassified from accumulated OCI related to cash flow hedges that were dedesignated in prior periods.

In the next 12 months, pre-tax losses of $0.2 million and $3.4 million related to discontinued cash flow hedges of natural gas contracts and electric contracts, respectively, are expected to be recognized in earnings as the forecasted transactions occur. These amounts are expected to be offset by the settlement of the related nonderivative customer contracts.

Fair Value Hedges

At PELLC, an interest rate swap designated as a fair value hedge was used to hedge changes in the fair value of $50.0 million of the $325.0 million Series A 6.9% notes. The interest rate swap and the notes were settled in January 2011.

Cash Flow Hedges

Prior to July 1, 2011, Integrys Energy Services designated derivative contracts such as futures, forwards, and swaps as accounting hedges under GAAP. These contracts are used to manage commodity price risk associated with customer contracts.

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)	2011	2010
Natural gas contracts	$ (2.3)	$ (15.2)
Electric contracts	3.8	(13.6)
Interest rate swaps	—	(6.0)
Total	$ 1.5	$ (34.8)

	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)			
(Millions)	Income Statement Presentation	2012	2011	2010
Settled/Realized				
Natural gas contracts	Nonregulated revenue	$ —	$ (9.3)	$ (16.4)
Electric contracts	Nonregulated revenue	—	4.2	(21.6)
Interest rate swaps *	Interest expense	(1.1)	(1.1)	0.2
Hedge Designation Discontinued				
Natural gas contracts	Nonregulated revenue	—	(0.3)	0.2
Electric contracts	Nonregulated revenue	—	—	(9.9)
Interest rate swaps	Interest expense	—	(0.2)	—
Total		$ (1.1)	$ (6.7)	$ (47.5)

* In May 2010, we entered into interest rate swaps that were designated as cash flow hedges to hedge the variability in forecasted interest payments on a debt issuance. These swaps were terminated when the related debt was issued in November 2010. Amounts remaining in accumulated OCI are being reclassified to interest expense over the life of the related debt.

	Gain (Loss) Recognized in Income on Derivative Instruments (Ineffective Portion and Amount Excluded from Effectiveness Testing)		
(Millions)	Income Statement Presentation	2011	2010
Natural gas contracts	Nonregulated revenue	$ 0.3	$ (1.1)
Electric contracts	Nonregulated revenue	(0.3)	(0.5)
Total		$ —	$ (1.6)

NOTE 3—ACQUISITIONS

Agreement to Purchase Fox Energy Center

In September 2012, WPS entered into an agreement to acquire all of the equity interests in Fox Energy Company LLC. The purchase includes the Fox Energy Center, a 593-megawatt combined-cycle electric generating facility located in Wisconsin, along with associated contracts. WPS currently supplies natural gas for the facility and purchases 500 megawatts of capacity and the associated energy output under a tolling arrangement.

WPS will pay $390.0 million to purchase Fox Energy Company LLC, subject to post-closing adjustments primarily related to working capital. In addition, WPS will pay $50.0 million to terminate the existing tolling arrangement immediately prior to the acquisition of the facility. The purchase will be financed initially with a combination of short-term debt and cash flow from operations. The short-term debt will be replaced later in 2013 with long-term financing.

Fox Energy Center is a dual-fuel facility, equipped to use fuel oil, but expected to run primarily on natural gas. This plant will give WPS a more balanced mix of electric generation, including coal, natural gas, hydroelectric, wind, and other renewable sources.

WPS received all of the necessary regulatory approvals for this transaction, which is expected to close by the end of March 2013.

Purchase of Compressed Natural Gas Fueling Business

On September 1, 2011, we acquired two compressed natural gas fueling businesses through our newly formed, indirect wholly owned subsidiary, ITF. The total consideration paid for the acquisition of Trillium USA (Trillium) and Pinnacle CNG Systems (Pinnacle) was $49.6 million. The total cash payment for this transaction was $42.6 million, which was net of cash acquired of approximately $7 million. In 2012, we received $1.3 million as a result of post-closing working capital adjustments.

Trillium and Pinnacle design, build, maintain, own and/or operate compressed natural gas fueling stations in multiple states. In addition, Pinnacle manufactures and sells a patented method to pressurize compressed natural gas.

See Note 9, "*Goodwill and Other Intangible Assets*," for more information related to this acquisition.

NOTE 4—DISPOSITIONS

Discontinued Operations from Holding Company and Other Segment

During 2012 and 2011, we recorded a $1.8 million after-tax gain and a $0.5 million after-tax loss, respectively, in discontinued operations at the holding company and other segment. Uncertain tax positions included in our liability for unrecognized tax benefits were remeasured to better reflect how the underlying positions are resolving themselves in various taxing jurisdictions. We also effectively settled certain state income tax examinations in 2012.

Discontinued Operations from Integrys Energy Services Segment

Potential Sale of Combined Locks Energy Center

Integrys Energy Services is currently pursuing the sale of Combined Locks Energy Center (Combined Locks), a natural gas-fired co-generation facility located in Wisconsin, as part of its long-term energy asset strategy of investing in distributed renewable projects. The sale of Combined Locks is expected to be completed within a year.

During 2010, Integrys Energy Services recorded a pre-tax impairment loss of $20.1 million ($12.1 million after tax) related to Combined Locks. The impairment charge resulted from lower estimated future cash flows and was primarily driven by forward energy and capacity prices. The impairment loss was reported in discontinued operations on the income statements.

The carrying values of the major classes of assets related to Combined Locks classified as held for sale on the balance sheets were as follows at December 31:

(Millions)	2012	2011
Inventories	$ 0.5	$ 0.4
Property, plant, and equipment, net of accumulated depreciation of $0.5 and $0.3, respectively	2.0	2.3
Total assets	$ 2.5	$ 2.7

A summary of the components of discontinued operations related to Combined Locks recorded on the income statements for 2012, 2011, and 2010 is as follows:

(Millions)	2012	2011	2010
Nonregulated revenues	$ 0.3	$ 7.9	$ 9.1
Nonregulated cost of sales	(0.5)	(2.0)	(2.2)
Operating and maintenance expense	(0.5)	(0.7)	(0.8)
Impairment losses	—	—	(20.1)
Depreciation and amortization expense	(0.2)	(0.3)	(1.5)
Taxes other than income taxes	(0.1)	(0.2)	(0.1)
Income (loss) before taxes	(1.0)	4.7	(15.6)
(Provision) benefit for income taxes	0.4	(1.8)	6.1
Discontinued operations, net of tax	$ (0.6)	$ 2.9	$ (9.5)

Sale of WPS Westwood Generation, LLC

In November 2012, Sunbury Holdings, LLC, a subsidiary of Integrys Energy Services, sold all of the membership interests of WPS Westwood Generation, LLC (Westwood), a waste coal generation plant located in Pennsylvania. The cash proceeds related to the sale were $2.6 million. Integrys Energy Services also received a $4.0 million note receivable from the buyer with a seven and one-half year term. Integrys Energy Services recorded a pre-tax impairment loss of $8.4 million ($5.0 million after tax) related to Westwood during the third quarter of 2012 when the assets and liabilities were classified as held for sale.

In conjunction with the sale, Integrys Energy Services repaid $27.0 million of Refunding Tax Exempt Bonds to Schuylkill County Industrial Development Authority in November 2012. Deferred financing costs of $0.4 million were written off to the loss on sale when these bonds were repaid. The bonds were required to be repaid prior to the closing of the sale transaction because the Westwood assets were a substantial portion of the collateral on these borrowings. See Note 12, "*Long-term Debt*," for more information regarding this repayment.

The carrying values of the major classes of assets and liabilities related to Westwood classified as held for sale on the balance sheets were as follows:

(Millions)	As of the Closing Date in November 2012	As of December 31, 2011
Inventories	$ 1.0	$ 1.1
Current assets from risk management activities	0.1	—
Property, plant, and equipment, net of accumulated depreciation of $ – and $10.9, respectively	5.5	14.1
Other long-term assets	1.1	1.2
Total assets	$ 7.7	$ 16.4
Current liabilities from risk management activities	$ —	$ 0.1
Other current liabilities	—	0.2
Long-term debt	—	27.0
Long-term liabilities from risk management activities	0.1	—
Total liabilities	$ 0.1	$ 27.3

A summary of the components of discontinued operations related to Westwood recorded on the income statements for 2012, 2011, and 2010 were as follows:

(Millions)	2012	2011	2010
Nonregulated revenues	$ 9.2	$ 12.4	$ 16.1
Nonregulated cost of sales	(4.4)	(5.6)	(5.5)
Operating and maintenance expense	(5.3)	(5.7)	(6.4)
Impairment losses	(8.4)	—	—
Loss on sale at closing	(0.6)	—	—
Depreciation and amortization expense	(1.0)	(1.4)	(1.4)
Taxes other than income taxes	(0.2)	(0.2)	—
Miscellaneous income	—	0.1	—
Interest expense	(0.7)	(0.6)	(1.2)
Income (loss) before taxes	(11.4)	(1.0)	1.6
(Provision) benefit for income taxes	4.5	0.3	(0.7)
Discontinued operations, net of tax	$ (6.9)	$ (0.7)	$ 0.9

Integrys Energy Services will receive interest income for seven and one-half years related to the note receivable from the buyer. The sale will also generate immaterial cash flows from providing certain administrative transition services for up to a six-month period following the sale. However, Integrys Energy Services does not have the ability to significantly influence the operating or financial policies of Westwood and also does not have significant continuing involvement in the operations of Westwood. Therefore, the continuing cash flows discussed above are not considered direct cash flows of Westwood.

Pending Sale of WPS Beaver Falls Generation, LLC and WPS Syracuse Generation, LLC

In October 2012, WPS Empire State, Inc, a subsidiary of Integrys Energy Services, entered into a definitive agreement to sell all of the membership interests of WPS Beaver Falls Generation, LLC (Beaver Falls) and WPS Syracuse Generation, LLC (Syracuse), both of which own natural gas-fired generation plants located in the state of New York. The proceeds from the sale are estimated to be $1.8 million, subject to certain post-closing adjustments primarily related to working capital. The sale agreement also includes a potential annual payment to Integrys Energy Services for a four-year period following the sale based on a certain level of earnings achieved by the buyer (an earn-out). Integrys Energy Services recorded a pre-tax impairment loss of $1.1 million ($0.7 million after tax) related to Beaver Falls and Syracuse during 2012 when the assets and liabilities were initially classified as held for sale. Other gains or losses may be recognized related to adjustments to selling costs at closing, as well as changes in the fair value of financial instruments included in the sale. The transaction is expected to close by the end of the first quarter of 2013.

During 2010, Integrys Energy Services recorded a pre-tax impairment loss of $23.1 million ($13.9 million after tax) related to Beaver Falls and Syracuse. The impairment charge resulted from lower estimated future cash flows for Beaver Falls and Syracuse and was primarily driven by forward energy and capacity prices. The impairment loss was reported in discontinued operations on the income statements.

The carrying values of the major classes of assets and liabilities related to Beaver Falls and Syracuse classified as held for sale on the balance sheets were as follows at December 31:

(Millions)	2012	2011
Inventories	$ 1.8	$ 2.2
Other current assets	—	0.2
Property, plant, and equipment, net of accumulated depreciation of $ – and $0.9, respectively	5.7	7.2
Other long-term assets	0.1	0.1
Total assets	$ 7.6	$ 9.7
Total liabilities – other current liabilities	$ 0.2	$ —

A summary of the components of discontinued operations related to Beaver Falls and Syracuse recorded on the income statements for 2012, 2011, and 2010 were as follows:

(Millions)	2012	2011	2010
Nonregulated revenues	$ 0.6	$ 5.0	$ 9.8
Nonregulated cost of sales	(2.0)	(2.3)	(2.3)
Operating and maintenance expense	(2.4)	(3.3)	(2.6)
Impairment losses	(1.1)	—	(23.1)
Depreciation and amortization expense	(0.6)	(0.7)	(2.5)
Taxes other than income taxes	(1.4)	(0.9)	(1.1)
Miscellaneous income	0.3	—	—
Loss before taxes	(6.6)	(2.2)	(21.8)
Benefit for income taxes	2.6	0.9	8.7
Discontinued operations, net of tax	$ (4.0)	$ (1.3)	$ (13.1)

The pending sale of Beaver Falls and Syracuse will generate immaterial cash flows from providing certain administrative transition services for up to a six-month period following the sale and from a potential four-year earn-out payment. Integrys Energy Services will also continue to satisfy certain capacity obligations and settle certain forward financial natural gas swaps under contracts that existed at the time of sale. Both of these transactions will generate cash flows that will expire within two years of the sale and are not considered significant to the overall operations of Beaver Falls and Syracuse. Additionally, Integrys Energy Services will not have the ability to significantly influence the operating or financial policies of Beaver Falls and Syracuse and will also not have significant continuing involvement in the operations of Beaver Falls and Syracuse after they are sold. Therefore, the continuing cash flows discussed above are not considered direct cash flows of Beaver Falls and Syracuse.

Sale of Energy Management Consulting Business

During 2011 and 2010, Integrys Energy Services recorded a $0.1 million and $0.2 million after-tax gain, respectively, in discontinued operations when contingent payments were earned related to the 2009 sale of its energy management consulting business.

Dispositions Related to Integrys Energy Services Strategy Change

As part of the decision to reposition our 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 $25.5 million and was reported as a component of net (gain) loss on Integrys Energy Services' dispositions related to strategy change on the income statement.

Sale of Canadian Natural Gas and 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 in 2010 was $0.4 million and was reported as a component of net (gain) loss on Integrys Energy Services' dispositions related to strategy change on the income statement.

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 on the income statement.

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. In March 2010, Integrys Energy Services closed on the sale and transferred title to the majority of the underlying commodity contracts, at which time the corresponding mirror transactions terminated.

In conjunction with the sale, Integrys Energy Services entered into derivative contracts with the buyer to re-establish the economic hedges for the retained United States retail electric business, with the same prices and terms originally executed through Integrys Energy Services' United States wholesale electric marketing and trading business. Integrys Energy Services retained counterparty default risk with approximately 50% of the counterparties to the commodity contracts novated, all of which had expired as of December 31, 2012.

Integrys Energy Services closed on the sale of its only remaining significant wholesale electric commodity contract with another buyer in March 2010.

The pre-tax loss on the sale of the United States wholesale electric marketing and trading business and the remaining commodity contract, net of the gain resulting from the fair value adjustment for the default risk, was $55.7 million in 2010. The 2011 gain due to the change in the carrying value of the default risk was insignificant, as the majority of these contracts ended in 2011. The pre-tax gains and losses for both years were reported as a component of net (gain) loss on Integrys Energy Services' dispositions related to strategy change on the income statement.

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

In 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. 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. The proceeds from the sale of the generation companies and associated retail electric contracts were $38.5 million. The pre-tax gain on the sales was $15.7 million and was reported as a component of net (gain) loss on Integrys Energy Services' dispositions related to strategy change on the income statement.

Sale of United States Wholesale Natural Gas Marketing and Trading Business and 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 closed 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 included the sale of its remaining natural gas storage and related transportation contracts through multiple transactions which closed during the first half of 2010. 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 the United States wholesale natural gas marketing and trading business and natural gas storage and related transportation contracts as of 2010 was $2.0 million and was reported as a component of net (gain) loss on Integrys Energy Services' dispositions related to strategy change on the income statement.

NOTE 5—PROPERTY, PLANT, AND EQUIPMENT

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

(Millions)	2012	2011
Electric utility	$ 3,095.8	$ 3,139.7
Natural gas utility	5,050.8	4,751.4
Total utility plant	8,146.6	7,891.1
Less: Accumulated depreciation	3,006.1	2,910.1
Net	5,140.5	4,981.0
Construction work in progress	203.1	62.0
Net utility plant	5,343.6	5,043.0
Nonutility plant	120.2	130.4
Less: Accumulated depreciation	72.3	68.7
Net	47.9	61.7
Construction work in progress	19.6	2.7
Net nonutility plant	67.5	64.4
Integrys Energy Services energy assets	92.0	64.9
Integrys Energy Services other	17.9	20.0
Other nonregulated	14.0	8.0
Total nonregulated property, plant, and equipment	123.9	92.9
Less: Accumulated depreciation	36.3	27.8
Net	87.6	65.1
Construction work in progress	3.2	3.0
Net nonregulated property, plant, and equipment	90.8	68.1
Total property, plant, and equipment	$ 5,501.9	$ 5,175.5

We evaluate property, plant, and equipment for impairment whenever indicators of impairment exist. During 2011, Integrys Energy Services recorded a pre-tax noncash impairment loss of $4.6 million related to its Winnebago Energy Center, a landfill-gas-to-electric facility. The impairment charge resulted from lower estimated future cash flows and was primarily driven by forward energy and capacity prices. The impairment charge was reported as part of operating and maintenance expense in the income statements. The fair value of the facility was determined primarily using the income approach, which was based on discounted cash flows that were derived from internal forecasts. These forecasts considered externally supplied forward energy and capacity pricing curves as well as renewable energy credits. Other assumptions included forecasted operating expenses, forecasted capital additions, anticipated working capital requirements, and the discount rate. The 7.5% discount rate used represents the estimated cost of capital for the facility and was also based upon the cash flow period used for the fair value assessment.

See Note 4, "*Dispositions,*" for additional impairment losses recorded in discontinued operations at Integrys Energy Services during the years ended December 31, 2012 and 2010. The impairments were recorded on property and equipment either sold during 2012 or presented in the balance sheets as assets held for sale.

NOTE 6—JOINTLY OWNED UTILITY FACILITIES

WPS holds a joint ownership interest in certain electric generating facilities. WPS is entitled to its share of generating capability and output of each facility equal to its respective ownership interest. WPS also pays its ownership share of additional construction costs, fuel inventory purchases, and operating expenses, unless specific agreements have been executed to limit its maximum exposure to additional costs. WPS records its proportionate share of significant jointly owned electric generating facilities on the balance sheets. The amounts were as follows at December 31, 2012:

(Millions, except for percentages and megawatts)	Weston 4	Columbia Energy Center Units 1 and 2	Edgewater Unit 4
Ownership	70.0%	31.8%	31.8%
WPS's share of rated capacity (megawatts)	374.5	335.2	105.0
In-service date	2008	1975 and 1978	1969
Utility plant	$ 576.3	$ 170.0	$ 41.2
Accumulated depreciation	$ (97.0)	$ (109.1)	$ (26.7)
Construction work in progress	$ 1.0	$ 91.0	$ 0.3

WPS's proportionate share of direct expenses for the joint operation of these plants is recorded in operating expenses in the income statements. WPS has supplied its own financing for all jointly owned projects.

NOTE 7—REGULATORY ASSETS AND LIABILITIES

Our utility subsidiaries expect to recover their regulatory assets and incur future costs or refund their regulatory liabilities through rates charged to customers. Recovery or refund is based on specific periods determined by the regulators or over the normal operating period of the assets and liabilities to which they relate. Based on prior and current rate treatment, we believe it is probable that our utility subsidiaries will continue to recover from customers the regulatory assets described below.

The following regulatory assets and liabilities were reflected on our balance sheets as of December 31:

(Millions)	2012	2011	See Note
Regulatory assets (1)			
Unrecognized pension and other postretirement benefit costs (2)	$ 810.0	$ 733.6	17
Environmental remediation costs (net of insurance recoveries) (3)	689.7	626.8	15
Merger and acquisition related pension and other postretirement benefit costs (4)	110.1	121.9	
Asset retirement obligations	73.9	58.1	13
Income tax related items	47.6	37.9	14
Crane Creek production tax credits (5)	34.9	—	
Derivatives	30.7	59.0	1(h)
De Pere Energy Center (6)	26.2	28.6	
Unamortized loss on reacquired debt (7)	18.2	18.8	1(n)
Energy costs receivable through rate adjustments (8)	18.1	7.4	
Energy efficiency programs (9)	16.7	13.3	
Decoupling	10.6	33.3	25
Other	37.9	44.9	
Total	$ 1,924.6	$ 1,783.6	
Balance Sheet Presentation			
Current	$ 110.8	$ 125.1	
Long-term	1,813.8	1,658.5	
Total	$ 1,924.6	$ 1,783.6	
Regulatory liabilities			
Removal costs (10)	$ 318.4	$ 298.0	
Energy costs refundable through rate adjustments (8)	44.4	30.4	
Unrecognized pension and other postretirement benefit costs	17.7	18.4	17
Decoupling	15.9	17.2	25
Uncollectible expense	10.0	11.3	25
Crane Creek depreciation deferral (5)	9.4	—	
Energy efficiency programs (9)	8.8	5.4	
Derivatives	4.3	9.3	1(h)
Other	7.2	10.0	
Total	$ 436.1	$ 400.0	
Balance Sheet Presentation			
Current	$ 65.6	$ 67.5	
Long-term	370.5	332.5	
Total	$ 436.1	$ 400.0	

(1) The following regulatory assets are not earning a return: unrecognized pension and other postretirement benefit costs at PGL and NSG; environmental remediation costs at WPS and UPPCO; merger and acquisition related pension and other postretirement benefit costs; WPS energy costs receivable through rate adjustments; and decoupling at MERC, MGU, and UPPCO.

(2) Represents the unrecognized future pension and postretirement costs resulting from actuarial gains and losses on Integrys Energy Group's defined benefit and postretirement plans. We are authorized recovery of this regulatory asset over the average future remaining service life of each plan.

(3) As of December 31, 2012, we had not yet made cash expenditures for $651.5 million of these environmental remediation costs. The recovery of these costs depends on the timing of the actual expenditures.

(4) Composed of unrecognized benefit costs that existed prior to the PELLC merger and the MERC and MGU acquisitions. MERC and MGU are authorized recovery of this regulatory asset through 2026. PGL and NSG are authorized recovery of the pension portion of this regulatory asset through 2023, and through 2019 for the portion related to other postretirement benefit costs.

(5) In 2012, we elected to claim and subsequently received a Section 1603 grant for our Crane Creek wind project in lieu of the production tax credit. As a result, we reversed previously recorded production tax credits. We also reduced the depreciable basis of the qualifying facility by the amount of the grant proceeds, which will result in a reduction of depreciation and amortization expense over a 12-year period. We recorded a regulatory asset for the deferral of previously recorded production tax credits, partially offset by a regulatory liability related to a portion of the book depreciation taken in prior years. WPS is authorized recovery of this net regulatory asset through 2039.

(6) Prior to WPS purchasing the De Pere Energy Center in 2002, WPS had a long-term power purchase contract with the De Pere Energy Center that was accounted for as a capital lease. As a result of the purchase, the capital lease obligation was reversed and the difference between the capital lease asset and the purchase price was recorded as a regulatory asset. WPS is authorized recovery of this regulatory asset through 2023.

(7) Amounts are recovered over the term of the replacement debt as authorized by the various commissions.

(8) Represents the under or over-collection of energy costs that will be recovered from or refunded to customers in the future.

(9) Represents amounts recoverable from and/or refundable to customers related to programs at MERC, NSG, PGL and WPS designed to meet energy efficiency standards. WPS is authorized recovery of this regulatory asset through 2013.

(10) Represents amounts collected from customers to cover the cost of future removal of property, plant, and equipment.

NOTE 8—EQUITY METHOD INVESTMENTS

Investments in corporate joint ventures and other companies accounted for under the equity method at December 31, 2012, and 2011 were as follows:

(Millions)	2012	2011
ATC	$ 476.6	$ 439.4
INDU Solar Holdings, LLC	27.5	28.4
WRPC	7.3	7.7
Other	0.8	0.8
Equity method investments	$ 512.2	$ 476.3

ATC

Our electric transmission investment segment consists of WPS Investments LLC's ownership interest in ATC, which was approximately 34% at December 31, 2012. ATC is a for-profit, transmission-only company regulated by FERC. ATC owns, maintains, monitors, and operates electric transmission assets in portions of Wisconsin, Michigan, Minnesota, and Illinois.

The following table shows changes to our investment in ATC during the years ended December 31:

(Millions)	2012	2011	2010
Balance at the beginning of period	$ 439.4	$ 416.3	$ 395.9
Add: Earnings from equity method investment	85.3	79.1	77.6
Add: Capital contributions	20.4	8.5	6.8
Less: Dividends received	68.5	64.5	64.0
Balance at the end of period	$ 476.6	$ 439.4	$ 416.3

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

(Millions)	2012	2011	2010
Total charges to ATC for services and construction	$ 12.5	$ 13.5	$ 14.0
Total costs for network transmission service provided by ATC	100.3	102.7	103.0

INDU Solar Holdings, LLC

Integrys Solar, LLC, a subsidiary of Integrys Energy Services, owns 50% of INDU Solar Holdings, LLC. INDU Solar Holdings, LLC owns solar energy projects in California, Pennsylvania, New Jersey, Arizona, and Massachusetts that deliver electricity and related products to commercial, government, and utility customers under long-term power purchase agreements.

The following table shows changes to our investment in INDU Solar Holdings, LLC during the years ended December 31:

(Millions)	2012	2011
Balance at the beginning of period	$ 28.4	$ 0.1
Add: Earnings (loss) from equity method investment	1.1	(0.7)
Add: Capital contributions	7.0	29.0
Less: Return of capital to partners	9.0	—
Balance at the end of period	$ 27.5	$ 28.4

WRPC

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

The following table shows changes to our investment in WRPC during the years ended December 31:

(Millions)	2012	2011	2010
Balance at the beginning of period	$ 7.7	$ 8.1	$ 8.5
Add: Earnings from equity method investment	0.8	0.9	1.0
Less: Dividends received	1.2	1.3	1.4
Balance at the end of period	$ 7.3	$ 7.7	$ 8.1

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

(Millions)	2012	2011	2010
Revenues from services provided to WRPC	$ 0.8	$ 0.7	$ 0.6
Purchases of energy from WRPC	5.0	4.9	4.7
Net proceeds from WRPC sales of energy to MISO	2.9	4.7	4.5

Financial Data

Combined financial data of our significant equity method investments, ATC, INDU Solar Holdings, LLC, and WRPC, is included in the table below:

(Millions)	2012	2011	2010
Income statement data			
Revenues	$ 618.3	$ 575.5	$ 564.1
Operating expenses	292.1	269.6	257.6
Other expense	85.1	81.5	85.7
Net income	$ 241.1	$ 224.4	$ 220.8
Earnings from equity method investments	$ 87.2	$ 79.4	$ 78.2
Balance sheet data			
Current assets	$ 81.1	$ 91.1	$ 62.7
Noncurrent assets	3,347.4	3,120.5	2,906.2
Total assets	$ 3,428.5	$ 3,211.6	$ 2,968.9
Current liabilities	$ 253.0	$ 319.9	$ 429.0
Long-term debt	1,559.5	1,400.0	1,175.0
Other noncurrent liabilities	103.5	88.0	88.5
Shareholders' equity	1,512.5	1,403.7	1,276.4
Total liabilities and shareholders' equity	$ 3,428.5	$ 3,211.6	$ 2,968.9

NOTE 9—GOODWILL AND OTHER INTANGIBLE ASSETS

We had the following changes in the gross amount of goodwill and the accumulated impairment losses for the years ended December 31, 2012 and 2011:

	Natural Gas Segment		Integrys Energy Services		Holding Company and Other		Total	
(Millions)	2012	2011	2012	2011	2012	2011	2012	2011
Balance as of January 1								
Gross goodwill	$ 933.5	$ 933.5	$ 6.6	$ 6.6	$ 15.9	$ —	$ 956.0	$ 940.1
Accumulated impairment losses	(297.6)	(297.6)	—	—	—	—	(297.6)	(297.6)
Net goodwill	635.9	635.9	6.6	6.6	15.9	—	658.4	642.5
Goodwill acquired	—	—	—	—	—	15.9	—	15.9
Adjustment to Trillium and Pinnacle purchase price	—	—	—	—	(0.1)	—	(0.1)	—
Balance as of December 31								
Gross goodwill	933.5	933.5	6.6	6.6	15.8	15.9	955.9	956.0
Accumulated impairment losses	(297.6)	(297.6)	—	—	—	—	(297.6)	(297.6)
Net goodwill	$ 635.9	$ 635.9	$ 6.6	$ 6.6	$ 15.8	$ 15.9	$ 658.3	$ 658.4

In the second quarter of 2012, annual impairment tests were completed at all of our reporting units that carried a goodwill balance. No impairments resulted from these tests.

The identifiable intangible assets other than goodwill listed below are part of other current and long-term assets on the balance sheets. An insignificant amount was recorded as assets held for sale on the balance sheets.

	December 31, 2012			December 31, 2011		
(Millions)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets						
Customer-related (1)	$ 22.4	$ (14.7)	$ 7.7	$ 34.5	$ (24.8)	$ 9.7
Electric contract assets (2)	—	—	—	7.8	(6.6)	1.2
Patents (3)	7.2	(0.3)	6.9	7.2	—	7.2
Compressed natural gas fueling contract assets (4)	5.6	(1.3)	4.3	5.6	(0.3)	5.3
Renewable energy credits (5)	3.1	—	3.1	2.8	—	2.8
Nonregulated easements (6)	3.8	(0.9)	2.9	3.8	(0.7)	3.1
Customer-owned equipment modifications (7)	4.0	(0.5)	3.5	3.6	(0.2)	3.4
Emission allowances (8)	—	—	—	1.7	(0.2)	1.5
Other	0.5	(0.2)	0.3	1.4	(0.3)	1.1
Total	$ 46.6	$ (17.9)	$ 28.7	$ 68.4	$ (33.1)	$ 35.3
Unamortized intangible assets						
MGU trade name	$ 5.2	$ —	$ 5.2	$ 5.2	$ —	$ 5.2
Trillium trade name	3.5	—	3.5	3.5	—	3.5
Pinnacle trade name	1.5	—	1.5	1.5	—	1.5
Total intangible assets	$ 56.8	$ (17.9)	$ 38.9	$ 78.6	$ (33.1)	$ 45.5

(1) Represents customer relationship assets associated with PELLC's former nonregulated retail natural gas and electric operations, MERC's nonutility ServiceChoice business, and Trillium USA (Trillium) and Pinnacle CNG Systems (Pinnacle) compressed natural gas fueling operations. The remaining weighted-average amortization period for customer-related intangible assets at December 31, 2012, was approximately 9 years.

(2) Represents electric customer contracts acquired in exchange for risk management assets.

(3) Represents the fair value of patents at Pinnacle related to a system for more efficiently compressing natural gas to allow for faster fueling. The remaining amortization period at December 31, 2012, was approximately 17 years.

(4) Represents the fair value of Trillium and Pinnacle contracts acquired in September 2011. The remaining amortization period at December 31, 2012, was approximately 8 years.

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

(6) Relates to easements supporting a pipeline at Integrys Energy Services. The easements are amortized on a straight-line basis, with a remaining amortization period at December 31, 2012, of approximately 11 years.

(7) Relates to modifications by Integrys Energy Services and Trillium to customer-owned equipment. These intangible assets are amortized on a straight-line basis, with a remaining weighted average amortization period at December 31, 2012, of approximately 11 years.

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

Amortization expense recorded as a component of nonregulated cost of sales in the statements of income for the years ended December 31, 2012, 2011, and 2010, was $2.5 million, $1.3 million, and $4.7 million, respectively.

Amortization expense recorded as a component of depreciation and amortization expense in the statements of income for the years ended December 31, 2012, 2011, and 2010, was $2.5 million, $3.4 million, and $3.9 million, respectively.

An insignificant amount of amortization expense was recorded in discontinued operations for the years ended December 31, 2012, 2011, and 2010.

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

	For the year ending December 31				
(Millions)	2013	2014	2015	2016	2017
Amortization to be recorded in nonregulated cost of sales	$ 4.7	$ 1.2	$ 1.1	$ 0.9	$ 0.9
Amortization to be recorded in depreciation and amortization expense	2.0	1.8	1.7	1.5	1.4

NOTE 10—LEASES

We lease various property, plant, and equipment. Terms of the operating leases vary, but generally require us to pay property taxes, insurance premiums, and maintenance costs associated with the leased property. Many of our leases contain one of the following options upon the end of the lease term: (a) purchase the property at the current fair market value or (b) exercise a renewal option, as set forth in the lease agreement. Rental expense attributable to operating leases was $12.4 million, $12.6 million, and $15.2 million in 2012, 2011, and 2010, respectively. Future minimum rental obligations under noncancelable operating leases are payable as follows:

Year ending December 31 *(Millions)*	Payments
2013	$ 8.5
2014	5.3
2015	4.7
2016	4.7
2017	5.8
Later years	60.3
Total	$ 89.3

NOTE 11—SHORT-TERM DEBT AND LINES OF CREDIT

Our outstanding short-term borrowings were as follows as of December 31:

(Millions, except percentages)	2012	2011	2010
Commercial paper outstanding	$ 482.4	$ 303.3	—
Average discount rate on outstanding commercial paper	0.40%	0.31%	—
Short-term notes payable outstanding	—	—	$ 10.0
Average interest rate on short-term notes payable outstanding	—	—	0.32%

The commercial paper outstanding at December 31, 2012, had maturity dates ranging from January 2, 2013 through January 22, 2013.

The table below presents our average amount of short-term borrowings based on daily outstanding balances during the years ended December 31:

(Millions)	2012	2011	2010
Average amount of commercial paper	$ 326.3	$ 134.9	$ 66.9
Average amount of short-term notes payable	—	3.6	10.0

We manage our liquidity by maintaining adequate external financing commitments. The information in the table below relates to our revolving credit facilities used to support our commercial paper borrowing program, including remaining available capacity under these facilities, as of December 31:

(Millions)	Maturity	2012	2011
Revolving credit facility (Integrys Energy Group) (1)	04/23/2013	$ —	$ 735.0
Revolving credit facility (Integrys Energy Group)	05/17/2014	275.0	275.0
Revolving credit facility (Integrys Energy Group)	05/17/2016	200.0	200.0
Revolving credit facility (Integrys Energy Group)	06/13/2017	635.0	—
Revolving credit facility (WPS) (1)	04/23/2013	—	115.0
Revolving credit facility (WPS) (2)	06/12/2013	115.0	—
Revolving credit facility (WPS)	05/17/2014	135.0	135.0
Revolving credit facility (PGL) (1)	04/23/2013	—	250.0
Revolving credit facility (PGL)	06/13/2017	250.0	—
Total short-term credit capacity		$ 1,610.0	$ 1,710.0
Less:			
Letters of credit issued inside credit facilities		$ 25.5	$ 33.7
Commercial paper outstanding		482.4	303.3
Available capacity under existing agreements		$ 1,102.1	$ 1,373.0

(1) These credit facilities were terminated in June 2012.

(2) This facility will automatically extend through June 13, 2017, upon PSCW approval, which is expected prior to June 13, 2013.

In connection with the pending purchase of Fox Energy Company LLC, WPS requested approval from the PSCW to temporarily increase its short-term debt limit. See Note 3, "*Acquisitions,*" for more information regarding this pending purchase.

Our revolving credit agreements and those of certain of our subsidiaries contain financial and other covenants, including but not limited to, a requirement to maintain a debt to total capitalization ratio not to exceed 65%, excluding nonrecourse debt. Failure to comply with these covenants could result in an event of default, which could result in the acceleration of outstanding debt obligations. At December 31, 2012, we and each of our subsidiaries were in compliance with all respective covenants related to outstanding short-term debt.

NOTE 12—LONG-TERM DEBT

			December 31	
(Millions)			2012	2011
WPS First Mortgage Bonds (1)				
Series	Year Due			
7.125%	2023		$ 0.1	$ 0.1
WPS Senior Notes (1) (2)				
Series	Year Due			
4.875%	2012		—	150.0
4.80%	2013		125.0	125.0
3.95%	2013		22.0	22.0
6.375%	2015		125.0	125.0
5.65%	2017		125.0	125.0
6.08%	2028		50.0	50.0
5.55%	2036		125.0	125.0
3.671%	2042		300.0	—
PGL First and Refunding Mortgage Bonds (3)				
Series	Year Due			
KK, 5.00%	2033		50.0	50.0
NN-2, 4.625%	2013		75.0	75.0
QQ, 4.875%	2038	Adjustable after November 1, 2018	75.0	75.0
RR, 4.30%	2035	Adjustable after June 1, 2016	50.0	50.0
SS, 7.00%	2013		45.0	45.0
TT, 8.00%	2018		5.0	5.0
UU, 4.63%	2019		75.0	75.0
VV, 2.125%	2030	Mandatory interest reset date on July 1, 2014	50.0	50.0
WW, 2.625%	2033	Mandatory interest reset date on August 1, 2015	50.0	50.0
XX, 2.21%	2016		50.0	50.0
YY, 3.98%	2042		100.0	—
NSG First Mortgage Bonds (4)				
Series	Year Due			
M, 5.00%	2028		—	28.2
N-2, 4.625%	2013		40.0	40.0
O, 7.00%	2013		6.5	6.5
P, 3.43%	2027		28.0	—
Integrys Energy Group Unsecured Senior Notes (5)				
Series	Year Due			
5.375%	2012		—	100.0
7.27%	2014		100.0	100.0
8.00%	2016		55.0	55.0
4.17%	2020		250.0	250.0
Integrys Energy Group Unsecured Junior Subordinated Notes (6)				
Series	Year Due			
6.11%	2066		269.8	269.8
Other term loan (7)			—	27.0
Total			2,246.4	2,123.6
Unamortized discount on debt			(1.2)	(1.6)
Total debt			2,245.2	2,122.0
Less current portion			(313.5)	(250.0)
Less long-term debt held for sale (7)			—	(27.0)
Total long-term debt			$ 1,931.7	$ 1,845.0

(1) WPS's First Mortgage Bonds and Senior Notes are subject to the terms and conditions of WPS's First Mortgage Indenture. Under the terms of the Indenture, substantially all property owned by WPS is pledged as collateral for these outstanding debt securities. All of these debt securities require semi-annual payments of

interest. WPS Senior Notes become noncollateralized if WPS retires all of its outstanding First Mortgage Bonds and no new mortgage indenture is put in place.

