

INTEGRYS ENERGY GROUP, INC.

Form 10-Q

August 06, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from _____ to _____

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). (Registrant is not yet required to provide financial disclosure in an Interactive Data File format.)

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller

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reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

Yes No

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

Common stock, \$1 par value,
76,422,505 shares outstanding at
August 4, 2009

INTEGRYS ENERGY GROUP, INC.
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2009

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4.1	Third Supplemental Indenture, dated as of June 1, 2009, by and between Integrys Energy Group, Inc. and U.S. Bank National Association (successor to Firststar Bank, National Association) (Incorporated by reference to Exhibit 4.1 to Integrys Energy Group's Form 8-K filed June 17, 2009.)
4.2	Fourth Supplemental Indenture, dated as of June 1, 2009, by and between Integrys Energy Group, Inc. and U.S. Bank National Association (successor to Firststar Bank, National Association) (Incorporated by reference to Exhibit 4.2 to Integrys Energy Group's Form 8-K filed June 17, 2009.)
12	Computation of Ratio of Earnings to Fixed Charges
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 for Integrys Energy Group, Inc.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 for Integrys Energy Group, Inc.
32	Written Statement of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 for Integrys Energy Group, Inc.

Commonly Used Acronyms

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

Forward-Looking Statements

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

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

Forward-looking statements involve a number of risks and uncertainties. Some risk factors that could cause results to differ from any forward-looking statement include those described in Item 1A of Integrys Energy Group's Annual Report on Form 10-K for the year ended December 31, 2008, as may be amended or supplemented in Part II, Item 1A of this report. Other factors include:

- Resolution of pending and future rate cases and negotiations (including the recovery of deferred costs) and other regulatory decisions impacting Integrys Energy Group's regulated businesses;

- The impact of recent and future federal and state regulatory changes, including legislative and regulatory initiatives regarding deregulation and restructuring of the electric and natural gas utility industries and future initiatives to address concerns about global climate change, changes in environmental, tax, and other laws and regulations to which Integrys Energy Group and its subsidiaries are subject, as well as changes in the application of existing laws and regulations;

- Current and future litigation, regulatory investigations, proceedings, or inquiries, including but not limited to, manufactured gas plant site cleanup, reconciliation of revenues from the Gas Charge (as defined in Note 13, "Commitments and Contingencies") and related natural gas costs, and the proceeding regarding the Weston 4 air permit;

- The impacts of changing financial market conditions, credit ratings, and interest rates on the liquidity and financing efforts of Integrys Energy Group and its subsidiaries;

- The risks associated with executing Integrys Energy Group's plan to significantly reduce the scope and scale of, or divest in its entirety, the nonregulated energy services business;

- The risks associated with changing commodity prices (particularly natural gas and electricity) and the available sources of fuel and purchased power, including their impact on margins;

- Resolution of audits or other tax disputes with the IRS and various state, local, and Canadian revenue agencies;

- The effects, extent, and timing of additional competition or regulation in the markets in which Integrys Energy Group's subsidiaries operate;

- The retention of market-based rate authority;

- The risk associated with the value of goodwill or other intangibles and their possible impairment;

Investment performance of employee benefit plan assets;
Advances in technology;
Effects of and changes in political and legal developments, as well as economic conditions and the related impact on customer demand;
Potential business strategies, including mergers, acquisitions, and construction or disposition of assets or businesses, which cannot be assured to be completed timely or within budgets;
The direct or indirect effects of terrorist incidents, natural disasters, or responses to such events;
The effectiveness of risk management strategies and the use of financial and derivative instruments;
The risks associated with the inability of Integrys Energy Group's and its subsidiaries' counterparties, affiliates, and customers to meet their obligations;

Weather and other natural phenomena, in particular the effect of weather on natural gas and electricity sales;
The utilization of tax credit and loss carryforwards;
The effect of accounting pronouncements issued periodically by standard-setting bodies;
and
Other factors discussed elsewhere herein and in other reports filed by Integrys Energy Group from time to time with the SEC.

