

INTEGRYS ENERGY GROUP, INC.

Form 10-K

March 01, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2012

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.
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1-11337	INTEGRYS ENERGY GROUP, INC. (A Wisconsin Corporation) 130 East Randolph Street Chicago, IL 60601-6207 (312) 228-5400	39-1775292
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Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$1 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

]

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

Large accelerated filer

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant.

\$4,430,861,866 as of June 30, 2012

Number of shares outstanding of each class of common stock, as of February 20, 2013

Common Stock, \$1 par value, 78,400,088 shares

DOCUMENT INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the Integrys Energy Group, Inc. Annual Meeting of Shareholders to be held on May 16, 2013 are incorporated by reference into Part III.

INTEGRYS ENERGY GROUP, INC.

ANNUAL REPORT ON FORM 10-K
For the Year Ended December 31, 2012

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Acronyms Used in this Annual Report on Form 10-K

AFUDC	Allowance for Funds Used During Construction
AMRP	Accelerated Natural Gas Main Replacement Program
ASC	Accounting Standards Codification
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
ITF	IntegrYS Transportation Fuels, LLC
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
OCI	Other Comprehensive Income
PELLC	Peoples Energy, LLC (formerly known as Peoples Energy Corporation)
PGL	The Peoples Gas Light and Coke Company
PSCW	Public Service Commission of Wisconsin
SEC	United States Securities and Exchange Commission
UPPCO	Upper Peninsula Power Company
WDNR	Wisconsin Department of Natural Resources
WPS	Wisconsin Public Service Corporation
WRPC	Wisconsin River Power Company

Forward-Looking Statements

In this report, we make statements concerning our expectations, beliefs, plans, objectives, goals, strategies, and future events or performance. These statements are "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of future results and conditions. Although we believe that these forward-looking statements and the underlying assumptions are reasonable, we cannot provide assurance that such statements will prove correct.

Forward-looking statements involve a number of risks and uncertainties. Some risks that could cause actual results to differ materially from those expressed or implied in forward-looking statements include those described in Item 1A of this Annual Report on Form 10-K for the year ended December 31, 2012, and those identified below:

The timing and resolution of rate cases and related negotiations, including recovery of deferred and current costs and the ability to earn a reasonable return on investment, and other regulatory decisions impacting our regulated businesses;

Federal and state legislative and regulatory changes relating to the environment, including climate change and other environmental regulations impacting generation facilities and renewable energy standards;

Other federal and state legislative and regulatory changes, including deregulation and restructuring of the electric and natural gas utility industries, financial reform, health care reform, energy efficiency mandates, reliability standards, pipeline integrity and safety standards, and changes in tax and other laws and regulations to which we and our subsidiaries are subject;

Costs and effects of litigation and administrative proceedings, settlements, investigations, and claims;

Changes in credit ratings and interest rates caused by volatility in the financial markets and actions of rating agencies and their impact on our and our subsidiaries' liquidity and financing efforts;

The risks associated with changing commodity prices, particularly natural gas and electricity, and the available sources of fuel, natural gas, and purchased power, including their impact on margins, working capital, and liquidity requirements;

The timing and outcome of any audits, disputes, and other proceedings related to taxes;

The effects, extent, and timing of additional competition or regulation in the markets in which our subsidiaries operate;

The ability to retain market-based rate authority;

The risk associated with the value of goodwill or other intangible assets and their possible impairment;

The investment performance of employee benefit plan assets and related actuarial assumptions, which impact future funding requirements;

The impact of unplanned facility outages;

Changes in technology, particularly with respect to new, developing, or alternative sources of generation;

The effects of political developments, as well as changes in economic conditions and the related impact on customer use, customer growth, and our ability to adequately forecast energy use for our customers;

Potential business strategies, including mergers, acquisitions, and construction or disposition of assets or businesses, which cannot be assured to be completed timely or within budgets;

The risk of terrorism or cyber security attacks, including the associated costs to protect our assets and respond to such events;

The risk of failure to maintain the security of personally identifiable information, including the associated costs to notify affected persons and to mitigate their information security concerns;

The effectiveness of risk management strategies, the use of financial and derivative instruments, and the related recovery of these costs from customers in rates;

The risk of financial loss, including increases in bad debt expense, associated with the inability of our and our subsidiaries' counterparties, affiliates, and customers to meet their obligations;

Unusual weather and other natural phenomena, including related economic, operational, and/or other ancillary effects of any such events;

•The ability to use tax credit and loss carryforwards;

•The financial performance of ATC and its corresponding contribution to our earnings;

•The effect of accounting pronouncements issued periodically by standard-setting bodies; and

•Other factors discussed elsewhere herein and in other reports we file with the SEC.

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

PART I

ITEM 1. BUSINESS

A. GENERAL

In this report, when we refer to "us," "we," "our," or "ours," we are referring to Integrys Energy Group, Inc. References to "Notes" are to the Notes to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

For more information about our business operations, including financial and geographic information about each reportable business segment, see Note 26, "Segments of Business," and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Results of Operations."

Integrys Energy Group, Inc.

We are a diversified energy holding company headquartered in Chicago, Illinois. We were incorporated in Wisconsin in 1993. Our wholly owned subsidiaries provide products and services in both the regulated and nonregulated energy markets. In addition, we have a 34% equity interest in ATC (an electric transmission company operating in Wisconsin, Michigan, Minnesota, and Illinois). We have five reportable segments, which we discuss below.

Facilities

For information regarding our facilities, see Item 2, "Properties." For our utility and nonregulated plant asset book value, see Note 5, "Property, Plant, and Equipment."

Available Information

Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, registration statements, and any amendments to these documents are available, free of charge, on our website, www.integrysgroup.com, as soon as reasonably practicable after they are filed with or furnished to the SEC. Reports, statements, and amendments posted on our website do not include access to exhibits and supplemental schedules electronically filed with the reports, statements, or amendments. We are not including the information contained on or available through our website as a part of, or incorporating such information by reference into, this Annual Report on Form 10-K.

You may obtain materials we filed with or furnished to the SEC at the SEC Public Reference Room at 100 F Street, NE, Washington, DC 20549. To obtain information on the operation of the Public Reference Room, you may call the SEC at 1-800-SEC-0330. You may also view our reports, proxy and registration statements, and other information (including exhibits) filed or furnished electronically with the SEC, at the SEC's website at www.sec.gov.

B. REGULATED NATURAL GAS UTILITY OPERATIONS

Our natural gas utility segment includes the regulated natural gas utility operations of MERC, MGU, NSG, PGL, and WPS. MERC and MGU, both Delaware corporations, began operations upon the acquisition of existing natural gas distribution operations in Minnesota and Michigan, respectively, in July 2006 and April 2006, respectively. NSG and PGL, both Illinois corporations, began operations in 1900 and 1855, respectively. We acquired NSG and PGL in February 2007 in the PELLC merger. WPS, a Wisconsin corporation, began operations in 1883.

Our regulated natural gas utilities provide service to approximately 1,690,000 residential, commercial and industrial, transportation, and other customers. Our customers are located in Chicago and the northern suburbs of Chicago, northeastern Wisconsin and an adjacent portion of Michigan's Upper Peninsula, various cities and communities throughout Minnesota, and the southern portion of lower Michigan.

Natural Gas Supply

Our regulated natural gas utilities manage portfolios of natural gas supply contracts, storage services, and pipeline transportation services designed to meet varying customer use patterns at the lowest reasonable cost.

Our regulated natural gas supply requirements are met through a combination of fixed price purchases, index price purchases, contracted and owned storage, peak-shaving facilities, and natural gas supply call options. Our regulated natural gas subsidiaries contract for fixed-term firm natural gas supply each year (in the United States and Canada) to meet the demand of firm system sales customers. To supplement natural gas supply and manage risk, our regulated natural gas utilities purchase additional natural gas supply on the monthly and daily spot markets.

For more information on our regulated natural gas utility supply and transportation contracts, see Note 15, "Commitments and Contingencies."

Our regulated natural gas utilities own two storage fields and contract with various other underground storage service providers for additional storage services. Storage allows us to manage significant changes in daily natural gas demand and to purchase steady levels of natural gas on a year-round basis, thus providing a hedge against supply cost volatility. Our regulated natural gas utilities contract with local distribution companies and interstate pipelines to purchase firm transportation services. We believe that having multiple pipelines that serve our regulated natural gas service territory benefits our customers by improving reliability, providing access to a diverse supply of natural gas, and fostering competition among these service providers. These benefits can lead to favorable conditions for our regulated natural gas utilities when negotiating new agreements for transportation and storage services. Our regulated natural gas utilities further reduce their supply cost volatility through the use of financial instruments such as commodity futures, swaps, and options as part of their hedging program.