(2) In December 2012, WPS's $150.0 million of 4.875% Senior Notes matured, and the outstanding principal balance was repaid.

In the same month, WPS issued $300.0 million of 3.671% Senior Notes. These notes are due in December 2042.

In February 2013, WPS's 3.95% Senior Notes matured, and the outstanding principal balance was repaid. As a result, the $22.0 million balance of these notes was included in the current portion of long-term debt on our December 31, 2012 balance sheet.

In December 2013, WPS's 4.80% Senior Notes will mature. As a result, the $125.0 million balance of these notes was included in the current portion of long-term debt on our December 31, 2012 balance sheet.

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

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

In December 2012, PGL issued $100.0 million of 3.98% Series YY First and Refunding Mortgage Bonds. These bonds are due in December 2042.

In May 2013, PGL's 4.625% Series NN-2 First and Refunding Mortgage Bonds will mature. As a result, the $75.0 million balance of these bonds was included in the current portion of long-term debt on our December 31, 2012 balance sheet.

In November 2013, PGL's 7.00% Series SS First and Refunding Mortgage Bonds will mature. As a result, the $45.0 million balance of these bonds was included in the current portion of long-term debt on our December 31, 2012 balance sheet.

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

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

In April 2012, NSG bought back its $28.2 million of 5.00% Series M First Mortgage Bonds that were due in December 2028.

In the same month, NSG issued $28.0 million of 3.43% Series P First Mortgage Bonds. These bonds are due in April 2027.

In May 2013, NSG's 4.625% Series N-2 First Mortgage Bonds will mature. As a result, the $40.0 million balance of these bonds was included in the current portion of long-term debt on our December 31, 2012 balance sheet.

In November 2013, NSG's 7.00% Series O First Mortgage Bonds will mature. As a result, the $6.5 million balance of these bonds was included in the current portion of long-term debt on our December 31, 2012 balance sheet.

(5) In December 2012, our $100.0 million of 5.375% Unsecured Senior Notes matured, and the outstanding principal balance was repaid.

(6) These Junior Subordinated Notes are considered hybrid instruments with a combination of debt and equity characteristics. Under a replacement capital covenant with the holders of our 4.17% Unsecured Senior Notes due November 1, 2020, prior to December 1, 2036 any amounts redeemed or repurchased in excess of 10% of the principal amount outstanding must first be replaced with a specified amount of proceeds from the sale of qualifying securities that have equity-like characteristics that are the same as, or more equity-like than, the applicable characteristics of the Junior Subordinated Notes.

(7) WPS Westwood Generation, LLC, a subsidiary of Integrys Energy Services, repaid this loan in November 2012 in conjunction with the sale of WPS Westwood Generation, LLC. As a result, the $27.0 million balance of this loan was included in liabilities held for sale on our December 31, 2011 balance sheet. See Note 4, "*Dispositions,*" for more information regarding the sale.

Our long-term debt obligations, and those of certain of our subsidiaries, contain covenants related to payment of principal and interest when due and various financial reporting obligations. In addition, certain long-term debt obligations contain financial and other covenants, including but not limited to, a requirement to maintain a debt to total capitalization ratio not to exceed 65%. Failure to comply with these covenants could result in an event of default, which could result in the acceleration of outstanding debt obligations. At December 31, 2012, we and each of our subsidiaries were in compliance with all respective covenants related to outstanding long-term debt.

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

(Millions)	Payments
2013	$ 313.5
2014	100.0
2015	125.0
2016	374.8
2017	125.0
Later years	1,208.1
Total	$ 2,246.4

NOTE 13—ASSET RETIREMENT OBLIGATIONS

The utility segments have asset retirement obligations primarily related to removal of natural gas distribution mains and service pipes (including asbestos and PCBs); asbestos abatement at certain generation facilities, office buildings, and service centers; dismantling wind generation projects; disposal of PCB-contaminated transformers; closure of fly-ash landfills at certain generation facilities; and removal of above ground storage tanks. The utilities establish regulatory assets and liabilities to record the differences between ongoing expense recognition under the asset retirement obligation accounting rules, and the ratemaking practices for retirement costs authorized by the applicable regulators. Integrys Energy Services has asset retirement obligations related to the removal of solar equipment components.

The following table shows changes to our asset retirement obligations through December 31, 2012:

(Millions)	Utilities		Integrys Energy Services	Total
Asset retirement obligations at December 31, 2009	$ 194.8		$ 0.3	$ 195.1
Accretion	11.7		—	11.7
Asset retirement obligations transferred in sale	—		(0.3)	(0.3)
Additions and revisions to estimated cash flows	120.5	(1)	—	120.5
Settlements	(6.1)		—	(6.1)
Asset retirement obligations at December 31, 2010	320.9		—	320.9
Accretion	17.1		—	17.1
Additions and revisions to estimated cash flows	64.4	(2)	0.5	64.9
Settlements	(5.7)		—	(5.7)
Asset retirement obligations at December 31, 2011	396.7		0.5	397.2
Accretion	20.3		0.1	20.4
Additions and revisions to estimated cash flows	(2.4)		1.6	(0.8)
Settlements	(5.6)		—	(5.6)
Asset retirement obligations at December 31, 2012	$ 409.0		$ 2.2	$ 411.2

(1) Revisions were made to estimated cash flows related to asset retirement obligations for natural gas distribution pipes at PGL due to changes in the average remaining service life of distribution pipe based on an updated depreciation study, as well as an increase in estimated costs.

(2) Revisions were made to estimated cash flows related to asset retirement obligations primarily due to an increase in the weighted average cost to retire a foot of natural gas distribution pipe at PGL.

NOTE 14—INCOME TAXES

Deferred Income Tax Assets and Liabilities

The principal components of deferred income tax assets and liabilities recognized on the balance sheets as of December 31 are included in the table below. Certain temporary differences are netted in the table when the offsetting amount is recorded as a regulatory asset or liability. This is consistent with regulatory treatment.

(Millions)	2012	2011
Deferred income tax assets		
Tax credit carryforwards	$ 105.1	$ 97.6
Price risk management	59.6	70.0
Other	76.5	57.6
Total deferred income tax assets	$ 241.2	$ 225.2
Valuation allowance	(7.2)	(8.0)
Net deferred income tax assets	$ 234.0	$ 217.2
Deferred income tax liabilities		
Plant-related	$ 1,215.7	$ 1,103.0
Regulatory deferrals	60.8	43.4
Other	97.0	47.3
Total deferred income tax liabilities	$ 1,373.5	$ 1,193.7
Total net deferred income tax liabilities	$ 1,139.5	$ 976.5
Balance Sheet presentation		
Current deferred income tax assets	$ 64.3	$ 94.2

Long-term deferred income tax liabilities	1,203.8	1,070.7
Net deferred income tax liabilities	$ 1,139.5	$ 976.5

Net deferred income tax liabilities increased $163.0 million in 2012. The net increase was driven by an increase in capital expenditures primarily related to the AMRP project at PGL and 50% bonus tax depreciation available in 2012. Deferred income tax liabilities also increased due to our election in 2012 to claim a Section 1603 Grant for our Crane Creek Wind Project in lieu of the production tax credit. See Note 1(p), "*Income Taxes,*" for more information. An increase in tax deductions resulting from incremental contributions to our various employee benefit plans also contributed to the increase in net deferred income tax liabilities.

Deferred tax credit carryforwards at December 31, 2012, included $73.5 million of alternative minimum tax credits, which can be carried forward indefinitely. Other deferred tax credit carryforwards included $14.5 million of general business credits, which have a carryback period of 1 year and a carryforward period of 20 years. The majority of the general business credit carryforwards will expire in 2026. Deferred tax credit carryforwards also include $15.1 million of foreign tax credits, which have a carryforward period of 10 years. The majority of the foreign tax credit carryforwards will expire in 2020. We also have $2.0 million of deferred state tax credit carryforwards, which have a carryforward period of 5 years. The majority of the state tax credit carryforwards will expire in 2017.

At December 31, 2012, we had deferred income tax assets of $8.5 million reflecting federal operating loss carryforwards, which have a carryback period of 2 years and a carryforward period of 20 years. We also had deferred income tax assets of $15.0 million reflecting state operating loss carryforwards. The majority of the state operating loss carryforwards relate to Wisconsin and have a carryforward period of 20 years. Any deferred tax assets that are not used to offset future taxable income will expire between 2019 and 2032 as follows:

2019 through 2024	$2.4 million
2025 through 2030	$3.2 million
2031 through 2032	$17.9 million

Valuation allowances are established for certain state operating losses and foreign tax credits based on our projected ability to realize these benefits by offsetting future taxable income. Realization is dependent on generating sufficient taxable income prior to expiration. As of December 31, 2012, the entire valuation allowance was related to noncurrent deferred income tax assets. There was no significant change in the valuation allowance during 2012.

Regulated utilities record certain adjustments related to deferred income taxes to regulatory assets and liabilities. As the related temporary differences reverse, the regulated utilities prospectively refund taxes to or collect taxes from customers related to both deferred taxes recorded in prior years at rates potentially different than current rates and when there are other changes in tax laws. The net regulatory asset for these net recoveries and other regulatory tax effects totaled $42.1 million and $31.2 million at December 31, 2012, and 2011, respectively. See Note 7, "*Regulatory Assets and Liabilities,*" for more information.

Income Before Taxes

Income before taxes includes the following components of foreign and domestic income:

	For the Years Ended December 31		
(Millions)	2012	2011	2010
Domestic	$ 443.9	$ 363.4	$ 396.9
Foreign	(0.1)	(0.1)	10.6
Total income before taxes	$ 443.8	$ 363.3	$ 407.5

Provision for Income Taxes

The components of the provision for income taxes were as follows:

(Millions)	2012	2011	2010
Current provision			
Federal	$ 3.5	$ (44.2)	$ (85.5)
State	0.4	6.0	(11.3)
Foreign	(0.1)	(0.2)	6.8
Total current provision	3.8	(38.4)	(90.0)
Deferred provision			
Federal	128.3	158.7	230.8
State	20.1	14.6	27.1
Foreign	—	0.1	(3.8)
Total deferred provision	148.4	173.4	254.1
Investment tax credits, net	5.2	(1.1)	(0.9)
Penalties	(0.3)	0.7	—
Unrecognized tax benefits	(3.0)	0.9	(0.6)
Interest	(4.3)	(2.2)	(0.3)
Total provision for income taxes related to continuing operations	149.8	133.3	162.3
Total provision for income taxes related to discontinued operations	(9.3)	1.1	(13.9)
Total	$ 140.5	$ 134.4	$ 148.4

Statutory Rate Reconciliation

The following table presents a reconciliation of the difference between the effective tax rate and the amount computed by applying the statutory federal tax rate to income before taxes.

	2012		2011		2010	
(Millions, except for percentages)	Rate	Amount	Rate	Amount	Rate	Amount
Statutory federal income tax	35.0 %	$ 155.4	35.0 %	$ 127.2	35.0 %	$ 142.6
State income taxes, net	4.8	21.1	5.3	19.1	5.1	20.6
Unrecognized tax benefits and interest	(1.6)	(7.3)	0.2	0.6	(0.2)	(0.9)
Federal tax credits	(1.7)	(7.6)	(2.0)	(7.1)	(1.6)	(6.7)
Benefits and compensation	(2.1)	(9.4)	(2.3)	(8.4)	1.2	5.0
Other differences, net	(0.6)	(2.4)	0.5	1.9	0.3	1.7
Effective income tax	33.8 %	$ 149.8	36.7 %	$ 133.3	39.8 %	$ 162.3

Unrecognized Tax Benefits

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

(Millions)	2012	2011	2010
Balance at January 1	$ 22.4	$ 30.4	$ 31.8
Increase related to tax positions taken in prior years	0.9	3.1	9.2
Decrease related to tax positions taken in prior years	(6.7)	(1.6)	(10.6)
Increase related to tax positions taken in current year	0.6	0.9	—
Decrease related to settlements	(5.7)	(9.4)	—
Decrease related to lapse of statutes	(0.2)	(1.0)	—
Balance at December 31	$ 11.3	$ 22.4	$ 30.4

We had accrued interest of $2.5 million and accrued penalties of $2.0 million related to unrecognized tax benefits at December 31, 2012. We had accrued interest of $5.0 million and accrued penalties of $3.6 million related to unrecognized tax benefits at December 31, 2011.

Our effective tax rate could be affected by recognition of $1.9 million of unrecognized tax benefits related to continuing operations in periods after December 31, 2012. Also, our provision for income taxes could be affected by recognition of $5.2 million of unrecognized tax benefits related to discontinued operations in periods after December 31, 2012.

Our subsidiaries file income tax returns in the United States federal jurisdiction, in various state and local jurisdictions, and in Canada.

With a few exceptions, we are no longer subject to federal income tax examinations by the IRS for years prior to 2009. During 2012, the IRS continued its examinations of 2009 and 2010, which began in 2011.

We file state tax returns based on income in our major state operating jurisdictions of Wisconsin, Illinois, Michigan, and Minnesota. We also file tax returns in other state and local jurisdictions with varying statutes of limitations. With a few exceptions, we are no longer subject to state and local tax examinations for years prior to 2005. As of December 31, 2012, we were subject to examination by state or local tax authorities for the 2005 through 2011 tax years in our major state operating jurisdictions as follows:

State	Year
Illinois	2007
Michigan	2008
Minnesota	2005
Wisconsin	2008

During 2012, examinations related only to Integrys Energy Services were completed in Wisconsin for the 2007 and 2008 tax years, which had no impact on the liability for unrecognized tax benefits. During 2012, the Illinois taxing authority continued its examination of the 2007 tax year, which began in 2010. Subsequent to December 31, 2012, we received a Notice of Audit Closure for the examination of the 2007 tax year. The effective settlement of this examination in 2013 will result in an adjustment to the provision for income taxes, of which a large portion will be reported as discontinued operations. During 2012, we effectively settled the Illinois taxing authority examination of the 2003 through 2006 tax years of PELLC and its consolidated subsidiaries. This effective settlement, combined with other certain state income tax examinations and a remeasurement of uncertain tax positions, decreased our liability for unrecognized tax benefits by $11.1 million. We reduced the provision for income taxes related to these items, of which a portion was reported as discontinued operations.

As of December 31, 2012, we were subject to examination by foreign income tax authorities for the 2007 through 2010 tax years. With a few exceptions, we are no longer subject to foreign income tax examinations by tax authorities for years prior to 2008.

In the first quarter of 2013, it is highly likely that we will decrease our liability for unrecognized tax benefits by $7.2 million. In the next 12 months, it is also reasonably possible that we and our subsidiaries will settle open examinations in multiple taxing jurisdictions related to tax years prior to 2011, resulting in a further decrease in unrecognized tax benefits of as much as $3.8 million.

NOTE 15—COMMITMENTS AND CONTINGENCIES

(a) Unconditional Purchase Obligations and Purchase Order Commitments

We and our subsidiaries routinely enter into long-term purchase and sale commitments for various quantities and lengths of time. The regulated natural gas utilities have obligations to distribute and sell natural gas to their customers, and the regulated electric utilities have obligations to distribute and sell electricity to their customers. The utilities expect to recover costs related to these obligations in future customer rates. Additionally, the majority of the energy supply contracts entered into by Integrys Energy Services are to meet its obligations to deliver energy to customers. The following table shows our minimum future commitments related to these purchase obligations as of December 31, 2012, including those of our subsidiaries.

			Payments Due By Period					
(Millions)	Date Contracts Extend Through	Total Amounts Committed	2013	2014	2015	2016	2017	Later Years
Natural gas utility supply and transportation	2028	$ 704.0	$ 154.2	$ 109.1	$ 91.9	$ 84.5	$ 72.3	$ 192.0
Electric utility								
Purchased power	2029	959.5	226.9	37.8	33.1	29.6	28.7	603.4
Coal supply and transportation	2017	136.7	55.9	42.3	31.5	6.5	0.5	—
Nonregulated electricity and natural gas supply	2020	594.3	406.8	156.4	23.1	3.4	0.6	4.0
Total		$ 2,394.5	$ 843.8	$ 345.6	$ 179.6	$ 124.0	$ 102.1	$ 799.4

We and our subsidiaries also had commitments of $562.0 million in the form of purchase orders issued to various vendors at December 31, 2012, that relate to normal business operations, including construction projects.

(b) Environmental Matters

Air Permitting Violation Claims

Weston and Pulliam Clean Air Act (CAA) Issues:
In November 2009, the EPA issued a Notice of Violation (NOV) to WPS alleging violations of the CAA's New Source Review requirements relating to certain projects completed at the Weston and Pulliam plants from 1994 to 2009. WPS reached a settlement agreement with the EPA regarding this NOV and signed a Consent Decree, which was filed in the U.S. District Court (Court) on January 4, 2013. The Consent Decree includes:

- the installation of emission control technology, including ReAct ™ or an approved alternative, on Weston 3,
- changed operating conditions (including refueling, repowering, and/or retirement of units),
- limitations on plant emissions,
- beneficial environmental projects totaling $6.0 million (various options, including capital projects, are available), and
- a civil penalty of $1.2 million.

The Court must review public comments filed by the Sierra Club and Clean Wisconsin before approving the Consent Decree. The final terms of the Consent Decree may be different than currently anticipated.

As mentioned above, the Consent Decree contains a requirement to refuel, repower, and/or retire certain Weston and Pulliam units. As of December 31, 2012, no decision had been made on how to address this requirement. Therefore, retirement of the Weston and Pulliam units mentioned in the Consent Decree was not considered probable.

Any costs prudently incurred as a result of actions taken due to the Consent Decree, with the exception of the civil penalty, are expected to be recoverable from customers.

In May 2010, WPS received from the Sierra Club a Notice of Intent (NOI) to file a civil lawsuit based on allegations that WPS violated the CAA at the Weston and Pulliam plants. WPS entered into a Standstill Agreement with the Sierra Club by which the parties agreed to negotiate as part of the EPA NOV process, rather than litigate. The Standstill Agreement ended in October 2012, but further action by the Sierra Club is unknown at this time.

Columbia and Edgewater CAA Issues:
In December 2009, the EPA issued an NOV to Wisconsin Power and Light (WP&L), the operator of the Columbia and Edgewater plants, and the other joint owners of these plants (including WPS). The NOV alleges violations of the CAA's New Source Review requirements related to certain projects completed at those plants.

In September 2010, the Sierra Club filed a lawsuit against WP&L, which included allegations that modifications made at the Edgewater plant did not comply with the CAA. The case was stayed until July 2012, and a request was made by WP&L to further extend the stay and all deadlines. An update was filed with the Court in August 2012, regarding the settlement negotiations with the Sierra Club, the EPA, and the joint owners of the Edgewater plant.

WPS, WP&L, and Madison Gas and Electric (Joint Owners), along with the EPA and the Sierra Club (collectively, the Parties), are exploring settlement options. The Joint Owners believe that the Parties have reached an agreement with the EPA and the Sierra Club on general terms to settle these air permitting violation claims and are negotiating a consent decree based upon those general terms, which are subject to change during the negotiations. Based upon the status of the current negotiations and a review of existing EPA consent decrees, WPS anticipates that the final consent decree could include the installation of emission control technology, changed operating conditions (including fuels other than coal and retirement of units), limitations on emissions, beneficial environmental projects, and a civil penalty. Once the Parties agree to the final terms, the Court must approve the consent decree after a public comment process.

WPS cannot predict the final outcome of this matter because the Parties may be unable to reach a final agreement on the consent decree, the final terms of the consent decree may be different than currently anticipated, or interveners could convince the Court to disapprove some or all of the terms of the consent decree during the public comment process.

Any costs prudently incurred as a result of actions taken due to the consent decree, with the exception of civil fines, are expected to be recoverable from customers. We are currently unable to estimate the possible loss or range of loss related to this matter.

Weston Title V Air Permit:
In November 2010, the WDNR provided a draft revised permit for the Weston 4 plant. WPS objected to proposed changes in mercury limits and requirements on the boilers as beyond the authority of the WDNR and met with the WDNR to resolve these issues. In September 2011, the WDNR issued an updated draft revised permit and a request for public comments. Due to the significance of the changes to the draft revised permit, the WDNR re-issued the draft revised permit for additional comments on February 4, 2013. In July 2012, Clean Wisconsin filed suit against the WDNR alleging failure to issue or delay in issuing the Weston 4 Title V permit. WPS is not a party to this litigation, but filed a request for intervention to

protect its interests. The motions for intervention and dismissal filed by WPS and the WDNR were granted on February 15, 2013. Clean Wisconsin has the right to appeal this decision. We do not expect this matter to have a material impact on our financial statements.

Pulliam Title V Air Permit:
The WDNR issued a renewal of the permit for the Pulliam plant in April 2009. In June 2010, the EPA issued an order directing the WDNR to respond to comments raised by the Sierra Club in its June 2009 Petition requesting the EPA to object to the permit.

In April 2011, WPS received notification that the Sierra Club filed a civil lawsuit against the EPA based on what the Sierra Club alleged to be an unreasonable delay in responding to the June 2010 order. WPS is not a party to this litigation, but intervened to protect its interests. In February 2012, the WDNR sent a proposed permit and response to the EPA for a 45-day review, which allowed the parties to enter into a settlement agreement that has been approved by the Court.

In May 2012, the Sierra Club filed another Petition requesting the EPA to again object to the proposed permit and response, which the EPA denied on January 7, 2013. The Sierra Club also recently filed a request for a contested case proceeding regarding the permit, which was granted in part by the WDNR. A schedule has not yet been set for the contested case proceeding.

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

Columbia Title V Air Permit:
In February 2011, the Sierra Club filed a lawsuit against the EPA seeking to have the EPA take over the Title V permit process for the Columbia plant. The Sierra Club alleges the EPA must now act on the reconsideration of the Title V permit since the WDNR has exceeded its timeframe in which to respond to an EPA order issued in 2009. In May 2011, the WDNR issued a revised draft Title V permit in response to the EPA's order.

In June 2012, WP&L received notice from the EPA of the EPA's proposal for WP&L to apply for a federally-issued Title V permit since the WDNR has not addressed the EPA's objections to the Title V permit issued for the Columbia plant. WP&L has until March 15, 2013, to comment on the EPA's proposal. If the EPA decides to require the submittal of an operation permit application, it would be due within six months of the EPA's notice to WP&L. WP&L believes the previously issued Title V permit for the Columbia plant is still valid. We do not expect this matter to have a material impact on our financial statements.

WDNR Issued NOVs:
Since 2008, WPS received four NOVs from the WDNR alleging various violations of the different air permits for the entire Weston plant; and Weston 1, Weston 2, and Weston 4 individually. WPS also received an NOV for a clerical error involving pages missing from a quarterly report for Weston. Corrective actions have been taken for the events in the five NOVs. In December 2011, the WDNR referred several of the claims in the NOVs to the state Justice Department for enforcement. WPS and the Justice Department began discussing the pending NOVs and their resolution in late 2012. We do not expect this matter to have a material impact on our financial statements.

Weston 4 Construction Permit

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

Mercury and Interstate Air Quality Rules

Mercury:
The State of Wisconsin's mercury rule requires a 40% reduction from historical baseline mercury emissions, beginning January 1, 2010, through the end of 2014. Beginning in 2015, electric generating units above 150 megawatts will be required to reduce mercury emissions by 90% from the historical baseline. Reductions can be phased in and the 90% target delayed until 2021 if additional sulfur dioxide and nitrogen oxide reductions are implemented. By 2015, electric generating units above 25 megawatts, but less than 150 megawatts, must reduce their mercury emissions to a level defined by the Best Available Control Technology rule. As of December 31, 2012, WPS estimates capital costs of approximately $2 million, 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 rates.

In December 2011, the EPA issued the final Utility Mercury and Air Toxics Standards (MATS), which will regulate emissions of mercury and other hazardous air pollutants beginning in 2015. The State of Wisconsin is assessing how its current mercury rule will be impacted by the MATS rule. We are currently evaluating options for achieving the emission limits specified in this rule, but we do not anticipate the cost of compliance to be significant. We expect to recover future compliance costs in future rates.

Sulfur Dioxide and Nitrogen Oxide:
In July 2011, the EPA issued a final rule known as the Cross State Air Pollution Rule (CSAPR), which numerous parties, including WPS, challenged in the United States Court of Appeals for the District of Columbia Circuit (D.C. Circuit). The new rule was to become effective January 1, 2012. However, in December 2011, the CSAPR requirements were stayed by the D.C. Circuit and a previous rule, the Clean Air Interstate Rule (CAIR), was implemented during the stay period. In August 2012, the D.C. Circuit issued their ruling vacating and remanding CSAPR and simultaneously reinstating CAIR pending the issuance of a replacement rule by the EPA. In October 2012, the EPA and several other parties filed petitions for a rehearing of the D.C. Circuit's decision, which the D.C. Circuit denied on January 24, 2013.

Under CAIR, units affected by the Best Available Retrofit Technology (BART) rule were considered in compliance with BART for sulfur dioxide and nitrogen oxide emissions if they were in compliance with CAIR. This determination was updated when CSAPR was issued (CSAPR satisfied BART) and the EPA has not revised it to reflect the reinstatement of CAIR. Although particulate emissions also contribute to visibility impairment, the WDNR's modeling has shown the impairment to be so insignificant that additional capital expenditures on controls are not warranted.

Due to the uncertainty surrounding this rulemaking, we are currently unable to predict whether WPS will have to purchase additional emission allowances, idle or abandon certain units, or change how certain units are operated. WPS expects to recover any future compliance costs in future rates. The potential impact on Integrys Energy Services is not expected to be material.

Manufactured Gas Plant Remediation

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

Our natural gas utilities are responsible for the environmental remediation of 53 sites, of which 20 have been transferred to the EPA Superfund Alternative Sites Program. Under the EPA's program, the remedy decisions at these sites will be made using risk-based criteria typically used at Superfund sites. As of December 31, 2012, we estimated and accrued for $650.0 million of future undiscounted investigation and cleanup costs for all sites. We may adjust these estimates in the future due to remedial technology, regulatory requirements, remedy determinations, and any claims of natural resource damages. As of December 31, 2012, cash expenditures for environmental remediation not yet recovered in rates were $38.7 million. We recorded a regulatory asset of $688.7 million at December 31, 2012, which is net of insurance recoveries received of $60.1 million, related to the expected recovery through rates of both cash expenditures and estimated future expenditures.

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 MGU, NSG, PGL, and WPS. Accordingly, we do not expect these costs to have a material impact on our financial statements. However, any changes in the approved rate mechanisms for recovery of these costs, or any adverse conclusions by the various regulatory commissions with respect to the prudence of costs actually incurred, could materially affect recovery of such costs through rates.

NOTE 16—GUARANTEES

The following table shows our outstanding guarantees:

(Millions)	Total Amounts Committed at December 31, 2012	Expiration: Less Than 1 Year	Expiration: 1 to 3 Years	Expiration: Over 3 Years
Guarantees supporting commodity transactions of subsidiaries (1)	$ 631.5	$ 391.8	$ 29.0	$ 210.7
Standby letters of credit (2)	30.6	29.2	1.4	—
Surety bonds (3)	14.8	14.7	0.1	—
Other guarantees (4)	42.3	20.0	—	22.3
Total guarantees	$ 719.2	$ 455.7	$ 30.5	$ 233.0

(1) Consists of our guarantees of $468.8 million to support the business operations of Integrys Energy Services; $106.8 million and $48.9 million, respectively, related to natural gas supply at MERC and MGU; and $5.0 million at IBS, and $2.0 million at UPPCO to support business operations. These guarantees are not reflected on our balance sheets.

(2) At our request or the request of our subsidiaries, financial institutions have issued standby letters of credit for the benefit of third parties that have extended credit to our subsidiaries. This amount consists of $28.9 million issued to support Integrys Energy Services' operations and $1.7 million related to letters of credit issued to support MERC, MGU, NSG, PGL, Pinnacle CNG Systems, UPPCO, and WPS. These amounts are not reflected on our balance sheets.

(3) Primarily for workers compensation self-insurance programs and obtaining various licenses, permits, and rights-of-way. These guarantees are not reflected on our balance sheets.

(4) Consists of (a) $20.0 million related to the sale agreement for Integrys Energy Services' United States wholesale electric marketing and trading business, which included a number of customary representations, warranties, and indemnification provisions. This amount is not reflected on our balance sheets; (b) $10.0 million related to the sale agreement for Integrys Energy Services' Texas retail marketing business, which included a number of customary representations, warranties, and indemnification provisions. An insignificant liability was recorded related to the possible imposition of additional miscellaneous gross receipts tax in the event of a change in law or interpretation of the tax law; (c) $5.0 million related to an environmental indemnification provided by Integrys Energy Services as part of the sale of the Stoneman generation facility, under which we expect that the likelihood of required performance is remote. This amount is not reflected on our balance sheets; and (d) $7.3 million related to other indemnifications primarily for workers compensation coverage. These amounts are not reflected on our balance sheets.

We have provided total guarantees of $536.4 million on behalf of Integrys Energy Services. Our exposure under these guarantees related to open transactions at December 31, 2012, was $236.7 million.

NOTE 17—EMPLOYEE BENEFIT PLANS

Defined Benefit Plans

We and our subsidiaries maintain one noncontributory, qualified pension plan covering substantially all employees, as well as several unfunded nonqualified retirement plans. In addition, we and our subsidiaries offer multiple other postretirement benefit plans to employees. The benefits for a portion of these plans are funded through irrevocable trusts, as allowed for income tax purposes. As of February 16, 2012, our defined benefit pension plans are closed to all new hires.

We also currently offer medical, dental, and life insurance benefits to active employees and their dependents. We expense the costs of these benefits as incurred.

The following tables provide a reconciliation of the changes in our plans' benefit obligations and fair value of assets during 2012 and 2011:

	Pension Benefits		Other Benefits	
(Millions)	2012	2011	2012	2011
Change in benefit obligation				
Obligation at January 1	$ 1,563.1	$ 1,418.5	$ 576.8	$ 538.5
Service cost	46.0	41.4	20.8	19.0
Interest cost	78.0	80.1	28.5	29.5
Plan amendments	—	—	—	(0.8)
Actuarial loss, net	196.6	111.7	14.3	9.2
Participant contributions	—	—	10.6	10.6
Benefit payments	(98.8)	(88.6)	(32.1)	(31.8)
Federal subsidy on benefits paid	—	—	2.1	2.6
Obligation at December 31	$ 1,784.9	$ 1,563.1	$ 621.0	$ 576.8
Change in fair value of plan assets				
Fair value of plan assets at January 1	$ 1,099.5	$ 1,081.3	$ 285.5	$ 266.2
Actual return on plan assets	173.6	16.5	46.3	(1.0)
Employer contributions	173.8	90.3	114.1	41.2
Participant contributions	—	—	10.6	10.6
Benefit payments	(98.8)	(88.6)	(32.1)	(31.5) *
Fair value of plan assets at December 31	$ 1,348.1	$ 1,099.5	$ 424.4	$ 285.5
Funded Status at December 31	$ (436.8)	$ (463.6)	$ (196.6)	$ (291.3)

* Amount is net of early retirement reinsurance program payments received in 2011.

The amounts recognized on our balance sheets at December 31 related to the funded status of the benefit plans were as follows:

	Pension Benefits		Other Benefits	
(Millions)	2012	2011	2012	2011
Current liabilities	$ 7.9	$ 5.3	$ 0.3	$ 0.3
Noncurrent liabilities	428.9	458.3	196.3	291.0
Total liabilities	$ 436.8	$ 463.6	$ 196.6	$ 291.3

The accumulated benefit obligation for all defined benefit pension plans was $1.6 billion and $1.4 billion at December 31, 2012, and 2011, respectively. Information for pension plans with an accumulated benefit obligation in excess of plan assets is presented in the following table:

	December 31	
(Millions)	2012	2011
Projected benefit obligation	$ 1,784.9	$ 1,563.1
Accumulated benefit obligation	1,594.7	1,388.0
Fair value of plan assets	1,348.1	1,099.5

The following table shows the amounts that had not yet been recognized in our net periodic benefit cost as of December 31:

	Pension Benefits		Other Benefits	
(Millions)	2012	2011	2012	2011
Accumulated other comprehensive loss (pre-tax) (1)				
Net actuarial loss	$ 59.1	$ 51.5	$ 1.3	$ 1.0
Prior service costs (credits)	0.2	0.4	(0.6)	(1.0)
Total	$ 59.3	$ 51.9	$ 0.7	$ —
Net regulatory assets (2)				
Net regulatory assets (2)				
Net actuarial loss	$ 683.1	$ 593.8	$ 117.3	$ 127.4
Prior service costs (credits)	6.2	11.0	(14.3)	(17.3)
Transition obligation	—	—	—	0.3
Total	$ 689.3	$ 604.8	$ 103.0	$ 110.4

(1) Amounts related to the nonregulated entities are included in accumulated other comprehensive loss.

(2) Amounts related to the regulated utilities are recorded as regulatory assets or liabilities.

The following table shows the estimated amounts that will be amortized into net periodic benefit cost during 2013:

(Millions)	Pension Benefits	Other Benefits
Net actuarial losses	$ 53.8	$ 8.2
Prior service costs (credits)	4.1	(2.5)
Total 2013 – estimated amortization	$ 57.9	$ 5.7

The following table shows the components of the net periodic benefit costs (including amounts capitalized to our balance sheet) for the benefit plans:

	Pension Benefits			Other Benefits		
(Millions)	2012	2011	2010	2012	2011	2010
Net periodic benefit cost						
Service cost	$ 46.0	$ 41.4	$ 40.1	$ 20.8	$ 19.0	$ 16.3
Interest cost	78.0	80.1	80.0	28.5	29.5	27.5
Expected return on plan assets	(107.9)	(100.0)	(92.3)	(28.2)	(21.4)	(19.0)
Amortization of transition obligation	—	—	—	0.3	0.3	0.3
Amortization of prior service cost (credit)	5.0	5.3	5.3	(3.4)	(3.9)	(3.8)
Amortization of net actuarial loss	34.0	18.1	8.1	6.6	4.0	1.9
Regulatory deferral *	—	—	4.5	—	—	(1.3)
Net periodic benefit cost	$ 55.1	$ 44.9	$ 45.7	$ 24.6	$ 27.5	$ 21.9

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

Assumptions – Pension and Other Postretirement Benefit Plans

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

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Discount rate	4.07%	5.10%	3.96%	4.94%
Rate of compensation increase	4.25%	4.26%	N/A	N/A
Assumed medical cost trend rate (under age 65)	N/A	N/A	7.00%	7.00%
Ultimate trend rate	N/A	N/A	5.00%	5.00%
Year ultimate trend rate is reached	N/A	N/A	2019	2016
Assumed medical cost trend rate (over age 65)	N/A	N/A	7.00%	7.50%
Ultimate trend rate	N/A	N/A	5.00%	5.50%
Year ultimate trend rate is reached	N/A	N/A	2019	2016
Assumed dental cost trend rate	N/A	N/A	5.00%	5.00%

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

	Pension Benefits		
	2012	2011	2010
Discount rate	5.10%	5.80%	6.15%
Expected return on assets	8.25%	8.25%	8.50%
Rate of compensation increase	4.25%	4.26%	4.26%

	Other Benefits		
	2012	2011	2010
Discount rate	4.94%	5.66%	5.95%
Expected return on assets	8.25%	8.25%	8.50%
Assumed medical cost trend rate (under age 65)	7.00%	7.50%	8.00%
Ultimate trend rate	5.00%	5.00%	5.00%
Year ultimate trend rate is reached	2016	2016	2013
Assumed medical cost trend rate (over age 65)	7.50%	8.00%	8.50%
Ultimate trend rate	5.50%	5.50%	5.50%
Year ultimate trend rate is reached	2016	2016	2013
Assumed dental cost trend rate	5.00%	5.00%	5.00%

We establish our expected return on assets assumption based on consideration of historical and projected asset class returns, as well as the target allocations of the benefit trust portfolios. Beginning in 2013, the expected return on assets assumption for the plans is 8.00%.

