

INTEGRYS ENERGY GROUP, INC.
Form 10-K
February 26, 2009

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, 2008

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, IL 60601 800-699-1269	39-1775292

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 Exchange 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 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.

\$3,884,606,353 as of June 30, 2008

Number of shares outstanding of each class of common stock, as of February 25, 2009

Common Stock, \$1 par value, 76,425,737 shares

DOCUMENT INCORPORATED BY REFERENCE

Definitive proxy statement for the Integrys Energy Group, Inc. Annual Meeting of Shareholders to be held on May 13, 2009 is incorporated by reference into Part III.

INTEGRYS ENERGY GROUP, INC.

ANNUAL REPORT ON FORM 10-K
For the Year Ended December 31, 2008

TABLE OF CONTENTS

	Page
Forward-Looking Statements	1
PART I	3
ITEM 1. BUSINESS	3
A. GENERAL	3
B. REGULATED NATURAL GAS UTILITY OPERATIONS	4
C. REGULATED ELECTRIC UTILITY OPERATIONS	7
D. INTEGRYS ENERGY SERVICES	10
E. ENVIRONMENTAL MATTERS	18
F. CAPITAL REQUIREMENTS	18
G. EMPLOYEES	18
H. AVAILABLE INFORMATION	19
ITEM 1A. RISK FACTORS	20
ITEM 1B. UNRESOLVED STAFF COMMENTS	26
ITEM 2. PROPERTIES	27
A. REGULATED	27
B. INTEGRYS ENERGY SERVICES	29
	3

ITEM 3.	LEGAL PROCEEDINGS	30
ITEM 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	30
ITEM 4A.	EXECUTIVE OFFICERS OF INTEGRYS ENERGY GROUP AS OF JANUARY 1, 2009	31
PART II		33
ITEM 5.	MARKET FOR INTEGRYS ENERGY GROUP'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	33
ITEM 6.	SELECTED FINANCIAL DATA	34
ITEM 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	35
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	83

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA		86
A.	Management Report on Internal Control over Financial Reporting	86
B.	Report of Independent Registered Public Accounting Firm	87
C.	Consolidated Statements of Income	89
D.	Consolidated Balance Sheets	90
E.	Consolidated Statements of Common Shareholders' Equity	91
F.	Consolidated Statements of Cash Flows	92
G.	Notes to Consolidated Financial Statements	93
	Note 1 Summary of Significant Accounting Policies	93
	Note 2 Risk Management Activities	102
	Note 3 Discontinued Operations	103
	Note 4 Property, Plant, and Equipment	106
	Note 5 Acquisitions and Dispositions	106
	Note 6 Jointly-Owned Utility Facilities	108
	Note 7 Regulatory Assets and Liabilities	109
	Note 8 Investments in Affiliates, at Equity Method	110
	Note 9 Goodwill and Other Intangible Assets	112
	Note 10 Leases	114
	Note 11 Short-Term Debt and Lines of Credit	115
	Note 12 Long-Term Debt	117
	Note 13 Asset Retirement Obligations	120
	Note 14 Income Taxes	121
	Note 15 Commitments and Contingencies	124
	Note 16 Guarantees	132
	Note 17 Employee Benefit Plans	133
	Note 18 Preferred Stock of Subsidiary	139
	Note 19 Common Equity	139
	Note 20 Stock-Based Compensation	141
	Note 21 Fair Value	144
	Note 22 Miscellaneous Income	146
	Note 23 Regulatory Environment	146
	Note 24 Segments of Business	151
	Note 25 Quarterly Financial Information (Unaudited)	154

H.	Report of Independent Registered Public Accounting Firm on Financial Statements	155
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	156
ITEM 9A.	CONTROLS AND PROCEDURES	156
ITEM 9B.	OTHER INFORMATION	156
PART III		156
ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	156
ITEM 11.	EXECUTIVE COMPENSATION	157
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	157
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	157
ITEM 14.	PRINCIPAL ACCOUNTING FEES AND SERVICES	158

PART IV		159	
ITEM 15.	EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	159	
SIGNATURES		160	
SCHEDULE I - CONDENSED PARENT COMPANY FINANCIAL STATEMENTS INTEGRYS ENERGY GROUP, INC. (PARENT COMPANY ONLY)			
	A.	Statements of Income and Retained Earnings	161
	B.	Balance Sheets	162
	C.	Statements of Cash Flows	163
	D.	Notes to Parent Company Financial Statements	164
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS			171
EXHIBIT INDEX			172

Acronyms Used in this Annual Report on Form 10-K

AFUDC	Allowance for Funds Used During Construction
ATC	American Transmission Company LLC
EPA	United States Environmental Protection Agency
ESOP	Employee Stock Ownership Plan
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
PEP	Peoples Energy Production Company
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
VBA	Volume Balancing Adjustment
WDNR	Wisconsin Department of Natural Resources
WPS	Wisconsin Public Service Corporation
WRPC	Wisconsin River Power Company

Forward-Looking Statements

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

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

Forward-looking statements involve a number of risks and uncertainties. Some risk factors that could cause results to differ from any forward-looking statement include those described in Item 1A of this Annual Report on Form 10-K for the year ended December 31, 2008. 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 possible 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 and related natural gas costs, and the contested case 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 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.