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

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

INTEGRYS ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF
INCOME (Unaudited)

(Millions, except per share data)	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2009	2008	2009	2008
Nonregulated revenue	\$ 815.0	\$ 2,601.1	\$ 2,601.3	\$ 5,013.4
Utility revenue	612.6	816.1	2,027.1	2,393.0
Total revenues	1,427.6	3,417.2	4,628.4	7,406.4
Nonregulated cost of fuel, natural gas, and purchased power	708.9	2,544.8	2,478.0	4,829.3
Utility cost of fuel, natural gas, and purchased power	271.4	483.3	1,182.0	1,589.6
Operating and maintenance expense	276.0	251.8	567.3	538.4
Goodwill impairment loss	-	6.5	291.1	6.5
Restructuring expense	19.1	-	19.1	-
Depreciation and amortization expense	57.6	55.9	114.5	107.1
Taxes other than income taxes	21.7	21.8	48.6	47.7
Operating income (loss)	72.9	53.1	(72.2)	287.8
Miscellaneous income	20.8	22.7	42.0	40.8
Interest expense	(40.0)	(33.5)	(82.7)	(71.4)
Other expense	(19.2)	(10.8)	(40.7)	(30.6)
Income (loss) before taxes	53.7	42.3	(112.9)	257.2
Provision for income taxes	18.5	17.5	31.3	95.8
Net income (loss) from continuing operations	35.2	24.8	(144.2)	161.4
Discontinued operations, net of tax	0.3	0.1	0.3	0.1
Net income (loss)	35.5	24.9	(143.9)	161.5
Preferred stock dividends of subsidiary	0.8	0.8	1.6	1.6
Net income (loss) attributed to common shareholders	\$ 34.7	\$ 24.1	\$ (145.5)	\$ 159.9
Average shares of common stock				
Basic	76.8	76.6	76.7	76.6
Diluted	76.8	76.9	76.7	76.9
Earnings (loss) per common share (basic)				
Net income (loss) from continuing operations	\$ 0.45	\$ 0.31	\$ (1.90)	\$ 2.09
Discontinued operations, net of tax	-	-	-	-

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Earnings (loss) per common share (basic)	\$	0.45	\$	0.31	\$	(1.90)	\$	2.09
Earnings (loss) per common share (diluted)								
Net income (loss) from continuing operations	\$	0.45	\$	0.31	\$	(1.90)	\$	2.08
Discontinued operations, net of tax		-		-		-		-
Earnings (loss) per common share (diluted)	\$	0.45	\$	0.31	\$	(1.90)	\$	2.08
Dividends per common share declared	\$	0.68	\$	0.67	\$	1.36	\$	1.34

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

INTEGRYS ENERGY GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) (Millions)	June 30 2009	December 31 2008
Assets		
Cash and cash equivalents	\$ 206.4	\$ 254.1
Accounts receivable and accrued unbilled revenues, net of reserves of \$74.6 and \$62.5, respectively	1,285.8	2,155.3
Inventories	287.1	732.9
Assets from risk management activities	2,860.2	2,223.7
Regulatory assets	152.8	244.0
Deferred income taxes	148.6	-
Other current assets	241.0	280.8
Current assets	5,181.9	5,890.8
Property, plant, and equipment, net of accumulated depreciation of \$2,796.6 and \$2,710.0, respectively	4,844.4	4,773.3
Regulatory assets	1,465.9	1,444.8
Assets from risk management activities	1,225.8	758.7
Goodwill	642.8	933.9
Other	503.5	471.0
Total assets	\$ 13,864.3	\$ 14,272.5
Liabilities and Shareholders' Equity		
Short-term debt	\$ 113.7	\$ 1,209.0
Current portion of long-term debt	271.0	155.2
Accounts payable	964.8	1,534.3
Liabilities from risk management activities	2,952.9	2,190.3
Regulatory liabilities	89.7	58.8
Deferred income taxes	-	71.6
Temporary LIFO liquidation credit	34.1	-
Other current liabilities	408.7	494.8
Current liabilities	4,834.9	5,714.0
Long-term debt	2,323.1	2,288.0
Deferred income taxes	626.1	435.7
Deferred investment tax credits	36.2	36.9
Regulatory liabilities	275.5	275.5
Environmental remediation liabilities	657.4	640.6
Pension and other postretirement benefit obligations	656.6	636.5
Liabilities from risk management activities	1,223.7	762.7
Asset retirement obligations	183.8	179.1
Other	148.1	152.8
Long-term liabilities	6,130.5	5,407.8

