INTEGRYS ENERGY GROUP, INC.
Form 10-Q
November 04, 2010

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

FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from __________ to __________

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

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

Yes [X] No [ ]

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

Yes [X] No [ ]

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

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

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

Yes [ ] No [X]

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

Common stock, $1 par value,
77,582,022 shares outstanding at
November 1, 2010

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

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Condensed Consolidated Statements of Income; (ii) the Condensed Consolidated Balance Sheets; (iii) the Condensed Consolidated Statements of Cash Flows; and (iv) the Condensed Notes To Financial Statements tagged as blocks of text.

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

Commonly Used Acronyms

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

Forward-Looking Statements

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

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

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

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

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

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

INTEGRYS ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

(Millions, except per share data)	Three Months Ended September 30 2010	Three Months Ended September 30 2009	Nine Months Ended September 30 2010	Nine Months Ended September 30 2009
Nonregulated revenues	$399.3	$754.0	$1,450.1	$3,355.3
Utility revenues	598.6	543.8	2,466.0	2,570.9
Total revenues	997.9	1,297.8	3,916.1	5,926.2
Nonregulated cost of fuel, natural gas, and purchased power	338.0	661.7	1,293.1	3,139.7
Utility cost of fuel, natural gas, and purchased power	232.1	220.6	1,224.5	1,402.6
Operating and maintenance expense	254.3	238.2	764.7	804.8
Goodwill impairment loss	-	-	-	291.1
Impairment losses on property, plant, and equipment	43.2	-	43.2	0.7
Restructuring (income) expense	(0.3)	2.4	8.9	21.5
Net (gain) loss on Integrys Energy Services' dispositions related to strategy change	(0.2)	0.2	14.6	0.2
Depreciation and amortization expense	69.0	57.5	201.1	172.0
Taxes other than income taxes	22.7	23.9	71.5	72.5
Operating income	39.1	93.3	294.5	21.1
Miscellaneous income	26.3	25.5	71.1	67.2
Interest expense	(35.2)	(41.7)	(111.2)	(124.4)
Other expense	(8.9)	(16.2)	(40.1)	(57.2)
Income (loss) before taxes	30.2	77.1	254.4	(36.1)
Provision for income taxes	9.3	28.0	103.9	59.3
Net income (loss) from continuing operations	20.9	49.1	150.5	(95.4)
Discontinued operations, net of tax	-	2.3	0.1	2.6
Net income (loss)	20.9	51.4	150.6	(92.8)
Preferred stock dividends of subsidiary	(0.7)	(0.7)	(2.3)	(2.3)
Noncontrolling interest in subsidiaries	-	0.4	0.3	0.7
Net income (loss) attributed to common shareholders	$20.2	$51.1	$148.6	$(94.4)
Average shares of common stock				
Basic	77.7	76.8	77.3	76.8
Diluted	78.1	76.9	77.8	76.8

Earnings (loss) per common share (basic)				
Net income (loss) from continuing operations	$0.26	$0.64	$1.92	$(1.26)
Discontinued operations, net of tax	-	0.03	-	0.03
Earnings (loss) per common share (basic)	$0.26	$0.67	$1.92	$(1.23)
Earnings (loss) per common share (diluted)				
Net income (loss) from continuing operations	$0.26	$0.63	$1.91	$(1.26)
Discontinued operations, net of tax	-	0.03	-	0.03
Earnings (loss) per common share (diluted)	$0.26	$0.66	$1.91	$(1.23)
Dividends per common share declared	$0.68	$0.68	$2.04	$2.04

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

INTEGRYS ENERGY GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) (Millions)	September 30 2010	December 31 2009
Assets		
Cash and cash equivalents	$165.3	$44.5
Collateral on deposit	47.3	184.9
Accounts receivable and accrued unbilled revenues, net of reserves of $49.9 and $57.5, respectively	497.1	958.0
Inventories	323.9	304.3
Assets from risk management activities	324.0	1,522.1
Regulatory assets	120.4	121.1
Deferred income taxes	82.6	92.9
Assets held for sale	-	26.5
Other current assets	247.6	257.9
Current assets	1,808.2	3,512.2
Property, plant, and equipment, net of accumulated depreciation of $2,933.9 and $2,847.2, respectively	4,887.3	4,945.1
Regulatory assets	1,438.5	1,434.9
Assets from risk management activities	126.7	795.4
Goodwill	642.5	642.5
Other long-term assets	527.4	517.8
Total assets	$9,430.6	$11,847.9
Liabilities and Equity		
Short-term debt	$59.5	$222.1
Current portion of long-term debt	477.9	116.5
Accounts payable	378.0	639.4
Liabilities from risk management activities	431.5	1,607.1
Regulatory liabilities	96.2	100.4
Liabilities held for sale	-	0.3
Other current liabilities	331.8	461.8
Current liabilities	1,774.9	3,147.6
Long-term debt	1,912.7	2,394.7
Deferred income taxes	703.8	658.2
Deferred investment tax credits	36.4	36.2
Regulatory liabilities	307.1	277.6
Environmental remediation liabilities	651.9	658.8
Pension and other postretirement benefit obligations	617.0	640.7
Liabilities from risk management activities	165.0	783.1
Asset retirement obligations	203.5	194.8
Other long-term liabilities	148.8	147.4
Long-term liabilities	4,746.2	5,791.5

Commitments and contingencies		
Common stock - $1 par value; 200,000,000 shares authorized; 77,486,900 shares issued; 77,085,543 shares outstanding	77.5	76.4
Additional paid-in capital	2,524.7	2,497.8
Retained earnings	339.8	345.6
Accumulated other comprehensive loss	(67.2)	(44.0)
Treasury stock and shares in deferred compensation trust	(16.5)	(17.2)
Total common shareholders' equity	2,858.3	2,858.6
Preferred stock of subsidiary - $100 par value; 1,000,000 shares authorized; 511,882 shares issued; 510,495 shares outstanding	51.1	51.1
Noncontrolling interest in subsidiaries	0.1	(0.9)
Total liabilities and equity	$9,430.6	$11,847.9

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

INTEGRYS ENERGY GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Millions)	Nine Months Ended September 30 2010	2009
Operating Activities		
Net income (loss)	$ 150.6	$ (92.8)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Discontinued operations, net of tax	(0.1)	(2.6)
Goodwill impairment loss	-	291.1
Impairment losses on property, plant, and equipment	43.2	0.7
Depreciation and amortization expense	201.1	172.0
Recoveries and refunds of regulatory assets and liabilities	20.1	30.8
Net unrealized (gains) losses on nonregulated energy contracts	(44.3)	151.1
Nonregulated lower of cost or market inventory adjustments	1.3	36.0
Bad debt expense	32.7	49.7
Pension and other postretirement expense	50.7	47.4
Pension and other postretirement contributions	(64.9)	(30.9)
Deferred income taxes and investment tax credit	54.2	(32.2)
Gain (loss) on sale of assets	12.5	(1.8)
Equity income, net of dividends	(10.3)	(11.9)
Other	27.6	(24.4)
Changes in working capital		
Collateral on deposit	149.7	18.1
Accounts receivable and accrued unbilled revenues	440.8	1,152.4
Inventories	(25.2)	347.5
Other current assets	0.1	86.4
Accounts payable	(118.4)	(678.5)
Other current liabilities	(145.7)	(13.5)
Net cash provided by operating activities	775.7	1,494.6
Investing Activities		
Capital expenditures	(187.1)	(342.3)
Proceeds from the sale or disposal of assets	64.1	37.9
Purchase of equity investments	(5.1)	(23.9)
Other	0.2	(9.9)
Net cash used for investing activities	(127.9)	(338.2)
Financing Activities		
Short-term debt, net	(162.6)	(951.9)
Redemption of notes payable	-	(157.9)

Proceeds from sale of borrowed natural gas	21.9	148.6
Purchase of natural gas to repay natural gas loans	(6.5)	(370.1)
Issuance of long-term debt	-	230.0
Repayment of long-term debt	(116.1)	(2.0)
Payment of dividends		
Preferred stock of subsidiary	(2.3)	(2.3)
Common stock	(139.3)	(155.2)
Issuance of common stock	26.2	-
Payments made on derivative contracts related to divestitures classified as financing activities	(138.2)	-
Other	(10.2)	(4.8)
Net cash used for financing activities	(527.1)	(1,265.6)
Change in cash and cash equivalents - continuing operations	120.7	(109.2)
Change in cash and cash equivalents - discontinued operations		
Net cash provided by investing activities	0.1	4.5
Net change in cash and cash equivalents	120.8	(104.7)
Cash and cash equivalents at beginning of period	44.5	254.1
Cash and cash equivalents at end of period	$ 165.3	$ 149.4

The accompanying condensed notes are an integral part of these statements

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

NOTE 1--FINANCIAL INFORMATION

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

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

NOTE 2--CASH AND CASH EQUIVALENTS

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

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

	Nine Months Ended September 30	
(Millions)	2010	2009
Cash paid for interest	$92.0	$100.5
Cash paid for income taxes	42.4	25.2

Significant non-cash transactions were:

	Nine Months Ended September 30	
(Millions)	2010	2009
Construction costs funded through accounts payable	$13.8	$26.2
Equity issued for reinvested dividends	16.9	-
Equity issued for stock-based compensation plans	3.0	-
Intangible assets (customer contracts) received in exchange for risk management assets	-	17.0