-2-

PART I

ITEM 1. BUSINESS

A. GENERAL

For purposes of this Annual Report on Form 10-K, unless the context otherwise indicates, when referring 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.

Integrys Energy Group, Inc.

Integrys Energy Group is domiciled in the United States and was incorporated in Wisconsin in 1993. Integrys Energy Group is a holding company for its regulated utility and nonregulated business units.

Natural Gas Utility Segment

The natural gas utility segment includes the regulated natural gas utility operations of WPS, MGU, MER, PGL, and NSG. MGU and MER, both Delaware corporations, are domiciled in the United States and began operations upon acquisition of their natural gas distribution operations in Michigan and Minnesota, respectively, from Aquila, Inc. in April 2006 and July 2006, respectively. PGL and NSG, both Illinois corporations, are domiciled in the United States and began operations in 1855 and 1900, respectively. Integrys Energy Group acquired PGL and NSG in February 2007 in the PEC merger.

Electric Utility Segment

The electric utility segment includes the regulated electric utility operations of WPS and UPPCO. WPS, a Wisconsin corporation, is domiciled in the United States and began operations in 1883. UPPCO, a Michigan corporation, is domiciled in the United States and began operations in 1884. For the last three years, all of the electric utility segment's revenues were earned within the United States and all assets were located within the United States.

Integrys Energy Services

Integrys Energy Services, a Wisconsin corporation, is domiciled in the United States and was established in 1994. Integrys Energy Services is a diversified nonregulated natural gas and electric power supply and services company serving residential, commercial, industrial, and wholesale customers in certain developed competitive markets in the United States and Canada. Integrys Energy Services provides energy supply solutions, products, and strategies that enable customers to manage energy needs while capitalizing on opportunities resulting from deregulated markets.

See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Introduction," for a discussion of the revised strategy for Integrys Energy Services going forward.

Holding Company and Other Segment

The Holding Company and Other segment includes the operations of the Integrys Energy Group holding company and the PEC holding company, along with any nonutility activities at WPS, MGU, MER, UPPCO, PGL, and NSG. Also included in the Holding Company and Other segment is WPS Investments, LLC, a nonutility company which holds an approximate 34% ownership interest in ATC. On December 31, 2008, WPS Investments was owned 82.9% by

Integrys Energy Group, 14.1% by WPS, and 3.0% by UPPCO. Equity earnings from our investments in ATC, WRPC, and Guardian Pipeline, LLC (prior to its sale in 2006) are included in the Holding Company and Other segment.

-3-

See Note 24, "Segments of Business," for information on Integrys Energy Group's foreign and domestic revenues, foreign and domestic long-lived assets, revenues from external customers, income (loss) available for common shareholders, and total assets by reportable segment.

B. REGULATED NATURAL GAS UTILITY OPERATIONS

Integrys Energy Group provides regulated natural gas utility service to Chicago and northern suburbs of Chicago, northeastern Wisconsin, adjacent portions of Michigan's Upper Peninsula, various cities and communities throughout Minnesota, and in the southern portion of lower Michigan.

Regulated Natural Gas Utility Segment Operating Statistics

	2008	2007	2006
Operating Revenues (Millions)			
Residential	\$ 2,128.3	\$ 1,441.7	\$ 401.4
Commercial and industrial	668.0	481.2	218.3
Transportation	185.4	130.3	22.1
Other	44.2	50.5	35.1
Total	\$ 3,025.9	\$ 2,103.7	\$ 676.9
Therms Delivered (Millions)			
Residential	1,708.9	1,251.8	351.5
Commercial and industrial	610.9	498.6	230.7
Other	28.6	47.1	27.6
Total therm sales	2,348.4	1,797.5	609.8
Transportation	1,834.0	1,505.6	657.5
Total	4,182.4	3,303.1	1,267.3
Customers Served (Approximate, end of period)			
Residential	1,489,800	1,497,000	620,500
Commercial and industrial	111,900	111,100	62,600
Transportation customers	68,200	64,100	900
Total	1,669,900	1,672,200	684,000
Average therm price (Cents)			
Residential	124.54	115.17	114.20
Commercial and industrial	109.35	96.51	94.63

Facilities

For information regarding our regulated natural gas facilities, see Item 2, "Properties," in this Annual Report on Form 10-K. For Integrys Energy Group's natural gas utility plant asset book value, see Note 4, "Property, Plant, and Equipment."

Natural Gas Supply

Integrys Energy Group's natural gas utilities manage portfolios of natural gas supply contracts, storage services, and pipeline transportation services designed to meet their varying load patterns at the lowest reasonable cost.

Integrys Energy Group's regulated natural gas subsidiaries contract for fixed-term firm natural gas supplies with various natural gas suppliers each year to meet the November through March winter period demand of firm system sales customers. Integrys Energy Group's regulated natural gas supply requirements are met through a combination of physical fixed price purchases, storage (contracted and