Commitments and contingencies

Preferred stock of subsidiary - \$100 par value; 1,000,000 shares authorized; 511,882 shares issued; 510,516 shares outstanding	51.1	51.1
Common stock - \$1 par value; 200,000,000 shares authorized; 76,426,505 shares issued; 76,013,872 shares outstanding	76.4	76.4
Additional paid-in capital	2,490.8	2,487.9
Retained earnings	373.1	624.6
Accumulated other comprehensive loss	(77.0)	(72.8)
Treasury stock and shares in deferred compensation trust	(15.5)	(16.5)
Total liabilities and shareholders' equity	\$ 13,864.3	\$ 14,272.5

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

INTEGRYS ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)		Six Months Ended	
		June 30	
(Millions)		2009	2008
Operating Activities			
Net income (loss)		\$ (143.9)	\$ 161.5
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Discontinued operations, net of tax		(0.3)	(0.1)
Goodwill impairment loss		291.1	6.5
Depreciation and amortization expense		114.5	107.1
Recoveries and refunds of regulatory assets and liabilities		25.4	35.1
Net unrealized losses (gains) on nonregulated energy contracts		106.8	(45.9)
Nonregulated lower of cost or market inventory adjustments		42.7	-
Bad debt expense		41.0	35.2
Pension and other postretirement expense		34.0	24.5
Pension and other postretirement contributions		(6.8)	(10.5)
Deferred income taxes and investment tax credit		(36.7)	6.4
Loss on sale of property, plant, and equipment		-	2.1
Equity income, net of dividends		(8.1)	(5.8)
Other		(9.4)	(19.3)
Changes in working capital			
Accounts receivable and accrued unbilled revenues		820.1	(78.9)
Inventories		443.4	(294.3)
Other current assets		67.7	16.3
Accounts payable		(532.6)	475.7
Temporary LIFO liquidation credit		34.1	98.8
Other current liabilities		(34.5)	(79.0)
Net cash provided by operating activities		1,248.5	435.4
Investing Activities			
Capital expenditures		(187.6)	(198.5)
Proceeds from the sale or disposal of property, plant, and equipment		17.6	-
Purchase of equity investments and other acquisitions		(15.5)	(17.5)
Cash paid for transmission interconnection		-	(17.4)
Proceeds received from transmission interconnection		-	99.7
Other		(3.0)	1.8
Net cash used for investing activities		(188.5)	(131.9)
Financing Activities			
Short-term debt, net		(924.1)	(207.7)
Redemption of notes payable		(157.9)	-
Proceeds from sale of borrowed natural gas		134.4	237.6
Purchase of natural gas to repay natural gas loans		(204.0)	(168.7)
Issuance of long-term debt		155.0	-
Repayment of long-term debt		(2.0)	(54.6)

Payment of dividends		
Preferred stock of subsidiary	(1.6)	(1.6)
Common stock	(103.5)	(101.9)
Other	(4.0)	(1.8)
Net cash used for financing activities	(1,107.7)	(298.7)
Change in cash and cash equivalents	(47.7)	4.8
Cash and cash equivalents at beginning of period	254.1	41.2
Cash and cash equivalents at end of period	\$ 206.4	\$ 46.0

The accompanying condensed notes are an integral part of these statements

INTEGRYS ENERGY GROUP, INC. AND SUBSIDIARIES
CONDENSED NOTES TO FINANCIAL STATEMENTS
June 30, 2009

NOTE 1--FINANCIAL INFORMATION

The Condensed Consolidated Financial Statements of Integrys Energy Group, Inc. have been prepared pursuant to the rules and regulations of the SEC for Quarterly Reports on Form 10-Q and in accordance with GAAP. Accordingly, these Condensed Consolidated Financial Statements do not include all of the information and footnotes required by GAAP for annual financial statements. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes in the Integrys Energy Group Annual Report on Form 10-K for the year ended December 31, 2008.