Assumed health care cost trend rates have a significant effect on the amounts reported by us for our health care plans. For the year ended December 31, 2012, a one-percentage-point change in assumed health care cost trend rates would have had the following effects:

	One-Percentage-Point	
(Millions)	Increase	Decrease
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	$ 7.9	$ (10.7)
Effect on the health care component of the accumulated postretirement benefit obligation	85.4	(109.0)

Pension and Other Postretirement Benefit Plan Assets

Our investment policy includes various guidelines and procedures designed to ensure assets are invested in an appropriate manner to meet expected future benefits to be earned by participants. The investment guidelines consider a broad range of economic conditions. Our policy is established and administered in a manner that is compliant at all times with applicable regulations.

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

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

Pension and other postretirement benefit plan investments are recorded at fair value. Information regarding the fair value hierarchy and the classification of fair value measurements based on the types of inputs used are discussed in Note 1(s), "*Summary of Significant Accounting Policies – Fair Value.*"

The following table provides the fair values of our investments by asset class:

	December 31, 2012							
	Pension Plan Assets				Other Benefit Plan Assets			
(Millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset Class								
Cash and cash equivalents	$ 6.4	$ 25.3	$ —	$ 31.7	$ —	$ 9.5	$ —	$ 9.5
Equity securities:								
United States equity	167.9	403.0	—	570.9	27.8	129.0	—	156.8
International equity	96.0	300.4	—	396.4	15.6	92.9	—	108.5
Fixed income securities:								
United States government	—	100.3	—	100.3	112.7	—	—	112.7
Foreign government	—	20.4	4.1	24.5	—	—	—	—
Corporate debt	—	197.3	1.0	198.3	—	—	—	—
Asset-backed securities	—	56.5	0.1	56.6	—	—	—	—
Other	—	11.3	—	11.3	1.1	—	—	1.1
	270.3	1,114.5	5.2	1,390.0	157.2	231.4	—	388.6
401(h) other benefit plan assets invested as pension assets (1)	(7.1)	(29.3)	(0.1)	(36.5)	7.1	29.3	0.1	36.5
Total (2)	$ 263.2	$ 1,085.2	$ 5.1	$ 1,353.5	$ 164.3	$ 260.7	$ 0.1	$ 425.1

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

(2) Investments do not include accruals or pending transactions that are included in the table reconciling the change in fair value of plan assets.

	December 31, 2011							
	Pension Plan Assets				Other Benefit Plan Assets			
(Millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset Class								
Cash and cash equivalents	$ 4.4	$ 23.7	$ —	$ 28.1	$ —	$ 5.8	$ —	$ 5.8
Equity securities:								
United States equity	126.9	321.7	—	448.6	24.8	79.5	—	104.3
International equity	69.1	247.0	—	316.1	13.1	57.9	—	71.0
Fixed income securities:								
United States government	—	93.2	—	93.2	75.2	—	—	75.2
Foreign government	—	17.1	5.7	22.8	—	—	—	—
Corporate debt	—	156.5	2.1	158.6	—	—	—	—
Asset-backed securities	—	55.1	—	55.1	—	—	—	—
Other	—	8.1	—	8.1	1.8	—	—	1.8
	200.4	922.4	7.8	1,130.6	114.9	143.2	—	258.1
401(h) other benefit plan assets invested as pension assets (1)	(4.9)	(22.6)	(0.2)	(27.7)	4.9	22.6	0.2	27.7
Total (2)	$ 195.5	$ 899.8	$ 7.6	$ 1,102.9	$ 119.8	$ 165.8	$ 0.2	$ 285.8

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

(2) Investments do not include accruals or pending transactions that are included in the table reconciling the change in fair value of plan assets.

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

(Millions)	Foreign Government Debt	Corporate Debt	Asset-Backed Securities	Total
Beginning balance at December 31, 2011	$ 5.7	$ 2.1	$ —	$ 7.8
Net realized and unrealized gains	0.5	0.2	—	0.7
Purchases	1.2	0.5	—	1.7
Sales	(2.0)	(0.4)	—	(2.4)
Transfers into Level 3	—	—	0.1	0.1
Transfers out of Level 3	(1.3)	(1.4)	—	(2.7)
Ending balance at December 31, 2012	$ 4.1	$ 1.0	$ 0.1	$ 5.2
Net unrealized gains related to assets still held at the end of the period	$ 0.3	$ 0.1	$ —	$ 0.4

(Millions)	Foreign Government Debt	Corporate Debt	Asset-Backed Securities	Real Estate Securities	Total
Beginning balance at December 31, 2010	$ 7.8	$ 2.0	$ 0.2	$ 30.0	$ 40.0
Net realized and unrealized gains (losses)	—	(0.1)	—	0.9	0.8
Purchases	2.2	2.1	—	1.9	6.2
Sales	(4.3)	(1.9)	—	(32.8)	(39.0)
Settlements	—	—	(0.1)	—	(0.1)
Transfers into Level 3	—	0.2	—	—	0.2
Transfers out of Level 3	—	(0.2)	(0.1)	—	(0.3)
Ending balance at December 31, 2011	$ 5.7	$ 2.1	$ —	$ —	$ 7.8
Net unrealized losses related to assets still held at the end of the period	$ (0.2)	$ (0.1)	$ —	$ —	$ (0.3)

Cash Flows Related to Pension and Other Postretirement Benefit Plans

Our funding policy is to contribute at least the minimum amounts that are required to be funded under the Employee Retirement Income Security Act, but not more than the maximum amounts that are currently deductible for income tax purposes. We expect to contribute $67.9 million to pension plans and $32.9 million to other postretirement benefit plans in 2013, dependent on various factors affecting us, including our liquidity position and tax law changes.

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

(Millions)	Pension Benefits	Other Benefits	Federal Subsidies
2013	$ 132.3	$ 28.8	$ 2.2
2014	123.8	30.9	2.4
2015	122.0	33.4	2.5
2016	124.4	36.0	2.6
2017	128.9	38.6	2.7
2018 through 2022	665.8	229.8	15.9

Defined Contribution Benefit Plans

We maintain 401(k) Savings Plans for substantially all of our full-time employees. We match a percentage of employee contributions through an employee stock ownership plan (ESOP) or cash contribution up to certain limits. Certain union employees receive a contribution to their ESOP account regardless of their participation in the 401(k) Savings Plan. The ESOP held 3.6 million shares of our common stock (market value of $189.0 million) at December 31, 2012. Certain employees who are not eligible to participate in the defined benefit pension plan participate in a defined contribution pension plan, in which we contribute certain amounts to an employee's account based on the employee's wages, age, and years of service. Total costs incurred under all of these plans were $19.1 million in 2012, $17.0 million in 2011, and $16.9 million in 2010.

We maintain deferred compensation plans that enable certain key employees and nonemployee directors to defer payment of a portion of their compensation or fees on a pre-tax basis. Nonemployee directors can defer up to 100% of their director fees. Compensation is generally deferred in the form of cash and is indexed to certain investment options or our common stock. The deemed dividends paid on our common stock are automatically reinvested.

The deferred compensation arrangements for which distributions are made solely in our common stock are classified as an equity instrument. Changes in the fair value of this portion of the deferred compensation obligation are not recognized. The deferred compensation obligation classified as an equity instrument was $23.9 million at December 31, 2012, and $24.1 million at December 31, 2011.

The portion of the deferred compensation obligation that allows for distributions in cash is classified as a liability on the balance sheets. The liability is adjusted, with a charge or credit to expense, to reflect changes in the fair value of the deferred compensation obligation. The obligation classified within other long-term liabilities was $42.9 million at December 31, 2012, and $39.1 million at December 31, 2011. The costs incurred under this arrangement were $3.1 million in 2012, $2.1 million in 2011, and $3.5 million in 2010.

The deferred compensation programs are partially funded through shares of our common stock that are held in a rabbi trust. The common stock held in the rabbi trust is classified as a reduction of equity in a manner similar to accounting for treasury stock. The total cost of our common stock held in the rabbi trust was $17.7 million at December 31, 2012, and $17.1 million at December 31, 2011.

NOTE 18—PREFERRED STOCK OF SUBSIDIARY

Our subsidiary, WPS, has 1,000,000 authorized shares of preferred stock with no mandatory redemption and a $100 par value. Outstanding shares owned by third parties were as follows at December 31:

(Millions, except share amounts)	2012		2011	
Series	Shares Outstanding	Carrying Value	Shares Outstanding	Carrying Value
5.00%	130,692	$ 13.1	130,692	$ 13.1
5.04%	29,898	3.0	29,898	3.0
5.08%	49,905	5.0	49,905	5.0
6.76%	150,000	15.0	150,000	15.0
6.88%	150,000	15.0	150,000	15.0
Total	510,495	$ 51.1	510,495	$ 51.1

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

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

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

NOTE 19—COMMON EQUITY

We had no changes to issued common stock during 2012 and the following changes during 2011 and 2010:

	Common stock shares
Balance at December 31, 2009	76,418,843
Shares issued	
Stock Investment Plan	752,360
Stock-based compensation	592,237
Rabbi trust shares	35,000
Restricted stock shares cancelled	(16,755)
Balance at December 31, 2010	77,781,685
Shares issued	
Stock Investment Plan	233,103
Stock-based compensation	231,443
Rabbi trust shares	43,888
Restricted stock shares cancelled	(2,213)
Balance at December 31, 2011	78,287,906

The following table provides a summary of common stock activity to meet the requirements of our Stock Investment Plan and certain stock-based employee benefit and compensation plans:

Period	Method of meeting requirements
Beginning 02/05/2013	Issuing new shares
05/01/2011 – 02/04/2013	Purchased shares on the open market
02/11/2010 – 04/30/2011	Issued new shares *
01/01/2010 – 02/10/2010	Purchased shares on the open market

* These stock issuances increased equity $22.2 million in 2011.

The following table reconciles common shares issued and outstanding:

	2012		2011	
	Shares	Average Cost	Shares	Average Cost
Common stock issued	78,287,906		78,287,906	
Less:				
Deferred compensation rabbi trust	385,439	$ 46.03 *	382,971	$ 44.54 *
Total common shares outstanding	77,902,467		77,904,935	

* Based on our stock price on the day the shares entered the deferred compensation rabbi trust. Shares paid out of the trust are valued at the average cost of shares in the trust.

Earnings Per Share

Basic earnings per share is computed by dividing net income attributed to common shareholders by the weighted average number of common shares outstanding during the period, adjusted for shares we are obligated to issue under the deferred compensation and restricted share unit plans. Diluted earnings per share is computed in a similar manner, but includes the exercise and/or conversion of all potentially dilutive securities. Such dilutive items include in-the-money stock options, performance stock rights, restricted share units, and certain shares issuable under the deferred compensation plan. The calculation of diluted earnings per share for both 2012 and 2011 excluded 0.7 million out-of-the-money stock options that had an anti-dilutive effect. The 2010 calculation of diluted earnings per share excluded 1.4 million out-of-the-money stock options that had an anti-dilutive effect. The following table reconciles our computation of basic and diluted earnings per share:

(Millions, except per share amounts)	2012	2011	2010
Numerator:			
Net income from continuing operations	$ 294.0	$ 230.0	$ 245.2
Discontinued operations, net of tax	(9.7)	0.5	(21.5)
Preferred stock dividends of subsidiary	(3.1)	(3.1)	(3.1)
Noncontrolling interest in subsidiaries	0.2	—	0.3
Net income attributed to common shareholders	$ 281.4	$ 227.4	$ 220.9
Denominator:			
Average shares of common stock – basic	78.6	78.6	77.5
Effect of dilutive securities			
Stock-based compensation	0.5	0.5	0.5
Deferred compensation	0.2	—	—
Average shares of common stock – diluted	79.3	79.1	78.0
Earnings per common share			
Basic	$ 3.58	$ 2.89	$ 2.85
Diluted	3.55	2.87	2.83

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, net of tax, at December 31, 2012, and 2011, were:

(Millions)	2012	2011
Cash flow hedges (1)	$ (5.2)	$ (11.5)
Unrecognized pension and other postretirement benefit costs (2)	(35.7)	(31.0)
Total accumulated other comprehensive loss	$ (40.9)	$ (42.5)

(1) Net of tax benefits of $7.2 million and $9.1 million at December 31, 2012, and 2011, respectively.

(2) Net of tax benefits of $24.3 million and $20.9 million at December 31, 2012, and 2011, respectively.

Dividend Restrictions

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

The PSCW allows WPS to pay dividends on its common stock of no more than 103% of the previous year's common stock dividend. WPS may return capital to us if its average financial common equity ratio is at least 51.01% on a calendar-year basis. WPS must obtain PSCW approval if a return of capital would cause its average financial common equity ratio to fall below this level. Our right to receive dividends on the common stock of WPS is also subject to the prior rights of WPS's preferred shareholders and to provisions in WPS's restated articles of incorporation, which limit the amount of common stock dividends that WPS may pay if its common stock and common stock surplus accounts constitute less than 25% of its total capitalization.

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

PGL and WPS have short-term debt obligations containing financial and other covenants, including but not limited to, a requirement to maintain a debt to total capitalization ratio not to exceed 65%. Failure to comply with these covenants could result in an event of default which could result in the acceleration of their outstanding debt obligations.

We also have short-term and long-term debt obligations that contain financial and other covenants, including but not limited to, a requirement to maintain a debt to total capitalization ratio not to exceed 65%. Failure to comply with these covenants could result in an event of default, which could result in the acceleration of outstanding debt obligations. At December 31, 2012, these covenants did not restrict the payment of any dividends beyond the amount restricted under our subsidiary requirements described above.

As of December 31, 2012, total restricted net assets were $1,574.3 million. Our equity in undistributed earnings of 50% or less owned investees accounted for by the equity method was $125.2 million at December 31, 2012.

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

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

Capital Transactions with Subsidiaries

During 2012, capital transactions with subsidiaries were as follows (in millions):

Subsidiary	Dividends To Parent	Return Of Capital To Parent	Equity Contributions From Parent
WPS	$ 105.5	$ 50.0	$ 40.0
WPS Investments, LLC (1)	68.4	—	20.4
PGL (2)	55.0	—	—
NSG (2)	10.0	—	—
MERC	—	18.0	11.0
IBS	—	23.0	10.0
MGU	—	8.0	—
UPPCO	—	11.5	8.5
Total	$ 238.9	$ 110.5	$ 89.9

(1) WPS Investments, LLC is a consolidated subsidiary that is jointly owned by us, WPS, and UPPCO. At December 31, 2012, we had an 85.81% ownership interest, while WPS and UPPCO had an 11.70% and 2.49% ownership interest, respectively. Distributions from WPS Investments, LLC are made to the owners based on their respective ownership percentages. During 2012, all equity contributions to WPS Investments, LLC were made solely by us.

(2) PGL and NSG are direct wholly owned subsidiaries of PELLC. As a result, they make distributions to PELLC, and receive equity contributions from PELLC. Subject to applicable law, PELLC does not have any dividend restrictions or limitations on distributions to us.

NOTE 20—STOCK-BASED COMPENSATION

In May 2010, our shareholders approved the 2010 Omnibus Incentive Compensation Plan (2010 Omnibus Plan). Under the provisions of the 2010 Omnibus Plan, the number of shares of stock that may be issued in satisfaction of plan awards may not exceed 3,000,000 shares, plus any shares remaining or forfeited under prior plans. No more than 900,000 shares of stock, plus shares remaining or forfeited under prior plans, can be granted as full value shares in the form of performance shares or restricted stock. No additional awards will be issued under prior plans, although the plans continue to exist for purposes of the existing outstanding stock-based compensation awards. At December 31, 2012, stock options, performance stock rights, and restricted share units were outstanding under the various plans.

The following table reflects the stock-based compensation expense and the related deferred tax benefit recognized in income for the years ended December 31:

(Millions)	2012	2011	2010
Stock options	$ 2.0	$ 1.8	$ 2.3
Performance stock rights	5.0	3.5	10.0
Restricted shares and restricted share units	9.7	6.1	10.1
Nonemployee director deferred stock units	1.0	1.0	0.9
Total stock-based compensation expense	$ 17.7	$ 12.4	$ 23.3
Deferred income tax benefit	$ 7.1	$ 5.0	$ 9.3

No stock-based compensation cost was capitalized during 2012, 2011, and 2010.

Stock Options

Our stock options have a term not longer than ten years. The exercise price of each stock option is equal to the fair market value of the stock on the date the stock option is granted. Generally, one-fourth of the stock options granted vest and become exercisable each year on the anniversary of the grant date. Under the provisions of the 2010 Omnibus Plan, no single employee who is our chief executive officer or one of our other three highest compensated officers (including officers of our subsidiaries) can be granted stock options for more than 1,000,000 shares during any calendar year.

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

	2012 Grant	2011 Grant	2010 Grant
Weighted-average fair value per stock option	$6.30	$6.57	$5.30
Expected term	5 years	5 years	6 years
Risk-free interest rate	0.17% – 2.18%	0.27% – 3.90%	2.38%
Expected dividend yield	5.28%	5.34%	5.46%
Expected volatility	25%	25%	25%

A summary of stock option activity for 2012, and information related to outstanding and exercisable stock options at December 31, 2012, is presented below:

	Stock Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life *(in Years)*	Aggregate Intrinsic Value *(Millions)*
Outstanding at December 31, 2011	2,953,630	$ 48.09		
Granted	279,535	53.24		
Exercised	(1,179,542)	47.29		
Forfeited	(5,943)	53.24		
Expired	(1,325)	40.01		
Outstanding at December 31, 2012	2,046,355	$ 49.25	5.82	$ 8.3
Exercisable at December 31, 2012	1,246,825	$ 50.42	4.50	$ 4.2

As of December 31, 2012, $1.0 million of compensation cost related to unvested and outstanding stock options was expected to be recognized over a weighted-average period of 2.3 years.

Cash received from option exercises during 2012, 2011, and 2010 was $55.8 million, $2.3 million, and $18.8 million, respectively. The actual tax benefit realized for the tax deductions from these option exercises was $4.4 million during 2012, and was not significant in 2011, and 2010.

The aggregate intrinsic value for outstanding and exercisable options in the above table represents the total pre-tax intrinsic value that would have been received by the option holders had they all exercised their options at December 31, 2012. This is calculated as the difference between our closing stock price on December 31, 2012, and the option exercise price, multiplied by the number of in-the-money stock options. The intrinsic value of options exercised during 2012, 2011, and 2010 was $11.0 million, $2.8 million, and $4.9 million, respectively.

Performance Stock Rights

Performance stock rights vest over a three-year performance period. For accounting purposes, awards granted to retirement-eligible employees vest over a shorter period; however, the distribution of these awards is not accelerated. No single employee who is our chief executive officer or one of our other three highest compensated officers (including officers of our subsidiaries) can receive a payout in excess of 250,000 performance shares during any calendar year. Performance stock rights are paid out in shares of our common stock, or eligible employees can elect to defer the value of their awards into the deferred compensation plan and choose among various investment options, some of which are ultimately paid out in our common stock and some of which are ultimately paid out in cash. Beginning in 2011, eligible employees can only elect to defer up to 80% of the value of their awards. The number of shares paid out is calculated by multiplying a performance percentage by the number of outstanding stock rights at the completion of the performance period. The performance percentage is based on the total shareholder return of our common stock relative to the total shareholder return of a peer group of companies. The payout may range from 0% to 200% of target.

Performance stock rights are accounted for as either an equity award or a liability award depending on their settlement features. Awards that can only be settled in our common stock are accounted for as equity awards. Awards that an employee has elected to defer or is still able to defer into the deferred compensation plan are accounted for as liability awards and are recorded at fair value each reporting period.

Six months prior to the end of the performance period, employees can no longer change their election to defer the value of their performance stock rights into the deferred compensation plan. As a result, any awards not elected for deferral at this point in the performance period will be settled in our common stock. This changes the classification of these awards from a liability award to an equity award. The change in classification is accounted for as an award modification. The fair value on the modification date is used to measure these awards for the remaining six months of the performance period. No incremental compensation expense is recorded as a result of this award modification.

The fair values of performance stock rights were estimated using a Monte Carlo valuation model. The risk-free interest rate is based on the United States Treasury yield curve. The expected dividend yield incorporates the current and historical dividend rate. The expected volatility was estimated using one to three years of historical data. The table below reflects the assumptions used in the valuation of the outstanding grants at December 31:

	2012	2011	2010
Risk-free interest rate	0.17% – 1.27 %	0.00% – 1.27%	0.21% – 0.56%
Expected dividend yield	5.18 % – 5.34 %	5.28% – 5.34%	5.34%
Expected volatility	14% – 36%	21% – 36%	20% – 34%

A summary of the 2012 activity related to performance stock rights accounted for as equity awards is presented below:

	Performance Stock Rights	Weighted-Average Fair Value*
Outstanding at December 31, 2011	135,948	$ 46.18
Granted	18,865	52.70
Award modifications	49,304	79.62
Distributed	(70,598)	42.93
Adjustment for final payout	(24,804)	42.93
Forfeited	(401)	52.70
Outstanding at December 31, 2012	108,314	$ 65.38

* Reflects the weighted-average fair value used to measure equity awards. Equity awards are measured using the grant date fair value or the fair value on the modification date.

A summary of the 2012 activity related to performance stock rights accounted for as liability awards is presented below:

	Performance Stock Rights
Outstanding at December 31, 2011	186,215
Granted	75,408
Award modifications	(49,304)
Distributed	(16,001)
Adjustment for final payout	(5,622)
Forfeited	(1,603)
Outstanding at December 31, 2012	189,093

The weighted-average fair value of all outstanding performance stock rights accounted for as liability awards as of December 31, 2012, was $48.47 per performance stock right.

As of December 31, 2012, $1.5 million of compensation cost related to unvested and outstanding performance stock rights (equity and liability awards) was expected to be recognized over a weighted-average period of 1.6 years.

The total intrinsic value of performance shares distributed during the years ended December 31, 2012 and 2011, was $4.7 million and $6.3 million, respectively. The actual tax benefit realized for the tax deductions from the distribution of performance shares during the years ended December 31, 2012, and 2011, was $1.9 million and $2.5 million, respectively.

Restricted Shares and Restricted Share Units

Restricted shares and restricted share units generally have a four-year vesting period, with 25% of each award vesting on each anniversary of the grant date. For accounting purposes, awards granted to retirement-eligible employees vest over a shorter period; however, the releasing of these shares to these employees is not accelerated. During 2011, the last of the outstanding restricted shares vested. Only restricted share units remain outstanding at December 31, 2012. Restricted share unit recipients do not have voting rights, but they receive forfeitable dividend equivalents in the form of additional restricted share units.

Restricted share units are accounted for as either an equity award or a liability award depending on their settlement features. Awards that can only be settled in our common stock and cannot be deferred into the deferred compensation plan are accounted for as equity awards. Beginning in 2011, eligible employees can only elect to defer up to 80% of their awards into the deferred compensation plan. Equity awards are measured based on the fair value on the grant date. Awards that an employee has elected to defer into the deferred compensation plan are accounted for as liability awards and are recorded at fair value each reporting period.

A summary of the activity related to all restricted share unit awards (equity and liability awards) for the year ended December 31, 2012, is presented below:

	Restricted Share Unit Awards	Weighted-Average Grant Date Fair Value
Outstanding at December 31, 2011	497,722	$ 45.21
Granted	188,346	53.24
Dividend equivalents	24,968	48.38
Vested and released	(199,599)	45.14
Forfeited	(5,747)	50.00
Outstanding at December 31, 2012	505,690	$ 48.38

As of December 31, 2012, $10.1 million of compensation cost related to these awards was expected to be recognized over a weighted-average period of 2.3 years.

The total intrinsic value of restricted share and restricted share unit awards vested and released for the years ended December 31, 2012, 2011, and 2010, was $10.7 million, $7.5 million, and $4.9 million, respectively. The actual tax benefit realized for the tax deductions from the vesting and releasing of restricted shares and restricted share units during the years ended December 31, 2012, 2011, and 2010, was $4.3 million, $3.0 million, and $2.0 million, respectively.

The weighted-average grant date fair value of restricted share units awarded during the years ended December 31, 2012, 2011, and 2010, was $53.24, $49.39, and $41.67 per share, respectively.

Nonemployee Directors Deferred Stock Units

Each nonemployee director is granted deferred stock units (DSUs), typically in January of each year. The number of DSUs granted is calculated by dividing a set dollar amount by our closing common stock price on the date of the grant. Under the terms of the agreement, these awards vest immediately. Therefore, they are expensed on the grant date.

NOTE 21—VARIABLE INTEREST ENTITIES

In 2012, ITF formed AMP Trillium LLC as a joint venture with AMP Americas LLC. ITF owns 30% and AMP Americas LLC owns 70% of the joint venture. The joint venture was established to own and operate compressed natural gas fueling stations. The preferred source of capital funding for the joint venture will be loans from ITF. We determined that the joint venture is a variable interest entity and that ITF is the primary beneficiary, which requires us to consolidate the assets, liabilities, and statements of income of the joint venture. At December 31, 2012, our variable interests in the joint venture included an insignificant equity investment and insignificant receivables. Our maximum exposure to loss as a result of this joint venture was not significant. The carrying amounts of AMP Trillium LLC assets and liabilities included on our December 31, 2012, balance sheet were also not significant.

In 2011, ITF formed Integrys PTI CNG Fuels LLC as a joint venture with Paper Transport Inc. ITF and Paper Transport Inc. each own 50% of the joint venture. The joint venture was established to own and operate compressed natural gas fueling stations. The preferred source of capital funding for the joint venture will be loans from ITF. We determined that the joint venture is a variable interest entity and that ITF is the primary beneficiary, which requires us to consolidate the assets, liabilities, and statements of income of the joint venture. At December 31, 2012, and December 31, 2011, our variable interests in the joint venture included an insignificant equity investment and insignificant receivables. Our maximum exposure to loss as a result of this joint venture was not significant. The carrying amounts of Integrys PTI CNG Fuels LLC assets and liabilities included on our balance sheets were also not significant.

We have variable interests in two entities through power purchase agreements relating to the cost of fuel. One of these agreements reimburses an independent power producing entity for coal costs relating to purchased energy. There is no obligation to purchase energy under the agreement. This contract for 17.5 megawatts of capacity expires in 2014. The other agreement contains a 500 megawatt tolling arrangement in which we supply the scheduled fuel and purchase capacity and energy from the facility. In connection with the pending purchase of Fox Energy Company LLC, WPS will pay $50.0 million to terminate this tolling arrangement. See Note 3, "*Acquisitions*," for more information regarding this pending purchase. As of December 31, 2012, and December 31, 2011, we had a total of 517.5 megawatts of capacity available under these agreements. We evaluated both of these variable interest entities for possible consolidation. We considered which interest holder has the power to direct the activities that most significantly impact the economics of the variable interest entity; this interest holder is considered the primary beneficiary of the entity and is required to consolidate the entity. For a variety of reasons, including qualitative factors such as the length of the remaining term of the contracts compared with the remaining lives of the plants and the fact that we do not have the power to direct the operations and maintenance of the facilities, we determined we are not the primary beneficiary of these variable interest entities. At December 31, 2012, and December 31, 2011, the assets and liabilities on the balance sheets that related to our involvement with these variable interest entities pertained to working capital accounts and represented the amounts we owed for current deliveries of power. We have not guaranteed any debt or provided any equity support, liquidity arrangements, performance guarantees, or other commitments associated with these contracts. There is not a significant potential exposure to loss as a result of involvement with the variable interest entities.

NOTE 22—FAIR VALUE

Fair Value Measurements

The following tables show assets and liabilities that were accounted for at fair value on a recurring basis, categorized by level within the fair value hierarchy:

	December 31, 2012			
(Millions)	Level 1	Level 2	Level 3	Total
Assets				
Risk Management Assets				
Utility Segments				
Natural gas contracts	$ 0.3	$ 3.1	$ —	$ 3.4
Financial transmission rights (FTRs)	—	—	2.1	2.1
Petroleum product contracts	0.2	—	—	0.2
Coal contracts	—	—	2.5	2.5
Nonregulated Segments				
Natural gas contracts	21.4	36.4	5.4	63.2
Electric contracts	48.4	61.3	9.6	119.3
Total Risk Management Assets	$ 70.3	$ 100.8	$ 19.6	$ 190.7
Investment in exchange-traded funds	$ 11.8	$ —	$ —	$ 11.8
Liabilities				
Risk Management Liabilities				
Utility Segments				
Natural gas contracts	$ 1.1	$ 14.1	$ —	$ 15.2
FTRs	—	—	0.1	0.1
Coal contracts	—	—	9.0	9.0
Nonregulated Segments				
Natural gas contracts	17.7	36.9	1.5	56.1
Electric contracts	54.9	91.1	13.9	159.9
Total Risk Management Liabilities	$ 73.7	$ 142.1	$ 24.5	$ 240.3

(Millions)	December 31, 2011 Level 1	Level 2	Level 3	Total
Assets				
Risk Management Assets				
Utility Segments				
Natural gas contracts	$ 0.1	$ 9.1	$ —	$ 9.2
FTRs	—	—	2.3	2.3
Petroleum product contracts	0.1	—	—	0.1
Nonregulated Segments				
Natural gas contracts	50.7	104.1	8.7	163.5
Electric contracts	41.2	71.2	3.9	116.3
Foreign exchange contracts	—	0.2	—	0.2
Total Risk Management Assets	$ 92.1	$ 184.6	$ 14.9	$ 291.6
Investment in exchange-traded funds	$ 9.1	$ —	$ —	$ 9.1
Liabilities				
Risk Management Liabilities				
Utility Segments				
Natural gas contracts	$ 5.5	$ 39.2	$ —	$ 44.7
FTRs	—	—	0.1	0.1
Coal contract	—	—	6.9	6.9
Nonregulated Segments				
Natural gas contracts	55.0	105.6	0.4	161.0
Electric contracts	54.2	131.1 *	15.4	200.7
Foreign exchange contracts	0.2	—	—	0.2
Total Risk Management Liabilities	$ 114.9	$ 275.9	$ 22.8	$ 413.6

* Includes a $0.1 million risk management liability that was classified as held for sale at Integrys Energy Services. See Note 4, "*Dispositions*," for more information.

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

The following tables show net risk management assets (liabilities) transferred between the levels of the fair value hierarchy:

Nonregulated Segments – Natural Gas Contracts	December 31, 2012			December 31, 2011		
(Millions)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Transfers into Level 1 from	N/A	$ —	$ —	N/A	$ —	$ —
Transfers into Level 2 from	$ —	N/A	2.0	$ —	N/A	24.4
Transfers into Level 3 from	—	3.7	N/A	—	0.6	N/A

Nonregulated Segments – Electric Contracts	December 31, 2012			December 31, 2011		
(Millions)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Transfers into Level 1 from	N/A	$ —	$ —	N/A	$ —	$ (1.8)
Transfers into Level 2 from	$ —	N/A	(13.0)	$ 3.4	N/A	(18.4)
Transfers into Level 3 from	—	(7.9)	N/A	0.7	(6.6)	N/A

Derivatives are transferred between the levels of the fair value hierarchy primarily due to changes in the source of data used to construct price curves as a result of changes in market liquidity.

The significant unobservable inputs used in the valuation that resulted in categorization within Level 3 were as follows at December 31, 2012. The amounts and percentages listed in the table below represent the range of unobservable inputs that individually had a significant impact on the fair value determination and caused a derivative transaction to be classified as Level 3.

	Fair Value (Millions)				
	Assets	Liabilities	Valuation Technique	Unobservable Input	Average or Range
Utility Segments					
FTRs	$ 2.1	$ 0.1	Market-based	Forward market prices ($/megawatt-month) (1)	178.86
Coal contracts	2.5	9.0	Market-based	Forward market prices ($/ton) (2)	13.30 - 15.70
Nonregulated Segments					
Natural gas contracts	5.4	1.5	Market-based	Forward market prices ($/dekatherm) (3)	(0.08) – 2.22
				Probability of default	11.6% – 51.0%
Electric contracts	9.6	13.9	Market-based	Forward market prices ($/megawatt-hours) (3)	(4.65) – 7.26
				Option volatilities (4)	19.8% – 110.1%

(1) Represents forward market prices developed using historical cleared pricing data from MISO used in the valuation of FTRs.

(2) Represents third-party forward market pricing used in the valuation of our coal contracts.

(3) Represents unobservable basis spreads developed using historical settled prices that are applied to observable market prices at various natural gas and electric locations, as well as unobservable adjustments made to extend observable market prices beyond the quoted period through the end of the transaction term.

(4) Represents the range of volatilities used in the valuation of options.

Significant changes in historical settlement prices, forward commodity prices, and option volatilities would result in a directionally similar significant change in fair value. Significant changes in probability of default would result in a significant directionally opposite change in fair value. Changes in the adjustments to prices related to monthly curve shaping would affect fair value differently depending on their direction.

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

2012	Nonregulated Segments		Utility Segments		
(Millions)	Natural Gas	Electric	FTRs	Coal Contracts	Total
Balance at the beginning of the period	$ 8.3	$ (11.5)	$ 2.2	$ (6.9)	$ (7.9)
Net realized and unrealized gains (losses) included in earnings	3.8	(14.5) *	1.8	—	(8.9) *
Net unrealized gains recorded as regulatory assets or liabilities	—	—	0.2	5.8	6.0
Purchases	—	7.8	4.9	—	12.7
Sales	—	—	(0.1)	—	(0.1)
Settlements	(9.9)	8.8	(7.0)	(5.4)	(13.5)
Net transfers into Level 3	3.7	(7.9)	—	—	(4.2)
Net transfers out of Level 3	(2.0)	13.0	—	—	11.0
Balance at the end of the period	$ 3.9	$ (4.3)	$ 2.0	$ (6.5)	$ (4.9)
Net unrealized gains (losses) included in earnings related to instruments still held at the end of the period	$ 3.8	$ (14.5) *	$ —	$ —	$ (10.7) *

* Includes a $1.2 million net unrealized loss reported as discontinued operations. See Note 4, "*Dispositions,*" for more information.

2011	Nonregulated Segments		Utility Segments		
(Millions)	Natural Gas	Electric	FTRs	Coal Contract	Total
Balance at the beginning of the period	$ 30.2	$ (14.9)	$ 2.9	$ 2.5	$ 20.7
Net realized and unrealized gains (losses) included in earnings	32.3	(20.7) *	(1.7)	—	9.9 *
Net unrealized losses recorded as regulatory assets or liabilities	—	—	(1.7)	(8.0)	(9.7)
Net unrealized gains included in other comprehensive loss	—	0.6	—	—	0.6
Purchases	—	2.2	5.9	—	8.1
Sales	—	—	(0.1)	—	(0.1)
Settlements	(30.4)	7.0	(3.1)	(1.4)	(27.9)
Net transfers into Level 3	0.6	(5.9)	—	—	(5.3)
Net transfers out of Level 3	(24.4)	20.2	—	—	(4.2)
Balance at the end of the period	$ 8.3	$ (11.5)	$ 2.2	$ (6.9)	$ (7.9)
Net unrealized gains (losses) included in earnings related to instruments still held at the end of the period	$ 32.3	$ (20.7) *	$ —	$ —	$ 11.6 *

* Includes a $0.5 million net unrealized gain reported as discontinued operations. See Note 4, "*Dispositions,*" for more information.

2010	Nonregulated Segments		Utility Segments		
(Millions)	Natural Gas	Electric	FTRs	Coal Contract	Total
Balance at the beginning of the period	$ 31.4	$ 86.5	$ 3.5	$ —	$ 121.4
Net realized and unrealized gains (losses) included in earnings	38.9	(65.1) *	5.3	—	(20.9) *
Net unrealized (losses) gains recorded as regulatory assets or liabilities	—	—	(1.1)	2.5	1.4
Net unrealized losses included in other comprehensive loss	—	(3.1)	—	—	(3.1)
Net purchases and settlements	(41.0)	(43.7)	(4.8)	—	(89.5)
Net transfers into Level 3	1.7	(4.9)	—	—	(3.2)
Net transfers out of Level 3	(0.8)	15.4	—	—	14.6
Balance at the end of the period	$ 30.2	$ (14.9)	$ 2.9	$ 2.5	$ 20.7
Net unrealized gains (losses) included in earnings related to instruments still held at the end of the period	$ 38.9	$ (65.1) *	$ —	$ —	$ (26.2) *

* Includes a $2.1 million net unrealized gain reported as discontinued operations. See Note 4, "*Dispositions,*" for more information.

