

INTEGRYS HOLDING, INC.
Form 10-Q
August 05, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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 HOLDING, INC. (successor to Integrys Energy Group, Inc.) (A Wisconsin Corporation) 231 West Michigan Street Milwaukee, WI 53201 (414) 221-2345	47-1477787

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

Yes No

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

Yes No

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

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

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

Yes No

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

Common stock, \$0.01 par value,
1,000 shares outstanding at
August 5, 2015

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 For the Quarter Ended June 30, 2015
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Acronyms Used in this Quarterly Report on Form 10-Q

AMRP	Accelerated Natural Gas Main Replacement Program
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
ATC	American Transmission Company LLC
EPA	United States Environmental Protection Agency
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
GAAP	United States Generally Accepted Accounting Principles
ICC	Illinois Commerce Commission
IES	Integrys Energy Services, Inc.
IRS	United States Internal Revenue Service
ITF	Integrys Transportation Fuels, LLC (doing business as Trillium CNG)
MERC	Minnesota Energy Resources Corporation
MGU	Michigan Gas Utilities Corporation
MISO	Midcontinent Independent System Operator, Inc.
MPSC	Michigan Public Service Commission
MPUC	Minnesota Public Utilities Commission
N/A	Not Applicable
NSG	North Shore Gas Company
PDL	WPS Power Development, LLC (formerly known as WPS Power Development, Inc.)
PELLC	Peoples Energy, LLC (formerly known as Peoples Energy Corporation)
PGL	The Peoples Gas Light and Coke Company
PSCW	Public Service Commission of Wisconsin
SEC	United States Securities and Exchange Commission
UPPCO	Upper Peninsula Power Company
WBS	WEC Business Services, LLC (formerly known as Integrys Business Support, LLC)
WDNR	Wisconsin Department of Natural Resources
WEC	WEC Energy Group, Inc.
WPS	Wisconsin Public Service Corporation

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Forward-Looking Statements

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

Forward-looking statements involve a number of risks and uncertainties. Some risks and uncertainties that could cause actual results to differ materially from those expressed or implied in forward-looking statements include those described in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014, as may be amended or supplemented in Part II, Item 1A of our subsequently filed Quarterly Reports on Form 10-Q (including this report), and those identified below:

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

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

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

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

The timely completion of capital projects within estimates, as well as the recovery of those costs through established mechanisms;

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

The impact of unplanned facility outages;

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

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

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

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

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

The terms and conditions of the governmental and regulatory approvals of the WEC Merger could reduce anticipated benefits, and the ability to successfully integrate our operations with Wisconsin Energy Corporation;

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

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

The ability to use tax credit, net operating loss, and/or charitable contribution carryforwards;

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

- The risk associated with the value of goodwill or other intangible assets and their possible impairment;
- Potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed timely or within budgets;
- Changes in technology, particularly with respect to new, developing, or alternative sources of generation;
- The financial performance of ATC and its corresponding contribution to our earnings;
- The timing and outcome of any audits, disputes, and other proceedings related to taxes;
- The effectiveness of risk management strategies, the use of financial and derivative instruments, and the related recovery of these costs from customers in rates;
- The effect of accounting pronouncements issued periodically by standard-setting bodies; and
- Other factors discussed elsewhere herein and in other reports we file with the SEC.

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

INTEGRYS HOLDING, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Millions)	Three Months Ended		Six Months Ended	
	June 30 2015	2014	June 30 2015	2014
Operating revenues	\$638.3	\$837.1	\$1,801.8	\$2,475.4
Cost of sales	217.1	400.2	790.2	1,373.1
Operating and maintenance expense	268.0	318.0	540.1	662.4
Depreciation and amortization expense	72.1	72.8	147.5	144.2
Property and revenue taxes	17.9	17.2	36.1	34.7
Merger costs	59.3	5.9	60.0	5.9
Impairment loss on property, plant, and equipment at PDL	10.7	—	10.7	—
Gain on sale of certain PDL solar power generation plants	(5.2)	) —	(5.2)) —
Operating (loss) income	(1.6)	) 23.0	222.4	255.1
Equity in earnings of transmission affiliate	22.4	23.0	39.4	45.5
Miscellaneous income	1.8	5.8	9.1	12.3
Interest expense	40.0	39.3	79.0	79.0
Other expense	(15.8)	) (10.5)	) (30.5)	) (21.2)
(Loss) income before taxes	(17.4)	) 12.5	191.9	233.9
(Benefit) provision for income taxes	(8.1)	) 4.5	70.9	86.4
Net (loss) income from continuing operations	(9.3)	) 8.0	121.0	147.5
Discontinued operations, net of tax	—	(0.8)	) (0.8)	) 12.1
Net (loss) income	\$(9.3)	) \$7.2	\$120.2	\$159.6

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

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INTEGRYS HOLDING, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)	Three Months Ended		Six Months Ended	
	June 30 2015	June 30 2014	June 30 2015	June 30 2014
(Millions)				
Net (loss) income	\$(9.3)	\$7.2	\$120.2	\$159.6
Other comprehensive income, net of tax:				
Cash flow hedges				
Reclassification of net losses (gains) to net income, net of tax of \$0.1 million, \$ – million, \$0.2 million, and \$0.9 million, respectively	0.2	0.2	0.3	(0.4)
Defined benefit plans				
Pension and other postretirement benefit adjustments arising during period, net of tax of \$0.4 million, \$ – million, \$0.4 million, and \$(0.1) million, respectively	0.7	—	0.7	(0.1)
Amortization of pension and other postretirement benefit costs included in net periodic benefit cost, net of tax of \$0.6 million, \$0.2 million, \$1.1 million, and \$0.5 million, respectively	0.9	0.5	1.6	0.8
Defined benefit plans, net	1.6	0.5	2.3	0.7
Other comprehensive income, net of tax	1.8	0.7	2.6	0.3
Comprehensive (loss) income	\$(7.5)	\$7.9	\$122.8	\$159.9

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

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INTEGRYS HOLDING, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) (Millions, except share and per share data)	June 30 2015	December 31 2014
Assets		
Cash and cash equivalents	\$ 156.3	\$ 18.0
Accounts receivable, net of reserves of \$55.2 and \$60.3, respectively	341.6	480.7
Receivables from related parties	27.3	—
Accrued unbilled revenues	110.6	266.4
Materials, supplies, and inventories	234.1	327.7
Assets held for sale	—	51.5
Deferred income taxes	119.4	52.4
Prepaid taxes	77.2	136.2
Other current assets	80.7	57.4
Current assets	1,147.2	1,390.3
Property, plant, and equipment, net of accumulated depreciation of \$3,227.2 and \$3,322.0, respectively	7,098.2	6,827.9
Regulatory assets	1,582.0	1,585.3