**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, 2014

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.<br>(A Wisconsin Corporation)<br>200 East Randolph Street<br>Chicago, IL 60601-6207<br>(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,
79,963,091 shares outstanding at
November 4, 2014

**INTEGRYS ENERGY GROUP, INC.**
**QUARTERLY REPORT ON FORM 10-Q**
**For the Quarter Ended September 30, 2014**
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## Acronyms Used in this Quarterly Report on Form 10-Q

| | |
|---|---|
| AFUDC | Allowance for Funds Used During Construction |
| 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 |
| IBS | Integrys Business Support, LLC |
| 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 |
| PELLC | Peoples Energy, LLC (formerly known as Peoples Energy Corporation) |
| PGL | The Peoples Gas Light and Coke Company |
| PSCW | Public Service Commission of Wisconsin |
| SEC | United States Securities and Exchange Commission |
| UPPCO | Upper Peninsula Power Company |
| WDNR | Wisconsin Department of Natural Resources |
| WPS | Wisconsin Public Service Corporation |

## 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, 2013, 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 possibility that the proposed merger with Wisconsin Energy Corporation (Wisconsin Energy) does not close (including, but not limited to, due to the failure to satisfy the closing conditions), disruption from the proposed merger making it more difficult to maintain our business and operational relationships, and the risk that unexpected costs will be incurred during this process;
- The risk of terrorism or cyber security attacks, including the associated costs to protect 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;
- 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;
- The ability to retain market-based rate authority;
- The effects, extent, and timing of competition or additional regulation in the markets in which our subsidiaries operate;
- 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 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 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;
- The ability to use tax credit and loss 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;
- The timely completion of capital projects within estimates, as well as the recovery of those costs through established mechanisms;
- Potential business strategies, including acquisitions or dispositions of assets or businesses, which cannot be assured to be completed timely or within budgets (such as the proposed merger with Wisconsin Energy);
- 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;
- Changes in technology, particularly with respect to new, developing, or alternative sources of generation;
- 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 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, Integrys Energy Group undertakes 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) | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(Millions, except per share data)* | **2014** | **2013** | **2014** | **2013** |
| Utility revenues | **$ 625.1** | $ 606.9 | **$ 3,047.9** | $ 2,425.1 |
| Nonregulated revenues | **562.8** | 522.8 | **2,497.5** | 1,498.8 |
| **Total revenues** | **1,187.9** | 1,129.7 | **5,545.4** | 3,923.9 |
| | | | | |
| Utility cost of fuel, natural gas, and purchased power | **228.6** | 222.8 | **1,571.8** | 1,083.9 |
| Nonregulated cost of sales | **510.0** | 475.3 | **2,334.0** | 1,360.0 |
| Operating and maintenance expense | **289.8** | 282.3 | **988.7** | 866.1 |
| Depreciation and amortization expense | **73.3** | 69.6 | **217.5** | 196.0 |
| Taxes other than income taxes | **26.3** | 24.4 | **79.9** | 76.4 |
| Merger transaction costs | **2.5** | — | **8.4** | — |
| Goodwill impairment loss | **—** | — | **6.7** | — |
| Transaction costs related to sale of IES's retail energy business | **0.9** | — | **1.7** | — |
| Gain on sale of UPPCO, net of transaction costs | **(86.3)** | — | **(85.4)** | — |
| Gain on abandonment of IES's Winnebago Energy Center | **(4.1)** | — | **(4.1)** | — |
| **Operating income** | **146.9** | 55.3 | **426.2** | 341.5 |
| | | | | |
| Earnings from equity method investments | **24.5** | 23.1 | **71.3** | 68.2 |
| Miscellaneous income | **6.4** | 12.1 | **17.4** | 23.3 |
| Interest expense | **38.1** | 33.1 | **115.9** | 91.0 |
| **Other income (expense)** | **(7.2)** | 2.1 | **(27.2)** | 0.5 |
| | | | | |
| Income before taxes | **139.7** | 57.4 | **399.0** | 342.0 |
| Provision for income taxes | **56.8** | 18.0 | **154.8** | 124.3 |
| **Net income from continuing operations** | **82.9** | 39.4 | **244.2** | 217.7 |
| | | | | |
| Discontinued operations, net of tax | **1.1** | (0.6) | **0.9** | 4.7 |
| **Net income** | **84.0** | 38.8 | **245.1** | 222.4 |
| | | | | |
| Preferred stock dividends of subsidiary | **(0.7)** | (0.7) | **(2.3)** | (2.3) |
| Noncontrolling interest in subsidiaries | **—** | — | **0.1** | 0.1 |
| **Net income attributed to common shareholders** | **$ 83.3** | $ 38.1 | **$ 242.9** | $ 220.2 |
| | | | | |
| **Average shares of common stock** | | | | |
| Basic | **80.2** | 79.8 | **80.2** | 79.3 |
| Diluted | **81.1** | 80.2 | **80.6** | 79.9 |
| | | | | |
| **Earnings per common share (basic)** | | | | |
| Net income from continuing operations | **$ 1.03** | $ 0.49 | **$ 3.02** | $ 2.72 |
| Discontinued operations, net of tax | **0.01** | (0.01) | **0.01** | 0.06 |
| Earnings per common share (basic) | **$ 1.04** | $ 0.48 | **$ 3.03** | $ 2.78 |
| | | | | |
| **Earnings per common share (diluted)** | | | | |
| Net income from continuing operations | **$ 1.01** | $ 0.48 | **$ 3.00** | $ 2.70 |
| Discontinued operations, net of tax | **0.01** | (0.01) | **0.01** | 0.06 |
| Earnings per common share (diluted) | **$ 1.02** | $ 0.47 | **$ 3.01** | $ 2.76 |
| | | | | |
| **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 STATEMENTS OF COMPREHENSIVE INCOME (Unaudited) | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(Millions)* | 2014 | 2013 | 2014 | 2013 |
| **Net income** | **$ 84.0** | $ 38.8 | **$ 245.1** | $ 222.4 |
| **Other comprehensive income, net of tax:** | | | | |
| **Cash flow hedges** | | | | |
| Unrealized net gains arising during period, net of tax of an insignificant amount for all periods presented | **—** | — | **—** | 0.7 |
| Reclassification of net losses (gains) to net income, net of tax of $0.2 million, $0.2 million, $1.1 million, and $1.7 million, respectively | **0.1** | 0.3 | **(0.3)** | 2.7 |
| **Cash flow hedges, net** | **0.1** | 0.3 | **(0.3)** | 3.4 |
| **Defined benefit plans** | | | | |
| Pension and other postretirement benefit costs arising during period, net of tax of an insignificant amount for all periods presented | **—** | — | **(0.1)** | — |
| Amortization of pension and other postretirement benefit costs included in net periodic benefit cost, net of tax of $0.2 million, $0.4 million, $0.7 million, and $1.2 million, respectively | **0.4** | 0.6 | **1.2** | 1.8 |
| **Defined benefit plans, net** | **0.4** | 0.6 | **1.1** | 1.8 |
| **Other comprehensive income, net of tax** | **0.5** | 0.9 | **0.8** | 5.2 |
| **Comprehensive income** | **84.5** | 39.7 | **245.9** | 227.6 |
| Preferred stock dividends of subsidiary | **(0.7)** | (0.7) | **(2.3)** | (2.3) |
| Noncontrolling interest in subsidiaries | **—** | — | **0.1** | 0.1 |
| **Comprehensive income attributed to common shareholders** | **$ 83.8** | $ 39.0 | **$ 243.7** | $ 225.4 |

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

**INTEGRYS ENERGY GROUP, INC.**

| **CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)** *(Millions, except share and per share data)* | **September 30 2014** | **December 31 2013** |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | **$ 16.1** | $ 22.3 |
| Accounts receivable and accrued unbilled revenues, net of reserves of $65.5 and $49.4, respectively | **756.5** | 1,037.0 |
| Inventories | **407.4** | 253.1 |
| Assets from risk management activities | **242.4** | 239.5 |
| Regulatory assets | **104.3** | 127.4 |
| Assets held for sale | **10.4** | 277.9 |
| Deferred income taxes | **76.1** | 31.4 |
| Prepaid taxes | **60.7** | 146.9 |
| Other current assets | **83.1** | 87.4 |
| **Current assets** | **1,757.0** | 2,222.9 |
| | | |
| Property, plant, and equipment, net of accumulated depreciation of $3,363.8 and $3,236.6, respectively | **6,661.4** | 6,211.4 |
| Regulatory assets | **1,316.1** | 1,361.4 |
| Assets from risk management activities | **98.5** | 75.4 |
| Equity method investments | **568.9** | 540.9 |
| Goodwill | **655.4** | 662.1 |
| Other long-term assets | **327.6** | 169.4 |
| **Total assets** | **$ 11,384.9** | $ 11,243.5 |
| | | |
| **Liabilities and Equity** | | |
| Short-term debt | **$ 392.5** | $ 326.0 |
| Current portion of long-term debt | **—** | 100.0 |
| Accounts payable | **622.4** | 604.8 |
| Liabilities from risk management activities | **165.7** | 163.8 |
| Accrued taxes | **72.6** | 80.9 |
| Regulatory liabilities | **130.7** | 101.1 |
| Liabilities held for sale | **—** | 49.1 |
| Other current liabilities | **245.4** | 228.8 |
| **Current liabilities** | **1,629.3** | 1,654.5 |
| | | |
| Long-term debt | **2,956.3** | 2,956.2 |
| Deferred income taxes | **1,494.1** | 1,390.3 |
| Deferred investment tax credits | **60.4** | 57.6 |
| Regulatory liabilities | **439.5** | 383.7 |
| Environmental remediation liabilities | **558.1** | 600.0 |
| Pension and other postretirement benefit obligations | **121.0** | 200.8 |
| Liabilities from risk management activities | **70.2** | 62.8 |
| Asset retirement obligations | **509.6** | 491.0 |
| Other long-term liabilities | **151.4** | 133.2 |
| **Long-term liabilities** | **6,360.6** | 6,275.6 |
| | | |
| **Commitments and contingencies** | | |
| | | |
| Common stock – $1 par value; 200,000,000 shares authorized; 79,963,091 shares issued; 79,534,171 shares outstanding | **80.0** | 79.9 |
| Additional paid-in capital | **2,660.7** | 2,660.5 |
| Retained earnings | **646.5** | 567.1 |
| Accumulated other comprehensive loss | **(22.4)** | (23.2) |
| Shares in deferred compensation trust | **(20.9)** | (23.0) |
| **Total common shareholders' equity** | **3,343.9** | 3,261.3 |
| | | |
| Preferred stock of subsidiary – $100 par value; 1,000,000 shares authorized; 511,882 shares issued; 510,495 shares outstanding | **51.1** | 51.1 |
| Noncontrolling interest in subsidiaries | **—** | 1.0 |
| **Total liabilities and equity** | **$ 11,384.9** | $ 11,243.5 |

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

## INTEGRYS ENERGY GROUP, INC.

| CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) | Nine Months Ended September 30 | |
|---|---|---|
| *(Millions)* | **2014** | **2013** |
| **Operating Activities** | | |
| Net income | **$ 245.1** | $ 222.4 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Goodwill impairment loss | **6.7** | — |
| Depreciation and amortization expense | **217.5** | 196.0 |
| Recoveries and refunds of regulatory assets and liabilities | **46.5** | 35.2 |
| Net unrealized gains on energy contracts | **(27.9)** | (17.3) |
| Bad debt expense | **39.6** | 22.2 |
| Pension and other postretirement expense | **15.8** | 47.4 |
| Pension and other postretirement contributions | **(95.4)** | (65.0) |
| Deferred income taxes and investment tax credits | **53.5** | 131.7 |
| Gain on sale of UPPCO | **(86.5)** | — |
| Equity income, net of dividends | **(15.4)** | (14.1) |
| Termination of tolling agreement with Fox Energy Company LLC | — | (50.0) |
| Other | **17.5** | 25.5 |
| Changes in working capital | | |
| Accounts receivable and accrued unbilled revenues | **257.9** | 80.6 |
| Inventories | **(158.5)** | (70.1) |
| Other current assets | **60.1** | (31.4) |
| Accounts payable | **(28.0)** | 21.7 |
| Other current liabilities | **69.4** | (22.6) |
| **Net cash provided by operating activities** | **617.9** | 512.2 |
| | | |
| **Investing Activities** | | |
| Capital expenditures | **(590.9)** | (474.7) |
| Proceeds from sale of UPPCO | **332.2** | — |
| Capital contributions to equity method investments | **(14.6)** | (10.2) |
| Rabbi trust funding related to potential change in control | **(113.0)** | — |
| Acquisition of Fox Energy Company LLC | — | (391.6) |
| Acquisitions at IES | — | (12.4) |
| Grant received related to Crane Creek wind project | — | 69.0 |
| Other | **(2.4)** | 0.1 |
| **Net cash used for investing activities** | **(388.7)** | (819.8) |
| | | |
| **Financing Activities** | | |
| Short-term debt, net | **66.5** | (294.4) |
| Borrowing on term credit facility | — | 200.0 |
| Issuance of long-term debt | — | 724.0 |
| Repayment of long-term debt | **(100.0)** | (187.0) |
| Proceeds from stock option exercises | **20.0** | 38.5 |
| Shares purchased for stock-based compensation | **(45.1)** | (2.0) |
| Payment of dividends | | |
| Preferred stock of subsidiary | **(2.3)** | (2.3) |
| Common stock | **(162.3)** | (151.6) |
| Other | **(12.2)** | (18.9) |
| **Net cash (used for) provided by financing activities** | **(235.4)** | 306.3 |
| | | |
| **Net change in cash and cash equivalents** | **(6.2)** | (1.3) |
| Cash and cash equivalents at beginning of period | **22.3** | 27.4 |
| **Cash and cash equivalents at end of period** | **$ 16.1** | $ 26.1 |
| | | |
| *Cash paid for interest* | **$ 88.1** | $ 60.7 |
| *Cash received for income taxes* | **$ (6.5)** | $ (2.6) |

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

**INTEGRYS ENERGY GROUP, INC. AND SUBSIDIARIES**
**CONDENSED NOTES TO FINANCIAL STATEMENTS (Unaudited)**
**September 30, 2014**

## Note 1—Basis of Presentation

As used in these notes, the term "financial statements" refers to the condensed consolidated financial statements. This includes the condensed consolidated statements of income, condensed consolidated statements of comprehensive income, condensed consolidated balance sheets, and condensed consolidated statements of cash flows, unless otherwise noted. In this report, when we refer to "us," "we," "our," or "ours," we are referring to Integrys Energy Group, Inc.

We prepare our financial statements in conformity with the rules and regulations of the SEC for Quarterly Reports on Form 10-Q and in accordance with GAAP. Accordingly, these financial statements do not include all of the information and footnotes required by GAAP for annual financial statements. These financial statements should be read in conjunction with the consolidated financial statements and footnotes in our Annual Report on Form 10-K for the year ended December 31, 2013. Financial results for an interim period may not give a true indication of results for the year.

In management’s opinion, these unaudited financial statements include all adjustments necessary for a fair presentation of financial results. All adjustments are normal and recurring, unless otherwise noted. All intercompany transactions have been eliminated in consolidation.

### Reclassification

Assets and liabilities associated with the sale of UPPCO and the sale of eight ITF compressed natural gas fueling stations were reclassified as held for sale on our December 31, 2013, balance sheet to be consistent with the current period presentation. See Note 4, Dispositions, for more information on these sales.

## Note 2—Proposed Merger with Wisconsin Energy Corporation

In June 2014, we entered into an Agreement and Plan of Merger (Agreement) with Wisconsin Energy Corporation (Wisconsin Energy). Under this Agreement, upon the close of the transaction our shareholders will receive 1.128 shares of Wisconsin Energy common stock and $18.58 in cash for each share of our common stock then owned. In addition, under the Agreement all of our unvested stock-based compensation awards will fully vest upon the close of the transaction and will be paid out in cash to award recipients. Upon closing of the transaction, Integrys Energy Group shareholders will own approximately 28% of the combined company, and Wisconsin Energy shareholders will own approximately 72%.

The combined entity will be named WEC Energy Group, Inc. and will serve more than 4.3 million total natural gas and electric customers across Wisconsin, Illinois, Michigan, and Minnesota.

This transaction was approved unanimously by the Boards of Directors of both companies. It is subject to approvals from the FERC, Federal Communications Commission, PSCW, ICC, MPSC, and MPUC. In addition, this transaction is subject to the approval of the shareholders of both companies, for which special shareholder meetings will be held on November 21, 2014. On October 24, 2014, the Department of Justice closed its review of the transaction and the Federal Trade Commission granted early termination of the waiting period under the Hart-Scott-Rodino Act. This transaction is also subject to other customary closing conditions. We expect the transaction to close in the summer of 2015.

## Note 3—Acquisitions

### *Agreement to Purchase Alliant Energy Corporation's Natural Gas Distribution Business in Southeast Minnesota*

In September 2013, MERC entered into an agreement to purchase Alliant Energy Corporation's natural gas distribution business in southeast Minnesota. This transaction is subject to state and federal regulatory approvals. The purchase price will be based on book value as of the closing date, which is expected to approximate $14 million. We anticipate closing on this transaction by the end of the first quarter of 2015. It will not be material to us.

### *Acquisition of Fox Energy Center*

In March 2013, WPS acquired all of the equity interests in Fox Energy Company LLC for $391.6 million. Fox Energy Company LLC was dissolved into WPS immediately after the purchase.

The purchase included the Fox Energy Center, a 593-megawatt combined-cycle electric generating facility located in Wisconsin, along with associated contracts. Fox Energy Center is a dual-fuel facility, equipped to use fuel oil, but being run primarily on natural gas. This plant gives WPS a more balanced mix of owned electric generation, including coal, natural gas, hydroelectric, wind, and other renewable sources. In giving its approval for the purchase, the PSCW stated that the purchase price was reasonable and will benefit ratepayers.

The purchase price was allocated based on the estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition, as follows:

| *(Millions)* | | |
|---|---|---|
| **Assets acquired** [1] | | |
| Inventories | $ | **3.0** |
| Other current assets | | **0.4** |
| Property, plant, and equipment | | **374.4** |
| Other long-term assets [2] | | **15.6** |
| **Total assets acquired** | $ | **393.4** |
| | | |
| **Liabilities assumed** | | |
| Accounts payable | $ | **1.8** |
| **Total liabilities assumed** | $ | **1.8** |

[1] Relates to the electric utility segment.

[2] Intangible assets recorded for contractual services agreements. See Note 9, Goodwill and Other Intangible Assets, for more information.

Prior to the purchase, WPS supplied natural gas for the facility and purchased 500 megawatts of capacity and the associated energy output under a tolling arrangement. WPS paid $50.0 million for the early termination of the tolling arrangement. This amount was recorded as a regulatory asset, as WPS is authorized recovery by the PSCW. The amount is being amortized over a nine-year period that began on January 1, 2014.

WPS received regulatory approval to defer incremental costs incurred in 2013 associated with the purchase of the facility. These costs are included in WPS's 2015 proposed retail electric rate increase. See Note 22, Regulatory Environment, for more information. WPS's rate order effective January 1, 2014, included the costs of operating the Fox Energy Center.

Pro forma adjustments to our revenues and earnings prior to the date of acquisition would not be meaningful or material. Prior to the acquisition, the Fox Energy Center was a nonregulated plant and sold all of its output to third parties, with most of the output purchased by WPS. The plant is now part of WPS's regulated fleet, used to serve its customers.

## Note 4—Dispositions

## Dispositions

### *IES Segment – Sale of IES Retail Energy Business*

On November 1, 2014, we sold IES's retail energy business to Exelon Generation Company, LLC (Exelon) for $319.2 million. The purchase price is subject to adjustments for working capital. Based on the terms of the sale agreement and the carrying values of assets and liabilities being sold, had the transaction closed on September 30, 2014, we would have recorded a pre-tax loss on the sale of approximately $29 million. This amount is subject to change based on the values at the closing date, including values associated with forward energy prices. Included in the sale transaction are commodity contracts that do not meet the GAAP definition of derivative instruments, and therefore are not reflected on the balance sheets. In accordance with GAAP, expected gains or losses related to nonderivative commodity contracts are not recognized until the contracts are settled. As part of the purchase agreement, we will continue to hold guarantees supporting the IES retail energy business for up to six months following the sale. Exelon is obligated under the purchase agreement to replace these guarantees with its own credit support for the IES retail energy business. See Note 14, Guarantees, for more information. Following the sale, we are providing certain administrative and operational services to Exelon during a transition period of up to 15 months.

The retail energy business consisted of mostly financial assets and liabilities; therefore, it did not qualify as held for sale under the applicable accounting guidance. In the third quarter of 2014, we early adopted the guidance in FASB ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." Under this guidance, the results of operations of a component of a business that is sold are only accounted for as discontinued operations if the sale represents a shift in strategy for the entity. The sale of the retail energy business is a result of a previously announced shift in our strategy to focus on our regulated businesses. Therefore, its results of operations will be classified as discontinued operations beginning in the fourth quarter of 2014.

The June 2014 announcement of the potential sale triggered an interim goodwill impairment test. See Note 9, Goodwill and Other Intangible Assets, for more information.

*Electric Utility Segment – Sale of UPPCO*

In August 2014, we sold all of the stock of UPPCO to Balfour Beatty Infrastructure Partners LP (BBIP) for $332.2 million ($199.3 million after-tax). The purchase price is still subject to potential adjustments for working capital. In the third quarter of 2014, we recorded a pre-tax gain of $86.5 million related to the sale of UPPCO. On the statements of income, the gain is presented net of transaction costs of $0.2 million and $1.1 million for the three and nine months ended September 30, 2014, respectively. Following the sale, we are providing certain administrative and operational services to UPPCO during a transition period of 18 to 30 months.

The sale of UPPCO did not meet the requirements under the applicable accounting guidance to qualify as discontinued operations as WPS has significant continuing cash flows related to certain power purchase transactions with UPPCO that are continuing after the sale. Therefore, UPPCO's results of operations through the sale date remain in continuing operations.

The following table shows the carrying values of the major classes of assets and liabilities related to UPPCO classified as held for sale on the balance sheets:

| *(Millions)* | As of the Closing Date in August 2014 | December 31, 2013 |
|---|---|---|
| Current assets | **$ 24.4** | $ 26.5 |
| Property, plant, and equipment, net of accumulated depreciation of $91.3 and $88.9, respectively | **194.4** | 193.8 |
| Other long-term assets | **72.8** | 51.6 |
| **Total assets** | **$ 291.6** | $ 271.9 |
| | | |
| Current liabilities | **$ 12.6** | $ 16.7 |
| Long-term liabilities | **28.6** | 32.4 |
| **Total liabilities** | **$ 41.2** | $ 49.1 |

In addition to the amounts in the table above, intercompany payables of $1.6 million at December 31, 2013 related to certain power purchase transactions with WPS that are continuing after the sale were eliminated during consolidation. As of the closing date, these payables were included in the sale and disclosed in the table above as current liabilities.

*Holding Company and Other Segment – Sale of Compressed Natural Gas (CNG) Fueling Stations*

On November 1, 2014, ITF sold eight CNG fueling stations to AMP Trillium LLC, a joint venture between ITF and AMP Americas LLC. ITF owns 30% and AMP Americas LLC owns 70% of AMP Trillium LLC. The fair value of the CNG fueling stations was $13.8 million. ITF received cash proceeds of $7.6 million, a $3.1 million note receivable from the buyer with a seven year term, and a $3.1 million equity interest in the joint venture to maintain its current ownership interest. Since two of the CNG fueling stations only began operating in October 2014, the purchase price is subject to potential adjustments for construction costs. In November 2014, we recorded a gain of $2.6 million related to the sale of the CNG fueling stations.

In the third quarter of 2014, we early adopted the guidance in FASB ASU 2014-08, as stated previously. The sale of the CNG stations does not represent a shift in our strategy. Therefore, the results of operations of the CNG fueling stations prior to the sale will remain in continuing operations.

For the CNG fueling stations, net property, plant, and equipment of $9.7 million and $5.3 million was classified as held for sale on the balance sheets at September 30, 2014, and December 31, 2013, respectively. These amounts were net of accumulated depreciation of $0.7 million and $0.3 million at September 30, 2014, and December 31, 2013, respectively.

*IES Segment – Winnebago Energy Center*

In May 2014, a fire significantly damaged the Winnebago Energy Center, a landfill-gas-to-electric facility owned by IES. Due to uncertainty surrounding the amount of the insurance settlement, IES was unable to determine if it would rebuild or abandon the Winnebago Energy Center in the second quarter of 2014. In August 2014, an insurance settlement was reached, and IES decided to abandon the facility. In the third quarter of 2014, IES received insurance proceeds of $5.8 million for the damage caused by the fire and recorded a pre-tax gain of $4.1 million.

In the third quarter of 2014, we early adopted the guidance in FASB ASU 2014-08, as stated previously. Based on this new guidance, the Winnebago Energy Center did not qualify as discontinued operations since it did not represent a shift in our strategy. Therefore, its results of operations prior to the fire remain in continuing operations.

## Discontinued Operations

See Note 5, Cash and Cash Equivalents, for cash flow information related to discontinued operations.

*IES Segment – Potential Sale of Combined Locks Energy Center*

IES is currently pursuing the sale of the Combined Locks Energy Center (Combined Locks), a natural gas-fired co-generation facility located in Wisconsin.

Combined Locks had $0.7 million of assets that were classified as held for sale on the balance sheets at September 30, 2014, and December 31, 2013, which included inventories and property, plant, and equipment. During the three and nine months ended September 30, 2014, IES recorded after-tax losses of $0.1 million and $0.3 million, respectively, in discontinued operations related to Combined Locks. During the three and nine months ended September 30, 2013, IES recorded after-tax losses of $0.6 million and $1.4 million, respectively, in discontinued operations related to Combined Locks.

*IES Segment – Sale of WPS Beaver Falls Generation, LLC and WPS Syracuse Generation, LLC*

In March 2013, WPS Empire State, Inc., a subsidiary of IES, sold all of the membership interests of WPS Beaver Falls Generation, LLC (Beaver Falls) and WPS Syracuse Generation, LLC (Syracuse), both of which owned natural gas-fired generation plants located in the state of New York. The sale agreement also included a potential annual payment to IES for a four-year period following the sale based on a certain level of earnings achieved by the buyer (an earn-out). In September 2014, IES entered into an agreement to receive $2.0 million in settlement of this earn-out agreement. As a result of the settlement agreement, IES reported after-tax earnings of $1.2 million in discontinued operations for Beaver Falls and Syracuse during the three and nine months ended September 30, 2014. During the nine months ended September 30, 2013, IES recorded after-tax earnings of $0.2 million in discontinued operations related to the gain on sale, partially offset by a net loss from operations at Beaver Falls and Syracuse.

*Holding Company and Other Segment*

During the nine months ended September 30, 2013, we recorded $5.9 million of after-tax gains in discontinued operations at the holding company and other segment. In 2013, we remeasured uncertain tax positions included in our liability for unrecognized tax benefits after effectively settling certain state income tax examinations. We reduced the provision for income taxes related to these remeasurements.

## Note 5—Cash and Cash Equivalents

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

### Continuing Operations

Significant noncash transactions related to continuing operations were:

| | Nine Months Ended September 30 | |
|---|---|---|
| *(Millions)* | **2014** | **2013** |
| Construction costs funded through accounts payable | **$ 169.9** | $ 98.4 |
| Equity issued for employee stock ownership plan | **1.7** | 10.3 |
| Equity issued for stock-based compensation plans | **—** | 16.2 |
| Equity issued for reinvested dividends | **—** | 9.1 |
| Contingent consideration and payables related to the acquisition of Compass Energy Services | **—** | 7.9 |

At September 30, 2014, restricted cash recorded within other long-term assets on our balance sheet included $113.3 million that was transferred to the rabbi trust, triggered by the proposed merger with Wisconsin Energy Corporation. See Note 2, Proposed Merger with Wisconsin Energy Corporation, for more information on the merger. See Note 15, Employee Benefit Plans, for more information on the rabbi trust funding requirements.

### Discontinued Operations

Following our early adoption of FASB ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity," we changed the presentation of our cash flow statement and no longer present cash flows related to discontinued operations separately. Significant noncash transactions and other information related to discontinued operations are disclosed below. There were no significant investing activities for the periods presented.

| | Nine Months Ended September 30 | |
|---|---|---|
| *(Millions)* | **2014** | **2013** |
| **Operating Activities** | | |
| Net unrealized losses on energy contracts | **$ —** | $ 1.5 |
| Deferred income taxes and investment tax credits | **0.4** | 6.0 |
| Remeasurement of uncertain tax positions included in our liability for unrecognized tax benefits | **—** | (5.8) |

See Note 24, New Accounting Pronouncements, for more information.

## Note 6—Risk Management Activities

All of IES's nonhedge derivatives below relate to its retail energy business that was sold on November 1, 2014. See Note 4, Dispositions, for more information.

The following tables show our assets and liabilities from risk management activities:

| | | September 30, 2014 | |
|---|---|---|---|
| *(Millions)* | Balance Sheet Presentation * | Assets from Risk Management Activities | Liabilities from Risk Management Activities |
| **Utility Segments** | | | |
| Nonhedge derivatives | | | |
| Natural gas contracts | Current | **$ 7.2** | **$ 3.6** |
| Natural gas contracts | Long-term | **0.7** | **0.7** |
| Financial transmission rights (FTRs) | Current | **3.4** | **0.4** |
| Petroleum product contracts | Current | — | **0.6** |
| Coal contracts | Current | — | **2.3** |
| Coal contracts | Long-term | **2.4** | **0.1** |
| **IES Segment** | | | |
| Nonhedge derivatives | | | |
| Natural gas contracts | Current | **61.1** | **46.2** |
| Natural gas contracts | Long-term | **29.1** | **16.2** |
| Electric contracts | Current | **170.7** | **112.6** |
| Electric contracts | Long-term | **66.3** | **53.2** |
| | **Current** | **242.4** | **165.7** |
| | **Long-term** | **98.5** | **70.2** |
| **Total** | | **$ 340.9** | **$ 235.9** |

* We classify assets and liabilities from risk management activities as current or long-term based on the maturities of the underlying contracts.

| | | December 31, 2013 | |
|---|---|---|---|
| *(Millions)* | Balance Sheet Presentation [1] | Assets from Risk Management Activities | Liabilities from Risk Management Activities |
| **Utility Segments** | | | |
| Nonhedge derivatives | | | |
| Natural gas contracts | Current | $ 8.3 | $ 1.0 |
| Natural gas contracts | Long-term | 1.8 | 0.1 |
| FTRs [2] | Current | 2.1 | 0.3 |
| Petroleum product contracts | Current | 0.1 | — |
| Coal contracts | Current | — | 1.9 |
| Coal contracts | Long-term | 0.2 | 0.8 |
| **IES Segment** | | | |
| Nonhedge derivatives | | | |
| Natural gas contracts | Current | 57.6 | 42.9 |
| Natural gas contracts | Long-term | 29.5 | 18.6 |
| Electric contracts | Current | 172.0 | 117.7 |
| Electric contracts | Long-term | 43.9 | 43.3 |
| | **Current** | 240.1 | 163.8 |
| | **Long-term** | 75.4 | 62.8 |
| **Total** | | $ 315.5 | $ 226.6 |

[1] We classify assets and liabilities from risk management activities as current or long-term based on the maturities of the underlying contracts.

[2] Includes an insignificant risk management asset that was classified as held for sale at UPPCO. See Note 4, Dispositions, for more information.

The following tables show the potential effect on our financial position of netting arrangements for recognized derivative assets and liabilities:

| | September 30, 2014 | | |
|---|---|---|---|
| *(Millions)* | Gross Amount | Potential Effects of Netting, Including Cash Collateral | Net Amount |
| **Derivative assets subject to master netting or similar arrangements** | | | |
| Utility segments | **$ 11.3** | **$ 4.0** | **$ 7.3** |
| IES segment | **326.8** | **195.5** | **131.3** |
| **Total** | **338.1** | **199.5** | **138.6** |
| Derivative assets not subject to master netting or similar arrangements | **2.8** | | **2.8** |
| **Total risk management assets** | **$ 340.9** | | **$ 141.4** |
| | | | |
| **Derivative liabilities subject to master netting or similar arrangements** | | | |
| Utility segments | **$ 5.3** | **$ 4.4** | **$ 0.9** |
| IES segment | **226.8** | **200.0** | **26.8** |
| **Total** | **232.1** | **204.4** | **27.7** |
| Derivative liabilities not subject to master netting or similar arrangements | **3.8** | | **3.8** |
| **Total risk management liabilities** | **$ 235.9** | | **$ 31.5** |

| | December 31, 2013 | | |
|---|---|---|---|
| *(Millions)* | Gross Amount | Potential Effects of Netting, Including Cash Collateral | Net Amount |
| **Derivative assets subject to master netting or similar arrangements** | | | |
| Utility segments | $ 12.3 | $ 2.1 | $ 10.2 |
| IES segment | 301.9 | 178.1 | 123.8 |
| **Total** | 314.2 | 180.2 | 134.0 |
| Derivative assets not subject to master netting or similar arrangements | 1.3 | | 1.3 |
| **Total risk management assets** | $ 315.5 | | $ 135.3 |
| | | | |
| **Derivative liabilities subject to master netting or similar arrangements** | | | |
| Utility segments | $ 1.4 | $ 1.4 | $ — |
| IES segment | 222.1 | 178.1 | 44.0 |
| **Total** | 223.5 | 179.5 | 44.0 |
| Derivative liabilities not subject to master netting or similar arrangements | 3.1 | | 3.1 |
| **Total risk management liabilities** | $ 226.6 | | $ 47.1 |

Our master netting and similar arrangements have conditional rights of setoff that can be enforced under a variety of situations, including counterparty default or credit rating downgrade below investment grade. We have trade receivables and trade payables, subject to master netting or similar arrangements, that are not included in the above tables. These amounts may offset (or conditionally offset) the net amounts presented in the above tables.

Financial collateral received or provided is restricted to the extent that it is required per the terms of the related agreements. The following table shows our cash collateral positions:

| *(Millions)* | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Cash collateral provided to others: [1] | | |
| Related to contracts under master netting or similar arrangements [3] | **$ 54.3** | $ 37.6 [2] |
| Other | **1.1** | 1.1 |
| Cash collateral received from others related to contracts under master netting or similar arrangements [1] | **—** | 0.7 |

[1] Cash collateral provided to others is reflected in other current assets and cash collateral received from others is reflected in other current liabilities on the balance sheets.

[2] Includes an insignificant amount that was classified as held for sale at UPPCO. See Note 4, Dispositions, for more information.

[3] Includes $48.6 million and $32.7 million at September 30, 2014, and December 31, 2013, respectively, related to IES's retail energy business, which was sold on November 1, 2014.

Certain of our derivative and nonderivative commodity instruments contain provisions that could require "adequate assurance" in the event of a material change in our 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, 2014 | December 31, 2013 |
|---|---|---|
| Utility segments | **$ 3.4** | $ 0.6 |
| IES segment | **58.6** | 76.7 |

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, our collateral requirement would have been as follows:

| *(Millions)* | September 30, 2014 | December 31, 2013 |
|---|---|---|
| **Collateral that would have been required:** | | |
| Utility segments | **$ 0.6** | **$ —** |
| IES segment | **182.9** | 197.6 |
| **Collateral already satisfied:** | | |
| IES segment — Letters of credit | **5.0** | 4.5 |
| **Collateral remaining:** | | |
| Utility segments | **0.6** | — |
| IES segment | **177.9** | 193.1 |

## Utility Segments

### *Non-Hedge Derivatives*

Utility derivatives include natural gas purchase contracts, coal purchase contracts, financial derivative contracts, and FTRs. The electric utility segment uses FTRs to manage electric transmission congestion costs. The natural gas and electric utility segments use financial derivative contracts to manage the risks associated with the market price volatility of natural gas supply costs. In addition, IBS enters into financial derivative contracts on behalf of the utilities to manage the cost of gasoline and diesel fuel used by utility vehicles.

The notional volumes of outstanding derivative contracts at the utilities and IBS were as follows:

| | September 30, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| *(Millions)* | Purchases | Sales | Other Transactions | Purchases | Sales | Other Transactions |
| Natural gas (therms) | **2,367.1** | **1.9** | **N/A** | 3,124.8 | 29.3 | N/A |
| FTRs (kilowatt-hours) | **N/A** | **N/A** | **5,644.0** | N/A | N/A | 3,633.1 |
| Petroleum products (barrels) | **0.1** | **—** | **N/A** | 0.1 | — | N/A |
| Coal (tons) | **3.4** | **—** | **N/A** | 4.8 | — | N/A |

The table below shows the unrealized gains (losses) recorded related to derivative contracts at the utilities and IBS:

| | | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|---|
| *(Millions)* | Financial Statement Presentation | 2014 | 2013 | 2014 | 2013 |
| Natural gas | Balance Sheet — Regulatory assets (current) | **$ (3.5)** | $ (0.5) | **$ (3.6)** | $ 6.9 |
| Natural gas | Balance Sheet — Regulatory assets (long-term) | **(0.4)** | 1.8 | **(0.6)** | 1.6 |
| Natural gas | Balance Sheet — Regulatory liabilities (current) | **(1.7)** | (0.4) | **(1.7)** | (0.2) |
| Natural gas | Balance Sheet — Regulatory liabilities (long-term) | **(0.2)** | — | **(0.5)** | (0.3) |
| Natural gas | Income Statement — Operating and maintenance expense | **(0.2)** | (0.1) | **(0.1)** | (0.2) |
| FTRs | Balance Sheet — Regulatory assets (current) | **0.6** | 0.8 | **(0.3)** | — |
| FTRs | Balance Sheet — Regulatory liabilities (current) * | **(0.2)** | (0.2) | **0.9** | (0.3) |
| Petroleum | Balance Sheet — Regulatory assets (current) | **(0.4)** | 0.1 | **(0.4)** | — |
| Petroleum | Balance Sheet — Regulatory liabilities (current) | **(0.1)** | — | **(0.1)** | — |
| Petroleum | Income Statement — Operating and maintenance expense | **(0.4)** | (0.2) | **(0.3)** | (0.2) |
| Coal | Balance Sheet — Regulatory assets (current) | **(0.9)** | (0.6) | **(1.0)** | 2.1 |
| Coal | Balance Sheet — Regulatory assets (long-term) | **0.1** | 0.2 | **0.7** | 4.2 |
| Coal | Balance Sheet — Regulatory liabilities (current) | **—** | — | **—** | (0.3) |
| Coal | Balance Sheet — Regulatory liabilities (long-term) | **(0.2)** | 1.5 | **2.3** | (0.7) |

* Includes insignificant unrealized gains recorded at UPPCO, which was sold in August 2014. See Note 4, Dispositions, for more information.