PGL owns and operates an underground natural gas storage reservoir in central Illinois (Manlove Field) and a natural gas pipeline system that connects Manlove Field to Chicago with eight major interstate pipelines. These assets are directed primarily to serving rate-regulated retail customers and are included in PGL's regulatory rate base. PGL also uses a portion of these company-owned storage and pipeline assets as a natural gas hub, which consists of providing transportation and storage services in interstate commerce to its wholesale customers. Customers deliver natural gas to PGL through an injection, and PGL later returns the natural gas to the customers when needed through a withdrawal. Title to the natural gas does not transfer to PGL. Therefore, all natural gas related only to the hub remains customer-owned. PGL recognizes service fees associated with the natural gas hub services provided to wholesale customers. These service fees reduce the cost of natural gas and services charged to retail customers in rates.

The table below is a rollforward of PGL's natural gas in storage balances related to the natural gas hub as well as natural gas hub service fees collected from wholesale customers:

Thousands of Dekatherms (MDth)	2012	2011	2010
Beginning Balance, January 1	5,261	5,156	5,187
Injections	7,000	7,000	7,010
Withdrawals	(7,021	) (6,895	) (7,041
Ending Balance, December 31	5,240	5,261	5,156
(Millions)	2012	2011	2010
Natural gas hub service fees	\$3.9	\$5.4	\$10.3

Our regulated natural gas utilities had adequate capacity to meet all firm natural gas demand obligations during 2012 and expect to have adequate capacity to meet all firm demand obligations during 2013. Our regulated natural gas utilities' forecasted design peak-day throughput is 3,690 MDth for the 2012 through 2013 heating season.

The sources of our deliveries to customers (including transportation customers) in MDth for regulated natural gas utility operations were as follows:

(MDth)	2012	2011	2010
Natural gas purchases	184,188	217,288	204,794
Natural gas purchases for electric generation	2,215	1,780	1,389
Customer-owned natural gas received	176,598	181,021	172,180
Underground storage, net	2,749	(1,425	) 3,494
Hub fuel in kind *	179	180	176
Liquefied petroleum gas (propane)	1	1	4
Owned storage cushion injection	(1,097	) (1,098	) (1,094
Contracted pipeline and storage compressor fuel, franchise requirements, and unaccounted-for natural gas	(8,037	) (10,809	) (7,544
Total	356,796	386,938	373,399

* This delivered natural gas was originally provided by hub customers whose contract requires them to provide additional natural gas to compensate for unaccounted-for natural gas in future deliveries.

Regulatory Matters

Our regulated natural gas utility retail rates are regulated by the ICC, PSCW, MPSC, and the MPUC. These commissions have general supervisory and regulatory powers over public utilities in their respective jurisdictions.

Sales are made and services are rendered by the regulated natural gas utilities pursuant to rate schedules on file with the respective commissions. These rate schedules contain various service classifications, which largely reflect customers' different uses and levels of consumption. Our regulated natural gas utilities bill customers for the distribution of natural gas as well as for a natural gas charge representing third-party costs for purchasing, transporting, and storing natural gas. This charge also includes gains, losses, and costs incurred under hedging programs, the amount of which is also subject to applicable commission authority. Prudently incurred natural gas costs are passed through to customers in current rates and,

therefore, have no impact on margins. Commissions in respective jurisdictions conduct annual proceedings regarding the reconciliation of revenues from the natural gas charge and related natural gas costs.

Almost all of the natural gas our regulated natural gas utilities distribute is transported to our distribution systems by interstate pipelines. The pipelines' transportation and storage services, including PGL's natural gas hub, are regulated by the FERC under the Natural Gas Act and the Natural Gas Policy Act of 1978. Under United States Department of Transportation regulations, the state commissions are responsible for monitoring our regulated natural gas utilities' safety compliance programs for our pipelines under 49 Code of Federal Regulations (CFR) Part 192 (Transportation of Natural and Other Gas by Pipeline: Minimum Federal Safety Standards) and 49 CFR Part 195 (Transportation of Hazardous Liquids by Pipeline).

All of our regulated natural gas utility subsidiaries are required to provide service and grant credit (with applicable deposit requirements) to customers within their service territories. Our regulated natural gas utilities are generally not allowed to discontinue service during winter moratorium months to residential customers who do not pay their bills. The Federal and certain state governments have legislation that provides for a limited amount of funding for assistance to low-income customers of the utilities.

See Note 25, "Regulatory Environment," for information regarding rate cases, decoupling mechanisms, and bad debt recovery mechanisms in place at the regulated natural gas utilities.

Other Matters

Seasonality

The natural gas throughput of our regulated natural gas utilities is generally higher during the winter months because the heating requirements of customers are temperature driven. During 2012, the regulated natural gas utility segment recorded approximately 64% of its revenues in January, February, March, November, and December.

Competition

Although our natural gas retail rates are regulated by various commissions, the regulated natural gas utilities still face competition from other entities and other forms of energy available to consumers in varying degrees, particularly for large commercial and industrial customers who have the ability to switch between natural gas and alternate fuels. Due to the volatility of energy commodity prices, our regulated natural gas utilities have seen customers with dual fuel capability switch to alternate fuels for short periods of time, then switch back to natural gas as market rates change.

Our regulated natural gas utilities offer natural gas transportation service and interruptible natural gas sales to enable customers to better manage their energy costs. Transportation customers purchase natural gas directly from third-party natural gas suppliers and use our regulated natural gas utilities' distribution systems to transport the natural gas to their facilities. Our regulated natural gas utilities still earn a distribution charge for transporting the natural gas for these customers. As such, the loss of revenue associated with the cost of natural gas that our transportation customers purchase from third-party suppliers has no impact on our regulated natural gas utilities' segment net income, as it is offset by an equal reduction to natural gas costs. Customers continue to switch between firm system supply, interruptible system supply, and transportation service each year as the economics and service options change.

Working Capital Requirements

The working capital needs of our regulated natural gas utility operations vary significantly over time due to volatility in levels of natural gas inventories and the price of natural gas. Our regulated natural gas utilities' working capital needs are met by cash generated from operations and debt (both long-term and short-term). The seasonality of natural

gas revenues causes the timing of cash collections to be concentrated from January through June. A portion of the winter natural gas supply needs is typically purchased and stored from April through November. Also, planned capital spending on our regulated natural gas distribution facilities is concentrated in April through November. Because of these timing differences, the cash flow from customers is typically supplemented with temporary increases in short-term borrowings (from external sources) during the late summer and fall. Short-term debt is typically reduced over the January through June period.

C. REGULATED ELECTRIC UTILITY OPERATIONS

The electric utility segment includes the regulated electric utility operations of UPPCO and WPS. UPPCO, a Michigan corporation, began operations in 1884. We acquired UPPCO in September 1998.

The regulated electric utility operations of UPPCO and WPS provide service to approximately 495,000 residential, commercial and industrial, wholesale, and other customers. WPS's customers are located in northeastern Wisconsin and an adjacent portion of Michigan's Upper Peninsula. UPPCO's customers are located in Michigan's Upper Peninsula. Wholesale electric service is provided to various customers, including municipal utilities, electric cooperatives, energy marketers, other investor-owned utilities, and municipal joint action agencies. Beginning in 2012, UPPCO no longer provides service to wholesale electric customers due to the expiration of its remaining wholesale electric contracts in 2011. In 2012, retail electric revenues accounted for 87.5% of total electric revenues, while wholesale electric revenues accounted for 12.5% of total electric revenues.

In 2012, WPS reached a firm net design peak of 2,347 megawatts on July 16. At the time of this summer peak, WPS's total firm resources (i.e., generation plus firm purchases) totaled 3,173 megawatts. The summer period is the most relevant for WPS's regulated electric utility capacity due to the air conditioning requirements of its customers.

The PSCW requires WPS to maintain a planning reserve margin above its projected annual peak demand forecast to help ensure reliability of electric service to its customers. The PSCW has a 14.5% reserve margin requirement for long-term planning (planning years two through ten). For short-term planning (planning year one), the PSCW requires Wisconsin utilities to follow the planning reserve margin established by MISO under Module E of its Open Access Transmission and Energy Markets Tariff. MISO has a 16.7% reserve margin requirement from January 1 through May 31, 2013, and 14.2% for the remainder of 2013. The MPSC does not have minimum guidelines for future supply reserves.

In 2012, UPPCO reached a firm net design peak of 105 megawatts on July 5. At the time of this peak, UPPCO's total firm resources totaled 195 megawatts. The MPSC does not have minimum guidelines for future supply reserves; however, the MISO short-term planning reserve margin requirements described above also apply to UPPCO.