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

Fair Value of Financial Instruments

The following table shows the financial instruments included on our Balance Sheets that are not recorded at fair value:

	2012		2011	
(Millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 2,245.2	$ 2,425.8	$ 2,122.0 *	$ 2,281.5
Preferred stock of subsidiary	51.1	52.7	51.1	51.8

* Includes a $27.0 million loan classified as held for sale on our balance sheet related to the sale of WPS Westwood Generation, LLC. See Note 4, "Dispositions," and Note 12, "Long-term Debt," for more information.

The fair values of long-term debt instruments are estimated based on the quoted market price for the same or similar issues, or on the current rates offered to us for debt of the same remaining maturity. The fair values of preferred stock are estimated based on quoted market prices when available, or by using a perpetual dividend discount model. The fair values of long-term debt instruments and preferred stock are categorized within Level 2 of the fair value hierarchy.

Due to the short-term nature of cash and cash equivalents, accounts receivable, accounts payable, notes payable, and outstanding commercial paper, the carrying amount for each such item approximates fair value.

NOTE 23—ADVERTISING COSTS

Costs associated with certain natural gas and electric direct-response advertising campaigns at Integrys Energy Services were capitalized and reported as other long-term assets on the balance sheets. The capitalized costs result in probable future benefits and were incurred to solicit sales to customers who could be shown to have responded specifically to the advertising. Capitalized direct-response advertising costs, net of accumulated amortization, totaled $5.5 million and $3.4 million as of December 31, 2012 and 2011, respectively. The asset balances for each of the direct-response advertising cost pools are reviewed quarterly for impairment, and there was no impairment during the years ended December 31, 2012 and 2011.

Direct-response advertising costs are amortized to operating and maintenance expense over the estimated period of benefit, which is approximately two years. The amortization of direct-response advertising costs was $3.8 million and $1.5 million for the years ended December 31, 2012 and 2011, respectively. There was no amortization of direct-response advertising costs for the year ended December 31, 2010.

We expense all advertising costs as incurred, except for those capitalized as direct-response advertising, as discussed above. Other advertising expense was $7.1 million, $7.4 million, and $7.8 million for the years ended December 31, 2012, 2011, and 2010, respectively.

NOTE 24—MISCELLANEOUS INCOME

Total miscellaneous income was as follows at December 31:

(Millions)	2012	2011	2010	
Equity portion of AFUDC	$ 2.9	$ 0.7	$ 1.6	
Key executive life insurance income	2.6	2.3	3.1	
Interest and dividend income	0.7	1.0	3.7	
Gain (loss) on foreign currency translation	(0.4)	—	4.7	*
Other	3.5	1.3	0.2	
Total miscellaneous income	$ 9.3	$ 5.3	$ 13.3	

* The foreign currency translation gains that had accumulated in OCI were reclassified from OCI and reported in other income in 2010 when Integrys Energy Services substantially completed the liquidation of its Canadian subsidiaries.

NOTE 25—REGULATORY ENVIRONMENT

Wisconsin

2013 Rates

On December 6, 2012, the PSCW issued an order approving a settlement agreement for WPS, effective January 1, 2013. The settlement agreement includes a $28.5 million imputed retail electric rate increase, which will be partially offset by the actual 2012 fuel refund of $20.5 million. The difference between the 2012 fuel refund and the rate increase will be deferred for recovery in a future rate proceeding. As a result, there will be no change to customers' 2013 retail electric rates. The settlement agreement also includes a $3.4 million retail natural gas rate decrease. The 2013 electric and natural gas rates are subject to downward adjustment based on updated December 31, 2012, pension and benefit cost estimates, which will be filed with the PSCW by March 1, 2013. The settlement agreement reflects a 10.30% return on common equity and a common equity ratio of 51.61% in WPS's regulatory capital structure. In addition, WPS was authorized recovery of $5.9 million related to income tax amounts previously expensed due to the Federal Health Care Reform Act. As a result, this amount was recorded as a regulatory asset at December 31, 2012. The settlement agreement also authorized the recovery of direct Cross State Air Pollution Rule (CSAPR) costs incurred through the end of 2012. As of December 31, 2012, WPS had deferred $4.7 million of costs related to CSAPR. Lastly, the settlement agreement also authorized WPS to switch from production tax credits to Section 1603 Grants for the Crane Creek Wind Project.

Decoupling for natural gas and electric residential and small commercial and industrial customers was approved as part of the settlement agreement on a pilot basis for 2013. The mechanism does not adjust for variations in volumes resulting from changes in customer count compared to rate case levels, nor does it cover all customer classes. It is based on total rate case-approved margins, rather than being calculated on a per-customer basis. It will continue to include an annual $14.0 million cap for electric service and an annual $8.0 million cap for natural gas service. Amounts recoverable from or refundable to customers are subject to these caps and are included in rates upon approval in a rate order.

2012 Rates

On December 9, 2011, the PSCW issued a final written order for WPS, effective January 1, 2012. It authorized an electric rate increase of $8.1 million and required a natural gas rate decrease of $7.2 million. The electric rate increase was driven by projected increases in fuel and purchased power costs. However, to the extent that actual fuel and purchased power costs exceeded a 2% price variance from costs included in rates, they were deferred for recovery or refund in a future rate proceeding. The rate order allowed for the netting of the 2010 electric decoupling under-collection with the 2011 electric decoupling over-collection, and reflected reduced contributions to the Focus on Energy Program. The rate order also allowed for the deferral of direct CSAPR compliance costs, including carrying costs.

2011 Rates

On January 13, 2011, the PSCW issued a final written order for WPS authorizing an electric rate increase of $21.0 million, calculated on a per-unit basis. Although the rate order included a lower authorized return on common equity, lower rate base, and other reduced costs, which resulted in lower total revenues and margins, the rate order also projected lower total sales volumes, which led to a rate increase on a per-unit basis. The rate order also included a projected increase in customer counts that did not materialize, which impacted the decoupling calculation as it adjusted for differences between the actual and authorized margin per customer. The $21.0 million electric rate increase included $20.0 million of recovery of prior deferrals, the majority of which related to the recovery of the 2009 electric decoupling deferral. The $21.0 million excluded the impact of a $15.2 million estimated fuel refund (including carrying costs) from 2010. The rate order also required an $8.3 million decrease in natural gas rates, which included $7.1 million of recovery for the 2009 decoupling deferral. The new rates were effective January 14, 2011, and reflected a 10.30% return on common equity and a common equity ratio of 51.65% in WPS's regulatory capital structure.

The order also addressed the new Wisconsin electric fuel rule, which was finalized on March 1, 2011. The new fuel rule was effective retroactive to January 1, 2011. It requires the deferral of under or over-collections of fuel and purchased power costs that exceed a 2% price variance from the

cost of fuel and purchased power included in rates. Under or over-collections deferred in the current year will be recovered or refunded in a future rate proceeding.

Michigan

MGU Depreciation Case

In January 2013, the Michigan Court of Appeals issued an order reversing the MPSC's previously ordered disallowance of $2.5 million associated with the early retirement of certain MGU assets in 2010. As a result, MGU plans to modify its depreciation study currently pending before the MPSC to reflect recovery of these previously disallowed costs. The deadline to appeal the Michigan Court of Appeals' order is March 7, 2013.

2012 UPPCO Rates

On December 20, 2011, the MPSC issued an order approving a settlement agreement for UPPCO authorizing a retail electric rate increase of $4.2 million, effective January 1, 2012. The new rates reflect a 10.20% return on common equity and a common equity ratio of 54.90% in UPPCO's regulatory capital structure. The order states that if UPPCO files a rate case in 2013, the earliest effective date for new final rates or self-implemented rates is January 1, 2014. Additionally, the order required UPPCO to terminate its existing decoupling mechanism, effective December 31, 2011, and replace it with a new decoupling mechanism based on total margins, beginning January 1, 2013. The new decoupling mechanism does not cover variations in volumes due to actual weather being different from rate case-assumed weather. It includes an annual 1.5% cap based on distribution revenues approved in the rate case. UPPCO had no decoupling mechanism in place during 2012.

In April 2012, the State of Michigan Court of Appeals ruled in a Detroit Edison proceeding that the MPSC did not have authority to approve electric decoupling mechanisms. This decision was not appealed. As a result of this ruling, UPPCO expensed $1.5 million in the first quarter of 2012 related to electric decoupling amounts previously deferred for regulatory recovery. However, on August 14, 2012, the MPSC issued an order stating it had the authority to approve UPPCO's decoupling mechanism, as UPPCO's decoupling mechanism was authorized pursuant to an MPSC-approved settlement agreement. Therefore, in the third quarter of 2012, UPPCO reversed the $1.5 million previously expensed in the first quarter of 2012.

2011 UPPCO Rates

On December 21, 2010, the MPSC issued an order approving a settlement agreement for UPPCO authorizing a retail electric rate increase of $8.9 million, effective January 1, 2011. The new rates reflected a 10.30% return on common equity and a common equity ratio of 54.86% in UPPCO's regulatory capital structure. The order required UPPCO to terminate its uncollectibles expense tracking mechanism after the close of December 2010 business, but retained the decoupling mechanism. The uncollectibles expense tracking mechanism allowed for the deferral and subsequent recovery or refund of 80% of the difference between actual write-offs (net of recoveries) and bad debt expense included in utility rates.

Illinois

2013 Rate Cases

On July 31, 2012, PGL and NSG filed applications with the ICC to increase retail natural gas rates $78.3 million and $9.8 million, respectively, with rates expected to be effective in July 2013. Both PGL's and NSG's requests reflect a 10.75% return on common equity and a target common equity ratio of 50.00% in their regulatory capital structures.

In rebuttal testimony, the ICC Staff recommended rate increases of $14.9 million and $4.3 million for PGL and NSG, respectively, as well as a 9.06% return on common equity for both companies. Their recommendation also included a common equity ratio of 50.43% and 50.32% in PGL's and NSG's regulatory capital structures, respectively. Also in rebuttal testimony, the Illinois Attorney General recommended rate increases of $15.4 million and $2.6 million for PGL and NSG, respectively and assumed the existing approved return on equity for PGL and NSG. In surrebuttal testimony, PGL and NSG revised their requested natural gas rate increases to $97.8 million and $9.6 million, respectively, including a reduced requested return on common equity of 10.00%. The revised requests at PGL and NSG are primarily driven by increased costs due to new permitting and restoration requirements, as well as modifications in natural gas main and service pipe installation procedures.

2012 Rates

On January 10, 2012, the ICC issued a final order authorizing a retail natural gas rate increase of $57.8 million for PGL and $1.9 million for NSG, effective January 21, 2012. The rates for PGL reflected a 9.45% return on common equity and a common equity ratio of 49.00% in PGL's regulatory capital structure. The rates for NSG reflected a 9.45% return on common equity and a common equity ratio of 50.00% in NSG's regulatory capital structure. The rate order also approved a permanent decoupling mechanism.

The Illinois Attorney General appealed the ICC's approval of decoupling and filed a motion to stay the implementation of the permanent decoupling mechanism or make collections subject to refund. In May 2012, the ICC issued a revised amendatory order granting the Illinois Attorney General's motion to make revenues collected under the permanent decoupling mechanism subject to refund. Refunds would be required if the Illinois

Appellate Court (Court) finds that the ICC did not have the authority to approve decoupling and the Court orders a refund. As a result, the recovery of amounts related to decoupling is uncertain. Therefore, PGL and NSG reduced revenues by $13.2 million in the second quarter of 2012 related to decoupling amounts accrued for regulatory recovery as of March 31, 2012. These amounts and decoupling amounts accrued thereafter have a reserve established against them equal to the amount accrued. As of December 31, 2012, a reserve of $16.5 million was recorded. In November 2012, PGL and NSG filed briefs with the Court defending the authority of the ICC to approve the decoupling mechanism. Since the decoupling mechanism is still in place, PGL and NSG also intend to file with the ICC for rate recovery, beginning in April 2013, for amounts accrued related to decoupling.

Infrastructure Cost Recovery Rider (Rider ICR)

On January 21, 2010, the ICC approved Rider ICR, a mechanism for PGL to earn a return on and recover the costs, above an annual baseline, of the AMRP through a special charge on customers' bills. However, the Illinois Appellate Court, First District, reversed the ICC's approval of Rider ICR, concluding it was improper single issue ratemaking. The ICC subsequently issued a remand order requiring that PGL refund $2.3 million, over a nine-month period beginning in July 2012, in the form of a refund and reconciliation adjustment. A refund amount of $1.1 million was included in PGL's regulatory liabilities as of December 31, 2012.

Minnesota

2011 Rates

On July 13, 2012, the MPUC approved a written order for MERC authorizing a retail natural gas rate increase of $11.0 million, effective January 1, 2013. The new rates reflect a 9.70% return on common equity and a common equity ratio of 50.48% in MERC's regulatory capital structure. In addition, the order set recovery of MERC's 2011 test-year pension expense at 2010 levels. The MPUC also approved a decoupling mechanism for MERC that covers residential and small commercial and industrial customers on a three-year trial basis, effective January 1, 2013. The decoupling mechanism does not adjust for variations in volumes resulting from changes in customer count compared to rate case levels. It includes an annual 10% cap based on distribution revenues approved in the rate case. Amounts recoverable from or refundable to customers are subject to this cap.

Federal

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

Integrys Energy Services initially expensed the majority of the total $19.2 million of billings received during the transitional period. The remaining amount was considered probable of recovery due to inconsistencies between the FERC's SECA order and the transmission owners' FERC-ordered compliance filings. Integrys Energy Services protested the FERC’s SECA order, and in August 2006, the Administrative Law Judge hearing the case issued an Initial Decision that was in substantial agreement with all of Integrys Energy Services' positions. In May 2010, the FERC ruled favorably for Integrys Energy Services on two issues, but reversed the rulings of the Initial Decision on nearly every other substantive issue. Integrys Energy Services and numerous other parties filed for rehearing of the FERC's order on the Initial Decision, which the FERC denied on September 30, 2011. The FERC has yet to issue an order on the compliance filings made by the transmission owners. Integrys Energy Services has appealed the adverse FERC decision to the U.S. Court of Appeals for the D.C. Circuit. As a result of the rulings received from the FERC in May 2010, Integrys Energy Services had a $3.8 million receivable recorded at December 31, 2012.

In January 2013, Integrys Energy Services reached a settlement with American Electric Power Service Corporation (AEP), and filed a Joint Stipulation and Agreement (“Settlement Agreement”) with the FERC on January 10, 2013. If approved by the FERC, the Settlement Agreement will become effective on the date the FERC's order approving the Settlement Agreement becomes final and nonappealable. The Settlement Agreement provides that AEP would remit to Integrys Energy Services, in complete settlement of the matters at issue, a lump sum payment of $9.5 million within five business days of the effective date of the Settlement Agreement, and within five days of receipt of the lump sum payment, Integrys Energy Services would withdraw its petitions for review filed with the U.S. Court of Appeals for the D.C. Circuit.

NOTE 26—SEGMENTS OF BUSINESS

At December 31, 2012, we reported five segments, which are described below.

- The natural gas utility segment includes the regulated natural gas utility operations of MERC, MGU, NSG, PGL, and WPS.
- The electric utility segment includes the regulated electric utility operations of UPPCO and WPS.
- The electric transmission investment segment includes our approximate 34% ownership interest in ATC. ATC is a federally regulated electric transmission company with operations in Illinois, Michigan, Minnesota, and Wisconsin.
- Integrys Energy Services is a diversified nonregulated retail energy supply and services company that primarily sells electricity and natural gas in deregulated markets. In addition, Integrys Energy Services invests in energy assets with renewable attributes.
- The holding company and other segment includes the operations of the Integrys Energy Group holding company and the PELLC holding company, along with any nonutility activities at IBS, MERC, MGU, NSG, PGL, UPPCO, and WPS. The operations of ITF were included in this segment beginning on September 1, 2011, when we acquired Trillium USA and Pinnacle CNG Systems.

The tables below present information related to our reportable segments:

	Regulated Operations				Nonutility and Nonregulated Operations			
2012 *(Millions)*	Natural Gas Utility	Electric Utility	Electric Transmission Investment	Total Regulated Operations	Integrys Energy Services	Holding Company and Other	Reconciling Eliminations	Integrys Energy Group Consolidated
Income Statement								
External revenues	$ 1,662.1	$ 1,297.4	$ —	$ 2,959.5	$ 1,217.6	$ 35.3	$ —	$ 4,212.4
Intersegment revenues	9.9	—	—	9.9	0.9	1.9	(12.7)	—
Depreciation and amortization expense	131.8	89.0	—	220.8	10.3	20.1	(0.5)	250.7
Earnings from equity method investments	—	—	85.3	85.3	1.1	0.8	—	87.2
Miscellaneous income	0.6	2.6	—	3.2	1.1	20.9	(15.9)	9.3
Interest expense	47.3	35.9	—	83.2	2.1	50.8	(15.9)	120.2
Provision (benefit) for income taxes	61.4	49.4	32.9	143.7	25.8	(19.7)	—	149.8
Net income (loss) from continuing operations	94.0	110.4	52.4	256.8	52.6	(15.4)	—	294.0
Discontinued operations	—	—	—	—	(11.5)	1.8	—	(9.7)
Preferred stock dividends of subsidiary	(0.6)	(2.5)	—	(3.1)	—	—	—	(3.1)
Noncontrolling interest in subsidiaries	—	—	—	—	—	0.2	—	0.2
Net income (loss) attributed to common shareholders	93.4	107.9	52.4	253.7	41.1	(13.4)	—	281.4
Total assets	5,446.2	3,041.3	476.6	8,964.1	749.2	1,267.8	(653.7)	10,327.4
Cash expenditures for long-lived assets	375.1	163.9	—	539.0	30.9	24.4	—	594.3

2011 *(Millions)*	Regulated Operations				Nonutility and Nonregulated Operations			
	Natural Gas Utility	Electric Utility	Electric Transmission Investment	Total Regulated Operations	Integrys Energy Services	Holding Company and Other	Reconciling Eliminations	Integrys Energy Group Consolidated
Income Statement								
External revenues	$ 1,987.2	$ 1,307.3	$ —	$ 3,294.5	$ 1,372.0	$ 19.4	$ —	$ 4,685.9
Intersegment revenues	10.8	—	—	10.8	1.1	1.5	(13.4)	—
Depreciation and amortization expense	126.1	88.5	—	214.6	10.3	23.3	(0.5)	247.7
Earnings (losses) from equity method investments	—	—	79.1	79.1	(0.7)	1.0	—	79.4
Miscellaneous income	2.2	0.8	—	3.0	1.0	18.3	(17.0)	5.3
Interest expense	48.4	41.8	—	90.2	1.7	53.3	(17.0)	128.2
Provision (benefit) for income taxes	61.2	59.2	31.3	151.7	(7.7)	(10.7)	—	133.3
Net income (loss) from continuing operations	103.9	103.0	47.8	254.7	(7.1)	(17.6)	—	230.0
Discontinued operations	—	—	—	—	1.0	(0.5)	—	0.5
Preferred stock dividends of subsidiary	(0.6)	(2.5)	—	(3.1)	—	—	—	(3.1)
Net income (loss) attributed to common shareholders	103.3	100.5	47.8	251.6	(6.1)	(18.1)	—	227.4
Total assets	5,033.0	2,982.9	439.4	8,455.3	891.5	1,215.3	(578.9)	9,983.2
Cash expenditures for long-lived assets	199.3	84.1	—	283.4	16.7	10.0	—	310.1

2010 *(Millions)*	Regulated Operations				Nonutility and Nonregulated Operations			
	Natural Gas Utility	Electric Utility	Electric Transmission Investment	Total Regulated Operations	Integrys Energy Services	Holding Company and Other	Reconciling Eliminations	Integrys Energy Group Consolidated
Income Statement								
External revenues	$ 2,056.4	$1,312.1	$ —	$ 3,368.5	$ 1,789.1	$ 12.2	$ —	$ 5,169.8
Intersegment revenues	0.8	26.8	—	27.6	1.2	—	(28.8)	—
Net loss on Integrys Energy Services' dispositions related to strategy change	—	—	—	—	14.1	—	—	14.1
Depreciation and amortization expense	130.9	94.7	—	225.6	11.8	23.0	—	260.4
Earnings (losses) from equity method investments	—	—	77.6	77.6	(0.4)	1.0	—	78.2
Miscellaneous income	1.6	1.5	—	3.1	9.5	40.9	(40.2)	13.3
Interest expense	49.7	43.9	—	93.6	5.5	87.8	(40.2)	146.7
Provision (benefit) for income taxes	65.3	63.1	31.4	159.8	17.7	(15.2)	—	162.3
Net income (loss) from continuing operations	84.6	112.3	46.2	243.1	24.5	(22.4)	—	245.2
Discontinued operations	—	—	—	—	(21.5)	—	—	(21.5)
Preferred stock dividends of subsidiary	(0.6)	(2.5)	—	(3.1)	—	—	—	(3.1)
Noncontrolling interest in subsidiaries	—	—	—	—	0.3	—	—	0.3
Net income (loss) attributed to common shareholders	84.0	109.8	46.2	240.0	3.3	(22.4)	—	220.9
Total assets	4,828.1	2,929.8	416.3	8,174.2	1,234.8	1,666.7	(1,258.9)	9,816.8
Cash expenditures for long-lived assets	133.6	87.2	—	220.8	14.1	22.8	—	257.7

We had no international operating revenues for the years ended December 31, 2012, and 2011 and international operating revenues of $3.5 million for the year ended December 31, 2010. We had no international assets at December 31, 2012, 2011, and 2010.

NOTE 27—QUARTERLY FINANCIAL INFORMATION (Unaudited)

(Millions, except share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
2012					
Total revenues	$ 1,247.9	$ 839.6	$ 927.7	$ 1,197.2	$ 4,212.4
Operating income	153.1	87.1	108.5	118.8	467.5
Net income from continuing operations	98.8	51.7	74.3	69.2	294.0
Net income	99.7	49.6	66.3	68.7	284.3
Net income attributed to common shareholders	98.9	48.8	65.7	68.0	281.4
Earnings per common share (basic) *					
Net income from continuing operations	$ 1.25	$ 0.65	$ 0.94	$ 0.87	$ 3.70
Discontinued operations, net of tax	0.01	(0.03)	(0.10)	—	(0.12)
Earnings per common share (basic)	1.26	0.62	0.84	0.87	3.58
Earnings per common share (diluted) *					
Net income from continuing operations	1.24	0.65	0.93	0.86	3.67
Discontinued operations, net of tax	0.01	(0.03)	(0.10)	—	(0.12)
Earnings per common share (basic)	1.25	0.62	0.83	0.86	3.55
2011					
Total revenues	$ 1,620.8	$ 1,006.4	$ 931.4	$ 1,127.3	$ 4,685.9
Operating income	207.0	69.6	68.8	61.4	406.8
Net income from continuing operations	122.5	32.2	36.5	38.8	230.0
Net income	123.5	29.9	37.6	39.5	230.5
Net income attributed to common shareholders	122.7	29.1	36.9	38.7	227.4
Earnings per common share (basic) *					
Net income from continuing operations	$ 1.56	$ 0.40	$ 0.46	$ 0.48	$ 2.89
Discontinued operations, net of tax	0.01	(0.03)	0.01	0.01	—
Earnings per common share (basic)	1.57	0.37	0.47	0.49	2.89
Earnings per common share (diluted) *					
Net income from continuing operations	1.55	0.40	0.46	0.48	2.87
Discontinued operations, net of tax	0.01	(0.03)	0.01	0.01	—
Earnings per common share (basic)	1.56	0.37	0.47	0.49	2.87

* Earnings per share for the individual quarters do not total the year ended earnings per share amount because of changes to the average number of shares outstanding and changes in incremental issuable shares throughout the year. Earnings per share for the individual quarters differ by insignificant amounts from previously reported amounts due to the classification of certain asset groups as discontinued operations. See Note 4, "Dispositions," for more information.

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

I. REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENTS

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

We have audited the accompanying consolidated balance sheets of Integrys Energy Group, Inc. and subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2012. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Integrys Energy Group, Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Milwaukee, Wisconsin
February 28, 2013

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, including our 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 defined by Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, management, including our Chief Executive Officer and Chief Financial Officer, has concluded that Integrys Energy Group's disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control

There were no changes in our internal control over financial reporting (as defined by Securities Exchange Act Rules 13a-15(f) and 15d-15(f)) during the quarter ended December 31, 2012, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management Report on Internal Control over Financial Reporting

For Integrys Energy Group's Management Report on Internal Control over Financial Reporting, see Section A of Item 8.

Reports of Independent Registered Public Accounting Firm

For Integrys Energy Group's Reports of Independent Registered Public Accounting Firm, see Sections B and H of Item 8.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this Item regarding our directors, Section 16 compliance, and members of the Audit Committee and the Audit Committee financial expert can be found in our Proxy Statement for our Annual Meeting of Shareholders to be held May 16, 2013 (Proxy Statement), under the captions "Election of Directors," "Ownership of Voting Securities – Section 16(a) Beneficial Ownership Reporting Compliance," and "Board Committees," respectively. Such information is incorporated by reference as if fully set forth herein.

Information regarding our executive officers can be found in Item 1, "*Business – Executive Officers of Integrys Energy Group*."

We have a Code of Conduct, which serves as our Code of Business Conduct and Ethics. The Code of Conduct applies to all of our directors, officers, and employees, including the Chief Executive Officer, Chief Financial Officer, Corporate Controller, and any other persons performing similar functions. We have also adopted Corporate Governance Guidelines.

Our Code of Conduct, Corporate Governance Guidelines, and charters of our board committees may be accessed on our website at www.integrysgroup.com by selecting "Investors," then selecting "Corporate Governance," then selecting "Governance Documents." Amendments to, or waivers from, the Code of Conduct will be disclosed on the website within the prescribed time period.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item regarding compensation paid to our directors and our "named executive officers" in 2012 can be found in our Proxy Statement under the captions "Director Compensation," "Executive Compensation," and "Compensation Risk Assessment." Such information is incorporated by reference as if fully set forth herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this Item regarding our principal security holders and the security holdings of our directors and executive officers can be found in our Proxy Statement under the caption "Ownership of Voting Securities – Beneficial Ownership." Such information is incorporated by reference as if fully set forth herein.

Information required by this Item regarding our equity compensation plans can be found in our Proxy Statement under the caption "Ownership of Voting Securities – Equity Compensation Plan Information." Such information is incorporated by reference as if fully set forth herein.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this Item regarding our related person transactions and director independence can be found in our Proxy Statement under the captions "Election of Directors – Related Person Transaction Policy" and "Election of Directors – Director Independence," respectively. Such information is incorporated by reference as if fully set forth herein.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

For a summary of the fees billed to us (including our subsidiaries) by Deloitte & Touche LLP for professional services performed for 2012 and 2011 and the Audit Committee's preapproval policies and procedures, please see our Proxy Statement under the caption "Board Committees – Audit Committee." Such information is incorporated by reference as if fully set forth herein.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Documents filed as part of this report:

(1) Consolidated Financial Statements included in Part II at Item 8 above:

(2) Financial Statement Schedules.

The following financial statement schedules are included in Part IV of this report. Schedules not included herein have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(3) List of all exhibits, including those incorporated by reference.

See Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 28, 2013.

INTEGRYS ENERGY GROUP, INC.
(Registrant)

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 28, 2013.

Signature	Title
Keith E. Bailey *	Director
William J. Brodsky *	Director
Albert J. Budney, Jr. *	Director
Pastora San Juan Cafferty *	Director
Ellen Carnahan *	Director
Michelle L. Collins *	Director
Kathryn M. Hasselblad-Pascale *	Director
John W. Higgins *	Director
Paul W. Jones *	Director
Holly Keller Koeppel *	Director
Michael E. Lavin *	Director
William F. Protz, Jr. *	Director
Charles A. Schrock *	Director and Chairman
/s/ Charles A. Schrock Charles A. Schrock	Chairman, President and Chief Executive Officer (principal executive officer)
/s/ James F. Schott James F. Schott	Vice President and Chief Financial Officer (principal financial officer)
/s/ Linda M. Kallas Linda M. Kallas	Vice President and Corporate Controller (principal accounting officer)
* By: /s/ Linda M. Kallas Linda M. Kallas	Attorney-in-Fact

SCHEDULE I - CONDENSED
PARENT COMPANY FINANCIAL STATEMENTS
INTEGRYS ENERGY GROUP, INC. (PARENT COMPANY ONLY)

A. STATEMENTS OF INCOME

Year Ended December 31 (Millions, except per share data)	2012	2011	2010
Equity earnings (loss) in excess of dividends from subsidiaries	$ 168.5	$ (185.8)	$ 141.5
Dividends from subsidiaries	163.9	461.3	153.7
Income from subsidiaries	332.4	275.5	295.2
Investment income and other	21.2	24.2	29.9
Total income	353.6	299.7	325.1
Operating expense	6.0	5.9	6.3
Operating income	347.6	293.8	318.8
Interest expense	50.0	52.2	65.8
Income before taxes	297.6	241.6	253.0
Provision for income taxes	6.5	14.7	10.6
Net income from continuing operations	291.1	226.9	242.4
Discontinued operations from Parent Company, net of tax	1.4	(0.2)	—
Discontinued operations from subsidiaries, net of tax	(11.1)	0.7	(21.5)
Net income attributed to common shareholders	$ 281.4	$ 227.4	$ 220.9
Average shares of common stock			
Basic	78.6	78.6	77.5
Diluted	79.3	79.1	78.0
Earnings (loss) per common share (basic)			
Net income from continuing operations	$ 3.70	$ 2.89	$ 3.13
Discontinued operations, net of tax	(0.12)	—	(0.28)
Earnings per common share (basic)	$ 3.58	$ 2.89	$ 2.85
Earnings (loss) per common share (diluted)			
Net income from continuing operations	$ 3.67	$ 2.87	$ 3.11
Discontinued operations, net of tax	(0.12)	—	(0.28)
Earnings per common share (diluted)	$ 3.55	$ 2.87	$ 2.83
Dividends per common share declared	$ 2.72	$ 2.72	$ 2.72

The accompanying notes to Integrys Energy Group's parent company financial statements are an integral part of these statements.

B. STATEMENTS OF COMPREHENSIVE INCOME

Year Ended December 31 (Millions)	2012	2011	2010
Net income attributed to common shareholders	281.4	227.4	220.9
Other comprehensive income (loss), net of tax:			
Cash flow hedges			
Unrealized net gains (losses) arising during period, net of tax of $0.1 million, $(0.3) million, and $(6.5) million, respectively	(0.1)	0.3	0.4
Reclassification of net losses to net income, net of tax of $(1.0) million, $0.2 million, and $4.8 million, respectively	2.1	1.1	(5.0)
Cash flow hedges, net	2.0	1.4	(4.6)
Defined benefit pension plans			
Pension and other postretirement benefit costs arising during period, net of tax of $(0.9) million, $(0.7) million, and $ – million, respectively	0.9	—	(0.4)
Amortization of pension and other postretirement benefit costs included in net periodic benefit cost, net of tax of $0.4 million, $0.1 million, and $0.2 million, respectively	(0.1)	0.2	0.1
Defined benefit pension plans, net	0.8	0.2	(0.3)
Other comprehensive income (loss) from subsidiaries, net of tax	(1.2)	0.6	4.2
Other comprehensive income (loss), net of tax	1.6	2.2	(0.7)
Comprehensive income attributed to common shareholders	283.0	229.6	220.2

The accompanying notes to Integrys Energy Group's parent company financial statements are an integral part of these statements.

C. BALANCE SHEETS

At December 31 (Millions)	2012	2011
Assets		
Cash and cash equivalents	$ 2.6	$ 1.9
Accounts receivable from related parties	32.2	33.0
Interest receivable from related parties	4.7	4.9
Deferred income taxes	1.0	1.1
Notes receivable from related parties	34.5	22.4
Current portion of long-term receivable from related parties	72.0	—
Other current assets	39.4	70.4
Current assets	186.4	133.7
Total investments in subsidiaries, at equity	3,839.3	3,687.5
Notes receivable from related parties	171.2	243.9
Property and equipment, net of accumulated depreciation of $1.2 and $1.0, respectively	4.7	4.9
Receivables from related parties	17.3	17.8
Deferred income taxes	28.1	30.3
Other long-term assets	31.7	30.3
Total assets	$ 4,278.7	$ 4,148.4
Liabilities and Equity		
Short-term notes payable to related parties	$ 258.0	$ 181.8
Short-term debt	208.4	92.6
Current portion of long-term debt	—	100.0
Accounts payable to related parties	1.0	1.4
Interest payable to related parties	0.1	0.1
Accounts payable	0.6	1.1
Deferred income taxes	6.0	12.8
Other current liabilities	6.8	3.6
Current liabilities	480.9	393.4
Long-term notes payable to related parties	—	21.0
Long-term debt	674.7	674.6
Deferred income taxes	81.3	69.9
Payables to related parties	—	3.3
Other long-term liabilities	16.0	24.8
Long-term liabilities	772.0	793.6
Total common shareholders' equity	3,025.8	2,961.4
Total liabilities and equity	$ 4,278.7	$ 4,148.4

The accompanying notes to Integrys Energy Group's parent company financial statements are an integral part of these statements.

D. STATEMENTS OF CASH FLOWS

Year Ended December 31 (Millions)	2012	2011	2010
Operating Activities			
Net income	$ 281.4	$ 227.4	$ 220.9
Adjustments to reconcile net income to net cash provided by operating activities			
Discontinued operations, net of tax	9.7	(0.5)	21.5
Equity (income) loss from subsidiaries, net of dividends	(168.5)	185.8	(141.5)
Deferred income taxes	8.6	29.2	44.2
Other	4.2	3.5	21.0
Changes in working capital			
Accounts receivables	0.4	(0.6)	1.4
Accounts receivables from related parties	1.0	0.9	4.4
Receivable from related parties	—	13.8	(12.9)
Other current assets	29.0	12.8	(54.5)
Accounts payable	(0.5)	—	0.4
Accounts payable to related parties	(0.4)	(5.0)	(2.0)
Other current liabilities	(3.2)	15.9	5.5
Net cash provided by operating activities	161.7	483.2	108.4
Investing Activities			
Short-term notes receivable from related parties	(12.1)	33.3	(2.6)
Long-term notes receivable from related parties	—	(10.0)	(15.0)
Receivables from related parties	0.6	0.6	(14.2)
Equity contributions to subsidiaries	(89.9)	(63.2)	(57.8)
Return of capital from subsidiaries	110.5	229.8	78.0
Proceeds from sale of investment	—	—	0.4
Other	0.7	0.7	0.7
Net cash provided by (used for) investing activities	9.8	191.2	(10.5)
Financing Activities			
Commercial paper, net	115.8	92.6	(205.1)
Short-term notes payable to related parties	76.2	(305.2)	171.3
Repayment of long-term notes payable to related parties	(21.0)	(325.0)	—
Issuance of long-term debt	—	—	250.0
Repayment of long-term debt	(100.0)	(30.2)	(65.6)
Proceeds from stock option exercises	55.8	10.3	18.8
Shares purchased for stock-based compensation	(75.3)	(9.1)	(0.9)
Issuance of common stock	—	7.3	14.6
Dividends paid on common stock	(211.9)	(206.4)	(186.1)
Other	(10.4)	(7.4)	(13.3)
Net cash used for financing activities	(170.8)	(773.1)	(16.3)
Change in cash and cash equivalents	0.7	(98.7)	81.6
Cash and cash equivalents at beginning of year	1.9	100.6	19.0
Cash and cash equivalents at end of year	$ 2.6	$ 1.9	$ 100.6

The accompanying notes to Integrys Energy Group's parent company financial statements are an integral part of these statements.

SCHEDULE I - CONDENSED
PARENT COMPANY FINANCIAL STATEMENTS
INTEGRYS ENERGY GROUP, INC. (PARENT COMPANY ONLY)

E. NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

SUPPLEMENTAL NOTES

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation—For Parent Company only presentation, investments in subsidiaries are accounted for using the equity method. The condensed Parent Company financial statements and notes should be read in conjunction with the consolidated financial statements and notes of Integrys Energy Group appearing in this Form 10-K. The consolidated financial statements of Integrys Energy Group reflect certain businesses as discontinued operations. The condensed Parent Company statements of income and statements of cash flows report the earnings and cash flows of these businesses as discontinued operations.