NOTE 3--RISK MANAGEMENT ACTIVITIES

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

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

		September 30, 2010	
(Millions)	Balance Sheet Presentation *	Risk Management Assets	Risk Management Liabilities
Utility Segments			
Non-hedge derivatives			
Natural gas contracts	Current	$0.8	$ 37.6
Natural gas contracts	Long-term	0.5	4.2
Financial transmission rights	Current	5.6	0.6
Petroleum product contracts	Current	0.3	-
Total commodity contracts	Current	6.7	38.2
Total commodity contracts	Long-term	0.5	4.2
Cash flow hedges			
Natural gas contracts	Current	-	1.1
Natural gas contracts	Long-term	-	0.2
Nonregulated Segments			
Non-hedge derivatives			
Natural gas contracts	Current	170.5	141.7
Natural gas contracts	Long-term	91.0	82.2
Electric contracts	Current	142.4	195.3
Electric contracts	Long-term	32.5	58.0
Total commodity contracts	Current	312.9	337.0
Total commodity contracts	Long-term	123.5	140.2
Foreign exchange contracts	Current	1.0	1.0
Foreign exchange contracts	Long-term	0.3	0.3
Fair value hedges			
Interest rate swaps	Current	0.9	-
Cash flow hedges			
Natural gas contracts	Current	-	16.0
Natural gas contracts	Long-term	-	2.3
Electric contracts	Current	2.5	28.8
Electric contracts	Long-term	2.4	17.8
Total commodity contracts	Current	2.5	44.8
Total commodity contracts	Long-term	2.4	20.1
Interest rate swaps	Current	-	9.4
	Current	324.0	431.5
	Long-term	126.7	165.0
Total		$450.7	$ 596.5

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

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

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

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

(Millions)	September 30, 2010	December 31, 2009
Cash collateral provided to others	$ 47.3	$ 184.9
Cash collateral received from others *	9.4	55.2

* Reflected in Other current liabilities on the Condensed Consolidated Balance Sheets.

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

(Millions)	September 30, 2010	December 31, 2009
Integrys Energy Services	$ 345.0	$ 555.6
Utility segments	36.6	24.0

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

(Millions)	September 30, 2010	December 31, 2009
Collateral that would have been required:		
Integrys Energy Services	$ 384.6	$ 549.3
Utility segments	26.6	17.0
Collateral already satisfied:		
Integrys Energy Services		
Letters of credit	88.5	51.9
Cash	-	-
Utility segments		
Letters of credit	-	-
Cash	-	-
Collateral remaining:		
Integrys Energy Services	296.1	497.4
Utility segments	26.6	17.0

Utility Segments

Non-Hedge Derivatives

Utility derivatives include a limited number of natural gas purchase contracts, financial derivative contracts (futures, options, and swaps), and financial transmission rights used to manage electric transmission congestion costs. The futures, options, and swaps were used by both the electric and natural gas utility segments to mitigate the risks associated with the market price volatility of natural gas supply costs and the costs of gasoline and diesel fuel used by utility vehicles.

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

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

(Millions)	Financial Statement Presentation	Three Months Ended September 302010	Nine Months Ended September 302010
Natural gas contracts	Balance Sheet – Regulatory assets (current)	$ (12.9)	$ (17.7)
Natural gas contracts	Balance Sheet – Regulatory assets (long-term)	(1.1)	(3.5)
Natural gas contracts	Balance Sheet – Regulatory liabilities (current)	(0.1)	(0.2)
Natural gas contracts	Income Statement – Utility cost of fuel, natural gas, and purchased power	(0.2)	(0.1)
Financial transmission rights	Balance Sheet – Regulatory assets (current)	1.2	0.6
Financial transmission rights	Balance Sheet – Regulatory liabilities (current)	(3.0)	(0.3)
Petroleum product contracts	Income Statement – Operating and maintenance expense	0.1	(0.2)

(Millions)	Financial Statement Presentation	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Commodity contracts	Balance Sheet – Regulatory assets (current)	$ 54.5	$ 109.1
Commodity contracts	Balance Sheet – Regulatory assets (long-term)	4.7	9.0
Commodity contracts	Balance Sheet – Regulatory liabilities (current)	(4.6)	3.1
Commodity contracts	Balance Sheet – Regulatory liabilities (long-term)	(0.8)	(0.7)
Commodity contracts	Income Statement – Utility cost of fuel, natural gas, and purchased power	0.1	0.3
Commodity contracts	Income Statement – Operating and maintenance expense	(0.1)	0.1

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

	September 30, 2010		December 31, 2009	
	Purchases	Other Transactions	Purchases	Other Transactions
Natural gas (millions of therms)	679.3	N/A	833.2	N/A
Financial transmission rights (millions of kilowatt-hours)	N/A	9,403.7	N/A	4,546.6
Petroleum products (barrels)	52,782.0	N/A	42,823.0	N/A

Cash Flow Hedges

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

	Purchases	
	September 30, 2010	December 31, 2009
Natural gas (millions of therms)	6.0	9.6

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Millions)	2010	2009	2010	2009
Natural gas contracts	$(0.5)	$0.2	$(1.6)	$(1.0)

Loss Reclassified from Accumulated OCI into Income (Effective Portion)

		Three Months Ended September 30		Nine Months Ended September 30	
(Millions)	Income Statement Presentation	2010	2009	2010	2009
Settled natural gas contracts		$(0.2)	$(0.8)	$(0.6)	$(2.2)

	Operating and maintenance expense

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

Nonregulated Segments

Non-Hedge Derivatives

Integrys Energy Group's nonregulated segments enter into derivative contracts such as futures, forwards, options, and swaps that are not designated as accounting hedges under GAAP. In most cases, these contracts are used to manage commodity price risk associated with customer-related contracts.

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

	September 30, 2010			December 31, 2009		
(Millions)	Purchases	Sales	Other Transactions	Purchases	Sales	Other Transactions
Commodity contracts						
Natural gas (therms)	1,420.7	1,507.9	N/A	2,990.4	2,917.1	N/A
Electric (kilowatt-hours)	22,515.5	19,493.3	N/A	132,200.4	125,983.1	N/A
Interest rate swaps	N/A	N/A	$ -	N/A	N/A	$ 219.2
Foreign exchange contracts	$21.9	$21.9	N/A	$35.1	$35.1	N/A

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

(Millions)	Income Statement Presentation	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Natural gas contracts	Nonregulated revenue	$ 23.7	$ 32.5
Natural gas contracts	Nonregulated revenue (reclassified from accumulated OCI)	(0.5) *	(0.9) *
Electric contracts	Nonregulated revenue	(12.9)	(91.1)
Electric contracts	Nonregulated revenue (reclassified from accumulated OCI)	(0.7) *	(2.2) *
Interest rate swaps	Interest expense	-	0.4
Total		$ 9.6	$ (61.3)

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

(Millions)	Income Statement Presentation	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Commodity contracts	Nonregulated revenue	$ 19.0	$ (9.8)
Commodity contracts	Nonregulated revenue (reclassified from accumulated OCI)	(0.3) *	(2.3) *
Interest rate swaps	Interest expense	(0.8)	(0.5)
Foreign exchange contracts	Nonregulated revenue	(0.7)	(1.8)
Total		$ 17.2	$ (14.4)

*

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

Fair Value Hedges

At PEC, an interest rate swap designated as a fair value hedge is used to hedge changes in the fair value of $50.0 million of the $325.0 million PEC Series A 6.9% notes due January 15, 2011. The changes in the fair value of this hedge are recognized currently in earnings, as are the changes in fair value of the hedged item. Unrealized gains (losses) related to the fair value hedge and the related hedged item are shown in the table below.

(Millions)	Income Statement Presentation	Three Months Ended September 30 2010	Three Months Ended September 30 2009	Nine Months Ended September 30 2010	Nine Months Ended September 30 2009
Interest rate swap	Interest expense	$(1.0)	$(0.4)	$(1.7)	$(0.7)
Debt hedged by swap	Interest expense	1.0	0.4	1.7	0.7
Total		$-	$-	$-	$-

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

Cash Flow Hedges

Natural gas futures, forwards, and swaps that are designated as cash flow hedges extend through December 2013, while electric futures, forwards, and swaps designated as cash flow hedges extend through May 2017. These contracts are used to mitigate the risk of cash flow variability associated with future purchases and sales of natural gas and electricity. In the second quarter of 2010, Integrys Energy Group entered into two interest rate swaps designated as cash flow hedges to hedge the variability in forecasted interest payments on the first $100.0 million of a debt issuance planned for the fourth quarter of 2010. The nonregulated segments had the following notional volumes of outstanding contracts that were designated as cash flow hedges:

	September 30, 2010			December 31, 2009		
(Millions)	Purchases	Sales	Other Transactions	Purchases	Sales	Other Transactions
Commodity contracts						
Natural gas (therms)	257.9	-	N/A	5.9	8.6	N/A
Electric (kilowatt-hours)	10,822.0	19.6	N/A	7,116.2	-	N/A
Interest rate swaps	N/A	N/A	$ 100.0	N/A	N/A	$ 65.6 *

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

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

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

(Millions)	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Natural gas contracts	$ (15.0)	$ (18.7)
Electric contracts	(27.7)	(31.0)
Interest rate swaps	(0.9)	(3.3)
Total	$ (43.6)	$ (53.0)

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

(Millions)	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Commodity contracts	$ (7.1)	$ (57.6)
Interest rate swaps	0.7	2.2
Total	$ (6.4)	$ (55.4)