WPS and UPPCO expect future supply reserves to meet the minimum planning reserve margin requirements for 2013. WPS and UPPCO had adequate capacity through company-owned generation units and power purchase contracts to meet all firm electric demand obligations during 2012 and expect to have adequate capacity to meet all obligations during 2013.

Electric Supply

Both WPS and UPPCO are members of MISO, a FERC-approved, independent, nonprofit organization, which operates a financial and physical electric wholesale market in the Midwest. WPS and UPPCO offer their generation and bid their customer load into the MISO market. MISO evaluates WPS's, UPPCO's, and other market participants' energy offers into, and subsequent withdrawals from, the system to economically dispatch electricity within the system. MISO settles the participants' offers and bids based on locational marginal prices, which are market-driven values based on the specific time and location of the purchase and/or sale of energy.

Electric Generation and Supply Mix

The sources of our electric utility supply were as follows:

(Millions)	2012	2011	2010
Energy Source (kilowatt-hours)			
Company-owned generation units			
Coal	7,390.1	8,634.5	10,232.9
Hydroelectric	251.2	348.9	306.5
Wind	330.6	309.3	287.7
Natural gas, fuel oil, and tire derived fuel	176.1	135.8	105.4
Total company-owned generation units	8,148.0	9,428.5	10,932.5
Power purchase contracts			
Nuclear (Kewaunee Power Station)	2,655.5	2,674.4	2,940.8
Natural gas (Fox Energy Center, LLC * and Combined Locks Energy Center, LLC)	2,892.6	1,593.9	608.4
Hydroelectric	392.6	570.7	526.7
Wind	220.1	210.6	149.1
Other	1,580.5	235.8	205.5
Total power purchase contracts	7,741.3	5,285.4	4,430.5

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Purchased power from MISO	849.3	1,605.2	781.9
Purchased power from other	106.3	100.1	342.9
Total purchased power	8,696.9	6,990.7	5,555.3
Opportunity sales			
Sales to MISO	(1,800.6	) (1,242.0	) (734.5
Net sales to other	(128.4	) (64.6	) (248.4
Total opportunity sales	(1,929.0	) (1,306.6	) (982.9
Total electric utility supply	14,915.9	15,112.6	15,504.9

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. The transaction is expected to close by the end of March 2013.

Fuel Costs

The cost of fuel per generation of one million British thermal units was as follows:

Fuel Type	2012	2011	2010
Coal	\$2.52	\$2.44	\$2.05
Natural gas	3.97	5.64	6.28
Fuel oil	26.12	21.24	18.44

Coal Supply

Coal is the primary fuel source for WPS's electric generation facilities. WPS's regulated fuel portfolio strategy is to maintain a 35- to 45-day supply of coal at each plant site. Currently the coal supply is higher than the portfolio strategy due to lower coal burning rates as a result of decreased natural gas prices and economic conditions. The majority of the coal is purchased from Powder River Basin mines located in Wyoming. This low sulfur coal has been WPS's lowest cost coal source of any of the subbituminous coal-producing regions in the United States. Historically, WPS has purchased coal directly from the producer for its wholly owned plants. WPS also purchases the coal for the jointly owned Weston 4 plant, and Dairyland Power Cooperative reimburses WPS for its share of the coal costs. Wisconsin Power and Light Company purchases coal for the jointly owned Edgewater and Columbia plants and is reimbursed by WPS for its share of the coal costs. At December 31, 2012, WPS had coal transportation contracts in place for 100% of its 2013 coal transportation requirements. For more information on coal purchases and coal deliveries under contract, see Note 15, "Commitments and Contingencies."

Power Purchase Agreements

Our electric utilities enter into short-term and long-term power purchase agreements to meet a portion of their electric energy supply needs. For more information on power purchase obligations, see Note 15, "Commitments and Contingencies."

Regulatory Matters

WPS's retail electric rates are regulated by the PSCW and the MPSC. UPPCO's retail electric rates are regulated by the MPSC. The FERC regulates wholesale electric rates for WPS and UPPCO. WPS and UPPCO must also comply with mandatory electric system reliability standards developed by the North American Electric Reliability Corporation (NERC), the electric reliability organization certified by the FERC. The Midwest Reliability Organization is responsible for the enforcement of NERC's standards for WPS and UPPCO.

The PSCW sets rates through its ratemaking process, which is based on recovery of operating costs and a return on invested capital. One of the cost recovery components is fuel and purchased power, which is governed by a fuel window mechanism, as described in Note 1(f), "Summary of Significant Accounting Policies – Revenues and Customer Receivables." The MPSC and the FERC ratemaking processes are similar to those of the PSCW, with the exception of fuel and purchased power, which are recovered on a one-for-one basis.

See Note 25, "Regulatory Environment," for information regarding the rate cases and decoupling mechanisms of our electric utilities.

Hydroelectric Licenses

WPS, UPPCO, and WRPC (a company in which WPS has 50% ownership) have long-term licenses from the FERC for their hydroelectric facilities.

Other Matters

Seasonality

Our electric utility sales in Wisconsin are generally higher during the summer months due to the air conditioning requirements of customers. Our regulated electric utility sales in Michigan do not follow a significant seasonal trend due to cooler climate conditions in the Upper Peninsula of Michigan.

Competition

The retail electric utility market in Wisconsin is regulated by the PSCW. Retail electric customers currently do not have the ability to choose their electric supplier. In order to increase sales, utilities work to attract new customers into their service territories. As a result, there is competition among utilities to keep energy rates low. Wisconsin utilities have continued to refine regulated tariffs in order to pass on the true cost of electricity to each class of customer by reducing or eliminating rate subsidies among different ratepayer classes. Although Wisconsin electric energy markets are regulated, utilities still face competition from other energy sources, such as self-generation by large industrial customers and alternative energy sources.

Michigan electric energy markets are open to competition. During 2012, alternate energy suppliers entered UPPCO's service territory in the Upper Peninsula of Michigan, creating an active competitive market.

D. INTEGRYS ENERGY SERVICES

IntegrYS Energy Services, a Wisconsin corporation, was established in 1994. 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.

IntegrYS Energy Services and its subsidiaries market electricity and natural gas in various retail markets, serving commercial and industrial customers, as well as direct and "aggregated" small commercial and residential customers. Aggregated customers are municipalities, associations, or groups of customers that have joined together to negotiate the purchase of electricity or natural gas as a larger group. At December 31, 2012, IntegrYS Energy Services was serving aggregated customers in Ohio and Illinois. In December 2012, IntegrYS Energy Services was selected by the City of Chicago to be the sole electric supplier for Chicago's electric aggregation program.

IntegrYS Energy Services invests in and promotes renewable energy, primarily distributed solar, which it believes is important to the future of the energy industry. Clean, renewable, and efficient energy sources are developed, acquired, owned, and operated by IntegrYS Energy Services. IntegrYS Energy Services assists customers with selecting an energy solution that meets their needs and collaborates with developers of energy projects to overcome challenges with integrating the technical, regulatory, and financial aspects of their projects.

IntegrYS Energy Services has invested in a joint venture with Duke Energy Generation Services to build and finance distributed solar projects throughout the United States. Duke Energy Generation Services and IntegrYS Energy Services equally fund the necessary equity capital for construction and ownership of the solar projects.

IntegrYS Energy Services uses physical and financial derivative instruments, including forwards, futures, options, and swaps, to manage its exposure to market risks from its energy assets and energy supply portfolios in accordance with limits and approvals established in its risk management and credit policies.

IntegrYS Energy Services' long-term energy asset strategy is to invest in distributed renewable projects. Consistent with this strategy, IntegrYS Energy Services entered into a definitive agreement in October 2012 to sell all of the membership interests of WPS Beaver Falls Generation, LLC and WPS Syracuse Generation, LLC, both of which own natural gas-fired generation plants located in the state of New York. This sale is expected to close during the first quarter of 2013. In November 2012, IntegrYS Energy Services sold all of the membership interests of WPS Westwood Generation, LLC, a waste coal generation plant located in Pennsylvania. IntegrYS Energy Services is also currently pursuing the sale of Combined Locks Energy Center, a natural gas-fired co-generation plant located in Wisconsin. For more information, see Note 4, "Dispositions."

Energy Supply

Physical supply obligations are created when IntegrYS Energy Services executes forward retail customer sales contracts. IntegrYS Energy Services' electricity supply requirements are primarily met through bilateral electricity purchase agreements with generation companies and other marketers, as well as purchases from regional power pools. IntegrYS Energy Services does not own any natural gas reserves, so all natural gas supply is procured from producers and other suppliers in the wholesale market. Natural gas is sourced at the customer demand regions, or from the supply region and transported to the customer demand regions under natural gas transportation contracts.