(b) 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 Parent Company Statements of Cash Flows:

(Millions)	2012	2011	2010
Cash paid for interest	$ 44.4	$ 44.6	$ 37.0
Cash paid for interest – related parties	1.4	6.8	20.2
Cash (received) paid for income taxes	(24.1)	(46.3)	13.6

Significant noncash transactions were:

(Millions)	2012	2011	2010
Equity issued for reinvested dividends	$ —	$ 5.4	$ 22.6
Equity issued for stock-based compensation plans	—	10.6	3.0

The Issuance of common stock line item on the Parent Company Statements of Cash Flows does not agree to the Issuance of common stock line item on the Integrys Energy Group Consolidated Statements of Cash Flows. The Parent Company received cash from its subsidiaries and issued common stock to its subsidiaries to facilitate the employee stock option plan. These amounts were intercompany on the Integrys Energy Group Consolidated Statements of Cash Flows and eliminated.

NOTE 2—FAIR VALUE OF FINANCIAL INSTRUMENTS – RELATED PARTIES

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

	2012		2011	
(Millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term notes receivable from related parties	$ 171.2	$ 202.1	$ 243.9	$ 275.6
Current portion of long-term notes receivable from related parties	72.0	73.4	—	—
Long-term notes payable to related parties	—	—	21.0	21.0

NOTE 3—SHORT-TERM NOTES RECEIVABLE – RELATED PARTIES

(Millions)	2012	2011
UPPCO	$ 11.9	$ 7.7
MERC	15.2	14.7
ITF	7.4	—
Total	$ 34.5	$ 22.4

NOTE 4—LONG-TERM NOTES RECEIVABLE – RELATED PARTIES

(Millions)	Series	Year Due	2012	2011
WPS Leasing	8.76%	2015	$ 2.8	$ 3.1
	7.35%	2016	4.4	4.8
UPPCO	5.25%	2013	15.0	15.0
	6.059%	2017	15.0	15.0
	3.35%	2018	10.0	10.0
	5.041%	2020	15.0	15.0
MERC	6.03%	2013	29.0	29.0
	6.16%	2016	29.0	29.0
	6.40%	2021	29.0	29.0
MGU	5.72%	2013	28.0	28.0
	5.76%	2016	28.0	28.0
	5.98%	2021	28.0	28.0
IBS	6.865%	2014	10.0	10.0
Total			$ 243.2	$ 243.9

NOTE 5—SHORT-TERM NOTES PAYABLE – RELATED PARTIES

(Millions)	2012	2011
Integrys Energy Services	$ 49.4	$ 27.8
PELLC	201.6	142.4
IBS	7.0	11.6
Total	$ 258.0	$ 181.8

NOTE 6—LONG-TERM NOTES PAYABLE – RELATED PARTIES

(Millions)	2012	2011
Long-term notes to Integrys Energy Services due 2021 (1)	$ —	21.0
Total long-term notes payable – related parties	$ —	$ 21.0

(1) In November 2012, Integrys Energy Group repaid the $21.0 million long-term note payable to Integrys Energy Services.

SCHEDULE II
INTEGRYS ENERGY GROUP, INC.
VALUATION AND QUALIFYING ACCOUNTS

Allowance for Doubtful Accounts
Years Ended December 31, 2012, 2011, and 2010
(In Millions)

		Additions (Subtractions)			
Fiscal Year	Balance at Beginning of Year	Charged to Expense	Charged to Other Accounts (1)	Deductions (2)	Balance at End of Year
2010	$ 57.5	$ 48.0	$ (14.1)	$ 49.5	$ 41.9
2011	$ 41.9	$ 35.0	$ 1.5	$ 31.3	$ 47.1
2012	$ 47.1	$ 26.2	$ 4.8	$ 34.6	$ 43.5

(1) Represents additions (subtractions) charged to regulatory assets and amounts charged to tax liabilities related to revenue taxes and state use taxes uncollectible from customers.

(2) Represents amounts written off to the reserve, including any adjustments.

EXHIBIT INDEX

Set forth below is a list of all exhibits to this Annual Report on Form 10-K, including those incorporated by reference.

Certain other instruments, which would otherwise be required to be listed below, have not been listed as such instruments do not authorize long-term debt securities in an amount that exceeds 10% of the total assets of us and our subsidiaries on a consolidated basis. We agree to furnish a copy of any such instrument to the SEC upon request.

Explanatory Note: Certain exhibits listed below were entered into when we were known as WPS Resources Corporation but have been referred to below by reference to our current name.

Exhibit Number	Description of Documents
2.1*	Asset Contribution Agreement between ATC and Wisconsin Electric Power Company, Wisconsin Power and Light Company, WPS, Madison Gas & Electric Co., Edison Sault Electric Company, South Beloit Water, Gas and Electric Company, dated as of December 15, 2000. (Incorporated by reference to Exhibit 2A-3 to Integrys Energy Group's Form 10-K for the year ended December 31, 2000.)
2.2* #	Purchase and Sale Agreement between Integrys Energy Services, Inc., as Seller, and Macquarie Cook Power, Inc., as Purchaser, dated as of December 23, 2009. (Incorporated by reference to Exhibit 2.2 to Integrys Energy Group's Form 10-K/A filed April 23, 2010.)
2.3#	First Amendment to Purchase and Sale Agreement dated January 26, 2010, between Integrys Energy Services, Inc., as Seller, and Macquarie Cook Power, Inc., as Purchaser. (Incorporated by reference to Exhibit 2.3 to Integrys Energy Group's Form 10-K/A filed April 23, 2010.)
3.1	Restated Articles of Incorporation of Integrys Energy Group, as amended. (Incorporated by reference to Exhibit 3.2 to Integrys Energy Group's Form 8-K filed May 16, 2012.)
3.2	By-Laws of Integrys Energy Group, as amended through May 10, 2012. (Incorporated by reference to Exhibit 3.4 to Integrys Energy Group's Form 8-K filed May 16, 2012.)
4.1	Senior Indenture, dated as of October 1, 1999, between Integrys Energy Group and U.S. Bank National Association (successor to Firstar Bank Milwaukee, N.A., National Association) (Incorporated by reference to Exhibit 4(b) to Amendment No. 1 to Form S-3 filed October 21, 1999 [Reg. No. 333-88525]); First Supplemental Indenture, dated as of November 1, 1999 between Integrys Energy Group and Firstar Bank, National Association (Incorporated by reference to Exhibit 4A of Form 8-K filed November 12, 1999); Second Supplemental Indenture, dated as of November 1, 2002 between Integrys Energy Group and U.S. Bank National Association (Incorporated by reference to Exhibit 4A of Form 8-K filed November 25, 2002); Third Supplemental Indenture, dated as of June 1, 2009, by and between Integrys Energy Group and U.S. Bank National Association (Incorporated by reference to Exhibit 4.1 to Integrys Energy Group's Form 8-K filed June 17, 2009); Fourth Supplemental Indenture, dated as of June 1, 2009, by and between Integrys Energy Group (Incorporated by reference to Exhibit 4.2 to Integrys Energy Group's Form 8-K filed June 17, 2009); and Fifth Supplemental Indenture, dated as of November 1, 2010, by and between Integrys Energy Group and U.S. Bank National Association (Incorporated by reference to Exhibit 4 to Integrys Energy Group's Form 8-K filed November 15, 2010). All references to filings are those of Integrys Energy Group.
4.2	Subordinated Indenture, dated as of November 13, 2006, between Integrys Energy Group and U.S. Bank National Association, as trustee (Incorporated by reference to Exhibit 4(c) to Amendment No. 1 to Form S-3 filed December 4, 2006 [Reg. No. 333-133194]; and First Supplemental Indenture by and between Integrys Energy Group, Inc. and U.S. Bank National Association, as trustee, dated December 1, 2006. (Incorporated by reference to Exhibit 4 to Integrys Energy Group's Form 8-K filed December 1, 2006.)
4.3	Replacement Capital Covenant of Integrys Energy Group, Inc., dated December 1, 2010. (Incorporated by reference to Exhibit 99.1 to Integrys Energy Group Form 8-K filed November 15, 2010.)

4.4 First Mortgage and Deed of Trust, dated as of January 1, 1941, from WPS to U.S. Bank National Association (successor to First Wisconsin Trust Company), Trustee (Incorporated by reference to Exhibit 7.01 - File No. 2-7229); Supplemental Indenture, dated as of November 1, 1947 (Incorporated by reference to Exhibit 7.02 - File No. 2-7602); Supplemental Indenture, dated as of November 1, 1950 (Incorporated by reference to Exhibit 4.04 - File No. 2-10174); Supplemental Indenture, dated as of May 1, 1953 (Incorporated by reference to Exhibit 4.03 - File No. 2-10716); Supplemental Indenture, dated as of October 1, 1954 (Incorporated by reference to Exhibit 4.03 - File No. 2-13572); Supplemental Indenture, dated as of December 1, 1957 (Incorporated by reference to Exhibit 4.03 - File No. 2-14527); Supplemental Indenture, dated as of October 1, 1963 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Supplemental Indenture, dated as of June 1, 1964 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Supplemental Indenture, dated as of November 1, 1967 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Supplemental Indenture, dated as of April 1, 1969 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Fifteenth Supplemental Indenture, dated as of May 1, 1971 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Sixteenth Supplemental Indenture, dated as of August 1, 1973 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Seventeenth Supplemental Indenture, dated as of September 1, 1973 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Eighteenth Supplemental Indenture, dated as of October 1, 1975 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Nineteenth Supplemental Indenture, dated as of February 1, 1977 (Incorporated by reference to Exhibit 2.02B - File No. 2-65710); Twentieth Supplemental Indenture, dated as of July 15, 1980 (Incorporated by reference to Exhibit 4B to Form 10-K for the year ended December 31, 1980); Twenty-First Supplemental Indenture, dated as of December 1, 1980 (Incorporated by reference to Exhibit 4B to Form 10-K for the year ended December 31, 1980); Twenty-Second Supplemental Indenture dated as of April 1, 1981 (Incorporated by reference to Exhibit 4B to Form 10-K for the year ended December 31, 1981); Twenty-Third Supplemental Indenture, dated as of February 1, 1984 (Incorporated by reference to Exhibit 4B to Form 10-K for the year ended December 31, 1983); Twenty-Fourth Supplemental Indenture, dated as of March 15, 1984 (Incorporated by reference to Exhibit 1 to Form 10-Q for the quarter ended June 30, 1984); Twenty-Fifth Supplemental Indenture, dated as of October 1, 1985 (Incorporated by reference to Exhibit 1 to Form 10-Q for the quarter ended September 30, 1985); Twenty-Sixth Supplemental Indenture, dated as of December 1, 1987 (Incorporated by reference to Exhibit 4A-1 to Form 10-K for the year ended December 31, 1987); Twenty-Seventh Supplemental Indenture, dated as of September 1, 1991 (Incorporated by reference to Exhibit 4 to Form 8-K filed September 18, 1991); Twenty-Eighth Supplemental Indenture, dated as of July 1, 1992 (Incorporated by reference to Exhibit 4B - File No. 33-51428); Twenty-Ninth Supplemental Indenture, dated as of October 1, 1992 (Incorporated by reference to Exhibit 4 to Form 8-K filed October 22, 1992); Thirtieth Supplemental Indenture, dated as of February 1, 1993 (Incorporated by reference to Exhibit 4 to Form 8-K filed January 27, 1993); Thirty-First Supplemental Indenture, dated as of July 1, 1993 (Incorporated by reference to Exhibit 4 to Form 8-K filed July 7, 1993); Thirty-Second Supplemental Indenture, dated as of November 1, 1993 (Incorporated by reference to Exhibit 4 to Form 10-Q for the quarter ended September 30, 1993); Thirty-Third Supplemental Indenture, dated as of December 1, 1998 (Incorporated by reference to Exhibit 4D to Form 8-K filed December 18, 1998); Thirty-Fourth Supplemental Indenture, dated as of August 1, 2001 (Incorporated by reference to Exhibit 4D to Form 8-K filed August 24, 2001); Thirty-Fifth Supplemental Indenture, dated as of December 1, 2002 (Incorporated by reference to Exhibit 4D to Form 8-K filed December 16, 2002); Thirty-Sixth Supplemental Indenture, dated as of December 8, 2003 (Incorporated by reference to Exhibit 4.2 to Form 8-K filed December 9, 2003); Thirty-Seventh Supplemental Indenture, dated as of December 1, 2006 (Incorporated by reference to Exhibit 4.2 to Form 8-K filed November 30, 2006); Thirty-Eighth Supplemental Indenture, dated as of August 1, 2006 (Incorporated by reference to Exhibit 4.1 to Form 10-K for the year ended December 31, 2006); Thirty-Ninth Supplemental Indenture, dated as of November 1, 2007 (Incorporated by reference to Exhibit 4.2 to Form 8-K filed November 16, 2007); Fortieth Supplemental Indenture, dated as of December 1, 2008 (Incorporated by reference to Exhibit 4.2 to Form 8-K filed December 4, 2008); Forty-First Supplemental Indenture, dated as of December 18, 2008 (Incorporated by reference to Exhibit 4.1 to Form 10-Q filed May 6, 2010); 42nd Supplemental Indenture, dated as of April 25, 2010 (Incorporated by reference to Exhibit 4.2 to Form 10-Q filed May 6, 2010); and 43rd Supplemental Indenture, dated as of December 1, 2012 (Incorporated by reference to Exhibit 4.2 to Form 8-K filed November 29, 2012). All references to periodic reports are to those of WPS (File No. 1-3016).

4.5 Indenture, dated as of December 1, 1998, between WPS and U.S. Bank National Association (successor to Firstar Bank Milwaukee, N.A., National Association) (Incorporated by reference to Exhibit 4A to Form 8-K filed December 18, 1998); First Supplemental Indenture, dated as of December 1, 1998, between WPS and Firstar Bank Milwaukee, N.A., National Association (Incorporated by reference to Exhibit 4C to Form 8-K filed December 18, 1998); Second Supplemental Indenture, dated as of August 1, 2001, between WPS and Firstar Bank, National Association (Incorporated by reference to Exhibit 4C of Form 8-K filed August 24, 2001); Third Supplemental Indenture, dated as of December 1, 2002, between WPS and U.S. Bank National Association (Incorporated by reference to Exhibit 4C of Form 8-K filed December 16, 2002); Fourth Supplemental Indenture, dated as of December 8, 2003, by and between WPS and U.S. Bank National Association (successor to Firstar Bank, National Association and Firstar Bank Milwaukee, N.A., National Association) (Incorporated by reference to Exhibit 4.1 to Form 8-K filed December 9, 2003); Fifth Supplemental Indenture, dated as of December 1, 2006, by and between WPS and U.S. Bank National Association (successor to Firstar Bank, National Association and Firstar Bank Milwaukee, N.A., National Association) (Incorporated by reference to Exhibit 4.1 to Form 8-K filed November 30, 2006); Sixth Supplemental Indenture, dated as of December 1, 2006, by and between WPS and U.S. Bank National Association (successor to Firstar Bank, National Association and Firstar Bank Milwaukee, N.A., National Association) (Incorporated by reference to Exhibit 4.2 to Form 10-K for the year ended December 31, 2006); Seventh Supplemental Indenture, dated as of November 1, 2007, by and between WPS and U.S. Bank National Association (successor to Firstar Bank, National Association and Firstar Bank Milwaukee, N.A., National Association) (Incorporated by reference to Exhibit 4.1 to Form 8-K filed November 16, 2007); Eighth Supplemental Indenture, dated as of December 1, 2008, by and between WPS and U.S. Bank National Association (successor to Firstar Bank, National Association and Firstar Bank Milwaukee, N.A., National Association) (Incorporated by reference to Exhibit 4.1 to Form 8-K filed December 4, 2008); and Ninth Supplemental Indenture, dated as of December 1, 2012, by and between WPS and U.S. Bank National Association (successor to Firstar Bank, National Association and Firstar Bank Milwaukee, N.A., National Association) (Incorporated by reference to Exhibit 4.1 to Form 8-K filed November 29, 2012). References to periodic reports are to those of WPS (File No. 1-3016).

4.6	PGL First and Refunding Mortgage, dated January 2, 1926, from Chicago By-Product Coke Company to Illinois Merchants Trust Company, Trustee, assumed by PGL by Indenture dated March 1, 1928 (PGL - May 17, 1935, Exhibit B-6a, Exhibit B-6b A-2 File No. 2-2151, 1936); Supplemental Indenture dated as of May 20, 1936, (PGL - Form 8-K for the year 1936, Exhibit B-6f); Supplemental Indenture dated as of March 10, 1950 (PGL - Form 8-K for the month of March 1950, Exhibit B-6i); Supplemental Indenture dated as of June 1, 1951 (PGL - File No. 2-8989, Post-Effective, Exhibit 7-4(b)); Supplemental Indenture dated as of August 15, 1967 (PGL - File No. 2-26983, Post-Effective, Exhibit 2-4); Supplemental Indenture dated as of September 15, 1970 (PGL - File No. 2-38168, Post-Effective Exhibit 2-2); Supplemental Indenture dated June 1, 1995 (PGL - Form 10-K for fiscal year ended September 30, 1995); Supplemental Indenture, First and Refunding Mortgage Multi-Modal Bonds, Series HH of PGL, effective March 1, 2000 (PGL - Form 10-K for fiscal year ended September 30, 2000, Exhibit 4(b)); Supplemental Indenture dated as of February 1, 2003, First and Refunding Mortgage 5% Bonds, Series KK (PELLC and PGL - Form 10-Q for the quarter ended March 31, 2003, Exhibit 4(a)); Supplemental Indenture dated as of February 1, 2003, First and Refunding Mortgage Multi-Modal Bonds, Series LL (PELLC and PGL - Form 10-Q for the quarter ended March 31, 2003, Exhibit 4(b)); Supplemental Indenture dated as of February 15, 2003, First and Refunding Mortgage 4.00% Bonds, Series MM-1 and Series MM-2 (PELLC and PGL - Form 10-Q for the quarter ended March 31, 2003, Exhibit 4(c)); Supplemental Indenture dated as of April 15, 2003, First and Refunding Mortgage 4.625% Bonds, Series NN-1 and Series NN-2 (PELLC and PGL - Form 10-Q for the quarter ended March 31, 2003, Exhibit 4(e)); Supplemental Indenture dated as of October 1, 2003, First and Refunding Mortgage Bonds, Series OO (PELLC and PGL - Form 10-Q for the quarter ended December 31, 2003, Exhibit 4(a)); PGL Supplemental Indenture dated as of October 1, 2003, First and Refunding Mortgage Bonds, Series PP (PELLC and PGL - Form 10-Q for the quarter ended December 31, 2003, Exhibit 4(b)); PGL Supplemental Indenture dated as of November 1, 2003, First and Refunding Mortgage Multi-Modal Bonds, Series QQ (PELLC and PGL - Form 10-Q for the quarter ended December 31, 2003, Exhibit 4(c)); PGL Supplemental Indenture dated as of January 1, 2005, First and Refunding Mortgage Bonds, Series RR (PELLC and PGL - Form 10-Q for the quarter ended December 31, 2004, Exhibit 4(b)); Loan Agreement between PGL and Illinois Development Finance Authority dated October 1, 2003, Gas Supply Refunding Revenue Bonds, Series 2003C (PELLC and PGL - Form 10-Q for the quarter ended December 31, 2003, Exhibit 4(d)); Loan Agreement between PGL and Illinois Development Finance Authority dated October 1, 2003, Gas Supply Refunding Revenue Bonds, Series 2003D (PELLC and PGL - Form 10-Q for the quarter ended December 31, 2003, Exhibit 4(e)); Loan Agreement between PGL and Illinois Development Finance Authority dated November 1, 2003, Gas Supply Refunding Revenue Bonds, Series 2003E (PELLC and PGL - Form 10-Q for the quarter ended December 31, 2003, Exhibit 4(f)); Loan Agreement between PGL and Illinois Finance Authority dated as of January 1, 2005 (incorporated by reference to Exhibit 4(a) to PELLC Form 10-Q filed February 9, 2005); Supplemental Indenture dated as of November 1, 2008, First and Refunding Mortgage 7.00% Bonds, Series SS (incorporated by reference to Exhibit 4.11 to Integrys Energy Group's Form 10-K for the year ended December 31, 2008); Supplemental Indenture dated as of November 1, 2008, First and Refunding Mortgage 8.00% Bonds, Series TT (incorporated by reference to Exhibit 4.11 to Integrys Energy Group's Form 10-K for the year ended December 31, 2008); Supplemental Indenture dated as of September 1, 2009, First and Refunding Mortgage 4.63% Bonds, Series UU (incorporated by reference to Exhibit 4.11 to Integrys Energy Group's Form 10-K/A filed April 23, 2010); Supplemental Indenture dated as of August 1, 2010, First and Refunding Mortgage 2.125% Bonds, Series VV; Supplemental Indenture dated as of October 1, 2010, First and Refunding Mortgage 2.625% Bonds, Series WW; Supplemental Indenture dated as of November 1, 2011, First and Refunding Mortgage 2.21% Bonds, Series XX; and Supplemental Indenture dated as of December, 4, 2012, First and Refunding Mortgage 3.98% Bonds, Series YY.
4.7	NSG Indenture, dated as of April 1, 1955, from NSG to Continental Bank, National Association, as Trustee; Third Supplemental Indenture, dated as of December 20, 1963 (NSG - File No. 2-35965, Exhibit 4-1); Fourth Supplemental Indenture, dated as of May 1, 1964 (NSG - File No. 2-35965, Exhibit 4-1); Fifth Supplemental Indenture dated as of February 1, 1970 (NSG - File No. 2-35965, Exhibit 4-2); Ninth Supplemental Indenture dated as of December 1, 1987 (NSG - Form 10-K for the fiscal year ended September 30, 1987, Exhibit 4); Thirteenth Supplemental Indenture dated December 1, 1998 (NSG Gas - Form 10-Q for the quarter ended March 31, 1999, Exhibit 4); Fourteenth Supplemental Indenture dated as of April 15, 2003, First Mortgage 4.625% Bonds, Series N-1 and Series N-2 (Incorporated by reference to Exhibit 4(g) to PELLC Form 10-Q filed May 13, 2003); Fifteenth Supplemental Indenture dated as of November 1, 2008, First Mortgage 7.00% Bonds, Series O (Incorporated by reference to Exhibit 4.12 to Integrys Energy Group's Form 10-K for the year ended December 31, 2008); and Sixteenth Supplemental Indenture dated as of April 3, 2012, First Mortgage 3.43% Bonds, Series P.
10.1+	Form of Key Executive Employment and Severance Agreement entered into between Integrys Energy Group and Phillip M. Mikulsky. (Incorporated by reference to Exhibit 10.1 to Integrys Energy Group's Form 10-K for the year ended December 31, 2008.)
10.2+	Form of Key Executive Employment and Severance Agreement entered into between Integrys Energy Group and each of the following: Charles A. Schrock, Joseph P. O'Leary, Mark A. Radtke, Lawrence T. Borgard, and Daniel J. Verbanac. (Incorporated by reference to Exhibit 10.1 to Integrys Energy Group's Form 8-K filed May 12, 2010.)
10.3+	Integrys Energy Group Executive Change in Control Severance Plan applicable to the following: William D. Laakso and James F. Schott. (Incorporated by reference to Exhibit 10.3 to Integrys Energy Group's Form 10-K for the year ended December 31, 2010.)
10.4+	Form of Integrys Energy Group 2005 Omnibus Incentive Compensation Plan Performance NonQualified Stock Option Agreement approved December 7, 2005. (Incorporated by reference to Exhibit 10.1 to Integrys Energy Group's Form 8-K filed December 13, 2005.)
10.5+	Form of Integrys Energy Group 2005 Omnibus Incentive Compensation Plan Performance NonQualified Stock Option Agreement approved December 7, 2006. (Incorporated by reference to Exhibit 10.2 to Integrys Energy Group's Form 8-K filed December 13, 2006.)
10.6+	Form of Integrys Energy Group 2007 Omnibus Incentive Compensation Plan NonQualified Stock Option Agreement approved May 17, 2007. (Incorporated by reference to Exhibit 10.10 to Integrys Energy Group's Form 10-K for the year ended December 31, 2007.)
10.7+	Form of Integrys Energy Group 2007 Omnibus Incentive Compensation Plan Restricted Stock Unit Award Agreement approved February 14, 2008. (Incorporated by reference to Exhibit 10.9 to Integrys Energy Group's Form 10-K for the year ended December 31, 2007.)
10.8+	Form of Integrys Energy Group 2007 Omnibus Incentive Compensation Plan NonQualified Stock Option Agreement approved February 14, 2008. (Incorporated by reference to Exhibit 10.11 to Integrys Energy Group's Form 10-K for the year ended December 31, 2007.)
10.9+	Form of Integrys Energy Group, Inc. 2010 Omnibus Incentive Compensation Plan Performance Stock Right Agreement approved September 16, 2010. (Incorporated by reference to Exhibit 10.3 to Integrys Energy Group's Form 8-K filed September 22, 2010.)
10.10+	Form of Integrys Energy Group, Inc. 2010 Omnibus Incentive Compensation Plan Restricted Stock Unit Award Agreement approved September 16, 2010. (Incorporated by reference to Exhibit 10.4 to Integrys Energy Group's Form 8-K filed September 22, 2010.)
10.11+	Form of Integrys Energy Group, Inc. 2010 Omnibus Incentive Compensation Plan Nonqualified Stock Option Agreement approved September 16, 2010. (Incorporated by reference to Exhibit 10.5 to Integrys Energy Group's Form 8-K filed September 22, 2010.)
10.12+	Form of Integrys Energy Group, Inc. 2010 Omnibus Incentive Compensation Plan Performance Stock Right Agreement approved December 13, 2012.

10.13+	Form of Integrys Energy Group, Inc. 2010 Omnibus Incentive Compensation Plan Restricted Stock Unit Award Agreement approved December 13, 2012.

10.14+	Form of Integrys Energy Group, Inc. 2010 Omnibus Incentive Compensation Plan Nonqualified Stock Option Agreement approved December 13, 2012.
10.15+	Integrys Energy Group, Inc. Deferred Compensation Plan, as Amended and Restated Effective January 1, 2012. (Incorporated by reference to Exhibit 10.17 to Integrys Energy Group's Form 10-K for the year ended December 31, 2011, filed February 29, 2012.)
10.16+	Integrys Energy Group, Inc. Pension Restoration and Supplemental Retirement Plan, as Amended and Restated Effective January 1, 2011. (Incorporated by reference to Exhibit 10.2 to Integrys Energy Group's Form 8-K filed September 22, 2010.)
10.17+	Integrys Energy Group 2001 Omnibus Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.16 to Integrys Energy Group's Form 10-K for the year ended December 31, 2005, filed February 28, 2006.)
10.18+	Integrys Energy Group 2005 Omnibus Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.2 to Integrys Energy Group's Form 10-Q filed August 4, 2005.)
10.19+	Integrys Energy Group 2007 Omnibus Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.17 to Integrys Energy Group's Form 10-K for the year ended December 31, 2007.)
10.20+	Integrys Energy Group 2010 Omnibus Incentive Compensation Plan, as amended. (Incorporated by reference to Exhibit 10.22 to Integrys Energy Group's Form 10-K for the year ended December 31, 2011, filed February 29, 2012.)
10.21+	PELLC Directors Stock and Option Plan as amended December 4, 2002. (Incorporated by reference to Exhibit 10(g) to PELLC Form 10-Q, filed February 11, 2003 [File No. 1-05540].)
10.22+	PELLC Directors Deferred Compensation Plan as amended and restated April 7, 2004. (Incorporated by reference to Exhibit 10(a) to PELLC Form 10-Q filed August 4, 2005.)
10.23+	PELLC Executive Deferred Compensation Plan amended as of December 4, 2002. (Incorporated by reference to Exhibit 10(c) to PELLC Form 10-Q filed February 11, 2003.)
10.24+	PELLC 1990 Long-Term Incentive Compensation Plan as amended December 4, 2002. (Incorporated by reference to Exhibit 10(d) to Quarterly Report on Form 10-Q of PELLC for the quarterly period ended December 31, 2002, filed February 11, 2003 [File No. 1-05540].)
10.25+	Amended and Restated Trust under PELLC Directors Deferred Compensation Plan, Directors Stock and Option Plan, Executive Deferred Compensation Plan and Supplemental Retirement Benefit Plan, dated as of August 13, 2003. (Incorporated by reference to Exhibit 10(a) to PELLC Form 10-K for the fiscal year ended September 30, 2003.)
10.26+	Amendment Number One to the Amended and Restated Trust under PELLC Directors Deferred Compensation Plan, Directors Stock and Option Plan, Executive Deferred Compensation Plan and Supplemental Retirement Benefit Plan, dated as of July 24, 2006. (Incorporated by reference to Exhibit 10 (e) to PELLC Form 10-K for the fiscal year ended September 30, 2006.)
10.27	Five Year Credit Agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd.; Union Bank, N.A.; JPMorgan Chase Bank, N.A.; KeyBank National Association; Mizuho Corporate Bank Ltd.; The Bank of Nova Scotia; U.S. Bank National Association; and J.P. Morgan Securities LLC, dated as of June 13, 2012. (Incorporated by reference to Exhibit 10 to Integrys Energy Group's Form 8-K filed June 19, 2012.)
10.28	Three Year Credit Agreement with Citibank, N.A., The Bank of Nova Scotia and U.S. Bank National Association, Wells Fargo Bank, National Association, and Wells Fargo Securities, LLC and Citigroup Global Markets, Inc., dated as of May 17, 2011. (Incorporated by reference to Exhibit 10.1 to Integrys Energy Group's Form 8-K filed May 23, 2011.)
10.29	Five Year Credit Agreement with Citibank, N.A., The Bank of Nova Scotia and U.S. Bank National Association, Wells Fargo Bank, National Association, and Wells Fargo Securities, LLC and Citigroup Global Markets, Inc., dated as of May 17, 2011. (Incorporated by reference to Exhibit 10.2 to Integrys Energy Group's Form 8-K filed May 23, 2011.)
10.30* #	Joint Plant Agreement by and between WPS and Dairyland Power Cooperative, dated as of November 23, 2004. (Incorporated by reference to Exhibit 10.19 to Integrys Energy Group's and WPS's Form 10-K for the year ended December 31, 2004.)
21	Subsidiaries of Integrys Energy Group.
23.1	Consent of Independent Registered Public Accounting Firm for Integrys Energy Group.
23.2	Consent of Independent Registered Public Accounting Firm for American Transmission Company LLC.
24	Power of Attorney.
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.
99.1	Proxy Statement for Integrys Energy Group's 2013 Annual Meeting of Shareholders. [To be filed with the SEC under Regulation 14A within 120 days after December 31, 2012; except to the extent specifically incorporated by reference, the Proxy Statement for the 2013 Annual Meeting of Shareholders shall not be deemed to be filed with the SEC as part of this Annual Report on Form 10-K.]
99.2	Financial Statements of American Transmission Company LLC.

101	Financial statements from the Annual Report on Form 10-K of Integrys Energy Group, Inc. for the year ended December 31, 2012, filed on March 1, 2013 formatted in eXtensible Business Reporting Language (XBRL): (i) the Consolidated Statements of Income; (ii) the Consolidated Statements of Comprehensive Income; (iii) the Consolidated Balance Sheets; (iv) the Consolidated Statements of Equity; (v) the Consolidated Statements of Cash Flows; and (v) the Notes to Consolidated Financial Statements; and (vi) document and entity information.

* Schedules and exhibits to this document are not filed therewith. The registrant agrees to furnish supplementally a copy of any such schedule or exhibit to the SEC upon request.

\+ A management contract or compensatory plan or arrangement.

\# Portions of this exhibit have been redacted and are subject to a confidential treatment request filed with the Secretary of SEC pursuant to Rule 24b-2 under the Securities and Exchange Act of 1934, as amended. The redacted material was filed separately with the SEC.

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Section 2: EX-10.12 (EX-10.12)

Exhibit 10.12

INTEGRYS ENERGY GROUP, INC.
PERFORMANCE STOCK RIGHT AGREEMENT

You have been granted a Performance Stock Right with respect to shares of common stock of Integrys Energy Group, Inc. (the "Company") under the Integrys Energy Group, Inc. 2010 Omnibus Incentive Compensation Plan (the "Plan"). This Agreement sets forth the terms, rights and obligations of you and the Company with respect to your Performance Stock Right. This Agreement shall not become effective until you sign and return the "Acknowledgement Form" from this Agreement to Human Resources.

The Performance Stock Right is granted under, and is subject to, the terms of the Plan, which are specifically incorporated by reference in this Agreement. Any capitalized terms used in this Agreement which are not defined shall have the meaning set forth in the Plan.

1. Grant of Performance Stock Right. (a) Subject to the terms of this Agreement, the Company grants to you a Performance Stock Right representing shares ("Target Award"), of the common stock of the Company, par value $1.00 ("Common Stock"), in the event certain Performance Goals specified herein are satisfied. You obtain no ownership interest in the Company and will not be considered a shareholder of the Company by virtue of the grant of the Performance Stock Right hereunder until such time as Common Stock may be issued to you as a Final Award.

(b) In the event of certain corporate transactions described in Section 12 of the Plan, the number of shares of Common Stock represented by your Performance Stock Right will be adjusted by the Compensation Committee of the Board of Directors of the Company (the "Committee"). The Committee's determination as to any adjustment shall be final.

2. Performance Period. Subject to the provisions of Section 7, the Performance Period is the period from January 1, 2012 to December 31, 2014.

3. Performance Measures.

(a) Total Shareholder Return ("TSR"). TSR is the quotient obtained by dividing (1) the Shareholder Return with respect to a share of Common Stock, by (2) the Beginning Market Price of a share of Common Stock. For this purpose:

(1) The Shareholder Return means the cash dividends paid on a share of Common Stock during the Performance Period, increased by (if positive) or reduced by (if negative) the change in stock price from the Beginning Market Price of a share of Common Stock to the Ending Market Price of a share of Common Stock.

(2) The Beginning Market Price of a share of Common Stock is the average closing market price of a share of Common Stock for the 30 trading days immediately preceding the first day of the Performance Period as reported on the securities exchange on which such stock is principally traded.

(3) The Ending Market Price of a share of Common Stock is the average closing market price of a share of Common Stock for the 30 trading days ending on or immediately preceding the last day of the Performance Period as reported on the securities exchange on which such stock is principally traded.

(b) Comparison Group. Comparison Group means all utility industry companies in the Standard and Poor's 1500 Index on both the first day and the last day of the Performance Period.

4. Determination of Presumptive and Final Awards.

(a) Presumptive Award. As soon as practicable following the completion of the Performance Period, the Committee will determine the TSR of the Company and of each company in the Comparison Group. The Committee's determination will be final and binding on all persons. Your Presumptive Award shall be determined in accordance with the following table; provided that any fractional share of Common Stock that would otherwise result from the foregoing calculation shall be disregarded.

-

Company TSR In Relation to TSR of All Comparison Group Companies	Presumptive Award Equal to the Following Percentage of the Target Award*
90th Percentile or Greater	200%
75th Percentile	150%
50th Percentile	100%
25th Percentile	50%
Below the 25th Percentile	0%

*The Presumptive Award for TSR performance between points on the payout schedule will be interpolated.

(b) Final Award. The Presumptive Award is used as a guideline for the Committee in determining your Final Award, and you obtain no rights as a result of the determination of the Presumptive Award. In determining the Final Award to be made to you, the Committee, in its sole discretion, may increase or decrease the amount of the Presumptive Award; provided that the Committee will not increase the amount of your Presumptive Award if the Final Award is intended to comply with Section 162(m) of the Internal Revenue Code and if you are a Covered Executive (as defined in the Plan) for purposes of Section 162(m) of the Internal Revenue Code. Except with respect to the portion (if any) of the Final Award payment of which is deferred in accordance with the Integrys Energy Group, Inc. Deferred Compensation Plan, the Final Award will be distributed to you between January 1 and March 15 of the calendar year following the calendar year in which the Performance Period ends.

5. Dividend Equivalents. You will not receive any cash or other consideration to reflect dividends that would have been paid or accrued had the Performance Stock Right been actual shares of Stock either during the Performance Period or at any time prior to actual distribution of your Final Award.

6. Effect of Termination of Employment.

(a) Except as set forth in subsections (b) and (c) below and Section 7 below, or as otherwise determined by the Committee, your Performance Stock Right will be cancelled immediately and without notice to you, and no Final Award will be made, in the event you terminate employment from the Company and its Affiliates prior to the last day of the Performance Period.