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

(Millions)	Income Statement Presentation	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Settled/Realized			
Natural gas contracts	Nonregulated revenue	$ (0.2)	$ (9.0)
Electric contracts	Nonregulated revenue	2.2	(12.0)
Interest rate swaps	Interest expense	(0.1)	0.4
Hedge Designation Discontinued			
Natural gas contracts	Nonregulated revenue	(0.6)	0.2
Electric contracts	Nonregulated revenue	(0.3)	(9.9)
Total		$ 1.0	$ (30.3)

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

(Millions)	Income Statement Presentation	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Settled/Realized			
Commodity contracts	Nonregulated revenue	$ (42.2)	$ (79.3)
Interest rate swaps	Interest expense	0.3	0.9
Hedge Designation Discontinued			
Commodity contracts	Nonregulated revenue	0.1	(0.3)
Total		$ (41.8)	$ (78.7)

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

(Millions)	Income Statement Presentation	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Natural gas contracts	Nonregulated revenue	$ 1.2	$ 1.3
Electric contracts	Nonregulated revenue	0.1	(0.1)
Total		$ 1.3	$ 1.2

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

(Millions)	Income Statement Presentation	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Commodity contracts	Nonregulated revenue	$ 0.4	$ (0.9)

In the next 12 months, subject to changes in market prices of natural gas and electricity, pre-tax losses of $17.2 million and $26.8 million related to cash flow hedges of natural gas contracts and electric contracts, respectively, are expected to be recognized in earnings as the hedged transactions occur. These amounts are expected to be substantially offset by the settlement of the related nonderivative hedged contracts. In the next 12 months, subject to changes in interest rates, an insignificant pre-tax loss related to cash flow hedges of interest rate swaps is expected to be amortized into earnings beginning when the related debt is issued.

NOTE 4--RESTRUCTURING EXPENSE

Reductions in Workforce

In an effort to permanently remove costs from its operations, Integrys Energy Group developed a plan at the end of 2009 that included reductions in its workforce. The following table summarizes the activity related to these restructuring costs:

(Millions)	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010	
Accrued restructuring costs at beginning of period	$ 4.0	$ 18.0	
Add: Adjustments to accrual during the period	(0.2)	0.1	*
Deduct: Cash payments	1.9	16.2	
Accrued restructuring costs at end of period	$ 1.9	$ 1.9	

* Restructuring costs of $0.3 million were billed to certain companies in accordance with provisions in the operating agreements with these companies that allow Integrys Energy Group to recover a portion of its administrative and general expenses.

Integrys Energy Services Strategy Change

As part of Integrys Energy Group's decision to reposition its nonregulated energy services business segment to focus on selected retail markets in the United States and investments in energy assets with renewable attributes, the following restructuring costs were expensed:

(Millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Employee-related costs	$ (0.3)	$ 0.3	$ 1.7	$ 11.1
Professional fees	-	1.7	6.4	4.7
Software write-offs and accelerated depreciation	-	0.2	-	5.4
Miscellaneous	0.2	0.2	1.0	0.3
Total restructuring (income) expense	$ (0.1)	$ 2.4	$ 9.1	$ 21.5

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

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

(Millions)	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Accrued employee-related costs at beginning of period	$ 2.6	$ 8.2
Add: Employee-related costs expensed	(0.3)	1.7
Deduct: Cash payments	1.1	8.7
Accrued employee-related costs at end of period	$ 1.2	$ 1.2

Integrys Energy Group expects to incur total employee-related restructuring expense of approximately $13 million related to the Integrys Energy Services strategy change by the end of 2010, including $11.8 million expensed through September 30, 2010, of which $10.1 million was expensed in 2009.

NOTE 5--DISPOSITIONS

Integrys Energy Services Strategy Change

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

Sale of Integrys Energy Services of Texas, LP

In June 2010, Integrys Energy Services sold its Texas retail electric marketing business. The pre-tax gain on the sale of Integrys Energy Services of Texas, LP was $25.5 million and included a $0.2 million gain resulting from post closing adjustments received in accordance with the sale agreement during the third quarter of 2010. This pre-tax gain was reported as a component of net (gain) loss on Integrys Energy Services' dispositions related to strategy change in the Condensed Consolidated Statements of Income. Customer sales contracts related to the Texas retail electric marketing business were transferred to the buyer effective June 1, 2010. The underlying commodity supply contracts outstanding at June 30, 2010 were all novated at the end of July 2010.

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

(Millions)

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

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

Sale of Remaining Canadian Wholesale Electric Marketing and Trading Portfolio

The majority of Integrys Energy Services' Canadian natural gas and electric power portfolio was sold in September 2009. In May 2010, Integrys Energy Services completed the sale of its remaining Canadian wholesale electric marketing and trading portfolio. The pre-tax losses on these sales for the nine months ended September 30, 2010 and 2009 were $0.4 million and $0.2 million, respectively, and were reported as a component of net (gain) loss on Integrys Energy Services' dispositions related to strategy change in the Condensed Consolidated Statements of Income.

The following table shows the carrying values of the major classes of assets and liabilities included in the sale at the May 2010 closing date:

(Millions)

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

Sale of Renewable Energy Certificates Portfolio

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

Sale of United States Wholesale Electric Marketing and Trading Business

In December 2009, Integrys Energy Services entered into a definitive agreement to sell substantially all of its United States wholesale electric marketing and trading business. Effective February 1, 2010, Integrys Energy Services transferred substantially all of the market risk associated with this business by entering into trades with the buyer that mirrored Integrys Energy Services' underlying wholesale electric contracts. On March 31, 2010, Integrys Energy Services closed on the sale and transferred title to the majority of the underlying commodity contracts, upon which time the corresponding mirror transactions terminated. The majority of the remaining underlying commodity contracts that had not been novated as of March 31, 2010 are expected to be novated, or if never novated, will be settled through the normal course of business, at which time the corresponding mirror transactions will terminate. As of September 30, 2010, approximately 93% of the commodity contracts have been novated, and the corresponding mirror transactions have been terminated.

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

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

(Millions)

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

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

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

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(Millions)

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

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

(Millions)

Current assets from risk management activities	$39.1
Current liabilities from risk management activities	15.4

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

(Millions)

Current assets from risk management activities	$15.6
Current liabilities from risk management activities	39.3

The pre-tax loss on the sale of the United States wholesale electric marketing and trading business for the nine months ended September 30, 2010, was $64.9 million and was reported as a component of net (gain) loss on Integrys Energy Services' dispositions related to strategy change in the Condensed Consolidated Statements of Income.

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

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

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

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

(Millions)	As of the Closing Dates in 2010	December 31, 2009
Inventories	$0.1	$ 0.1
Property, plant, and equipment, net	25.1	25.1
Other long-term assets	1.3	1.3
Total assets	$26.5	$ 26.5
Other current liabilities	$0.1	$ -
Asset retirement obligations	0.3	0.3
Total liabilities	$0.4	$ 0.3

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

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

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

In October 2009, Integrys Energy Services entered into definitive agreements to sell the majority of its United States wholesale natural gas marketing and trading business in a two-part transaction. In December 2009, Integrys Energy Services closed the first part of the transaction by selling substantially all of its United States wholesale natural gas marketing and trading business.

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

In March 2010 and May 2010, Integrys Energy Services closed on the sale of its remaining natural gas storage and related transportation contracts that were not a part of the original sale transaction. The pre-tax loss on the sale of these contracts was $0.7 million and was reported as a component of net (gain) loss on Integrys Energy Services' dispositions related to strategy change in the Condensed Consolidated Statements of Income. The carrying value of inventories included in the sales was $1.8 million as of the closing date.

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Discontinued Operations Resulting from Integrys Energy Services' Strategy Change

Energy Management Consulting Business

During the nine months ended September 30, 2009, Integrys Energy Services completed the sale of its energy management consulting business and received proceeds of $4.5 million. This business provided consulting services relating to long-term strategies for managing energy costs for its customers. The historical results of this business were not significant. The gain on the sale of this business reported in discontinued operations during the third quarter of 2009 was $3.8 million ($2.3 million after-tax).

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

WPS Niagara Generation, LLC

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

NOTE 6—IMPAIRMENT LOSSES ON PROPERTY, PLANT, AND EQUIPMENT

Integrys Energy Group evaluates property, plant, and equipment for impairment whenever indicators of impairment exist. During the third quarter of 2010, Integrys Energy Services recorded a pre-tax non-cash impairment loss of $43.2 million related to its three natural gas-fired generation plants (Beaver Falls Generation, Syracuse Generation, and Combined Locks Energy Center). The impairment charge resulted from lower estimated future cash flows for these plants and was primarily driven by reduced expectations for forward capacity prices. The plants have been written down to their estimated fair value. The impairment charge was recorded as impairment losses on property, plant, and equipment in the Condensed Consolidated Statements of Income during the third quarter of 2010.

The fair value of the natural gas plants was determined primarily using the income approach, which was based on discounted cash flows that were derived from internal forecasts and economic expectations. The key assumptions used to determine fair value under the income approach over the cash flow period were forward energy and capacity curves. Other assumptions included forecasted operating expenses, forecasted capital additions, anticipated working capital requirements, and the discount rate. The discount rate represents the estimated cost of capital appropriate for the nonregulated generation plants. The discount rate used for the impairment analysis was 10%.