Fuel Supply for Generation Facilities

Integrys Energy Services' natural gas-fired facilities (86.0% of its installed generation portfolio) are subject to market price volatility and are dispatched to produce energy only when it is economical to do so. These facilities were all classified as held for sale at December 31, 2012. See Note 4, "Dispositions," for more information regarding these held for sale facilities. Integrys Energy Services' renewable energy facilities (14.0% of its installed generation portfolio) are all powered by renewable resources such as solar irradiance or landfill gas. There is no market price risk associated with the fuel supply of these facilities; however, production at these facilities can be intermittent due to the availability of the renewable energy resource.

Regulatory Matters

Integrys Energy Services is a FERC-authorized power marketer and has all of the licenses required to conduct business in the states in which it operates.

Other Matters

Customer Segmentation

As of December 31, 2012, Integrys Energy Services' largest retail electric markets included Illinois, New York, New England, Mid-Atlantic, Michigan, and Ohio. In addition, Integrys Energy Services' largest retail natural gas markets included Wisconsin, Illinois, Ohio, Michigan, and Mid-Atlantic. Integrys Energy Services continuously reviews and evaluates the profitability of its operations in each of its markets. Integrys Energy Services continues to concentrate on adding customers in existing markets and placing emphasis on business that provides an appropriate rate of return. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction," for a discussion of the current strategy for Integrys Energy Services.

Integrys Energy Services is not dependent on any one customer segment. Rather, a significant percentage of its retail sales volume is derived from several industries, including educational services; executive, legislative, and general government; paper and allied products; and food and kindred products.

Seasonality

Integrys Energy Services' business, in the aggregate, is somewhat seasonal with certain products selling more heavily in certain seasons than in others. Sales of natural gas generally peak in the winter months, while sales of electricity generally peak in the summer months. The first and fourth quarters, in the aggregate, are typically the most profitable periods. Integrys Energy Services' business can be volatile as a result of market conditions and the related market opportunities available to its customers.

Competition

Integrys Energy Services is a nonregulated retail energy marketer that competes against regulated utilities and other retail energy marketers. Integrys Energy Services competes with other energy providers on the basis of price, reliability, customer service, product offerings, financial strength, consumer convenience, performance, and reputation.

The competitive landscape differs in each regional area and within each targeted customer segment. For residential and small commercial customers, the primary competitive challenges come from the incumbent utility, established national marketers, regional marketers, and affiliated utility marketing companies. The large commercial, institutional, and industrial segments are very competitive in most markets with nearly all natural gas customers having already switched away from utilities to an alternative energy provider. National affiliated marketers, energy producers, and other independent retail energy companies compete for customers in this segment.

The local utilities generally have the advantage of long-standing relationships with their customers, and they have longer operating histories, greater financial and other resources, and greater name recognition in their markets compared to Integrys Energy Services. In addition, local utilities have been subject to many years of regulatory oversight and, thus, have a significant amount of experience regarding the policy preferences of their regulators. Local utilities may seek to decrease their tariff retail rates to limit or preclude opportunities for competitive energy suppliers and may seek to establish rates, terms, and conditions to the disadvantage of competitive energy suppliers.

The retail electric and natural gas markets in which Integrys Energy Services operates continue to evolve. Sustained low commodity prices, capital costs, and market volatility have lowered the barrier to entry into the retail marketing segment of the industry. Coupled with growing market opportunities, this has resulted in increased competition, leading to downward pressure on per-unit margins. However, Integrys Energy Services has been able to take

advantage of the continued growth opportunities in certain markets by increasing volumes contracted for future delivery. Integrys Energy Services' electric and natural gas volumes for future delivery have grown by approximately 50% and 23%, respectively, when comparing the future estimated contracted volumes at December 31, 2012 to December 31, 2011.

Working Capital

The working capital needs of Integrys Energy Services vary significantly over time due to volatility in commodity prices and related margin calls, and levels of natural gas storage inventories. Integrys Energy Services' working capital needs are met by cash generated from operations, equity infusions, and short-term debt. As of December 31, 2012, Integrys Energy Services had the ability to borrow up to \$665.0 million through an intercompany credit facility with us. As of December 31, 2012, we had provided total parental guarantees of \$536.4 million on behalf of Integrys Energy Services, which includes guarantees for the current retail business as well as residual guarantees related to exited businesses. Our exposure under these guarantees related to open transactions at December 31, 2012, was \$236.7 million.

E. ELECTRIC TRANSMISSION INVESTMENT

The electric transmission investment segment consists of our approximate 34% ownership interest in ATC. ATC is a federally regulated electric transmission company with operations in Wisconsin, Michigan, Minnesota, and Illinois. ATC began operations in 2001. See Note 8, "Equity Method Investments," for more information about ATC.

F. HOLDING COMPANY AND OTHER SEGMENT

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 WPS, MGU, MERC, UPPCO, PGL, NSG, and IBS. The compressed natural gas operations of ITF are included in this segment as of September 1, 2011, the date on which we acquired Trillium USA (Trillium) and Pinnacle CNG Systems (Pinnacle). See Note 3, "Acquisitions," for more information about the acquisition of Trillium and Pinnacle.

G. ENVIRONMENTAL MATTERS

For information on our environmental matters, see Note 15, "Commitments and Contingencies."

H. CAPITAL REQUIREMENTS

For information on our capital requirements, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources."

I. EMPLOYEES

At December 31, 2012, our consolidated subsidiaries had the following full-time employees:

	Total Number of Employees	Percentage of Employees Covered by Collective Bargaining Agreements	
WPS	1,283	70	%
IBS	1,254	—	%
PGL	1,183	74	%
Integrys Energy Services	267	—	%
MERC	214	20	%
NSG	161	78	%
MGU	153	70	%
UPPCO	114	81	%
ITF	88	—	%
Total	4,717	45	%

Our subsidiaries have collective bargaining agreements with various unions which are summarized in the table below.

Union	Subsidiary	Contract Expiration Date	
Local 420 of the International Union of Operating Engineers	WPS	October 13, 2012	*
Local 18007 of the Utility Workers Union of America	PGL	April 30, 2013	
Local 31 of the International Brotherhood of Electrical Workers, AFL CIO	MERC	May 31, 2013	
Local 2285 of the International Brotherhood of Electrical Workers, AFL CIO	NSG	June 30, 2013	
Local 510 of the International Brotherhood of Electrical Workers, AFL CIO	UPPCO	April 12, 2014	
Local 12295 of the United Steelworkers of America, AFL CIO CLC	MGU	January 15, 2015	
Local 417 of the Utility Workers Union of America, AFL CIO	MGU	February 15, 2016	

*A new collective bargaining agreement is currently being negotiated.

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J. EXECUTIVE OFFICERS OF INTEGRYS ENERGY GROUP

Name and Age ⁽¹⁾	Position and Business Experience During Past Five Years	Effective Date
Charles A. Schrock	59 Chairman, President and Chief Executive Officer	04-01-10
	President and Chief Executive Officer	01-01-09
	President and Chief Executive Officer of WPS	05-31-08
	President of WPS	02-21-07
Lawrence T. Borgard	51 President and Chief Operating Officer – Utilities	04-05-09
	President and Chief Operating Officer – Integrys Gas Group ⁽²⁾	02-21-07
Phillip M. Mikulsky	64 Executive Vice President – Corporate Initiatives and Chief Security Officer	01-01-13
	Executive Vice President – Business Performance and Shared Services	12-26-10
	Executive Vice President – Corporate Development and Shared Services	09-21-08
	Executive Vice President and Chief Development Officer	02-21-07
Mark A. Radtke	51 Executive Vice President – Shared Services and Chief Strategy Officer	01-01-13
	Executive Vice President and Chief Strategy Officer	12-26-10
	Chief Executive Officer – Integrys Energy Services	01-10-10
	President and Chief Executive Officer – Integrys Energy Services	06-01-08
	President – Integrys Energy Services (previously named WPS Energy Services, Inc.)	10-17-99
Joseph P. O'Leary	58 Senior Vice President	01-01-13
	Senior Vice President and Chief Financial Officer	06-04-01
James F. Schott	55 Vice President and Chief Financial Officer	01-01-13
	Vice President – External Affairs	03-22-10
	Vice President – Regulatory Affairs	07-18-04
Linda M. Kallas	53 Vice President and Corporate Controller	09-01-12
	Vice President of Finance and Accounting Services	06-06-07
William J. Guc	43 Vice President and Treasurer	12-01-10
	Vice President – Finance and Accounting and Controller – Integrys Energy Services	03-07-10
	Vice President and Controller – Integrys Energy Services	09-21-08
	Controller – Integrys Energy Services (previously named WPS Energy Services)	02-21-05
William D. Laakso	50 Vice President – Human Resources and Corporate Communications	01-01-13
	Vice President – Human Resources	09-21-08
	Interim Vice President – Human Resources – IBS	05-15-08
	Director – Workforce and Organizational Development – WPS	08-12-07
Jodi J. Caro ⁽³⁾	47 Vice President, General Counsel and Secretary	11-09-12

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Vice President, General Counsel and Assistant Secretary	02-19-12
Vice President of Legal Services	01-07-08
Owner, Jodi J. Caro, LLC	11-01-06

Daniel J. Verbanac	49	President – Integrys Energy Services	01-01-10
		Chief Operating Officer – Integrys Energy Services (previously named WPS Energy Services)	02-15-04

(1) Officers and their ages are as of January 1, 2013. None of the executives listed above are related by blood, marriage, or adoption to any of our other officers listed or to any of our directors. Each officer holds office until his or her successor has been duly elected and qualified, or until his or her death, resignation, disqualification, or removal.