(b) [Standard Paragraph (b) – For use with regular grants made in February or March of each year.] If your employment or service terminates prior to the last day of the Performance Period as a result of death or disability (as determined by the Committee based upon the definition set forth in the Company's long-term disability plan), your Performance Stock Right will not be cancelled (or will be only partially cancelled) upon termination of employment: (1) if your termination occurs on or after December 31 of the calendar year in which occurs the Grant Date of your Performance Stock Right, you (or your estate) may be eligible to receive a Final Award, determined in accordance with Section 4 and this Section 6, following the conclusion of the Performance Period, or (2) if your termination occurs prior to December 31 of the calendar year in which occurs the Grant Date of your Performance Stock Right, you (or your estate) may be eligible to receive a pro-rated Final Award, determined in accordance with Section 4 and this Section 6, following the conclusion of the Performance Period (and only the remainder of your Performance Stock Right will be cancelled). The pro-rated award for which you are eligible shall be equal to the Final Award to which you otherwise would have been entitled if employment had not terminated, multiplied by a fraction, the numerator of which is the number of full months of service that you completed during the calendar year in which occurs the Grant Date of your Performance Stock Right, and the denominator of which is twelve (12). If the foregoing calculation results in vesting of a fractional share, the number of shares included in your Final Award will be rounded to the next higher whole number of shares. Except with respect to the portion (if any) of the Final Award payment of which is deferred in accordance with the Integrys Energy Group, Inc. Deferred Compensation Plan, the Final Award will be distributed to you (or your estate) between January 1 and March 15 of the calendar year following the calendar year in which the Performance Period ends.

[Alternate Paragraph (b) – For use in mid-year special grants where proration based on the calendar year might result in substantial vesting shortly following the Grant Date. Under the alternate paragraph, proration is based on the number of months of employment completed during the one year period from the first day of the month in which occurs the Grant Date.] If your employment or service terminates prior to the last day of the Performance Period as a result of death or disability (as determined by the Committee based upon the definition set forth in the Company's long-term disability plan), your Performance Stock Right will not be cancelled (or will be only partially cancelled) upon termination of employment: (1) if your termination occurs on or after the first day of the twelfth (12th) month following the month in which occurs the Grant Date of your Performance Stock Right, you (or your estate) may be eligible to receive a Final Award, determined in accordance with Section 4 and this Section 6, following the conclusion of the Performance Period, or (2) if your termination occurs prior to the first day of the twelfth (12th) month following the month in which occurs the Grant Date of your Performance Stock Right, you (or your estate) may be eligible to receive a pro-rated Final Award, determined in accordance with Section 4 and this Section 6, following the conclusion of the Performance Period (and only the remainder of your Performance Stock Right will be cancelled). The pro-rated award for which you are eligible shall be equal to the Final Award to which you otherwise would have been entitled if employment had not terminated, multiplied by a fraction, the numerator of which is the number of full months of service that you completed during the twelve (12) month period that begins on the first day of the month following the month in which occurs the Grant Date of your Performance Stock Right, and the denominator of which is twelve (12). If the foregoing calculation results in vesting of a fractional share, the number of shares included in your Final Award will be rounded to the next higher whole number of shares. Except with respect to the portion (if any) of the Final Award payment of which is deferred in accordance with the Integrys Energy Group, Inc. Deferred Compensation Plan, the Final Award will be distributed to you (or your estate) between January 1 and March 15 of the calendar year following the calendar year in which the Performance Period ends.

(c) [Standard Paragraph (c) – For use with regular grants made in February or March of each year.] For purposes of this Agreement, “Retirement” means termination of your employment or service with the Company and its Affiliates, if the termination occurs on or after your attainment of age sixty-two (62) or the termination occurs on or after your attainment of age fifty-five (55) and completion of at least ten (10) years of vesting service (as defined in the 401(k) plan that is applicable to you) or if you are covered under a defined benefit pension plan maintained by the Company or an Affiliate, the termination qualifies you for retirement (as opposed to vested termination) benefits under such defined benefit pension plan. If your employment or service terminates prior to the last day of the Performance Period as a result of Retirement, your Performance Stock Right will not be cancelled (or will be only partially cancelled) upon termination of employment: (1) if your Retirement occurs on or after December 31 of the calendar year in which occurs the Grant Date of your Performance Stock Right,, you may be eligible to receive a Final Award, determined in accordance with Section 4 and this Section 6, following the conclusion of the Performance Period, and (2) if your Retirement occurs prior to December 31 of the calendar year in which occurs the Grant Date of your Performance Stock Right, you may be eligible to receive a pro-rated Final Award, determined in accordance with Section 4 and this Section 6, following the conclusion of the Performance Period (and only the remainder of your Performance Stock Right will be cancelled). The pro-rated award shall be equal to the Final Award to which you otherwise would have been entitled if employment had not terminated, multiplied by a fraction, the numerator of which is the number of full months of service that you completed during the calendar year in which occurs the Grant Date of your Performance Stock Right, and the denominator of which is twelve (12). If the foregoing calculation results in vesting of a fractional share, the number of shares included in your Final Award will be rounded to the next higher whole number of shares. Except with respect to the portion (if any) of the Final Award payment of which is deferred in accordance with the Integrys Energy Group, Inc. Deferred Compensation Plan, the Final Award will be distributed to you between January 1 and March 15 of the calendar year following the calendar year in which the Performance Period ends.

[Alternate Paragraph (c) – For use in mid-year special grants where proration based on the calendar year might result in substantial vesting shortly following the Grant Date. Under the alternate paragraph, proration is based on the number of months of employment completed during the one year period from the first day of the month in which occurs the Grant Date.] For purposes of this Agreement, “Retirement” means termination of your employment or service with the Company and its Affiliates, if the termination occurs on or after your attainment of age sixty-two (62) or the termination occurs on or after your attainment of age fifty-five (55) and completion of at least ten (10) years of vesting service (as defined in the 401(k) plan that is applicable to you) or if you are covered under a defined benefit pension plan maintained by the Company or an Affiliate, the termination qualifies you for retirement (as opposed to vested termination) benefits under such defined benefit pension plan. If your employment or service terminates prior to the last day of the Performance Period as a result of Retirement, your Performance Stock Right will not be cancelled (or will be only partially cancelled) upon termination of employment: (1) if your Retirement occurs on or after first day of the twelfth (12th) month following the month in which occurs the Grant Date of your Performance Stock Right,, you may be eligible to receive a Final Award, determined in accordance with Section 4 and this Section 6, following the conclusion of the Performance Period, and (2) if your Retirement occurs prior to first day of the twelfth (12th) month following the month in which occurs the Grant Date of your Performance Stock Right, you may be eligible to receive a pro-rated Final Award, determined in accordance with Section 4 and this Section 6, following the conclusion of the Performance Period (and only the remainder of your Performance Stock Right will be cancelled). The pro-rated award shall be equal to the Final Award to which you otherwise would have been entitled if employment had not terminated, multiplied by a fraction, the numerator of which is the number of full months of service that you completed during the twelve (12) month period that begins on the first day of the month following the month in which occurs the Grant Date of your Performance Stock Right, and the denominator of which is twelve (12). If the foregoing calculation results in vesting of a fractional share, the number of shares included in your Final Award will be rounded to the next higher whole number of shares. Except with respect to the portion (if any) of the Final Award payment of which is deferred in accordance with the Integrys Energy Group, Inc. Deferred Compensation Plan, the Final Award will be distributed to you between January 1 and March 15 of the calendar year following the calendar year in which the Performance Period ends.

7. <u>Change in Control</u>. In general, you may be entitled to a Final Award, even if not otherwise entitled to a Final Award in accordance with the Sections 4 and 6 above, if (1) a Change in Control (as defined in the Plan) has occurred and (2) your employment with the Company and its Affiliates has been involuntarily terminated for any reason other than Cause (or, if you have in effect with the Company or an Affiliate an employment, retention, change in control, severance or similar agreement that provides

for "good reason" termination and, in accordance with such agreement, you terminate employment or service for "good reason") within two (2) years following the date of the Change in Control. Your entitlement to a Final Award, and the amount and distribution of any Final Award to which you become entitled, shall be governed by the terms of Section 13(b) of the Plan; provided that distribution of any Final Award that becomes payable as a result of your termination of employment shall be distributed upon the earlier to occur of (1) the date distribution would otherwise have been made if your employment had continued, or (2) six (6) months following termination of your employment. In addition, if you terminated employment pursuant to Section 6 on account of death, disability or Retirement prior to the occurrence of the Change in Control, the Final Award attributable to your Performance Stock Right (or pro rated Performance Stock Right under Section 6) with respect to any Performance Period that has not been completed as of the date of the Change in Control shall be calculated as of the date of the Change in Control at the target level of performance (or, if greater, the then projected Final Award level). Distribution shall then be made upon the earlier to occur (1) if the Change in Control constitutes a "change in control event" within the meaning of Internal Revenue Code Section 409A, as soon as practicable (and not more than ninety (90) days) following the occurrence of such change in control event, or (2) the date on which distribution otherwise would have been made if the Change in Control did not occur. For purposes of this Section, your employment or service will be considered terminated if the Company determines that you have incurred a "separation from service" as such term is defined for purposes of Section 409A of the Internal Revenue Code, taking into account, in the case of an absence from service for disability, the maximum leave periods permitted under Internal Revenue Code Section 409A for disability leaves of absence. Notwithstanding anything in the Plan or this Agreement to the contrary, if at the time of a Change in Control, or at any other time, your Performance Stock Right is cancelled and converted to a cash value, and if such cancellation and conversion occurs prior to the date on which vested amounts are to be settled under this Agreement, the cash value of your cancelled and converted Performance Stock Right will accrue interest equivalent at the prime rate of interest from the cancellation and conversion date to the distribution date.

8. Tax Withholding. Upon the issuance of Common Stock pursuant to a Final Award or at any other time deemed necessary or appropriate by the Committee, the Company has the right and the authority to deduct or withhold from any compensation payable to you an amount sufficient to satisfy its withholding obligations under applicable tax laws or regulations. Alternatively, the Company may require that you deliver to the Company at the time the Company is obligated to withhold taxes such amount as the Company requires to meet its withholding obligation under applicable tax laws or regulations. The Company may also satisfy its withholding obligation, in whole or in part, by withholding (or requiring that you sell and remit to the Company the sale proceeds with respect to) a number of the shares of Common Stock included in any Final Award that have a Fair Market Value, as determined by the Committee, equal to the amount required to be withheld. The Fair Market Value of fractional shares of Stock remaining after withholding requirements are satisfied will be paid to you in cash or will be applied as additional tax withholding.

9. Miscellaneous.

(a) You (or your legal representatives, the executor of your estate or your heirs) shall not be deemed to be a shareholder of the Company with respect to the Performance Stock Right until shares of Common Stock have been issued pursuant to a Final Award and the Company's withholding tax liability has been satisfied, to the Committee's satisfaction.

(b) The Performance Stock Right shall not be transferable by you; provided that following your death, any Final Award made with respect to you will be paid to your estate or to such person as the executor of the estate certifies as being entitled to such payment as a result of the operation of your last will and testament or as a result of the laws of intestate succession. In addition, by accepting this award, you agree not to sell any shares of Common Stock delivered to you in connection with this Agreement at a time when applicable laws (including securities laws), Company or Affiliate policies or an agreement between the Company and its underwriters or other terms and conditions of the Plan prohibit a sale.

(c) It is fully understood that nothing contained in this Agreement or the Plan shall interfere with or limit in any way the right of the Company or any Affiliate to terminate your employment at any time nor confer upon you any right to continue in the employ of the Company or any Affiliate.

(d) As a condition of the granting of a Performance Stock Right under this Agreement, you agree, for yourself and your legal representatives or guardians, the executor of your estate, and your heirs, that the Plan and this Agreement shall be subject to discretionary interpretation by the Committee and that any interpretation by the Committee of the terms of the Plan and this Agreement shall be final, binding and conclusive. Neither you, your legal representatives, the executor of your estate or your heirs shall challenge or dispute the Committee's decisions.

(e) The existence of this Agreement or the Performance Stock Right herein granted shall not affect in any way the right or power of the Company or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred, or prior preference stock ahead of or affecting the Common Stock or the rights thereof, or dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(f) The Committee may modify the Performance Stock Right at any time. However, no modification, extension or renewal shall (1) confer on you any right or benefit which you would not be entitled to if a new Performance Stock Right were granted under the Plan at such time or (2) alter, impair or adversely affect the Performance Stock Right or this Agreement without your written consent; provided that the Committee need not obtain your written consent for a modification of the Performance Stock Right to the extent that the Plan specifically permits the Committee action or to the extent that the Committee deems such modification necessary to comply with any applicable law, the listing requirements of any principal securities exchange or market on which the shares underlying the Performance Stock Right are then traded, or to preserve favorable accounting or tax treatment of the Performance Stock Right for the Company; and provided further, that unless the Committee determines that a Performance Stock Right is not intended to comply with the requirements of Section 162(m) of the Internal Revenue Code, the Committee shall not take any such action with respect to you if you are a Covered Executive (as defined in the Plan) if such action would cause any Final Award granted to you to cease to qualify as "qualified performance-based compensation" for purposes of Section 162(m) of the Internal Revenue Code.

(g) No shares of Stock will be issued pursuant to a Final Award unless and until the Company has determined to its satisfaction that such issuance complies with all relevant provisions of applicable law, including the requirements of any stock exchange on which the Stock may then be traded.

(h) This Agreement may be executed in counterparts.

10. Governing Law. This Agreement shall be governed by the internal laws of the State of Illinois, without regard to the principle of conflict of laws, as to all matters, including, but not limited to, matters of validity, construction, effect, performance and remedies. No legal action or proceeding may be brought with respect to this Agreement more than one year after the later of (a) the last date on which the act or omission giving rise to the legal action or proceeding occurred; or (b) the date on which the individual bringing such legal action or proceeding had knowledge (or reasonably should have had knowledge) of such act or omission. Any such action or proceeding must be commenced and prosecuted in its entirety in the federal or state court having jurisdiction over Brown County, Wisconsin, or Cook County, Illinois, and each individual with any interest hereunder agrees to submit to the personal jurisdiction thereof, and agrees not to raise the objection that such courts are not a convenient forum. Such action or other legal proceeding shall be heard pursuant to a bench trial, and the parties to such proceeding shall waive their rights to a trial by jury.

11. Severability. In the event any provision of the Agreement is held illegal or invalid for any reason, the illegality or invalidity will not affect the remaining provisions of the Agreement, and the Agreement shall be construed and enforced as if the illegal or invalid provision had not been included.

INTEGRYS ENERGY GROUP, INC.

By:__
Title: Vice President – Human Resources

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Section 3: EX-10.13 (EX-10.13)

Exhibit 10.13

INTEGRYS ENERGY GROUP, INC.
2010 OMNIBUS INCENTIVE COMPENSATION PLAN
RESTRICTED STOCK UNIT AGREEMENT

You have been granted a Restricted Stock Unit ("RSU") award with respect to shares of common stock of Integrys Energy Group, Inc. (the "Company") under the Integrys Energy Group, Inc. 2010 Omnibus Incentive Compensation Plan (the "Plan") with the following terms and conditions. The common stock of the Company is referred to in this Agreement as the Common Stock. Your award will not become effective until you sign and return this Restricted Stock Unit Agreement to Human Resources.

Vesting Schedule: Twenty-five percent (25%) of your RSUs will vest on each of the first four anniversaries of the Grant Date (each, a "Vesting Date"), provided that you are continuously employed by the Company or an Affiliate from the Grant Date through such Vesting Date, as shown on the following schedule:

Amount	Vesting Date
25% of the RSUs	First anniversary of Grant Date
25% of the RSUs	Second anniversary of Grant Date
25% of the RSUs	Third anniversary of Grant Date
25% of the RSUs	Fourth anniversary of Grant Date

[Standard Paragraph #1 - For use with regular grants made in February or March of each year.]
If your employment or service terminates prior to a Vesting Date as a result of death or you become disabled (as determined by the Committee based upon the definition set forth in the Company's long term disability plan and provided that you are also disabled based on the definition set forth in Internal Revenue Code Section 409A), (1) if your termination or disability occurs on or after December 31 of the calendar year in which occurs the Grant Date, the RSUs will become fully vested on your date of termination or disability, and (2) if your termination or disability occurs prior December 31 of the calendar year in which occurs the Grant Date, you will become partially vested on your date of termination or disability, and the remaining RSUs will be forfeited. Your partially vested interest will be equal to the product obtained by multiplying the total number of your RSUs by a fraction, the numerator of which is the number of full months of service that you have completed during the calendar year in which occurs the Grant Date, and the denominator of which is twelve (12). If the foregoing calculation results in vesting of a fractional RSU, the number of RSUs that become vested will be rounded to the next higher whole number of RSUs.

[Alternate Paragraph #1 - For use in mid-year special grants where proration based on the calendar year might result in substantial vesting shortly following the Grant Date. Under the alternate paragraph, proration is based on the number of months of employment completed during the one year period from the first day of the month in which occurs the Grant Date.] If your employment or service terminates prior to a Vesting Date as a result of death or you become disabled (as determined by the Committee based upon the definition set forth in the Company's long term disability plan and provided that you are also disabled based o the definition set forth in Internal Revenue Code Section 409A), (1) if your termination or disability occurs on or after the first day of the twelfth (12th) month following the month in which occurs the Grant Date, the RSUs will become fully vested on your date of termination or disability, and (2) if your termination or disability occurs prior to the first day of the twelfth (12th) month following the month in which occurs the Grant Date, you will become partially vested on your date of termination or disability, and the remaining RSUs will be forfeited. Your partially vested interest will be equal to the product obtained by multiplying the total number of your RSUs by a fraction, the numerator of which is the number of full months of service that you have completed during the twelve (12) month period that begins on the first day of the month following the month in which occurs the Grant Date, and the denominator of which is twelve (12). If the foregoing calculation results in vesting of a fractional RSU, the number of RSUs that become vested will be rounded to the next higher whole number of RSUs.

[Standard Paragraph #2 - For use with regular grants made in February or March of each year.]
For purposes of this Agreement, “Retirement” means termination of your employment or service with the Company and its Affiliates, if the termination occurs on or after your attainment of age sixty-two (62) or the termination occurs on or after your attainment of age fifty-five (55) and completion of at least ten (10) years of vesting service (as defined in the 401(k) plan that is applicable to you) or if you are covered under a defined benefit pension plan maintained by the Company or an Affiliate, the termination qualifies you for retirement (as opposed to vested termination) benefits under such defined benefit pension plan. If your employment or service terminates prior to a Vesting Date as a result of Retirement, (1) if your Retirement occurs on or after December 31 of the calendar year in which occurs the Grant Date, your RSUs will continue to vest, subject to the terms of the Plan, on the same schedule as would have applied had you continued your employment, and (2) if your Retirement occurs prior to December 31 of the calendar year in which occurs the Grant Date, a portion of your RSUs will be immediately forfeited, and the remainder of your RSUs will continue to vest, subject to the terms of the Plan, on the same schedule as would have applied had you continued your employment; provided that under both clause (1) and (2), any RSUs that have not been forfeited will be immediately vested if you die after Retirement but prior to the scheduled Vesting Date or if you become entitled to settlement of your vested RSUs as a result of termination of your employment or service by reason of Retirement within two (2) years following the occurrence of a “change in control event” within the meaning of Internal Revenue Code Section 409A. The portion of your RSUs that are immediately forfeited will be equal to the product obtained by multiplying the total number of your RSUs by a fraction, the numerator of which is twelve (12) minus the number of full months of service that you have completed during the calendar year in which occurs the Grant Date, and the denominator of which is twelve (12). If the foregoing calculation results in vesting of a fractional RSU, the number of RSUs that become vested will be rounded to the next higher whole number of RSUs The number of RSUs available on each Vesting Date will be reduced by a pro rata portion of the total number of forfeited RSUs.

[Alternate Paragraph #2 - For use in mid-year special grants where proration based on the calendar year might result in substantial vesting shortly following the Grant Date. Under the alternate paragraph, proration is based on the number of months of employment completed during the one year period from the first day of the month in which occurs the Grant Date.] For purposes of this Agreement, “Retirement” means termination of your employment or service with the Company and its Affiliates, if the termination occurs on or after your attainment of age sixty-two (62) or the termination occurs on or after your attainment of age fifty-five (55) and completion of at least ten (10) years of vesting service (as defined in the 401(k) plan that is applicable to you) or if you are covered under a defined benefit pension plan maintained by the Company or an Affiliate, the termination qualifies you for retirement (as opposed to vested termination) benefits under such defined benefit pension plan. If your employment or service terminates prior to a Vesting Date as a result of Retirement, (1) if your Retirement occurs on or after the first day of the twelfth (12th) month following the month in which occurs the Grant Date, your RSUs will continue to vest, subject to the terms of the Plan, on the same schedule as would have applied had you continued your employment, and (2) if your Retirement occurs prior to the first day of the twelfth (12th) month following the month in which occurs the Grant Date, a portion of your RSUs will be immediately forfeited, and the remainder of your RSUs will continue to vest, subject to the terms of the Plan, on the same schedule as would have applied had you continued your employment; provided that under both clause (1) and (2), any RSUs that have not been forfeited will be immediately vested if you die after Retirement but prior to the scheduled Vesting Date or if you become entitled to settlement of your vested RSUs as a result of termination of your employment or service by reason of Retirement within two (2) years following the occurrence of a “change in control event” within the meaning of Internal Revenue Code Section 409A. The portion of your RSUs that are immediately forfeited will be equal to the product obtained by multiplying the total number of your RSUs by a fraction, the numerator of which is twelve (12) minus the number of full months of service that you have completed during the twelve (12) month period that begins on the first day of the month following the month in which occurs the Grant Date, and the denominator of which is twelve (12). If the foregoing calculation results in forfeiture of a fractional RSU, the number of RSUs that are forfeited will be rounded down to the next lower whole number of RSUs. The number of RSUs available on each Vesting Date will be reduced by a pro rata portion of the total number of forfeited RSUs.

In general, any RSUs that have not previously been forfeited will become fully vested, even if not otherwise vested in accordance with the vesting schedule above; if (1) a Change in Control (as defined in the Plan) has occurred and (2) your employment with the Company and its Affiliates has been involuntarily terminated for any reason other than Cause (or, if you have in effect with the Company or an Affiliate an employment, retention, change in control, severance or similar agreement that provides for “good reason” termination and, in accordance with such agreement, you terminate employment or service for “good reason”) within two years following the date of the Change in Control. The vesting of your RSUs following a Change in Control will be governed by the terms of the Plan.

Upon any other termination of employment or service, you will forfeit the RSUs that have not yet vested.

Settlement of Vested RSUs: Settlement of any RSUs that have become vested will occur on the earliest of the following dates:

1. The Vesting Date applicable to the RSUs if (a) you are continuously employed by the Company or an Affiliate from the Grant Date through the Vesting Date or (b) you would have been continuously employed by the Company or an Affiliate from the Grant Date through the Vesting Date except for your Retirement.

2. As soon as practicable (and not more than ninety (90) days) following your date of death.

3. Six (6) months following the date you become disabled (as defined above).

4. In the case of any termination of your employment or service in which you have vested RSUs (other than as a result of disability or death), the date that would have been the latest Vesting Date applicable to any of the RSUs if you had remained continuously employed by the Company or an Affiliate from the Grant Date through the Vesting Date (but not sooner than six (6) months from the termination of your employment or service); provided, that distribution of all vested RSUs shall be made six (6) months following termination of your employment or service, if such termination occurs within two (2) years following the occurrence of a "change in control event" within the meaning of Internal Revenue Code Section 409A.

Notwithstanding the foregoing, in the event of your Retirement prior to the occurrence of a "change in control event" within the meaning of Internal Revenue Code Section 409A, any RSUs not previously forfeited will be vested and settled as soon as practicable (and not more than ninety (90) days) following the occurrence of such "change in control event".

For purposes of this Agreement, your employment or service will be terminated if the Committee determines that you have incurred a "separation from service" as such term is defined for purposes of Section 409A of the Internal Revenue Code, taking into account, in the case of an absence from service for disability, the maximum leave periods permitted under Section 409A for disability leaves of absence.

Except as provided below or in the Plan, your vested RSUs will be settled by delivery to you or, in the case of your death, to your estate, of a certificate(s) or credit in book entry form, for the number of shares of Common Stock equal to the number of RSUs that are vested and that are to be settled on that date. Settlement will be made on or as soon as practicable following the specified settlement date.

The Fair Market Value of any fractional RSU, including any fractional RSU remaining after the satisfaction of withholding obligations (as determined as of the date the tax withholding is determined) will be paid to you in cash or will be applied as additional tax withholding at the time your RSUs are settled.

Notwithstanding anything to the contrary, settlement at the foregoing times is subject to any deferral election that you have made, if eligible.

Nature of RSUs:	Your RSUs are not actual shares of Common Stock. Each RSU represents the right to receive a share of Common Stock upon satisfaction of the terms and conditions of the Award, but the RSU is not itself Common Stock. No shares of Common Stock will be issued unless and until the Company has determined to its satisfaction that such issuance complies with all relevant provisions of applicable law, including the requirements of any stock exchange on which the shares may then be traded.
Transferability of RSUs:	You may not sell, transfer or otherwise alienate or hypothecate any of your RSUs. In addition, by accepting this Award, you agree not to sell any shares of Common Stock delivered to you in connection with this Award at a time when applicable laws (including securities laws), Company or Affiliate policies or an agreement between the Company and its underwriters or other terms and conditions of the Plan prohibit a sale.
Voting and Dividends:	Since the RSUs are not actual shares of Common Stock, you may not exercise voting rights, or receive dividends or other distributions paid with respect to Common Stock, until such time as you become vested and receive actual shares of Common Stock in settlement of your Award. However, you will receive a credit equivalent to any dividends or other distributions paid with respect to the Common Stock that you would have received had your RSUs been actual shares of Common Stock, so long as the applicable record date for such dividend or distribution occurs after the Grant Date and before you forfeit such RSUs. This credit will be made in the form of additional RSUs that will be subject to the same risk of forfeiture, restrictions on transferability, settlement and other terms of this Restricted Stock Unit Award Agreement as apply to the RSUs with respect to which the dividend or distribution credit was granted. In the case of any dividend or distribution other than a dividend or distribution that is paid in shares of Common Stock, the number of additional RSUs will be determined by dividing the dividend or distribution credit by the closing share price of a share of Common Stock, as reported on the New York Stock Exchange, on the dividend or distribution payment date. In the case of any such dividend or distribution that is paid in shares of Common Stock, the number of shares of Common Stock that you would have received as a result of such dividend or distribution had your RSUs been actual shares of Common Stock will constitute an equal number of additional RSUs. You will have no right to dividend or distribution credits that are paid with respect to Common Stock where the record date occurs on or after the date on which the RSUs have been settled or the date on which you have forfeited the RSUs.

Tax Withholding:	To the extent that the receipt or the vesting of the RSUs, or dividend and other distribution credits made with respect to the RSUs, or the transfer of Common Stock in settlement of your RSU Award, results in income to you for Federal, state or local income tax purposes or results in “wages” to you for FICA or other employment tax purposes, the Company has the right and the authority to deduct or withhold from any compensation payable to you an amount sufficient to satisfy its withholding obligations under applicable tax laws or regulations. Alternatively, the Company may require that you deliver to the Company at the time the Company is obligated to withhold taxes in connection with such receipt or vesting, as the case may be, such amount as the Company requires to meet its withholding obligation under applicable tax laws or regulations. The Company may also satisfy the withholding requirement, in whole or in part, by withholding for its own account that number of shares of Common Stock otherwise deliverable to you, or by reducing the number of RSUs credited to you, on the date the tax is to be determined having an aggregate Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax that the Company must withhold.
Powers of Company Not Affected:	The existence of this Agreement or the RSUs herein granted shall not affect in any way the right or power of the Company or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred, or prior preference stock ahead of or affecting the Common Stock or the rights thereof, or dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.
Employment:	The granting of RSUs under this Agreement shall not be construed as granting to you any right with respect to continued employment by the Company or an Affiliate.
Interpretation:	As a condition of the granting of this Award, you agree, for yourself and your legal representatives or guardians, the executor of your estate, and your heirs, that this Agreement shall be interpreted by the Committee and that any interpretation by the Committee of the terms of this Agreement or the Plan and any determination made by the Committee pursuant to this Agreement shall be final, binding and conclusive.
Assignment of Agreement:	You may not assign this Agreement, and any attempted assignment shall be null and void and of no legal effect.
Amendment or Modification:	No term or provision of this Agreement may be amended, modified or supplemented orally. Amendment, modification or supplementation can be accomplished only (a) by an instrument in writing signed by the party against whom or which the enforcement of the amendment, modification or supplement is sought, or (b) as otherwise provided in the Plan.
Recoupment and Clawback	As a condition of the granting of this Award, you agree, for yourself and your legal representative or guardians, the executor of your estate, and your heirs, that this Agreement, and any RSU or Stock issued or cash paid pursuant to this Agreement, shall be subject to any recoupment or clawback policy that may be adopted by the Company from time to time and to any requirement of applicable law, regulating or listing standard that requires the Company to recoup or claw back compensation paid pursuant to this Award.
Governing Law:	This Agreement shall be governed by the internal laws of the State of Illinois, without regard to the principle of conflict of laws, as to all matters, including, but not limited to, matters of validity, construction, effect, performance and remedies. No legal action or proceeding may be brought with respect to this Agreement more than one year after the later of (a) the last date on which the act or omission giving rise to the legal action or proceeding occurred; or (b) the date on which the individual bringing such legal action or proceeding had knowledge (or reasonably should have had knowledge) of such act or omission. Any such action or proceeding must be commenced and prosecuted in its entirety in the federal or state court having jurisdiction over Brown County, Wisconsin or Cook County, Illinois, and each individual with any interest hereunder agrees to submit to the personal jurisdiction thereof, and agrees not to raise the objection that such courts are not a convenient forum. Such action or other legal proceeding shall be heard pursuant to a bench trial, and the parties to such proceeding shall waive their rights to trial by jury.
Certain Corporate Transactions	Notwithstanding anything in the Plan or this Agreement to the contrary, if at the time of a Change in Control, or at any other time, your RSUs are cancelled and converted to a cash value, and if such cancellation and conversion occurs prior to the date on which vested amounts are to be settled under this Agreement, the cash value of your cancelled and converted RSUs will accrue interest equivalent at the prime rate of interest from the cancellation and conversion date to the settlement date.
Severability:	In the event any provision of this Restricted Stock Unit Award Agreement is held illegal or invalid for any reason, the illegality or invalidity will not affect the remaining provisions of the Agreement, and the agreement shall be construed and enforced as if the illegal or invalid provision had not been included.
Counterparts:	This Agreement may be executed in counterparts.

Terms of Plan Govern:	This Restricted Stock Unit Award is granted under and, except as specifically identified in this Agreement, governed by the terms and conditions of the Plan as amended and in effect from time to time. Additional provisions regarding your Award and definitions of capitalized terms used and not defined in this Award can be found in the Plan. If you are eligible for and make a timely election to defer the delivery of shares of Common Stock that otherwise would be deliverable to you in accordance with this Agreement, the shares of Common Stock that would otherwise be delivered to you under this Agreement but that you are eligible to and have elected to defer will continue to be held (even after you have become vested) as stock units that will be credited under and distributed in accordance with the terms of the Deferred Compensation Plan; provided that the vesting and forfeiture provisions set forth in this Agreement, and other terms and conditions of the Plan affecting outstanding Plan awards, will continue to apply to such stock units (and to any additional stock units that may be credited to you as a result of deemed dividends or other distributions) to the same extent as such provisions, terms and conditions apply to the RSUs.

INTEGRYS ENERGY GROUP, INC.

By:__
Title: Vice President – Human Resources

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Section 4: EX-10.14 (EX-10.14)

Exhibit 10.14

INTEGRYS ENERGY GROUP, INC.
NONQUALIFIED STOCK OPTION AGREEMENT

You have been granted a nonqualified stock option with respect to shares of common stock of Integrys Energy Group, Inc. (the "Company") under the Integrys Energy Group, Inc. 2010 Omnibus Incentive Compensation Plan (the "Plan") This Agreement sets forth the terms, rights and obligations of you and the Company with respect to the grant of this option. This option shall not become effective until you sign and return the "Acknowledgement Form" from this Agreement to Human Resources.

The option is granted under, and is subject to, the terms of the Plan, which are specifically incorporated by reference in this Agreement. Any capitalized terms used in this Agreement which are not defined shall have the meaning set forth in the Plan.

1. Grant of Option. Subject to the terms of this Agreement, the Company grants to you the right and option (the "Option") to purchase shares (the "Option") of the common stock of the Company, par value $1.00 (the "Optioned Shares") from the Company, at an option price per share equal to the closing sales price of a share of Common Stock of the Company as reported on the New York Stock Exchange Composite Transaction reporting system on the Grant Date.

In the event of certain corporate transactions described in Section 12 of the Plan, the number of Optioned Shares and the per share option price will be adjusted by the Compensation Committee of the Board of Directors of the Company (the "Committee"). The Committee's determination as to any adjustment shall be final.

2. Vesting of Option. The Optioned Shares will vest and become exercisable in accordance with the following schedule:

Percentage of Optioned Shares Vested	Date of Vesting
25%	1st anniversary of Grant Date
An additional 25%	2nd anniversary of Grant Date
An additional 25%	3rd anniversary of Grant Date
The final 25%	4th anniversary of Grant Date

provided, however, that, in the event of your termination of employment from the Company and its Affiliates for any reason, any Optioned Shares not vested as of the date of such termination will be cancelled, except as otherwise provided in this Section 2.

If the foregoing calculation results in vesting of a fractional Optioned Share, the number of Optioned Shares that become vested will be rounded to the next higher whole number of shares.

[Standard Paragraph #1 – For use with regular grants made in February or March of each year.] If your employment or service terminates as a result of death or disability (as determined by the Committee based upon the definition set forth in the Company's long-term disability plan), (1) if your termination occurs on or after December 31 of the calendar year in which occurs the Grant Date, the Optioned Shares will become fully vested on your date of termination, or (2) if your termination occurs prior to December 31 of the calendar year in which occurs the

Grant Date, you will become partially vested on the date of termination, and the remaining Optioned Shares will be cancelled. Your partially vested interest will be equal to the product obtained by multiplying the total number of Optioned Shares by a fraction, the numerator of which is the number of full months of service that you completed during the calendar year in which occurs the Grant Date and the denominator of which is twelve (12). If the foregoing calculation results in vesting of a fractional Optioned Share, the number of Optioned Shares that become vested will be rounded to the next higher whole number of shares.

[Alternate Paragraph #1 – For use in mid-year special grants where proration based on the calendar year might result in substantial vesting shortly following the Grant Date. Under the alternate paragraph, proration is based on the number of months of employment completed during the one year period from the first day of the month in which occurs the Grant Date.] If your employment or service terminates as a result of death or disability (as determined by the Committee based upon the definition set forth in the Company's long-term disability plan), (1) if your termination occurs on or after the first day of the twelfth (12th) month following the month in which occurs the Grant Date, the Optioned Shares will become fully vested on your date of termination, or (2) if your termination occurs prior to the first day of the twelfth (12th) month following the month in which occurs the Grant Date, you will become partially vested on the date of termination, and the remaining Optioned Shares will be cancelled. Your partially vested interest will be equal to the product obtained by multiplying the total number of Optioned Shares by a fraction, the numerator of which is the number of full months of service that you completed during the twelve (12) month period that begins on the first day of the month following the month in which occurs the Grant Date and the denominator of which is twelve (12). If the foregoing calculation results in vesting of a fractional Optioned Share, the number of Optioned Shares that become vested will be rounded to the next higher whole number of shares.

[Standard Paragraph #2 – For use with regular grants made in February or March of each year.] For purposes of this Agreement, “Retirement” means termination of your employment or service with the Company and its Affiliates, if the termination occurs on or after your attainment of age sixty-two (62) or the termination occurs on or after your attainment of age fifty-five (55) and completion of at least ten (10) years of vesting service (as defined in the 401(k) plan that is applicable to you) or if you are covered under a defined benefit pension plan maintained by the Company or an Affiliate, the termination qualifies you for retirement (as opposed to vested termination) benefits under such defined benefit pension plan. If your employment or service terminates as a result of Retirement, (1) if your Retirement occurs on or after December 31 of the calendar year in which occurs the Grant Date, the Optioned Shares will continue to vest, subject to the terms of the Plan, on the same schedule as would have applied had you continued employment, and (2) if your Retirement occurs prior to December 31 of the calendar year in which occurs the Grant Date, a portion of the Optioned Shares will be immediately forfeited, and the remainder of the Optioned Shares will continue to vest, subject to the terms of the Plan, on the same schedule as would have applied had you continued employment. The portion of the Optioned Shares that are immediately forfeited will be equal to the product obtained by multiplying the total number of Optioned Shares by a fraction, the numerator of which is twelve (12) minus the number of full months of service that you completed during the calendar year in which occurs the Grant Date and the denominator of which is twelve (12). If the foregoing calculation results in vesting of a fractional Optioned Share, the number of Optioned Shares that become vested will be rounded to the next higher whole number of shares. The number of Optioned Shares available for exercise on or after each vesting date will be reduced by a pro rata portion of the total number of forfeited Optioned Shares.