NOTE 7--INVESTMENTS IN AFFILIATES, AT EQUITY METHOD

Integrys Energy Group's electric transmission investment segment consists of WPS Investments LLC's ownership interest in ATC, which was approximately 34% at September 30, 2010. ATC is a for-profit, transmission-only company. ATC owns, maintains, monitors, and operates electric transmission assets in portions of Wisconsin, Michigan, Minnesota, and Illinois.

The following table shows changes to Integrys Energy Group's investment in ATC during the three and nine months ended September 30, 2010, and 2009.

	Three Months Ended September 30		Nine Months Ended September 30	
(Millions)	2010	2009	2010	2009
Balance at the beginning of period	$407.4	$369.2	$395.9	$346.9
Equity in net income	19.2	19.3	57.9	55.7
Capital contributions	-	8.5	5.1	23.9
Dividends received	(15.7)	(15.2)	(48.0)	(44.7)
Balance at the end of period	$410.9	$381.8	$410.9	$381.8

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

	Three Months Ended September 30		Nine Months Ended September 30	
(Millions)	2010	2009	2010	2009
Income statement data				
Revenues	$136.9	$132.3	$414.1	$387.5
Operating expenses	59.8	58.7	185.1	172.3
Other expense	22.1	19.8	64.8	57.8
Net income *	$55.0	$53.8	$164.2	$157.4

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

(Millions)	September 30, 2010	December 31, 2009
Balance sheet data		
Current assets	$ 62.6	$ 51.1
Noncurrent assets	2,845.1	2,767.3
Total assets	$ 2,907.7	$ 2,818.4
Current liabilities	$ 478.3	$ 285.5
Long-term debt	1,099.8	1,259.7
Other noncurrent liabilities	86.1	76.8
Members' equity	1,243.5	1,196.4
Total liabilities and members' equity	$ 2,907.7	$ 2,818.4

NOTE 8--INVENTORIES

PGL and NSG price natural gas storage injections at the calendar year average of the cost of natural gas supply purchased. Withdrawals from storage are priced on the LIFO cost method. For interim periods, the difference between current projected replacement cost and the LIFO cost for quantities of natural gas temporarily withdrawn from storage is recorded as a temporary LIFO liquidation debit or credit. At September 30, 2010, all LIFO layers were replenished and the LIFO liquidation balance was zero.

NOTE 9--GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

In the first quarter of 2009, the combination of the decline in equity markets as well as the increase in the expected weighted-average cost of capital indicated that a potential impairment of goodwill might exist, triggering an interim goodwill impairment analysis. Based upon the results of the interim goodwill impairment analysis, Integrys Energy Group recorded a non-cash goodwill impairment loss of $291.1 million ($248.8 million after-tax) in the first quarter of 2009, all within the natural gas utility segment. Key factors contributing to the impairment charge included disruptions in the global credit and equity markets and the resulting increase in the weighted-average cost of capital used to value the natural gas utility operations, and the negative impact that the global decline in equity markets had on the valuation of natural gas distribution companies in general.

Identifiable intangible assets other than goodwill are included as a component of other current and long-term assets and other current and long-term liabilities within the Condensed Consolidated Balance Sheets as listed below.

(Millions)	September 30, 2010			December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets (liabilities)						
Customer-related (1)	$32.6	$ (21.0)	$11.6	$32.6	$ (18.3)	$14.3
Natural gas and electric contract assets (2) (3)	57.1	(54.1)	3.0	71.4	(60.5)	10.9
Natural gas and electric contract liabilities (2)	(10.5)	10.5	-	(10.5)	10.4	(0.1)
Renewable energy credits (4)	4.1	(1.6)	2.5	3.4	(2.1)	1.3
Nonregulated easements (5)	3.8	(0.3)	3.5	3.6	(0.1)	3.5
Emission allowances (6)	1.9	(0.2)	1.7	2.1	(0.2)	1.9
Other	2.4	(0.4)	2.0	2.5	(0.5)	2.0
Total	$91.4	$ (67.1)	$24.3	$105.1	$ (71.3)	$33.8
Unamortized intangible assets						
MGU trade name	5.2	-	5.2	5.2	-	5.2
Total intangible assets	$96.6	$ (67.1)	$29.5	$110.3	$ (71.3)	$39.0

(1) Includes customer relationship assets associated with both PEC's former nonregulated retail natural gas and electric operations and MERC's nonutility ServiceChoice business. The remaining weighted-average amortization period for customer-related intangible assets at September 30, 2010, was approximately 7 years.

(2) Represents the fair value of certain PEC natural gas and electric customer contracts acquired in the February 2007 PEC merger that were not considered to be derivative instruments, as well as other electric customer contracts acquired in exchange for risk management assets.

(3) Includes both short-term and long-term intangible assets related to customer contracts in the amount of $1.6 million and $1.4 million, respectively, at September 30, 2010, and $6.2 million and $4.7 million, respectively, at December 31, 2009. The remaining weighted-average amortization period for these intangible assets at September 30, 2010, was approximately 4 years.

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

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

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

Intangible asset amortization expense was recorded as a component of depreciation and amortization expense in the Condensed Consolidated Statements of Income. This intangible asset amortization expense excludes amortization related to natural gas contracts, electric contracts, renewable energy credits, and emission allowances, which are recorded as a component of nonregulated cost of fuel, natural gas, and purchased power in the Condensed Consolidated Statements of Income. Amortization expense for the three months ended September 30, 2010, and 2009, was $0.2 million and $1.5 million, respectively. Amortization expense for the nine months ended September 30, 2010, and 2009, was $3.0 million and $4.5 million, respectively.

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

(Millions)	
For year ending December 31, 2010	$4.0
For year ending December 31, 2011	3.3
For year ending December 31, 2012	2.4
For year ending December 31, 2013	1.6
For year ending December 31, 2014	1.4

Amortization related to the natural gas and electric contract intangible assets and liabilities, renewable energy credits, and emission allowances for the three months ended September 30, 2010, and 2009, resulted in an increase to nonregulated cost of fuel, natural gas, and purchased power of $1.3 million and $2.4 million, respectively. Amortization of these contracts for the nine months ended September 30, 2010 and 2009, resulted in an increase to nonregulated cost of fuel, natural gas, and purchased power of $4.4 million and $2.1 million, respectively.

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

(Millions)	
For year ending December 31, 2010	$5.3
For year ending December 31, 2011	3.4
For year ending December 31, 2012	0.7
For year ending December 31, 2013	0.6
For year ending December 31, 2014	0.5

NOTE 10--SHORT-TERM DEBT AND LINES OF CREDIT

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

(Millions, except percentages)	September 30, 2010			December 31, 2009		
Commercial paper outstanding	$	49.5		$	212.1	
Average discount rate on outstanding commercial paper		0.40	%		0.52	%
Short-term notes payable outstanding	$	10.0		$	10.0	
Average interest rate on outstanding short-term notes payable		0.21	%		0.18	%

The commercial paper outstanding at September 30, 2010, had varying maturity dates ranging from October 1, 2010 through October 7, 2010.

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

(Millions)	2010	2009
Average amount of commercial paper outstanding	$82.5	$204.3
Average amount of borrowings under revolving credit facilities	-	151.9
Average amount of short-term notes payable outstanding	10.0	60.8

Integrys Energy Group manages its liquidity by maintaining adequate external financing commitments. The information in the table below relates to Integrys Energy Group's short-term debt, lines of credit, and remaining available capacity:

(Millions)	Maturity	September 30, 2010	December 31, 2009
Revolving credit facility (Integrys Energy Group) (1)	04/23/13	$ 735.0	$ -
Revolving credit facility (Integrys Energy Group)	06/09/11	500.0	500.0
Revolving credit facility (Integrys Energy Group) (2)	06/02/10	-	500.0
Revolving credit facility (Integrys Energy Group) (2)	05/26/10	-	425.0
Revolving credit facility (Integrys Energy Group) (2)	06/04/10	-	35.0
Revolving credit facility (WPS) (3)	04/23/13	115.0	-
Revolving credit facility (WPS) (2)	06/02/10	-	115.0
Revolving credit facility (PEC)	06/13/11	400.0	400.0
Revolving credit facility (PGL) (4)	04/23/13	250.0	-
Revolving credit facility (PGL) (2)	07/12/10	-	250.0
Revolving short-term notes payable (WPS)	11/13/10	10.0	10.0
Total short-term credit capacity		2,010.0	2,235.0
Less:			
Letters of credit issued inside credit facilities		106.9	130.4
Loans outstanding under credit agreements and notes payable		10.0	10.0
Commercial paper outstanding		49.5	212.1
Available capacity under existing agreements		$ 1,843.6	$ 1,882.5

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

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

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

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

At September 30, 2010, Integrys Energy Group and its subsidiaries were in compliance with all financial covenants related to outstanding short-term debt. Integrys Energy Group's and certain subsidiaries' revolving credit agreements contain financial and other covenants, including but not limited to, a requirement to maintain a debt to total capitalization ratio not to exceed 65%, excluding non-recourse debt. Failure to meet these covenants beyond applicable grace periods could result in accelerated due dates and/or termination of the agreements.