(2) The Integrys Gas Group included MGU, MERC, NSG, and PGL.

(3) Prior to joining Integrys Energy Group, Jodi J. Caro owned and operated her own law practice, Jodi J. Caro, LLC, which provided general counsel and corporate transactional services to clients nationwide.

ITEM 1A. RISK FACTORS

You should carefully consider the following risk factors, as well as the other information included or incorporated by reference in this Annual Report on Form 10-K, when making an investment decision.

We are subject to government regulation, which may have a negative impact on our businesses, financial position, and results of operations.

We are subject to comprehensive regulation by several federal and state regulatory agencies and local governmental bodies. This regulation significantly influences our operating environment and may affect our ability to recover costs from customers of our regulated operations. Many aspects of our operations are regulated, including, but not limited to, construction and operation of facilities, conditions of service, the issuance of securities, and the rates that we can charge customers. We are required to have numerous permits, approvals, and certificates from these agencies to operate our business. Failure to comply with any applicable rules or regulations may lead to penalties or customer refunds, which could have a material adverse impact on our financial results.

Existing statutes and regulations may be revised or reinterpreted by federal and state regulatory agencies, or these agencies may adopt new laws and regulations that apply to us. We are unable to predict the impact on our business and operating results of any such actions by these agencies. However, changes in regulations or the imposition of additional regulations may require us to incur additional expenses or change business operations, which may have an adverse impact on results of operations.

The rates, including adjustments determined under riders, that our regulated utilities are allowed to charge for retail and wholesale services are the most important factors influencing our business, financial position, results of operations, and liquidity. Rate regulation is premised on providing an opportunity to recover prudently incurred costs and earn a reasonable rate of return on invested capital. However, there is no assurance that regulatory commissions will consider all the costs of our regulated utilities to have been prudently incurred. In addition, the regulatory process will not always result in rates that will produce full recovery of such costs or provide for a reasonable return on equity. Certain expense and revenue items are deferred as regulatory assets and liabilities for future recovery or refund to customers, as authorized by regulators. Future recovery of regulatory assets is not assured, and is generally subject to review by regulators in rate proceedings for prudence and reasonableness. If recovery of costs is not approved or is no longer deemed probable, regulatory assets would be recognized in current period expense and could have a material adverse impact on our financial results.

We are subject to environmental laws and regulations, compliance with which could be difficult and costly.

We are subject to numerous federal and state environmental laws and regulations that affect many aspects of our operations, including future operations. These laws and regulations relate to air emissions, water quality, wastewater discharges, and the generation, transport, and disposal of solid wastes and hazardous substances. These laws and regulations require us to obtain and comply with a wide variety of environmental registrations, licenses, permits, inspections, and other approvals. Environmental laws and regulations can also require us to restrict or limit the output of certain facilities or the use of certain fuels, install pollution control equipment or environmental monitoring equipment at our facilities, incur fees for emissions and permits, and incur expenditures for cleanup costs, damages arising from contaminated properties, and monitoring obligations. In addition, there is uncertainty in quantifying liabilities under environmental laws that impose joint and several liability on all potentially responsible parties. Compliance with current and future environmental laws and regulations may result in increased capital, operating, and other costs. Noncompliance could result in fines, penalties, and injunctive measures affecting our facilities.

Existing environmental laws or regulations may also be revised and/or new laws or regulations seeking to protect the environment may be adopted or become applicable to us. These laws and regulations include, but are not limited to, regulation regarding mercury, sulfur dioxide, and nitrogen oxide emissions, and the management of coal combustion byproducts, including fly ash. The steps we could be required to take to ensure that our facilities are in compliance with any such laws and regulations could be prohibitively expensive. As a result, certain coal-fired electric generating facilities may become uneconomical to run and could result in early retirement of some of our units or may force us to convert the units to an alternative type of fuel. Costs associated with these potential actions could affect our results of operations and financial condition.

Our natural gas utility subsidiaries are accruing liabilities and deferring costs (recorded as regulatory assets) incurred in connection with their former manufactured gas plant sites. These costs include all recoverable costs incurred to date, management's best estimates of future costs for investigation and remediation, and legal expenses, and are net of amounts recovered by or that may be recovered from insurance or other entities. The ultimate costs to remediate these sites could also vary from the amounts currently accrued.

Citizen groups that feel environmental regulations are not being sufficiently enforced by environmental regulatory agencies may also bring citizen enforcement actions against us. Such actions could seek penalties, injunctive relief, and costs of litigation. There is also a risk that private citizens may bring lawsuits to recover environmental damages they believe they have incurred.

We may incur significant costs if laws or regulations are adopted to address climate change.

Political interest in climate change and the effects of greenhouse gas emissions, most notably carbon dioxide, are a concern for the energy industry. Although no legislation is currently pending that would affect us, state or federal legislation could be passed in the future to regulate greenhouse gas emissions. In addition, the EPA began regulating greenhouse gas emissions under the Clean Air Act (CAA) by applying the Best Available Control Technology (BACT) requirements, which are associated with the New Source Review Program. These requirements apply to new and modified larger greenhouse gas emitters. The EPA has issued a proposed rule that would impose a carbon dioxide emission rate limit on new electric generating units, but the EPA has delayed proposing performance standards for existing units. Until legislation is passed at the federal or state level or the EPA adopts final rules for electric utility steam generating units, it remains unclear as to (1) which industry sectors will be impacted, (2) when compliance will be required, (3) the magnitude of the greenhouse gas emissions reductions that will be required, and (4) the costs and opportunities associated with compliance.

It is possible that future carbon regulation will increase the cost of electricity produced at fossil fuel-fired generation units. Future regulation may also affect the capital expenditures we would make at our generation units, including costs to further limit the greenhouse gas emissions from our operations through carbon capture and storage technology. Any such regulation may also create substantial additional costs in the form of taxes or emission allowances and could also affect the availability or cost of fossil fuels. Future legislation designed to reduce greenhouse gas emissions could make some generating units uneconomical to maintain or operate and could impact future results of operations, cash flows, and financial condition if such costs are not recoverable through regulated rates.

Our natural gas delivery systems may generate fugitive gas as a result of normal operations and as a result of excavation, construction, and repair of natural gas delivery systems. Fugitive gas typically vents to the atmosphere and consists primarily of methane, a greenhouse gas. Carbon dioxide is also a byproduct of natural gas consumption. As a result, future legislation to regulate greenhouse gas emissions could increase the price of natural gas, restrict the use of natural gas, adversely affect our ability to operate our natural gas facilities, and/or reduce natural gas demand, which could have a material adverse impact on our results of operations and financial condition.

Our operations are subject to various conditions which can result in fluctuations in the number of customers and their usage.

Our operations are affected by the demand for electricity and natural gas, which can vary greatly based upon:

- Fluctuations in general economic conditions and growth in the service areas in which we operate;
- Weather conditions;
- The amount of energy available from current or new competitors; and
- Our customers' continued focus on energy efficiency.

Our operations are subject to risks arising from the reliability of our electric generation, transmission and distribution facilities, natural gas infrastructure facilities and other facilities, as well as the reliability of third-party transmission providers.

The operation of electric generation and natural gas and electric distribution facilities involves many risks, including the risk of potential breakdown or failure of equipment or processes, which may occur due to storms, natural disasters, or other catastrophic events. Other risks include aging infrastructure, fuel supply or transportation disruptions, accidents, employee labor disputes, construction delays or cost overruns, shortages of or delays in obtaining equipment, material and labor, and performance below expected levels. Because our electric generation facilities are

interconnected with third-party transmission facilities, the operation of our facilities could also be adversely affected by unexpected or uncontrollable events occurring on the systems of these third parties.