[Alternate Paragraph #2 – For use in mid-year special grants where proration based on the calendar year might result in substantial vesting shortly following the Grant Date. Under the alternate paragraph, proration is based on the number of months of employment completed during the one year period from the first day of the month in which occurs the Grant Date.] For purposes of this Agreement, “Retirement” means termination of your employment or service with the Company and its Affiliates, if the termination occurs on or after your attainment of age sixty-two (62) or the termination occurs on or after your attainment of age fifty-five (55) and completion of at least ten (10) years of vesting service (as defined in the 401(k) plan that is applicable to you) or if you are covered under a defined benefit pension plan maintained by the Company or an Affiliate, the termination qualifies you for retirement (as opposed to vested termination) benefits under such defined benefit pension plan. If your employment or service terminates as a result of retirement on or after age fifty-five (55) with ten (10) or more years of service, or Retirement, (1) if your Retirement occurs on or after the first day of the twelfth (12th) month following the month in which occurs the Grant Date, the Optioned Shares will continue to vest, subject to the terms of the Plan, on the same schedule as would have applied had you continued employment, and (2) if your Retirement occurs prior to the first day of the twelfth (12th) month following the month in which occurs the Grant Date, a portion of the Optioned Shares will be immediately forfeited, and the remainder of the Optioned Shares will continue to vest, subject to the terms of the Plan, on the same schedule as would have applied had you continued employment. The portion of the Optioned Shares that are immediately forfeited will be equal to the product obtained by multiplying the total number of Optioned Shares by a fraction, the numerator of which is twelve (12) minus the number of full months of service that you completed during the during the twelve (12) month period that begins on the first day of the month following the month in which occurs the Grant Date and the denominator of which is twelve (12). If the foregoing calculation results in vesting of a fractional Optioned Share, the number of Optioned Shares that become vested will be rounded to the next higher whole number of shares. The number of Optioned Shares available for exercise on or after each vesting date will be reduced by a pro rata portion of the total number of forfeited Optioned Shares.

Notwithstanding the vesting schedule described above, the Committee may extend the date(s) of vesting to a later date to take into account any period of the Optionee’s leave of absence, unless prohibited by law.

3. Exercise of Option. The Option, to the extent vested in accordance with Paragraph 2, may be exercised during the period beginning on the vesting date and ending on the earlier of:

a. the first anniversary of the date the Optionee’s employment with the Company and its Affiliates terminates for any reason other than Retirement, death or disability (as determined by the Committee based on the definition set forth in the Company’s long-term disability plan); or

b. in any other case, the 10th anniversary of the Grant Date.

During your life, the Option may be exercised only by you (or if you are incapacitated, by your legal representative). If you die before exercising all of the vested Option, the executor of the your estate (or by such person as the executor of the estate certifies as inheriting the Option as a result of the operation of your last will and testament or as a result of the laws of interstate succession) may exercise all or any portion of the vested Option that has not been exercised, during the exercise periods described above.

4. Change in Control. In general, the Option, to the extent then outstanding and unexercised, will become fully vested (if not previously vested) but shall otherwise be subject to the terms of the Plan, if (a) a Change in Control (as defined in the Plan) has occurred, and (b) your employment with the Company and its Affiliates has been involuntarily terminated for any reason other than Cause (or, if you have in effect with the Company or an Affiliate an employment, retention, change in control, severance or similar agreement that provides for “good reason” termination and, in accordance with such agreement, you terminate employment or service for “good reason”) within two (2) years following the date of the Change in Control. The vesting of Optioned Shares following a Change in Control shall be governed by the terms of Section 13(b) of the Plan.

5. Manner of Exercise and Payment. In order to exercise this Option, you (or such other person entitled to exercise the Option as provided in Paragraph 3) must provide a written or electronic notice to the Company or its designated agent stating that you (or such other eligible person) would like to exercise all or a portion of the Option and specifying the number of vested Optioned Shares which are being purchased. The exercise notice must be delivered (in person or by mail or by facsimile or by electronic transmission) to the Secretary of the Company or designated agent in such manner as the Secretary of the Company may prescribe.

Exercise of all or a portion of the Option must be accompanied by contemporaneous payment equal to the number of Optioned Shares being purchased multiplied by the option exercise price or, in the case of clause (d) below, appropriate documentation which will result in payment to the Company on the settlement date (i.e., T+3) equal to the number of Optioned Shares being purchased multiplied by the option exercise price. Subject to such rules and restrictions as the Committee may prescribe, payment may be made: (a) in cash or by certified check payable to the Company; (b) by delivering previously acquired shares of Common Stock, duly endorsed in blank or accompanied by stock powers duly endorsed in blank, with a fair market value at the time of exercise, as determined by the Committee, equal to the required payment amount; (c) by any combination of (a) and (b); or (d) by delivering to the Company or its designated agent an executed irrevocable option exercise form together with irrevocable instructions to a broker-dealer (or confirmation from a broker-dealer that it has received such instructions) to sell or margin a sufficient portion of the Optioned Shares to be exercised and to deliver the sale or margin proceeds directly to the Company to pay the option exercise price and tax withholding.

Option exercise notices postmarked (if mailed) or received by the Secretary of the Company or designated delegate (if by facsimile, hand-delivery or electronic transmission) at or prior to 11:59 p.m. (central time) of the date specified in Paragraph 3 shall be given effect. Any notice postmarked or received after such time shall be null and void.

6. Tax Withholding. Upon exercise of all or any part of the Option, the Company has the right and the authority to deduct or withhold from any compensation payable to you an amount sufficient to satisfy its withholding obligations under applicable tax laws or regulations. Alternatively, the Company may require that you deliver to the Company at the time the Company is obligated to withhold taxes such amount as the Company requires to meet its withholding obligation under applicable tax laws or regulations. The Company may also satisfy its withholding obligation,, in any other manner determined by the Committee. The Fair Market Value of fractional shares of Stock remaining after the withholding requirements are satisfied will be paid to you in cash or will be applied as additional tax withholding.

7. Miscellaneous.

(a) You (or your legal representatives, the executor of your estate or your heirs) shall not be deemed to be a shareholder of the Company with respect to any of the Optioned Shares being purchased until such shares are paid for in full, and the Company’s withholding tax liability is satisfied, to the Committee’s satisfaction.

(b) The Option shall not be transferable by you; provided that, following your death, the Option, to the extent exercisable in accordance with the terms of the Plan and this Agreement, may be exercised by the executor of the your estate (or by such person as the executor of the estate certifies as inheriting the Option as a result of the operation of your last will and testament or as a result of the laws of intestate succession). In addition, by accepting this award, you agree not to sell any shares delivered to you at a time when applicable laws (including securities laws), Company or Affiliate policy or an agreement between the Company and its underwriters or other terms and conditions of the Plan prohibit a sale.

(c) It is fully understood that nothing contained in this Agreement or the Plan shall interfere with or limit in any way the right of the Company or any Affiliate to terminate your employment at any time nor confer upon you any right to continue in the employ of the Company or any Affiliate.

(d) As a condition of the granting of this Option, you agree, for yourself and your legal representatives or guardians, the executor of your estate, and your heirs, that the Plan and this Agreement shall be subject to discretionary interpretation by the Committee and that any interpretation by the Committee of the terms of the Plan and this Agreement shall be final, binding and conclusive. Neither you, your legal representatives, the executor of your estate or you heirs shall challenge or dispute the Committee's decisions.

(e) The existence of this Agreement or Option herein granted shall not affect in any way the right or power of the Company or its shareholders to make or authorize any or all adjustments, recapitalizations, reorganizations or other changes in the Company's capital structure or its business, or any merger or consolidation of the Company, or any issuance of bonds, debentures, preferred, or prior preference stock ahead of or affecting the common stock or the rights thereof, or dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(f) The Committee may modify this Option at any time. However, no modification, extension or renewal shall (1) confer on you any right or benefit which you would not be entitled to if a new option was granted under the Plan at such time or (2) alter, impair or adversely affect this Option or the Agreement without your written consent; provided that the Committee need not obtain your written consent of the Optionee for a modification of the Option to the extent that the Plan specifically permits the Committee action or to the extent that the Committee deems such modification necessary to comply with any applicable law, the listing requirements of any principal securities exchange or market on which the shares underlying the Option are then traded, or to preserve favorable accounting or tax treatment of the Option for the Company.

(g) No individual may exercise the Option and no shares will be issued under this Agreement unless and until the Company has determined to its satisfaction that such exercise and issuance comply with all relevant provisions of applicable law, including the requirements of any stock exchange on which the shares may then be traded.

(h) This Agreement may be executed in counterparts.

(i) As a condition of the granting of this Option, you agree, for yourself and your legal representatives or guardians, the executor of your estate, and your heirs, that this Option and any Stock issued or cash paid pursuant to this Option shall be subject to any recoupment or clawback policy that may be adopted by the Company from time to time and to any requirement of applicable law, regulation or listing standard that requires the Company to recoup or claw back compensation paid pursuant to this Option.

8. Governing Law. This Agreement shall be governed by the internal laws of the State of Illinois, without regard to the principle of conflict of laws, as to all matters, including, but not limited to, matters of validity, construction, effect, performance and remedies. No legal action or proceeding may be brought with respect to this Agreement more than one year after the later of (a) the last date on which the act or omission giving rise to the legal action or proceeding occurred; or (b) the date on which the individual bringing such legal action or proceeding had knowledge (or reasonably should have had knowledge) of such act or omission. Any such action or proceeding must be commenced and prosecuted in its entirety in the federal or state court having jurisdiction over Brown County, Wisconsin or Cook County, Illinois, and each individual with any interest hereunder agrees to submit to the personal jurisdiction thereof, and agrees not to raise the objection that such courts are not a convenient forum. Such action or other legal proceeding shall be heard pursuant to a bench trial and, the parties to such proceeding shall waive their rights to a trial by jury.

9. Severability. In the event any provision of the Agreement is held illegal or invalid for any reason, the illegality or invalidity will not affect the remaining provisions of the Agreement, and the Agreement shall be construed and enforced as if the illegal or invalid provision had not been included.

INTEGRYS ENERGY GROUP, INC.

By:__
Title: Vice President – Human Resources

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Section 5: EX-21 (EX-21)

Exhibit 21

Affiliates and Subsidiaries of Integrys Energy Group, Inc.
December 31, 2012

INTEGRYS ENERGY GROUP, INC. (1) (2)

- Wisconsin Public Service Corporation (2)
  - WPS Leasing, Inc. (2)
  - Wisconsin Valley Improvement Company (27.1% ownership) (2)
  - Wisconsin River Power Company (50% ownership) (2)
  - WPS Investments, LLC (approximately 11.7% ownership) (2)
    - American Transmission Company LLC (approximately 34.07% ownership) (2)
  - ATC Management Inc. (32.16% ownership of Class A Shares) (2)

- WPS Investments, LLC (approximately 85.81% ownership) (2)
  - American Transmission Company LLC (approximately 34.07% ownership) (2)

- Michigan Gas Utilities Corporation (3)

- Minnesota Energy Resources Corporation (3)

- Integrys Business Support, LLC (3)

- Peoples Energy, LLC (4)
  - The Peoples Gas Light and Coke Company (4)
    - Peoples Gas Neighborhood Development Corporation (4)
  - North Shore Gas Company (4)
  - Peoples Energy Ventures, LLC (3)
    - Peoples Energy Neighborhood Development, LLC (3)
    - Peoples Technology, LLC (3)
  - Integrys Transportation Fuels, LLC (3)
    - Pinnacle CNG Company (5)
    - Pinnacle CNG Systems, LLC (5)
    - Trillium USA Company (3)
    - Trillium USA, LLC (3)
    - Integrys PTI CNG Fuels, LLC (50% ownership) (3)
    - AMP Trillium, LLC (30% ownership) (3)

- Upper Peninsula Power Company (6)
  - WPS Investments, LLC (approximately 2.49% ownership) (2)
    - American Transmission Company LLC (approximately 34.07% ownership) (2)
  - ATC Management Inc. (1.91% ownership of Class A Shares) (2)

- Integrys Energy Services, Inc. (2)
  - Integrys Energy Services – Natural Gas, LLC (3)
  - Integrys Energy Services – Electric, LLC (3)
  - Quest Energy, L.L.C. (6)
  - Integrys Energy Services of Canada Corp. (formed under Canadian law)
  - Integrys Energy Services of New York, Inc. (7)
  - PERC Holdings, LLC (3)
  - Solar Hold 2008-1, LLC (1% ownership) (3)

Affiliates and Subsidiaries of Integrys Energy Group, Inc.
December 31, 2012

Integrys Energy Services, Inc. continued

- WPS Power Development, LLC (2)
  - PDI Stoneman, Inc. (2)
  - Winnebago Energy Center LLC (3)
  - Wisconsin Woodgas LLC (2)
  - Wisconsin Energy Operations LLC (49% ownership) (2)
  - ECO Coal Pelletization #12 LLC (3)
  - Sunbury Holdings, LLC (3)
  - WPS Empire State, Inc. (7)
    - WPS Beaver Falls Generation, LLC (3)
    - WPS Syracuse Generation, LLC (3)
  - Combined Locks Energy Center, LLC (2)
  - Solar Hold 2008-1, LLC (99% ownership) (3)
    - Soltage-MAZ 700 Tinton Falls, LLC (99% ownership) (3)
    - Soltage-ADC 630 Jamesburg, LLC (99% ownership) (3)
    - Soltage-PLG 500 Millford, LLC (99% ownership) (3)
  - Integrys Solar, LLC (3)
    - INDU Solar Holdings, LLC (50% ownership) (3)
    - Sun Devil Solar LLC (3)
    - Gilbert Solar Facility I, LLC (3)
    - Solar Star California II, LLC (3)
    - Integrys NJ Solar, LLC (3)
    - Solar Star New Jersey VI, LLC (3)
    - Crimson Solar, LLC (3)
    - Camden Solar Center, LLC (8)
    - Hemlock Solar, LLC (3)
  - LGS Renewables I, LC (5)

WPS Visions, Inc. (2)

Penvest, Inc. (6)

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(1) Integrys Energy Group, Inc. is the parent holding company. All affiliated companies listed are 100% owned except as noted otherwise.
(2) Formed under Wisconsin law.
(3) Formed under Delaware law.
(4) Formed under Illinois law.
(5) Formed under Texas law.
(6) Formed under Michigan law.
(7) Formed under New York law.
(8) Formed under New Jersey law.

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Section 6: EX-23.1 (EX-23.1)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-183172 and 333-165162 on Form S-3, 333-136911 on Form S-4, and 333-168540, 333-150312, 333-150311, 333-140912, 333-127890, 333-127889, 333-81134, 333-71992, and 333-71990 on Form S-8 of our reports dated

February 28, 2013, relating to the consolidated financial statements and financial statement schedules of Integrys Energy Group, Inc. and subsidiaries, and the effectiveness of Integrys Energy Group, Inc. and subsidiaries' internal control over financial reporting, appearing in this Annual Report on Form 10-K of Integrys Energy Group, Inc. for the year ended December 31, 2012.

/s/ Deloitte & Touche LLP

Milwaukee, Wisconsin
February 28, 2013

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Section 7: EX-23.2 (EX-23.2)

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-183172 and 333-165162 on Form S-3, 333-136911 on Form S-4, and 333-150312, 333-150311, 333-140912, 333-71990, 333-71992, 333-81134, 333-168540, 333-127890, and 333-127889 on Form S-8 of Integrys Energy Group, Inc. of our report dated February 1, 2013, relating to the financial statements of American Transmission Company LLC, appearing in this Annual Report on Form 10-K of Integrys Energy Group, Inc. for the year ended December 31, 2012.

/s/ Deloitte & Touche LLP

Milwaukee, Wisconsin
February 28, 2013

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Section 8: EX-24 (EX-24)

Exhibit 24

POWER OF ATTORNEY

WHEREAS, INTEGRYS ENERGY GROUP, INC., a Wisconsin corporation, will file on or before the due date of March 1, 2013 with the Securities and Exchange Commission, under the provisions of the Securities Exchange Act of 1934, an annual report on Form 10-K, and

WHEREAS, each of the undersigned is a Director of Integrys Energy Group, Inc.;

NOW, THEREFORE, each of the undersigned hereby constitutes and appoints Charles A. Schrock, James F. Schott, Linda M. Kallas, and Jodi J. Caro or any one of them, as attorney, with full power to act for the undersigned and in the name, place and stead of the undersigned, to sign the name of the undersigned as Director to said annual report on Form 10-K and any and all amendments to said annual report, hereby ratifying and confirming all that said attorney may or shall lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, each of the undersigned has executed this document this 14th day of February, 2013.

/s/ Keith E. Bailey	/s/ John W. Higgins
Keith E. Bailey, Director	John W. Higgins, Director
/s/ William J. Brodsky	/s/ Paul W. Jones
William J. Brodsky, Director	Paul W. Jones, Director
/s/ Albert J. Budney, Jr.	/s/ Holly Keller Koeppel
Albert J. Budney, Jr., Director	Holly Keller Koeppel, Director

/s/ Pastora San Juan Cafferty	/s/ Michael E. Lavin
Pastora San Juan Cafferty, Director	Michael E. Lavin, Director
/s/ Ellen Carnahan	/s/ William F. Protz, Jr.
Ellen Carnahan, Director	William F. Protz., Jr., Director
/s/ Michelle L. Collins	/s/ Charles A. Schrock
Michelle L. Collins, Director	Charles A. Schrock, Director and Chairman
/s/ Kathryn M. Hasselblad-Pascale	
Kathryn M. Hasselblad-Pascale, Director	

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Section 9: EX-31.1 (EX-31.1)

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 Annual Report on Form 10-K 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: February 28, 2013

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

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Section 10: EX-31.2 (EX-31.2)

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, James F. Schott, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: February 28, 2013

/s/ James F. Schott

James F. Schott

Vice President and Chief Financial Officer

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Section 11: EX-32 (EX-32)

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 Annual Report on Form 10-K of the Company for the year ended December 31, 2012 (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/ James F. Schott

James F. Schott

Vice President and Chief Financial Officer

Date: February 28, 2013

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by Integrys Energy Group, Inc. for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to Integrys Energy Group, Inc. and will be retained by Integrys Energy Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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Section 12: EX-99.2 (EX-99.2)

Exhibit 99.2

AMERICAN TRANSMISSION COMPANY LLC

Financial Statements as of December 31, 2012 and 2011 and for the Years Ended December 31, 2012, 2011 and 2010 and Report of Independent Registered Public Accounting Firm

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American Transmission Company LLC

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Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of ATC Management Inc.,
Corporate Manager of American Transmission Company LLC
Pewaukee, Wisconsin

We have audited the accompanying balance sheets of American Transmission Company LLC (the "Company") as of December 31, 2012 and 2011, and the related statements of operations, changes in members' equity, and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the three years ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

Milwaukee, Wisconsin
February 1, 2013

American Transmission Company LLC

Statements of Operations
For the Years Ended December 31, 2012, 2011 and 2010

(In Thousands)	**2012**	**2011**	**2010**
Operating Revenues			
Transmission Service Revenue	$ 602,092	$ 565,968	$ 555,443
Other Operating Revenue	1,162	1,206	1,298
Total Operating Revenues	603,254	567,174	556,741
Operating Expenses			
Operations and Maintenance	158,271	147,121	136,619
Depreciation and Amortization	107,230	100,247	95,898
Taxes Other than Income	15,769	15,963	17,106
Income Tax Provision of ATC LLC	(271)	(1,763)	1,497
Total Operating Expenses	280,999	261,568	251,120
Operating Income	322,255	305,606	305,621
Other Expense, Net	2,533	1,332	885

Earnings Before Interest and Members' Income Taxes	319,722	304,274	304,736
Net Interest Expense	82,296	80,359	85,067
Earnings Before Members' Income Taxes	$ 237,426	$ 223,915	$ 219,669

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

American Transmission Company LLC

Balance Sheets
As of December 31, 2012 and 2011

(In Thousands)	2012	2011
ASSETS		
Property, Plant and Equipment		
Transmission Plant	$ 3,771,745	$ 3,574,786
General Plant	92,303	81,579
Less- Accumulated Depreciation	(877,539)	(823,780)
	2,986,509	2,832,585
Construction Work in Progress	269,501	207,554
Net Property, Plant and Equipment	3,256,010	3,040,139
Current Assets		
Cash and Cash Equivalents	117	159
Accounts Receivable	56,519	52,286
Prepaid Expenses	4,619	4,681
Other Current Assets	1,879	1,545
Total Current Assets	63,134	58,671
Regulatory and Other Assets		
Equity Investment in Unconsolidated Subsidiary	776	—
Regulatory Assets	7,329	1,915
Other Assets	10,589	11,688
Regulatory and Other Assets	18,694	13,603
Total Assets	$ 3,337,838	$ 3,112,413
CAPITALIZATION AND LIABILITIES		
Capitalization		
Members' Equity (see Note 3 for redemption provisions)	$ 1,440,468	$ 1,331,288
Long-term Debt	1,550,000	1,400,005
Total Capitalization	2,990,468	2,731,293
Current Liabilities		
Accounts Payable	18,020	19,121
Accrued Interest	22,033	20,704
Other Accrued Liabilities	37,452	49,315
Current Portion of Regulatory Liabilities	7,475	13,230
Short-term Debt	166,561	184,343
Current Portion of Advances Under Interconnection Agreements	—	11,760
Total Current Liabilities	251,541	298,473
Regulatory and Other Long-term Liabilities		
Regulatory Liabilities	83,140	74,553
Other Long-term Liabilities	12,689	8,094
Total Regulatory and Other Long-term Liabilities	95,829	82,647
Commitments and Contingencies (See Note 7)	—	—
Total Capitalization and Liabilities	$ 3,337,838	$ 3,112,413

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

American Transmission Company LLC

Statements of Cash Flows
For the Years Ended December 31, 2012, 2011 and 2010

(In Thousands)	2012	2011	2010
Cash Flows from Operating Activities			
Earnings Before Members' Income Taxes	$ 237,426	$ 223,915	$ 219,669
Adjustments to Reconcile Earnings Before Members' Income Taxes to Net Cash Provided by Operating Activities-			
Depreciation and Amortization	107,230	100,247	95,898
Bond Discount and Debt Issuance Cost Amortization	458	584	1,110
Provision for Deferred Income Taxes of ATC LLC, Net	—	(2,070)	1,021
Equity Loss in Unconsolidated Subsidiary Investment	1,574	—	—
Change in-			
Accounts Receivable	(5,597)	(3,275)	(1,373)
Current Assets	(679)	5,119	(1,995)
Accounts Payable	813	(83)	837
Accrued Liabilities	(3,627)	4,263	7,270
Other, Net	(11,951)	(1,186)	7,505
Total Adjustments	88,221	103,599	110,273
Net Cash Provided by Operating Activities	325,647	327,514	329,942
Cash Flows from Investing Activities			
Capital Expenditures for Property, Plant and Equipment	(315,808)	(250,749)	(225,782)
Insurance Proceeds Received for Damaged Property, Plant and Equipment	—	1,668	—
Investment in Unconsolidated Subsidiary	(2,350)	—	—
Net Cash Used in Investing Activities	(318,158)	(249,081)	(225,782)
Cash Flows from Financing Activities			
Distribution of Earnings to Members	(188,246)	(177,594)	(176,098)
Issuance of Membership Units for Cash	60,000	25,000	20,000
Issuance (Repayment) of Short-term Debt, Net	(17,782)	155,480	(168,693)
Issuance of Long-term Debt, Net of Issuance Costs	148,972	224,959	222,209
Repayment of Long-term Debt	—	(310,000)	—
Advances Received Under Interconnection Agreements	2,524	6,621	1,874
Repayments of Interconnection Agreements	(12,982)	(3,035)	(3,347)
Other, Net	(17)	16	(2)
Net Cash Used in Financing Activities	(7,531)	(78,553)	(104,057)
Net Change in Cash and Cash Equivalents	(42)	(120)	103
Cash and Cash Equivalents, Beginning of Period	159	279	176
Cash and Cash Equivalents, End of Period	$ 117	$ 159	$ 279

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

American Transmission Company LLC

Statements of Changes in Members' Equity
For the Years Ended December 31, 2012, 2011 and 2010

(In Thousands)		
Members' Equity as of December 31, 2009		$ 1,196,396
Membership Units Outstanding at December 31, 2009	75,266	
Issuance of Membership Units		$ 20,000
Earnings Before Members' Income Taxes		219,669
Distribution of Earnings to Members		(176,098)
Members' Equity as of December 31, 2010		$ 1,259,967

Membership Units Outstanding at December 31, 2010	76,656		
Issuance of Membership Units		$	25,000
Earnings Before Members' Income Taxes			223,915
Distribution of Earnings to Members			(177,594)
Members' Equity as of December 31, 2011		$	1,331,288
Membership Units Outstanding at December 31, 2011	78,325		
Issuance of Membership Units		$	60,000
Earnings Before Members' Income Taxes			237,426
Distribution of Earnings to Members			(188,246)
Members' Equity as of December 31, 2012		$	1,440,468
Membership Units Outstanding at December 31, 2012	82,154		

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

(1) Nature of Operations and Summary of Significant Accounting Policies

(a) General

American Transmission Company LLC (the "Company") was organized, as a limited liability company under the Wisconsin Limited Liability Company Act, as a single-purpose, for-profit electric transmission company. The Company's purpose is to plan, construct, operate, own and maintain electric transmission facilities to provide an adequate and reliable transmission system that meets the needs of all users on the system and supports equal access to a competitive, wholesale electric energy market.

The Company owns and operates the electric transmission system, under the direction of the Midwest Independent Transmission System Operator, Inc. (MISO), in parts of Wisconsin, Illinois, Minnesota and the Upper Peninsula of Michigan. The Company is subject to regulation by the Federal Energy Regulatory Commission (FERC) as to rates, terms of service and financing and by state regulatory commissions as to other aspects of business, including the construction of electric transmission assets.

The Company's five largest customers are also members and account for over 80% of the Company's operating revenues. The rates for these transmission services are subject to review and approval by the FERC. In addition, several members provide operations, maintenance and construction services to the Company. The agreements under which these services are provided are subject to review and approval by the Public Service Commission of Wisconsin (PSCW). See note (8) for details of the various transactions between the Company and its members.

The Company evaluated potential subsequent events through February 1, 2013, which is the date these statements were available to be issued.

(b) Corporate Manager

The Company is managed by a corporate manager, ATC Management Inc. ("Management Inc."). The Company and Management Inc. have common ownership and operate as a single functional unit. Under the Company's operating agreement, Management Inc. has complete discretion over the business of the Company and provides all management services to the Company at cost. The Company itself has no employees and no governance structure separate from Management Inc. The Company's operating agreement establishes that all expenses of Management Inc. are the responsibility of the Company. These expenses consist primarily of payroll, benefits, payroll-related taxes and other employee-related expenses. All such expenses are recorded in the Company's accounts as if they were direct expenses of the Company.

As of December 31, the following net payables to Management Inc. were included in the Company's balance sheets (in thousands):

	2012		2011	
Other Accrued Liabilities	$	15,259	$	14,246
Other Long-term Liabilities		5,383		5,903
Net Amount Payable to Management Inc.	$	20,642	$	20,149

Amounts included in other accrued liabilities are primarily payroll- and benefit-related accruals. Amounts included in other long-term liabilities relate primarily to certain long-term compensation arrangements covering Management Inc. employees, as described in note (2), offset by a $12.6 million and $12.4 million receivable as of December 31, 2012 and 2011, respectively, for income taxes paid on Management Inc.'s behalf by the Company. The income taxes paid are due to temporary differences relating to the tax deductibility of certain employee-related costs. As these temporary differences reverse in future years, Management Inc. will receive cash tax benefits and will then repay the advances from the Company.

(c) Revenue Recognition

Wholesale electric transmission service for utilities, municipalities, municipal electric companies, electric cooperatives and other eligible entities is provided through the Company's facilities under the MISO Open Access Transmission, Energy and Operating Reserve Markets Tariff ("MISO Tariff") regulated by the FERC. The Company charges for these services under FERC-approved rates. The MISO Tariff specifies the general terms and conditions of service on the transmission system and the approved rates set forth the calculation of the amounts to be paid for those services. The Company does not take ownership of the electricity that it transmits.

The Company's FERC-approved formula rate tariff for the revenue requirement determined under Attachment O of the MISO Tariff includes a true-up provision that meets the requirements of an alternative revenue program as defined in the Financial Accounting Standards Board's (FASB) Financial Accounting Standards Codification (ASC) Topic 980, "Regulated Operations." Accordingly, revenue is recognized for transmission system access the Company provided during the reporting period based on the revenue requirement formula in the tariff. Annually, the Company prepares a forecast for the upcoming rate year of total operating expenses, projected rate base resulting from planned construction and other capital expenditures, as well as projected amounts to be received from MISO. From this forecast, the Company computes an annual projected total revenue requirement for the reporting period. Based on the criteria in the MISO Tariff, the Company also calculates its regional cost-sharing revenue requirements which, in addition to other forecasted revenues from MISO and other sources, are subtracted from the total revenue requirement to determine the Company's annual network revenue requirement. The annual network revenue requirement is billed to and collected from network transmission customers in equal monthly installments throughout the rate year. Subsequent to the rate year, the Company compares actual results from the rate year to the forecast to determine any under or over collection of revenue from network and regional customers. In accordance with ASC Topic 980, the Company accrues or defers revenues that are higher or lower, respectively, than the amounts collected during the reporting period. In accordance with ASC Topic 980, an accumulated over-collected true-up balance is classified as a regulatory liability in the balance sheets and an accumulated under-collected true-up balance is classified as a regulatory asset in

the balance sheets. The Company is required to refund any over collected amounts, plus interest, within two fiscal years subsequent to the rate year, with the option to accelerate all or a portion of any such refund, and is permitted to include any under collected amounts, plus interest, in annual network billings two fiscal years subsequent to the rate year. Under these true up provisions, the Company refunded, inclusive of interest, approximately $8.0 million, $10.1 million and $0.6 million to network customers through their monthly bills in 2012, 2011 and 2010, respectively. The Company also has FERC-approved true-up provisions for MISO regional cost-sharing revenues, including for Multi-value Projects, to refund over collections or receive under collections in the second year subsequent to the rate year. The Company refunded, inclusive of interest, approximately $5.5 million and $0.9 million in 2012 and 2010 to regional customers, respectively, and collected, inclusive of interest, approximately $3.8 million from regional customers in 2011. See note 1(h) for more information on the Company's true-up provisions.

The Company records a reserve for revenue subject to refund when such refund is probable and can be reasonably estimated.

The Company is currently operating under a settlement agreement approved by the FERC in 2004 which limits the rights of interested parties to challenge, through a FERC Section 206 proceeding, the provisions noted above for the term of the agreement. Certain provisions of the settlement agreement terminated on December 31, 2012. After this date, the Company may elect to change, or intervenors may request a change in, the Company's revenue requirement formula. A change in the revenue requirement formula could result in lowered rates and have an adverse effect on the Company's financial position, results of operations and cash flows. If no filings are made by either the Company or other parties, the current terms of the settlement agreement will continue in effect.

(d) Transmission and General Plant and Related Depreciation

Transmission plant is recorded at the original cost of construction. Assets transferred to the Company primarily by its members, which include investor-owned utilities, municipalities, municipal electric companies and electric cooperatives, have been recorded at their original cost in property, plant and equipment with the related reserves for accumulated depreciation also recorded.

The original cost of construction includes materials, construction overhead and outside contractor costs. Additions to, and significant replacements of, transmission assets are charged to property, plant and equipment at cost; replacements of minor items are charged to maintenance expense. The cost of transmission plant is charged to accumulated depreciation when an asset is retired.

The provision for depreciation of transmission assets is an integral part of the Company's cost of service under FERC-approved rates. Depreciation rates include estimates for future removal costs and salvage value. Amounts collected in depreciation rates for future non-legal removal costs are included in regulatory liabilities in the balance sheets, as described in note 1(h). Removal costs incurred are charged against the regulatory liability. Depreciation expense, including a provision for removal costs, as a percentage of average transmission plant was 2.75% in 2012 and 2.63% in both 2011 and 2010.

The Company completed a depreciation study during 2011 and filed with the FERC on November 30, 2011 for an adjustment to its depreciation rates based on the findings of the study. In docket ER12-212-000 issued on December 21, 2011, the FERC approved the Company's revised rates, effective January 1, 2012.

The Company's annual depreciation expense for 2012 increased by approximately $1.0 million as a result of implementing the adjusted rates.

General plant, which includes buildings, office furniture and equipment, and computer hardware and software, is recorded at cost. Depreciation is recorded at straight-line rates over the estimated useful lives of the assets, which range from five to 45 years.

(e) Asset Retirement Obligations

Consistent with ASC Topic 410, "Asset Retirement and Environmental Obligations," the Company records a liability at fair value for a legal asset retirement obligation (ARO) in the period in which it is incurred. When a new legal obligation is recorded, the costs of the liability are capitalized by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period and the capitalized cost is depreciated over the useful life of the related asset. In accordance with ASC Topic 980, the Company recognizes regulatory assets or liabilities, as described in note 1(h), for the timing differences between when it recovers the ARO in rates and when it recognizes these costs under ASC Topic 410. At the end of the asset's useful life, the Company settles the obligation for its recorded amount and records the gain or loss in the appropriate regulatory account.

The Company has recognized AROs primarily related to asbestos, lead-based paint, and polychlorinated biphenyls contained in its electrical equipment. AROs are recorded as other long-term liabilities in the balance sheets. The following table describes all changes to AROs for the year ended December 31, 2012 (in thousands):

Asset Retirement Obligations at December 31, 2011	$ 1,896
Accretion	133
Liabilities Recognized	5,354
Liabilities Settled	(77)
Asset Retirement Obligations at December 31, 2012	$ 7,306

(f) Interconnection Agreements

The Company has entered into interconnection agreements with entities planning to build generation plants. The Company will construct the facilities; however, the generator will finance and bear all financial risk of constructing the interconnection facilities under these agreements. The Company will own and operate the interconnection facilities when the generation plants become operational and will reimburse the generator for construction costs, plus interest. If the generation plants do not become operational, the Company has no obligation to reimburse the generator for costs incurred during construction.

In cases in which the Company is contractually obligated to construct the interconnection facilities, the Company receives cash advances for construction costs from the generators. During construction, the Company includes actual costs incurred in construction work in progress (CWIP) and records liabilities for the cash advances from the generators, along with accruals for interest. The accruals for interest are capitalized and included in CWIP. The construction costs and accrued interest related to interconnection

agreements that are included in CWIP are not included as a component of the Company's rate base until the generation facilities become operational and the Company has reimbursed the generator.

At December 31, 2012 the Company had no active projects related to these agreements. Therefore, at December 31, 2012 there were no amounts included in CWIP or liabilities related to cash advances from generator interconnection agreements. At December 31, 2011, amounts included in CWIP related to generator interconnection agreements were $10.7 million. Similarly, at December 31, 2011, generator advances, including accrued interest, totaled $11.8 million and were included in current liabilities.

(g) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with original maturities of three months or less.

The Company paid cash for the following items during 2012, 2011 and 2010 (in millions):

	2012	2011	2010

Interest	$	80.0	$	81.5	$	80.9
Income Taxes of ATC LLC		—		0.6		0.7

At December 31, 2012, 2011 and 2010, construction costs funded through accounts payable and accrued liabilities were $25.5 million, $40.0 million and $30.7 million, respectively. Accordingly, these noncash investing activities are not reported in the statements of cash flows until the period in which the payables are paid.

(h) Regulatory Accounting

The Company's accounting policies conform to ASC Topic 980. Accordingly, assets and liabilities that result from the regulated ratemaking process are recorded that would otherwise not be recorded under accounting principles generally accepted in the United States of America for non-regulated companies. Certain costs are recorded as regulatory assets as incurred and are recognized in the statements of operations at the time they are reflected in rates. As such, regulatory assets are not included as a component of rate base. Regulatory liabilities represent amounts that have been collected in current rates to recover costs that are expected to be incurred, or refunded to customers, in future periods.

In accordance with ASC Topic 715, "Compensation — Retirement Benefits," the Company recognizes the overfunded or underfunded status of its postretirement benefit plan, measured as the amount by which its accumulated postretirement benefit obligation is less than or greater than the fair value of the assets that fund its plan. Since the Company expects to refund or recover these amounts in future rates, a regulatory liability or asset has been established for an amount equal to the ASC Topic 715 asset or liability.

In accordance with ASC Topic 980, an accumulated over collected revenue true-up balance is classified as a regulatory liability in the balance sheets and an accumulated under collected revenue true-up balance is classified as a regulatory asset in the balance sheets.