## IES Segment

*Nonhedge Derivatives*

IES entered into physical and financial derivative contracts to manage commodity price risk primarily associated with retail electric and natural gas customer contracts.

IES had the following notional volumes of outstanding derivative contracts:

| | September 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| *(Millions)* | Purchases | Sales | Purchases | Sales |
| Commodity contracts | | | | |
| Natural gas (therms) | **1,432.3** | **1,182.5** | 1,199.9 | 1,065.4 |
| Electric (kilowatt-hours) | **40,987.7** | **23,657.9** | 49,186.3 | 30,813.8 |

Gains (losses) related to derivative contracts were recognized currently in earnings, as shown in the table below:

| | | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|---|
| *(Millions)* | Income Statement Presentation | 2014 | 2013 | 2014 | 2013 |
| Natural gas | Nonregulated revenue | **$ 25.9** | $ (21.1) | **$ (1.0)** | $ 16.1 |
| Natural gas | Nonregulated cost of sales | **(20.5)** | 25.0 | **7.5** | (9.5) |
| Natural gas | Nonregulated revenue (reclassified from accumulated OCI) * | **—** | — | **—** | (0.2) |
| Electric | Nonregulated revenue | **4.1** | 36.0 | **180.2** | 22.4 |
| Electric | Nonregulated cost of sales | **—** | (6.6) | **2.0** | 2.1 |
| Electric | Nonregulated revenue (reclassified from accumulated OCI) * | **—** | (0.2) | **—** | (3.2) |
| **Total** | | **$ 9.5** | $ 33.1 | **$ 188.7** | $ 27.7 |

* Represents amounts reclassified from accumulated other comprehensive loss (OCI) related to cash flow hedges that were dedesignated in prior periods.

## Note 7—Investment in ATC

Our electric transmission investment segment consists of WPS Investments LLC's ownership interest in ATC, which was approximately 34% at September 30, 2014. ATC is a for-profit, transmission-only company regulated by FERC.

The following table shows changes to our investment in ATC:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(Millions)* | 2014 | 2013 | 2014 | 2013 |
| Balance at the beginning of period | **$ 527.3** | $ 492.2 | **$ 508.4** | $ 476.6 |
| Add: Earnings from equity method investment | **23.4** | 22.3 | **68.9** | 66.0 |
| Add: Capital contributions | **3.4** | 3.4 | **13.6** | 10.2 |
| Less: Dividends received | **18.5** | 17.8 | **55.3** | 52.7 |
| **Balance at the end of period** | **$ 535.6** | $ 500.1 | **$ 535.6** | $ 500.1 |

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(Millions)* | 2014 | 2013 | 2014 | 2013 |
| **Income statement data** | | | | |
| Revenues | **$ 163.7** | $ 160.4 | **$ 487.0** | $ 464.3 |
| Operating expenses | **76.6** | 77.5 | **229.6** | 217.2 |
| Other expense | **21.6** | 20.2 | **65.1** | 62.6 |
| **Net income** | **$ 65.5** | $ 62.7 | **$ 192.3** | $ 184.5 |

| *(Millions)* | September 30, 2014 | December 31, 2013 |
|---|---|---|
| **Balance sheet data** | | |
| Current assets | **$ 72.6** | $ 80.7 |
| Noncurrent assets | **3,686.8** | 3,509.5 |
| **Total assets** | **$ 3,759.4** | $ 3,590.2 |
| | | |
| Current liabilities | **$ 455.9** | $ 381.5 |
| Long-term debt | **1,550.0** | 1,550.0 |
| Other noncurrent liabilities | **140.5** | 126.1 |
| Shareholders' equity | **1,613.0** | 1,532.6 |
| **Total liabilities and shareholders' equity** | **$ 3,759.4** | $ 3,590.2 |

## Note 8—Inventories

PGL and NSG price natural gas storage injections at the calendar year average of the costs of natural gas supply purchased. Withdrawals from storage are priced on the Last-in, First-out (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, 2014, all LIFO layers were replenished, and the LIFO liquidation balance was zero.

## Note 9—Goodwill and Other Intangible Assets

The following table shows changes to our goodwill balances by segment during the nine months ended September 30, 2014:

| *(Millions)* | Natural Gas Utility | IES | Holding Company and Other | Total |
|---|---|---|---|---|
| **Balance as of January 1, 2014** | | | | |
| Gross goodwill | **$ 933.5** | **$ 6.6** | **$ 19.6** | **$ 959.7** |
| Accumulated impairment losses | **(297.6)** | **—** | **—** | **(297.6)** |
| Net goodwill | **635.9** | **6.6** | **19.6** | **662.1** |
| Rounding adjustment | **(0.1)** | **0.1** | **—** | **—** |
| Goodwill impairment loss | **—** | **(6.7)** | **—** | **(6.7)** |
| | | | | |
| **Balance as of September 30, 2014** | | | | |
| Gross goodwill | **933.5** | **6.7** | **19.6** | **959.8** |
| Accumulated impairment losses | **(297.7)** | **(6.7)** | **—** | **(304.4)** |
| Net goodwill | **$ 635.8** | **$ —** | **$ 19.6** | **$ 655.4** |

In June 2014, we announced that we were in the late stages of a plan to sell IES's retail energy business. In anticipation of this divestiture, IES performed an interim goodwill impairment analysis. Based on the results of the interim goodwill impairment analysis, IES recorded a non-cash goodwill impairment loss of $6.7 million in the second quarter of 2014. This goodwill impairment loss reflected the offers received for IES's retail energy business. See Note 4, Dispositions, for more information on the sale of IES's retail energy business.

In the second quarter of 2014, annual impairment tests were completed at all of our reporting units that carried a goodwill balance as of April 1, 2014. No impairments resulted from our annual impairment tests. As discussed above, IES recorded a goodwill impairment loss as a result of an interim test in June 2014.

The identifiable intangible assets other than goodwill listed below are part of other current and long-term assets on the balance sheets. Intangible assets associated with IES's retail energy business are included in the table along with all of our other intangible assets other than goodwill. See Note 4, Dispositions, for more information on the sale of IES's retail energy business.

| | September 30, 2014 | | | December 31, 2013 | | |
|---|---|---|---|---|---|---|
| *(Millions)* | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| **Amortized intangible assets** | | | | | | |
| Contractual service agreements [1] | **$ 15.6** | **$ (3.5)** | **$ 12.1** | $ 15.6 | $ (1.8) | $ 13.8 |
| Customer-related [2] | **26.8** | **(16.9)** | **9.9** | 26.8 | (15.7) | 11.1 |
| Renewable energy credits [3] | **7.4** | **—** | **7.4** | 8.4 | — | 8.4 |
| Customer-owned equipment modifications [4] | **4.0** | **(1.1)** | **2.9** | 4.0 | (0.9) | 3.1 |
| Patents/intellectual property [5] | **3.4** | **(0.7)** | **2.7** | 3.4 | (0.5) | 2.9 |
| Nonregulated easements [6] | **3.9** | **(1.4)** | **2.5** | 3.7 | (1.1) | 2.6 |
| Compressed natural gas fueling contract assets [7] | **5.6** | **(3.3)** | **2.3** | 5.6 | (2.7) | 2.9 |
| Natural gas and electric contract assets [8] | **3.8** | **(2.3)** | **1.5** | 3.9 | (0.5) | 3.4 |
| Other | **0.5** | **(0.3)** | **0.2** | 0.5 | (0.3) | 0.2 |
| Total | **$ 71.0** | **$ (29.5)** | **$ 41.5** | $ 71.9 | $ (23.5) | $ 48.4 |
| | | | | | | |
| **Unamortized intangible assets** | | | | | | |
| MGU trade name | **$ 5.2** | **$ —** | **$ 5.2** | $ 5.2 | $ — | $ 5.2 |
| Trillium trade name [9] | **3.5** | **—** | **3.5** | 3.5 | — | 3.5 |
| Pinnacle trade name [9] | **1.5** | **—** | **1.5** | 1.5 | — | 1.5 |
| **Total intangible assets** | **$ 81.2** | **$ (29.5)** | **$ 51.7** | $ 82.1 | $ (23.5) | $ 58.6 |

(1) Represents contractual service agreements that provide for major maintenance and protection against unforeseen maintenance costs related to the combustion turbine generators at the Fox Energy Center. In October 2014, WPS received approval from the PSCW to upgrade the combustion turbine generators at the Fox Energy Center earlier than planned. As a result of this approval, WPS shortened the amortization period of one of its service agreements. The remaining weighted-average amortization period for these intangible assets at September 30, 2014, was approximately four years. Since WPS has approval from the PSCW to recover the value of its service agreements from customers over seven years, the increase in amortization due to the shorter amortization period will be recorded to a regulatory asset. This regulatory asset will be amortized to reflect the seven-year recovery period.

(2) Represents customer relationship assets associated with PELLC's former nonregulated retail natural gas and electric operations, ITF's compressed natural gas fueling operations, and IES's retail natural gas operations. The net carrying amounts at September 30, 2014, and December 31, 2013, included $8.3 million and $9.3 million, respectively, of intangible assets related to IES's retail energy business. The remaining weighted-average amortization period at September 30, 2014, for the intangible assets not associated with IES's retail energy business was approximately 12 years.

(3) Used at IES to comply with state Renewable Portfolio Standards and to support customer commitments. All of these intangible assets related to IES's retail energy business at September 30, 2014, and December 31, 2013.

(4) Relates to modifications made by IES and ITF to customer-owned equipment. These intangible assets are amortized on a straight-line basis, with a remaining weighted-average amortization period at September 30, 2014, of approximately ten years.

(5) Represents the fair value of patents/intellectual property at ITF related to a system for more efficiently compressing natural gas to allow for faster fueling. The remaining amortization period at September 30, 2014, was approximately eight years.

(6) Relates to easements supporting a pipeline at IES. The easements are amortized on a straight-line basis, with a remaining amortization period at September 30, 2014, of approximately ten years.

(7) Represents the fair value of ITF contracts acquired in September 2011. The remaining amortization period at September 30, 2014, was approximately six years.

(8) Represents the fair value of certain natural gas and electric customer contracts acquired by IES during 2013 and 2014 that were not considered to be derivative instruments. All of these intangible assets related to IES's retail energy business at September 30, 2014, and December 31, 2013.

(9) Trillium USA (Trillium) and Pinnacle CNG Systems (Pinnacle) are wholly-owned subsidiaries of ITF.

The table below shows our amortization expense recognized in the statements of income:

| *(Millions)* | Three Months Ended September 30 2014 | Three Months Ended September 30 2013 | Nine Months Ended September 30 2014 | Nine Months Ended September 30 2013 |
|---|---|---|---|---|
| **Amortization recorded in nonregulated cost of sales** | | | | |
| IES's retail energy business | **$ 0.3** | $ 0.2 | **$ 1.8** | $ 0.3 |
| Other | **0.3** | 0.4 | **0.9** | 1.2 |
| **Total Integrys Energy Group Consolidated** | **$ 0.6** | $ 0.6 | **$ 2.7** | $ 1.5 |
| | | | | |
| **Amortization recorded in depreciation and amortization expense** | | | | |
| IES's retail energy business | **$ 0.3** | $ 0.5 | **$ 1.0** | $ 1.3 |
| Other | **0.8** | 0.8 | **2.3** | 1.7 |
| **Total Integrys Energy Group Consolidated** | **$ 1.1** | $ 1.3 | **$ 3.3** | $ 3.0 |

An insignificant amount of amortization expense was recorded in discontinued operations for the nine months ended September 30, 2013.

The following table shows our estimated amortization expense for the next five years, including amounts recorded through September 30, 2014. The table below does not include amortization expense related to IES's retail energy business, which was sold on November 1, 2014.

| | For the Year Ending December 31 | | | | |
|---|---|---|---|---|---|
| *(Millions)* | 2014 | 2015 | 2016 | 2017 | 2018 |
| Amortization to be recorded in nonregulated cost of sales | $ 1.2 | $ 1.1 | $ 0.9 | $ 0.9 | $ 0.8 |
| Amortization to be recorded in depreciation and amortization expense | 3.0 | 3.0 | 2.9 | 2.4 | 1.9 |
| Amortization to be recorded in regulatory assets | 0.3 | 1.0 | 1.0 | 0.5 | — |

## Note 10—Short-Term Debt and Lines of Credit

Our outstanding short-term borrowings were as follows:

| *(Millions, except percentages)* | September 30, 2014 | December 31, 2013 |
|---|---|---|
| Commercial paper | **$ 392.5** | $ 326.0 |
| Average interest rate on commercial paper | **0.24%** | 0.22% |

The commercial paper outstanding at September 30, 2014, had maturity dates ranging from October 1, 2014, through November 3, 2014.

Our average amount of commercial paper borrowings based on daily outstanding balances during the nine months ended September 30, 2014, and 2013, was $287.8 million and $423.0 million, respectively.

We manage our liquidity by maintaining adequate external financing commitments. The information in the table below relates to our revolving credit facilities used to support our commercial paper borrowing program, including remaining available capacity under these facilities:

| *(Millions)* | Maturity | September 30, 2014 | December 31, 2013 |
|---|---|---|---|
| Revolving credit facility (Integrys Energy Group) [(1)] | 05/17/2014 | **$ —** | $ 275.0 |
| Revolving credit facility (Integrys Energy Group) [(1)] | 05/17/2016 | **—** | 200.0 |
| Revolving credit facility (Integrys Energy Group) | 06/13/2017 | **635.0** | 635.0 |
| Revolving credit facility (Integrys Energy Group) | 05/08/2019 | **465.0** | — |
| Revolving credit facility (WPS) [(1)] | 05/17/2014 | **—** | 135.0 |
| Revolving credit facility (WPS) [(2)] | 05/07/2015 | **135.0** | — |
| Revolving credit facility (WPS) | 06/13/2017 | **115.0** | 115.0 |
| Revolving credit facility (PGL) | 06/13/2017 | **250.0** | 250.0 |
| **Total short-term credit capacity** | | **$ 1,600.0** | $ 1,610.0 |
| | | | |
| Less: | | | |
| Letters of credit issued inside credit facilities | | **$ 29.4** | $ 52.4 |
| Commercial paper outstanding | | **392.5** | 326.0 |
| **Available capacity under existing agreements** | | **$ 1,178.1** | $ 1,231.6 |

(1) These credit facilities were terminated and replaced with new credit facilities in May 2014.

(2) WPS requested approval from the PSCW to extend this facility through May 8, 2019.

## Note 11—Long-Term Debt

| *(Millions)* | September 30, 2014 | December 31, 2013 |
|---|---|---|
| WPS | **$ 1,175.1** | $ 1,175.1 |
| PGL [1] | **725.0** | 725.0 |
| NSG | **82.0** | 82.0 |
| Integrys Energy Group [2] | **974.8** | 1,074.8 |
| Total | **2,956.9** | 3,056.9 |
| Unamortized discount on debt | **(0.6)** | (0.7) |
| Total debt | **2,956.3** | 3,056.2 |
| Less current portion | **—** | 100.0 |
| **Total long-term debt** | **$ 2,956.3** | $ 2,956.2 |

[1] PGL's $50.0 million of 2.125% Series VV Bonds were subject to a mandatory interest reset on July 1, 2014. The new interest rate on these bonds is 3.90%, and they are due in March 2030.

[2] In June 2014, our $100.0 million of 7.27% Senior Notes matured, and the outstanding principal balance was repaid.

On November 3, 2014, PGL issued $200.0 million of 4.21% Series BBB Bonds. These bonds are due in November 2044. A portion of the proceeds was used to redeem PGL's $75.0 million 4.875% series QQ Bonds.

## Note 12—Income Taxes

We calculate our interim period provision for income taxes based on our projected annual effective tax rate as adjusted for certain discrete items.

The table below shows our effective tax rates attributable to continuing operations:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Effective tax rate | **40.7%** | 31.4% | **38.8%** | 36.3% |

Our effective tax rate normally differs from the federal statutory tax rate of 35% due to additional provision for multistate income tax obligations. Other significant items that had an impact on our effective tax rates are noted below.

Our effective tax rate for the three months ended September 30, 2013, was lower than the federal statutory rate of 35%. This difference was primarily due to a $3.7 million decrease in our provision for income taxes as a result of the reversal of a regulatory liability. This amount was related to deferred income taxes that had been recorded in prior years as a result of scheduled income tax rate changes in Illinois. We recorded the reversal based on the income tax treatment included in the 2013 final rate order for PGL and NSG.

During the three and nine months ended September 30, 2014, there was not a significant change in our liability for unrecognized tax benefits.

## Note 13—Commitments and Contingencies

### (a) Unconditional Purchase Obligations and Purchase Order Commitments

We and our subsidiaries routinely enter into long-term purchase and sale commitments for various quantities and lengths of time. 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. The following table shows our minimum future commitments related to these purchase obligations as of September 30, 2014, including those of our subsidiaries.

| | | | Payments Due By Period | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(Millions)* | Year Contracts Extend Through | Total Amounts Committed | 2014 | 2015 | 2016 | 2017 | 2018 | Later Years |
| Natural gas utility supply and transportation | 2028 | $ 763.8 | $ 57.7 | $ 186.9 | $ 168.3 | $ 129.5 | $ 77.0 | $ 144.4 |
| Electric utility | | | | | | | | |
| Purchased power | 2029 | 944.0 | 19.1 | 118.9 | 42.3 | 52.8 | 55.8 | 655.1 |
| Coal supply and transportation | 2018 | 124.9 | 15.6 | 45.1 | 21.1 | 22.2 | 20.9 | — |
| **Total** | | $ 1,832.7 | $ 92.4 | $ 350.9 | $ 231.7 | $ 204.5 | $ 153.7 | $ 799.5 |

We and our subsidiaries also had commitments of $1,043.8 million in the form of purchase orders issued to various vendors at September 30, 2014, that relate to normal business operations, including construction projects.

## (b) Environmental Matters

### Air Permitting Violation Claims

*Weston and Pulliam Clean Air Act (CAA) Issues:*
In November 2009, the EPA issued a Notice of Violation (NOV) to WPS alleging violations of the CAA's New Source Review requirements relating to certain projects completed at the Weston and Pulliam plants from 1994 to 2009. WPS reached a settlement agreement with the EPA regarding this NOV and signed a Consent Decree. This Consent Decree was approved by the U.S. District Court (Court) in March 2013, after a public comment period. The final Consent Decree includes:

- the installation of emission control technology, including ReACT™, on Weston 3,
- changed operating conditions (including refueling, repowering, and/or retirement of units),
- limitations on plant emissions,
- beneficial environmental projects totaling $6.0 million, and
- a civil penalty of $1.2 million.

As mentioned above, the Consent Decree contains a requirement to refuel, repower, and/or retire certain Weston and Pulliam units. WPS announced that certain Weston and Pulliam units mentioned in the Consent Decree will be retired early, in June 2015. In July 2014, WPS filed for approval from the PSCW to reclassify the undepreciated book value of the retired units to a regulatory asset in 2015, with recovery of a full return, and for future amortization at current depreciable rates. WPS believes that it will receive approval of this treatment from the PSCW.

WPS received approval from the PSCW in its 2014 rate order to recover prudently incurred 2014 costs as a result of complying with the terms of the Consent Decree, with the exception of the civil penalty. We also believe that prudently incurred costs after 2014 will be recoverable from customers based on past precedent with the PSCW.

The majority of the beneficial environmental projects proposed by WPS have been approved by the EPA. Amounts have been accrued and recorded to regulatory assets, excluding costs associated with capital projects.

In May 2010, WPS received from the Sierra Club a Notice of Intent to file a civil lawsuit based on allegations that WPS violated the CAA at the Weston and Pulliam plants. WPS entered into a Standstill Agreement with the Sierra Club by which the parties agreed to negotiate as part of the EPA NOV process, rather than litigate. The Standstill Agreement ended in October 2012, but no further action has been taken by the Sierra Club as of September 30, 2014. It is unknown whether the Sierra Club will take further action in the future.

*Columbia and Edgewater CAA Issues:*
In December 2009, the EPA issued an NOV to Wisconsin Power and Light (WP&L), the operator of the Columbia and Edgewater plants, and the other joint owners of these plants, including Madison Gas and Electric and WPS. The NOV alleges violations of the CAA's New Source Review requirements related to certain projects completed at those plants. WPS, WP&L, and Madison Gas and Electric reached a settlement agreement with the EPA regarding this NOV and signed a Consent Decree. This Consent Decree was approved by the Court in June 2013, after a public comment period. The final Consent Decree includes:

- the installation of emission control technology, including scrubbers at the Columbia plant,
- changed operating conditions (including refueling, repowering, and/or retirement of units),
- limitations on plant emissions,
- beneficial environmental projects, with WPS's portion totaling $1.3 million, and
- WPS's portion of a civil penalty and legal fees totaling $0.4 million.

As mentioned above, the Consent Decree contains a requirement to refuel, repower, and/or retire certain of the Columbia and Edgewater units. As of September 30, 2014, no decision had been made on how to address this requirement. Therefore, retirement of the Columbia and Edgewater units mentioned in the Consent Decree was not considered probable.

We believe that significant costs prudently incurred as a result of complying with the terms of the Consent Decree, with the exception of the civil penalty, will be recoverable from customers.

All of the beneficial environmental projects proposed by WPS have been approved by the EPA. Amounts have been accrued and recorded to regulatory assets, excluding costs associated with capital projects.

*Weston Title V Air Permit:*
In August 2013, the WDNR issued the Weston Title V air permit. In September 2013, WPS challenged various requirements in the permit by filing a contested case proceeding with the WDNR and also filed a Petition for Judicial Review in the Brown County Circuit Court. The Sierra Club and Clean Wisconsin also filed Petitions for Judicial Review and requests for contested case proceedings regarding various aspects of the permit. The WDNR granted all parties' requests for contested case proceedings. The Petitions for Judicial Review, by all parties, have been stayed pending the

resolution of the contested cases. In May 2014, the WDNR referred the contested case to the administrative law judge, and a schedule was set for dispositive motions, which have now been fully briefed. WPS filed an application to amend some permit terms that, if accepted, would resolve many of the outstanding issues. In September 2014, the WDNR issued a draft permit that resolves several issues raised in the contested case by WPS. If these permit terms are finalized, WPS will withdraw nine claims under the Petition. The new permit does raise an additional issue regarding the sorbent injection rate, which WPS will challenge and is discussed below.

In May 2014, the WDNR issued an NOV alleging that WPS failed to maintain a minimum sorbent feed rate prior to the Continuous Emissions Monitoring System certification. WPS and the WDNR have begun discussing resolution of this matter. In May 2014, the WDNR issued a Notice of Inquiry (NOI) to WPS alleging that WPS failed to comply with excess emission summary reporting requirements in the 2013 Weston Title V permit. WPS believes that the requirements identified in the NOV and NOI are stayed pursuant to state law pending the outcome of the Weston Title V air permit contested case and has filed a motion with the administrative law judge requesting confirmation of the stay. Briefing has been completed on this issue, and we anticipate a decision from the administrative law judge in the fourth quarter of 2014.

We do not expect these matters to have a material impact on our financial statements.

## Mercury and Interstate Air Quality Rules

### Mercury:

The State of Wisconsin's mercury rule requires a 40% reduction from historical baseline mercury emissions, beginning January 1, 2010, through the end of 2014. Beginning in 2015, electric generating units above 150 megawatts will be required to reduce mercury emissions from fuel combusted by a minimum of 90%, or meet certain mercury emission limits annually based on gigawatt-hours of electricity produced. Reductions can be phased in and the 90% target 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 Best Available Control Technology rule.

In December 2011, the EPA issued the final Utility Mercury and Air Toxics Standards (MATS), which will regulate emissions of mercury and other hazardous air pollutants beginning in 2015. The State of Wisconsin is in the process of revising the state mercury rule to be consistent with the MATS rule. Projects approved and initiated to address the State of Wisconsin mercury rule are expected to ensure compliance with the mercury limits in the MATS rule.

WPS will be in compliance with the State of Wisconsin's mercury rule at the end of 2014. In addition, WPS is making progress toward compliance with the MATS rule in 2015. WPS estimated capital costs of approximately $9 million for its wholly owned plants to achieve the required reductions for MATS compliance, of which approximately $5 million has been expended as of September 30, 2014. The capital costs are expected to be recovered in future rates.

### *Sulfur Dioxide and Nitrogen Oxide:*

In July 2011, the EPA issued a final rule known as the Cross State Air Pollution Rule (CSAPR), which numerous parties, including WPS, challenged in the United States Court of Appeals (Court of Appeals) for the District of Columbia Circuit (D.C. Circuit). The new rule was to become effective in January 2012. However, in December 2011, the CSAPR requirements were stayed by the D.C. Circuit and a previous rule, the Clean Air Interstate Rule (CAIR), was implemented during the stay period. In August 2012, the D.C. Circuit issued their ruling vacating and remanding CSAPR and simultaneously reinstating CAIR pending the issuance of a replacement rule by the EPA. The case was appealed to the United States Supreme Court (Supreme Court), and in April 2014, the Supreme Court upheld the CSAPR rule and remanded the case to the Court of Appeals for the D.C. Circuit. In June 2014, the EPA requested that the Court of Appeals lift the stay of CSAPR. Further, the EPA asked the Court of Appeals to change the CSAPR compliance deadlines by three years, so that Phase 1 emissions budgets would apply in 2015 and 2016, and Phase 2 emissions budgets would apply to 2017 and beyond. In October 2014, the Court of Appeals granted the EPA's request and lifted the stay on CSAPR. There are remaining issues before the Court of Appeals, and there will need to be additional changes before CSAPR is implemented. As a result, it is premature to speculate on what additional controls or other actions, if any, WPS may be required to implement. WPS expects to recover any future compliance costs in future rates.

Under CAIR, units affected by the Best Available Retrofit Technology (BART) rule were considered in compliance with BART for sulfur dioxide and nitrogen oxide emissions if they were in compliance with CAIR. This determination was updated when CSAPR was issued (CSAPR satisfied BART). Although particulate emissions also contribute to visibility impairment, the WDNR's modeling for Pulliam Unit 8, the only unit covered by BART, has shown the impairment to be so insignificant that additional capital expenditures or controls may not be warranted.

## Manufactured Gas Plant Remediation

Our 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 these activities, 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, our natural gas utilities are required to undertake remedial action with respect to some of these materials. The natural gas utilities are coordinating the investigation and cleanup of the sites subject to EPA jurisdiction under what is called a "multisite" 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 use of a consistent approach in selecting remedies.

Our natural gas utilities are responsible for the environmental remediation of 53 sites, of which 20 have been transferred to the EPA Superfund Alternative Sites Program. Under the EPA's program, the remedy decisions at these sites will be made using risk-based criteria typically used at Superfund sites. Our balance sheets include liabilities of $557.9 million that we have estimated and accrued for as of September 30, 2014, for future undiscounted investigation and cleanup costs for all sites. We may adjust these estimates in the future due to remedial technology, regulatory requirements, remedy determinations, and any claims of natural resource damages. As of September 30, 2014, cash expenditures for environmental remediation not yet recovered in rates were $56.6 million. Our balance sheets include a regulatory asset of $614.5 million at September 30, 2014, which is net of insurance recoveries, related to the expected recovery through rates of both cash expenditures and estimated future expenditures.

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 are prudently incurred and are, therefore, recoverable through rates for MGU, NSG, PGL, and WPS. Accordingly, we do not expect these costs to have a material impact on our financial statements. However, any changes in the approved rate mechanisms for recovery of these costs, or any adverse conclusions by the various regulatory commissions with respect to the prudence of costs actually incurred, could materially affect recovery of such costs through rates.

## Note 14—Guarantees

The following table shows our outstanding guarantees:

| *(Millions)* | Total Amounts Committed at September 30, 2014 | Expiration Less Than 1 Year | 1 to 3 Years | Over 3 Years |
|---|---|---|---|---|
| Guarantees supporting commodity transactions of subsidiaries [1] | **$ 718.3** | $ 478.3 | $ 4.6 | $ 235.4 |
| Standby letters of credit [2] | **34.6** | 33.8 | 0.7 | 0.1 |
| Surety bonds [3] | **34.5** | 34.5 | — | — |
| Other guarantees [4] | **55.2** | 1.5 | — | 53.7 |
| **Total guarantees** [5] | **$ 842.6** | $ 548.1 | $ 5.3 | $ 289.2 |

(1) Consists of (a) $548.9 million, and $5.0 million to support the business operations of IES, and IBS, respectively, and (b) $119.0 million, $45.0 million, and $0.4 million related to natural gas supply at MERC, MGU, and ITF, respectively. These guarantees are not reflected on our balance sheets.

(2) At our request or the request of our subsidiaries, financial institutions have issued standby letters of credit for the benefit of third parties that have extended credit to our subsidiaries. This amount consists of $33.0 million issued to support IES's operations, $1.6 million issued to support ITF, MERC, MGU, NSG, PGL, and WPS, along with $0.5 million issued to support UPPCO operations. These amounts are not reflected on our balance sheets. The $0.5 million of UPPCO letters of credit were canceled in October 2014. See Note 4, Dispositions, for more information on the sale of UPPCO.

(3) Primarily for the construction and operation of compressed natural gas fueling stations, workers compensation self-insurance programs, and obtaining various licenses, permits, and rights-of-way. These guarantees are not reflected on our balance sheets.

(4) Consists of (a) $35.0 million to support IES's future payment obligations related to its distributed solar generation projects. This guarantee is not reflected on our balance sheets; (b) $10.0 million related to the sale agreement for IES's 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 law; (c) $1.8 million related to the sale of WPS Beaver Falls Generation, LLC and WPS Syracuse Generation, LLC. IES guaranteed the buyer's performance under certain derivative contracts that the buyer assumed from WPS Empire State, Inc. in conjunction with the sale; (d) $2.4 million related to the performance of an operating and maintenance agreement by ITF; and (e) $6.0 million related to other indemnifications primarily for workers compensation coverage. The amounts discussed in items (c) through (e) above are not reflected on our balance sheets.

(5) Consists of $586.0 million of guarantees that will be eliminated within six months after the sale of IES's retail energy business. See Note 4, Dispositions, for more information on the sale of IES's retail energy business. As of November 1, 2014, we assumed $41.6 million of guarantees from IES related to distributed solar generation projects.

## Note 15—Employee Benefit Plans

### Defined Benefit Plans

The following table shows the components of net periodic benefit cost (including amounts capitalized to our balance sheets) for our 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)* | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** | **2014** | **2013** |
| Service cost | **$ 6.2** | $ 7.5 | **$ 18.7** | $ 22.6 | **$ 5.2** | $ 6.3 | **$ 15.9** | $ 18.7 |
| Interest cost | **19.0** | 17.8 | **58.0** | 53.4 | **5.7** | 6.2 | **18.0** | 18.6 |
| Expected return on plan assets | **(28.0)** | (26.4) | **(85.4)** | (79.1) | **(8.3)** | (7.7) | **(25.0)** | (23.0) |
| Loss on plan settlement | **—** | — | **0.9** | — | **—** | — | **—** | — |
| Amortization of prior service cost (credit) | **0.1** | 1.0 | **0.4** | 3.0 | **(2.7)** | (0.7) | (6.8) | (1.9) |
| Amortization of net actuarial losses | **8.3** | 14.2 | **25.3** | 42.5 | **0.9** | 2.1 | 2.4 | 6.3 |
| **Net periodic benefit cost** | **$ 5.6** | $ 14.1 | **$ 17.9** | $ 42.4 | **$ 0.8** | $ 6.2 | $ 4.5 | $ 18.7 |

Prior service costs (credits) and net actuarial losses that have not yet been recognized as a component of net periodic benefit cost are recorded in accumulated other comprehensive income for our nonregulated entities and as net regulatory assets or liabilities for our regulated utilities.

In August 2014, we closed on the sale of UPPCO. The funded status of pension and other postretirement-related assets and liabilities transferred with the sale was a net asset of approximately $26 million. See Note 4, Dispositions, for more information. This net asset consisted of approximately $150 million of pension and other postretirement benefit plan assets, and approximately $124 million of benefit obligations.

In March 2014, we remeasured the obligations of certain other postretirement benefit plans. The remeasurement was necessary because we will replace the current retiree medical plans for participants age 65 and older with a Medicare Advantage plan starting in 2015.

Our funding policy is to contribute at least the minimum amounts that are required to be funded under the Employee Retirement Income Security Act, but not more than the maximum amounts that are currently deductible for income tax purposes. During the nine months ended September 30, 2014, we contributed $95.2 million to our pension plans and $0.2 million to our other postretirement benefit plans. We expect to contribute an additional $5.0 million to our pension plans and $10.6 million to our other postretirement benefit plans during the remainder of 2014, dependent upon various factors affecting us, including our liquidity position and possible tax law changes. Of the remaining contributions for 2014, contributions of $2.0 million will be funded through a transfer of assets from the rabbi trust for certain nonqualified pension plans. See the discussion below in regard to the triggering of the full funding of the rabbi trust.

### Rabbi Trust Funding Requirement

Historically, our deferred compensation programs were partially funded through shares of common stock held in a rabbi trust. The Agreement and Plan of Merger entered into with Wisconsin Energy Corporation in June 2014 triggered the potential change in control provisions in the rabbi trust agreement. These provisions required the full funding of the present value of each participant's total benefit under the deferred compensation program and certain nonqualified pension plans. As a result, $65.0 million was moved to the rabbi trust in June 2014, and an additional $64.8 million, consisting of cash and exchange-traded funds, was moved to the rabbi trust in July 2014. These amounts were included in other long-term assets on the balance sheet as of September 30, 2014. See Note 2, Proposed Merger with Wisconsin Energy Corporation, for more information on the merger.

## Note 16—Stock-Based Compensation

In May 2014, our shareholders approved the 2014 Omnibus Incentive Compensation Plan (2014 Omnibus Plan). Under the provisions of the 2014 Omnibus Plan, the number of shares of stock that may be issued in satisfaction of plan awards may not exceed 3,000,000 shares, plus any shares forfeited under prior plans. No single employee who is our chief executive officer, chief financial officer, or any one of our other three highest compensated officers (including officers of our subsidiaries) can be granted stock options for more than 1,000,000 shares or receive a payout in excess of 250,000 shares for performance stock rights during any calendar year. Additional awards will not be issued under prior plans, although the plans continue to exist for purposes of the existing outstanding stock-based compensation awards. At September 30, 2014, stock options, performance stock rights, and restricted share units were outstanding under prior plans.

The following table reflects the stock-based compensation expense and the related deferred income tax benefit recognized in income for the three and nine months ended September 30:

| | Three Months Ended September | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(Millions)* | **2014** | **2013** | **2014** | **2013** |
| Stock options | **$ 0.4** | $ 0.5 | **$ 1.2** | $ 1.4 |
| Performance stock rights | **1.1** | 1.2 | **10.8** | 4.4 |
| Restricted share units * | **1.5** | 2.5 | **7.6** | 7.8 |
| Nonemployee director deferred stock units | **0.2** | 0.2 | **0.6** | 0.7 |
| **Total stock-based compensation expense** | **$ 3.2** | $ 4.4 | **$ 20.2** | $ 14.3 |
| Deferred income tax benefit | **$ 1.3** | $ 1.8 | **$ 8.1** | $ 5.7 |

***** The three and nine months ended September 30, 2013, include an insignificant amount related to IES's retail energy business. The three and nine months ended September 30, 2014, do not include any amounts related to IES's retail energy business as the estimated forfeiture rate was adjusted in the third quarter of 2014 to reflect the sale.

No stock-based compensation cost was capitalized during the three and nine months ended September 30, 2014, and 2013.

## Stock Options

The fair value of stock option awards granted is estimated using a binomial lattice model. The expected term of option awards is derived from the output of the binomial lattice model and represents the period of time that options are expected to be outstanding. The risk-free interest rate is based on the United States Treasury yield curve. The expected dividend yield incorporates the current and historical dividend rate. The expected stock price volatility is estimated using the 10-year historical volatility of our stock price. The following table shows the assumptions incorporated into the valuation model:

| | February 2014 Grant |
|---|---|
| Expected term | **8 years** |
| Risk-free interest rate | **0.12% – 2.88%** |
| Expected dividend yield | **5.28%** |
| Expected volatility | **18%** |

The weighted-average fair value per stock option granted during the nine months ended September 30, 2014, and 2013, was $6.70 and $6.03, respectively.

A summary of stock option activity for the nine months ended September 30, 2014, and information related to outstanding and exercisable stock options at September 30, 2014, 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, 2013 | 1,550,374 | $ 50.93 | | |
| Granted | **264,332** | **55.23** | | |
| Exercised | **(411,214)** | **48.63** | | |
| Forfeited | **(2,542)** | **55.23** | | |
| **Outstanding at September 30, 2014** | **1,400,950** | **$ 52.41** | **6.6** | **$ 17.4** |
| **Exercisable at September 30, 2014** | **714,317** | **$ 50.33** | **4.9** | **$ 10.3** |

The aggregate intrinsic value for outstanding and exercisable options in the above table represents the total pre-tax intrinsic value that would have been received by the option holders had they all exercised their options on September 30, 2014. This is calculated as the difference between our closing stock price on September 30, 2014, and the option exercise price, multiplied by the number of in-the-money stock options. The intrinsic value of options exercised during the nine months ended September 30, 2014, and 2013, was $7.5 million and $9.0 million, respectively. The actual tax benefit realized for the tax deductions from these option exercises was $3.0 million and $3.6 million for the nine months ended September 30, 2014, and 2013, respectively.

Effective October 24, 2014, our Board of Directors accelerated the vesting of all unvested stock options held by active employees in order to help mitigate the tax impacts of Section 280G of the Internal Revenue Code on us and certain of our employees. All stock options awarded to active employees also became exercisable as of this date. As a result of this modification, the remaining $1.5 million of unrecognized compensation expense related to unvested and outstanding stock options at September 30, 2014, will be recognized in the fourth quarter of 2014.

## Performance Stock Rights

The fair values of performance stock rights are estimated using a Monte Carlo valuation model. The risk-free interest rate is based on the United States Treasury yield curve. The expected dividend yield incorporates the current and historical dividend rate. The expected stock price volatility is estimated using one to three years of historical data. The table below reflects the assumptions used in the valuation of the outstanding grants at September 30:

| | 2014 |
|---|---|
| Risk-free interest rate | **0.06% – 0.60%** |
| Expected dividend yield | **5.28% – 5.33%** |
| Expected volatility | **17% – 23%** |

A summary of the activity for the nine months ended September 30, 2014, related to performance stock rights accounted for as equity awards is presented below:

| | Performance Stock Rights | Weighted-Average Fair Value [(2)] |
|---|---|---|
| Outstanding at December 31, 2013 | 85,749 | $ 46.62 |
| Granted | **21,146** | **44.28** |
| Award modifications [(1)] | **64,612** | **85.09** |
| Adjustment for shares not distributed | **(45,748)** | **43.29** |
| Forfeited | **(203)** | **44.28** |
| **Outstanding at September 30, 2014** | **125,556** | **$ 67.24** |

(1) Six months prior to the end of the performance period, employees can no longer change their election to defer the value of their performance stock rights into the deferred compensation plan. As a result, any awards not elected for deferral at this point in the performance period will be settled in our common stock. This changes the classification of these awards from a liability award to an equity award. The change in classification is accounted for as an award modification.