The Condensed Consolidated Financial Statements are unaudited, but in management's opinion, include all adjustments (which, unless otherwise noted, include only normal recurring adjustments) necessary for a fair presentation of such financial statements. Subsequent events at Integrys Energy Group were evaluated for potential recognition or disclosure through August 5, 2009, which is the date the financial statements were issued. Financial results for this interim period are not necessarily indicative of results that may be expected for any other interim period or for the year ending December 31, 2009.

Integrys Energy Group adopted SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements," as of January 1, 2009. This standard clarifies that noncontrolling interests should be reported in equity and that net income or loss should include amounts attributable to both common shareholders and noncontrolling interests. As a result, Integrys Energy Group changed the presentation of the preferred stock dividends of WPS, a subsidiary of Integrys Energy Group, on the Condensed Consolidated Statements of Income for all periods presented. After adoption of the standard, these subsidiary preferred stock dividends are included below net income or loss in the presentation of net income or loss attributed to common shareholders.

NOTE 2--CASH AND CASH EQUIVALENTS

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

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

(Millions)	Six Months Ended June 30	
	2009	2008
Cash paid for interest	\$ 78.8	\$ 69.0
Cash paid for income taxes	21.8	91.3

Significant non-cash transactions were:

(Millions)	Six Months Ended June 30	
	2009	2008
Construction costs funded through accounts payable	\$ 51.8	\$ 20.2
Intangible assets (customer contracts) received in exchange for risk management assets	17.0	-

NOTE 3--RISK MANAGEMENT ACTIVITIES

Integrys Energy Group is exposed to certain risks relating to its ongoing business operations. At the utility segments, Integrys Energy Group uses derivative instruments to mitigate commodity price risk. At the nonregulated segments, derivative instruments are used to mitigate commodity price risk, volumetric risk, interest rate risk, and foreign currency exchange rate risk.

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

(Millions)	Balance Sheet Presentation	Risk Management Assets		Risk Management Liabilities	
		June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
Utility Segments					
Non-hedge derivatives					
Commodity contracts	Current	\$ 24.1	\$ 28.6	\$ 96.6	\$ 161.6
Commodity contracts	Long-term	1.5	-	4.5	9.0
Cash flow hedges					
Commodity contracts	Current	-	-	1.3	1.5
Nonregulated Segments					
Non-hedge derivatives					
Commodity contracts	Current	2,796.0	2,080.9	2,770.0	1,944.8
Commodity contracts	Long-term	1,215.6	750.0	1,197.2	729.7
Interest rate swaps	Current	-	-	2.6	1.0
Interest rate swaps	Long-term	-	-	1.3	3.3
Foreign exchange contracts	Current	1.6	2.8	0.3	0.5
Foreign exchange contracts	Long-term	1.3	2.5	1.9	2.3
Fair value hedges					
Commodity contracts	Current	-	14.2	-	-
Interest rate swaps	Current	1.6	1.1	-	-
Interest rate swaps	Long-term	1.3	2.1	-	-
Cash flow hedges					
Commodity contracts	Current	36.9	81.3	78.5	79.4
Commodity contracts	Long-term	6.1	4.1	18.8	14.8
Interest rate swaps	Current	-	-	3.6	1.5
Interest rate swaps	Long-term	-	-	-	3.6
Foreign exchange contracts	Current	-	14.8	-	-
Total		\$ 4,086.0	\$ 2,982.4	\$ 4,176.6	\$ 2,953.0

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

FASB Interpretation No. 39, "Offsetting of Amounts Related to Certain Contracts," as amended, provides the option to present certain asset and liability derivative positions net on the balance sheet and to net the related cash collateral against these net derivative positions. Integrys Energy Group elected not to net these items in its Condensed Consolidated Balance Sheets. The following table shows Integrys Energy Group's cash collateral positions:

(Millions)	June 30, 2009	December 31, 2008
Cash collateral provided to others	\$ 334.2	\$ 256.4
Cash collateral received from others	123.9	18.9

On the Condensed Consolidated Balance Sheets, the cash collateral provided to others is reflected in accounts receivable and accrued unbilled revenues, and the cash collateral received from others is reflected in other current liabilities.

Certain of Integrys Energy Group's derivative and nonderivative commodity instruments contain provisions that could require the posting of additional collateral for instruments in net liability positions, if triggered by a decrease in credit ratings. The aggregate fair value of all derivative instruments with credit-risk related contingent features that were in a liability position at June 30, 2009, was \$2,479.6 million. As of June 30, 2009, Integrys Energy Group had not posted any cash collateral related to these commodity instruments.