The Company recognizes a regulatory asset or liability for the cumulative difference between amounts recognized for AROs under ASC Topic 410 and amounts recovered through depreciation rates related to these obligations.

As of December 31, regulatory assets, which were all recorded as long-term assets in the balance sheets, included the following amounts (in thousands):

		2012		2011
2012 Network Revenue True-up to be Collected, Including Interest	$	2,058	$	—
2012 Multi-Value Projects Revenue True-up to be Collected, Including Interest		4,371		—
Postretirement Benefit Plan Amounts to be Recovered through Future Rates		900		1,915
Total Regulatory Assets	$	7,329	$	1,915

As described in note 1(d), the Company's depreciation rates include an estimate for future asset removal costs which do not represent AROs. The cumulative amounts that have been collected for future asset removal costs are reflected as regulatory liabilities.

As of December 31, regulatory liabilities included the following amounts (in thousands):

		2012		2011
2010 Regional Cost-sharing Revenue True-up Refunded in 2012, Including Interest	$	—	$	5,393
2011 Network Revenue True-up to be Refunded, Including Interest		1,276		9,073
2011 Regional Cost-sharing Revenue True-up to be Refunded, Including Interest		6,199		6,007
2012 Regional Cost-sharing Revenue True-up to be Refunded, Including Interest		1,486		—
Non-ARO Removal Costs Recovered through Rates		79,794		66,355
Cumulative Difference between ARO Costs Recovered through Rates and ARO Recognition under ASC Topic 410		1,860		955
Total Regulatory Liabilities	$	90,615	$	87,783

As of December 31, these amounts were classified in the balance sheets as follows (in thousands):

		2012		2011
Current Portion of Regulatory Liabilities	$	7,475	$	13,230
Regulatory Liabilities (long term)		83,140		74,553
Total Regulatory Liabilities	$	90,615	$	87,783

The Company continually assesses whether regulatory assets continue to meet the criteria for probability of future recovery. This assessment includes consideration of factors such as changes in the regulatory environment, recent rate orders to other regulated entities under the same jurisdiction and the status of any pending or potential deregulation legislation. If the likelihood of future recovery of any regulatory asset becomes less than probable, the affected assets would be written off in the period in which such determination is made.

(i) Other Assets

As of December 31, other assets included the following (in thousands):

		2012		2011
Unamortized Debt Issuance Costs	$	8,694	$	8,124
Deferred Project Costs		198		2,173
Other		1,697		1,391
Total Other Assets	$	10,589	$	11,688

Deferred project costs are expenditures directly attributable to the construction of transmission assets. These costs are recorded as other assets in the balance sheets until all required regulatory approvals are obtained and construction begins, at which time the costs are transferred to CWIP. In accordance with its FERC-approved settlement agreement, the Company is allowed to expense and recover in rates, in the year incurred, certain preliminary survey and investigation costs related to study and planning work performed in the early stages of construction projects. Other costs, such as advance equipment purchases and expenditures related to generator interconnection projects, continue to be deferred as described above. Approximately $14.9 million, $10.9 million and $5.2 million of preliminary survey and investigation costs were included in operations and maintenance expense for 2012, 2011 and 2010, respectively.

(j) Impairment of Long-lived Assets

The Company reviews the carrying values of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying values may not be recoverable under ASC Topic 360, "Property, Plant and Equipment". Impairment would be determined based upon a comparison of the undiscounted future operating cash flows to be generated during the remaining life of the assets to their carrying amounts. An impairment loss would be measured as the amount that an asset's carrying amount exceeds its fair value. As long as its assets continue to be recovered through the ratemaking process, the Company believes that such impairment is unlikely.

(k) Income Taxes

The Company is a limited liability company that has elected to be treated as a partnership under the Internal Revenue Code and applicable state statutes. The Company's members (except certain tax-exempt members) report their share of the Company's earnings, gains, losses, deductions and tax credits on their respective federal and state income tax returns. Earnings before members' income taxes reported in the statements of operations are the net income of the Company. Accordingly, these financial statements do not include a provision for federal income tax expense and only include a provision for income taxes for the state of Michigan for the twelve months ended December 31, 2011 and 2010, since limited liability companies like the Company were considered taxable entities under the Michigan Business Tax (MBT) during those years.

However, effective January 1, 2012, the MBT was replaced by a corporate income tax (CIT), which was signed into law on May 25, 2011. Pass-through entities, such as the Company, which were taxed at the entity level under the MBT, are not required to pay taxes or file returns under the CIT. The Company's taxable members, not the Company, are subject to the CIT. The income tax provision reported in the statements of operations is derived in accordance with ASC Topic 740, "Income Taxes." As such, deferred income taxes have been recorded using current enacted tax rates for the differences between the tax basis of the Company's assets and liabilities and the basis reported in the financial statements. See note (6) for further discussion of income taxes, the CIT and the MBT.

(l) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to apply policies and make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for items such as depreciable lives of property, plant and equipment, removal costs associated with asset retirements, tax provisions included in rates, actuarially determined benefit costs, accruals for construction costs and operations and maintenance expenses. As additional information becomes available, or actual amounts are determined, the recorded estimates are revised. Consequently, operating results can be affected by revisions to prior accounting estimates.

(m) New Accounting Pronouncements

In June 2011, the FASB issued Accounting Standards Update No. (ASU) 2011-05, "Comprehensive Income (Topic 220)." ASU 2011-05 amends ASC Topic 220 on comprehensive income (1) to eliminate the current option to present the components of other comprehensive income (OCI) in the statement of changes in equity, (2) to require presentation of net income and OCI (and their respective components) either in a single continuous statement or in two separate but consecutive statements, and (3) to require presentation, on the face of the financial statements, reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. As the Company has no OCI, adoption of ASU 2011-05 did not have a material impact on the Company's financial position, results of operations or cash flows.

(2) Benefits

Management Inc. sponsors several benefit plans for its employees. These plans include certain postretirement medical, dental, and life insurance benefits ("healthcare benefits"). The weighted-average assumptions related to the postretirement healthcare benefits, as of the measurement date, are as follows:

	2012	2011	2010
Discount Rate	4.12%	4.64%	5.60%
Medical Cost Trend:			
Initial Range	7.00%	7.80%	8.20%
Ultimate Range	4.00%	5.00%	5.00%
Long-term Rate of Return on Plan Assets	6.00%	6.00%	6.00%

The components of Management Inc.'s postretirement healthcare benefit costs for 2012, 2011 and 2010 are as follows (in thousands):

	2012	2011	2010
Service Cost	$ 1,562	$ 1,233	$ 1,559
Interest Cost	977	881	1,039
Amortization of Prior Service Credit	(569)	(569)	(131)
Amortization of Net Actuarial Loss	286	38	63
Expected Return on Plan Assets	(1,259)	(1,102)	(1,024)
Net Periodic Postretirement Cost	$ 997	$ 481	$ 1,506

To recognize the funded status of its postretirement healthcare benefit plans in accordance with ASC Topic 715, the Company recorded a long-term asset at December 31, 2012 of $0.8 million and a long-term liability at December 31, 2011 of $0.4 million. In addition, the Company had the following amounts not yet reflected in net periodic benefit cost and included in regulatory assets at December 31 (in thousands):

	2012	2011
Prior Service Credit	$ (4,154)	$ (4,723)
Accumulated Loss	5,054	6,638
Regulatory Asset for Amounts to be Collected in Future Rates	$ 900	$ 1,915

The assumed medical cost trend rates are critical assumptions in determining the service and interest cost and accumulated postretirement healthcare benefit obligation for the Company's medical and dental plans. A one-percent change in the medical cost trend rates, holding all other assumptions constant, would have the following effects for 2012 (in thousands):

	One-Percent Increase	One-Percent Decrease
Effect on Total of Service and Interest Cost Components	$ 684	$ (507)
Effect on Postretirement Benefit Obligation at the End of the Year	4,915	(3,811)

In 2013, the Company will recognize a $569 thousand prior service credit in its net periodic postretirement healthcare benefit cost related to a change made to the retiree cost-sharing provisions of the plan in 2010.

The funded status of the Company's postretirement healthcare benefit plans as of December 31 is as follows (in thousands):

	2012	2011
Change in Projected Benefit Obligation:		
Accumulated Postretirement Benefit Obligation at January 1	$ 21,187	$ 15,845
Service Cost	1,562	1,233
Interest Cost	977	881
Benefits Paid	(372)	(455)
Actuarial Losses	61	3,683
Benefit Obligation at December 31	$ 23,415	$ 21,187

Change in Plan Assets:		
Fair Value of Plan Assets at January 1	$ 20,783	$ 19,200
Employer Contributions	1,136	2,320
Actual Return on Plan Assets (Net of Expenses)	2,619	(360)
Net Benefits Paid	(294)	(377)
Fair Value at December 31	$ 24,244	$ 20,783
Funded Status at December 31	$ 829	$ (404)

The Company does not anticipate contributing to the plan for postretirement healthcare benefit obligations during 2013.

The Company anticipates net retiree healthcare benefit payments for the next 10 years to be as follows (in thousands):

2013	$ 238
2014	331
2015	418
2016	481
2017	543
2018-2022	3,904
Total	$ 5,915

To fund postretirement healthcare benefit obligations, the Company contributed to the Voluntary Employees' Beneficiary Association (VEBA) trust in 2012 and 2011. The VEBA trust, along with the 401(h) trust, are discretionary trusts with a long-term investment objective to preserve and enhance the post inflation value of the trusts' assets, subject to cash flow requirements, while maintaining an acceptable level of volatility.

The composition of the fair value of total plan assets held in the trusts as of December 31, along with targeted allocation percentages for each major category of plan assets in the trusts, is as follows:

	2012	2011	Target	Range
U.S. Equities	49%	47%	50%	+/- 5%
Non-U.S. Equities	11%	10%	15%	+/- 4%
Fixed Income	40%	43%	35%	+/- 5%
	100%	100%	100%	

The Company appoints a trustee to maintain investment discretion over trust assets. The trustee is responsible for holding and investing plan assets in accordance with the terms of the Company's trust agreement, including investing within the targeted allocation percentages. The Company made a contribution to the VEBA trust on December 29, 2011, which was deposited in the VEBA trust's Fixed Income asset class. On January 3, 2012, the trustee reallocated the contribution within the trust to maintain the targeted allocation percentages shown above.

The asset classes designated above and described below serve as guides for the selection of individual investment vehicles by the trustee:

- *U.S. Equities* — Strategy of achieving long-term growth of capital and dividend income through investing primarily in common stock of companies in the U.S. stock market with the Wilshire 5000 Index (or a comparable broad U.S. stock index) as the investment benchmark.

- *Non-U.S. Equities* — Strategy of achieving long-term growth of capital and dividend income through investing primarily in common stock of companies in the non-U.S. stock markets with the Morgan Stanley Capital Index All Country World ex-U.S Index (or a comparable broad non-U.S. stock index) as the investment benchmark.

- *Fixed Income* — Strategy of achieving total return from current income and capital appreciation by investing in a diversified portfolio of fixed-income securities with the Barclays Capital Aggregate Index (or a comparable broad bond index) as the investment benchmark.

The objective of the investment vehicles is to minimize risk of large losses by effective diversification. The investment vehicles will attempt to rank better than the median vehicle in their respective peer group. However, these investments are intended to be viewed over the long term; during the short term, there will be fluctuations in rates of return characteristic of the securities markets.

The Company measures its plan assets at fair value according to the hierarchy set forth in ASC Topic 715. The three levels of the fair value hierarchy under ASC Topic 715 are:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Company's postretirement healthcare benefit plans have the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets

- Quoted prices for identical or similar assets or liabilities in inactive markets
- Inputs other than quoted prices that are observable for the asset or liability
- Inputs that are derived principally from, or corroborated by, observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

At December 31, 2012 and 2011 a description of the valuation methodologies used for investments measured at fair value is as follows:

- *Money Market Fund:* Valued at cost plus accrued interest, which approximates the fair value of the net asset value of the shares held by the plan at year-end.
- *Mutual Funds:* Valued at the net asset value of shares held by the plan at year-end.

The following table contains, by level within the fair value hierarchy, the Company's postretirement healthcare benefit account investments at fair value as of December 31 (in thousands):

2012	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. Equity Mutual Funds	$ 11,875	$ —	$ —	$ 11,875
Non-U.S. Equity Mutual Fund	2,785	—	—	2,785
Fixed Income Mutual Funds	9,288	—	—	9,288
Money Market Fund	—	296	—	296
Total	$ 23,948	$ 296	$ —	$ 24,244

2011	**Level 1**	**Level 2**	**Level 3**	**Total**
U.S. Equity Mutual Funds	$ 9,700	$ —	$ —	$ 9,700
Non-U.S. Equity Mutual Fund	2,135	—	—	2,135
Fixed Income Mutual Funds	6,510	—	—	6,510
Money Market Fund	—	2,438	—	2,438
Total	$ 18,345	$ 2,438	$ —	$ 20,783

During 2012 and 2011, the Company had no transfers between Level 1 and Level 2 measurements and no transfers into or out of Level 3 measurements. Measurements for the Company's Level 2 inputs are based on inputs other than quoted prices that are observable for these assets.

Management Inc. sponsors a defined contribution money-purchase pension plan, in which substantially all employees participate, and makes contributions to the plan for each participant based on several factors. Contributions made by Management Inc. to the plan and charged to expense totaled $2.8 million in 2012 and $2.6 million in both 2011 and 2010.

Management Inc. also provides a deferred compensation plan for certain employees. The plan allows for the elective deferral of a portion of an employee's base salary and incentive compensation and also contains a supplemental retirement and 401(k) component. Deferred amounts are taxable to the employee when paid, but the Company recognizes compensation expense in the period earned. As of December 31, 2012 and 2011, $14.8 million and $13.3 million, respectively, were included in other long-term liabilities related to this deferred compensation plan. Amounts charged to expense, including interest accruals, were $2.0 million in both 2012 and 2011 and $1.7 million in 2010.

(3) Members' Equity

The Company's members include investor-owned utilities, municipalities, municipal electric companies, and electric cooperatives.

Distribution of earnings to members is at the discretion of Management Inc. The operating agreement of the Company established a target for distribution of 80% of annual earnings before members' income taxes. During 2012, 2011 and 2010, the Company distributed $188.2 million,

$177.6 million, and $176.1 million, respectively, of its earnings to its members. On January 25, 2013, the board of directors of Management Inc. approved a distribution for the fourth quarter of 2012, in the amount of $47.6 million, that was paid on January 31, 2013, bringing the total distributions for 2012 to 80% of earnings before members' income taxes.

Each of the Company's members has the right to require the Company to redeem all or a portion of its membership interests, so long as such interests have been outstanding for at least 12 months. However, the Company is not required to effect the redemption by non-managing members if Management Inc., in its sole discretion as the corporate manager, elects to purchase, in lieu of redemption, such membership interests for either a specified amount of cash or a specified number of shares of its common stock. After such purchase, Management Inc. shall be deemed the owner of such membership interests.

During 2012, the Company issued 3,829,479 units to members in exchange for $60.0 million in cash.

Management Inc. has issued shares of its common stock to each of the Company's members or their affiliates in proportion to their ownership interests in the Company. Holders of Management Inc. common stock have the rights of shareholders under Wisconsin law, including the right to elect directors of the corporate manager in accordance with the Company's operating agreement.

(4) Debt

(a) Credit Facility

The Company's $300 million, three-year revolving credit facility, which had a termination date of January 31, 2014, was amended on December 7, 2012. The amended credit facility is $350 million and has a five-year term, which expires on December 7, 2017. The facility provides backup liquidity to the Company's commercial paper program. While the Company does not intend to borrow under the revolving credit facility, interest rates on outstanding borrowings under the facility would be based on a floating rate plus a margin. The applicable margin, which is based on the Company's debt rating of A1/A+ or equivalent, is currently 0.8%.

The revolving credit facility contains restrictive covenants, including restrictions on liens, certain mergers, sales of assets, acquisitions, investments, transactions with affiliates, change of control, conditions on prepayment of other debt, and the requirement of the Company to meet certain financial reporting obligations. The revolving credit facility provides for certain customary events of default, including a targeted total-debt-to-total-capitalization ratio that is not permitted to exceed 65% at any given time. The Company was not in violation of any restrictive covenants under its credit facility during the periods covered by these financial statements.

The Company had no outstanding balance under its credit facility as of December 31, 2012 or 2011.

(b) Commercial Paper

The Company currently has a $350 million unsecured, private placement, commercial paper program, which was increased from $300 million in conjunction with the increase in the Company's credit facility. Investors are limited to qualified institutional buyers and institutional-accredited investors. Maturities may be up to 364 days from date of issue, with proceeds to be used for working capital and other capital expenditures. Pricing is par, less a discount or, if interest-bearing, at par. The Company had $166.6 million of commercial paper outstanding as of December 31, 2012 at an average rate of 0.22% and $184.3 million of commercial paper outstanding as of December 31, 2011 at an average rate of 0.24%. As defined by the commercial paper program, no customary events of default took place during the periods covered by the accompanying financial statements.

(c) Long-term Debt

The following table summarizes the Company's long-term debt commitments as of December 31 (in thousands):

	2012	2011
Senior Notes at stated rate of 7.02%, due August 31, 2032	$ 50,000	$ 50,000
Senior Notes at stated rate of 6.79%, due on dates ranging from August 31, 2024 to August 31, 2043	100,000	100,000
Senior Notes at stated rate of 4.992%, due April 15, 2015	100,000	100,000
Senior Notes at stated rate of 5.59%, due December 1, 2035	100,000	100,000
Senior Notes at stated rate of 5.91%, due August 1, 2037	250,000	250,000
Senior Notes at stated rate of 5.58%, due April 30, 2018	200,000	200,000
Senior Notes at stated rate of 5.40%, due May 15, 2019	150,000	150,000
Senior Notes at stated rate of 4.59%, due February 1, 2022	100,000	100,000
Senior Notes at stated rate of 5.72%, due April 1, 2040	50,000	50,000
Senior Notes at stated rate of 4.17%, due March 14, 2026	75,000	75,000
Senior Notes at stated rate of 4.27%, due March 14, 2026	75,000	75,000
Senior Notes at stated rate of 5.17%, due March 14, 2041	150,000	150,000

Senior Notes at stated rate of 4.37%, due April 18, 2042	150,000	—
Other Long-term Notes Payable	—	5
Total Long-term Debt	$ 1,550,000	$ 1,400,005

The senior notes rank equivalent in right of payment with all of the Company's existing and future unsubordinated, unsecured indebtedness and senior in right of payment to all subordinated indebtedness of the Company.

The senior notes contain restrictive covenants, which include restrictions on liens, certain mergers and sales of assets, and the requirement of the Company to meet certain financial reporting obligations. The senior notes also provide for certain customary events of default, none of which occurred during the periods covered by the accompanying financial statements.

Future maturities of the Company's senior notes are as follows (in millions):

2013	$ —
2014	—
2015	100
2016	—
2017	—
Thereafter	1,450
	$ 1,550

The senior notes contain an optional redemption provision whereby the Company is required to make the note holders whole on any redemption prior to maturity. The notes may be redeemed at any time, at the Company's discretion, at a redemption price equal to the greater of 100% of the principal amount of the notes plus any accrued interest or the present value of the remaining scheduled payments of principal and interest from the redemption date to the maturity date discounted to the redemption date on a semiannual basis at the then-existing Treasury rate plus 30 to 50 basis points, plus any accrued interest.

During February 2012, the Company entered into an agreement with a group of investors, through a private placement offering, to issue $150 million of 30-year, unsecured 4.37% senior notes. The closing and funding of the notes occurred on April 18, 2012. The notes pay interest semiannually on April 18 and October 18 and will mature on April 18, 2042.

During December 2010, the Company entered into an agreement with a group of investors, through a private placement offering, to issue $75 million of 15-year, unsecured 4.17% senior notes, $75 million of 15-year, unsecured 4.27% senior notes and $150 million of 30-year, unsecured 5.17% senior notes. The closing and funding of the $75 million, 4.17% issuance occurred on December 15, 2010 and the funding of the remaining issuances occurred on March 14, 2011. The notes pay interest semiannually on March 15 and September 15. The 15-year notes will mature on March 14, 2026 and the 30-year notes will mature on March 14, 2041. The Company used the proceeds of these issuances to repay $300 million of long-term debt that matured on March 15, 2011.

(5) Fair Value of Financial Instruments

The carrying amount of the Company's financial instruments included in current assets and current liabilities approximates fair value due to the short maturity of such financial instruments. The fair value of the Company's long-term debt is estimated based upon quoted market values for the same or similar issues or upon the quoted market prices of U.S. Treasury issues having a similar term to maturity, adjusted for the Company's credit ratings.

The carrying amount and the estimated fair value of the Company's long-term debt at December 31 are as follows (in millions):

	2012	2011
Carrying Amount	$ 1,550.0	$ 1,400.0
Estimated Fair Value	1,836.2	1,660.7

(6) Income Taxes

As mentioned in note 1(k), the Company was considered a taxable entity under the MBT until the MBT was replaced with the CIT effective January 1, 2012. The Company was subject to the MBT, which was accounted for as an income tax under the provisions of ASC Topic 740 and recovered as a component of the Company's revenue requirement. During 2010, the Company's financial statements included a provision of $1.5 million for the MBT. As a result of the CIT, which was signed into law on May 25, 2011, the Company recorded a non-cash credit of $2.1 million to income tax expense of ATC LLC during the second quarter of 2011 to reverse net deferred income taxes related to the MBT for periods beyond 2011. Partially offsetting this credit was a $0.3 million current provision for MBT recorded in 2011, which resulted in a net credit amount of $1.8 million in income tax expense of ATC LLC in the statement of operations for the twelve months ended December 31, 2011. During the third quarter of 2012, the Company filed its 2011 tax return with the state of Michigan and requested a refund of $0.3 million. As such, the

Company recorded a credit of that same amount to income tax expense of ATC LLC in 2012.

As of December 31, 2012 and 2011, the Company had no deferred tax amounts related to the MBT in other long-term liabilities in its statements of financial position.

The Company is allowed to recover in rates, as a component of its cost of service, its income taxes, as well as the amount of income taxes that are the responsibility of its members. Accordingly, the Company includes a provision for its members' federal and state current and deferred income tax expenses and amortization of the excess deferred tax reserves and deferred investment tax credits associated with assets transferred to the Company by its members in its regulatory financial reports and rate filings. For purposes of determining the Company's revenue requirement under FERC-approved rates, rate base is reduced by an amount equivalent to members' net accumulated deferred income taxes, including excess deferred income tax reserves. Such amounts were approximately $422.1 million, $364.1 million and $287.9 million in 2012, 2011 and 2010, respectively, and are primarily related to accelerated tax depreciation and other plant-related differences. The 2012, 2011 and 2010 revenues include recovery of $95 million, $86.4 million, and $87.8 million, respectively, of income tax expense.

On December 17, 2010, President Obama signed the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 ("2010 Tax Act") into law. One of the elements of the 2010 Tax Act increased bonus depreciation from 50% to 100% on assets placed in service after September 8, 2010 and before January 1, 2012. The 2010 Tax Act also allowed a transitional 100% bonus depreciation for self-constructed assets that had started construction before December 31, 2011 and were in service by December 31, 2012. On January 2, 2013, President Obama signed the American Taxpayer Relief Act of 2012, which extended the current 50% bonus depreciation through 2013.

ASC Topic 740 provides guidance on recognition thresholds and measurement of a tax position taken or expected to be taken in a tax return, including whether an entity is taxable in a particular jurisdiction. This guidance applies to all entities, including pass-through entities such as the Company. The Company does not consider any of its tax positions to be uncertain, including the Company's position that it qualifies as a pass-through entity in the federal and Wisconsin tax jurisdictions. Additionally, the Company had no unrecognized tax benefits and was assessed no interest or penalties during 2012, 2011 or 2010. The Company is no longer subject to examination by the Internal Revenue Service for tax years prior to 2009 or any state jurisdiction for tax years prior to 2008. In the event the Company would be assessed interest or penalties by a taxing authority related to income taxes, interest would be recorded in interest expense and penalties would be recorded in other expense in the statements of operations.

Under an existing federal program, many entities, including the Company, received tax-free reimbursements under the Medicare Part D retiree drug subsidy (RDS) program to encourage them to provide retiree prescription drug coverage. The tax advantage of the reimbursements under the RDS program has been eliminated by the Patient Protection and Affordable Care Act (H.R. 3590), including modifications included in the Health Care and Education Reconciling Act of 2010 ("the Act") passed by Congress on March 25, 2010, and signed into law by President Obama on March 30, 2010. Although the elimination of this tax advantage does not take effect until 2013 under the Act, the Company is required to recognize the full accounting impact in its financial statements in the period in which the Act was signed. Management Inc. allocates the tax benefit or expense of permanent differences such as the Medicare Part D subsidy to the Company in the form of a higher or lower management fee. Because Management Inc. had already recognized future retiree healthcare liabilities and related tax impacts in its financial statements, the change in the tax treatment under the Act resulted in a reduction of the value of Management Inc.'s deferred tax asset related to the RDS program. The reduction in value of the deferred tax asset was passed through to the Company in the form of an increased management fee. As a result, the Company recorded a non-cash charge of approximately $1.5 million in taxes other than income in the statement of income in the first quarter of 2010, which the Company recovered through its revenue requirement.

(7) Commitments and Contingencies

(a) Operating Leases

The Company leases office space and certain transmission-related equipment under non-cancelable operating leases. Amounts incurred during 2012, 2011 and 2010 totaled approximately $5.9 million, $6.5 million and $7.0 million, respectively.

Future minimum lease payments under non-cancelable operating leases for the years ending December 31 are as follows (in millions):

2013	$	6.2
2014		5.7
2015		5.7
2016		5.6
2017		5.3
Thereafter		47.0
	$	75.5

(b) Smart Grid Agreements

On April 20, 2010, the Company entered into two agreements with the U.S. Department of Energy (DOE), accepting investment grants for up to 50% of the cost of the related projects. The grants, totaling $12.7 million, are to invest in smart grid technologies to be incorporated into the Company's transmission system. Any funds the Company receives from the DOE under the grant award agreements will reduce the amount of investment in such projects upon which the Company will earn a return. The Company continues to invoice the DOE and receive payments under these agreements, and expects to complete construction on these projects by April 2013. Per the terms of these agreements, the Company completed an independent audit of the smart grid projects, the result of which was submitted to the DOE. The report was concluded with no audit findings.

(c) MISO Revenue Distribution

Periodically, the Company receives adjustments to revenues that were allocated to it by MISO in prior periods. Some of these adjustments may result from disputes filed by transmission customers. The Company does not expect any such adjustments to have a significant impact on its financial position, results of operations or cash flows since adjustments of this nature are typically offset by its true-up provision in the revenue requirement formula.

(d) Interconnection Agreements

The Company has entered into interconnection agreements with entities planning to build generation plants. The Company will construct the facilities; however, the generator will finance and bear all financial risk of constructing the interconnection facilities under these agreements. The Company will own and operate the interconnection facilities when the generation plants become operational and will reimburse the generator for construction costs plus interest. If the generation plants do not become operational, the Company has no obligation to reimburse the generator for costs incurred during construction.

The estimate of the Company's commitments under these agreements, if the generation plants become operational, is approximately $5.2 million at completion, with expected completion during 2016. In addition, there may be transmission service requests that require the Company to construct additional, or modify existing, transmission facilities to accommodate such requests. Whether such additions or upgrades to the

Company's transmission system are required depends on the state of the transmission system at the time the transmission service is requested. Under these agreements, the Company reimbursed, inclusive of interest, $13.0 million, $3.0 million and $3.3 million to generators during 2012, 2011 and 2010, respectively. The Company does not expect to make any reimbursements to generators in 2013 under such agreements.

(e) Potential Adverse Legal Proceedings

The Company has been, and will likely in the future become, party to lawsuits, potentially including suits that may involve claims for which it may not have sufficient insurance coverage. The Company's liability is limited by FERC-approved provisions of the MISO tariff that limit potential damages to direct damages caused by the Company's gross negligence or intentional misconduct.

(f) Environmental Matters

In the future, the Company may become party to proceedings pursuant to federal and/or state laws or regulations related to the discharge of materials into the environment. Such proceedings may involve property the Company acquired from the contributing utilities. Pursuant to the asset purchase agreements executed with the contributing utilities beginning January 1, 2001, the contributing utilities will indemnify the Company for 25 years from such date for any environmental liability resulting from the previous ownership of the property.

(8) Related-Party Transactions

(a) Membership Interests

To maintain its targeted debt-to-capitalization ratio, the Company was authorized by Management Inc.'s board of directors to request up to $25 million of additional capital through voluntary additional capital calls during 2013, including $5 million it received in January 2013. The Company also received a total of $60 million through voluntary additional capital calls in 2012 and $25 million through capital calls in 2011. The participating members received additional membership units at the current book value per unit at the time of each contribution. Contributions from capital calls are recognized when received.

(b) Duke-American Transmission Company LLC

In April 2011, the Company announced that it had entered into a joint venture with Duke Energy to create the Duke-American Transmission Company LLC (DATC). DATC will own all of the transmission assets it builds and operates. Equity ownership of DATC will be split equally between Duke Energy and the Company. DATC has begun identifying opportunities to build, own and operate new transmission projects that meet potential customers' capacity, voltage requirements and future needs. During the third quarter of 2011, DATC released its first set of transmission projects that include a portfolio of seven new transmission line projects in five Midwestern states. This portfolio, referred to as the DATC Midwest Portfolio, will fill gaps in the existing transmission grid, improve electric system reliability and market efficiency, provide economic benefits to local utilities and enable increased delivery of high-quality renewable resources. The DATC Midwest Portfolio includes more than 1,200 circuit miles of 345 kilovolt (kV) lines and 550 miles of 500 kV high-voltage direct-current lines. The individual circuits range from 65 to 696 miles and have a total estimated cost of approximately $4 billion. Construction of this portfolio is not expected to begin until 2015 or later. DATC has been working with MISO to include the projects in their regional transmission plans. On April 20, 2012, DATC filed an application with the FERC for acceptance of a proposed formula rate treatment and approval of transmission rate incentives for the projects under Docket No. ER12-1593-000. On June 19, 2012, the FERC:

a) granted DATC's request for transmission rate incentives, conditioned on the projects' approval in the MISO Transmission Expansion Plan,
b) authorized certain ratemaking proposals and accepted and nominally suspended the proposed formula rate template, subject to refund, and established hearing and settlement judge procedures,
c) accepted the formula rate protocols, subject to outcome of another proceeding.

The basic rate proposal, while modified slightly as a result of the settlement discussions, was included in a settlement that was filed with the FERC on November 9, 2012 and the FERC staff filed comments in support of the settlement on November 29, 2012. The settlement is awaiting certification from the settlement judge.

On December 19, 2011, the Company announced that DATC acquired the Zephyr Power Transmission Project ("Zephyr") and will continue the design and development of the proposed 950 mile transmission line that would deliver wind energy generated in eastern Wyoming to California and the southwestern United States. DATC acquired Zephyr from a subsidiary of Pathfinder Renewable Wind Energy LLC ("Pathfinder"). Pathfinder is developing a wind power project on more than 100,000 acres near Chugwater, Wyoming, and has committed to use at least 2,100 megawatts (MW) of the Zephyr project's 3,000 MW capacity. The 500 kV high-voltage direct-current project, estimated at approximately $3.5 billion, will include an AC/DC converter station at each terminus. DATC paid Pathfinder a nominal amount for the acquisition of Zephyr. If certain milestones materialize under the project agreement, DATC would be required to pay, directly or indirectly, Pathfinder's share of regulatory phase project costs of up to $5 million incurred throughout 2012 and 2013; however, DATC has the right to terminate the project at any time prior to January 15, 2014. On April 6, 2012 DATC received FERC approval in Docket No. EL12-22-000 to charge previously negotiated rates and requested waivers approved by FERC under Zephyr's previous ownership.

The balance in the Company's investment in DATC account, which was not material at December 31, 2011, was $0.8 million at December 31, 2012.

(c) Operations and Maintenance and Transitional Services Agreements

From the Company's inception until August 21, 2009, the Company operated under Transitional Services and Operation and Maintenance Agreements whereby contributing utilities, municipalities and cooperatives provided certain administrative, operational, maintenance and construction services to the Company at a fully-allocated cost. On August 21, 2009, however, the PSCW ordered that work under the Transitional Services Agreements be completed and that the Company should not continue to use such agreements. At that same time, the PSCW approved Project Services Agreements (PSAs) and Common Facilities Agreements (CFAs) for a two-year pilot period whereby the Company and certain of its affiliates may perform engineering and construction services for each other, subject to the restrictions and reporting requirements specified in the order. On October 10, 2011, the Company and certain contributing utilities filed a request to extend the applicable PSAs and CFAs and the PSCW granted a one-year extension in

December 2011. To prevent cross-subsidization between affiliated interests, the PSCW ordered that services be performed at a fully-allocated cost of the party providing services. On October 24, 2012, the PSCW issued an order granting a request the Company had made that it be allowed to continue the reporting requirements under PSAs and CFAs without the requirement to request renewal of such agreements every year. The Company believes that the costs it must incur to procure engineering, construction, operations and maintenance services will be recoverable in future rates.

Several of the original operation and maintenance agreements continue in effect. These original agreements automatically renew on a year-to-year basis unless terminated by either party. Some new agreements have been executed with contributing and non-contributing entities and approved by the PSCW, as required. Some agreements require the Company to utilize a specified percentage of the services performed in a previous representative year as a minimum level of service. To date, the amounts utilized have exceeded the minimum in each year.

The Company was billed approximately $35.3 million, $39.8 million and $44.7 million in 2012, 2011 and 2010, respectively, under these agreements. Accounts payable and other accrued liabilities include amounts payable to these companies of $3.7 million and $3.2 million at December 31, 2012 and 2011, respectively.

(d) Transmission Service

Revenues from the Company's members were in excess of 95% of the Company's transmission service revenue for the years ended December 31, 2012, 2011 and 2010.

(e) Agreement with Alliant Energy

The Company has an agreement with Alliant Energy ("Alliant"), under which it provides control center and operation services for Alliant's 34.5 kV distribution system in the state of Wisconsin. The agreement automatically renews every two years, unless terminated by either party. Amounts the Company has received from Alliant for these services are not material to the financial statements.

(f) Management Inc.

As discussed in note 1(b), Management Inc. manages the Company. Management Inc. charged the Company approximately $89.4 million, $82.6 million and $77.4 million in 2012, 2011 and 2010, respectively, primarily for employee-related expenses. These amounts were charged to the applicable operating expense accounts, or capitalized as CWIP or other assets, as appropriate. The amounts are recorded in the Company's accounts in the same categories in which the amounts would have been recorded had the Company incurred the costs directly.

(g) Interconnection Agreements

As discussed in notes 1(f) and 7(d), the Company has interconnection agreements related to the capital improvements required to connect new generation equipment to the grid. Some of these agreements are with members or affiliates of members of the Company. At December 31, 2011, liabilities included $5.3 million of amounts received related to these agreements from entities that are also members of the Company. There were no outstanding liabilities at December 31, 2012, related to these agreements. The Company reimbursed, inclusive of interest, $5.3 million and $0.9 million to members under such agreements in 2012 and 2011, respectively. The Company does not expect to make any reimbursements to members in 2013 under such agreements.

(9) Quarterly Financial Information (unaudited)

	Three Months Ended 2012				
(In Thousands)	**March 31**	**June 30**	**September 30**	**December 31**	**Total**
Operating Revenues	$ 147,662	$ 152,171	$ 150,303	$ 153,118	$ 603,254
Operating Expenses	69,566	71,760	68,813	70,860	280,999
Operating Income	78,096	80,411	81,490	82,258	322,255
Other Expense, Net	500	327	5	1,701	2,533
Interest Expense, Net	19,501	20,776	20,983	21,036	82,296
Earnings Before Members' Income Taxes	$ 58,095	$ 59,308	$ 60,502	$ 59,521	$ 237,426

	2011				
	March 31	**June 30**	**September 30**	**December 31**	**Total**
Operating Revenues	$ 139,617	$ 138,204	$ 142,741	$ 146,612	$ 567,174
Operating Expenses	63,126	62,952	66,413	69,077	261,568
Operating Income	76,491	75,252	76,328	77,535	305,606
Other Expense, Net	358	134	173	667	1,332
Interest Expense, Net	21,897	19,479	19,517	19,466	80,359
Earnings Before Members' Income Taxes	$ 54,236	$ 55,639	$ 56,638	$ 57,402	$ 223,915

Because of seasonal factors impacting the Company's business, particularly the maintenance and construction programs, quarterly results are not necessarily comparable. In general, due to the Company's rate formula, revenues and operating income will increase throughout the year, as the Company's rate base increases through expenditures for CWIP.

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