(2) Reflects the weighted-average fair value used to measure equity awards. Equity awards are measured using the grant date fair value or the fair value on the modification date.

The weighted-average grant date fair value of performance stock rights awarded during the nine months ended September 30, 2014, and 2013, was $44.28 and $48.50, per performance stock right, respectively.

A summary of the activity for the nine months ended September 30, 2014, related to performance stock rights accounted for as liability awards is presented below:

| | Performance Stock Rights |
|---|---|
| Outstanding at December 31, 2013 | 198,904 |
| Granted | **84,529** |
| Award modifications * | **(64,612)** |
| Adjustment for shares not distributed | **(39,001)** |
| Forfeited | **(813)** |
| **Outstanding at September 30, 2014** | **179,007** |

* Six months prior to the end of the performance period, employees can no longer change their election to defer the value of their performance stock rights into the deferred compensation plan. As a result, any awards not elected for deferral at this point in the performance period will be settled in our common stock. This changes the classification of these awards from a liability award to an equity award. The change in classification is accounted for as an award modification.

The weighted-average fair value of all outstanding performance stock rights accounted for as liability awards as of September 30, 2014, was $78.61 per performance stock right.

No shares of common stock were distributed for performance stock rights during the nine months ended September 30, 2014, because the performance percentage was below the threshold payout level for those rights that were eligible for distribution. The total intrinsic value of shares distributed during the nine months ended September 30, 2013, was $8.8 million. The actual tax benefit realized for the tax deductions from the distribution of shares during the nine months ended September 30, 2013, was $3.6 million.

Effective October 24, 2014, our Board of Directors approved the acceleration of the distribution of certain performance stock rights held by active employees. For those performance stock rights with a performance period ending December 31, 2014, a portion of the estimated distribution will be made in December 2014. This change was made to help mitigate the tax impacts of Section 280G of the Internal Revenue Code on us and certain of our employees.

As of September 30, 2014, $5.0 million of compensation cost related to unvested and outstanding performance stock rights (equity and liability awards) was expected to be recognized over a weighted-average period of 1.4 years.

### Restricted Share Units

A summary of the activity related to all restricted share unit awards (equity and liability awards) for the nine months ended September 30, 2014, is presented below:

| | Restricted Share Unit Awards | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Outstanding at December 31, 2013 | 511,301 | $ 52.24 |
| Granted | **214,953** | **55.23** |
| Dividend equivalents | **17,317** | **54.45** |
| Vested and released | **(208,873)** | **49.76** |
| Forfeited | **(16,730)** | **54.66** |
| **Outstanding at September 30, 2014 *** | **517,968** | **$ 54.48** |

* Includes 94,267 restricted share units that were forfeited on November 1, 2014 related to the sale of IES's retail energy business. See Note 4, Dispositions, for more information on the sale.

The weighted-average grant date fair value of restricted share units awarded during the nine months ended September 30, 2014, and 2013, was $55.23 and $55.93 per unit, respectively.

The total intrinsic value of restricted share unit awards vested and released during the nine months ended September 30, 2014, and 2013, was $11.4 million and $11.6 million, respectively. The actual tax benefit realized for the tax deductions from the vesting and release of restricted share units during the nine months ended September 30, 2014, and 2013, was $4.6 million and $4.7 million, respectively.

As of September 30, 2014, $9.5 million of compensation cost related to unvested and outstanding restricted share units was expected to be recognized over a weighted-average period of 2.2 years.

### Nonemployee Directors Deferred Stock Units

Each nonemployee director is granted deferred stock units (DSUs), typically in January of each year. These awards generally vest over one year; therefore, the expense is recognized pro-rata over the year in which the grant occurs. The number of DSUs granted is calculated by dividing a set dollar amount by our closing common stock price on December 31 of the prior year. Nonemployee directors also receive forfeitable dividend equivalents in the form of additional DSUs.

### Note 17—Common Equity

We had the following changes to issued common stock during the nine months ended September 30, 2014:

| | |
|---|---|
| Balance at December 31, 2013 | 79,919,176 |
| Shares issued | |
| Employee Stock Ownership Plan | **31,764** |
| Stock Investment Plan | **12,151** |
| **Balance at September 30, 2014** | **79,963,091** |

The following table provides a summary of common stock activity to meet the requirements of our Stock Investment Plan and certain stock-based employee benefit and compensation plans:

| Period | Method of meeting requirements |
|---|---|
| Beginning 02/05/14 | Purchasing shares on the open market |
| 02/05/2013 – 02/04/2014 | Issued new shares |
| 01/01/2013 – 02/04/2013 | Purchased shares on the open market |

The following table reconciles common shares issued and outstanding:

| | September 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | **Shares** | **Average Cost *** | **Shares** | **Average Cost *** |
| Common stock issued | **79,963,091** | | 79,919,176 | |
| Less: | | | | |
| Deferred compensation rabbi trust | **428,920** | **$ 48.73** | 473,796 | $ 48.50 |
| **Total common shares outstanding** | **79,534,171** | | 79,445,380 | |

* Based on our stock price on the day the shares entered the deferred compensation rabbi trust. Shares paid out of the trust are valued at the average cost of shares in the trust.

Under the merger agreement with Wisconsin Energy Corporation (Wisconsin Energy), we can no longer issue shares of our common stock.

### Earnings Per Share

Basic earnings per share is computed by dividing net income attributed to common shareholders by the weighted average number of common shares outstanding during the period, adjusted for shares we are obligated to issue under the deferred compensation and restricted share unit plans. Diluted earnings per share is computed in a similar manner, but includes the exercise and/or conversion of all potentially dilutive securities. Such dilutive items include in-the-money stock options, performance stock rights, restricted share units, and certain shares issuable under the deferred compensation plan. As the obligation for certain shares issuable under the deferred compensation plan is accounted for as a liability, the numerator is adjusted for any changes in income or loss that would have resulted had it been accounted for as an equity instrument during the period.

The following table reconciles our computation of basic and diluted earnings per share:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| ***(Millions, except per share amounts)*** | **2014** | **2013** | **2014** | **2013** |
| Numerator: | | | | |
| Net income from continuing operations | **$ 82.9** | $ 39.4 | **$ 244.2** | $ 217.7 |
| Discontinued operations, net of tax | **1.1** | (0.6) | **0.9** | 4.7 |
| Preferred stock dividends of subsidiary | **(0.7)** | (0.7) | **(2.3)** | (2.3) |
| Noncontrolling interest in subsidiaries | **—** | — | **0.1** | 0.1 |
| Net income attributed to common shareholders — basic | **$ 83.3** | $ 38.1 | **$ 242.9** | $ 220.2 |
| Effect of dilutive securities | | | | |
| Stock-based compensation | **—** | (0.1) | **—** | (0.1) |
| Deferred compensation | **(0.8)** | — | **—** | — |
| Net income attributed to common shareholders — diluted | **$ 82.5** | $ 38.0 | **$ 242.9** | $ 220.1 |
| Denominator: | | | | |
| Average shares of common stock — basic | **80.2** | 79.8 | **80.2** | 79.3 |
| Effect of dilutive securities | | | | |
| Stock-based compensation | **0.6** | 0.4 | **0.4** | 0.4 |
| Deferred compensation | **0.3** | — | **—** | 0.2 |
| Average shares of common stock — diluted | **81.1** | 80.2 | **80.6** | 79.9 |
| Earnings per common share | | | | |
| Basic | **$ 1.04** | $ 0.48 | **$ 3.03** | $ 2.78 |
| Diluted | **1.02** | 0.47 | **3.01** | 2.76 |

The calculation of diluted earnings per share excluded the following weighted-average outstanding securities that had an anti-dilutive effect:

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| ***(Millions)*** | **2014** | **2013** | **2014** | **2013** |
| Stock-based compensation | **—** | 0.4 | **0.2** | 0.2 |
| Deferred compensation | **—** | 0.2 | **0.3** | 0.1 |

## Dividend Restrictions

Our ability as a holding company to pay dividends is largely dependent upon the availability of funds from our subsidiaries. Various laws, regulations, and financial covenants impose restrictions on the ability of certain of our regulated utility subsidiaries to transfer funds to us in the form of dividends. Our regulated utility subsidiaries, with the exception of MGU, are prohibited from loaning funds to us, either directly or indirectly.

The PSCW allows WPS to pay dividends on its common stock of no more than 103% of the previous year's common stock dividend. WPS may return capital to us if its average financial common equity ratio is at least 51% on a calendar-year basis. WPS must obtain PSCW approval if a return of capital would cause its average financial common equity ratio to fall below this level. Our right to receive dividends on the common stock of WPS is also subject to the prior rights of WPS's preferred shareholders and to provisions in WPS's restated articles of incorporation, which limit the amount of common stock dividends that WPS may pay if its common stock and common stock surplus accounts constitute less than 25% of its total capitalization.

NSG's long-term debt obligations contain provisions and covenants restricting the payment of cash dividends and the purchase or redemption of its capital stock.

PGL and WPS have short-term debt obligations containing 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 could result in the acceleration of their outstanding debt obligations.

As of September 30, 2014, total restricted net assets of consolidated subsidiaries were $1,844.5 million. Our equity in undistributed earnings of 50% or less owned investees accounted for by the equity method was $159.6 million at September 30, 2014.

We also have short-term and long-term debt obligations that 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 could result in the acceleration of outstanding debt obligations. At September 30, 2014, these covenants did not restrict our retained earnings or the payment of any dividends.

We have the option to defer interest payments on our outstanding Junior Subordinated Notes, from time to time, for one or more periods of up to ten consecutive years per period. During any period in which we defer interest payments, we may not declare or pay any dividends or distributions on, or redeem, purchase, acquire, or make a liquidation payment on, any of our capital stock.

Under the merger agreement with Wisconsin Energy, we may not declare or pay any dividends or distributions on our common stock other than the regular quarterly dividend of $0.68 per share.

Except for the restrictions described above and subject to applicable law, we do not have any other significant dividend restrictions.

## Capital Transactions with Subsidiaries

During the nine months ended September 30, 2014, capital transactions with subsidiaries were as follows (in millions):

| Subsidiary | Dividends To Parent | Return Of Capital To Parent | Equity Contributions From Parent |
|---|---|---|---|
| IBS | $ — | $ — | $ 25.0 |
| ITF [1] | — | — | 45.5 |
| MERC | — | 27.0 | 12.0 |
| MGU | — | 13.0 | — |
| PGL [1] | — | — | 65.0 |
| UPPCO | — | 12.5 | 94.4 |
| WPS | 83.9 | — | 40.0 |
| WPS Investments, LLC [2] | 55.2 | — | 13.6 |
| **Total** | $ 139.1 | $ 52.5 | $ 295.5 |

[1] ITF and PGL are direct wholly owned subsidiaries of PELLC. As a result, they make distributions to PELLC, and receive equity contributions from PELLC. Subject to applicable law, PELLC does not have any dividend restrictions or limitations on distributions to us.

[2] WPS Investments, LLC is a consolidated subsidiary that is jointly owned by us and WPS. In August 2014, UPPCO's ownership interest in WPS Investments, LLC was transferred to us as a result of the sale of UPPCO. At September 30, 2014, the ownership interest held by us and WPS was 88.95% and 11.05%, respectively. Distributions from WPS Investments, LLC are made to the owners based on their respective ownership percentages. During 2014, all equity contributions to WPS Investments, LLC were made solely by us.

## Note 18—Accumulated Other Comprehensive Loss

The following tables show the changes, net of tax, to our accumulated other comprehensive loss:

| *(Millions)* | Three Months Ended September 30, 2014 Cash Flow Hedges | Three Months Ended September 30, 2014 Defined Benefit Plans | Three Months Ended September 30, 2014 Accumulated Other Comprehensive Loss | Nine Months Ended September 30, 2014 Cash Flow Hedges | Nine Months Ended September 30, 2014 Defined Benefit Plans | Nine Months Ended September 30, 2014 Accumulated Other Comprehensive Loss |
|---|---|---|---|---|---|---|
| Balance at the beginning of period | **$ (3.5)** | **$ (19.4)** | **$ (22.9)** | **$ (3.1)** | **$ (20.1)** | **$ (23.2)** |
| Other comprehensive loss before reclassifications | **—** | **—** | **—** | **—** | **(0.1)** | **(0.1)** |
| Amounts reclassified out of accumulated other comprehensive loss | **0.1** | **0.4** | **0.5** | **(0.3)** | **1.2** | **0.9** |
| Net current period other comprehensive income (loss) | **0.1** | **0.4** | **0.5** | **(0.3)** | **1.1** | **0.8** |
| Balance at the end of period | **$ (3.4)** | **$ (19.0)** | **$ (22.4)** | **$ (3.4)** | **$ (19.0)** | **$ (22.4)** |

| *(Millions)* | Three Months Ended September 30, 2013 Cash Flow Hedges | Three Months Ended September 30, 2013 Defined Benefit Plans | Three Months Ended September 30, 2013 Accumulated Other Comprehensive Loss | Nine Months Ended September 30, 2013 Cash Flow Hedges | Nine Months Ended September 30, 2013 Defined Benefit Plans | Nine Months Ended September 30, 2013 Accumulated Other Comprehensive Loss |
|---|---|---|---|---|---|---|
| Balance at the beginning of period | $ (2.1) | $ (34.5) | $ (36.6) | $ (5.2) | $ (35.7) | $ (40.9) |
| Other comprehensive income before reclassifications | — | — | — | 0.7 | — | 0.7 |
| Amounts reclassified out of accumulated other comprehensive loss | 0.3 | 0.6 | 0.9 | 2.7 | 1.8 | 4.5 |
| Net current period other comprehensive income | 0.3 | 0.6 | 0.9 | 3.4 | 1.8 | 5.2 |
| Balance at the end of period | $ (1.8) | $ (33.9) | $ (35.7) | $ (1.8) | $ (33.9) | $ (35.7) |

The following table shows the reclassifications out of accumulated other comprehensive loss during the three and nine months ended September 30:

| | Amount Reclassified | | | | |
|---|---|---|---|---|---|
| | Three Months Ended September 30 | | Nine Months Ended September 30 | | Affected Line Item in the Statements of Income |
| *(Millions)* | 2014 | 2013 | 2014 | 2013 | |
| **Losses (gains) on cash flow hedges** | | | | | |
| Utility commodity derivative contracts | **$ —** | $ — | **$ —** | $ 0.2 | Operating and maintenance expense [(1) (2)] |
| Nonregulated commodity derivative contracts | **—** | 0.2 | **—** | 3.4 | Nonregulated revenues [(2)] |
| Interest rate hedges | **0.3** | 0.3 | **0.8** | 0.8 | Interest expense |
| | **0.3** | 0.5 | **0.8** | 4.4 | Total before tax |
| | **0.2** | 0.2 | **1.1** | 1.7 | Tax expense |
| | **0.1** | 0.3 | **(0.3)** | 2.7 | Net of tax |
| **Defined benefit plans** | | | | | |
| Amortization of prior service credits | **—** | (0.1) | **(0.1)** | (0.2) | [(3)] |
| Amortization of net actuarial losses | **0.6** | 1.1 | **2.0** | 3.2 | [(3)] |
| | **0.6** | 1.0 | **1.9** | 3.0 | Total before tax |
| | **0.2** | 0.4 | **0.7** | 1.2 | Tax expense |
| | **0.4** | 0.6 | **1.2** | 1.8 | Net of tax |
| **Total reclassifications** | **$ 0.5** | $ 0.9 | **$ 0.9** | $ 4.5 | |

(1) This item relates to changes in the price of natural gas used to support utility operations.

(2) We no longer designate commodity contracts as cash flow hedges.

(3) These items are included in the computation of net periodic benefit cost. See Note 15, Employee Benefit Plans, for more information.

## Note 19—Variable Interest Entities

In 2012, ITF formed AMP Trillium LLC as a joint venture with AMP Americas LLC. This joint venture was established to own and operate compressed natural gas (CNG) fueling stations. ITF owns 30% and AMP Americas LLC owns 70% of the joint venture. At December 31, 2013, ITF was the primary beneficiary of this variable interest entity, and, as a result, we consolidated the assets, liabilities, and statements of income of the joint venture. However, in April 2014, ITF and AMP Americas LLC restructured this joint venture. Due to the restructuring, our influence over the activities that most significantly impact the variable interest entity's economic performance decreased. We have determined that ITF is no longer the primary beneficiary of this variable interest entity and that we are no longer required to consolidate the joint venture. Therefore, we started accounting for this variable interest entity as an equity method investment in April 2014. At September 30, 2014, and December 31, 2013, our variable interests in

the joint venture included an insignificant equity investment and insignificant receivables. Our maximum exposure to loss as a result of this joint venture was also not significant. On November 1, 2014, ITF sold eight CNG fueling stations to AMP Trillium LLC. See Note 4, Dispositions, for more information.

In 2013, ITF formed EVO Trillium LLC as a joint venture with Environmental Alternative Fuels LLC. ITF owns 15% and Environmental Alternative Fuels LLC owns 85% of the joint venture. This joint venture was established to own and operate CNG fueling stations. We determined that this joint venture is a variable interest entity but that consolidation is not required since we are not its primary beneficiary, as we do not have the power to direct its activities. We instead account for this variable interest entity as an equity method investment. At September 30, 2014, and December 31, 2013, the assets and liabilities on our balance sheets related to our involvement with this variable interest entity consisted of insignificant receivables. Our maximum exposure to loss as a result of involvement with this variable interest entity was also not significant.

We also had a variable interest in an entity through a power purchase agreement at UPPCO that reimbursed an independent power producing entity for coal costs relating to purchased energy. There was no obligation to purchase energy under this 17.5 megawatt agreement. For a variety of reasons, we determined that we were not the primary beneficiary of this variable interest entity and that consolidation was not required. At December 31, 2013, the assets and liabilities on our balance sheets that related to our involvement with this variable interest entity pertained to working capital accounts and represented the amounts we owed for current deliveries of power. In August 2014, we sold UPPCO to Balfour Beatty Infrastructure Partners LP (BBIP), and, as a result, this power purchase agreement was transferred to BBIP. See Note 4, Dispositions, for more information on the sale of UPPCO.

## Note 20—Fair Value

### Fair Value Measurements

A fair value measurement is required to reflect the assumptions market participants would use in pricing an asset or liability based on the best available information. These assumptions include the risks inherent in a particular valuation technique (such as a pricing model) and the risks inherent in the inputs to the model.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We use a mid-market pricing convention (the mid-point price between bid and ask prices) as a practical measure for valuing certain derivative assets and liabilities.

Fair value accounting rules provide a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are defined as follows:

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are observable, either directly or indirectly, but are not quoted prices included within Level 1. Level 2 includes those financial instruments that are valued using external inputs within models or other valuation methods.

Level 3 – Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methods that result in management's best estimate of fair value. Level 3 instruments include those that may be more structured or otherwise tailored to customers' needs.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

We determine fair value using a market-based approach that uses observable market inputs where available, and internally developed inputs only when observable market data is not readily available. For the unobservable inputs, consideration is given to the assumptions that market participants would use in valuing the asset or liability. These factors include not only the credit standing of the counterparties involved, but also the impact of our nonperformance risk on our liabilities.

When possible, we base the valuations of our risk management assets and liabilities on quoted prices for identical assets in active markets. These valuations are classified in Level 1. The valuations of certain contracts include inputs related to market price risk (commodity or interest rate), price volatility (for option contracts), and price correlation (for cross commodity contracts). These inputs are available through multiple sources, including exchanges and brokers. Transactions valued using these inputs are classified in Level 2.

Certain derivatives were categorized in Level 3 due to the significance of unobservable or internally-developed inputs. The primary reasons for a Level 3 classification were as follows:

- While forward price curves may have been based on observable information, significant assumptions may have been made regarding monthly shaping and locational basis differentials.

- Certain transactions were valued using price curves that extended beyond an observable period. Assumptions were made to extrapolate prices from the last observable period through the end of the transaction term, primarily through the use of historically settled data or correlations to other locations.

We have established risk oversight committees whose primary responsibility includes directly or indirectly ensuring that all valuation methods are applied in accordance with predefined policies. The development and maintenance of our forward price curves has been assigned to our risk management department, which is part of the corporate treasury function. This department is separate and distinct from any of the trading functions within the organization. To validate the reasonableness of our fair value inputs, our risk management department compares changes in valuation and researches any significant differences in order to determine the underlying cause. Changes to the fair value inputs are made if necessary.

We conduct a thorough review of fair value hierarchy classifications on a quarterly basis.

All of IES's risk management assets and liabilities below relate to its retail energy business that was sold on November 1, 2014. See Note 4, Dispositions, for more information.

The following tables show assets and liabilities that were accounted for at fair value on a recurring basis, categorized by level within the fair value hierarchy:

| | September 30, 2014 | | | |
|---|---|---|---|---|
| *(Millions)* | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| **Risk Management Assets** | | | | |
| **Utility Segments** | | | | |
| Natural gas contracts | $ 2.4 | $ 5.5 | $ — | $ 7.9 |
| Financial transmission rights (FTRs) | — | — | 3.4 | 3.4 |
| Coal contracts | — | — | 2.4 | 2.4 |
| **IES Segment** | | | | |
| Natural gas contracts | 21.2 | 41.4 | 27.6 | 90.2 |
| Electric contracts | 89.2 | 135.4 | 12.4 | 237.0 |
| **Total Risk Management Assets** | $ 112.8 | $ 182.3 | $ 45.8 | $ 340.9 |
| | | | | |
| **Investment in exchange-traded funds** | $ 16.3 | $ — | $ — | $ 16.3 |
| | | | | |
| **Liabilities** | | | | |
| **Risk Management Liabilities** | | | | |
| **Utility Segments** | | | | |
| Natural gas contracts | $ 0.8 | $ 3.5 | $ — | $ 4.3 |
| Petroleum product contracts | 0.6 | — | — | 0.6 |
| FTRs | — | — | 0.4 | 0.4 |
| Coal contracts | — | — | 2.4 | 2.4 |
| **IES Segment** | | | | |
| Natural gas contracts | 15.3 | 30.4 | 16.7 | 62.4 |
| Electric contracts | 123.5 | 38.4 | 3.9 | 165.8 |
| **Total Risk Management Liabilities** | $ 140.2 | $ 72.3 | $ 23.4 | $ 235.9 |

| *(Millions)* | December 31, 2013 Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| **Risk Management Assets** | | | | |
| **Utility Segments** | | | | |
| Natural gas contracts | $ 2.4 | $ 7.7 | $ — | $ 10.1 |
| FTRs * | — | — | 2.1 | 2.1 |
| Petroleum product contracts | 0.1 | — | — | 0.1 |
| Coal contracts | — | — | 0.2 | 0.2 |
| **IES Segment** | | | | |
| Natural gas contracts | 16.3 | 35.2 | 35.6 | 87.1 |
| Electric contracts | 65.1 | 134.9 | 15.9 | 215.9 |
| **Total Risk Management Assets** | $ 83.9 | $ 177.8 | $ 53.8 | $ 315.5 |
| **Investment in exchange-traded funds** | $ 15.9 | $ — | $ — | $ 15.9 |
| **Liabilities** | | | | |
| **Risk Management Liabilities** | | | | |
| **Utility Segments** | | | | |
| Natural gas contracts | $ 0.5 | $ 0.6 | $ — | $ 1.1 |
| FTRs | — | — | 0.3 | 0.3 |
| Coal contracts | — | — | 2.7 | 2.7 |
| **IES Segment** | | | | |
| Natural gas contracts | 14.3 | 22.0 | 25.2 | 61.5 |
| Electric contracts | 98.8 | 58.7 | 3.5 | 161.0 |
| **Total Risk Management Liabilities** | $ 113.6 | $ 81.3 | $ 31.7 | $ 226.6 |
| **Contingent consideration related to the acquisition of Compass Energy Services** | $ — | $ — | $ 7.8 | $ 7.8 |

* Includes an insignificant amount that was classified as held for sale at UPPCO. See Note 4, Dispositions, for more information.

The risk management assets and liabilities listed in the tables above include options, swaps, futures, physical commodity contracts, and other instruments used to manage market risks related to changes in commodity prices. They also include FTRs, which are used to manage electric transmission congestion costs in the MISO market. See Note 6, Risk Management Activities, for more information.

The following tables show net risk management assets (liabilities) transferred between the levels of the fair value hierarchy:

| | IES Segment — Natural Gas Contracts | | | | | |
|---|---|---|---|---|---|---|
| | Three Months Ended September 30, 2014 | | | Three Months Ended September 30, 2013 | | |
| *(Millions)* | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Transfers into Level 1 from | **N/A** | **$ —** | **$ —** | N/A | $ — | $ — |
| Transfers into Level 2 from | **$ —** | **N/A** | **—** | $ — | N/A | 0.3 |
| Transfers into Level 3 from | **—** | **0.7** | **N/A** | — | 2.5 | N/A |

| | IES Segment — Natural Gas Contracts | | | | | |
|---|---|---|---|---|---|---|
| | Nine Months Ended September 30, 2014 | | | Nine Months Ended September 30, 2013 | | |
| *(Millions)* | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Transfers into Level 1 from | **N/A** | **$ 0.1** | **$ —** | N/A | $ — | $ — |
| Transfers into Level 2 from | **$ —** | **N/A** | **0.5** | $ — | N/A | 0.3 |
| Transfers into Level 3 from | **—** | **2.3** | **N/A** | — | 4.0 | N/A |

| | IES Segment — Electric Contracts | | | | | |
|---|---|---|---|---|---|---|
| | Three Months Ended September 30, 2014 | | | Three Months Ended September 30, 2013 | | |
| *(Millions)* | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Transfers into Level 1 from | **N/A** | **$ 1.0** | **$ —** | N/A | $ — | $ — |
| Transfers into Level 2 from | **$ —** | **N/A** | **2.9** | $ — | N/A | (0.8) |
| Transfers into Level 3 from | **—** | **0.1** | **N/A** | (0.2) | — | N/A |

| *(Millions)* | IES Segment — Electric Contracts | | | | | |
|---|---|---|---|---|---|---|
| | Nine Months Ended September 30, 2014 | | | Nine Months Ended September 30, 2013 | | |
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Transfers into Level 1 from | **N/A** | **$ 1.2** | **$ —** | N/A | $ — | $ — |
| Transfers into Level 2 from | **$ —** | **N/A** | **11.4** | $ — | N/A | 4.6 |
| Transfers into Level 3 from | **—** | **6.5** | **N/A** | (0.2) | 6.2 | N/A |

Derivatives were transferred between the levels of the fair value hierarchy primarily due to changes in the source of data used to construct price curves as a result of changes in market liquidity. We recognize transfers between the levels at the value as of the end of the reporting period.

The amounts and percentages listed in the table below represent the range of unobservable inputs used in the valuations that individually had a significant impact on the fair value determination and caused a derivative to be classified as Level 3 at September 30, 2014:

| | Fair Value *(Millions)* | | | | |
|---|---|---|---|---|---|
| | Assets | Liabilities | Valuation Technique | Unobservable Input | Average or Range |
| **Utility Segments** | | | | | |
| FTRs | **$ 3.4** | **$ 0.4** | Market-based | Forward market prices ($/megawatt-month) [(1)] | **$187.89** |
| Coal contracts | **2.4** | **2.4** | Market-based | Forward market prices ($/ton) [(2)] | **$12.31 – $15.50** |
| **IES Segment** | | | | | |
| Natural gas contracts | **27.6** | **16.7** | Market-based | Forward market prices ($/dekatherm) [(3)] | **($1.94) – $7.71** |
| | | | | Probability of default [(4)] | **11.6% – 51.0%** |
| Electric contracts | **12.4** | **3.9** | Market-based | Forward market prices ($/megawatt-hours) [(3)] | **($3.00) – $12.10** |
| | | | | Probability of default [(4)] | **26.0%** |
| | | | | Option volatilities [(5)] | **18.7% – 116.0%** |

(1) Represents forward market prices developed using historical cleared pricing data from MISO.

(2) Represents third-party forward market pricing.

(3) Represents unobservable basis spreads developed using historical settled prices that are applied to observable market prices at various natural gas and electric locations, as well as unobservable adjustments made to extend observable market prices beyond the quoted period through the end of the transaction term.

(4) Based on Moody's one-year counterparty default percentages.

(5) Represents the range of volatilities used in the valuation of options. Volatilities are derived from an internal model using volatility curves from third parties.

At the utility segments, significant changes in historical settlement prices and forward coal prices would result in a directionally similar significant change in fair value. Significant changes in the unobservable inputs used to value IES's risk management assets and liabilities will not impact us as after November 1, 2014, as these assets and liabilities were included in the sale of IES's retail energy business. See Note 4, Dispositions, for more information.

The following tables set forth a reconciliation of changes in the fair value of items categorized as Level 3 measurements:

| **Three Months Ended September 30, 2014** | **IES Segment** | | | **Utility Segments** | | |
|---|---|---|---|---|---|---|
| ***(Millions)*** | **Natural Gas** | **Electric** | **Contingent Consideration** | **FTRs** | **Coal Contracts** | **Total** |
| Balance at the beginning of the period | **$ 5.0** | **$ 14.9** | **$ (6.6)** | **$ 5.2** | **$ 0.9** | **$ 19.4** |
| Net realized and unrealized gains included in earnings | **6.2** | **1.2** | **2.3** | **0.3** | **—** | **10.0** |
| Net unrealized gains (losses) recorded as regulatory assets or liabilities | **—** | **—** | **—** | **0.4** | **(1.0)** | **(0.6)** |
| Purchases | **—** | **0.9** | **—** | **0.1** | **—** | **1.0** |
| Sales | **—** | **—** | **—** | **(1.0)** * | **—** | **(1.0)** |
| Settlements | **(1.0)** | **(5.7)** | **4.3** | **(2.0)** | **0.1** | **(4.3)** |
| Net transfers into Level 3 | **0.7** | **0.1** | **—** | **—** | **—** | **0.8** |
| Net transfers out of Level 3 | **—** | **(2.9)** | **—** | **—** | **—** | **(2.9)** |
| Balance at the end of the period | **$ 10.9** | **$ 8.5** | **$ —** | **$ 3.0** | **$ —** | **$ 22.4** |
| Net unrealized gains included in earnings related to instruments still held at the end of the period | **$ 6.2** | **$ 1.2** | **$ —** | **$ —** | **$ —** | **$ 7.4** |

* Activity relates to FTRs sold in connection with sale of UPPCO. See Note 4, Dispositions, for more information.

| **Three Months Ended September 30, 2013** | **IES Segment** | | | **Utility Segments** | | |
|---|---|---|---|---|---|---|
| ***(Millions)*** | **Natural Gas** | **Electric** | **Contingent Consideration** | **FTRs** | **Coal Contracts** | **Total** |
| Balance at the beginning of the period | $ 7.7 | $ 4.1 | $ (7.7) | $ 3.9 | $ (2.3) | $ 5.7 |
| Net realized and unrealized gains included in earnings | 4.2 | 1.9 | — | 1.3 | — | 7.4 |
| Net unrealized gains (losses) recorded as regulatory assets or liabilities | — | — | — | 0.6 | (4.5) | (3.9) |
| Purchases | — | 0.7 | — | — | — | 0.7 |
| Settlements | (2.5) | (4.6) | — | (2.8) | 5.6 | (4.3) |
| Net transfers into Level 3 | 2.5 | (0.2) | — | — | — | 2.3 |
| Net transfers out of Level 3 | (0.3) | 0.8 | — | — | — | 0.5 |
| Balance at the end of the period | $ 11.6 | $ 2.7 | $ (7.7) | $ 3.0 | $ (1.2) | $ 8.4 |
| Net unrealized gains included in earnings related to instruments still held at the end of the period | $ 4.2 | $ 1.9 | $ — | $ — | $ — | $ 6.1 |

| **Nine Months Ended September 30, 2014** | **IES Segment** | | | **Utility Segments** | | |
|---|---|---|---|---|---|---|
| ***(Millions)*** | **Natural Gas** | **Electric** | **Contingent Consideration** | **FTRs** | **Coal Contracts** | **Total** |
| Balance at the beginning of the period | **$ 10.4** | **$ 12.4** | **$ (7.8)** | **$ 1.8** | **$ (2.5)** | **$ 14.3** |
| Net realized and unrealized gains included in earnings | **0.2** | **12.8** | **2.3** | **0.7** | **—** | **16.0** |
| Net unrealized gains recorded as regulatory assets or liabilities | **—** | **—** | **—** | **0.6** | **2.0** | **2.6** |
| Purchases | **—** | **2.2** | **—** | **5.6** | **—** | **7.8** |
| Sales | **—** | **(0.7)** | **—** | **(1.0)** * | **—** | **(1.7)** |
| Settlements | **(1.5)** | **(13.3)** | **5.5** | **(4.7)** | **0.5** | **(13.5)** |
| Net transfers into Level 3 | **2.3** | **6.5** | **—** | **—** | **—** | **8.8** |
| Net transfers out of Level 3 | **(0.5)** | **(11.4)** | **—** | **—** | **—** | **(11.9)** |
| Balance at the end of the period | **$ 10.9** | **$ 8.5** | **$ —** | **$ 3.0** | **$ —** | **$ 22.4** |
| Net unrealized gains included in earnings related to instruments still held at the end of the period | **$ 0.2** | **$ 12.8** | **$ —** | **$ —** | **$ —** | **$ 13.0** |

* Activity relates to FTRs sold in connection with sale of UPPCO. See Note 4, Dispositions, for more information.

| **Nine Months Ended September 30, 2013** | **IES Segment** | | | **Utility Segments** | | |
|---|---|---|---|---|---|---|
| ***(Millions)*** | **Natural Gas** | **Electric** | **Contingent Consideration** | **FTRs** | **Coal Contracts** | **Total** |
| Balance at the beginning of the period | $ 3.9 | $ (4.3) | $ — | $ 2.0 | $ (6.5) | $ (4.9) |
| Net realized and unrealized gains included in earnings | 1.3 | 7.6 | — | 1.7 | — | 10.6 |
| Net unrealized (losses) gains recorded as regulatory assets or liabilities | — | — | — | (0.3) | 2.2 | 1.9 |
| Purchases | 7.0 | 2.3 | (7.7) | 4.9 | — | 6.5 |
| Sales | — | — | — | (0.1) | — | (0.1) |
| Settlements | (4.3) | (4.3) | — | (5.2) | 3.1 | (10.7) |
| Net transfers into Level 3 | 4.0 | 6.0 | — | — | — | 10.0 |
| Net transfers out of Level 3 | (0.3) | (4.6) | — | — | — | (4.9) |
| Balance at the end of the period | $ 11.6 | $ 2.7 | $ (7.7) | $ 3.0 | $ (1.2) | $ 8.4 |
| Net unrealized gains included in earnings related to instruments still held at the end of the period | $ 1.3 | $ 7.6 | $ — | $ — | $ — | $ 8.9 |

Realized and unrealized gains and losses included in earnings related to IES's risk management assets and liabilities were recorded through nonregulated revenue or nonregulated cost of sales on the statements of income, depending on the nature of the instrument. Unrealized gains and losses on Level 3 derivatives at the utilities are deferred as regulatory assets or liabilities. Therefore, these fair value measurements have no impact on earnings. Realized gains and losses on these instruments flow through utility cost of fuel, natural gas, and purchased power on the statements of income.

### Fair Value of Financial Instruments

The following table shows the financial instruments included on our balance sheets that are not recorded at fair value:

| | September 30, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| *(Millions)* | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Long-term debt | **$ 2,956.3** | **$ 3,068.3** | $ 3,056.2 | $ 3,031.6 |
| Preferred stock of subsidiary | **51.1** | **57.0** | 51.1 | 61.2 |

The fair values of long-term debt instruments are estimated based on the quoted market price for the same or similar issues, or on the current rates offered to us for debt of the same remaining maturity. The fair values of preferred stock are estimated based on quoted market prices when available, or by using a perpetual dividend discount model. The fair values of long-term debt instruments and preferred stock are categorized within Level 2 of the fair value hierarchy.

Due to the short-term nature of cash and cash equivalents, accounts receivable, accounts payable, and outstanding commercial paper, the carrying amount for each of these items approximates fair value.

## Note 21—Advertising Costs

Costs associated with certain natural gas and electric direct-response advertising campaigns at IES were capitalized and reported as other long-term assets on the balance sheets. The capitalized costs result in probable future benefits and were incurred to solicit sales to customers who could be shown to have responded specifically to the advertising. Capitalized direct-response advertising costs, net of accumulated amortization, totaled $4.9 million and $5.2 million as of September 30, 2014, and December 31, 2013, respectively. On November 1, 2014, IES's retail energy business was sold, and these capitalized direct-response advertising costs were included in the sale. The asset balances for each of the direct-response advertising cost pools are reviewed quarterly for impairment. We did not record any significant impairments during the three and nine months ended September 30, 2014, and 2013.

Direct-response advertising costs are amortized to operating and maintenance expense over the estimated period of benefit, which is approximately two years. The amortization of direct-response advertising costs was $0.1 million for the three months ended September 30, 2014, and 2013. The amortization of direct-response advertising costs was $1.8 million and $4.1 million for the nine months ended September 30, 2014, and 2013, respectively.

We expense all advertising costs as incurred, except for those capitalized as direct-response advertising, as discussed above. The following table shows our other advertising expense.

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| *(Millions)* | 2014 | 2013 | 2014 | 2013 |
| **Other advertising expense** | | | | |
| IES's retail energy business | **$ 1.0** | $ 1.0 | **$ 3.3** | $ 4.0 |
| Other | **1.3** | 1.2 | **2.8** | 2.6 |
| **Total Integrys Energy Group Consolidated** | **$ 2.3** | $ 2.2 | **$ 6.1** | $ 6.6 |

## Note 22—Regulatory Environment

### Wisconsin

*2015 Rate Case*

In April 2014, WPS filed an application with the PSCW to increase retail electric rates $76.8 million and to decrease natural gas rates $1.6 million, with rates expected to be effective January 1, 2015. WPS's request reflects a 10.60% return on common equity and a target common equity ratio of 50.51% in WPS's regulatory capital structure. In May 2014, WPS filed its proposed electric and natural gas rate designs with the PSCW. These rate designs include significantly higher fixed charges, which better matches the related fixed costs of providing service. The PSCW is reviewing the new rate design as part of the rate-setting process.