NOTE 11--LONG-TERM DEBT

(Millions)	September 30, 2010	December 31, 2009
WPS (1)	$ 872.1	$ 872.1
UPPCO (2)	10.3	10.8
PEC (3)	325.9	327.6
PGL (4)	526.0	576.0
NSG	75.0	75.0
Integrys Energy Group	555.0	555.0
Unsecured term loan – Integrys Energy Group (5)	-	65.6
Other term loan (6)	27.0	27.0
Total	2,391.3	2,509.1
Unamortized discount and premium	(0.7)	2.1
Total debt	2,390.6	2,511.2
Less current portion	(477.9)	(116.5)
Total long-term debt	$ 1,912.7	$ 2,394.7

(1) In August 2011, WPS's 6.125% Senior Notes will mature. As a result, the $150.0 million balance of these notes was included in current portion of long-term debt on Integrys Energy Group's Condensed Consolidated Balance Sheets at September 30, 2010.

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

(3) In January 2011, PEC's 6.9% unsecured Senior Notes will mature. As a result, the $325.0 million balance of these notes and the related fair value adjustment and unamortized premium of $2.0 million were included in current portion of long-term debt on Integrys Energy Group's Condensed Consolidated Balance Sheets at September 30, 2010.

(4) In October 2010, PGL issued $50.0 million of Series WW, 2.625%, First Mortgage Bonds due February 1, 2033. The bonds are subject to a mandatory interest reset date on August 1, 2015. The net proceeds from the issuance of these bonds were used to redeem PGL’s $50 million, 3.75%, Series LL, Fixed First and Refunding Mortgage Bonds.

In August 2010, PGL issued $50.0 million of Series VV, 2.125%, First Mortgage Bonds due March 1, 2030. The bonds are subject to a mandatory interest reset date on July 1, 2014. The net proceeds from the issuance of these bonds were used to redeem PGL’s $50 million, 4.75%, Series HH, Fixed First and Refunding Mortgage Bonds.

PGL has outstanding $51.0 million of Adjustable Rate, Series OO bonds, due October 1, 2037, which are currently in a 35-day Auction Rate mode (the interest rate is reset every 35 days through an auction process). Recent auctions have failed to receive sufficient clearing bids. As a result, these bonds are priced each 35 days at the maximum auction rate, until such time a successful auction occurs. The maximum auction rate is determined based on the lesser of the London Interbank Offered Rate or the Securities Industry and Financial Markets Association Municipal Swap Index rate plus a defined premium. The year-to-date weighted-average interest rate at September 30, 2010, was 0.51% for these bonds.

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

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

(6) In April 2001, the Schuylkill County Industrial Development Authority issued $27.0 million of Refunding Tax Exempt Bonds. The proceeds from the bonds were loaned to WPS Westwood Generation, LLC, a subsidiary of Integrys Energy Services. This loan is repaid by WPS Westwood Generation to Schuylkill County Industrial Development Authority with monthly interest only payments and has a floating interest rate that is reset weekly. At September 30, 2010, the interest rate was 4.28%. The loan is to be repaid by April 2021. Integrys Energy Group agreed to guarantee WPS Westwood Generation's obligation to provide sufficient funds to pay the loan and the related obligations and indemnities.

At September 30, 2010, Integrys Energy Group and each of its subsidiaries were in compliance with all respective financial covenants related to outstanding long-term debt. Integrys Energy Group's and certain subsidiaries' long-term debt obligations contain covenants related to payment of principal and interest when due and various financial reporting obligations. In addition, certain long-term debt obligations contain financial and other covenants, including but not limited to, a requirement to maintain a debt to total capitalization ratio not to exceed 65%. Failure to comply with these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of outstanding debt obligations.

NOTE 12--ASSET RETIREMENT OBLIGATIONS

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

(Millions)	Utilities	Integrys Energy Services	Total
Asset retirement obligations at December 31, 2009	$194.8	$0.3 *	$195.1
Accretion	8.7	-	8.7
Asset retirement obligations transferred in sale	-	(0.3)	(0.3)
Asset retirement obligations at September 30, 2010	$203.5	$-	$203.5

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

NOTE 13--INCOME TAXES

Integrys Energy Group's effective tax rate for the three and nine months ended September 30, 2010, was 30.8% and 40.8%, respectively. The effective tax rate for the three and nine months ended September 30, 2009, was 36.3% and (164.3)%, respectively.

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

The effective rate for the three months ended September 30, 2010, was lower than the federal tax rate of 35%, primarily related to the tax treatment of impairment losses recorded on Integrys Energy Services natural gas-fired generation plants. See Note 6, "Impairment Losses on Property, Plant, and Equipment" for more information on the impairment losses.

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

The effective tax rate for the nine months ended September 30, 2009, was lower than the federal tax rate of 35%, primarily because $186.2 million of the $291.1 million goodwill impairment loss recognized in the first quarter of

2009 was not deductible for income tax purposes.

For the nine months ended September 30, 2010, Integrys Energy Group's liability for unrecognized tax benefits decreased $2.5 million related to favorable results on IRS examination activity. Included in that amount, during the three months ended September 30, 2010, was a $2 million increase related to the alternative minimum tax effect of the favorable results of the IRS examination activity.

NOTE 14--COMMITMENTS AND CONTINGENCIES

General

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

Commodity Purchase Obligations and Purchase Order Commitments

Integrys Energy Group routinely enters into long-term purchase and sale commitments that have various quantity requirements and durations. The regulated natural gas utilities have obligations to distribute and sell natural gas to their customers, and the regulated electric utilities have obligations to distribute and sell electricity to their customers. The utilities expect to recover costs related to these obligations in future customer rates. Additionally, the majority of the energy supply contracts entered into by Integrys Energy Services are to meet its obligations to deliver energy to customers.

The obligations described below were as of September 30, 2010.

- The electric utility segment had obligations of $191.8 million related to coal supply and transportation that extend through 2016, obligations of $1,100.8 million for either capacity or energy related to purchased power that extend through 2030, and obligations of $9.8 million for other commodities that extend through 2013.
- The natural gas utility segment has obligations of $1,174.7 million related to natural gas supply and transportation contracts that extend through 2028.
- Integrys Energy Services has obligations of $311.9 million related to energy and natural gas supply contracts that extend through 2019. The majority of these obligations end by 2012, with obligations of $22.4 million extending beyond 2012.
- Integrys Energy Group also has commitments of $514.7 million in the form of purchase orders issued to various vendors that relate to normal business operations, including construction projects.

Environmental

Clean Air Act New Source Review Issues

Weston and Pulliam Plants:
On November 18, 2009, the EPA issued a Notice of Violation (NOV) to WPS alleging violations of the New Source Review requirements of the Clean Air Act (CAA). Specifically, the allegations relate to requirements for certain projects undertaken at Pulliam and Weston from 1994 to 2009. WPS has evaluated the NOV and has met with the EPA on several occasions and exchanged proposals related to a possible resolution. Integrys Energy Group continues to review the allegations but is currently unable to predict the impact on its condensed consolidated financial statements.

On May 20, 2010, WPS received from the Sierra Club a Notice of Intent (NOI) to file a civil lawsuit based on allegations and violations of the CAA at the Weston and Pulliam generation stations. WPS has entered into a Standstill Agreement with the Sierra Club and has had discussions with the Sierra Club in conjunction with the EPA related to possible resolution. However, Integrys Energy Group is currently unable to predict the impact on its condensed consolidated financial statements.

Columbia Plant:
On October 10, 2009, WPS, along with its co-owners, received from the Sierra Club an NOI to file a civil lawsuit based on allegations that major modifications were made at the Columbia generation station without complying with the CAA. Specifically, the allegations suggest that Prevention of Significant Deterioration (PSD) permits that imposed Best Available Control Technology (BACT) limits on emissions should have been obtained for the Columbia generation station, which is jointly owned by Wisconsin Power and Light (WP&L), Madison Gas and Electric Company (MG&E), and WPS, and operated by WP&L. The NOI also covers similar allegations related to another generation station solely owned by WP&L.

WP&L, on behalf of itself and the joint owners, sent a Notice of Deficiency to the Sierra Club regarding the NOI. In response, the Sierra Club filed a Supplemental NOI on December 14, 2009, purporting to correct the deficiencies. The parties exchanged initial proposals regarding resolution. On September 9, 2010, the Sierra Club filed suit against WP&L in the Federal Court for the Western District of Wisconsin related to one project identified in the NOI for the Columbia plant. Integrys Energy Group is reviewing the allegations in the lawsuit but is currently unable to predict the impact on its condensed consolidated financial statements.

Edgewater Plant:
On December 11, 2009, WPS, along with its co-owners, received from the Sierra Club a copy of an NOI to file a civil lawsuit against the EPA based on the EPA's failure to take actions against the co-owners and operator of the Edgewater generation station based upon allegations of failure to comply with the CAA. Specifically, the allegations suggest that PSD permits that imposed BACT limits on emissions from the facilities should have been obtained for Edgewater. Edgewater is jointly owned by WP&L (Units 3, 4, and 5), Wisconsin Electric (Unit 5), and WPS (Unit 4) and operated by WP&L. The parties are in the process of analyzing the Sierra Club's actions. Integrys Energy Group is currently unable to predict the impact on its condensed consolidated financial statements.

On December 21, 2009, WPS, along with its co-owners, received from the Sierra Club an NOI to file a civil lawsuit based on allegations that major modifications were made at the Edgewater generation station without complying with the PSD and Title V Operating Permit requirements of the CAA. Specifically, the allegations suggest that PSD permits that imposed BACT limits on emissions from the facilities should have been obtained for Edgewater. The parties are in the process of analyzing the allegations and have had discussions with the Sierra Club. In September 2010, the Sierra Club filed suit against WP&L regarding Edgewater. Integrys Energy Group is currently unable to predict the impact on its condensed consolidated financial statements.