Operation of our power plants below expected capacity could result in lost revenues and increased expenses, including higher operating and maintenance costs, purchased power costs, and capital requirements. Unplanned outages of generating units and extensions of scheduled outages due to mechanical failures or other problems may occur and are an inherent risk of our business. Unplanned outages may reduce our revenues or may require us to incur significant costs by forcing us to operate our higher cost electric generators or obtain replacement power from third parties in the open market to satisfy our power sales obligations. Insurance, warranties, performance guarantees, or recovery through the regulatory process may not cover any or all of the lost revenues or increased expenses.

New and pending environmental regulations may force many generation facility owners in the Midwest, including our electric utilities, to retire a significant number of older coal-fired generation facilities, resulting in a potential reduction in the region's capacity reserve margin to below acceptable risk levels. This could also impair the reliability of the Midwest portion of the grid, especially during peak demand periods. A reduction in available future capacity could also adversely affect our ability to serve our customers' needs.

We are obligated to provide safe and reliable service to customers within our service territories. Meeting this commitment requires significant capital resources. Failure to provide safe and reliable service and failure to meet regulatory reliability standards could adversely affect our operating results through the imposition of penalties and fines or other adverse regulatory outcomes.

Our operations are subject to risks beyond our control, including but not limited to, cyber security attacks, terrorist attacks, acts of war, or unauthorized access to personally identifiable information.

Any future terrorist attack, cyber security attack, and/or act of war affecting our facilities and operations could have an adverse impact on our results of operations, financial condition, and cash flows. The energy industry uses sophisticated information technology systems and network infrastructure, which control an interconnected system of generation, distribution, and transmission systems with other third parties. A cyber security attack may occur despite our security measures or those that we require our vendors to take, including compliance with reliability standards and critical infrastructure protection standards. Cyber security attacks, including those targeting information systems and electronic control systems used at generating facilities and electric and natural gas transmission, distribution, and storage systems, could severely disrupt our operations and result in loss of service to customers. The risk of such attacks may also increase our capital and operating costs as a result of having to implement increased security measures for protection of our information technology and infrastructure.

Our business requires the collection and retention of personally identifiable information of our customers, shareholders, and employees, who expect that we will adequately protect such information. A significant theft, loss, or fraudulent use of personally identifiable information may cause our business reputation to be adversely impacted, may lead to potentially large costs to notify and protect the impacted persons, and/or may cause us to become subject to legal claims, fines, or penalties, any of which could adversely impact our results of operations.

The costs of repairing damage to our facilities, protecting personally identifiable information, and notifying impacted persons, as well as related legal claims, may not be recoverable in rates, may exceed the insurance limits on our insurance policies, or, in some cases, may not be covered by insurance.

Counterparties and customers may not meet their obligations.

We are exposed to the risk that counterparties to various arrangements who owe us money, electricity, natural gas, coal, or other commodities or services will not be able to perform their obligations. Should the counterparties to these arrangements fail to perform, we may be forced to replace the underlying commitment at then-current market prices or we may be unable to meet all of our customers' natural gas and electric requirements unless or until alternative supply arrangements are put in place. In such event, we may incur losses, or our results of operations, financial position, or liquidity could otherwise be adversely affected.

Some of our customers are experiencing, or may experience, financial problems that could have a significant impact on their creditworthiness. We cannot provide assurance that financially distressed customers will not default on their obligations to us and that such defaults will not have a material adverse impact on our business, financial position, results of operations, or cash flows. Furthermore, the bankruptcy of one or more of our customers, or some other similar proceeding or liquidity constraint, could adversely impact our receivable collections or increase our bad debt allowances for these customers, which could adversely affect our operating results. In addition, such events might force customers to reduce their future use of our products and services, which could have a material adverse impact on our results of operations and financial condition.

Any change in our ability to sell electricity generated from our facilities at market-based rates may impact earnings.

The FERC has authorized certain of our subsidiaries to sell generation from their facilities at market prices. The FERC retains the authority to modify or withdraw this market-based rate authority. If the FERC determines that the market is not workably competitive, that we or our subsidiaries possess market power, that we are not charging just and reasonable rates, or that we have not complied with the rules required in order to maintain market-based rates, the FERC may require our subsidiaries to sell power at a price based upon the costs incurred in producing the power. Our

revenues and profit margins may be negatively affected by any reduction by the FERC of the rates we may receive.

Poor investment performance of retirement plan investments and other factors impacting retirement plan costs could unfavorably impact our liquidity and results of operations.

We have employee benefit plans that cover substantially all of our employees and retirees. Our cost of providing these benefit plans varies depending upon actual plan experience and assumptions concerning the future. These assumptions include earnings on and/or valuations of plan assets, discount rates, the level of interest rates used to measure the required minimum funding levels of the plans, future government regulation, estimated withdrawals by retirees, and required or voluntary contributions to the plans. Depending on the investment performance over time and other factors impacting our costs, we could be required to make larger contributions in the future to fund these plans. These additional funding obligations could have a material adverse impact on our cash flows, financial condition, and/or results of operations. Changes made to the plans may also impact current and future pension and other postretirement benefit costs.

As a holding company, we rely on the earnings of our subsidiaries to meet our financial obligations.

We are a holding company, and our investments in our subsidiaries are our primary assets. Substantially all of our operations are conducted by our subsidiaries. Consequently, our ability to meet our financial obligations and pay dividends on our common stock is dependent upon the ability of our subsidiaries to make payments to us, whether through dividends or otherwise. Our subsidiaries are separate legal entities that have no obligation to pay any of our obligations or to make any funds available for that purpose or for the payment of dividends on our common stock. The ability of our subsidiaries to make payments to us depends on their earnings, cash flows, capital requirements, general financial condition, and

regulatory limitations. In addition, each subsidiary's ability to pay dividends to us depends on any statutory and/or contractual restrictions, which may include requirements to maintain levels of debt or equity ratios, working capital, or other assets. Our utility subsidiaries are regulated by various state utility commissions, which generally possess broad powers to ensure that the needs of the utility customers are being met.

We may not be able to use tax credit and/or net operating loss carryforwards.

We have significantly reduced our consolidated federal and state income tax liability in the past through tax credits and net operating loss carryforwards available under the applicable tax codes. We have not fully used these tax credits and net operating loss carryforwards in our previous tax filings, and we may not be able to fully use the tax credits and net operating losses available as carryforwards if our future federal and state taxable income and related income tax liability is insufficient to permit the use of such credits and losses. In addition, any future disallowance of some or all of those tax credits or net operating loss carryforwards as a result of legislative change or adverse determination by one of the applicable taxing jurisdictions could materially affect our tax obligations and financial results.

Adverse capital and credit market conditions could negatively affect our ability to meet liquidity needs, access capital, and/or grow or sustain our current business. Cost of capital and disruptions, uncertainty, and/or volatility in the financial markets could adversely impact our results of operations and financial condition, as well as exert downward pressure on our stock price.

Having access to the credit and capital markets, at a reasonable cost, is necessary for us to fund our operations and capital requirements. The capital and credit markets provide us with liquidity to operate and grow our businesses that is not otherwise provided from operating cash flows and also supports our ability to provide credit support for our subsidiaries. Disruptions, uncertainty, and/or volatility in those markets could increase our cost of capital or limit the availability of capital. If we or our subsidiaries are unable to access the credit and capital markets on terms that are reasonable, we may have to delay raising capital, issue shorter-term securities, and/or bear an increased cost of capital. This, in turn, could impact our ability to grow or sustain our current businesses, cause a reduction in earnings, result in a credit rating downgrade, and/or limit our ability to sustain our current common stock dividend level.

A reduction in our or our subsidiaries' credit ratings could materially and adversely affect our business, financial position, results of operations, and liquidity.

We cannot be sure that any of our or our subsidiaries' credit ratings will not be lowered by a rating agency if, in the rating agency's judgment, circumstances in the future so warrant. Any downgrade could:

- Require the payment of higher interest rates in future financings and possibly reduce the potential pool of creditors;
- Increase borrowing costs under certain existing credit facilities;
- Limit access to the commercial paper market;
- Limit the availability of adequate credit support for our subsidiaries' operations; and
- Require provision of additional credit assurance, including cash margin calls, to contract counterparties.

Fluctuating commodity prices may impact energy margins and result in changes to liquidity requirements.