The proposed retail electric rate increase is primarily driven by the completion of a partial refund to customers of the 2013 fuel cost over-collections in 2014 rates, which kept rates flat in 2014, as well as a reduction in refunds associated with decoupling. In 2015, fuel and purchased power costs are expected to increase, as are transmission costs and general inflation. The proposed retail electric rate increase also includes WPS's request to recover deferred costs over four years related to the 2013 acquisition of the Fox Energy Center. Finally, capital costs associated with both previously approved environmental upgrades at the Columbia plant as well as our efforts to improve electric reliability by converting historically low performance overhead distribution lines to underground are also contributing to the requested increase in retail electric rates. The requested increase in retail electric rates was partially offset by a portion of the remaining 2013 fuel cost over-collections to customers. However, in July 2014, the PSCW authorized WPS to refund the remaining 2013 fuel cost over-collections to customers, all in 2014 rates, which differed from the original application to refund them in 2015 and 2016 rates.

The proposed retail natural gas rate decrease is driven by 2013 decoupling over-collections, which will be refunded to customers in 2015. An increase in non-fuel operating and maintenance costs, including the impact of general inflation, and an increase in return on equity partially offset the effect of the 2013 decoupling over-collections.

In August 2014, the PSCW staff submitted testimony and recommended a rate increase of $28.7 million for retail electric and a rate decrease of $13.6 million for retail natural gas, which reflected a 10.20% return on common equity. PSCW staff recommended a common equity ratio of 50.27% for WPS's regulatory capital structure. The PSCW held both technical and public hearings in September 2014. In October 2014, WPS issued an initial brief revising its requested retail electric rate increase to approximately $48 million. The requested retail natural gas rate decrease was also revised to a decrease of approximately $8 million. The revised request is lower than the initial application and is primarily driven by certain PSCW staff adjustments, but does not include adjustments for the contested issues of incentive compensation and the customer billing system project. The revised request reflects a 10.20% return on common equity and a common equity ratio of 50.27% in WPS's regulatory capital structure. A final decision by the PSCW on the 2015 rates is expected before December 31, 2014.

*2014 Rates*

In December 2013, the PSCW issued a final written order for WPS, effective January 1, 2014. It authorized a net retail electric rate decrease of $12.8 million and a net retail natural gas rate increase of $4.0 million, reflecting a 10.20% return on common equity. The order also included a common equity ratio of 50.14% in WPS's regulatory capital structure. The retail electric rate impact consisted of a rate increase, including recovery of the difference between the 2012 fuel refund and the 2013 rate increase discussed below, entirely offset by a portion of estimated fuel cost over-collections from customers in 2013. Retail electric rates were further decreased by 2012 decoupling over-collections to be returned to customers in 2014. The retail natural gas rate impact consisted of a rate decrease, which was more than offset by the positive impact of 2012 decoupling under-collections to be recovered from customers in 2014. Both the retail electric and retail natural gas rate changes included the recovery of pension and other employee benefit increases that were deferred in the 2013 rate case, as discussed below. The PSCW also authorized the recovery of prudently incurred 2014 environmental mitigation project costs related to compliance with a Consent Decree signed in January 2013 related to the Pulliam and Weston sites. See Note 13, Commitments and Contingencies, for more information. Additionally, the order required WPS to terminate its decoupling mechanism, beginning January 1, 2014.

*2013 Rates*

In December 2012, the PSCW issued a final written order for WPS, effective January 1, 2013. The order included a $28.5 million retail electric rate increase, partially offset by the 2012 fuel refund of $20.5 million. The difference between the 2012 fuel refund and the rate increase was deferred for recovery in 2014 rates. As a result, there was no change to customers' 2013 retail electric rates. The order also included a $3.4 million retail natural gas rate decrease. The order reflected a 10.30% return on common equity and a common equity ratio of 51.61% in WPS's regulatory capital structure. The rate changes included deferrals of $7.3 million for retail electric and $2.1 million for retail natural gas of pension and other employee benefit costs that are being recovered in 2014 rates. In addition, WPS was authorized recovery of $5.9 million related to income tax amounts previously expensed due to the Federal Health Care Reform Act. As a result, this amount was recorded as a regulatory asset in 2012, and recovery from customers began in 2013. The order also authorized the recovery of direct Cross State Air Pollution Rule costs incurred through the end of 2012. Lastly, the order authorized WPS to switch from production tax credits to Section 1603 Grants for the Crane Creek wind project.

A decoupling mechanism for natural gas and electric residential and small commercial and industrial customers was approved on a pilot basis as part of the order. The mechanism was based on total rate case-approved margins, rather than being calculated on a per-customer basis. The mechanism did not cover all customer classes, and it included an annual $14.0 million cap for electric service and an annual $8.0 million cap for natural gas service. Amounts recoverable from or refundable to customers were subject to these caps.

## Michigan

*2015 WPS Rate Case*

In October 2014, WPS filed an application with the MPSC to increase retail electric rates $5.7 million, with interim rates expected to be effective in April 2015. WPS's request reflects a 10.60% return on common equity and a target common equity ratio of 50.48% in WPS's regulatory capital structure. The proposed retail electric rate increase is primarily driven by the 2013 acquisition of the Fox Energy Center as well as other capital investments associated with the Crane Creek wind farm and environmental upgrades at generating plants. Expenses are expected to increase for line clearance, customer relations, uncollectible expenses, injuries and damages, and general inflation. The proposal includes annual rate increases to be implemented over a three-year period.

*2014 MGU Rates*

In November 2013, the MPSC issued a final written order for MGU, effective January 1, 2014. The order authorized a retail natural gas rate increase of $4.5 million. The rates reflect a 10.25% return on common equity and a common equity ratio of 48.62% in MGU's regulatory capital structure. Additionally, the order required MGU to terminate its decoupling mechanism after December 31, 2013, and replace it with a new decoupling mechanism based on total margins, beginning January 1, 2015. The new decoupling mechanism does not cover variations in volumes due to actual weather being different from rate case-assumed weather. The rate order also terminated MGU's existing uncollectible expense true-up mechanism after December 31, 2013.

*MGU Depreciation Case*

In January 2013, the Michigan Court of Appeals issued an order reversing the MPSC's 2010 disallowance of $2.5 million associated with the early retirement of certain MGU assets. As a result, a $2.5 million reduction to depreciation expense was recorded in the first quarter of 2013. In June 2013, the MPSC issued an order related to MGU's most recent depreciation case. This order also approved a settlement agreement reflecting recovery of these previously disallowed costs.

*2014 UPPCO Rates*

In December 2013, the MPSC issued a final written order for UPPCO, effective January 1, 2014. The order authorized a retail electric rate increase of $5.8 million. The rates reflected a 10.15% return on common equity and a common equity ratio of 56.74% in UPPCO's regulatory capital structure. The order required UPPCO to terminate its existing decoupling mechanism after December 31, 2013. In addition, the order required UPPCO to achieve certain minimum line clearance performance metrics for recovery of costs related to clearing trees and other natural obstructions away from power lines.

## Illinois

*2015 Rate Cases*

In February 2014, PGL and NSG filed applications with the ICC to increase retail natural gas rates $128.9 million and $7.1 million, respectively, with rates expected to be effective in early 2015. Both PGL's and NSG's requests reflect a 10.25% return on common equity. The requests reflect target common equity ratios of 50.31% for PGL and 50.41% for NSG in their respective regulatory capital structures. The proposed retail natural gas rate increases are primarily driven by increased capital investments, in particular for main replacement, a loss in revenues as a result of lower projected sales volumes, increased costs of debt and common equity, and increased operating expenses. The increase in operating expenses relates to pipeline safety and other compliance work, a general wage increase, higher depreciation costs, and higher invested capital taxes. PGL's application also removes from the proposed 2015 rates the investment and related expenses that PGL plans to recover through its new Qualifying Infrastructure Plant rider, as discussed below. PGL and NSG proposed no changes to the continued use of their decoupling mechanisms and uncollectible expense true-up mechanisms.

In October 2014, PGL and NSG filed their initial briefs and maintained their rate increase requests of $100.5 million and $6.5 million, respectively, as updated in their rebuttal and surrebutal testimony given in August and September 2014. Both PGL's and NSG's requests reflect a 10.25% return on common equity. Common equity ratios were also revised to 50.33% for PGL and 50.48% for NSG. The revised requests were primarily driven by updated capital investment amounts, including main replacement for PGL; certain updated pension and employee benefit costs based on a recent actuarial study; and adjustments for uncontested operating expenses.

The ICC staff and intervenors filed their initial briefs in October 2014. The ICC staff recommended rate increases of $71.1 million and $3.5 million for PGL and NSG, respectively, which reflected a 9.00% return on common equity for both companies. The intervenors recommended a rate increase of $45.5 million for PGL and a rate decrease of $1.0 million for NSG, which reflected a 9.15% return on common equity for both companies. Staff and intervenors both recommended a common equity ratio of 50.33% for PGL and 50.48% for NSG in their respective regulatory capital structures. A final decision on the 2015 rates is expected by the ICC in January of 2015.

*Qualifying Infrastructure Plant Rider*

In July 2013, Illinois Public Act 98-0057 (formerly Senate Bill 2266), The Natural Gas Consumer, Safety & Reliability Act, became law. The Act gives PGL a recovery mechanism for prudently incurred costs to upgrade Illinois natural gas infrastructure that will be collected through a surcharge on customer bills. This Act eliminated a requirement for PGL and NSG to file biennial rate proceedings under existing Illinois coal-to-gas legislation. In September 2013, PGL filed with the ICC requesting the proposed rider, which was approved in January 2014. The rider became effective on January 1, 2014.

*2013 Rates*

In June 2013, the ICC issued a final written order for PGL and NSG, effective June 27, 2013. The order authorized a retail natural gas rate increase of $57.2 million for PGL and $6.6 million for NSG. The rates for PGL reflected a 9.28% return on common equity and a common equity ratio of 50.43% in PGL's regulatory capital structure. The rates for NSG reflected a 9.28% return on common equity and a common equity ratio of 50.32% in NSG's regulatory capital structure. The rate order also allowed PGL and NSG to continue the use of their decoupling mechanisms, as affirmed by the Illinois Appellate Court (Court). In addition, the ICC is required to conduct an investigation to monitor the costs and progress of the accelerated natural gas main replacement program.

In August 2013, the ICC granted certain rehearing requests on tax-related issues filed by PGL, NSG, and other intervenors. PGL and NSG asked for a correction of the revenue requirement for deferred tax assets related to tax net operating losses (NOLs) incurred in 2012 and 2013. In the ICC’s order, these deferred tax assets were included in rate base, but computational errors were made. Other intervenors requested the exclusion from rate base of the deferred tax asset related to the 2012 tax NOL. The tax NOLs in question resulted from PGL and NSG claiming accelerated depreciation deductions in 2012 and 2013. In December 2013, the ICC evaluated and approved a correction of the computational errors and rejected the intervenors' proposed exclusion of the 2012 tax NOL. Customer rates were increased by $2.6 million for PGL and $0.1 million for NSG for the impact of this correction, effective January 1, 2014. In January 2014, the Illinois Attorney General and Citizens Utility Board each filed an appeal with the Court, and briefing is in progress.

*2012 Decoupling*

The ICC issued a final written order, effective January 21, 2012, which approved permanent decoupling mechanisms for PGL and NSG. The Illinois Attorney General and Citizens Utility Board appealed to the Court the ICC's authority to approve PGL's and NSG's decoupling mechanisms and filed a motion to stay the implementation of the permanent decoupling mechanism or make collections subject to refund. In May 2012, the ICC issued a revised amendatory order granting the Illinois Attorney General's motion to make revenues collected under the permanent decoupling mechanism subject to refund and directing PGL and NSG to track amounts that would be due to customers or the companies from the permanent decoupling mechanisms. Refunds would have been required if the Court found that the ICC did not have authority to approve decoupling and ordered a refund. As a result, the recovery of amounts related to decoupling in 2012 was uncertain, and PGL and NSG established offsetting reserves equal to decoupling amounts accrued. In March 2013, the Court issued an opinion that affirmed the ICC's order approving the permanent decoupling mechanism. As a result, the reserves recorded in 2012 were reversed in the first quarter of 2013. PGL's and NSG's permanent decoupling mechanism was in place for 2013. In June 2013, the Illinois Attorney General and Citizens Utility Board petitioned the Illinois Supreme Court to review the Court's decision. The Illinois Supreme Court granted the request in September 2013, and oral arguments were heard in September 2014. The Illinois Supreme Court has no deadline by which it must issue its decision. Decoupling amounts recorded in 2012 were fully recovered and amounts in 2013 are being refunded to customers in 2014. Decoupling amounts in 2014 will continue to be accrued, absent an adverse Illinois Supreme Court decision.

**Minnesota**

*2014 Rates*

In October 2014, the MPUC issued a final written order, which is expected to be effective in the first half of 2015. The order authorized a retail natural gas rate increase of $7.6 million. The rates reflected a 9.35% return on common equity and a common equity ratio of 50.31% in MERC's regulatory capital structure. The order allows for a deferral of customer billing system costs, for which the recovery will be requested in a future rate case. A decoupling mechanism with a 10% cap will remain in effect for MERC's residential and small commercial and industrial customers. The final approved rate increase was lower than the interim rates collected from customers during 2014. Therefore, as of September 30, 2014, $2.3 million is estimated to be refunded to customers during 2015.

*2011 Rates Finalized in 2013*

In July 2012, the MPUC approved a final written order, effective January 1, 2013. The order authorized a retail natural gas rate increase of $11.0 million. The rates reflected a 9.70% return on common equity and a common equity ratio of 50.48% in MERC's regulatory capital structure. In addition, the order set recovery of MERC's 2011 test-year pension expense at 2010 levels. The MPUC also approved a decoupling mechanism for MERC that covers residential and small commercial and industrial customers on a three-year trial basis, effective January 1, 2013. The decoupling

mechanism does not adjust for variations in volumes resulting from changes in customer count compared to rate case levels. It includes an annual 10% cap based on distribution revenues approved in the rate case. Amounts recoverable from or refundable to customers are subject to this cap.

## Note 23—Segments of Business

At September 30, 2014, we reported five segments, which are described below.

- The natural gas utility segment includes the regulated natural gas utility operations of MERC, MGU, NSG, PGL, and WPS.
- The electric utility segment includes the regulated electric utility operations of UPPCO and WPS. In August 2014, we sold UPPCO to Balfour Beatty Infrastructure Partners LP. See Note 4, Dispositions, for more information on the sale of UPPCO.
- The electric transmission investment segment includes our approximate 34% ownership interest in ATC. ATC is a federally regulated electric transmission company.
- The IES segment consists of a diversified nonregulated retail energy supply and services company that primarily sells electricity and natural gas in deregulated markets. See Note 4, Dispositions, for information on the sale of IES's retail energy business. In addition, IES invests in energy assets with renewable attributes, primarily distributed solar assets. These renewable energy asset operations will be included in the holding company and other segment next quarter due to the sale of IES's retail energy business.
- The holding company and other segment includes the operations of the Integrys Energy Group holding company, ITF, and the PELLC holding company, along with any nonutility activities at IBS, MERC, MGU, NSG, PGL, UPPCO, and WPS.

The tables below present information related to our reportable segments:

| (Millions) | Regulated Operations: Natural Gas Utility | Regulated Operations: Electric Utility | Regulated Operations: Electric Transmission Investment | Regulated Operations: Total Regulated Operations | Nonutility and Nonregulated Operations: IES | Nonutility and Nonregulated Operations: Holding Company and Other | Reconciling Eliminations | Integrys Energy Group Consolidated |
|---|---|---|---|---|---|---|---|---|
| **Three Months Ended** | | | | | | | | |
| **September 30, 2014** | | | | | | | | |
| External revenues | **$ 282.7** | **$ 342.4** | **$ —** | **$ 625.1** | **$ 537.0** | **$ 25.8** | **$ —** | **$ 1,187.9** |
| Intersegment revenues | **3.7** | **0.1** | **—** | **3.8** | **0.4** | **0.4** | **(4.6)** | **—** |
| Depreciation and amortization expense | **37.3** | **26.0** | **—** | **63.3** | **3.1** | **7.0** | **(0.1)** | **73.3** |
| Merger transaction costs | **—** | **—** | **—** | **—** | **—** | **2.5** | **—** | **2.5** |
| Transaction costs related to sale of IES's retail energy business | **—** | **—** | **—** | **—** | **0.9** | **—** | **—** | **0.9** |
| Gain on sale of UPPCO, net of transaction costs | **—** | **(86.3)** | **—** | **(86.3)** | **—** | **—** | **—** | **(86.3)** |
| Gain on abandonment of IES's Winnebago Energy Center | **—** | **—** | **—** | **—** | **(4.1)** | **—** | **—** | **(4.1)** |
| Earnings from equity method investments | **—** | **—** | **23.4** | **23.4** | **0.7** | **0.4** | **—** | **24.5** |
| Miscellaneous income | **1.3** | **2.1** | **—** | **3.4** | **0.3** | **5.6** | **(2.9)** | **6.4** |
| Interest expense | **13.4** | **12.0** | **—** | **25.4** | **0.5** | **15.1** | **(2.9)** | **38.1** |
| Provision (benefit) for income taxes | **(20.1)** | **63.0** | **9.2** | **52.1** | **6.9** | **(2.2)** | **—** | **56.8** |
| Net income (loss) from continuing operations | **(29.5)** | **97.1** | **14.2** | **81.8** | **11.1** | **(10.0)** | **—** | **82.9** |
| Discontinued operations | **—** | **—** | **—** | **—** | **1.1** | **—** | **—** | **1.1** |
| Preferred stock dividends of subsidiary | **(0.1)** | **(0.6)** | **—** | **(0.7)** | **—** | **—** | **—** | **(0.7)** |
| Net income (loss) attributed to common shareholders | **(29.6)** | **96.5** | **14.2** | **81.1** | **12.2** | **(10.0)** | **—** | **83.3** |

| (Millions) | Regulated Operations: Natural Gas Utility | Regulated Operations: Electric Utility | Regulated Operations: Electric Transmission Investment | Regulated Operations: Total Regulated Operations | Nonutility and Nonregulated Operations: IES | Nonutility and Nonregulated Operations: Holding Company and Other | Reconciling Eliminations | Integrys Energy Group Consolidated |
|---|---|---|---|---|---|---|---|---|
| **Three Months Ended** | | | | | | | | |
| **September 30, 2013** | | | | | | | | |
| External revenues | $ 253.0 | $ 353.9 | $ — | $ 606.9 | $ 512.7 | $ 10.1 | $ — | $ 1,129.7 |
| Intersegment revenues | 4.2 | 0.1 | — | 4.3 | 0.3 | 0.3 | (4.9) | — |
| Depreciation and amortization expense | 35.6 | 25.7 | — | 61.3 | 2.9 | 5.5 | (0.1) | 69.6 |
| Earnings from equity method investments | — | — | 22.3 | 22.3 | 0.5 | 0.3 | — | 23.1 |
| Miscellaneous income | 0.4 | 2.8 | — | 3.2 | 6.2 | 5.7 | (3.0) | 12.1 |
| Interest expense | 12.7 | 8.8 | — | 21.5 | 0.5 | 14.1 | (3.0) | 33.1 |
| Provision (benefit) for income taxes | (19.5) | 25.1 | 8.6 | 14.2 | 6.6 | (2.8) | — | 18.0 |
| Net income (loss) from continuing operations | (19.5) | 40.9 | 13.7 | 35.1 | 12.3 | (8.0) | — | 39.4 |
| Discontinued operations | — | — | — | — | (0.6) | — | — | (0.6) |
| Preferred stock dividends of subsidiary | (0.1) | (0.6) | — | (0.7) | — | — | — | (0.7) |
| Net income (loss) attributed to common shareholders | (19.6) | 40.3 | 13.7 | 34.4 | 11.7 | (8.0) | — | 38.1 |

| (Millions) | Regulated Operations: Natural Gas Utility | Regulated Operations: Electric Utility | Regulated Operations: Electric Transmission Investment | Regulated Operations: Total Regulated Operations | Nonutility and Nonregulated Operations: IES | Nonutility and Nonregulated Operations: Holding Company and Other | Reconciling Eliminations | Integrys Energy Group Consolidated |
|---|---|---|---|---|---|---|---|---|
| **Nine Months Ended** | | | | | | | | |
| **September 30, 2014** | | | | | | | | |
| External revenues | **$ 2,043.7** | **$ 1,004.2** | **$ —** | **$ 3,047.9** | **$ 2,426.6** | **$ 70.9** | **$ —** | **$ 5,545.4** |
| Intersegment revenues | **11.0** | **0.1** | **—** | **11.1** | **3.4** | **1.1** | **(15.6)** | **—** |
| Depreciation and amortization expense | **110.6** | **77.9** | **—** | **188.5** | **9.0** | **20.4** | **(0.4)** | **217.5** |
| Merger transaction costs | **—** | **—** | **—** | **—** | **—** | **8.4** | **—** | **8.4** |
| Goodwill impairment loss | **—** | **—** | **—** | **—** | **6.7** | **—** | **—** | **6.7** |
| Transaction costs related to sale of IES's retail energy business | **—** | **—** | **—** | **—** | **1.7** | **—** | **—** | **1.7** |
| Gain on sale of UPPCO, net of transaction costs | **—** | **(85.4)** | **—** | **(85.4)** | **—** | **—** | **—** | **(85.4)** |
| Gain on abandonment of IES's Winnebago Energy Center | **—** | **—** | **—** | **—** | **(4.1)** | **—** | **—** | **(4.1)** |
| Earnings from equity method investments | **—** | **—** | **68.9** | **68.9** | **1.6** | **0.8** | **—** | **71.3** |
| Miscellaneous income | **1.2** | **8.4** | **—** | **9.6** | **1.0** | **16.4** | **(9.6)** | **17.4** |
| Interest expense | **40.0** | **35.8** | **—** | **75.8** | **1.5** | **48.2** | **(9.6)** | **115.9** |
| Provision (benefit) for income taxes | **39.3** | **91.7** | **27.2** | **158.2** | **14.9** | **(18.3)** | **—** | **154.8** |
| Net income (loss) from continuing operations | **59.2** | **146.2** | **41.7** | **247.1** | **20.0** | **(22.9)** | **—** | **244.2** |
| Discontinued operations | **—** | **—** | **—** | **—** | **0.9** | **—** | **—** | **0.9** |
| Preferred stock dividends of subsidiary | **(0.3)** | **(2.0)** | **—** | **(2.3)** | **—** | **—** | **—** | **(2.3)** |
| Noncontrolling interest in subsidiaries | **—** | **—** | **—** | **—** | **—** | **0.1** | **—** | **0.1** |
| Net income (loss) attributed to common shareholders | **58.9** | **144.2** | **41.7** | **244.8** | **20.9** | **(22.8)** | **—** | **242.9** |

| (Millions) | Regulated Operations: Natural Gas Utility | Regulated Operations: Electric Utility | Regulated Operations: Electric Transmission Investment | Regulated Operations: Total Regulated Operations | Nonutility and Nonregulated Operations: IES | Nonutility and Nonregulated Operations: Holding Company and Other | Reconciling Eliminations | Integrys Energy Group Consolidated |
|---|---|---|---|---|---|---|---|---|
| **Nine Months Ended** | | | | | | | | |
| **September 30, 2013** | | | | | | | | |
| External revenues | $ 1,412.4 | $ 1,012.7 | $ — | $ 2,425.1 | $ 1,470.7 | $ 28.1 | $ — | $ 3,923.9 |
| Intersegment revenues | 8.6 | 0.1 | — | 8.7 | 0.9 | 1.0 | (10.6) | — |
| Depreciation and amortization expense | 100.1 | 73.0 | — | 173.1 | 8.4 | 14.9 | (0.4) | 196.0 |
| Earnings from equity method investments | — | — | 66.0 | 66.0 | 1.2 | 1.0 | — | 68.2 |
| Miscellaneous income | 0.8 | 6.6 | — | 7.4 | 8.0 | 18.0 | (10.1) | 23.3 |
| Interest expense | 37.3 | 26.4 | — | 63.7 | 1.5 | 35.9 | (10.1) | 91.0 |
| Provision (benefit) for income taxes | 43.1 | 56.9 | 25.3 | 125.3 | 11.7 | (12.7) | — | 124.3 |
| Net income (loss) from continuing operations | 72.0 | 94.5 | 40.7 | 207.2 | 22.5 | (12.0) | — | 217.7 |
| Discontinued operations | — | — | — | — | (1.2) | 5.9 | — | 4.7 |
| Preferred stock dividends of subsidiary | (0.4) | (1.9) | — | (2.3) | — | — | — | (2.3) |
| Noncontrolling interest in subsidiaries | — | — | — | — | — | 0.1 | — | 0.1 |
| Net income (loss) attributed to common shareholders | 71.6 | 92.6 | 40.7 | 204.9 | 21.3 | (6.0) | — | 220.2 |

## Note 24—New Accounting Pronouncements

*Recently Issued Accounting Guidance Not Yet Effective*

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers." This ASU supersedes the revenue recognition requirements in Topic 605 of the FASB's Accounting Standards Codification and most industry-specific guidance throughout the Codification. The guidance is based on the principle that revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows from customer contracts. The guidance is effective for us for the

reporting period ending March 31, 2017. The standard requires either retrospective application by restating each prior period presented in the financial statements, or modified retrospective application by recording the cumulative effect of prior reporting periods to beginning retained earnings in the year that the standard becomes effective. Management is currently evaluating the impact that the adoption of this standard will have on our financial statements.

In April 2014, the FASB issued ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." The guidance raises the threshold for a disposal to qualify as a discontinued operation and requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The guidance is effective for us for the reporting period ending March 31, 2015. The guidance applies prospectively to new disposals and new classifications of disposal groups as held for sale after the effective date. Management early adopted this guidance in the third quarter of 2014. See Note 4, Dispositions, for more information.

In January 2014, the FASB issued ASU 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects." The guidance allows investors to use the proportional amortization method to account for investments in qualified affordable housing projects if certain conditions are met. Under that method, which replaces the effective yield method, an investor amortizes the cost of its investment, in proportion to the tax credits and other tax benefits it receives, to income tax expense. The guidance also requires new disclosures for all investments in these types of projects. The guidance is effective for us for the reporting period ending March 31, 2015. Although we have investments in affordable housing projects, adoption of this guidance is not expected to have a significant impact on our financial statements.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the accompanying financial statements and related notes and our Annual Report on Form 10-K for the year ended December 31, 2013.

### SUMMARY

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

In June 2014, we entered into a definitive merger agreement with Wisconsin Energy Corporation. See Note 2, Proposed Merger with Wisconsin Energy Corporation, for more information.

In November 2014, we sold the retail energy business portion of IES. See Note 4, Dispositions, and Note 23, Segments of Business, for more information.

### RESULTS OF OPERATIONS

**Earnings Summary**

| *(Millions, except per share amounts)* | Three Months Ended September 30 2014 | Three Months Ended September 30 2013 | Change in 2014 Over 2013 | Nine Months Ended September 30 2014 | Nine Months Ended September 30 2013 | Change in 2014 Over 2013 |
|---|---|---|---|---|---|---|
| Natural gas utility operations | **$ (29.6)** | $ (19.6) | 51.0% | **$ 58.9** | $ 71.6 | (17.7)% |
| Electric utility operations | **96.5** | 40.3 | 139.5% | **144.2** | 92.6 | 55.7 % |
| Electric transmission investment | **14.2** | 13.7 | 3.6% | **41.7** | 40.7 | 2.5 % |
| IES's operations | **12.2** | 11.7 | 4.3% | **20.9** | 21.3 | (1.9)% |
| Holding company and other operations | **(10.0)** | (8.0) | 25.0% | **(22.8)** | (6.0) | 280.0 % |
| Net income attributed to common shareholders | **$ 83.3** | $ 38.1 | 118.6% | **$ 242.9** | $ 220.2 | 10.3 % |
| Basic earnings per share | **$ 1.04** | $ 0.48 | 116.7% | **$ 3.03** | $ 2.78 | 9.0 % |
| Diluted earnings per share | **$ 1.02** | $ 0.47 | 117.0% | **$ 3.01** | $ 2.76 | 9.1 % |
| Average shares of common stock | | | | | | |
| Basic | **80.2** | 79.8 | 0.5% | **80.2** | 79.3 | 1.1 % |
| Diluted | **81.1** | 80.2 | 1.1% | **80.6** | 79.9 | 0.9 % |

### *Third Quarter 2014 Compared with Third Quarter 2013*

The $45.2 million increase in our earnings was driven by:

- A $51.7 million after-tax gain on the sale of UPPCO, net of transaction costs. See Note 4, Dispositions, for more information.
- A $9.9 million after-tax increase in IES's realized retail electric margins primarily due to the quarter-over-quarter positive impact of a change in pricing structure for certain electric aggregation customers.
- The $6.9 million after-tax positive impact of rate orders at the utilities.

These increases were partially offset by:

- A $9.0 million after-tax non-cash decrease in margins at IES related to derivative and inventory fair value adjustments.
- A $7.6 million net after-tax increase in operating expenses at the utilities, excluding items directly offset in margins, driven by an increase in natural gas distribution costs. The increase in natural gas distribution costs was partially offset by lower employee benefit costs.
- A $3.4 million after-tax decrease in other income at IES due to the quarter-over-quarter impact of a settlement received in 2013 related to the Seams Elimination Charge Adjustment.

***Nine Months 2014 Compared with Nine Months 2013***

The $22.7 million increase in our earnings was driven by:

- A $51.2 million after-tax gain on the sale of UPPCO, net of transaction costs. See Note 4, Dispositions, for more information.
- The $40.6 million after-tax positive impact of rate orders at the utilities.
- A $20.3 million after-tax increase in natural gas utility margins due to variances related to sales volumes, net of decoupling. The increase was driven by colder than normal weather in 2014. Certain of our natural gas utilities did not have decoupling in 2014 to offset the impact of weather.
- A $5.0 million after-tax non-cash increase in margins at IES related to derivative and inventory fair value adjustments.

These increases in earnings were partially offset by:

- A $55.1 million after-tax increase in operating expenses at the utilities, excluding items directly offset in margins, driven by increases in natural gas distribution costs and electric utility maintenance. Higher depreciation and amortization expense, increased electric transmission expense, and increased costs associated with the acquisition and operation of the Fox Energy Center also contributed to the increase. The Fox Energy Center was acquired by WPS at the end of the first quarter of 2013. Partially offsetting these increases was lower employee benefit costs.
- A $16.5 million after-tax increase in interest expense on long-term debt, driven by higher average outstanding long-term debt during 2014.
- A $9.9 million after-tax decrease in natural gas utility margins due to the period-over-period impact of the 2013 reversal of reserves recorded in 2012 against decoupling accruals at PGL and NSG. See Note 22, Regulatory Environment, for more information.
- A $6.7 million after-tax non-cash goodwill impairment loss recorded at IES in the second quarter of 2014.
- A $6.5 million after-tax increase in operating expenses at the Integrys Energy Group holding company due to transaction costs incurred in 2014 related to the proposed merger with Wisconsin Energy Corporation.

## Regulated Natural Gas Utility Segment Operations

| *(Millions, except degree days)* | Three Months Ended September 30 2014 | Three Months Ended September 30 2013 | Change in 2014 Over 2013 | Nine Months Ended September 30 2014 | Nine Months Ended September 30 2013 | Change in 2014 Over 2013 |
|---|---|---|---|---|---|---|
| Revenues | **$ 286.4** | $ 257.2 | 11.4 % | **$ 2,054.7** | $ 1,421.0 | 44.6 % |
| Purchased natural gas costs | **115.0** | 93.8 | 22.6 % | **1,218.6** | 685.4 | 77.8 % |
| Margins | **171.4** | 163.4 | 4.9 % | **836.1** | 735.6 | 13.7 % |
| | | | | | | |
| Operating and maintenance expense | **160.6** | 144.9 | 10.8 % | **557.4** | 454.9 | 22.5 % |
| Depreciation and amortization expense | **37.3** | 35.6 | 4.8 % | **110.6** | 100.1 | 10.5 % |
| Taxes other than income taxes | **11.0** | 9.6 | 14.6 % | **30.8** | 29.0 | 6.2 % |
| Operating income (loss) | **(37.5)** | (26.7) | 40.4 % | **137.3** | 151.6 | (9.4)% |
| | | | | | | |
| Miscellaneous income | **1.3** | 0.4 | 225.0 % | **1.2** | 0.8 | 50.0 % |
| Interest expense | **13.4** | 12.7 | 5.5 % | **40.0** | 37.3 | 7.2 % |
| Other expense | **(12.1)** | (12.3) | (1.6)% | **(38.8)** | (36.5) | 6.3 % |
| | | | | | | |
| Income before taxes | **$ (49.6)** | $ (39.0) | 27.2 % | **$ 98.5** | $ 115.1 | (14.4)% |
| | | | | | | |
| **Retail throughput in therms** | | | | | | |
| Residential | **89.3** | 89.2 | 0.1 % | **1,238.9** | 1,108.1 | 11.8 % |
| Commercial and industrial | **39.7** | 43.2 | (8.1)% | **418.0** | 358.9 | 16.5 % |
| Other | **9.3** | 14.6 | (36.3)% | **42.9** | 45.4 | (5.5)% |
| Total retail throughput in therms | **138.3** | 147.0 | (5.9)% | **1,699.8** | 1,512.4 | 12.4 % |
| | | | | | | |
| **Transport throughput in therms** | | | | | | |
| Residential | **18.2** | 16.4 | 11.0 % | **191.0** | 166.8 | 14.5 % |
| Commercial and industrial | **309.4** | 291.0 | 6.3 % | **1,279.9** | 1,182.7 | 8.2 % |
| Total transport throughput in therms | **327.6** | 307.4 | 6.6 % | **1,470.9** | 1,349.5 | 9.0 % |
| | | | | | | |
| **Total throughput in therms** | **465.9** | 454.4 | 2.5 % | **3,170.7** | 2,861.9 | 10.8 % |
| | | | | | | |
| **Weather** | | | | | | |
| Average actual heating degree days | **185** | 140 | 32.1 % | **5,216** | 4,589 | 13.7 % |
| Average normal heating degree days | **148** | 142 | 4.2 % | **4,347** | 4,251 | 2.3 % |

Natural gas utility margins are defined as natural gas utility operating revenues less purchased natural gas costs. Management believes that natural gas utility margins provide a more meaningful basis for evaluating natural gas utility operations than natural gas utility revenues, since prudently incurred natural gas commodity costs are passed through to our customers in current rates. There was an approximate 30% and 56% increase in the average per-unit cost of natural gas sold during the three and nine months ended September 30, 2014, respectively, which had no impact on margins.

### *Third Quarter 2014 Compared with Third Quarter 2013*

*Margins*

Regulated natural gas utility segment margins increased $8.0 million, driven by:

- An approximate $6 million net increase in margins due to sales volume variances.
  - Higher sales volumes excluding the impact of weather resulted in an approximate $5 million increase in margins.
  - Colder weather quarter over quarter drove an approximate $1 million increase in margins.
  - Decoupling did not have a significant impact on margins quarter over quarter. See Note 22, Regulatory Environment, for more information on our decoupling mechanisms.
- An approximate $1 million net increase in margins due to rate orders, driven by rate increases at MERC and MGU, both effective January 1, 2014. See Note 22, Regulatory Environment, for more information.
- These increases were partially offset by an approximate $1 million net decrease in margins related to lower billings under certain energy efficiency programs at four of our natural gas utilities, partially offset by higher recoveries of environmental cleanup costs for NSG's and PGL's

manufactured gas plant sites. This net decrease was offset by an equal net decrease in operating expenses, resulting in no impact on earnings. See Note 13, Commitments and Contingencies, for more information about the manufactured gas plant sites.

*Operating Loss*

Operating loss at the regulated natural gas utility segment increased $10.8 million. This increase was driven by an $18.8 million increase in operating expenses, partially offset by the $8.0 million increase in margins discussed above.

The increase in operating expenses was primarily due to:

- A $16.9 million increase in natural gas distribution costs, primarily at PGL. The increase in costs at PGL was driven by higher repairs and maintenance expense due to higher costs to meet new compliance requirements, including the impact on the cost to repair leaks.
- A $1.7 million net increase in depreciation and amortization expense. This increase was driven by continued investment in property and equipment, primarily the accelerated natural gas main replacement program (AMRP) at PGL.
- A $1.7 million increase driven by higher amortization of regulatory assets at certain of our natural gas utilities related to environmental cleanup costs for manufactured gas plant sites. For the majority of the increase in expenses, margins increased by an equal amount, resulting in no impact on earnings.
- A $1.4 million increase in taxes other than income taxes, driven by the Illinois invested capital tax. Because this tax is based on an entity's equity and long-term debt balances, higher equity balances at PGL and NSG resulted in an increase in taxes.
- A $1.3 million increase in consulting costs at PGL.
- A $1.2 million increase in workers compensation and injuries and damages expense. This increase was driven by both more severe injuries and increased incidents in the third quarter of 2014, primarily at PGL.
- A $1.1 million increase driven by higher information technology costs, primarily at PGL. In 2014, several information technology projects and upgrades were performed, and additional information technology services were provided.

The increase in operating expenses was partially offset by:

- A $6.0 million decrease in employee benefit costs, driven by higher discount rates assumed in 2014. The remeasurement of certain postretirement benefit plans in the first quarter of 2014 also contributed to the decrease. See Note 15, Employee Benefit Plans, for more information on this remeasurement.
- A $2.3 million decrease in energy efficiency program expenses at our natural gas utilities. For the majority of the decrease in expenses, margins decreased by an equal amount, resulting in no impact on earnings.

***Nine Months 2014 Compared with Nine Months 2013***

*Margins*

Regulated natural gas utility segment margins increased $100.5 million, driven by:

- An approximate $47 million increase in margins related to certain riders at NSG and PGL and certain energy efficiency programs at four of our natural gas utilities. This increase was offset by an equal increase in operating expenses, resulting in no impact on earnings.
    - Our natural gas utilities billed approximately $18 million more to customers for energy efficiency programs at MERC, MGU, NSG, and PGL in 2014.
    - NSG and PGL recovered from their customers approximately $16 million more for environmental cleanup costs at their former manufactured gas plant sites due to higher recovery rates driven by an increase in remediation costs, net of insurance settlements received, and the impact of higher sales volumes. See Note 13, Commitments and Contingencies, for more information about the manufactured gas plant sites.
    - PGL and NSG recovered approximately $13 million more from their customers through their bad debt rider mechanisms, driven by higher natural gas costs in 2014, an increase in sales volumes, and rate increases.
- An approximate $33 million net increase in margins due to rate orders. See Note 22, Regulatory Environment, for more information.