If all of the credit-risk related contingent features contained in commodity instruments (including derivatives, non-derivatives, normal purchase and normal sales contracts, and applicable payables and receivables) had been triggered at June 30, 2009, Integrys Energy Group would have been required to

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post collateral of \$887.1 million. Of this \$887.1 million, Integrys Energy Group had already satisfied \$237.2 million with letters of credit. Therefore, the remaining collateral requirement would have been \$649.9 million.

Utility Segments

Non-Hedge Derivatives

The derivatives listed in the above table as "commodity contracts" include a limited number of natural gas purchase contracts, financial derivative contracts (futures, options, and swaps) used by both the electric and natural gas utility segments to mitigate the risk associated with the market price volatility of natural gas supply costs and gasoline and diesel fuel used by utility vehicles, and financial instruments used to manage electric transmission congestion costs (financial transmission rights (FTRs)).

Derivative instruments at the utilities are entered into in accordance with the terms of the risk management plans approved by their respective Boards of Directors and, if applicable, by their respective regulators. Most energy-related physical and financial derivatives at the utilities qualify for regulatory deferral subject to the provisions of SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." These derivatives are marked to fair value pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." 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 collected from or refunded to customers.

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

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

At June 30, 2009, the utilities had the following notional volumes of outstanding non-hedge derivative contracts:

	Purchases	Other Transactions
Natural gas (millions of therms)	653.5	N/A
FTRs (millions of kilowatt-hours)	N/A	9,832.9
Petroleum products (barrels)	21,909	N/A

Cash Flow Hedges

PGL uses commodity contracts designated as cash flow hedges to hedge changes in the price of natural gas used to support operations. These contracts extend through December 2010. At June 30, 2009, PGL had the following notional volumes of outstanding contracts that were designated as cash flow hedges:

	Purchases
Natural gas (millions of therms)	7.2

Changes in the fair values of the effective portions of these contracts are included in other comprehensive income (OCI), net of taxes. Amounts recorded in OCI related to these cash flow hedges will be

recognized in earnings when the hedged transactions occur, or if it is probable that the hedged transaction will not occur. The tables below show the amounts related to cash flow hedges recorded in OCI and in earnings.

(Millions)	Unrealized Gain Recognized in OCI on Derivative Instrument (Effective Portion)			
	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Commodity contracts	\$ 0.8	\$ 1.2	\$ 0.2	\$ 2.7

(Millions)	Income Statement Presentation	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)			
		Three Months Ended June 30		Six Months Ended June 30	
		2009	2008	2009	2008
	Operating and maintenance				
Settled commodity contracts expense		\$ (0.8)	\$ 0.4	\$ (1.4)	\$ 0.3

The amount reclassified from accumulated OCI into earnings as a result of the discontinuance of cash flow hedge accounting for certain hedge transactions was not significant for the three and six months ended June 30, 2009, and 2008. Cash flow hedge ineffectiveness related to these commodity contracts was not significant for the three and six months ended June 30, 2009, and 2008. When testing for effectiveness, no portion of the derivative instruments was excluded. In the next 12 months, PGL expects that an insignificant pre-tax loss will be recognized in earnings as the hedged transactions occur.

Nonregulated Segments

Non-Hedge Derivatives

IntegrYS Energy Group's nonregulated segments enter into derivative contracts such as futures, forwards, options, and swaps that are not designated as accounting hedges under GAAP. In most cases, these contracts are used to manage commodity price risk associated with customer related contracts, interest rate risk associated with expected future natural gas purchases, and foreign currency exchange rate risk related to IntegrYS Energy Services' Canadian operations. In limited circumstances, IntegrYS Energy Services may also enter into non-hedge derivative contracts to take advantage of opportunities and inefficiencies in the natural gas and electric energy markets unrelated to its customer positions to profit on price movements.