The margins and liquidity requirements of our businesses are impacted by changes in the forward and current market prices of natural gas, coal, electricity, renewable energy credits, and ancillary services. Changes in price could result in:

- Higher working capital costs, particularly related to natural gas inventory, accounts receivable, and cash collateral postings;

Increased liquidity requirements due to potential counterparty margin calls related to the use of derivative instruments to manage commodity price and volume exposure;

Reduced profitability to the extent that reduced margins, increased bad debt, and interest expenses are not recovered through rates;

Higher rates charged to our customers, which could impact the company's competitive position;

Reduced demand for energy, which could impact margins and operating expenses; and

Shutting down of generation facilities if the cost of generation exceeds the market price for electricity.

We have recorded goodwill and other intangibles that could become impaired.

To the extent the value of goodwill or other intangibles becomes impaired, we have had to, and in the future, may also be required to, incur material noncash charges relating to such impairments. These impairment charges could have a material impact on our financial results.

We are subject to the Wisconsin Public Utility Holding Act, which may limit merger and acquisition opportunities that could benefit our shareholders.

The Wisconsin Public Utility Holding Company Law limits our ability to invest in nonutility related businesses and may make it more difficult for others to obtain control of us. This law mandates that the PSCW must first determine that the acquisition is in the best interests of utility customers, investors, and the public. Those interests may, to some extent, be mutually exclusive. This provision and other requirements of the Wisconsin Public

Utility Holding Company Act may delay, or reduce the likelihood of, a sale or change of control thus reducing the likelihood that shareholders will receive a takeover premium for their shares.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

A. REGULATED

Electric Facilities

The following table summarizes information on our electric generation facilities, including owned and jointly owned facilities, as of December 31, 2012:

Type	Name	Location	Fuel	Rated Capacity (Megawatts) ⁽¹⁾	
Steam	Columbia Units 1 and 2	Portage, Wisconsin	Coal	356.8	(2)
	Edgewater Unit 4	Sheboygan, Wisconsin	Coal	100.9	(2)
	Pulliam (4 units)	Green Bay, Wisconsin	Coal	325.0	
	Weston Units 1, 2, and 3	Marathon County, Wisconsin	Coal	458.9	
	Weston Unit 4	Marathon County, Wisconsin	Coal	375.2	(2)
Total Steam				1,616.8	
Combustion Turbine and Diesel	De Pere Energy Center	De Pere, Wisconsin	Natural Gas	163.7	
	Gladstone	Gladstone, Michigan	Oil	15.6	
	Juneau #31	Adams County, Wisconsin	Distillate Fuel Oil	6.1	(2)
	Portage	Houghton, Michigan	Oil	16.7	
	Pulliam #31	Green Bay, Wisconsin	Natural Gas	85.0	
	West Marinette #31	Marinette, Wisconsin	Natural Gas	38.6	
	West Marinette #32	Marinette, Wisconsin	Natural Gas	38.6	
	West Marinette #33	Marinette, Wisconsin	Natural Gas	76.9	
	Weston #31	Marathon County, Wisconsin	Natural Gas	15.4	
	Weston #32	Marathon County, Wisconsin	Natural Gas	46.3	
Total Combustion Turbine and Diesel				502.9	
Hydroelectric	Various	Michigan	Hydro	16.9	
	Various	Wisconsin	Hydro	66.5	(3)

Total Hydroelectric				83.4
Wind	Lincoln	Wisconsin	Wind	1.0
	Crane Creek	Iowa	Wind	18.8
Total Wind				19.8
Total System				2,222.9

Based on capacity ratings for July 2013, which can differ from nameplate capacity, especially on wind projects.

- (1) The summer period is the most relevant for capacity planning purposes at our electric segment as a result of continually reaching demand peaks in the summer months, primarily due to air conditioning demand.
- (2) These facilities are jointly owned by WPS and various other utilities. The capacity indicated for each of these units is equal to WPS's portion of total plant capacity based on its percent of ownership.

Wisconsin Power and Light Company operates the Columbia and Edgewater units, and WPS holds a 31.8% ownership interest in these facilities.

WPS operates the Weston 4 facility and holds a 70% ownership in this facility, while Dairyland Power Cooperative holds the remaining 30% interest.

WRPC owns and operates the Juneau unit. WPS holds a 50% ownership interest in WRPC.

WRPC owns and operates the Castle Rock and Petenwell units. WPS holds a 50% ownership interest in WRPC;

- (3) however, WPS is entitled to 66.6% of total capacity at Castle Rock and Petenwell. WPS's share of capacity for Castle Rock is 11.6 megawatts, and WPS's share of capacity for Petenwell is 13.4 megawatts.

In September 2012, WPS entered into an agreement to purchase the Fox Energy Center, a 593-megawatt combined-cycle electric generating natural gas facility located in Wisconsin. The transaction is expected to close by the end of March 2013.

As of December 31, 2012, our electric utilities owned approximately 25,000 miles of electric distribution lines located in Michigan and Wisconsin and 181 distribution substations.

Natural Gas Facilities

At December 31, 2012, our natural gas properties were located in Illinois, Wisconsin, Minnesota, and Michigan, and consisted of the following:

- ▲ Approximately 22,200 miles of natural gas distribution mains,
- ▲ Approximately 1,000 miles of natural gas transmission mains,
- ▲ Approximately 300 natural gas distribution and transmission gate stations,
- ▲ Approximately 1.3 million natural gas lateral services,
- ▲ A 3.9 billion-cubic-foot underground natural gas storage field located in Michigan,
- ▲ A 38.2 billion-cubic-foot underground natural gas storage reservoir located in central Illinois,* and
- ▲ A 2.0 billion-cubic-foot liquefied natural gas plant located in central Illinois.*

* PGL owns and operates this reservoir and liquefied natural gas plant in central Illinois (Manlove Field). PGL also owns a natural gas pipeline system that connects Manlove Field to Chicago with eight major interstate pipelines. The underground storage reservoir also serves NSG under a contractual arrangement. PGL uses its natural gas storage and pipeline supply assets as a natural gas hub in the Chicago area.

General

Substantially all of our utility plant at WPS, PGL, and NSG is subject to first mortgage liens.

B. INTEGRYS ENERGY SERVICES

The following table summarizes information on the energy asset facilities owned by Integrys Energy Services as of December 31, 2012:

Type	Name	Location	Fuel	Rated Capacity (Megawatts) ⁽¹⁾	
Combined Cycle	Beaver Falls	Beaver Falls, New York	Gas/Oil	78.5	(4)
	Combined Locks	Combined Locks, Wisconsin	Gas	45.5	(2)
	Syracuse	Syracuse, New York	Gas/Oil	84.1	(4)
Total Combined Cycle				208.1	
Reciprocating Engine	Winnebago	Rockford, Illinois	Landfill Gas	6.1	
Solar	Various	Various States	Solar Irradiance	27.9	(3)
Total Energy Assets				242.1	
					Length of Pipeline (Miles)
Landfill Gas Transportation	LGS	Brazoria County, Texas	N/A	33 miles	

(1) Based on summer rated capacity.

(2) Combined Locks has an additional five megawatts of capacity available at this facility through the lease of a steam turbine. Integrys Energy Services is currently pursuing the sale of Combined Locks Energy Center. For more information, see Note 4, "Dispositions."

(3) The solar facilities consist of small distributed solar projects ranging from 0.1 to 2.3 megawatts in size. A portion of the solar facilities are wholly owned by subsidiaries of Integrys Energy Services and others are owned by INDU Solar Holdings, LLC, which is a jointly owned subsidiary of Integrys Energy Services and Duke Energy Generation Services. Of the capacity listed, 7.4 megawatts is Integrys Energy Services' portion of total solar capacity based on their 50% ownership in INDU Solar Holdings, LLC.

(4) Integrys Energy Services entered into a definitive agreement in 2012 to sell all of the membership interests of WPS Beaver Falls Generation, LLC and WPS Syracuse Generation, LLC. This sale is expected to close during the first quarter of 2013. For more information, see Note 4, "Dispositions."

C. HOLDING COMPANY AND OTHER

The following table summarizes information on the compressed natural gas fueling stations owned by ITF as of December 31, 2012:

Type	Name	Location	Number of Locations *
Compressed Natural Gas (CNG)	Various	Various States	16

* The CNG fueling stations consist of 13 stations that are wholly owned and operated by Trillium and three stations that are owned by Trillium HD, which is a jointly owned subsidiary of ITF and Paper Transport, Inc. ITF operates the stations, and holds a 50% ownership in Trillium HD.

ITEM 3. LEGAL PROCEEDINGS

For information on material legal proceedings and matters related to us and our subsidiaries, see Note 15, "Commitments and Contingencies."