- ◦ The rate increases at NSG and PGL, effective June 27, 2013, and updated effective January 1, 2014, had an approximate $30 million positive impact on margins.
- ◦ The rate increase at MGU, effective January 1, 2014, resulted in an approximate $3 million positive impact on margins.
- ◦ The interim rate increase at MERC, effective January 1, 2014, had an approximate $3 million positive impact on margins.
- ◦ These increases were partially offset by the approximate $3 million negative impact of WPS's rate order, effective January 1, 2014. Although the PSCW approved a net rate increase, it was driven by the recovery of the 2012 decoupling under-collections to be recovered from customers in 2014, which has no impact on margins. The remaining decrease was partially offset by the positive impact of rate design changes. See Note 22, Regulatory Environment, for more information.

- An approximate $17 million net increase in margins due to sales volume variances and our decoupling mechanisms.
  - ◦ The combined effect of the change in weather period over period, the impact of higher weather-normalized volumes, and the impact of our decoupling mechanisms increased margins approximately $34 million. In 2014, margins at the natural gas utilities were positively impacted by colder than normal weather, net of decoupling impacts at MERC, NSG, and PGL. Effective January 1, 2014, MGU and WPS no longer have decoupling mechanisms in place. During the first quarter of 2014, MERC reached its maximum accrued refund to customers under the annual 10% cap provision of its decoupling mechanism. In 2013, decoupling mechanisms were in place for all the natural gas utilities. Margins for certain customer classes in both years were sensitive to volume variances as they were not covered by the decoupling mechanisms. See Note 22, Regulatory Environment, for more information on our decoupling mechanisms.
  - ◦ Margins were negatively impacted period-over-period by approximately $17 million due to a reversal in 2013 of reserves established in 2012 against PGL and NSG regulatory assets related to decoupling. The reversal was recorded after the Illinois Appellate Court issued an opinion in March 2013 that affirmed the ICC's order approving the decoupling mechanisms. See Note 22, Regulatory Environment, for more information.

*Operating Income*

Operating income at the regulated natural gas utility segment decreased $14.3 million. This decrease was driven by a $114.8 million increase in operating expenses, partially offset by the $100.5 million increase in margins discussed above.

The increase in operating expenses was primarily due to:

- A $35.9 million increase in natural gas distribution costs, primarily at PGL. The increase in costs at PGL was driven by higher repairs and maintenance expense due to higher costs to meet new compliance requirements, including the impact on the cost to repair leaks.
- A $17.2 million increase in energy efficiency program expenses at our natural gas utilities. For the majority of the increase in expenses, margins increased by an equal amount, resulting in no impact on earnings.
- A $16.7 million increase driven by higher amortization of regulatory assets at certain of our natural gas utilities related to environmental cleanup costs for manufactured gas plant sites. For the majority of the increase in expenses, margins increased by an equal amount, resulting in no impact on earnings.
- A $16.0 million increase in bad debt expense, driven by higher natural gas costs in 2014, an increase in sales volumes, and rate increases. The majority of the increase in bad debt expense related to PGL and NSG and had no impact on earnings since it was offset by higher rates through a rider mechanism, resulting in higher margins.
- A $10.5 million net increase in depreciation and amortization expense. This increase was driven by a $3.4 million reduction in expense in 2013 at MERC related to a new depreciation study approved by the MPUC on July 29, 2013, retroactive to January 1, 2012. The increase was also driven by a $2.5 million reduction in expense at MGU in 2013. In January 2013, the Michigan Court of Appeals issued an order reversing the MPSC's previously ordered disallowance associated with the early retirement of certain MGU assets in 2010. See Note 22, Regulatory Environment, for more information. Continued investment in property and equipment, primarily the AMRP at PGL, also contributed to the increase in expense.
- A $4.1 million increase in consulting costs, primarily related to the AMRP at PGL.
- A $3.9 million increase in asset usage charges from IBS, driven by new software for both natural gas management and work asset management that was placed in service during the third quarter of 2013.
- A $3.7 million increase in unrecoverable energy efficiency program expense at MERC. In the second quarter of 2014, MERC wrote off a regulatory asset recorded for conservation improvement program costs.

- A $3.6 million increase driven by higher information technology costs, primarily at PGL. In 2014, several information technology projects and upgrades were performed, and additional information technology services were provided.

- A $3.1 million increase in workers compensation and injuries and damages expense. This increase was driven by both more severe injuries and increased incidents in 2014, primarily at PGL.

- A $1.8 million increase in taxes other than income taxes, primarily driven by the Illinois invested capital tax. Because this tax is based on an entity's equity and long-term debt balances, higher equity balances at PGL and NSG resulted in an increase in taxes.

The increase in operating expenses was partially offset by a $4.6 million decrease in employee benefit costs, primarily due to:

- An $11.0 million decrease in pension costs, driven by higher discount rates assumed in 2014.

- This decrease in pension costs was partially offset by:

    - A $3.4 million increase in stock-based compensation expense, driven by the period-over-period increase in the fair value of awards accounted for as liabilities. The increase in fair value resulted from an increase in our stock price.

    - The $3.2 million negative period-over-period impact of the deferral of employee benefit costs in 2013 and the related amortization in 2014. In 2013, WPS deferred certain increases in pension and other employee benefit costs as a result of its 2013 rate order with the PSCW. WPS began amortizing this regulatory asset in 2014.

*Other Expense*

Other expense at the regulated natural gas utilities increased $2.3 million. Interest expense on long-term debt increased, driven by higher average long-term debt outstanding in 2014.

## Regulated Electric Utility Segment Operations

| *(Millions, except degree days)* | Three Months Ended September 30 2014 | Three Months Ended September 30 2013 | Change in 2014 Over 2013 | Nine Months Ended September 30 2014 | Nine Months Ended September 30 2013 | Change in 2014 Over 2013 |
|---|---|---|---|---|---|---|
| Revenues | **$ 342.5** | $ 354.0 | (3.2)% | **$ 1,004.3** | $ 1,012.8 | (0.8)% |
| Fuel and purchased power costs | **117.4** | 133.6 | (12.1)% | **366.9** | 408.1 | (10.1)% |
| Margins | **225.1** | 220.4 | 2.1 % | **637.4** | 604.7 | 5.4 % |
| | | | | | | |
| Operating and maintenance expense | **104.5** | 110.6 | (5.5)% | **343.1** | 323.5 | 6.1 % |
| Depreciation and amortization expense | **26.0** | 25.7 | 1.2 % | **77.9** | 73.0 | 6.7 % |
| Taxes other than income taxes | **10.9** | 12.1 | (9.9)% | **36.5** | 37.0 | (1.4)% |
| Gain on sale of UPPCO, net of transaction costs | **(86.3)** | — | N/A | **(85.4)** | — | N/A |
| Operating income | **170.0** | 72.0 | 136.1 % | **265.3** | 171.2 | 55.0 % |
| | | | | | | |
| Miscellaneous income | **2.1** | 2.8 | (25.0)% | **8.4** | 6.6 | 27.3 % |
| Interest expense | **12.0** | 8.8 | 36.4 % | **35.8** | 26.4 | 35.6 % |
| Other expense | **(9.9)** | (6.0) | 65.0 % | **(27.4)** | (19.8) | 38.4 % |
| | | | | | | |
| Income before taxes | **$ 160.1** | $ 66.0 | 142.6 % | **$ 237.9** | $ 151.4 | 57.1 % |
| | | | | | | |
| **Sales in kilowatt-hours** | | | | | | |
| Residential | **750.9** | 837.8 | (10.4)% | **2,336.4** | 2,354.2 | (0.8)% |
| Commercial and industrial | **2,145.2** | 2,242.8 | (4.4)% | **6,312.8** | 6,418.5 | (1.6)% |
| Wholesale | **839.5** | 1,092.4 | (23.2)% | **2,246.0** | 3,277.1 | (31.5)% |
| Other | **7.7** | 8.0 | (3.8)% | **25.9** | 26.4 | (1.9)% |
| Total sales in kilowatt-hours | **3,743.3** | 4,181.0 | (10.5)% | **10,921.1** | 12,076.2 | (9.6)% |
| | | | | | | |
| **Weather** | | | | | | |
| WPS: | | | | | | |
| Actual heating degree days | **243** | 216 | 12.5 % | **5,778** | 5,126 | 12.7 % |
| Normal heating degree days | **210** | 216 | (2.8)% | **4,831** | 4,837 | (0.1)% |
| Actual cooling degree days | **224** | 396 | (43.4)% | **333** | 527 | (36.8)% |
| Normal cooling degree days | **364** | 361 | 0.8 % | **505** | 498 | 1.4 % |
| | | | | | | |
| UPPCO: | | | | | | |
| Actual heating degree days | **241** | 473 | (49.0)% | **6,639** | 6,189 | 7.3 % |
| Normal heating degree days | **398** | 404 | (1.5)% | **5,765** | 5,770 | (0.1)% |
| Actual cooling degree days | **68** | 194 | (64.9)% | **122** | 230 | (47.0)% |
| Normal cooling degree days | **181** | 176 | 2.8 % | **238** | 231 | 3.0 % |

Electric utility margins are defined as electric utility operating revenues less fuel and purchased power costs. Management believes that electric utility margins provide a more meaningful basis for evaluating electric utility operations than electric utility operating revenues. To the extent changes in fuel and purchased power costs are passed through to customers, the changes are offset by comparable changes in operating revenues.

### *Third Quarter 2014 Compared with Third Quarter 2013*

*Margins*

Regulated electric utility segment margins increased $4.7 million.

- Margins increased approximately $11 million related to WPS and UPPCO rate orders, effective January 1, 2014. See Note 22, Regulatory Environment, for more information.
  - Excluding the impacts from fuel and purchased power costs, the WPS PSCW rate order resulted in an approximate $20 million increase in margins. The increase was driven by the costs to operate the Fox Energy Center, which were included in rates beginning in 2014. Although the PSCW approved an electric rate decrease, the rate decrease was driven by 2013 fuel cost over-collections and 2012 decoupling over-collections that are being refunded to customers in 2014 and have no impact on margins.
  - UPPCO's retail electric rate increase resulted in an approximate $2 million increase in margins.

- ◦ Margins at WPS were negatively impacted approximately $9 million related to fuel and purchased power-related costs that are not included in the fuel rule recovery mechanism. During 2013, customer rates included recovery of estimated purchased power costs from the Fox Energy Center that exceeded actual purchased power costs because the acquisition of this plant in March 2014 was not anticipated in the 2013 rate case. This resulted in a negative quarter-over-quarter impact on margins in 2014, which was partially offset by decreased costs in 2014 associated with fly ash disposal.

- ◦ Margins were further decreased by approximately $2 million related to fuel and purchased power cost under-collections at WPS in 2014, compared with over-collections in 2013. Under the fuel rule, WPS can only defer under or over-collections of certain fuel and purchased power costs that exceed a 2% price variance from the costs included in rates.

- Margins decreased approximately $7 million related to sales volume variances. The decrease was primarily driven by lower sales volumes related to cooler than normal weather in the third quarter of 2014 and the sale of UPPCO in August 2014. These decreases were partially offset by the impact of the termination of our decoupling mechanisms, effective January 1, 2014. See Note 4, Dispositions, for more information on the sale of UPPCO. See Note 22, Regulatory Environment, for more information on our decoupling mechanisms.

*Operating Income*

Operating income at the regulated electric utility segment increased $98.0 million. The increase was primarily driven by an $86.3 million net gain on the sale of UPPCO. See Note 4, Dispositions, for more information. The remaining increase in operating income was driven by a $7.0 million decrease in operating expenses and the $4.7 million increase in margins discussed above.

The decrease in operating expenses was driven by:

- A $6.1 million net decrease in employee benefit costs, including the impact of the prior year deferral of some of these costs.

  - ◦ Employee benefit costs decreased $9.7 million in the third quarter of 2014. This decrease was partially driven by the remeasurement of certain other postretirement benefit plan obligations. See Note 15, Employee Benefit Plans, for more information. Continued funding of our pension plan and higher discount rates assumed in 2014 for both our pension and postretirement plans also contributed to the overall decrease in employee benefit costs.

  - ◦ This decrease was partially offset by the quarter-over-quarter impact of a deferral of certain increases in WPS employee benefit costs in 2013, recorded in accordance with its PSCW rate order, and the related amortization in 2014. Together, these changes increased employee benefit costs by $3.6 million at WPS.

- A $1.8 million decrease due to the quarter-over-quarter impact of WPS's 2013 deferral of the net difference between actual and rate case-approved costs resulting from the purchase of the Fox Energy Center. The WPS 2013 PSCW rate order did not reflect this purchase or the related termination of a power purchase agreement. However, WPS did receive PSCW approval to defer ownership costs above or below its power purchase agreement expenses in 2013.

*Other Expense*

Other expense increased $3.9 million. The primary driver was an increase in interest expense on long-term debt, driven by higher average outstanding long-term debt at WPS in the third quarter of 2014.

***Nine Months 2014 Compared with Nine Months 2013***

*Margins*

Regulated electric utility segment margins increased $32.7 million, driven by:

- An approximate $37 million increase in margins related to WPS and UPPCO rate orders, effective January 1, 2014. See Note 22, Regulatory Environment, for more information.

  - ◦ Excluding the impacts from fuel and purchased power costs, the WPS PSCW rate order resulted in an approximate $56 million increase in margins. The increase was driven by the costs to operate the Fox Energy Center, which were included in rates beginning in 2014. Although the PSCW approved an electric rate decrease, the rate decrease was driven by 2013 fuel cost over-collections and 2012 decoupling over-collections that are being refunded to customers in 2014 and have no impact on margins.

  - ◦ UPPCO's retail electric rate increase resulted in an approximate $6 million increase in margins.

  - ◦ Margins at WPS were negatively impacted approximately $16 million related to fuel and purchased power-related cost that are not included in the fuel rule recovery mechanism. During 2013, customer rates included recovery of estimated purchased power costs from

the Fox Energy Center that exceeded actual purchased power costs because the acquisition of this plant in March 2014 was not anticipated in the 2013 rate case. This resulted in a negative period-over-period impact on margins in 2014, which was partially offset by decreased costs in 2014 associated with fly ash disposal.

  - Margins were further decreased approximately $9 million related to fuel and purchased power cost under-collections at WPS in 2014, compared with over-collections in 2013. Under the fuel rule, WPS can only defer under or over-collections of certain fuel and purchased power costs that exceed a 2% price variance from the costs included in rates.

- An approximate $5 million increase in WPS's wholesale margins driven by higher prices. Wholesale prices increased primarily due to the pass-through of increased generation costs to these customers, partially a result of the purchase of the Fox Energy Center in 2013.

- A partially offsetting decrease in margins of approximately $10 million related to sales volume variances. The decrease was primarily driven by our sale of UPPCO at the end of August 2014. See Note 4, Dispositions, for more information. Margins from our large commercial and industrial customers also decreased, driven by lower use per customer in 2014. These decreases were partially offset by the impact of the termination of our decoupling mechanisms, effective January 1, 2014. See Note 22, Regulatory Environment, for more information. Our decoupling mechanism did not cover large commercial and industrial customers.

*Operating Income*

Operating income at the regulated electric utility segment increased $94.1 million. The increase was primarily driven by an $85.4 million net gain on the sale of UPPCO. See Note 4, Dispositions, for more information. The remaining increase in operating income was due to the $32.7 million increase in margins discussed above, partially offset by a $24.0 million increase in operating expenses.

The increase in operating expenses was driven by:

- A $22.9 million increase in maintenance expense, primarily due to planned major outages in 2014 at the Pulliam plant, Fox Energy Center, and Weston 4, as well as maintenance at certain other WPS generation plants. These increases were partially offset by the period-over-period impact of maintenance expenses associated with the Weston 3 planned major outage in 2013.

- A $4.9 million increase in depreciation and amortization expense, mainly due to the acquisition of the Fox Energy Center at the end of the first quarter of 2013. In addition, we completed the installation of scrubbers at the Columbia plant in April 2014.

- A $4.9 million increase in various costs associated with the acquisition and operation of the Fox Energy Center. Included in this amount is the amortization of a regulatory asset related to the fee paid for the early termination of the Fox Energy Center power purchase agreement. Recovery of the amortization was included in the new rates.

- A $4.7 million increase in electric transmission expense.

- A $2.1 million increase in amortization of the deferral of previously recorded production tax credits related to the WPS Crane Creek wind project.

These increases were partially offset by:

- A $9.4 million net decrease in employee benefit costs, including the impact of the prior year deferral of some of these costs. Employee benefit costs other than stock-based compensation (discussed below) decreased $22.0 million in 2014. This decrease was partially driven by the remeasurement of certain other postretirement benefit plans. See Note 15, Employee Benefit Plans, for more information. Continued funding of our pension plan and higher discount rates assumed in 2014 for both our pension and postretirement plans also contributed to the overall decrease in employee benefit costs. This decrease was partially offset by:

  - Higher stock-based compensation expense of $1.7 million, which was driven by an increase in the fair value of awards accounted for as liabilities. The increase in fair value resulted from an increase in our stock price.

  - The period-over-period impact of a deferral of certain increases in WPS employee benefit costs in 2013, recorded in accordance with its PSCW rate order, and the related amortization in 2014. Together, these changes increased employee benefit costs by $10.9 million at WPS.

- A $5.1 million decrease due to the period-over-period impact of WPS's 2013 deferral of the net difference between actual and rate case-approved costs resulting from the purchase of the Fox Energy Center. The WPS 2013 PSCW rate order did not reflect this purchase or the related termination of a power purchase agreement. However, WPS did receive PSCW approval to defer ownership costs above or below its power purchase agreement expenses in 2013.

*Other Expense*

Other expense increased $7.6 million. The primary driver was an $11.6 million increase in interest expense on long-term debt, driven by higher average outstanding long-term debt at WPS in 2014. An increase in AFUDC of $2.8 million at WPS, largely due to the construction of the ReACT™ emission control technology at the Weston 3 plant, partially offset the increase in interest expense.

## Electric Transmission Investment Segment Operations

| (Millions) | Three Months Ended September 30 | | Change in 2014 Over 2013 | Nine Months Ended September 30 | | Change in 2014 Over 2013 |
|---|---|---|---|---|---|---|
| | 2014 | 2013 | | 2014 | 2013 | |
| Earnings from equity method investments | **$ 23.4** | $ 22.3 | 4.9% | **$ 68.9** | $ 66.0 | 4.4% |

### Third Quarter 2014 Compared with Third Quarter 2013

*Earnings from Equity Method Investments*

Earnings from equity method investments at the electric transmission investment segment increased $1.1 million in the third quarter of 2014. The increase resulted from higher earnings related to our approximate 34% ownership interest in ATC. Our income increases as ATC continues to increase its rate base by investing in transmission equipment and facilities for improved reliability and economic benefits for customers.

### Nine Months 2014 Compared with Nine Months 2013

*Earnings from Equity Method Investments*

Earnings from equity method investments at the electric transmission investment segment increased $2.9 million in 2014. The increase resulted from higher earnings related to our approximate 34% ownership interest in ATC. Our income increases as ATC continues to increase its rate base by investing in transmission equipment and facilities for improved reliability and economic benefits for customers.

## IES Segment Operations

On November 1, 2014, we sold IES's retail energy business to Exelon Generation Company, LLC. See Note 4, Dispositions, for more information.

| *(Millions, except natural gas sales volumes)* | Three Months Ended September 30 2014 | Three Months Ended September 30 2013 | Change in 2014 Over 2013 | Nine Months Ended September 30 2014 | Nine Months Ended September 30 2013 | Change in 2014 Over 2013 |
|---|---|---|---|---|---|---|
| Revenues | **$ 537.4** | $ 513.0 | 4.8 % | **$ 2,430.0** | $ 1,471.6 | 65.1 % |
| Cost of sales | **491.7** | 469.3 | 4.8 % | **2,283.3** | 1,343.7 | 69.9 % |
| Margins | **45.7** | 43.7 | 4.6 % | **146.7** | 127.9 | 14.7 % |
| Margin Detail | | | | | | |
| Realized retail electric margins | **32.4** | 15.9 | 103.8 % | **70.0** | 66.4 | 5.4 % |
| Realized wholesale electric margins [1] | **(0.1)** | — | N/A | **—** | 0.4 | (100.0)% |
| Realized renewable energy asset margins | **5.7** | 5.0 | 14.0 % | **12.2** | 12.5 | (2.4)% |
| Fair value accounting adjustments | **0.1** | 17.4 | (99.4)% | **21.0** | 15.4 | 36.4 % |
| Electric and renewable energy asset margins | **38.1** | 38.3 | (0.5)% | **103.2** | 94.7 | 9.0 % |
| Realized retail natural gas margins [2] | **4.4** | 4.4 | — % | **35.9** | 27.9 | 28.7 % |
| Realized wholesale natural gas margins [1] | **(0.1)** | 0.1 | N/A | **(0.2)** | 0.2 | N/A |
| Lower-of-cost-or-market inventory adjustments | **(0.4)** | (0.9) | (55.6)% | **0.5** | 1.4 | (64.3)% |
| Fair value accounting adjustments | **3.7** | 1.8 | 105.6 % | **7.3** | 3.7 | 97.3 % |
| Natural gas margins | **7.6** | 5.4 | 40.7 % | **43.5** | 33.2 | 31.0 % |
| | | | | | | |
| Operating and maintenance expense | **26.0** | 27.5 | (5.5)% | **94.6** | 90.4 | 4.6 % |
| Depreciation and amortization expense | **3.1** | 2.9 | 6.9 % | **9.0** | 8.4 | 7.1 % |
| Taxes other than income taxes | **2.3** | 0.6 | 283.3 % | **5.0** | 2.6 | 92.3 % |
| Goodwill impairment loss | **—** | — | N/A | **6.7** | — | N/A |
| Transaction costs related to sale of IES's retail energy business | **0.9** | — | N/A | **1.7** | — | N/A |
| Gain on abandonment of IES's Winnebago Energy Center | **(4.1)** | — | N/A | **(4.1)** | — | N/A |
| Operating income | **17.5** | 12.7 | 37.8 % | **33.8** | 26.5 | 27.5 % |
| | | | | | | |
| Earnings from equity method investments | **0.7** | 0.5 | 40.0 % | **1.6** | 1.2 | 33.3 % |
| Miscellaneous income | **0.3** | 6.2 | (95.2)% | **1.0** | 8.0 | (87.5)% |
| Interest expense | **0.5** | 0.5 | — % | **1.5** | 1.5 | — % |
| Other income | **0.5** | 6.2 | (91.9)% | **1.1** | 7.7 | (85.7)% |
| | | | | | | |
| Income before taxes | **$ 18.0** | $ 18.9 | (4.8)% | **$ 34.9** | $ 34.2 | 2.0 % |
| | | | | | | |
| **Physically settled volumes** | | | | | | |
| Retail electric sales volumes in kwh | **5,946.3** | 6,291.0 | (5.5)% | **18,051.9** | 15,447.3 | 16.9 % |
| Wholesale assets and distributed solar electric sales volumes in kwh | **14.6** | 17.4 | (16.1)% | **46.5** | 51.1 | (9.0)% |
| Retail natural gas sales volumes in bcf | **38.0** | 34.8 | 9.2 % | **170.2** | 122.6 | 38.8 % |

kwh — kilowatt-hours
bcf — billion cubic feet

(1) Realized wholesale activity relates to remaining contracts for which offsetting positions were entered into.

(2) Amounts include negative margins related to the amortization of the net amount paid for customer and related supply contracts in connection with acquisitions. The three and nine months ended September 30, 2014, include negative margins of $1.0 million and $5.1 million, respectively. The three and nine months ended September 30, 2013, include negative margins of $1.5 million and $2.8 million, respectively.

### *Third Quarter 2014 Compared with Third Quarter 2013*

### *Revenues*

IES’s revenues increased $24.4 million, primarily driven by higher retail natural gas sales volumes. Higher average electric commodity prices also contributed to the increase in revenues.

***Margins***

IES's margins increased $2.0 million. Significant items contributing to the change in margins were as follows:

Realized retail electric margins

Realized retail electric margins increased $16.5 million. The quarter-over-quarter positive impact was driven by a change in pricing structure for certain electric aggregation customers. In 2013, IES was unable to fully recover fixed costs as the usage for these customers was lower than anticipated. Also contributing to the increased margins were improved per-unit margins.

Fair value accounting adjustments

Derivative accounting rules impact IES's margins. Fair value adjustments drove a $17.3 million decrease in electric margins and a $1.9 million increase in natural gas margins quarter over quarter. These adjustments primarily relate to physical and financial contracts used to reduce price risk for supply, storage, and transportation associated with electric and natural gas sales contracts. These adjustments will reverse in future periods as contracts settle.

***Operating Income***

IES's operating income increased $4.8 million. The increase was driven by a $2.8 million decrease in operating expenses and the $2.0 million increase in margins discussed above. The decrease in operating expenses was driven by:

- A $4.1 million gain on the abandonment of the Winnebago Energy Center. See Note 4, Dispositions, for more information.
- A $2.8 million decrease in payroll and employee benefit expenses, primarily related to decreases in stock-based compensation and deferred compensation expense. The decrease in stock-based compensation expense was driven by an adjustment to the estimated forfeiture rate in the third quarter of 2014 to reflect the sale of IES's retail energy business. The decrease in deferred compensation expense was driven by the quarter-over-quarter change in the fair value of amounts owed to plan participants under deferred compensation plans.
- A $2.3 million decrease due to IES settling its $6.6 million liability for contingent consideration related to the acquisition of Compass Energy Services (Compass) for $4.3 million in the third quarter of 2014.

These decreases in operating expenses were partially offset by:

- A $3.8 million increase in service fees paid to utility companies related to IES's direct mass market business.
- A $1.7 million increase in taxes other than income taxes, primarily related to the write-off of tax receivables that IES no longer expects to collect.

***Other Income***

IES's other income decreased $5.7 million. The decrease was due to the quarter-over-quarter impact of a $5.7 million settlement received in 2013 related to the Seams Elimination Charge Adjustment (SECA).

### *Nine Months 2014 Compared with Nine Months 2013*

***Revenues***

IES's revenues increased $958.4 million. The increase was driven by higher retail sales volumes, primarily related to growth in IES's existing electric and natural gas markets as well as the Compass acquisition in May 2013. Higher average electric commodity prices and increased usage in 2014 related to the colder weather also contributed to the higher revenues.

***Margins***

IES’s margins increased $18.8 million. Significant items contributing to the change in margins were as follows:

**Electric and Renewable Energy Asset Margins**

Realized retail electric margins

Realized retail electric margins increased $3.6 million. The increase was driven by growth in existing markets, as well as the period-over-period positive impact of a change in pricing structure for certain electric aggregation customers. Partially offsetting these increases were increased costs related to the colder weather in the first quarter of 2014. Sales volumes for fixed-price full requirements customers increased significantly due to the colder weather, requiring IES to purchase power at high market prices to meet this unexpected demand.

Fair value accounting adjustments

Derivative accounting rules impact IES’s margins. Fair value adjustments caused a $5.6 million increase in electric margins period over period. These adjustments primarily relate to physical and financial contracts used to reduce price risk for supply associated with electric sales contracts. These adjustments will reverse in future periods as contracts settle.

**Natural Gas Margins**

Realized retail natural gas margins

Realized retail natural gas margins increased $8.0 million. The increase was primarily driven by colder weather period over period. Higher sales volumes, primarily related to the Compass acquisition in May 2013 and growth in IES's existing markets, also contributed to the increase in margins. Realized retail natural gas margins include the amortization of customer and supply contracts related to the acquisition of Compass.

Fair value accounting adjustments

Derivative accounting rules impact IES’s margins. Fair value adjustments caused a $3.6 million increase in natural gas margins period over period. These adjustments primarily relate to physical and financial contracts used to reduce price risk for supply, storage, and transportation associated with natural gas sales contracts. These adjustments will reverse in future periods as contracts settle.

***Operating Income***

IES’s operating income increased $7.3 million. The increase was driven by the $18.8 million increase in margins discussed above, partially offset by an $11.5 million increase in operating expenses. The increase in operating expenses was driven by:

- A $6.7 million goodwill impairment loss recorded in the second quarter of 2014. See Note 9, Goodwill and Other Intangible Assets, for more information.
- A $6.4 million increase in service fees paid to utility companies related to IES's direct mass market business.
- A $2.4 million increase in taxes other than income taxes, primarily related to the write-off of tax receivables that IES no longer expects to collect.
- A $1.7 million increase due to transaction costs incurred in 2014 related to the sale of IES's retail energy business. See Note 4, Dispositions, for more information.

These increases in operating expenses were partially offset by:

- A $4.1 million gain on the abandonment of the Winnebago Energy Center. See Note 4, Dispositions, for more information.
- A $2.3 million decrease due to IES settling its $6.6 million liability for contingent consideration related to the acquisition of Compass for $4.3 million in the third quarter of 2014.

***Other Income***

IES's other income decreased $6.6 million. The decrease was driven by the period-over-period impact of a $5.7 million settlement received in 2013 related to the SECA.

## Holding Company and Other Segment Operations

| (Millions) | Three Months Ended September 30 2014 | Three Months Ended September 30 2013 | Change in 2014 Over 2013 | Nine Months Ended September 30 2014 | Nine Months Ended September 30 2013 | Change in 2014 Over 2013 |
|---|---|---|---|---|---|---|
| Operating loss | **$ (3.1)** | $ (2.7) | 14.8% | **$ (10.2)** | $ (7.8) | 30.8% |
| Other expense | **(9.1)** | (8.1) | 12.3% | **(31.0)** | (16.9) | 83.4% |
| Loss before taxes | **$ (12.2)** | $ (10.8) | 13.0% | **$ (41.2)** | $ (24.7) | 66.8% |

### *Third Quarter 2014 Compared with Third Quarter 2013*

*Operating Loss*

Operating loss at the holding company and other segment increased $0.4 million. The increase was mainly driven by $2.5 million of transaction costs related to the proposed merger with Wisconsin Energy Corporation, partially offset by a $2.0 million decrease in operating losses at ITF.

*Other Expense*

Other expense at the holding company and other segment increased $1.0 million. The increase was primarily due to a $0.9 million increase in interest expense on long-term debt, driven by the issuance of $400.0 million of Junior Subordinated Notes during August 2013.

### *Nine Months 2014 Compared with Nine Months 2013*

*Operating Loss*

Operating loss at the holding company and other segment increased $2.4 million. The increase was mainly driven by $8.4 million of transaction costs related to the proposed merger with Wisconsin Energy Corporation, partially offset by a $4.5 million decrease in operating losses at ITF.

*Other Expense*

Other expense at the holding company and other segment increased $14.1 million. The increase was primarily due to a $12.8 million increase in interest expense on long-term debt, driven by the issuance of $400.0 million of Junior Subordinated Notes during August 2013. Also contributing to the increase was the $3.2 million period-over-period negative impact of excise tax credits recorded at ITF in 2013 as a result of the American Taxpayer Relief Act of 2012. These excise tax credits were not available in 2014.

## Provision for Income Taxes

| | Three Months Ended September 30 2014 | Three Months Ended September 30 2013 | Nine Months Ended September 30 2014 | Nine Months Ended September 30 2013 |
|---|---|---|---|---|
| Effective tax rate | **40.7%** | 31.4% | **38.8%** | 36.3% |

### *Third Quarter 2014 Compared with Third Quarter 2013*

Our effective tax rate increased in the third quarter of 2014. This increase was primarily due to a $3.7 million decrease in our provision for income taxes in the third quarter of 2013 as a result of the reversal of a regulatory liability. This amount was related to deferred income taxes that had been recorded in prior years as a result of scheduled income tax rate changes in Illinois. We recorded the reversal based on the income tax treatment included in the 2013 final rate order for PGL and NSG.

### *Nine Months 2014 Compared with Nine Months 2013*

Our effective tax rate increased in 2014. This increase was primarily driven by the tax treatment of IES's $6.7 million goodwill impairment loss recorded in the second quarter of 2014. This amount is not deductible for income tax purposes.

## Discontinued Operations

| (Millions) | Three Months Ended September 30 2014 | Three Months Ended September 30 2013 | Change in 2014 Over 2013 | Nine Months Ended September 30 2014 | Nine Months Ended September 30 2013 | Change in 2014 Over 2013 |
|---|---|---|---|---|---|---|
| Discontinued operations, net of tax | **$ 1.1** | $ (0.6) | N/A | **$ 0.9** | $ 4.7 | (80.9)% |

### *Third Quarter 2014 Compared with Third Quarter 2013*

Earnings from discontinued operations, net of tax, increased $1.7 million in the third quarter of 2014. In 2014, IES settled the earn-out agreement related to the sale of WPS Beaver Falls Generation, LLC (Beaver Falls) and WPS Syracuse Generation, LLC (Syracuse). As a result, IES recognized after-tax earnings from discontinued operations of $1.2 million related to Beaver Falls and Syracuse during the third quarter of 2014. See Note 4, Dispositions, for more information.

### *Nine Months 2014 Compared with Nine Months 2013*

Earnings from discontinued operations, net of tax, decreased $3.8 million in 2014. In 2013, we remeasured uncertain tax positions included in our liability for unrecognized tax benefits after effectively settling certain state income tax examinations. We reduced the provision for income taxes related to this remeasurement, of which $5.9 million was reported as discontinued operations. Partially offsetting this decrease in earnings was the recognition by IES of after-tax earnings from discontinued operations of $1.2 million related to Beaver Falls and Syracuse in 2014. As discussed above, IES settled the earn-out agreement related to the sale of Beaver Falls and Syracuse in the third quarter of 2014. See Note 4, Dispositions, for more information. In addition, the operating results of IES's Combined Locks Energy Center also improved by $1.1 million during 2014.

## LIQUIDITY AND CAPITAL RESOURCES

We believe we have adequate resources to fund ongoing operations and future capital expenditures. These resources include cash balances, liquid assets, operating cash flows, access to equity and debt capital markets, and available borrowing capacity under existing credit facilities. Our borrowing costs can be impacted by short-term and long-term debt ratings assigned by independent credit rating agencies, as well as the market rates for interest. Our operating cash flows and access to capital markets can be impacted by macroeconomic factors outside of our control.

### Operating Cash Flows

During the nine months ended September 30, 2014, net cash provided by operating activities was $617.9 million, compared with $512.2 million during the same period in 2013. The $105.7 million increase in net cash provided by operating activities was driven by:

- A $1,785.1 million increase in cash collections from customers, mainly due to rate increases at the regulated utilities, higher commodity prices, and the colder than normal weather in 2014.
- The positive period-over-period impact of a $50.0 million payment in 2013 for WPS's early termination of a tolling agreement in connection with the purchase of Fox Energy Company LLC.
- A $22.4 million increase in cash from customer prepayments and credit balances. In 2013, cash received in relation to amounts billed was lower because customer prepayments had grown during an unusually warm 2012.
- A $3.9 million increase in cash received from income taxes, primarily driven by a federal income tax refund received in the first quarter of 2014 for an amended return. This refund was partially offset by cash paid for income taxes related to the sale of UPPCO.
- A $2.1 million increase in cash driven by lower collateral requirements in 2014 compared with 2013. Collateral requirements are based on forward natural gas and electricity prices and forward positions with counterparties.

These increases in cash were partially offset by:

- A $1,523.0 million decrease in cash due to higher costs of natural gas, fuel, and purchased power in 2014. Additional cash was used in 2014 due to higher energy prices, the colder than normal weather, and for energy costs associated with operating the Fox Energy Center, which WPS acquired at the end of the first quarter of 2013.
- A $176.9 million decrease in cash related to increased operating and maintenance costs in 2014. The decrease was driven by increases in natural gas distribution costs, electric utility maintenance, and operating costs associated with the purchase of the Fox Energy Center in 2013.
- A $30.4 million increase in contributions to pension and other postretirement benefit plans.
- A $27.4 million increase in cash paid for interest, primarily driven by higher average outstanding long-term debt in 2014 as compared with 2013.

### Investing Cash Flows

During the nine months ended September 30, 2014, net cash used for investing activities was $388.7 million, compared with $819.8 million during the same period in 2013. The $431.1 million decrease in net cash used for investing activities was primarily due to:

- The positive period-over-period impact of cash used to purchase two businesses in 2013. WPS purchased Fox Energy Company LLC for $391.6 million, and IES purchased Compass Energy Services for $12.4 million in 2013. See Note 3, Acquisitions, for more information.
- The receipt of proceeds of $332.2 million in 2014 related to the sale of UPPCO. See Note 4, Dispositions, for more information.

These decreases in cash used were partially offset by:

- A $116.2 million increase in cash used for other capital expenditures (discussed below).
- A $113.0 million increase in cash used due to the required funding of the rabbi trust for deferred compensation and certain nonqualified pension plans. The proposed merger with Wisconsin Energy Corporation qualified as a potential change in control event under the rabbi trust agreement, which required the funding of the rabbi trust. See Note 2, Proposed Merger with Wisconsin Energy Corporation, for more information about the merger.
- The period-over-period negative impact of the receipt of a $69.0 million Section 1603 Grant for the Crane Creek wind project in 2013.

*Capital Expenditures*

Capital expenditures by business segment for the nine months ended September 30 were as follows:

| **Reportable Segment *(millions)*** | **2014** | **2013** | **Change in 2014 Over 2013** |
|---|---|---|---|
| Natural gas utility | **$ 303.1** | $ 268.9 | $ 34.2 |
| Electric utility | **194.8** | 551.3 | (356.5) |
| IES | **18.2** | 8.8 | 9.4 |
| Holding company and other | **74.8** | 37.3 | 37.5 |
| Integrys Energy Group consolidated | **$ 590.9** | $ 866.3 | $ (275.4) |

The increase in capital expenditures at the natural gas utility segment in 2014 compared with 2013 was primarily due to work on the accelerated natural gas main replacement program at PGL. Capital expenditures related to distribution, transmission, and natural gas storage also contributed to the increase.

The decrease in capital expenditures at the electric utility segment in 2014 compared with 2013 was primarily due to WPS's purchase of Fox Energy Company LLC in 2013. Capital expenditures related to environmental compliance projects at the Columbia Plant also decreased in 2014. Increased expenditures in 2014 related to the ReACT™ project at Weston 3 and the System Modernization and Reliability project partially offset the decrease.

The increase in capital expenditures at IES in 2014 compared with 2013 was primarily due to an increase in solar projects.

Finally, capital expenditures at the holding company and other segment increased in 2014 compared with 2013, primarily due to increased expenditures for software projects and office leasehold improvements.