At June 30, 2009, the nonregulated segments had the following notional volumes of outstanding non-hedge derivative contracts:

(Millions)	Purchases	Sales	Other Transactions
Commodity contracts			
Natural gas (therms)	6,835.6	6,860.3	N/A
Power (kilowatt-hours)	168,028.1	161,517.0	N/A
Interest rate swaps	N/A	N/A	\$ 240.6
Foreign exchange contracts	\$ 75.6	\$ 75.3	N/A

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

(Millions)	Financial Statement Presentation	Gain (Loss) During	
		Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Commodity contracts	Nonregulated revenue	\$ 8.8	\$ (30.8)
Interest rate swaps	Interest expense	0.2	0.3
Foreign exchange contracts	Nonregulated revenue	(1.2)	(1.1)
Total		\$ 7.8	\$ (31.6)

Fair Value Hedges

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

(Millions)	Income Statement Presentation	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
		Interest rate swap	Interest expense
Debt hedged by swap	Interest expense	-	0.3
Total		\$ -	\$ -

Fair value hedge ineffectiveness recorded in interest expense on the Condensed Consolidated Statements of Income was not significant for the three and six months ended June 30, 2009, and 2008. No amounts were excluded from effectiveness testing related to the interest rate swap during the three and six months ended June 30, 2009, and 2008.

In the first half of 2009, Integrys Energy Services did not have any commodity derivative contracts designated as fair value hedges. In the first half of 2008, Integrys Energy Services had commodity derivative contracts designated as fair value hedges to mitigate the risk of changes in the price of natural gas held in storage. Fair value hedge ineffectiveness recorded in nonregulated revenue on the Condensed Consolidated Statements of Income was not significant for the three months ended June 30, 2008, and was a pre-tax loss of \$2.8 million for the six months ended June 30, 2008. Changes in the difference between the spot and forward prices of natural gas were excluded from the assessment of hedge effectiveness and reported directly in nonregulated revenue. The amount excluded was not significant during the three months ended June 30, 2008, and was a pre-tax gain of \$4.3 million during the six months ended June 30, 2008.

Cash Flow Hedges

Futures, forwards, and swaps that are designated as cash flow hedges extend through April 2014, and are used to mitigate the risk of cash flow variability associated with future purchases and sales of natural gas and electricity. Integrys Energy Group has two interest rate swaps that are designated as cash flow hedges to fix the interest rate on an unsecured term loan through June 2010. At June 30, 2009, the nonregulated segments had the following notional volumes of outstanding contracts that were designated as cash flow hedges:

(Millions)	Purchases	Sales	Other Transactions
Commodity contracts			
Natural gas (therms)	147.0	168.6	N/A
Power (kilowatt-hours)	6,783.2	-	N/A
Interest rate swaps	N/A	N/A	\$ 65.6

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

occur. In March 2009, Integrys Energy Group settled two forward foreign currency exchange contracts that were designated as cash flow hedges to mitigate the variability in the foreign currency exposure of a fixed rate Japanese yen denominated term loan that matured in March 2009. The tables below show the amounts related to cash flow hedges recorded in OCI and in earnings.

(Millions)	Unrealized Gain (Loss) Recognized in OCI on Derivative Instrument (Effective Portion)			
	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Commodity contracts	\$ 1.2	\$ (12.9)	\$ (48.8)	\$ (33.9)
Interest rate swaps	0.6	2.0	1.5	0.3

(Millions)	Income Statement Presentation	Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)			
		Three Months Ended June 30		Six Months Ended June 30	
		2009	2008	2009	2008
Settled					
Commodity contracts	Nonregulated revenue	\$ (21.1)	\$ (12.7)	\$ (4.4)	\$ (13.8)
Interest rate swaps	Interest expense	(0.1)	(0.1)	(0.2)	(0.2)
Foreign currency	Interest expense	-	-	14.8	-
Hedge Designation Discontinued					
Commodity contracts	Nonregulated revenue	0.1	(3.0)	(0.4)	(2.9)
Total		\$ (21.1)	\$ (15.8)	\$ 9.8	\$ (16.9)

(Millions)	Income Statement Presentation	Gain (Loss) Recognized in Income on Derivative Instruments (Ineffective Portion and Amount Excluded from Effectiveness Testing)			
		Three Months Ended June 30		Six Months Ended June 30	
		2009	2008	2009	2008
Commodity contracts	Nonregulated revenue	\$			