Columbia and Edgewater Plants:
On December 14, 2009, the EPA issued an NOV to WP&L relative to its Nelson Dewey Plant and to WP&L and the other joint owners of the Columbia and Edgewater generation stations alleging violations of New Source Review requirements of the CAA for certain projects undertaken at those plants. WP&L is the operator of these plants and, along with the joint owners, has met with the EPA and exchanged proposals related to a possible resolution. Integrys Energy Group is currently unable to predict the impact on its condensed consolidated financial statements.

EPA Settlements with Other Utilities:
In response to the EPA's CAA enforcement initiative, several utilities elected to settle with the EPA, while others are in litigation. The fines and penalties (including the cost of supplemental environmental projects) associated with settlements involving comparably-sized facilities to Weston and Pulliam range between $7 million and $30 million. The regulatory interpretations upon which the lawsuits or settlements are based may change based on future court decisions made in the pending litigation.

If it were ultimately determined in the actions identified above that historic projects at WPS's Pulliam and Weston plants required either a state or federal CAA permit, WPS may, under the applicable statutes, be required, in order to resolve any such claim, to:

- shut down any unit found to be operating in non-compliance,
- install additional pollution control equipment and/or impose emission limitations,
- pay a fine, and/or
- conduct a supplemental environmental project.

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

Weston Air Permits

In November 2004, the Sierra Club filed a petition with the WDNR under Section 285.61 of the Wisconsin Statutes seeking a contested case hearing on the construction permit issued for the Weston 4 generation station, which was a necessary predicate to plant construction under the pertinent air emission regulations (hereinafter referred to as the "Weston 4 air permit"). In February 2006, the administrative law judge affirmed the Weston 4 air permit with changes to the emission limits for sulfur dioxide and nitrogen oxide from the coal-fired boiler and particulate from the cooling tower. The changes, which were implemented by the WDNR in a revised permit issued on March 28, 2007, set limits that were more stringent than those originally set by the WDNR (hereinafter referred to as the "March 28, 2007 permit language").

On April 27, 2007, the Sierra Club filed a second petition requesting a contested case hearing regarding the March 28, 2007 permit language, which was granted by the WDNR. Both parties subsequently moved for summary judgment. In a decision issued on November 8, 2007, the administrative law judge granted WPS's motion for summary judgment in that proceeding, upholding the March 28, 2007 permit language. The Sierra Club filed petitions with the Dane County Circuit Court on April 27, 2007, and November 14, 2007, for judicial review of the Weston 4 air permit and the underlying proceedings before the administrative law judge. These two judicial review proceedings were consolidated by the court. On February 12, 2009, the court upheld the administrative law judge's final order, which affirmed the WDNR's actions. The Sierra Club appealed this decision. On May 13, 2010, the Wisconsin Court of Appeals issued a ruling affirming that the WDNR’s decisions on BACT, sulfur dioxide, and nitrogen oxide were reasonable. One issue, visible emissions, was sent back to the WDNR for further proceedings. The WDNR and WPS filed a Motion for Clarification on the issue of further proceedings on the visibility issue. The Court of Appeals withdrew its May 13, 2010 decision, and on June 24, 2010, it reaffirmed its decision on all other matters but clarified the visibility issue and directed the WDNR to reopen the permit and establish specific visibility limits. In July 2010, the WDNR, WPS, and the Sierra Club filed Petitions for Review with the Wisconsin Supreme Court. WPS and the WDNR objected to the Sierra Club’s Petition. To date, no action has been taken by the Supreme Court. Integrys Energy Group is currently unsure how the Supreme Court will respond.

These activities did not stay the construction and startup of the Weston 4 facility or the administrative law judge's decision on the Weston 4 air permit. WPS believes that it has substantial defenses to the Sierra Club's challenges. Until the Sierra Club's challenges are finally resolved, Integrys Energy Group will not be able to make a final determination of the probable impact, if any, of compliance with any changes to the Weston 4 air permit on its future costs.

In December 2008, an NOV was issued to WPS by the WDNR alleging various violations of the air permits for Weston 4, as well as Weston 1 and 2. The alleged violations include an exceedance of the carbon monoxide and volatile organic compound limits at Weston 4, exceedances of the hourly sulfur dioxide limit in ten three-hour periods during startup/shutdown and during one separate event at Weston 4, and two that address baghouse operation at

Weston 1 and 2. On July 22, 2009, an NOV was issued to WPS by the WDNR alleging violations of the opacity limits during two six-minute periods (one each at Weston 2 and 4) and of the sulfur dioxide average limit during one three-hour period at Weston 4. An NOV was issued to WPS in September 2009 relating to one event involving baghouse operation at

Weston 1 and 2 that occurred in December 2008. A fourth NOV was issued on December 14, 2009, for a clerical error involving pages missing from a quarterly report. Corrective actions have been taken for the events in the four NOVs. An enforcement conference was held on January 7, 2009, for the December 2008 NOV and on August 26, 2009, for the July 2009 NOV. Discussions with the WDNR on the severity classification of the events continue. Management believes it is very likely that the WDNR will refer the NOVs to the state Justice Department for enforcement. Management does not believe that these matters will have a material adverse impact on the condensed consolidated financial statements of Integrys Energy Group.

In early November 2006, it came to the attention of WPS that previous ambient air quality computer modeling done by the WDNR for the Weston facility (and other nearby air sources) did not take into account the emissions from the existing Weston 3 facility for purposes of evaluating air quality increment consumption under the required PSD. WPS believes it has undertaken and completed corrective measures to address any identified modeling issues and anticipates issuance of a revised Title V permit that will resolve this issue. Integrys Energy Group currently is not able to make a final determination of the probable cost impact of this issue, if any.

Pulliam Air Permit

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

On October 22, 2010, WPS received from the Sierra Club a copy of an NOI to file a civil lawsuit against the EPA based on what the Sierra Club alleges to be the EPA's unreasonable delay in performing its duties related to the grant or denial of the Pulliam Title V permit. Integrys Energy Group is reviewing all these allegations but is currently unable to predict the impact on its condensed consolidated financial statements.

Columbia Air Permit

The renewal of the Title V air permit for the Columbia generation station, jointly owned by WP&L, MG&E, and WPS and operated by WP&L, was issued by the WDNR on September 2, 2008. On October 8, 2009, the EPA issued an order objecting to the Title V air permit. The order responds to a petition filed by the Sierra Club and determined that a project in 2006 to replace the economizer, final superheater, and related components on Unit 1 should have been permitted as a "major modification." The order directed the WDNR to resolve the EPA's objections within 90 days and "terminate, modify, or revoke and reissue" the Title V permit accordingly. On September 22, 2010, the WDNR issued a draft permit. The parties are evaluating all options, including a challenge to the permit.

On July 14, 2010, WPS, along with its co-owners, received from the Sierra Club a copy of an NOI to file a civil lawsuit against the EPA based on what the Sierra Club alleges to be the EPA's unreasonable delay in performing its duties related to the granting or denial of the Title V permit. Specifically, they allege that the EPA has failed to take actions against the WDNR for its failure to take action regarding the Title V permit as ordered by the EPA. Integrys Energy Group is reviewing all these allegations but is currently unable to predict the impact on its condensed consolidated financial statements.

Mercury and Interstate Air Quality Rules

Mercury

The State of Wisconsin's mercury rule, Chapter NR 446, requires a 40% reduction from the 2002 through 2004 baseline mercury emissions in Phase I, beginning January 1, 2010, through the end of 2014. In Phase II, which begins in 2015, electric generating units above 150 megawatts will be required to reduce mercury emissions by 90%. Reductions can be phased in and the 90% target can be delayed until 2021 if additional sulfur dioxide and nitrogen oxide reductions are implemented. By 2015, electric generating units above 25 megawatts but less than 150 megawatts must reduce their mercury emissions to a level defined by the BACT rule. As of September 30, 2010, WPS estimates capital costs of approximately $20 million for Phase I and Phase II, which includes estimates for both wholly owned and jointly owned plants, to achieve the required reductions. The capital costs are expected to be recovered in future rate cases. Because of the vacatur of the federal mercury control and monitoring rule in February 2008, the EPA is reviewing options for a new rulemaking to address hazardous air pollutants, including mercury, and is expected to issue a draft rule in 2011.

Sulfur Dioxide and Nitrogen Oxide

The EPA issued the Clean Air Interstate Rule (CAIR) in 2005. CAIR was originally intended to reduce sulfur dioxide and nitrogen oxide emissions from utility boilers located in 29 states, including Wisconsin, Michigan, Pennsylvania, and New York. The first phase of CAIR required about a 50% reduction beginning in 2009 for nitrogen oxide and beginning in 2010 for sulfur dioxide. The second phase required about a 65% reduction in emissions of both pollutants by 2015. The State of Wisconsin's rule to implement CAIR, which incorporates the cap and trade approach, has been forwarded to the EPA for final review.