### Financing Cash Flows

During the nine months ended September 30, 2014, net cash used for financing activities was $235.4 million, compared with net cash provided by financing activities of $306.3 million during the same period in 2013. The $541.7 million period-over-period change was driven by:

- A $637.0 million net decrease in cash due to a $724.0 million decrease in the issuance of long-term debt, which was partially offset by an $87.0 million decrease in the repayment of long-term debt.
- A $200.0 million decrease in borrowings under WPS's term credit facility, which were used in 2013 to partially finance the acquisition of Fox Energy Company LLC.
- A $43.1 million increase in cash used to purchase shares of our common stock on the open market to satisfy requirements of our Stock Investment Plan and certain stock-based employee benefit and compensation plans. We began purchasing shares of our common stock on the open market starting in February 2014 as well as during a short period during the first quarter of 2013.

- An $18.5 million decrease in cash received from stock option exercises.

These decreases in cash used were partially offset by $360.9 million of higher net borrowings of commercial paper in 2014.

*Significant Financing Activities*

The following table provides a summary of common stock activity to meet the requirements of our Stock Investment Plan and certain stock-based employee benefit and compensation plans:

| Period | Method of meeting requirements |
|---|---|
| Beginning 02/05/2014 | Purchasing shares on the open market |
| 02/05/2013 – 02/05/2014 | Issued new shares |
| 01/01/2012 – 02/04/2013 | Purchased shares on the open market |

Under the merger agreement with Wisconsin Energy Corporation, we can no longer issue shares of our common stock.

For information on short-term debt, see Note 10, Short-Term Debt and Lines of Credit.

For information on long-term debt, see Note 11, Long-Term Debt.

*Credit Ratings*

Our current credit ratings and the credit ratings for WPS, PGL, and NSG are listed in the table below:

| Credit Ratings | Standard & Poor's | Moody's |
|---|---|---|
| Integrys Energy Group | | |
| Issuer credit rating | A- | N/A |
| Senior unsecured debt | BBB+ | A3 |
| Commercial paper | A-2 | P-2 |
| Junior subordinated notes | BBB | Baa1 |
| | | |
| WPS | | |
| Issuer credit rating | A- | A1 |
| First mortgage bonds | N/A | Aa2 |
| Senior secured debt | A | Aa2 |
| Preferred stock | BBB | A3 |
| Commercial paper | A-2 | P-1 |
| | | |
| PGL | | |
| Issuer credit rating | A- | A2 |
| Senior secured debt | N/A | Aa3 |
| Commercial paper | A-2 | P-1 |
| | | |
| NSG | | |
| Issuer credit rating | A- | A2 |

Credit ratings are not recommendations to buy or sell securities. They are subject to change, and each rating should be evaluated independently of any other rating.

On September 18, 2014, Moody's raised the senior unsecured debt rating to "A3" from "Baa1" and the junior subordinated notes rating to "Baa1" from "Baa2" for Integrys Energy Group. The upgrade in ratings reflects Moody's view that the upcoming sale of the IES retail energy business will markedly improve our business risk profile and result in more reliable and stable operating cash flows going forward from our regulated utility operations.

On January 31, 2014, Moody's confirmed the credit ratings for Integrys Energy Group and raised the credit ratings for WPS, PGL, and NSG. The issuer rating was raised to "A1" from "A2" for WPS and to "A2" from "A3" for both PGL and NSG. WPS's first mortgage bonds rating was raised to "Aa2" from "Aa3." The senior secured debt rating was raised to "Aa2" from "Aa3" for WPS and to "Aa3" from "A1" for both PGL and NSG. The preferred stock rating for WPS was raised to "A3" from "Baa1." Finally, PGL's commercial paper rating was raised to "P-1" from "P-2." The upgrade in ratings of the utilities reflects Moody's views of the regulatory provisions in Wisconsin and Illinois that are consistent with a generally improving regulatory environment for electric and natural gas utilities in the United States.

### Future Capital Requirements and Resources

*Contractual Obligations*

The following table shows our contractual obligations as of September 30, 2014, including those of our subsidiaries:

| | | Payments Due By Period | | | |
|---|---|---|---|---|---|
| *(Millions)* | Total Amounts Committed | 2014 | 2015 to 2016 | 2017 to 2018 | 2019 and Later Years |
| Long-term debt principal and interest payments [1] | $ 7,162.0 | $ 36.2 | $ 507.7 | $ 383.9 | $ 6,234.2 |
| Operating lease obligations | 78.9 | 1.7 | 10.6 | 12.2 | 54.4 |
| Energy and transportation purchase obligations [2] | 1,832.7 | 92.4 | 582.6 | 358.2 | 799.5 |
| Purchase orders [3] | 1,043.8 | 778.3 | 235.6 | 21.9 | 8.0 |
| Pension and other postretirement funding obligations [4] | 43.8 | 15.6 | 28.2 | — | — |
| Capital contributions to equity method investment | 3.4 | 3.4 | — | — | — |
| Uncertain tax positions | 0.7 | 0.7 | — | — | — |
| **Total contractual cash obligations** | $ 10,165.3 | $ 928.3 | $ 1,364.7 | $ 776.2 | $ 7,096.1 |

(1) Represents bonds and notes issued, as well as loans made to us and our subsidiaries. We record all principal obligations on the balance sheet. For purposes of this table, it is assumed that the current interest rates on variable rate debt will remain in effect until the debt matures.

(2) The costs of energy and transportation purchase obligations are expected to be recovered in future customer rates.

(3) Includes obligations related to normal business operations and large construction obligations.

(4) Obligations for pension and other postretirement benefit plans, other than the Integrys Energy Group Retirement Plan, cannot reasonably be estimated beyond 2016. The proposed merger with Wisconsin Energy Corporation qualified as a potential change in control event under the rabbi trust agreement and triggered the full funding of our deferred compensation obligation and our obligation for certain nonqualified pension plans. As a result, the funding requirements related to certain nonqualified pension plan obligations were reduced by $2.0 million in 2014 and $8.3 million in 2015.

The table above does not reflect estimated future payments related to the manufactured gas plant remediation liability of $557.9 million at September 30, 2014, as the amount and timing of payments are uncertain. We expect to incur costs annually to remediate these sites. See Note 13, Commitments and Contingencies, for more information about environmental liabilities. The table also does not reflect estimated future payments for the September 30, 2014 liability of $1.9 million related to unrecognized tax benefits, as the amount and timing of payments are uncertain. See Note 12, Income Taxes, for more information about unrecognized tax benefits.

*Capital Requirements*

Projected capital expenditures by segment for 2014 through 2016, including amounts expended through September 30, 2014, are as follows:

| *(Millions)* | 2014 | 2015 | 2016 | Total |
|---|---|---|---|---|
| Natural Gas Utility | | | | |
| Distribution, transmission, and underground storage facilities | $ 507 | $ 478 | $ 481 | $ 1,466 |
| Other projects | 29 | 34 | 23 | 86 |
| Electric Utility | | | | |
| Distribution, transmission, and energy supply operations projects | 133 | 137 | 131 | 401 |
| Environmental projects [1] | 150 | 135 | 105 | 390 |
| Other projects | 7 | 11 | 158 | 176 |
| IES | | | | |
| Renewable energy and other projects [2] | 60 | 40 | 40 | 140 |
| Holding Company and Other | | | | |
| Corporate or shared services software and infrastructure projects | 68 | 31 | 40 | 139 |
| Compressed natural gas fueling stations | 27 | 44 | 45 | 116 |
| **Total capital expenditures** | $ 981 | $ 910 | $ 1,023 | $ 2,914 |

(1) This primarily relates to the installation of ReACT™ emission control technology at Weston 3 and the installation of scrubbers at the Columbia plant.

(2) See Note 4, Dispositions, for more information on the sale of IES's retail energy business.

We expect to provide capital contributions to ATC (not included in the above table) of approximately $49 million from 2014 through 2016.

All projected capital and investment expenditures are subject to periodic review and may vary significantly from the estimates, depending on a number of factors. These factors include, but are not limited to, environmental requirements, regulatory constraints and requirements, changes in tax laws and regulations, acquisition and development opportunities, market volatility, and economic trends.

*Capital Resources*

Management prioritizes the use of capital and debt capacity, determines cash management policies, uses risk management strategies to hedge the impact of volatile commodity prices, and makes decisions regarding capital requirements in order to manage our liquidity and capital resource needs. We plan to meet our capital requirements for the period 2014 through 2016 primarily through internally generated funds (net of forecasted dividend payments), dividends from our subsidiaries, and debt and equity financings. We plan to keep debt to equity ratios at levels that can support current credit ratings and corporate growth.

Under an existing shelf registration statement, we may issue debt, equity, certain types of hybrid securities, and other financial instruments with amounts, prices, and terms to be determined at the time of future offerings.

WPS currently has a shelf registration statement under which it may issue up to $50.0 million of additional senior debt securities. Amounts, prices, and terms will be determined at the time of future offerings.

As a result of the sale of IES's retail energy business on November 1, 2014, we plan to reduce the size of our existing revolving credit facilities over the next six months as contingent obligations are fully transferred to Exelon Generation Company, LLC.

At September 30, 2014, we and each of our subsidiaries were in compliance with all covenants related to outstanding short-term and long-term debt. We expect to be in compliance with all such debt covenants for the foreseeable future.

Various laws, regulations, and financial covenants impose restrictions on the ability of certain of our regulated utility subsidiaries to transfer funds to us in the form of dividends. Our regulated utility subsidiaries, with the exception of MGU, are prohibited from loaning funds to us, either directly or indirectly. Although these restrictions limit the amount of funding the various operating subsidiaries can provide to us, management does not believe these restrictions will have a significant impact on our ability to access cash for payment of dividends on common stock or other future funding obligations. See Note 17, Common Equity, for more information on dividend restrictions.

## Other Future Considerations

*Presque Isle System Support Resource (SSR) Costs*

In August 2013, Wisconsin Electric Power Company (Wisconsin Electric Power) submitted to MISO a notice, in which Wisconsin Electric Power stated its intention to suspend the operation of Units 5 through 9 of its Presque Isle generating facility for 16 months, starting February 1, 2014. MISO completed its reliability analysis and notified Wisconsin Electric Power in October 2013 that the Presque Isle facilities are required for reliability and would be SSR-designated until alternatives could be implemented to mitigate reliability issues. The SSR Tariff provisions permit MISO to negotiate compensation for generation resources when a market participant desires to retire or suspend operation of the facility but MISO determines that it is needed to maintain system reliability. In exchange for keeping the units in service, MISO compensates Wisconsin Electric Power by allocating the SSR costs associated with the operation of the Presque Isle units to regulated and nonregulated load serving entities, including WPS, based on load ratio share within the ATC footprint. In July 2014, the FERC granted a complaint filed by the PSCW requesting to change the allocation methodology to the various parties based on a new load-shed analysis to be completed by MISO. In August 2014, MISO submitted a revised rate schedule to the FERC based on a new load-shed analysis, which reduced the allocated SSR costs for WPS from the original estimate of approximately $9 million annually to $0.3 million annually. Later in August 2014, the MPSC requested a rehearing of the FERC's decision to change the allocation methodology, which the PSCW is protesting.

In April 2013, the PSCW ordered that SSR costs for WPS retail customers should be deferred until December 31, 2015. At that time, the PSCW will determine the appropriate ratemaking treatment. As of September 30, 2014, there were no material SSR costs for WPS retail customers deferred for future recovery. SSR costs for Michigan customers are being recovered through the Power Supply Cost Recovery mechanism. SSR costs for WPS's wholesale customers are being recovered through formula rates.

*MISO Transmission Owner Return on Equity Complaint*

In November 2013, a group of MISO industrial customer organizations filed a complaint with the FERC requesting, among other things, to reduce the base return on equity (ROE) used by MISO transmission owners, including ATC, to 9.15%. ATC's current authorized ROE is 12.2%. In October 2014, the FERC issued an order to hear the complaint on ROE and set a refund effective date retroactive to November 12, 2013. However, the FERC denied all other aspects of the complaint, including that the use of capital structures that include more than 50% common equity is unjust and unreasonable. If the case does not settle, the FERC expects to issue a decision by August 31, 2016.

In October 2014, the FERC also issued an order, in regard to a similar complaint, to reduce the base ROE for New England transmission owners from their existing rate of 11.14% to 10.57%. The FERC used a revised method for determining the appropriate ROE for FERC-jurisdictional electric utilities, which incorporates both short-term and long-term measures of growth in dividends.

The FERC has stated that it expects future decisions on pending complaints related to similar ROE issues will be guided by the New England transmission decision. Any change to ATC's return on equity and capital structure could result in lower equity income and dividends from ATC in the future. We are currently unable to determine the timing, financial impact, and nature of any FERC actions related to this complaint.

*Wisconsin Fuel Rule Under-collection "Cap"*

WPS uses a "fuel window" mechanism to recover fuel and purchased power costs for its Wisconsin retail electric operations. Under the fuel window rule, actual fuel and purchased power costs that exceed a 2% variance from costs included in the rates charged to customers are deferred for recovery or refund. However, if the deferral of costs in a given year would cause WPS to earn a greater return on common equity than authorized by the PSCW, the recovery of under-collected fuel and purchased power costs would be reduced by the amount the return exceeds the authorized amount by the PSCW. This is a possibility in any given year; however, this provision of the fuel rule will not likely have an impact on WPS in 2014.

*Decoupling*

In 2012, the Illinois Attorney General and Citizens Utility Board appealed the ICC's authority to approve PGL's and NSG's permanent decoupling mechanism. As a result, revenues collected under this mechanism were potentially subject to refund. In 2012, PGL and NSG established offsetting reserves equal to decoupling amounts accrued. In March 2013, the Illinois Appellate Court affirmed the ICC's authority to approve the permanent decoupling mechanism. Therefore, the reserves recorded in 2012 were reversed in the first quarter of 2013. In June 2013, the Illinois Attorney General and Citizens Utility Board petitioned the Illinois Supreme Court to review the Court's decision. The Illinois Supreme Court granted the request in September 2013, and oral arguments were heard in September 2014. The Illinois Supreme Court has no deadline by which it must issue its decision. Decoupling amounts recorded in 2012 were fully recovered and amounts in 2013 are being refunded to customers in 2014. Decoupling amounts in 2014 will continue to be accrued, absent an adverse Illinois Supreme Court decision.

See Note 22, Regulatory Environment, for more information on all of our subsidiaries' decoupling mechanisms.

*Climate Change*

The EPA began regulating greenhouse gas emissions under the Clean Air Act in January 2011 by applying the Best Available Control Technology (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. Therefore, the EPA issued guidance that defines BACT in terms of improvements in energy efficiency as opposed to relying on pollution control equipment. In March 2012, the EPA issued a proposed rule that would impose a carbon dioxide emission rate limit on new electric generating units. In September 2013, the EPA re-proposed rules related to emission limits on new electric generating units, and the EPA is expected to finalize them in a timely manner. The proposed emission rate limits may not be achievable for coal-fueled plants until applicable technology becomes commercially available. In June 2014, the EPA issued a proposed rule establishing greenhouse gas performance standards for modified and reconstructed power plants. Comments on this proposal were due in October 2014.

Also, in June 2014, the EPA released a proposed rule establishing greenhouse gas performance standards for existing power plants. The proposal applies to “affected electric generating units,” which includes our WPS coal-fired units at Weston and Pulliam plus the natural gas-fired Fox Energy Center. The EPA is proposing state-specific emission reduction goals. States would be required to meet an “interim goal” on average over the ten-year period from 2020 through 2029 and a “final goal” in 2030, which will achieve a nation-wide emission reduction of about 30% from 2005 levels. In the proposed rule, the state of Wisconsin is assigned a relatively aggressive reduction goal, which if adopted as final, could significantly increase costs for our customers. Consequently, we are working with the other state utilities, the WDNR, the PSCW, and other stakeholders to evaluate the potential impacts and develop comments and suggested revisions for the EPA's consideration. The EPA intends to issue final rules by June 1, 2015. State implementation plans are due by June 30, 2016, with the possibility of extensions to 2017 for a state-specific plan and to 2018 if they are using a multistate approach. Facility compliance deadlines will be included in the final state plans.

A risk exists that any greenhouse gas legislation or regulation will increase the cost of producing energy using fossil fuels. However, we believe that capital expenditures being made at our plants are appropriate under any reasonable mandatory greenhouse gas program. We also believe that our future expenditures that may be required to control greenhouse gas emissions or meet renewable portfolio standards will be recoverable in rates. We will continue to monitor and manage potential risks and opportunities associated with future greenhouse gas legislative or regulatory actions.

The majority of our generation and distribution facilities are located in the upper Midwest region of the United States. The same is true for most of our customers' facilities. The physical risks, if any, posed by climate change for this area are not expected to be significant at this time. Ongoing evaluations will be conducted as more information on the extent of such physical changes becomes available.

*Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act)*

The Dodd-Frank Act was signed into law in July 2010. The final Commodity Futures Trading Commission (CFTC) rulemakings, which are essential to the Dodd-Frank Act's new framework for swaps regulation, have become effective or are becoming effective for certain companies and certain transactions. Some of the rules have not been finalized yet, are being challenged in court, or are subject to ongoing interpretations, clarifications, no-action letters, and other guidance being issued by the CFTC and its staff. As a result, it is difficult to predict how the CFTC's final Dodd-Frank Act rules will ultimately affect us. Certain provisions of the Dodd-Frank Act relating to derivatives could significantly increase our regulatory costs and/or collateral requirements, including our derivatives, which we use to hedge our commercial risks.

We continue to monitor developments related to the Dodd-Frank Act rulemakings and their potential impacts on our future financial results and have implemented the applicable requirements of the Dodd-Frank Act rules that have taken effect. For example, we have addressed certain requirements applicable to transaction reporting and have implemented an internal governance structure. We have also taken the necessary steps to qualify as an end user, which provides for an exemption related to mandatory clearing. Lastly, we have made the necessary systems and process changes to comply with the rules within the CFTC's implementation timelines.

## CRITICAL ACCOUNTING POLICIES

We have reviewed our critical accounting policies and considered whether any new critical accounting estimates or other significant changes to our accounting policies require any additional disclosures. We have found that the disclosures made in our Annual Report on Form 10-K for the year ended December 31, 2013, are still current and that there have been no significant changes, except as follows:

### Goodwill Impairment

In June 2014, IES performed an interim goodwill impairment analysis. This interim analysis was triggered by the announcement of the plan to divest of IES's retail energy business. Based on the results of the interim goodwill impairment analysis, IES recorded a non-cash goodwill impairment loss of $6.7 million in the second quarter of 2014. See Note 9, Goodwill and Other Intangible Assets, for more information about this goodwill impairment.

In addition to IES's interim goodwill impairment analysis, we completed our annual goodwill impairment tests for all of our reporting units that carried a goodwill balance as of April 1, 2014. No impairments were recorded as a result of our annual impairment tests. For all of our reporting units, the fair value calculated in step one of the test was greater than the carrying value. The fair value was calculated using an equal weighting of the income approach and the market approach.

For the income approach, we used internal forecasts to project cash flows. Any forecast contains a degree of uncertainty, and changes in these cash flows could significantly increase or decrease the fair value of a reporting unit. For the regulated reporting units, a fair recovery of and return on costs prudently incurred to serve customers is assumed. An unfavorable outcome in a rate case could cause the fair value of these reporting units to decrease.

Key assumptions used in the income approach included return on equity (ROE) for the regulated reporting units, long-term growth rates used to determine terminal values at the end of the discrete forecast period, and discount rates. The discount rate is applied to estimated future cash flows and is one of the most significant assumptions used to determine fair value under the income approach. As interest rates rise, the calculated fair values will decrease. The discount rate is determined based on the weighted-average cost of capital for each reporting unit, taking into account both the after-tax cost of debt and cost of equity. The terminal year ROE for each utility is based on its current allowed ROE adjusted for forecasted disallowed costs and expectations regarding the direction and magnitude of movements in interest rates. The terminal growth rate is based on a combination of historical and forecasted statistics for real gross domestic product and personal income for each utility service area.

We used the guideline company method for the market approach. This method uses metrics from similar publicly traded companies in the same industry to determine how much a knowledgeable investor in the marketplace would be willing to pay for an investment in a similar company. We applied multiples derived from these guideline companies to the appropriate operating metric for the utility reporting units to determine indications of fair value.

The underlying assumptions and estimates used in the impairment test are made as of a point in time. Subsequent changes in these assumptions and estimates could change the results of the test.

The fair values of the WPS natural gas utility and ITF reporting units exceeded the carrying values by a substantial amount. Based on these results, these reporting units are not at risk of failing step one of the goodwill impairment test.

The fair values calculated in the first step of the test for MERC, MGU, NSG, and PGL exceeded the carrying values by approximately 4% to 18%. Due to the subjectivity of the assumptions and estimates underlying the impairment analyses, we cannot provide assurance that future analyses will not result in impairments. As a result, we performed a sensitivity analysis on key assumptions for these reporting units. The following table shows the change in each assumption, holding all other inputs constant, which would result in a fair value at or below carrying value, causing the applicable reporting unit to fail step one of the test. Failing step one would result in a goodwill impairment that could be material, as the carrying value of the identifiable assets and liabilities is considered fair value for regulated companies. Any difference between the fair value and carrying value of the reporting unit would be recorded as a goodwill impairment. Carrying value is considered fair value for regulated companies because a regulator would typically not allow the assets and liabilities of a regulated company to be increased or decreased, allowing for a change in recovery from ratepayers, as a result of an acquisition or other change in ownership.

| **Change in Key Inputs (in basis points)** | **MERC** | **MGU** | **NSG** | **PGL** |
|---|---|---|---|---|
| Discount rate | 175 | 25 | 75 | 150 |
| Terminal year return on equity | (440) | (138) | (248) | (428) |
| Terminal year growth rate | (200) | (50) | (50) | N/A * |

* Even with a terminal year growth rate of 0%, assuming all other inputs remained constant, PGL would still have passed the first step of the goodwill impairment test.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

As a result of the November 1, 2014 sale of IES's retail energy business, we are no longer exposed to any material commodity price risk at IES.

Other than the above-mentioned change, our market risks have not changed materially from the market risks reported in our 2013 Annual Report on Form 10-K.

## Item 4. Controls and Procedures

### Evaluation of Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined by Securities Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this report. Based upon that evaluation, management, including our Chief Executive Officer and Chief Financial Officer, has concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

### Changes in Internal Control

There were no changes in our internal control over financial reporting (as defined by Securities Exchange Act Rules 13a-15(f) and 15d-15(f)) during the quarter ended September 30, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

Since the June 23, 2014 announcement of the merger agreement, we and our board of directors, along with Wisconsin Energy Corporation (Wisconsin Energy), were named defendants in ten class action lawsuits and/or derivative complaints brought by purported Integrys Energy Group shareholders challenging the proposed merger. Two lawsuits were filed in the Circuit Court of Milwaukee County, Wisconsin, *Amo v. Integrys Energy Group, Inc., et al*., (the "Amo Action") and *Inman v. Schrock, et al*., (the "Inman Action"). Two lawsuits were filed in the Circuit Court of Cook County, Illinois *Taxman v. Integrys Energy Group, Inc., et al.*, and *Curley v. Integrys Energy Group, Inc., et al*., (the "Illinois Actions"). Three lawsuits were filed in the Circuit Court of Brown County, Wisconsin: *Rubin v. Integrys Energy Group, Inc., et al.*; *Blachor v. Integrys Energy Group, Inc., et al*.; *Albera v. Integrys Energy Group, Inc., et al*. (the "Brown County Actions"). Three lawsuits were filed in the United States District Court for the Northern District of Illinois, *Steiner v. Budney, et al.,* and *Collison v. Schrock, et al.*, (the "Steiner and Collision Actions"); and *Tri-State Joint Fund v. Integrys Energy Group, Inc., et al*., (the "Tri-State Action").

The Amo Action and Illinois Actions allege, among other things, that members of our board breached their fiduciary duties in connection with the proposed transaction, and that the merger agreement involves an unfair price, was the product of an inadequate sales process, and contains unreasonable deal protection devices that purportedly preclude competing offers. The complaints further variously allege that we, Wisconsin Energy, and/or its acquisition subsidiaries aided and abetted the purported breaches of fiduciary duty. The plaintiffs in these lawsuits seek, among other things, (i) a declaration that the merger agreement was entered into in breach of our directors' fiduciary duties, (ii) an injunction enjoining our board from consummating the merger, (iii) an order directing our board to exercise their duties to obtain a transaction which is in the best interests of our shareholders, (iv) an order granting the class members any benefits allegedly improperly received by the defendants, (v) a rescission of the merger or damages, in the event that it is consummated, and/or (vi) an order directing additional disclosure regarding the merger.

The Inman Action generally asserts similar claims on behalf of the purported class and derivatively on behalf of us and, in addition, alleges that the registration statement omits material information.

The Steiner and Collison Actions generally allege that the members of our board breached their fiduciary duties by conducting an inadequate sales process that resulted in an unfair price and by filing a materially deficient registration statement. The Steiner and Collison Actions further allege that Wisconsin Energy aided and abetted those breaches of fiduciary duty. The plaintiffs in the Steiner and Collison Actions, seek, among other things, to enjoin the proposed transaction or an award of damages in the event the merger is consummated. In addition, the Collison complaint alleges that the members of our board were unjustly enriched at the expense of us and seeks a court order directing our board members to disgorge all benefits or compensation obtained as a result of their purported breaches of fiduciary duty.

The Tri-State Action seeks to enjoin the proposed transaction and alleges that we, our board, Wisconsin Energy, and Mr. Klappa (the Wisconsin Energy Chief Executive Officer) violated Sections 14(a) and 20(a) of the 1934 Securities Exchange Act and Rule 14a-9 promulgated thereunder. It alleges, among other things, that the registration statement misrepresented or omitted material facts, including material information about the allegedly unfair and conflicted sales process, the inadequate consideration offered in the proposed transaction, and our actual intrinsic value.

On August 6, 2014, we, our board, and Wisconsin Energy filed a motion to dismiss or stay the Illinois Actions, in deference to the Wisconsin Actions. On August 11, 2014, we, our board, and Wisconsin Energy filed motions to dismiss the Amo Action. Also on August 11, 2014, the plaintiffs in the Wisconsin Actions filed a letter with the courts in which those actions are pending, requesting that the Wisconsin Actions be stayed pending resolution of the Illinois Actions. We, our board, and Wisconsin Energy filed a letter opposing that request on August 12, 2014.

On August 12, 2014, the plaintiffs in the Brown County Actions voluntarily dismissed their suits without prejudice. On August 18, 2014, the plaintiff in the Amo Action moved the Wisconsin court to stay his action in favor of the Illinois Actions. Following a hearing on September 4, 2014, the Wisconsin court denied the plaintiff's motion to stay the Amo Action.

On August 27, 2014, the plaintiff in the Taxman action filed a motion for leave to amend his complaint seeking to add allegations that the defendants breached their fiduciary duty of candor by filing a materially deficient registration statement.

On September 30, 2014, the Illinois court dismissed the Illinois Actions in favor of the Amo Action and Inman Action.

On October 3, 2014, the plaintiff in the Amo Action, joined by plaintiffs from the Brown County Actions, filed an amended class action complaint adding allegations that the defendants breached their fiduciary duties by filing a materially deficient registration statement. On October 6, 2014, we, our board, and Wisconsin Energy filed a motion for a protective order staying discovery pending a decision on their motions to dismiss in the Amo Action. On October 7, 2014, the plaintiff in the Amo Action, joined by plaintiffs from the Brown County Actions, filed a motion for limited expedited discovery.

On October 8, 2014, we, our board, and Wisconsin Energy filed motions to dismiss the Steiner and Collison Actions, in deference to the Wisconsin Actions. On October 15, 2014, the Collison Action was consolidated with the Steiner Action.

On October 17, 2014, the Inman Action was consolidated with the Amo Action. On October 21, 2014, the Inman plaintiff in the consolidated Amo Action filed a motion for expedited discovery and a preliminary injunction.

We believe the claims asserted in each lawsuit have no merit and intend to defend the actions vigorously.

See Note 13, Commitments and Contingencies, for information on other material legal proceedings and matters.

## Item 1A. Risk Factors

There were no material changes in the risk factors previously disclosed in Part I, Item 1A of our 2013 Annual Report on Form 10-K, which was filed with the SEC on February 27, 2014, other than the following. These risks relate to the proposed merger with Wisconsin Energy Corporation (Wisconsin Energy).

***Because the merger consideration is fixed and the market price of shares of Wisconsin Energy common stock will fluctuate, our shareholders cannot be sure of the value of the merger consideration they will receive.***

Upon completion of the merger, each outstanding share of our common stock will be converted into the right to receive 1.128 shares of Wisconsin Energy common stock and $18.58 in cash. Based on the closing price of Wisconsin Energy common stock on June 20, 2014, the last trading day before the public announcement of the merger, the aggregate value of the merger consideration was approximately $5.8 billion. The number of shares of Wisconsin Energy common stock to be issued pursuant to the merger agreement for each share of our common stock is fixed and will not change to reflect changes in the market price of Wisconsin Energy or our common stock. Because the exchange ratio will not be adjusted to reflect any changes in the market value of Wisconsin Energy common stock or our common stock, the market value of the Wisconsin Energy common stock issued in connection with the merger and our common stock surrendered in connection with the merger may be higher or lower than the values of those shares on earlier dates. Stock price changes may result from, among other things, changes in the business, operations or prospects of Wisconsin Energy or us prior to or following the merger, litigation or regulatory considerations, general business, market, industry or economic conditions and other factors both within and beyond the control of Wisconsin Energy and us. Neither we nor Wisconsin Energy is permitted to terminate the merger agreement solely because of changes in the market price of either company's common stock.

***The merger agreement limits our ability to pursue alternatives to the merger, which could discourage a potential acquirer from making an alternative transaction proposal and, in certain circumstances, could require us to pay to Wisconsin Energy a significant termination fee.***

Under the merger agreement, we are restricted, subject to limited exceptions, from pursuing or entering into alternative transactions in lieu of the merger. In general, unless and until the merger agreement is terminated, we are restricted from, among other things, soliciting, initiating, knowingly encouraging, inducing or knowingly facilitating a competing acquisition proposal from any person. Our board of directors is limited in its ability to change its recommendation with respect to the merger-related proposal. We or Wisconsin Energy may terminate the merger agreement and enter into an agreement with respect to a superior offer only if specified conditions have been satisfied, including compliance with the non-solicitation provisions of the merger agreement, the expiration of certain waiting periods during which the other party may propose changes to the merger agreement so the superior offer is no longer a superior offer and the payment of the required termination fee. These provisions could discourage a third party that may have an interest in acquiring all or a significant part of us from considering or proposing such an acquisition, even if such third party were prepared to pay consideration with a higher per share cash or market value than the consideration proposed to be received or realized in the merger, or might result in a potential acquirer proposing to pay a lower price than it would otherwise have proposed to pay because of the added expense of the termination fee that may become payable. As a result of these restrictions, we may not be able to enter into an agreement with respect to a more favorable alternative transaction without incurring potentially significant liability to Wisconsin Energy.

***We are subject to various uncertainties and contractual restrictions while the merger is pending that could adversely affect our financial results.***

Uncertainty about the effect of the merger on employees, suppliers and customers may have an adverse effect on us. These uncertainties may impair our ability to attract, retain and motivate key personnel until the merger is completed and for a period of time thereafter, and could cause customers, suppliers and others who deal with us to seek to change existing business relationships with us. Employee retention and recruitment may be particularly challenging prior to completion of the merger, as employees and prospective employees may experience uncertainty about their future roles with the combined company.

The pursuit of the merger and the preparation for the integration of us and Wisconsin Energy may place a significant burden on management and internal resources. Any significant diversion of management attention away from ongoing business and any difficulties encountered in the transition and integration process could affect our financial results and/or the financial results of the combined company.

In addition, the merger agreement restricts us, without Wisconsin Energy's consent, from making certain acquisitions and dispositions and taking other specified actions while the merger is pending. These restrictions may prevent us from pursuing attractive business opportunities and making other changes to our business prior to completion of the merger or termination of the merger agreement.

***If completed, the merger may not achieve its intended results, and we and Wisconsin Energy may be unable to successfully integrate our operations.***

We and Wisconsin Energy entered into the merger agreement with the expectation that the merger will result in various benefits, including, among other things, accretion to the combined company's earnings per share in the first full calendar year following completion of the merger. Achieving the anticipated benefits of the merger is subject to a number of uncertainties, including whether our business and the business of Wisconsin Energy can be integrated in an efficient and effective manner, whether U.S. federal and state public utility, antitrust and other regulatory authorities whose approval is required to complete the merger impose conditions on the completion of the merger, which may have an adverse effect on the combined company, including its ability to achieve the anticipated benefits of the merger, general market and economic conditions, general competitive factors in the marketplace and higher than expected costs required to achieve the anticipated benefits of the merger.

It is possible that the integration process could take longer than anticipated and could result in the loss of valuable employees, the disruption of each company's ongoing businesses, processes and systems or inconsistencies in standards, controls, procedures, practices, policies and compensation arrangements, any of which could adversely affect the combined company's ability to achieve the anticipated benefits of the merger. The combined company's results of operations could also be adversely affected by any issues attributable to either company's operations that arise or are based on events or actions that occur prior to the closing of the merger. The companies may have difficulty addressing possible differences in corporate cultures and management philosophies. The integration process is subject to a number of uncertainties, and no assurance can be given that the anticipated benefits will be realized or, if realized, the timing of their realization. Failure to achieve these anticipated benefits could result in increased costs or decreases in the amount of expected revenues and could adversely affect the combined company's future business, financial condition, operating results and prospects.

***Pending litigation against us and Wisconsin Energy could result in an injunction preventing completion of the merger, the payment of damages in the event the merger is completed and/or may adversely affect the combined company's business, financial condition or results of operations following the merger.***

In connection with the merger, purported shareholders of us have filed putative stockholder class action lawsuits against us and our directors and Wisconsin Energy. Among other remedies, the plaintiffs seek to enjoin the merger. In addition, one of the conditions to the closing of the merger is that no law or judgment issued by any court of competent jurisdiction shall be in effect that, and no suit, action or other proceeding shall be pending before any governmental entity in which such governmental entity seeks to impose any legal restraint that, makes illegal or prohibits the consummation of the merger. Consequently, if one of the plaintiffs is successful in obtaining an injunction prohibiting us or Wisconsin Energy from consummating the merger on the agreed-upon terms, then the injunction may prevent the merger from being completed within the expected timeframe, or at all. Furthermore, if the defendants are not able to resolve these lawsuits, the lawsuits could result in substantial costs to us and Wisconsin Energy, including any costs associated with the indemnification of directors. The defense or settlement of any lawsuit or claim that remains unresolved at the time the merger is completed may adversely affect the combined company's business, financial condition or results of operations.

***We and Wisconsin Energy may be unable to obtain the regulatory approvals required to complete the merger or, in order to do so, we and Wisconsin Energy may be required to comply with material restrictions or conditions that may negatively affect the combined company after the merger is completed or cause us to abandon the merger.***

Completion of the merger is contingent upon, among other things, the receipt of all required regulatory approvals, which, in the case of Wisconsin Energy, consist of filings with and approvals of the New York Stock Exchange (NYSE), notice to, and the consent and approval of, the FERC, pre-approvals of license transfers with the Federal Communications Commission (FCC), notice to and approval of the PSCW, the ICC and the MPSC, and, if required or advisable, the MPUC and, in our case, consist of filings with and approvals of the NYSE, notice to, and the consent and approval of, the FERC, pre-approvals of license transfers with the FCC, notice to and approval of the ICC and the MPSC, and, to the extent required, notice to and approval of the MPUC. We can provide no assurance that all required regulatory authorizations, approvals or consents will be obtained or that the authorizations, approvals or consents will not contain terms, conditions or restrictions that would be detrimental to the combined company after completion of the merger.

***Delays in completing the merger may substantially reduce the expected benefits of the merger.***

Satisfying the conditions to, and completion of, the merger may take longer than, and could cost more than, we and Wisconsin Energy expect. Any delay in completing or any additional conditions imposed in order to complete the merger may materially adversely affect the benefits that we and Wisconsin Energy expect to achieve from the merger and the integration of our respective businesses. In addition, each of us and Wisconsin Energy may terminate the merger agreement if the merger is not completed by June 22, 2015, except that such date may be extended to December 22, 2015 if the only unsatisfied conditions to the completion of the merger are those regarding the receipt of required regulatory approvals.

***Failure to complete the merger could negatively affect our share price and our future businesses and financial results.***

Completion of the merger is not assured and is subject to risks, including the risks that approval of the transaction by our shareholders and the shareholders of Wisconsin Energy or by governmental agencies will not be obtained or that certain other closing conditions will not be satisfied. If the merger is not completed, our ongoing business and financial results may be adversely affected and we will be subject to several risks, including:

- having to pay certain significant costs relating to the merger without receiving the benefits of the merger, including, in certain circumstances, a termination fee of $175 million;
- the attention of our management may have been diverted to the merger rather than to our own operations and the pursuit of other opportunities that could have been beneficial to us;
- the potential loss of key personnel during the pendency of the merger as employees may experience uncertainty about their future roles with the combined company;

- we will have been subject to certain restrictions on the conduct of our business which may have prevented us from making certain acquisitions or dispositions or pursuing certain business opportunities while the merger was pending;
- our share price may decline to the extent that the current market price reflects an assumption by the market that the merger will be completed; and
- we may be subject to litigation related to any failure to complete the merger.

In addition, ten purported class action and/or derivative lawsuits have been filed against us, members of our board of directors and Wisconsin Energy, seeking, among other things, an injunction prohibiting the consummation of the merger. While we believe these lawsuits are without merit, we cannot make any assurances as to the outcome of these lawsuits.

The occurrence of any of these events individually or in combination could negatively affect the trading price of our common stock and our future business and financial results.

***We will incur substantial transaction fees and costs in connection with the merger.***

We and Wisconsin Energy expect to incur non-recurring expenses totaling approximately $60 million. Additional unanticipated costs may be incurred in the course of the integration of our business and the businesses of Wisconsin Energy. We cannot be certain that the elimination of duplicative costs or the realization of other efficiencies related to the integration of the two businesses will offset the transaction and integration costs in the near term, or at all.

***Uncertainties associated with the merger may cause a loss of management personnel and other key employees which could adversely affect the future business and operations of the combined company following the merger.***

We and Wisconsin Energy are dependent on the experience and industry knowledge of our officers and other key employees to execute our respective business plans. The combined company's success after the merger will depend in part upon its ability to retain key management personnel and other key employees of us and Wisconsin Energy. Current and prospective employees of us and Wisconsin Energy may experience uncertainty about their future roles with the combined company following the merger, which may materially adversely affect the ability of each of us and Wisconsin Energy to attract and retain key personnel during the pendency of the merger. Accordingly, no assurance can be given that the combined company will be able to retain key management personnel and other key employees of us and Wisconsin Energy.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

### Dividend Restrictions

We are a holding company and our ability to pay dividends is largely dependent upon the ability of our subsidiaries to make payments to us in the form of dividends or otherwise. See Note 17, Common Equity, for more information regarding restrictions on the ability of our subsidiaries to pay us dividends, as well as dividend restrictions under the merger agreement with Wisconsin Energy Corporation (Wisconsin Energy).