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock and Dividend Data

Our common stock is traded on the New York Stock Exchange under the ticker symbol "TEG." The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company, LLC, 6201 15th Avenue, Brooklyn, NY 11219. The quarterly high and low sales prices for our common stock and the cash dividends per share declared for each quarter during the past two years were as follows:

Quarter	2012			2011		
	High	Low	Dividends	High	Low	Dividends
First	\$54.88	\$50.80	\$0.68	\$51.03	\$47.51	\$0.68
Second	57.55	50.89	0.68	54.02	49.10	0.68
Third	61.92	51.79	0.68	52.79	42.76	0.68
Fourth	55.83	51.14	0.68	54.61	45.75	0.68

As of the close of business on February 20, 2013, we had 28,208 holders of record of our common stock.

Dividend Restrictions

We are a holding company and our ability to pay dividends is largely dependent upon the ability of our subsidiaries to make payments to us in the form of dividends or otherwise. For information regarding restrictions on the ability of our subsidiaries to pay us dividends, see Note 19, "Common Equity."

Equity Compensation Plans

See Item 11, "Executive Compensation," for information regarding equity securities authorized for issuance under our equity compensation plans.

Issuer Purchases of Equity Securities

The following table provides a summary of common stock purchases for the three months ended December 31, 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
10/01/2012 - 10/31/2012 *	28,977	\$55.06	—	—
11/01/2012 - 11/30/2012 *	12,682	53.05	—	—
12/01/2012 - 12/31/2012 *	71,078	53.82	—	—
Total	112,737	\$54.05	—	—

Represents shares purchased in the open market by American Stock Transfer & Trust Company to satisfy

* obligations under various equity compensation plans and to provide shares to participants in the Stock Investment Plan.

ITEM 6. SELECTED FINANCIAL DATA

INTEGRYS ENERGY GROUP, INC.
COMPARATIVE FINANCIAL DATA AND OTHER STATISTICS

As of or for Year Ended December 31

(Millions, except per share amounts,

stock price, return on average equity, and
number of shareholders and employees)

	2012	2011	2010	2009	2008	
Total revenues	\$4,212.4	\$4,685.9	\$5,169.8	\$7,464.7	\$14,009.0	
Net income (loss) from continuing operations	294.0	230.0	245.2	(74.8)	112.4	
Net income (loss) attributed to common shareholders	281.4	227.4	220.9	(69.6)	116.5	
Total assets	10,327.4	9,983.2	9,816.8	11,844.6	14,268.7	
Preferred stock of subsidiary	51.1	51.1	51.1	51.1	51.1	
Long-term debt (excluding current portion)	1,931.7	1,845.0	2,134.6	2,367.7	2,258.7	
Average shares of common stock						
Basic	78.6	78.6	77.5	76.8	76.7	
Diluted	79.3	79.1	78.0	76.8	77.0	
Earnings (loss) per common share (basic)						
Net income (loss) from continuing operations	\$3.70	\$2.89	\$3.13	\$(1.01)	\$1.43	
Earnings (loss) per common share (basic) (diluted)	3.58	2.89	2.85	(0.91)	1.52	
Net income (loss) from continuing operations	3.67	2.87	3.11	(1.01)	1.42	
Earnings (loss) per common share (diluted)	3.55	2.87	2.83	(0.91)	1.51	
Dividends per common share declared	2.72	2.72	2.72	2.72	2.68	
Stock price at year-end	\$52.22	\$54.18	\$48.51	\$41.99	\$42.98	
Book value per share	\$38.84	\$38.01	\$37.57	\$37.51	\$40.66	
Return on average equity	9.4	% 7.7	% 7.7	% (2.4)	% 3.6	%
Number of common stock shareholders	28,425	28,993	30,352	32,755	34,016	
Number of employees	4,717	4,619	4,612	5,025	5,191	

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

We are a diversified energy holding company with regulated natural gas and electric utility operations (serving customers in Illinois, Michigan, Minnesota, and Wisconsin), nonregulated energy operations, and an approximate 34% equity ownership interest in ATC (a federally regulated electric transmission company operating in Wisconsin, Michigan, Minnesota, and Illinois).

Strategic Overview

Our goal is to create long-term value for shareholders and customers through growth in our core regulated businesses. We also have a nonregulated energy services business segment that is focused on growth within a controlled risk profile.

The essential components of our business strategy are:

Maintaining and Growing a Strong Regulated Utility Base – A strong regulated utility base is essential to maintaining a strong balance sheet, predictable cash flows, the desired risk profile, attractive dividends, and quality credit ratings. We believe the following projects have helped, or will help, maintain and grow our regulated utility base and meet our customers' needs:

- WPS's pending purchase of the Fox Energy Center, a 593-megawatt combined-cycle electric generating facility located in Wisconsin, in 2013

- The System Modernization and Reliability Project that WPS plans to begin in 2014 to underground certain electric distribution lines in northern Wisconsin

- WPS's continued investment in environmental projects to improve air quality and meet or exceed the requirements set by environmental regulators

Our approximate 34% ownership interest in ATC, a transmission company that had over \$3.3 billion of transmission assets at December 31, 2012. ATC plans to invest approximately \$3.9 billion to \$4.8 billion during the next ten years.

- Although ATC's equity requirements to fund its capital investments will primarily be met by earnings reinvestment, we plan to continue to fund our share of the equity portion of future ATC growth as necessary

- An accelerated annual investment in natural gas distribution facilities (primarily replacement of cast iron mains) at PGL.

For more detailed information on our capital expenditure program, see "Liquidity and Capital Resources, Capital Requirements."

Providing Safe, Reliable, Competitively Priced, and Environmentally Sound Energy and Related Services – Our mission is to provide customers with the best value in energy and related services. We strive to effectively operate a mixed portfolio of generation assets and prudently invest in new generation and distribution assets, while maintaining or exceeding environmental standards. This allows us to provide a safe, reliable, value-priced service to our customers. Our recent entry into the compressed natural gas fueling marketplace, while not currently significant, is complementary to our existing businesses and is consistent with our mission.

Operating a Nonregulated Energy Services Business Segment with a Controlled Risk and Capital Profile – Through our nonregulated Integrys Energy Services subsidiary, we provide retail natural gas and electric products to end-use customers in the northeast quadrant of the United States. This subsidiary is focused on operating within select retail

electric and natural gas markets in our current market footprint where we have experience and believe we will have the most success growing our recurring retail customer based business. In addition, Integrys Energy Services continues to develop, acquire, own, and operate renewable energy projects, primarily distributed solar generation, in the United States. This strategy is intended to result in dependable cash and earnings contributions with a controlled risk and capital profile.

Integrating Resources to Provide Operational Excellence – We are committed to integrating resources of all our businesses, while meeting all applicable legal and regulatory requirements. This will provide the best value to customers and shareholders by leveraging the individual capabilities and expertise of each business and lowering costs. "Operational Excellence" initiatives have been implemented to reduce costs and encourage top performance in the areas of project management, process improvement, contract administration, and compliance.

Placing Strong Emphasis on Asset and Risk Management – Our asset management strategy calls for the continuous assessment of existing assets, the acquisition of assets, and contractual commitments to obtain resources that complement our existing business and strategy. The goal is to provide the most efficient use of resources while maximizing return and maintaining an acceptable risk profile. This strategy focuses on acquiring assets consistent with strategic plans and disposing of assets, including property, plant, and equipment and entire business units, that are no longer strategic to ongoing operations, are not performing as intended, or have an unacceptable risk profile. We maintain a portfolio approach to risk and earnings.

Our risk management strategy includes the management of market, credit, liquidity, and operational risks through the normal course of business. Forward purchases and sales of electric capacity, energy, natural gas, and other commodities and the use of derivative financial instruments, including commodity swaps and options, provide tools to reduce the risk associated with price movement in a volatile energy market. Each business unit manages the risk profile related to these instruments consistent with our risk management policies, which are

approved by the Board of Directors. The Corporate Risk Management Group, which reports through the Chief Financial Officer, provides corporate oversight.

RESULTS OF OPERATIONS

Earnings Summary

(Millions, except per share amounts)	Year Ended December 31			Change in 2012 Over 2011	Change in 2011 Over 2010		
	2012	2011	2010				
Natural gas utility operations	\$93.4	\$103.3	\$84.0	(9.6	)%	23.0	%
Electric utility operations	107.9	100.5	109.8	7.4	%	(8.5)%
Electric transmission investment	52.4	47.8	46.2	9.6	%	3.5	%
IntegrYS Energy Services operations	41.1	(6.1	) 3.3	N/A		N/A	
Holding company and other operations	(13.4	) (18.1	) (22.4	) (26.0	)%	(19.2)%
Net income attributed to common shareholders	\$281.4	\$227.4	\$220.9	23.7	%	2.9	%
Basic earnings per share	\$3.58	\$2.89	\$2.85	23.9	%	1.4	%
Diluted earnings per share	\$3.55	\$2.87					