On July 11, 2008, the U.S. Court of Appeals issued a decision vacating CAIR, the EPA appealed, and in December 2008, the Court of Appeals reversed the CAIR vacatur and CAIR was reinstated. The Court of Appeals directed the EPA to address the deficiencies noted in its July 11, 2008 ruling, and the EPA issued a draft CAIR replacement rule for comment on July 6, 2010. As a result of the Court of Appeals' decision, CAIR is in place for 2010. WPS has not acquired any nitrogen oxide allowances for vintage years beyond 2010 other than those allocated by the EPA and does not expect any material impact as a result of the vacatur and subsequent reinstatement of CAIR. Integrys Energy Group will continue to evaluate the impacts of any subsequent rulemaking.

Due to the reinstatement of CAIR, units affected by the Best Available Retrofit Technology (BART) rule are considered in compliance with BART for sulfur dioxide and nitrogen oxide emissions. Although particulate emissions also contribute to visibility impairment, the WDNR’s modeling has shown the impairment to be so insignificant that additional capital expenditures on controls are not warranted.

For planning purposes, it is still assumed that additional sulfur dioxide and nitrogen oxide controls will be needed on existing units. The installation of any controls will need to be scheduled as part of WPS's long-term maintenance plan for its existing units. As such, controls may need to be installed before 2015. On a preliminary basis, and assuming controls are still required, WPS estimates capital costs of $453 million, which includes estimates for both wholly owned and WPS’s share of jointly owned plants, in order to meet an assumed 2015 compliance date. This estimate is based on costs of current control technology and current information regarding the final state and federal rules. The capital costs are anticipated to be recovered in future rate cases.

Manufactured Gas Plant Remediation

Integrys Energy Group's natural gas utilities, their predecessors, and certain former affiliates operated facilities in the past at multiple sites for the purpose of manufacturing and storing manufactured gas. In connection with manufacturing and storing manufactured gas, waste materials were produced that may have resulted in soil and groundwater contamination at these sites. Under certain laws and regulations relating to the protection of the environment, Integrys Energy Group's natural gas utilities are required to undertake remedial action with respect to some of these materials.

Integrys Energy Group's natural gas utilities are responsible for the environmental impacts at 55 manufactured gas plant sites located in Wisconsin, Michigan, and Illinois. All are former regulated utility sites and are being remediated, with costs charged to existing ratepayers at WPS, MGU, PGL, and NSG. Twenty of these sites have been transferred to the EPA Superfund Alternative Sites Program. Under the

EPA's program, the remedy decisions at these sites will be based on risk-based criteria typically used at Superfund sites. Integrys Energy Group estimated and accrued for $650.4 million of future undiscounted investigation and cleanup costs for all sites as of September 30, 2010. Integrys Energy Group may adjust these estimates in the future, contingent upon remedial technology, regulatory requirements, remedy determinations, and any claims of natural resource damages. Integrys Energy Group recorded a regulatory asset of $663.5 million, which is net of insurance recoveries received of $56.9 million, related to the expected recovery of both deferred expenditures and estimated future expenditures as of September 30, 2010.

Integrys Energy Group's natural gas utilities are coordinating the investigation and cleanup of the manufactured gas plant sites subject to EPA jurisdiction under what is called a "multi-site" program. This program involves prioritizing the work to be done at the sites, preparation and approval of documents common to all of the sites, and utilization of a consistent approach in selecting remedies.

The EPA identified NSG as a potentially responsible party (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA), at the Waukegan Coke Plant Site located in Waukegan, Illinois (Waukegan Site). The Waukegan Site is part of the Outboard Marine Corporation (OMC) Superfund Site. The EPA also identified OMC, General Motors Corporation (GM), and certain other parties as PRPs at the Waukegan Site. NSG and the other PRPs are parties to a consent decree that requires NSG and GM, jointly and severally, to perform the remedial action and establish and maintain financial assurance of $27.0 million. The EPA reduced the financial assurance requirement to $21.0 million to reflect completion of the soil component of the remedial action in August 2005. NSG has met its financial assurance requirement in the form of a net worth test while GM met the requirement by providing a performance and payment bond in favor of the EPA. As a result of the GM bankruptcy, the EPA contacted the surety and the surety stated that it will provide the EPA access to the surety bond funds which are expected to fund a significant portion of GM's liability. The potential exposure related to the GM bankruptcy that is not expected to be covered by the bond proceeds has been reflected in the accrual identified above.

Management believes that any costs incurred for environmental activities relating to former manufactured gas plant operations that are not recoverable through contributions from other entities or from insurance carriers have been prudently incurred and are, therefore, recoverable through rates for WPS, MGU, PGL, and NSG. Accordingly, management believes that the costs incurred in connection with former manufactured gas plant operations will not have a material adverse effect on the condensed consolidated financial statements of Integrys Energy Group.

Greenhouse Gases

Integrys Energy Group is evaluating both the technical and cost implications that may result from future state, regional, or federal greenhouse gas regulatory programs. This evaluation indicates it is probable that any regulatory program which caps emissions or imposes a carbon tax will increase costs for Integrys Energy Group and its customers. The greatest impact is likely to be on fossil fuel-fired generation, with a less significant impact on natural gas storage and distribution operations. Efforts are underway within the utility industry to find a feasible method for capturing carbon dioxide from pulverized coal-fired units and to develop cleaner ways to burn coal. The use of alternate fuels is also being explored by the industry, but there are many cost and availability issues.

The EPA will begin regulating greenhouse gas emissions under the Clean Air Act in 2011, unless there is a successful legal challenge that stays the rule (several lawsuits have been filed). At that time, the EPA and the states will apply the BACT requirements associated with the new source review program to new and modified larger greenhouse gas emitters. Technology to remove and sequester greenhouse gas emissions is not commercially available at scale; hence, the EPA is considering defining BACT in terms of improvements in energy efficiency as opposed to relying on pollution control equipment. In addition, federal legislation related to greenhouse gas emissions may be enacted in the future, and efforts have been initiated to develop state and regional greenhouse gas programs, to create federal legislation to limit carbon dioxide emissions, and to create national or state renewable portfolio standards. A risk exists that such legislation or regulation will increase the cost of energy. However, Integrys Energy Group believes the capital expenditures being made at its generation units are appropriate under any reasonable mandatory greenhouse gas program and that future expenditures related to control of greenhouse gas emissions or renewable portfolio standards by its regulated electric utilities will be recoverable in rates. Integrys Energy Group will continue to monitor and manage potential risks and opportunities associated with future greenhouse gas legislative or regulatory actions.

Natural Gas Charge Reconciliation Proceedings and Related Matters

Natural Gas Charge Settlement and Pending Natural Gas Charge Cases

For PGL and NSG, the ICC conducts annual proceedings regarding the reconciliation of revenues from the natural gas charge and related natural gas costs. The natural gas charge represents the cost of natural gas and transportation and storage services purchased by PGL and NSG, as well as gains, losses, and costs incurred under PGL's and NSG's hedging program (Gas Charge). In these proceedings, interested parties review the accuracy of the reconciliation of revenues and costs and the prudence of natural gas costs recovered through the Gas Charge. If the ICC were to find that the reconciliation was inaccurate or any natural gas costs were imprudently incurred, the ICC would order PGL and NSG to refund the affected amount to customers through subsequent Gas Charge filings.

In March 28, 2006 orders, the ICC adopted a settlement agreement related to fiscal years 2001 through 2004 natural gas costs. Under the settlement agreement, PEC agreed to provide the Illinois Attorney General (AG) and the City of Chicago (Chicago) up to $30.0 million for conservation and weatherization programs for which PGL and NSG may not seek rate recovery. The balance of the conservation and weatherization funding that remained unpaid as of September 30, 2010, was $5.2 million and was recorded in other current liabilities. PEC also agreed to implement a reconnection program for certain customers, and PGL and NSG implemented this program. Finally, PEC agreed to internal audits and an external audit of natural gas supply practices. Four of the five annual internal audits required by the settlement agreement have been completed. The external audit was completed in April 2008, and PGL and NSG completed their responses to the external auditor's recommendations in March 2009.

The fiscal 2006 Gas Charge reconciliation cases were initiated on November 21, 2006. The ICC staff and interveners (the AG, the Citizens Utility Board, and Chicago, filing jointly) each filed testimony recommending disallowances for PGL and NSG for a bank natural gas adjustment similar to that addressed in the fiscal 2005 Gas Charge reconciliation cases, which PGL and NSG did not contest. In addition, the interveners recommended a disallowance for PGL of $13.9 million (reduced to $11.0 million in their brief) associated with PGL's provision of interstate hub services. The ICC staff does not support the interveners' proposal, and PGL does not believe the proposal has merit. The Administrative Law Judge’s proposed order rejected the interveners’ proposal. Briefing on the proposed order concluded on June 4, 2010. For NSG, there were no contested issues, and the ICC issued an order on May 25, 2010.

Reconciliations of subsequent periods (2007 - 2009 for NSG and 2006 - 2009 for PGL) were held in abeyance pending the outcome of the fiscal 2006 Gas Charge reconciliation cases, but ICC Staff and an intervener filed testimony for the 2007 Gas Charge reconciliation period on October 22, 2010. They recommended no disallowances although the intervener recommended a change in how certain pipeline costs are recovered. There has been no ICC Staff or intervener testimony for the 2008 and 2009 reconciliation periods, and NSG and PGL are not aware of any issues for those periods.