### Issuer Purchases of Equity Securities

The following table provides a summary of common stock purchases for the three months ended September 30, 2014:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| 07/01/14 – 07/31/14 * | **9,293** | **$ 69.49** | — | — |
| 08/01/14 – 08/31/14 * | **23,578** | **66.40** | — | — |
| 09/01/14 – 09/30/14 * | **195,220** | **67.73** | — | — |
| **Total** | **228,091** | **$ 67.66** | — | — |

* Represents shares of common stock purchased on the open market by American Stock Transfer & Trust Company to provide shares of common stock to participants in the Stock Investment Plan and to satisfy obligations under various stock-based employee benefit and compensation plans.

Under the merger agreement with Wisconsin Energy, we can no longer issue shares of our common stock.

## Item 6. Exhibits

The documents listed in the Exhibit Index are attached as exhibits or incorporated by reference herein.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant, Integrys Energy Group, Inc., has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTEGRYS ENERGY GROUP, INC.
(Registrant)

Date: November 5, 2014

/s/ Linda M. Kallas

Linda M. Kallas
Vice President and Controller

(Duly Authorized Officer and Chief Accounting Officer)

**INTEGRYS ENERGY GROUP**
**EXHIBIT INDEX TO FORM 10-Q**
**FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

| Exhibit No. | Description |
|---|---|
| 2 | Stock Purchase Agreement, dated as of July 29, 2014, between Integrys Energy Group, Inc. and Exelon Generation Company, LLC., as amended on October 31, 2014. |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 for Integrys Energy Group, Inc. |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934 for Integrys Energy Group, Inc. |
| 32 | Written Statement of the Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 for Integrys Energy Group, Inc. |
| 101 | Financial statements from the Quarterly Report on Form 10-Q of Integrys Energy Group, Inc. for the quarter ended September 30, 2014, formatted in eXtensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income, (ii) the Condensed Consolidated Statements of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheets, (iv) the Condensed Consolidated Statements of Cash Flows, (v) the Condensed Notes To Financial Statements, and (vi) document and entity information. |

**Exhibit 2**

Execution Version

# STOCK PURCHASE AGREEMENT

dated as of July 29, 2014

by and between

Exelon Generation Company, LLC,

as Buyer

and

Integrys Energy Group, Inc.,

as Seller

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## REPRESENTATIONS AND WARRANTIES OF BUYER


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**STOCK PURCHASE AGREEMENT**

This Stock Purchase Agreement, dated as of July 29, 2014 (this "Agreement"), is made by and between Exelon Generation Company, LLC, a Pennsylvania limited liability company ("Buyer"), and Integrys Energy Group, Inc., a Wisconsin corporation ("Seller").

RECITALS

A. Seller owns all of the issued and outstanding shares of capital stock of Integrys Energy Services, Inc., a Wisconsin corporation (the "Company").

B. Buyer desires to purchase from Seller, and Seller desires to sell to Buyer, subject to the terms and conditions of this Agreement, all of the issued and outstanding shares of capital stock of the Company (the "Stock").

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, intending to be legally bound, the Parties hereby agree as follows:

**ARTICLE I.**
**CERTAIN DEFINITIONS**

**Section 1.1. Definitions**. For the purposes of this Agreement, the following words and phrases shall have the following meanings:

"Acquired Entities" means the Company and each of its subsidiaries set forth on Schedule 1.1 (a).

"Action" means any claim, action, suit, arbitration, proceeding or investigation by or before any Governmental Entity.

"Adjusted Net Working Capital" means, as of any date of determination, (a) the Storage Inventory, plus (b) the remaining net working capital of the Business, adjusted to exclude (i) receivables and payables solely between or among Acquired Entities, (ii) assets and liabilities relating to Taxes, other than the "transactional taxes" expressly identified on Schedule 1.1(b), (iii) assets and liabilities from risk management activities, and (iv) liabilities under Retention Agreements with Specified Employees, in each case in accordance with the adjustments set forth on Schedule 1.1(b), together with such other adjustments set forth on such Schedule. To the extent there is any conflict between the foregoing definition of Adjusted Net Working Capital and Schedule 1.1(b), Schedule 1.1(b) shall control.

"Adverse Consequences" means all Actions, bearings, charges, complaints, demands, injunctions, judgments, orders, decrees, rulings, damages, dues, penalties, fines, reasonable costs (including court costs and reasonable investigative and reasonable remedial costs), amounts paid in settlement, liabilities (whether known or unknown, whether asserted or unasserted, whether

absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due), obligations, Taxes, Liens, losses, fees and reasonable expenses (including reasonable attorneys', experts' and accountants' fees), including expenses incurred in mitigating Adverse Consequences pursuant to Section 10.5(a).

"Affiliate" means with respect to any Person, another Person that controls, is controlled by, or is under common control with, that Person. For purposes of this definition, "control," with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities or by Contract or otherwise.

"Affiliate Contracts" has the meaning set forth in Section 5.9(b).

"Agreement" has the meaning set forth in the first paragraph of this Agreement.

"Allocation" has the meaning set forth in Section 2.2(a).

"Allocation Statement" has the meaning set forth in Section 2.2(a).

"Alternative Transaction" has the meaning set forth in Section 5.14(a).

"Attrition Adjustment" has the meaning set forth in Schedule 1.1(k).

"Base Price" has the meaning set forth in Section 2.1(b).

"Books and Records" means, with respect to any entity, all books of account, ledgers, equity record books and general, financial, accounting, Tax, personnel, position reports and other records of such entity, including information, books, records and files concerning the financial performance, strategic plans, budgets, forecasts, projections and competitive or capital spending analysis, constitutive records and employee personnel records.

"Business" means the retail electric and natural gas marketing business conducted by the Company and the other Acquired Entities as of the date hereof, but excluding the Excluded Assets and business conducted by the Excluded Entities.

"Business Day" means any day other than a Saturday, a Sunday or a day on which banks of the Federal Reserve System are authorized or required by Law or executive order to be closed.

"Buyer" has the meaning set forth in the first paragraph of this Agreement.

"Buyer Material Adverse Effect" means any event, occurrence or circumstance that would reasonably be expected to prevent or materially delay the performance by Buyer of any material obligation under, or the consummation of the transactions contemplated by, this Agreement.

"Buyer Protected Parties" has the meaning set forth in Section 10.1(a).

"Buyer's Employee Plans" has the meaning set forth in Section 5.7(e).

"Buyer's Required Approvals" has the meaning set forth in Section 4.4.

"Claim Notice" has the meaning set forth in Section 10.2(a).

"Closing" has the meaning set forth in Section 8.1.

"Closing Date" has the meaning set forth in Section 8.1.

"COBRA" has the meaning set forth in Section 5.7(k).

"Code" means the Internal Revenue Code of 1986, as amended.

"Company" has the meaning set forth in the Recitals.

"Company Credit Policy" means the policy set forth in Schedule 1.1(i).

"Company Employees" has the meaning set forth in Section 5.7(a)(i).

"Company Financial Statements" has the meaning set forth in Section 3.6(a).

"Company Insurance Policies" has the meaning set forth in Section 3.14.

"Company Intellectual Property" has the meaning set forth in Section 3.16(a).

"Company Lease" means all of any Acquired Entity's right, title and interest in all leases, subleases, licenses, concessions and other agreements pursuant to which any Acquired Entity holds a leasehold or subleasehold estate in, or is granted the right to use or occupy, any land, buildings, structures, improvements, fixtures or other interest in real property that it does not own which is used or intended to be used in, or otherwise related to, the Business.

"Company Plans" has the meaning set forth in Section 3.12(a).

"Company Risk Policy" means the policy set forth in Schedule 1.1(h).

"Competitive Activity" has the meaning set forth in Section 5.14(c).

"Confidentiality Agreement" means that certain Confidentiality Agreement, dated April 2, 2014, between Seller and Buyer.

"Continuing Employee" has the meaning set forth in Section 5.7(a)(iii).

"Contract" means a written or oral contract, license, note, bond, mortgage, indenture, instrument or other legally binding agreement with any Person.

"Controlling Party" has the meaning set forth in Section 10.2(c).

"Customer Contracts" means the Contracts of the Acquired Entities with their respective retail customers relating to the Business.

"Customer List" means, as of a specified date, collectively (a) a list of all commercial and industrial customers, substantially in the format of the lists contained in files numbered 20.16.6 ("Gas Deal Archive Detail With Names 2014-05-31") and 20.16.7 ("Power retail forward book 5-31-2014 WITH NAMES") contained in the Data Room, including (i) each customer's name, account number or other identification information, (ii) the duration of the Contract applicable to such customer, including the original start date (for power customers only) and expiration date, (iii) current pricing, (iv) facility-level monthly historical usage volume for the prior twenty-four (24) months (or for such shorter period as is available) and (v) product to be delivered, and (b) a list of all direct mass marketing customers, substantially in the format of the lists contained in the files numbered 20.16.1 ("DMM Gas Deal Schedule-5-31-14"), 20.16.3 ("DMM Power Deal Schedule-IL-Ameren-5-31-14"), 20.16.4 ("DMM Power Deal Schedule-OH and PA-5-31-14") and 20.16.5 ("DMM Power Deal Schedule-City of Chicago Detail-5-31-14") contained in the Data Room, including (i) each customer's name, customer type, account number or other identification information, (ii) the local distribution company serving such customer, (iii) the start and expiration date of the Contract, (iv) product to be delivered, (v) annual estimated volume and (vi) current pricing.

"Data Room" means the electronic data room established by Seller in connection with the transactions contemplated under this Agreement, as updated as of July 27, 2014.

"Disputed Items" has the meaning set forth in Section 2.1(c)(iv).

"DOJ" has the meaning set forth in Section 5.2(a).

"Dollars" or "$" means the lawful money of the United States of America.

"Employee Plans" has the meaning set forth in Section 3.12(a).

"ENCOA Agreement" means the Asset Purchase Agreement dated December 18, 2013, between TERM Power & Gas, LLC d/b/a ENCOA and the Company.

"Environmental Laws" means all Laws relating to pollution or protection of the environment or natural resources, including Laws relating to Releases or threatened Releases of Hazardous Substances (including Releases to ambient air, surface water, groundwater land and surface and subsurface strata) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, release, transport, disposal or handling of Hazardous Substances as well as Laws relating to the management, use, restoration or compensation for use of or damages to natural resources.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the rules and regulations promulgated thereunder.

"ERISA Affiliate" means any other Person that, together with the Company, is required to be treated as a single employer under Section 414 of the Code or Section 4001(a)(14) of ERISA.

"Estimated Closing Adjustment Amount" has the meaning set forth in Section 2.1(b).

"Estimated Purchase Price" has the meaning set forth in Section 2.1(b).

"Excluded Assets" has the meaning set forth in Section 5.8(a).

"Excluded Entities" means those entities which are set forth on Schedule 1.1(c).

"Excluded Records" means (i) all corporate, financial, Tax, human resources and legal data and records that relate to the business(es) generally of Seller and/or its Affiliates (except for such records relating primarily to the Marketing Company Group or any Acquired Entity other than with respect to income or similar Taxes); (ii) any data, software and records to the extent disclosure or transfer is prohibited by any license agreement or other Contract with a Person other than Affiliates of Seller, or by applicable Law, and for which no consent to transfer has been received; (iii) data and records to the extent relating to any sale of the Marketing Company Group or any Acquired Entity, including bids received from, and records of negotiations with, third Persons; and (iv) any data and records relating primarily to the Excluded Assets or the Excluded Entities.

"Extension" has the meaning set forth in Section 9.1(b).

"Federal Power Act" means the Federal Power Act, as amended, including the rules and regulations promulgated thereunder.

"FERC" means the Federal Energy Regulatory Commission.

"Final Closing Adjustment Amount" has the meaning set forth in Section 2.1(c)(v).

"Final Determination" means a determination as defined in Section 1313(a) of the Code or any similar state, local or non-U.S. Tax Law, to the extent such a Final Determination has been applied directly to a matter involving the Company or any of its subsidiaries set forth on Schedule 1.1 (a).

"Final Payment Amount" means the amount of the Final Closing Adjustment Amount minus the amount of the Estimated Closing Adjustment Amount, as finally determined in accordance with Section 2.1(c)(v), which may be a positive or negative amount.

"Financial Statements" has the meaning set forth in Section 3.6(b).

"FTC" has the meaning set forth in Section 5.2(a).

"Fundamental Buyer Representations" means the representations and warranties of Buyer set forth in Section 4.1 (Formation and Power of Buyer), Section 4.2 (Authorization; Validity), Section 4.3 (No Conflict) and Section 4.5 (Brokers).

"Fundamental Seller Representations" means the representations and warranties of Seller set forth in Section 3.1 (Organization and Corporate Power), Section 3.2 (Authorization; Validity), Section 3.3 (Qualification and Corporate Power of the Acquired Entities), Section 3.4 (No Conflict), Section 3.5 (Capital Stock) and Section 3.11 (Brokers).

"GAAP" means the generally accepted accounting principles in the United States, as in effect from time to time.

"Gas in Storage" means natural gas owned by any Acquired Entity that is held in storage or local distribution company pools (*i.e.*, title to such natural gas is with an Acquired Entity or is beneficially owned by an Acquired Entity).

"General Release and Discharge Agreement" has the meaning set forth in Section 5.10(c).

"Governmental Entity" means any federal, state, local or foreign government or any court, arbitral tribunal, administrative, competition or regulatory agency or commission or other governmental, judicial or regulatory authority, whether domestic, international or established by treaty, including any quasi-governmental body administering, regulating or having general oversight over gas, electricity or financial markets.

"Governmental Order" means any order, writ, judgment, injunction, decree, stipulation, determination or award entered by or with any Governmental Entity.

"Hazardous Substance" means (i) any petrochemical or petroleum products, oil, radioactive materials, radon gas, asbestos or asbestos containing material, urea formaldehyde foam insulation and polychlorinated biphenyls; (ii) any substance, material, product, derivative, compound, mixture, mineral, chemical, waste, medical waste or gas, defined or included within the definition of a "hazardous substance," "hazardous waste," "hazardous material," "toxic chemical," "toxic substance," "hazardous chemical," "extremely hazardous substance," "pollutant," "contaminant" or any other words of similar meaning within the context used under any applicable Environmental Law; or (iii) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any applicable Environmental Law.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"IBS" means Integrys Business Support, LLC.

"Indebtedness" means, with respect to the Company or any other Acquired Entity, without duplication (a) the unpaid principal amount of, and accrued interest on, all indebtedness for borrowed money of any Acquired Entity, including indebtedness for borrowed money in favor of Seller or any of its Affiliates other than another Acquired Entity, (b) all obligations of any Acquired Entity evidenced by bonds, debentures, notes or other similar instruments or debt securities, (c) all unreimbursed obligations in respect of letters of credit and bankers' acceptances issued for the account of any Acquired Entity that have been drawn, (d) all guaranties of any Acquired Entity in connection with clauses (a), (b) or (c) above, and (e) all prepayment or repayment premiums, penalties, interest rate breakage fees or similar payments or fees required to be paid in connection with the prepayment or repayment of any obligation otherwise deemed to be "Indebtedness" as contemplated by this Agreement.

"Indemnification Cap" has the meaning set forth in Section 10.5(c).

"Indemnification Threshold" has the meaning set forth in Section 10.5(c).

"Indemnified Party" has the meaning set forth in Section 10.2(a).

"Indemnifying Party" has the meaning set forth in Section 10.2(a).

"Initial Customer List" means the Customer List reflecting information as of the dates set forth therein, and delivered by Seller to Buyer on or prior to the date hereof in the form of a CD-ROM labeled "Initial Customer List".

"Initial Position Report" means the Position Report dated as of May 31, 2014, and delivered by Seller to Buyer on or prior to the date hereof in the form of a CD-ROM labeled "Initial Position Report".

"Intellectual Property" means: (a) all patents and applications for patents, (b) all copyrights, copyright registrations and copyright applications, (c) all trade dress and trade names, logos, Internet addresses and domain names, trademarks and service marks and related registrations and applications, and (d) computer software (including source and object code) and firmware.

"IRS" means the Internal Revenue Service.

"Knowledge" or words to such effect mean, with respect to Seller, the actual knowledge of the Persons listed on Schedule 1.1(d).

"Law" means any applicable constitutional provision, statute, ordinance, principle of common law or other law, rule, code, ordinance, protocol, directive, regulation, or interpretation of any Governmental Entity and any decree, injunction, stay, judgment, order, ruling, assessment or writ, in each case having the effect of law.

"Liens" means any mortgages, liens, charges, security interests, restrictions, options, pledges, claims, conditional and installment sale agreements, activity and use limitations, and restrictions, easements, licenses, rights of way, restricting exceptions, covenants, and charges of any kind, or encumbrances of any nature.

"Major Attrition Delay Event" has the meaning set forth in Schedule 1.1(k).

"Major Attrition Event" has the meaning set forth in Schedule 1.1(k).

"Marked Materials" has the meaning set forth in Section 5.11.

"Marketing Company Group" means the Acquired Entities, considered on a consolidated basis after giving effect to the exclusion of the Excluded Assets.

"Marketing Company Group Financial Statements" has the meaning set forth in Section 3.6 (b).

"Material Adverse Effect" means: (a) a change or effect, whether resulting from events, actions, inactions, facts, developments, conditions or circumstances, that either individually or in the aggregate is materially adverse to the business, assets, condition (financial or otherwise), or results of operations of the Marketing Company Group, excluding any changes or effects resulting from or relating to: (i) general changes or developments in the international, national or regional economy, financial markets, interest rates, securities markets (including changes in interest rates and changes in financial, banking, political or business conditions, currency and capital markets) or commodity markets, in each case, which do not have a materially disproportionate effect (relative to other industry participants) on the Marketing Company Group, (ii) changes in or adoption of Laws (including changes in Laws affecting retail energy providers as a group) or in the political or regulatory climate generally or in any specific region, in each case, which do not have a materially disproportionate effect (relative to other industry participants) on the Marketing Company Group, (iii) changes in conditions or developments generally applicable to any industry or market in which any of the Acquired Entities operate, including any changes or developments in the wholesale or retail energy markets or capacity prices, and including any changes or developments due to actions by competitors, in each case which do not have a materially disproportionate effect (relative to other industry participants) on the Marketing Company Group, (iv) acts of war or terrorism or changes imposed by a Governmental Entity associated with additional security to address concerns of terrorism, or otherwise associated with the foregoing, (v) an Excluded Asset, (vi) changes in GAAP or accounting standards or interpretations thereof, (vii) any changes in commodity prices or related hedging markets, (viii) any failure by the Marketing Company Group to meet any financial projections or forecasts or estimates of revenues, earnings or other financial metrics for any period (provided that any change, event, condition, fact, inaction, circumstance, development or occurrence underlying such failure that is not otherwise excluded from the definition of Material Adverse Effect may be taken into account in determining whether a Material Adverse Effect has occurred), (ix) weather conditions or customer use patterns, (x) the public announcement or pendency of the transactions contemplated by this Agreement or as a result of actions specifically contemplated by this Agreement and (xi) any changes or effects that are cured (including by the payment of money) before the earlier of the Closing and the termination of this Agreement pursuant to Article IX; or (b) any event, occurrence or circumstance that would reasonably be expected to prevent or materially delay the performance by Seller or its Affiliates of any material obligation under, or the consummation of the transactions contemplated by, this Agreement.

"Material Contract" means any Contract to which any Acquired Entity is a party or by which it or any of its properties is bound (excluding any Contract to the extent relating solely to the Excluded Assets) and which:

(a) since December 31, 2011, is for the sale, lease or other disposition by any Acquired Entity of any of its assets and pursuant to which an Acquired Entity has remaining material obligations, other than (i) assets which are obsolete or no longer used by the Acquired Entity, (ii) assets sold in the ordinary course of business or (iii) assets that are not, individually or in the aggregate, material to the Marketing Company Group;

(b) since December 31, 2011, is a Contract for the purchase, lease or other acquisition by any Acquired Entity of any assets (including materials, supplies, goods, services, equipment, etc.) and pursuant to which an Acquired Entity has remaining material obligations, other than (i) assets purchased in the ordinary course of business or (ii) assets that are not, individually or in the aggregate, material to the Marketing Company Group;

(c) contains covenants of any Acquired Entity (i) not to compete in any line of business, with any Person or in any geographical area, (ii) not to offer or sell any product or service to any Person or class of Persons, (iii) to offer or sell any product or service to any Person or class of Persons on an exclusive basis or (iv) granting "most favored nation" or similar rights to any Person;

(d) evidences or guarantees Indebtedness (including letters of credit or similar instruments) and any mortgage, security agreement, guarantee, pledge agreement or similar Contract providing for any Lien (other than Permitted Liens) on any of the material assets of any Acquired Entity and that secures Indebtedness;

(e) is a Contract of surety, guarantee or indemnification (other than indemnification obligations set forth in Contracts arising in the ordinary course of business) or involving any letter of credit, treasury security, comfort letter or surety bond posted by or on behalf of any Acquired Entity in support of the obligations of another Person (other than another Acquired Entity) or any of the foregoing given by a Person (other than another Acquired Entity) in support of the obligations of any Acquired Entity;

(f) establishes any partnership, joint venture or similar arrangement involving the sharing of profits or losses;

(g) could reasonably be expected to result in the payment to any employee of total annual compensation in excess of $150,000 or annual bonus compensation in excess of $100,000 or committing to give any employee the right or possibility to earn a share of the revenue, income or margin generated by such employee (directly or through the results of a group of employees) or providing for retention bonuses, change in control bonuses, severance, termination or similar pay or benefits to any current or former director, officer, employee, consultant or other independent contractor of any Acquired Entity;

(h) grants any power of attorney with respect to the affairs of any Acquired Entity other than would be terminated at or prior to the Closing;

(i) evidences settlement of litigation with outstanding material obligations (other than confidentiality obligations) of any Acquired Entity;

(j) is a Contract listed on Schedule 3.13(a);

(k) is a Contract listed on Schedules 3.16(a)(i) or 3.16(a)(ii);

(l) primarily relates to the sharing or allocation of Taxes (other than Tax indemnities and allocations in the ordinary course of business);

(m) is a Customer Contract with any federal, state, county or city Governmental Entity with annual volumes greater than 500,000 decatherms or 20,000 megawatt-hours;

(n) is with or causes an Acquired Entity to perform as a third party broker or agent that markets electricity, natural gas or other products or otherwise receives payment for facilitating a retail sales transaction, including an agency, dealer, sales representative or other similar agreement;

(o) is an Affiliate Contract;

(p) is an aggregation contract with a Governmental Entity pursuant to an aggregation statute for sales to a group or aggregation of Persons involving annual sales revenues in excess of $1,000,000;

(q) is a Customer Contract for (1) natural gas where (A) the Net Booked Margin on an annualized basis is such that it is among the highest twenty percent (20%) of all Customer Contracts for natural gas (determined as of the most recent month end, 2014) or (B) the volume on an annualized basis is such that it is among the highest twenty percent (20%) of all Customer Contracts for natural gas (determined as of the most recent month end, 2014), or (2) for electricity where (A) the Net Booked Margin on an annualized basis is such that it is among the highest twenty percent (20%) of all Customer Contracts for electricity (determined as of the most recent month end, 2014) or (B) the volume on an annualized basis is such that it is among the highest twenty percent (20%) of all Customer Contracts for electricity (determined as of the most recent month end, 2014);

(r) is a Contract with a third party service provider relating to telemarketing services or other mass marketing;

(s) is a Contract, other than a Customer Contract, that is (i) a natural gas marketing Contract; (ii) a Contract for management services with respect to natural gas or other related products and services; (iii) a Contract in respect of natural gas marketing or portfolio administration (including billing arrangements) other than the types referenced in clauses (i) and (ii); (iv) a natural gas transportation or storage Contract or venture; or (v) for the purchase of natural gas from a supplier that was one of the top 10 suppliers of natural gas to the Marketing Company Group by volume during calendar year 2013 or is reasonably expected to be one of the top 10 suppliers by volume of natural gas to the Marketing Company Group during calendar year 2014;

(t) is a Contract, other than a Customer Contract, that is (i) an electricity marketing Contract; (ii) a Contract for management services with respect to electricity or other related products and services; (iii) a Contract in respect of electricity marketing or scheduling administration (including Contracts for interfacing with

system operators) other than the types referenced in clauses (i) and (ii); or (iv) for the purchase of electricity from a supplier that was one of the top 10 suppliers of electricity to the Marketing Company Group by volume during calendar year 2013 or is reasonably expected to be one of the top 10 suppliers by volume of electricity to the Marketing Company Group during calendar year 2014;

(u) is with a pipeline or local distribution company or utility or other gas transportation or storage provider, or transmission organization, system operator, power pool or other electric transmission or distribution service provider; or enables an Acquired Entity to obtain services from any such Person, including billing services or services related to the collection or purchase of receivables; or

(v) is a Contract, other than a Trading Contract or a Customer Contract, involving consideration in excess of $250,000 or is material to the Marketing Company Group in the operation of the Business and was not entered into in the ordinary course of business.

"Multiemployer Plan" means a multiemployer plan, as defined in Sections 3(37) and 4001 (a)(3) of ERISA.

"Net Booked Margin" means, with respect to a Contract, the margin expected to be earned over the remaining term of such Contract, as recorded in Seller's operating systems as of the applicable date of determination, net of broker fees.

"Noncontrolling Party" has the meaning set forth in Section 10.2(c).

"Outside Date" has the meaning set forth in Section 9.1(b).

"Parties" means Buyer and Seller and "Party" means either Buyer or Seller, as applicable.

"PBGC" means the Pension Benefit Guaranty Corporation.

"Permits" has the meaning set forth in Section 3.7(b).

"Permitted Liens" means: (a) Liens set forth on Schedule 1.1(e), (b) Liens for Taxes not yet due and payable or being contested in good faith through appropriate proceedings and for which adequate reserves are reflected on the Financial Statements, (c) water, mineral, oil or gas rights granted to or reserved by third parties that would not be expected to be material to the Marketing Company Group in the operation of the Business, (d) Liens that would be shown by an accurate survey and would not be expected to be material to the Marketing Company Group in the operation of the Business, (e) zoning, entitlement, conservation restriction and other land use and environmental regulations or rights imposed or granted by any Governmental Entity, (f) materialmen's, warehousemen's and mechanics' Liens and other Liens arising by operation of law in the ordinary course of business for sums not yet due or which would not reasonably be expected to, individually or in the aggregate, be material to the Marketing Company Group in the operation of the Business, (g) the rights of the Parties pursuant to this Agreement and any other

instruments to be delivered hereunder and (h) such other Liens, imperfections in or failures of title, easements, leases, licenses, restrictions, encroachments, activity and use limitations (in each case, not incurred in connection with Indebtedness), as would not reasonably be expected to materially interfere with the operation of the Business as presently conducted.

"Person" means and includes an individual, a partnership, a joint venture, a corporation, a limited liability company, a trust, an unincorporated organization or a Governmental Entity or any other separate legal entity recognized pursuant to Law.

"Position Report" means a position report covering the positions of each Trading Contract, substantially in the format of the lists contained in files numbered 6.3.11 ("TEGE Wholesale Power MTM 03312014 Energy-Capacity-Renewables") and 6.3.41 ("Gas MTM Retail Analysis Detail 03-31-14") contained in the Data Room, and shall (a) set forth the positions on a transaction-by-transaction basis (and shall not aggregate or net positions among transactions), (b) include physical and financial electricity (including capacity and ancillary service products thereto), natural gas (including transport and storage assets) and other commodities and emissions and renewable energy credits and (c) set forth the trade dates, volume and price (or, if floating, the applicable index).

"Post-Closing Period" has the meaning set forth in Section 5.4(c)(iii).

"Pre-Closing Period" has the meaning set forth in Section 5.4(c).

"Preliminary Closing Adjustment Amount" has the meaning set forth in Section 2.1(c)(ii).

"Preliminary Closing Adjustment Schedule" has the meaning set forth in Section 2.1(c)(ii).

"Purchase Price" has the meaning set forth in Section 2.1(b).

"Real Property" means all land, together with all buildings, structures, improvements and fixtures located thereon, including all electrical, mechanical, plumbing and other building systems such as fire protection, security, surveillance systems, telecommunications, computers, wiring and cable installations, utility installations, water distribution systems, and landscaping; all easements and other rights and interests appurtenant thereto, including air, oil, gas, mineral and water rights owned by any Acquired Entity and used or intended to be used in, or otherwise related to, the Business together with all Company Leases, including the right to all security deposits and other amounts and instruments deposited by or on behalf of any Acquired Entity thereunder.

"Reasonable Efforts" means commercially reasonable efforts.

"Records" means the data (including the Customer List) and records of the Marketing Company Group, in whatever form or medium, excluding the Excluded Records.

"Related Agreements" has the meaning set forth in Section 5.10.

"Release" means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing, dispersing, emanating or

migrating in, into or through the environment (including the abandonment or discarding of barrels, containers or other closed receptacles containing any Hazardous Substances).

"Reorganization" means the reorganization described on Schedule 1.1(f).

"Required Approvals" means collectively, the Seller's Required Approvals and the Buyer's Required Approvals.

"Restricted Persons" has the meaning set forth in Section 5.13(a).

"Retained Employees" has the meaning set forth in Section 5.7(a)(i).

"Retention Agreements" means those certain agreements between the Company and certain employees entered into pursuant to and in accordance with the Retention Plan.

"Retention Plan" means the Company's retention plan, as described in Schedule 1.1(g).

"Section 338 Forms" means an IRS Form 8023, together with any schedules or attachments thereto that are required pursuant to Treasury Regulations Section 1.338(h)(10)-1(c), and any corresponding forms, schedules, or attachments required to be filed under the Tax Laws of the relevant states.

"Section 338 Subsidiaries" means Integrys Energy Services of New York, Inc. and Compass Energy Services, Inc.

"Section 338(h)(10) Elections" means an election described in Section 338(h)(10) of the Code with respect to Seller's sale of the Stock to Buyer and with respect to the deemed sale of the stock of the Section 338 Subsidiaries pursuant to this Agreement, and any corresponding elections under the Tax Laws of the relevant states.

"Seller" has the meaning set forth in the first paragraph of this Agreement.

"Seller Credit Support" has the meaning set forth in Section 5.15(a).

"Seller Marks" has the meaning set forth in Section 5.11.

"Seller Protected Parties" has the meaning set forth in Section 10.1(b).

"Seller's Required Approvals" has the meaning set forth in Section 3.10.

"Severance Plan" has the meaning set forth in Section 5.7(a)(ii).

"Specified Employee" has the meaning set forth in Section 5.7(a)(ii).

"Stock" has the meaning set forth in the Recitals.

"Storage Inventory" means (i) the value of all hedged Gas in Storage as of the Closing Date, as calculated by multiplying the actual volume of such hedged Gas in Storage by the "weighted

average cost of gas" (as defined below), plus (ii) the value of all unhedged Gas in Storage as of the Closing Date, as calculated by multiplying the actual volume (expressed in decatherms) of such unhedged Gas in Storage by the applicable index price set forth on Schedule 1.1(j) for the month in which the Closing Date occurs for the respective location of such natural gas, and in a manner consistent with the determination of the Storage Inventory value set forth on Schedule 1.1(b). The "weighted average cost of gas" for purposes of this definition shall mean a rate (expressed in $/decatherm) that is the quotient of (a) the book inventory dollar balance of all Gas in Storage as of the Closing Date, adding back the lower of cost or market adjustments, divided by (b) the actual volume of all Gas in Storage as of the Closing Date.

"Straddle Period" has the meaning set forth in Section 5.4(c)(ii).

"Tax" or "Taxes" means any and all federal, state, local, foreign and other net income, gross income, gross receipts, sales, use, ad valorem, franchise, profits, license, lease, service, service use, withholding, payroll, employment, excise, severance, transfer, registration, stamp, occupation, premium, property, windfall profits, fuel, gas import, customs, duties, value added, alternative or add on minimum, estimated, or other similar taxes, fees or payments imposed by any Tax Authority, together with all interest, penalties, deficiency assessments and additions to tax imposed with respect to such amounts, and including any obligations to indemnify or otherwise assume or succeed to the tax liability of any other Person.

"Tax Authority" means any Governmental Entity having jurisdiction over the assessment, determination, collection or imposition of any Tax.

"Tax Controlling Party" has the meaning set forth in Section 5.4(f).

"Tax Laws" shall mean the Code and any other Laws relating to Taxes and any regulations or official administrative pronouncements released thereunder.

"Tax Non-Controlling Party" has the meaning set forth in Section 5.4(f).

"Tax Proceeding" has the meanings set forth in Section 5.4(e).

"Tax Return" means any return, report, statement, estimated Tax filing, form (including elections, declarations, claims for refund, schedules or information returns), or other document, together with all amendments and supplements thereto (including all related and supporting information) required to be filed with or supplied to a Tax Authority.

"Taxable Period" means any taxable year or any other period with respect to which any Tax may be imposed under any Tax Law.

"Third Party Claim" has the meaning set forth in Section 10.2(b).

"Title IV Plan" has the meaning set forth in Section 3.12(e).

"Trademark License Assignment Agreement" has the meaning set forth in Section 5.10(b).

"Trading Contracts" means, other than Customer Contracts, any forward, futures, option, swap, hedge, collar, cap, floor or similar Contract regarding electricity or natural gas, and any other derivative instrument, Contract, confirmation or arrangement based thereon or on any related indices, regardless of whether such instrument, Contract or arrangement provides for or results in physical delivery of the commodity or cash settlement. Trading Contracts shall include instruments, Contracts and arrangements for the forward delivery of physical output of assets and physical supply obligations, and for emissions credits and renewable energy credits.

"Transfer Tax" means any sales, use, transfer, real property transfer, recording, stock transfer and other similar Tax, excluding any Tax measured by or imposed on net income.

"Transition Services Agreement" has the meaning set forth in Section 5.10(a).

"WARN Act" means the Worker Adjustment and Retraining Notification Act, 29 U.S.C. § 2109 et seq. and the regulations promulgated thereunder and any analogous state, local or foreign Law (including any state Laws relating to plant closings or mass layoffs).

## ARTICLE II.
## PURCHASE AND SALE OF STOCK

**Section 2.1. Purchase and Sale of the Stock**. Subject to the terms and conditions set forth in this Agreement:

(a) Transfer of the Stock. At the Closing, Seller shall sell, convey, transfer, assign, and deliver to Buyer, and Buyer shall purchase from Seller, all of the Stock free and clear of all Liens.

(b) Purchase Price. The consideration to be paid for the Stock (the "Purchase Price") shall be (i) $60,000,000 (the "Base Price"), plus (ii) the Adjusted Net Working Capital as of the end of the day immediately preceding the Closing Date, minus (iii) the Attrition Adjustment (if any that results in an adjustment to the Purchase Price), as may be adjusted pursuant to this Section 2.1. At the Closing, Buyer shall pay Seller an amount (the "Estimated Purchase Price") equal to the result of (A) the Base Price plus (B) the estimated Adjusted Net Working Capital as of the end of the day immediately preceding the Closing Date, as reasonably estimated by Seller after consultation with Buyer, minus (C) the Attrition Adjustment (if any that results in an adjustment to the Purchase Price), as reasonably estimated by Seller after consultation with Buyer. The result of clause (B) minus clause (C) in the immediately preceding sentence is referred to as the "Estimated Closing Adjustment Amount". The Estimated Purchase Price shall be paid by wire transfer of immediately available funds to a bank account designated by Seller. Seller shall provide wire instructions to Buyer at least two (2) Business Days prior to the Closing.

(c) Finalization of Estimated Purchase Price.

(i) At least five (5) Business Days prior to the anticipated Closing Date, Seller shall deliver to Buyer a calculation of the Estimated Purchase Price, which

shall include schedules detailing the calculation of the Estimated Closing Adjustment Amount. Seller's calculations of the Estimated Closing Adjustment Amount shall be shown in reasonable detail, consistent with the level of detail provided on Schedule 1.1(b) and Schedule 1.1(k), as applicable.

(ii) As promptly as practicable, but in no event later than ninety (90) days after the Closing Date, Buyer shall prepare and deliver to Seller a schedule (the "Preliminary Closing Adjustment Schedule") showing the calculation of (A) the amount of the Adjusted Net Working Capital as of the end of the day immediately preceding the Closing Date, which calculation shall be shown in reasonable detail, consistent with the level of detail provided on Schedule 1.1(b), and (B) the amount of the Attrition Adjustment (if any that results in an adjustment to the Purchase Price) (together with the amount in clause (A) above, the "Preliminary Closing Adjustment Amount"). Seller shall make available any information or personnel as reasonably requested by Buyer to assist Buyer in preparing the Preliminary Closing Adjustment Schedule.

(iii) Within thirty (30) days following the receipt by Seller of the Preliminary Closing Adjustment Schedule, Seller shall review such schedule. During such time, Seller shall be permitted to review the work papers of Buyer and the Marketing Company Group relating to the calculation and amounts shown on the Preliminary Closing Adjustment Schedule and shall have such access to personnel of Buyer and the Marketing Company Group as may be reasonably necessary to permit Seller to review in detail the manner in which such schedule was prepared. Buyer shall reasonably cooperate with Seller in facilitating such review. All items on the Preliminary Closing Adjustment Schedule which are not objected to by Seller (by written notice to Buyer specifying such items in reasonable detail) by the expiration of such thirty (30) day period shall be deemed agreed upon by the Parties and shall be deemed conclusive for purposes of calculating the amount of the Final Closing Adjustment Amount.

(iv) The Parties shall attempt to resolve any disputed items which Seller notified Buyer of pursuant to Section 2.1(c)(iii) above (the "Disputed Items") within thirty (30) days (or such longer period as mutually agreed by the Parties) after receiving written notice from Seller. If during such thirty (30) day period (or such longer period, as applicable) any Disputed Items cannot be resolved, Seller and Buyer shall, within ten (10) days thereafter, cause a mutually agreed upon arbitrator, which shall be a nationally recognized accounting firm or other qualified firm mutually acceptable to the Parties, to promptly review this Agreement and the remaining Disputed Items for purposes of resolving the Disputed Items and calculating the Final Closing Adjustment Amount. If Buyer and Seller are unable to mutually agree upon such arbitrator within twenty (20) days, either Buyer or Seller may thereafter request that the American Arbitration Association select such arbitrator and such selection shall be binding upon the Parties. In making such calculation, such arbitrator shall make a determination only of Disputed Items not resolved by the

Parties and in the case of all other items shall use the amounts which are agreed upon by the Parties. Such arbitrator shall be instructed to deliver to Seller and Buyer, as promptly as practicable, but in no event later than thirty (30) days after the date such Disputed Items are submitted to the arbitrator, a report setting forth its resolution of the remaining Disputed Items and its calculation of the Final Closing Adjustment Amount which report shall be final and binding upon the Parties hereto. The cost of such review and report shall be borne by the Party against whom the disagreement is in large part resolved or, if the resolution does not substantially favor either Party, such costs shall be borne equally by Seller and Buyer. In all events, such arbitrator shall determine the assessment of such costs.