Class Action

In February 2004, a purported class action suit was filed in Cook County Circuit Court against PEC, PGL, and NSG by customers of PGL and NSG, alleging among other things, violation of the Illinois Consumer Fraud and Deceptive Business Practices Act related to matters at issue in the utilities' fiscal year 2001 Gas Charge reconciliation proceedings. In the suit, Alport et al. v. Peoples Energy Corporation, the plaintiffs seek disgorgement and punitive damages. PGL and NSG have been dismissed as defendants and the only remaining counts of the suit allege violations of the Consumer Fraud and Deceptive

Business Practices Act by PEC and that PEC acted in concert with others to commit a tortious act. On November 19, 2009, the court entered an order certifying a class composed of customers of PGL and NSG during the period April 26, 2000, through September 30, 2002. The case remained pending in Circuit court. The parties entered into a settlement agreement on September 23, 2010, that was preliminarily approved by the court on September 27, 2010. The hearing for final approval is scheduled for November 30, 2010. At September 30, 2010, Integrys Energy Group had an $8.8 million liability recorded related to the settlement agreement.

NOTE 15--GUARANTEES

The following table shows outstanding guarantees at Integrys Energy Group:

		Expiration			
(Millions)	Total Amounts Committed at September 30, 2010	Less Than 1 Year	1 to 3 Years	4 to 5 Years	Over 5 Years
Guarantees supporting commodity transactions of subsidiaries (1)	$ 716.1	$437.4	$46.2	$-	$232.5
Standby letters of credit (2)	107.4	89.7	17.6	0.1	-
Surety bonds (3)	3.2	2.1	1.1	-	-
Other guarantees (4)	73.5	-	-	50.0	23.5
Total guarantees	$ 900.2	$529.2	$64.9	$50.1	$256.0

(1) Consists of parental guarantees of $517.5 million to support the business operations of Integrys Energy Services; $123.2 million and $65.4 million, respectively, related to natural gas supply at MERC and MGU; and $5.0 million at both PEC and IBS to support business operations. These guarantees are not reflected on the Condensed Consolidated Balance Sheets.

(2) At Integrys Energy Group's request, financial institutions have issued standby letters of credit for the benefit of third parties that have extended credit to Integrys Energy Group. This amount consists of $95.2 million issued to support Integrys Energy Services' operations; $10.4 million issued for workers compensation coverage in Illinois; and $1.8 million related to letters of credit issued to support UPPCO, WPS, MGU, NSG, MERC, and PGL operations. These amounts are not reflected on the Condensed Consolidated Balance Sheets.

(3) Primarily for workers compensation coverage and obtaining various licenses, permits, and rights of way. Surety bonds are not included on the Condensed Consolidated Balance Sheets.

(4) Consists of (1) $50.0 million related to the sale agreement for Integrys Energy Services' United States wholesale electric marketing and trading business, which included a number of customary representations, warranties, and indemnification provisions. In addition, for a two-year period, counterparty payment default risk was retained with approximately 50% of the counterparties associated with the commodity contracts transferred in this transaction. An insignificant liability was recorded related to the fair value of this counterparty payment default risk; (2) $10.0 million related to the sale agreement for Integrys Energy Services' Texas retail marketing business, which included a number of customary representations, warranties, and indemnification provisions. An insignificant liability was recorded related to the possible imposition of additional miscellaneous gross receipts tax in the event of a change in law or interpretation of the tax law; (3) $5.0 million related to an environmental indemnification provided by Integrys Energy Services as part of the sale of the Stoneman generation facility, under which Integrys Energy Group expects that the likelihood of required performance is remote. This amount is not

reflected on the Condensed Consolidated Balance Sheets; and (4) $8.5 million related to other indemnifications and workers compensation coverage. This amount is not reflected on the Condensed Consolidated Balance Sheets.

Integrys Energy Group has provided total parental guarantees of $707.1 million on behalf of Integrys Energy Services, as shown in the table below. Integrys Energy Group's exposure under these guarantees related to open transactions at September 30, 2010, was approximately $455 million based on (1) an assumption that 60 days of payables are outstanding, and (2) the valuation of forward contracts.

(Millions)	September 30, 2010
Guarantees supporting commodity transactions	$ 517.5
Standby letters of credit	95.2
Guarantees of subsidiary debt *	27.0
Surety bonds	1.7
Other	65.7
Total guarantees	$ 707.1

* Consists of outstanding debt at an Integrys Energy Services subsidiary, which is not included in the total Integrys Energy Group guarantee amounts above, because the debt is reflected on the Condensed Consolidated Balance Sheets.

NOTE 16--EMPLOYEE BENEFIT PLANS

The following table shows the components of net periodic benefit cost for Integrys Energy Group's benefit plans:

	Pension Benefits				Other Postretirement Benefits			
	Three Months Ended September 30		Nine Months Ended September 30		Three Months Ended September 30		Nine Months Ended September 30	
(Millions)	2010	2009	2010	2009	2010	2009	2010	2009
Service cost	$ 10.0	$ 9.7	$ 30.1	$ 29.1	$ 4.1	$ 3.6	$ 12.3	$ 10.7
Interest cost	20.0	20.2	60.0	60.7	6.9	6.6	20.6	19.9
Expected return on plan assets	(23.1)	(23.1)	(69.2)	(69.4)	(4.7)	(4.4)	(14.2)	(13.3)
Amortization of transition obligation	-	-	-	-	0.1	0.1	0.2	0.2
Amortization of prior service cost (credit)	1.3	1.3	3.9	3.8	(1.0)	(1.0)	(2.9)	(2.9)
Amortization of net actuarial loss (gain)	2.0	0.5	6.1	1.4	0.5	(0.4)	1.4	(1.1)
Amortization of merger related regulatory adjustment (1)	-	3.1	-	9.4	-	0.8	-	2.5
Regulatory deferral (2)	1.2	(0.8)	3.4	(2.4)	(0.4)	(0.4)	(1.0)	(1.2)
Net periodic benefit cost	$ 11.4	$ 10.9	$ 34.3	$ 32.6	$ 5.5	$ 4.9	$ 16.4	$ 14.8

(1) Effective with the 2010 rate order, PGL and NSG reflect pension and other postretirement benefit costs in rates using Integrys Energy Group's accounting basis, which was established at the time of the February 2007 PEC merger. As a result, the merger related regulatory adjustment was eliminated. Pursuant to the 2010 rate order, a new regulatory asset was established for the remaining cumulative difference that existed between the accounting bases of PGL/NSG and Integrys Energy Group in the pension and other postretirement benefit obligations. The amortization of this regulatory asset over the average remaining service lives of the participating employees is not included as a component of net periodic benefit cost.

(2)

The PSCW authorized WPS to recover its net increased 2009 pension costs and to refund its net decreased 2009 other postretirement benefit costs as part of the limited rate case re-opener for 2010. Amortization and recovery/refund of these costs will be completed by December 31, 2010.

Transition obligations, prior service costs (credits), and net actuarial losses (gains) that have not yet been recognized as a component of net periodic benefit cost are included in accumulated OCI for Integrys Energy Group's nonregulated entities and are recorded as net regulatory assets for the utilities.

Contributions to the plans are made in accordance with legal and tax requirements and do not necessarily occur evenly throughout the year. For the nine months ended September 30, 2010, $64.3 million of contributions were made to the pension plans, and contributions made to the other postretirement benefit plans were not significant. Integrys Energy Group expects to contribute an additional $101.4 million to its pension plans and $35.2 million to its other postretirement benefit plans during the remainder of 2010.

NOTE 17--STOCK-BASED COMPENSATION

In May 2010, Integrys Energy Group's shareholders approved the 2010 Omnibus Incentive Compensation Plan (2010 Omnibus Plan). Under the provisions of the 2010 Omnibus Plan, the number of shares of stock that may be issued in satisfaction of plan awards may not exceed 3,000,000, and no more than 900,000 shares of stock can be granted as performance shares or restricted stock. No additional awards will be issued under prior plans, although the plans continue to exist for purposes of the existing outstanding stock-based compensation. At September 30, 2010, stock options, performance stock rights, restricted shares and restricted share units, and stock appreciation rights were outstanding under the various plans.

Performance stock rights, restricted shares, and restricted share units were accounted for as equity awards through June 30, 2010; however, in the third quarter of 2010, Integrys Energy Group determined that these awards should have been accounted for as liability awards due to certain changes to the deferred compensation plan approved by Integrys Energy Group's Board of Directors in the fourth quarter of 2007. In the third quarter of 2010, consistent with the guidance in the Stock Compensation Topic of the FASB ASC, Integrys Energy Group began accounting for performance stock rights, restricted shares, and restricted share units as liability awards, which are required to be recorded at fair value each reporting period. The cumulative effect of this change related to periods prior to the third quarter of 2010 was a decrease in net income from continuing operations and net income attributed to common shareholders of $2.4 million. Management determined that this amount was not material to prior periods or to the quarter ended September 30, 2010, and recorded the cumulative effect in earnings in the third quarter of 2010.

Stock Options

Compensation cost recognized for stock options during the three and nine months ended September 30, 2010, and 2009, was not significant. As of September 30, 2010, $1.9 million of compensation cost related to unvested and outstanding stock options was expected to be recognized over a weighted-average period of 2.8 years.

Cash received from option exercises during the nine months ended September 30, 2010, was $17.6 million. The tax benefit realized from these option exercises was $7.1 million.

A summary of stock option activity for the nine months ended September 30, 2010, and information related to outstanding and exercisable stock options at September 30, 2010, is presented below:

	Stock Options	Weighted-Average Exercise Price Per Share	Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value (Millions)
Outstanding at December 31, 2009	3,133,286	$ 47.06		
Granted	554,092			