(v) The Preliminary Closing Adjustment Amount as agreed to by the Parties (including agreement demonstrated by Seller's silence pursuant to Section 2.1(c)(iii) above) or as calculated by the arbitrator pursuant to Section 2.1 (c)(iv) above, as the case may be, shall be the "Final Closing Adjustment Amount", which shall be conclusive for all purposes of this Agreement. If the Final Payment Amount is positive, Buyer shall promptly pay to Seller, in the manner provided herein, the Final Payment Amount, and if the Final Payment Amount is negative, Seller shall promptly pay to Buyer, in the manner provided herein, the absolute value of the Final Payment Amount. Any payments pursuant to this Section 2.1(c)(v) shall be made within two (2) Business Days after the determination of the Final Closing Adjustment Amount and related Final Payment Amount and shall be made by causing such payments to be credited in immediately available funds to the account of Buyer or Seller, as the case may be, as may be designated by the Party receiving payment.

(vi) Notwithstanding the timing requirements governing the calculation of the Adjusted Net Working Capital set forth in Sections 2.1(c)(ii), (iii), (iv) and (v) above, to the extent certain information from local distribution companies or independent system operators is required for such calculation and is not timely available to be reflected on the Preliminary Closing Adjustment Schedule to be delivered by Buyer within 90 days after the Closing Date, the Parties agree that a reasonable estimate of such amounts shall be utilized for such purpose. If such information becomes available within one (1) year after the Closing Date, an additional adjustment to the Purchase Price shall be effected promptly by the Parties based on such information; otherwise, if such information does not become available within one (1) year of the Closing Date, an additional adjustment to the Purchase Price shall be effected promptly by the Parties using a reasonable estimate based upon the best information available at such time, in each case, in accordance with the terms of this Agreement as if such information had been timely available within 90 days after the Closing Date. For the avoidance of doubt, no additional adjustments shall be made for such information that becomes available after one (1) year after the Closing Date. The dispute resolution mechanism set forth in Section 2.1(c)(iii), (iv) and (v) above shall apply, *mutatis mutandis* to the calculation of such adjustment.

**Section 2.2. Allocation.**

(a) As promptly as practical, but in no event later than ninety (90) days after the Closing Date, Buyer shall deliver to Seller a statement (the "Allocation Statement") reflecting the allocation of the Purchase Price, as adjusted, to reflect assumed liabilities and other amounts deemed paid by Buyer for federal income Tax purposes, all in accordance with the Treasury Regulations promulgated under Section 338(h)(10) of the Code (the "Allocation").

(b) Within thirty (30) days following the receipt by Seller of the Allocation Statement, Seller shall review the Allocation Statement. If Seller does not object to the Allocation Statement (by written notice to Buyer specifying the reasons therefor in reasonable detail) by the expiration of such thirty (30) day period, it shall be deemed agreed upon by the Parties and shall be deemed conclusive for purposes of the Allocation.

(c) The Parties shall attempt to resolve any dispute with respect to the Allocation Statement within fifteen (15) days after Buyer receives notice of such dispute from Seller. If during such fifteen (15) day period, or such longer period as may be mutually agreed by the Parties, any dispute cannot be resolved, each of Buyer and Seller may allocate the Purchase Price and report the sale as each of Buyer and Seller determine in their sole discretion. If Buyer and Seller do agree upon an Allocation Statement (or Seller does not timely propose any changes thereto), neither Buyer nor Seller nor any of their Affiliates shall file any Tax Return or take a position with any Tax Authority that is inconsistent therewith unless otherwise required by Law. If any Tax Authority disputes any portion of an Allocation Statement, the Party receiving notice shall notify the other Party concerning the dispute and its resolution.

(d) In the event that there is any adjustment to the Purchase Price subsequent to the determination of the Allocation, then within fifteen (15) days following any such adjustment, the Parties shall make any resulting adjustments to the Allocation in a manner that is consistent with the events that gave rise to the adjustment of the Purchase Price or, if they cannot agree within fifteen (15) days, in accordance with Section 2.2(c).

## ARTICLE III.
## REPRESENTATIONS AND WARRANTIES OF SELLER

Except as otherwise disclosed in the disclosure schedules delivered by Seller to Buyer on the date hereof, Seller hereby represents and warrants to Buyer as of the date hereof and as of the Closing Date as follows:

**Section 3.1. Organization and Corporate Power.**

(a) Seller is a corporation duly organized, validly existing and in good standing under the Laws of the State of Wisconsin and has the requisite corporate power and authority to execute, deliver and perform this Agreement and each of the Related Agreements to which it is a party.

(b) The Company is a corporation duly organized, validly existing and in good standing under the Laws of the State of Wisconsin. Each of the Acquired Entities other than the Company is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, as set forth on Schedule 3.1.

(c) Seller has made available to Buyer the articles of incorporation and bylaws (or similar organizational documentation) of the Company and each other Acquired Entity and the same are true and complete, as amended through the date hereof. The Company is not in default under or in violation of any of the provisions of its articles of incorporation or bylaws, and no other Acquired Entity is in default under or in violation of its organizational documents.

**Section 3.2. Authorization; Validity**.

(a) Seller or its Affiliates, as applicable, each have all necessary right, power, capacity and authority to execute and deliver this Agreement and each of the Related Agreements to which it is a Party, to consummate the transactions contemplated hereby and thereby and to perform its obligations hereunder and thereunder, and no other corporate or limited liability company actions (or other action of the appropriate organizational types for any Affiliate that is not a corporation or limited liability company) on the part of Seller or its Affiliates are necessary to authorize the execution, delivery and performance of this Agreement or any of the Related Agreements to which Seller or any of its Affiliates is a party or the consummation of the transactions contemplated hereby or thereby.

(b) This Agreement has been duly executed and delivered by Seller and constitutes the valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in effect relating to creditors' rights generally, and general equitable principles (whether considered in a proceeding in equity or at law). When executed and delivered by Seller or any of its Affiliates (excluding the Company and each of the other Acquired Entities) on the Closing Date, each of the Related Agreements to which such Person is a party shall have been duly executed and delivered by such Person and shall constitute the valid and binding obligation of such Person, enforceable against such Person in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in effect relating to creditors' rights generally, and general equitable principles (whether considered in a proceeding in equity or at law).

**Section 3.3. Qualification and Corporate Power of the Acquired Entities**. The Company and each of the other Acquired Entities is duly licensed or qualified to transact business as a foreign corporation in each jurisdiction in which the nature of the business transacted by it or the character of the properties owned or leased by it requires such licensing or qualification. The Company and each of the other Acquired Entities has the requisite corporate power and authority to own, lease or otherwise hold its properties and assets and to carry on its business as now conducted.

**Section 3.4. No Conflict**. Except as set forth on Schedule 3.4, the execution, delivery and performance by Seller or any of its Affiliates of this Agreement and each of the Related Agreements and other documents and instruments contemplated hereby or thereby to which Seller or any of its Affiliates is a party, and the consummation by Seller and any of its Affiliates of the transactions contemplated hereby and thereby, will not (a) violate, conflict with or result in a breach of any provisions of the certificate of incorporation, bylaws or other similar organizational documents of Seller, any such Affiliates or any Acquired Entity, (b) violate any Law or any Governmental Order applicable to Seller, any such Affiliates or any Acquired Entity or (c) violate or conflict with, in any material respect, or constitute (with due notice or lapse of time or both) a material default under, any Material Contract.

**Section 3.5. Capital Stock**.

(a) Seller is the sole record and beneficial owner of all of the authorized, issued and outstanding capital stock of the Company, consisting of 1,296 shares of common stock, no par value. Schedule 3.5 sets forth for each Acquired Entity other than the Company: (i) its authorized capital stock, (ii) the number of issued and outstanding shares of its capital stock and (iii) the holder of all of its shares of capital stock. There are (w) no authorized or outstanding subscriptions, warrants, options, convertible securities or other rights (contingent or otherwise) to purchase or otherwise acquire from any Acquired Entity any equity interests of or in such Acquired Entity, (x) no commitments on the part of any Acquired Entity to issue shares, subscriptions, warrants, options, convertible securities, partnership interests or other similar rights, (y) no equity securities of any Acquired Entity reserved for issuance for any such purpose and (z) no outstanding or authorized stock appreciation, phantom stock, profit participation or similar rights with respect to any Acquired Entity. No holder of Indebtedness of any Acquired Entity has any right to convert or exchange such Indebtedness for any equity securities or other securities of an Acquired Entity or the right to vote for the election of directors or managers or on any other matters with respect to such Acquired Entity. No Person, other than the Seller or an Acquired Entity, owns any capital stock or other interest in the Company or another Acquired Entity. Neither the Company nor any other Acquired Entity owns any capital stock, voting securities, or other equity interest in any Person (other than other Acquired Entities and, as of the date hereof, the Excluded Entities).

(b) Neither the Company nor any other Acquired Entity has an obligation (contingent or other) to purchase, redeem or otherwise acquire its equity securities. Except for this Agreement, there is no voting trust or agreement, stockholders agreement, pledge agreement, buy-sell agreement, right of first refusal, preemptive right or proxy relating to any equity securities of any Acquired Entity. Other than as provided for on Schedule 3.5, neither the Company nor any other Acquired Entity owns any equity interests in any Person. Neither the Company nor any other Acquired Entity is subject to any obligation or requirement to provide funds to or make any investment (in the form of a loan, capital contribution or otherwise) in any other Person.

(c) All of the Stock has been duly authorized and validly issued, is fully paid and nonassessable, and shall as of the Closing be free and clear of all Liens. All capital

stock of each Acquired Entity (other than the Company) has been duly authorized and validly issued, is fully paid and nonassessable, and shall as of the Closing be free and clear of all Liens.

**Section 3.6. Financial Statements; Undisclosed Liabilities**.

(a) Seller has made available to Buyer true and complete copies of (i) the audited consolidated balance sheet of the Company as of December 31, 2013 and the related audited consolidated statement of income and cash flows for the year ended December 31, 2013 and (ii) the unaudited consolidated balance sheet of the Company, as of April 30, 2014 (collectively, the "Company Financial Statements"). The Company Financial Statements are set forth in Schedule 3.6(a), are consistent with the Books and Records of the Company, have been prepared in accordance with GAAP consistently applied, and fairly present in all material respects the financial condition and the results of operations and cash flows of the Company as of the dates thereof and the results of its operations for the periods covered thereby.

(b) Seller has made available to Buyer the unaudited pro forma balance sheet and statement of income of the Marketing Company Group as of May 31, 2014 (collectively, the "Marketing Company Group Financial Statements" and together with the Company Financial Statements, the "Financial Statements"). The Marketing Company Group Financial Statements are set forth in Schedule 3.6(b), are consistent with the Books and Records of the Company, have been prepared in accordance with GAAP consistently applied and fairly presents in all material respects the financial condition of the Marketing Company Group as of the date thereof, except that (i) no statement of cash flows, shareholders equity or comprehensive income have been included and no footnotes have been included and (ii) certain pro forma adjustments have been made as are noted on the Marketing Company Group Financial Statements.

(c) Except as set forth on Schedule 3.6(c), no Acquired Entity has any liability or obligation (whether accrued, absolute, contingent or otherwise) which, individually or in the aggregate, is material to the Marketing Company Group other than (i) liabilities reflected or reserved against in the Financial Statements, (ii) liabilities or obligations that have arisen since December 31, 2013, in the ordinary course of business, none of which would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect, (iii) liabilities or obligations arising from the transactions and positions disclosed on the Initial Customer List or the Initial Position Report delivered to Buyer pursuant to this Agreement (or the updated Customer List or Position Report delivered pursuant to Section 5.16 prior to the Closing, as applicable), and incurred in accordance with the terms of the applicable underlying Contract, or (iv) liabilities or obligations incurred in accordance with the terms of this Agreement or any Material Contract.

(d) Except with respect to Seller Credit Support and expenses incurred under Affiliate Contracts which are reimbursed by, or otherwise passed through to, an Acquired Entity, Seller and its Affiliates (other than the Acquired Entities) do not maintain in their

respective financial Books and Records any material liability or expense reserves or similar financial accounts relating to the business of the Marketing Company Group.

**Section 3.7. Compliance with Law; Permits; Proceedings**.

(a) Except as set forth on Schedule 3.7, each of the Acquired Entities is currently in compliance in all material respects with all Laws and Governmental Orders applicable to it or its assets, properties or business (other than employment and labor Laws, which are addressed in Section 3.12, and Environmental Laws, which are addressed in Section 3.15). For the avoidance of doubt, the representation and warranty in this Section 3.7(a) includes all Laws applicable to (i) consumer credit reporting, consumer solicitation via telecommunications and other marketing methods, consumer protection (including providing all notices and obtaining all consents and registrations required under the Consumer Credit Protection Act and Telephone Consumer Protection Act), consumer debt collection (including complying with the Fair Debt Collection Practices Act), electronic signatures, and the use, disclosure or privacy of customer data, and (ii) the Business's natural gas activities in Canada and the import and export of natural gas to and from Canada.

(b) The Acquired Entities hold all licenses, franchises, permits, certificates, approvals and authorizations from Governmental Entities necessary for the lawful conduct, in all material respects, of the Business (collectively, the "Permits"), including all Permits and governmental authority to record and monitor consumer telephone conversations and all Permits and governmental registrations to engage in telemarketing and other regulated mass marketing. The Acquired Entities are in compliance in all material respects with the terms of such Permits. The Permits are valid and in full force and effect, no condition exists that with notice or lapse of time or both would constitute a default under the Permits and none of the Permits will be terminated or impaired or become terminable, in whole or in part, as a result of the transactions contemplated hereby.

(c) Except as set forth on Schedule 3.7, there are no Actions pending or, to Seller's Knowledge, threatened in writing against or involving any Acquired Entity, before or by any Governmental Entity which are material to the Marketing Company Group or that could reasonably be expected to prevent, enjoin, alter or materially delay the transactions contemplated by this Agreement.

**Section 3.8. Tax Matters**.

(a) There have been properly completed and filed on a timely basis all material Tax Returns required to be filed by or with respect to any Acquired Entity pursuant to applicable Law. All such Tax Returns were true, correct and complete in all material respects. Except as set forth on Schedule 3.8, and except for consolidated, unitary, group, or similar Tax Returns that include Seller or any of Seller's Affiliates, no Acquired Entity is currently the beneficiary of any extensions of time within which to file any material Tax Return.

(b) The Acquired Entities have complied with all applicable Tax Laws in all material respects and all material Taxes required to be paid to a Tax Authority by or with

respect to the Acquired Entities or the Business have been paid, except such Taxes if any, as set forth on Schedule 3.8 that are being contested in good faith.

(c) Except as set forth on Schedule 3.8, there is no Action, suit, proceeding, investigation, audit or claim pending or, to the Knowledge of Seller, threatened with respect to any Taxes of or with respect to any of the Acquired Entities. No Tax deficiency or adjustment to Taxes has been asserted or assessed by a Tax Authority in writing or, to the knowledge of the Seller, otherwise against or with respect to any Acquired Entity or the Business that has not been satisfied by payment, settled or withdrawn.

(d) No notice has been received from any Tax Authority in any jurisdiction in which the Acquired Entities or Seller does not file a Tax Return that the Acquired Entities or the Business may be subject to taxation by that jurisdiction.

(e) No Acquired Entity has participated (within the meaning of Treasury Regulations Section 1.6011-4(c)(3)) in any listed transaction within the meaning of Treasury Regulations Section 1.6011-4(b).

(f) Each Acquired Entity has complied in all material respects with all applicable Laws relating to the withholding of Taxes and has duly and timely withheld from employee salaries, wages and other compensation and has paid over to the appropriate Tax Authority all material amounts required to be so withheld and paid over by such Acquired Entity.

(g) Except for Permitted Liens, there are no Liens upon the assets of any Acquired Entity arising from any failure or alleged failure to pay any Tax.

(h) The Acquired Entities are not liable for the Taxes of any other Person pursuant to Section 1.1502-6 of the U.S. Treasury regulations or any similar provision of state or local Tax Law other than the consolidated group that includes the Seller, and there are no agreements with a Tax Authority or any Tax sharing, Tax allocation, Tax indemnity or similar agreement that will affect Taxes of the Acquired Entities.

(i) For federal and state income Tax purposes, the Company and the Section 338 Subsidiaries are and have been corporations since their formation.

(j) For federal and state income Tax purposes, Integrys Energy Services – Natural Gas, LLC, Compass Energy Gas Services, LLC, and Integrys Energy Services – Electric, LLC are and have been disregarded entities since their formation.

(k) There are no outstanding requests, agreements or waivers extending the statutory period of limitations applicable to the assessment, collection or payment of any federal, state, local or other Taxes or with respect to any Tax Returns required to be filed by or with respect to the Acquired Entities, and there is no extension or request for an extension of time in which to file any Tax Return of or with respect to an Acquired Entity for any Tax Return that has not yet been filed.

(l) Seller is eligible to make an election under Section 338(h)(10) of the Code with respect to the sale of the stock of the Company and the Section 338 Subsidiaries.

**Section 3.9. Material Contracts**. The Contracts listed on Schedule 3.9 include all of the Material Contracts. Seller has made available to Buyer an accurate and complete copy of each Material Contract, in each case including all amendments and supplements. Except as otherwise set forth on Schedule 3.9(a), (i) each Material Contract is in writing or pursuant to a tariff form, duly authorized and executed or otherwise authenticated by the parties thereto, is valid, binding and in full force and effect and is enforceable by the Acquired Entity that is a party thereto in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereinafter in effect relating to creditors' rights generally, and general equitable principles (whether considered in a proceeding in equity or at law), (ii) the applicable Acquired Entity has performed, in all material respects, the obligations required to be performed by it under each Material Contract and there has not occurred a material violation of, or material default or breach by, any Acquired Entity under any Material Contract and (iii) to Seller's Knowledge, the other party under each Material Contract has performed, in all material respects, the obligations required to be performed by it under such Material Contract and there has not occurred a material violation of, or material default or breach by, any other party under any Material Contract. Except as reflected in Adjusted Net Working Capital or as set forth in Schedule 3.9(b), (a) no customer under the Customer Contracts has made any prepayments in connection therewith nor does the Seller or any of its Affiliates, hold any deposits of customers in connection with the Customer Contracts and (b) no customer has a right to setoff amounts owed to the Seller or any of its Affiliates under any Customer Contract. The Initial Position Report is accurate and complete in all material respects as of the date thereof.

**Section 3.10. Consents and Approvals**. Except as set forth on Schedule 3.10 and except for (i) the filings required by the HSR Act and the expiration or earlier termination of all waiting periods under the HSR Act and (ii) any required approvals under the Federal Power Act (the filings and approvals referred to in clauses (i) and (ii) above are collectively referred to as the "Seller's Required Approvals"), no declaration, filing or registration with, or notice to, or authorization, consent or approval of any Governmental Entity or any third party is necessary for the consummation by Seller, the Company or any of the Acquired Entities of the transactions contemplated by this Agreement, other than such declarations, filings, registrations, notices, authorizations, consents or approvals which, if not obtained or made, would not, individually or in the aggregate, have a Material Adverse Effect.

**Section 3.11. Brokers**. No Acquired Entity has any liability or obligation to pay fees or commissions to any investment banking firm, broker or finder with respect to the transactions contemplated by this Agreement except for Lazard Frères & Co. LLC or an Affiliate thereof, whose fees and expenses shall be borne exclusively by Seller without any contribution from an Acquired Entity.

**Section 3.12. Employee Benefits; Labor**.

(a) Schedule 3.12(a)(i) contains a complete and accurate list of all "employee benefit plans" within the meaning of Section 3(3) of ERISA and employee benefit programs,

including all (i) retirement, savings and other pension plans; (ii) health, medical, dental, vision, severance, insurance, disability and other employee welfare plans; (iii) employment, retention, bonus, incentive, deferred compensation, change in control, vacation, fringe benefit and other similar plans; (iv) stock options, stock purchase, restricted stock or units or other forms of equity-based compensation; (v) commission-based compensation programs; (vi) employment agreements; and (vii) any other plans, programs or arrangements providing compensation, whether or not subject to ERISA, whether written or unwritten and whether covering one person or more than one person, that are maintained by Seller, any Acquired Entity or any ERISA Affiliate with respect to any current or former employee, officer, consultant or other service provider of any Acquired Entity or to which Seller, any Acquired Entity or any ERISA Affiliate contributes on behalf of, or has any liability with respect to, any current or former employee, officer, consultant, director or other service provider of any Acquired Entity (hereafter "Employee Plans"). Schedule 3.12(a)(ii) contains a complete and accurate list of all Employee Plans sponsored by an Acquired Entity ("Company Plans").

(b) True and complete copies have been provided or made available to Buyer of all Employee Plans (or, in the case of an unwritten Employee Plan, a written description thereof), including the Form 5500 annual reports and accompanying schedules and actuarial reports as filed with the IRS for the most recently completed three plan years, most recent summary plan description, most recent determination letter or opinion letter, as applicable, issued by the IRS, any trust instruments and insurance Contracts forming a part of any Employee Plan, all amendments thereto, and with respect to each Employee Plan that is a Company Plan, all documents and correspondence relating to the Company Plan received from or provided to the Department of Labor, the PBGC, the IRS or any other Governmental Entity during the past three (3) years.

(c) All Employee Plans have been established, maintained, operated and administered in compliance with their terms and each Employee Plan complies in all material respects with the requirements of applicable Law, including, without limitation, ERISA, the Code and, as applicable, the Pregnancy Discrimination Act of 1978, the Age Discrimination in Employment Act, as amended, the Family and Medical Leave Act of 1993 and the Health Insurance Portability and Accountability Act. There are no unfunded obligations of the Seller or any of its subsidiaries under any Employee Plan that are required to be funded under applicable Law and all contributions or payments required to be made to each Company Plan have been timely made and all obligations in respect of each Company Plan have been properly accrued and reflected on each applicable Acquired Entity's financial statements.

(d) Except as provided in Schedule 3.12(d), all Employee Plans intended to be "qualified" under Section 401 of the Code have filed for or received favorable determination letters or, as applicable, opinion letters, with respect to such qualified status from the IRS. The determination letter or opinion letter for each such Employee Plan remains in effect, and no amendment made, or event relating to such an Employee Plan subsequent to the date of such determination letter, could reasonably be expected to adversely affect the qualified status of the Employee Plan.

(e) No Employee Plan that is subject to Title IV of ERISA or Section 412 of the Code (a "Title IV Plan") has incurred an unpaid minimum required contribution within the meaning of Section 412 of the Code or Section 302 of ERISA, and to Seller's Knowledge, no condition exists which would be expected to result in an unpaid minimum required contribution as of the last day of the current plan year of any Title IV Plan or other Employee Plan subject to Section 412 of the Code. The PBGC has not instituted proceedings to terminate any Title IV Plan, and no other event or condition has occurred which might constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any such Title IV Plan. Schedule 3.12(e) contains a complete and accurate list of all Title IV Plans. With respect to each Title IV Plan, no liability under Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA has been incurred by Seller or any of its ERISA Affiliates that has not been satisfied in full, no condition exists that presents a risk to Seller or any of its ERISA Affiliates of incurring such liability and no such liability will become a liability of any Acquired Entity or any of its ERISA Affiliates following Closing.

(f) None of the Acquired Entities nor any ERISA Affiliate contributes to any Multiemployer Plan. Neither the Company nor any other Acquired Entity, nor any ERISA Affiliate has incurred or reasonably expects to incur any liability for withdrawal or partial withdrawal from a Multiemployer Plan. No Employee Plan is a "multiple employer welfare arrangement" as such term is defined in Section 3(40)(A) of ERISA.

(g) There are no pending or, to Seller's Knowledge, threatened material claims, lawsuits, arbitrations or audits asserted or instituted against any Employee Plan, any fiduciary (as defined by Section 3(21) of ERISA) or administrator thereto, or Seller, any Acquired Entity, any ERISA Affiliate or any employee thereof, in connection with the existence, operation, investment of the assets (if any), or administration of any Employee Plan, other than routine claims for benefits.

(h) For each Employee Plan which is a "group health plan" within the meaning of Section 5000(b)(1) of the Code, Seller or the Company has complied in all material respects with the notice and continuation coverage requirements of Section 4980B of the Code, the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, and Part 6 of Subtitle B of Title I of ERISA and the regulations thereunder.

(i) Other than as may be required by this Agreement, neither Seller nor any of its ERISA Affiliates has any formal plan or commitment, whether legally binding or not, to create any additional Employee Plans or modify or change any existing Employee Plans that would affect any employee or terminated employee of the Company or any other Acquired Entity.

(j) No Acquired Entity has any liability or obligation under any Employee Plan or otherwise to provide benefits, including death or medical benefits (whether or not insured) with respect to any former employee of any Acquired Entity or any other Person beyond their retirement or other termination of service (other than coverage mandated by applicable Laws).

(k) Each Employee Plan that is intended to constitute a non-qualified deferred compensation plan within the meaning of Section 409A of the Code has been administered, operated and maintained in all respects according to the requirements of Section 409A of the Code and applicable guidance thereunder, and neither Seller nor any Acquired Entity has been required to withhold or pay any Taxes as a result of a failure to comply with Section 409A of the Code. Neither Seller nor any Acquired Entity has any obligation to make a "gross-up" or similar payment in respect to any Taxes that may become payable under Section 409A of the Code.

(l) Seller and the Acquired Entities are in compliance in all material respects with applicable Law respecting employment and employment practices (including all immigration and I-9 obligations), terms and conditions of employment, wages, hours of work and occupational safety and health, worker classification, equal employment opportunities, employment discrimination or disability rights or benefits, and neither Seller nor any Acquired Entity has engaged in any unfair labor practices as defined in the National Labor Relations Act or other applicable Laws. With respect to any current or former employee, officer, consultant or other service provider of any Acquired Entity, there are no Actions, suits, claims, audits, charges, grievances, arbitrations, investigations or other legal proceedings against Seller or any of its Affiliates pending, or to Seller's Knowledge, threatened to be brought or filed, in connection with the employment or engagement of any current or former employee, officer, consultant or other service provider of any Acquired Entity, including, without limitation, any claim relating to unfair labor practices, employment discrimination, harassment, retaliation, equal pay, employment classification or any other employment related matter arising under applicable Laws, except where such suit, claim, audit, charge, grievance, arbitration, investigation or other Action would not, individually or in the aggregate, result in any Acquired Entity incurring a material liability.

(m) Except as set forth on Schedule 3.12(m) or in Section 5.7, neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereunder (either alone or in combination with another event) will cause or result in the accelerated vesting, funding or delivery of, or increase the amount of, any payment or benefit to any employee, consultant, director or other service provider of any Acquired Entity for which Buyer or any Acquired Entity will be liable after the Closing. Without limiting the generality of the foregoing, no amount paid or payable by Seller, any Acquired Entity or an ERISA Affiliate in connection with the transactions contemplated hereunder will be an "excess parachute payment" within the meaning of Section 280G of the Code.

(n) Neither the Company nor any Acquired Entity is bound by any agreement with any trade union, works council, employee representative body or labor organization covered by the National Labor Relations Act and, as of the date of this Agreement, no petition for recognition of labor organization is pending or has been threatened in writing. There is no labor strike, material labor dispute, or concerted work stoppage pending or, to Seller's Knowledge, threatened. Since January 1, 2011 (i) Seller and the Acquired Entities have not experienced any labor strike or material concerted labor dispute and (ii) Seller and the

Acquired Entities have complied with all applicable labor Laws in connection with the employment of their employees.

(o) Since January 1, 2011, (i) none of the Acquired Entities or Seller has effectuated a "plant closing" (as defined in the WARN Act) affecting any site of employment or one or more facilities or operating units within any site of employment or facility, (ii) there has not occurred a "mass layoff" (as defined in the WARN Act) in connection with the Acquired Entities affecting any site of employment or one or more facilities or operating units within any site of employment or facility and (iii) none of the Acquired Entities or Seller has been affected by any transaction or engaged in layoffs or employment terminations sufficient in number to trigger application of any similar state, local or foreign Law. No Company Employee has experienced an "employment loss," as defined by the WARN Act, within the past ninety (90) days.

(p) Schedule 3.12(p) sets forth, as of the date hereof, the following information with respect to each employee, officer, consultant or other service provider of any Acquired Entity: (i) each such person's title or job/position; (ii) each such person's job designation (*i.e.*, salaried, hourly, or independent contractor); (iii) each such person's location of employment; (iv) each such person's employing entity; (v) each such person's annual base rate of compensation and target annual bonus amount in effect prior to the date hereof; (vi) each such person's service date; and (vii) each such person's status (*i.e.*, active or approved leave of absence) and expected return date, and, if applicable, whether such person is on short-term disability under Seller's short-term disability policy.

**Section 3.13. Title to Properties**.

(a) Schedule 3.13(a) sets forth a true and complete list of all Company Leases material to the Marketing Company Group (including all amendments, extensions, renewals, guaranties and other agreements with respect thereto), including the date and name of the parties to such Company Lease document. Seller has made available to Buyer a true and complete copy of each such Company Lease document. Except as set forth in Schedule 3.13 (a), with respect to each such Company Lease: (i) such Company Lease is legal, valid, binding, enforceable and in full force and effect with respect to the Acquired Entity that is a party thereto, and, to Seller's Knowledge, is legal, valid, binding, enforceable and in full force and effect with respect to the counterparty; (ii) the purchase and sale of the Stock to Buyer pursuant to this Agreement does not require the consent of any other party to such Company Lease, will not result in a breach of or default under such Company Lease, or otherwise cause such Company Lease to cease to be legal, valid, binding, enforceable and in full force and effect on identical terms following the Closing Date; (iii) the Company's or Acquired Entity's possession, as applicable, and quiet enjoyment of such Company Lease has not been disturbed in any material respect; (iv) neither the Acquired Entity that is party thereto nor, to Seller's Knowledge, any other party to such Company Lease is in breach or default under such Company Lease, and no event has occurred or circumstance exists which, with the delivery of notice, the passage of time or both, would constitute such a breach or default, or permit the termination, modification or acceleration of rent under such Company Lease; (v) the Acquired Entity that is a party thereto has not subleased, licensed or otherwise

granted any Person the right to use or occupy such Company Lease or any portion thereof; (vi) the Acquired Entity that is a party thereto has not collaterally assigned or granted any other security interest in such Company Lease or any interest therein; and (vii) there are no Liens on the estate or interest of the Acquired Entity that is a party thereto created by such Company Lease other than Permitted Liens.

(b) The Acquired Entities do not own any real property.

(c) No personal property material to any Acquired Entity is subject to any Lien other than Permitted Liens.

(d) Each Acquired Entity has good and valid title to all tangible personal property and assets reflected on the Financial Statements or subsequently acquired, except for properties and assets sold in the ordinary course of business (consistent with past practices) after the date as of which such Financial Statements were prepared and Excluded Assets.

(e) Except as set forth on Schedule 3.13(e), as may be included in the Excluded Assets or as may be provided by Seller or its Affiliates under the Related Agreements, the property and assets owned or leased by the Marketing Company Group constitute all of the material property and assets used or held for use in connection with the Business.

**Section 3.14. Insurance**. Schedule 3.14 sets forth a list of the material current insurance policies that the Company or any other Acquired Entity holds or under which any Acquired Entity is the beneficiary or under which any of employees, officers, directors, properties or assets are covered (the "Company Insurance Policies"). The Company Insurance Policies are in full force and effect and premiums with respect thereto covering all periods up to and including the date of this Agreement and the Closing Date have been paid. Seller has no Knowledge of any pending or threatened termination of such policies or, except in the ordinary course of business, premium increase with respect thereto. Seller has made available to Buyer a true and complete list of all pending insurance claims, including workers' compensation claims (whether or not self insured), involving any Acquired Entity or its employees.

**Section 3.15. Compliance With Environmental Laws**. Except as set forth on Schedule 3.15, (a) each of the Acquired Entities is in material compliance with all applicable Environmental Laws, (b) none of the Acquired Entities has material liability under applicable Environmental Laws, and (c) no written notices of material violation of Environmental Laws relating to the operations of the Marketing Company Group or the Real Property or any properties owned, leased, operated, or otherwise held by Seller or any Acquired Entity have been received by and are pending against any Acquired Entity. This Section 3.15 contains the sole and exclusive representations and warranties of Seller with respect to environmental matters.

**Section 3.16. Intellectual Property**.

(a) Except for the Intellectual Property set forth on Schedule 3.16(a)(i) (the "Company Intellectual Property"): (i) the Acquired Entities do not own, license or otherwise possess any material Intellectual Property and (ii) Seller and its Affiliates other than the Acquired Entities do not have any rights (including but not limited to ownership or licensure

of) any material Intellectual Property exclusively or primarily for the benefit of the Acquired Entities or any of them. Other than as set forth on Schedule 3.16(a)(ii), (i) no Person other than an Acquired Entity owns or has any other right in or to, or has claimed any ownership or other right in or to, any Company Intellectual Property which is material to the Business as currently conducted and (ii) to Seller's Knowledge, no Person is infringing upon any Company Intellectual Property material to the Business as currently conducted. Other than as set forth on Schedules 3.16(a)(i) and 3.16(a)(ii), there is no Action pending or, to Seller's Knowledge, threatened in writing against Seller (with respect to the Company) or any Acquired Entity asserting that its use of any Intellectual Property infringes upon the rights of any third parties. The Company Intellectual Property does not violate or infringe and has not violated or infringed, in any material respect, any Intellectual Property of any other Person.

(b) Except as would not individually or in the aggregate, reasonably be expected to have a Material Adverse Effect, the Company Intellectual Property constitutes all material Intellectual Property that is used in connection with the Business as currently conducted.

**Section 3.17. Absence of Change.** Except as set forth on Schedule 3.17, since December 31, 2013, the Marketing Company Group has conducted its business in the ordinary course of business and has not suffered any change in business, condition (financial or otherwise) or results of operations that would reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect. Except as set forth on Schedule 3.17, from December 31, 2013 until the date hereof, there has not been any action taken by the Marketing Company Group that, if taken during the period from the date of this Agreement through the Closing Date without Buyer's consent, would constitute a breach of Section 5.5(a)(i), (iv), (vi), (vii), (xii), (xiv), (xv), (xvi), (xvii), (xix), (xxi), (xxiii), (xxiv) or (xxv). Except as set forth on Schedule 3.17, from May 31, 2014 until the date hereof, there has not been any action taken by the Marketing Company Group that, if taken during the period from the date of this Agreement through the Closing Date without Buyer's consent, would constitute a breach of Section 5.5(a)(xviii).

**Section 3.18. Sufficiency of Assets**. Except as set forth on Schedule 3.18, the assets and properties owned or leased by the Acquired Entities, or which the Acquired Entities otherwise have the legal right to use, include all of the assets and properties necessary to conduct the Business in the same manner as is currently conducted, other than any assets or properties of Seller and its Affiliates that the Marketing Company Group will be provided access to after the Closing pursuant to the services provided under the Transition Services Agreement.

**Section 3.19. Related Party Transactions**. Schedule 3.19 sets forth an accurate and complete list of all Contracts and other commitments, transactions or arrangements, whether or not entered into in the ordinary course of business, to or by which an Acquired Entity, on the one hand, and Seller or any of its Affiliates other than an Acquired Entity, on the other hand, is a party or is otherwise bound). Except as set forth in Schedule 3.19, (a) no Acquired Entity has guaranteed or otherwise undertaken or assumed liability for, and no assets of any Acquired Entity are subject to any Lien securing, any obligations of any Affiliate of Seller (other than an Acquired Entity), other than Permitted Liens; (b) no Affiliate of Seller has guaranteed or otherwise assumed liability

for, or granted any Lien securing or posted collateral or other support for, any obligation of any Acquired Entity; (c) no Affiliate of Seller (other than an Acquired Entity) owns or otherwise holds any interest in (i) any properties or assets that are reflected in the Financial Statements; or (ii) except for assets utilized by Affiliates of Seller (other than an Acquired Entity) in providing services under the Contracts described on Schedule 3.19 (including the Excluded Assets), any properties, assets, or Contracts utilized by any Acquired Entity.

**Section 3.20. Company Risk Policy and Company Credit Policy**. Attached to Schedule 1.1(h) and Schedule 1.1(i) are true and complete copies of the Company Risk Policy and the Company Credit Policy, respectively, each as in effect as of the date hereof. Each of the Acquired Entities is in compliance in all material respects with the Company Risk Policy and the Company Credit Policy. The Acquired Entities are within the risk parameters that are set forth in the Company Risk Policy and the Company Credit Policy, as such policies were in effect at the date of entry into any applicable transaction.

**Section 3.21. Inventory**. All gas imbalances recorded as accounts receivable or current liabilities, and all Storage Inventory, are owned by an Acquired Entity in the amounts specified in the Books and Records of the applicable Acquired Entity, and are available for use in the ordinary course of business by such Acquired Entity.

**Section 3.22. Customers**.

(a) Schedule 3.22(a) sets forth a true and complete list of the top twenty-five (25) gas and electricity customers of the Marketing Company Group (in terms of total sales for 2013). Each such customer enrolled for service with an Acquired Entity voluntarily (except for enrollments by contractual assignment or by operation of Law), and such enrollment was in compliance with all applicable provisions of such customer's Customer Contract, except where such non-compliance would not reasonably be expected to have a Material Adverse Effect.

(b) Except as set forth on Schedule 3.22(b), since January 1, 2013, there have been no material written complaints or disputes relating to the Business by or related to any of the customers identified on Schedule 3.22(a).

(c) The Acquired Entities have taken reasonable measures to protect the confidential and proprietary information contained in any Customer List provided to Buyer. Neither Seller nor any Acquired Entity has sold or licensed any rights to any confidential or proprietary information contained in any such Customer Lists or any portion thereof to any Person other than for use in connection with services rendered to the Acquired Entities.

(d) Except as set forth on Schedule 3.22(d), no Acquired Entity has in effect any rebate, concession or similar promotion, program, plan or policy in which any customer participates that would require the payment or award in the future of any material benefit to any such customer in excess of $25,000 per year.

(e) The Initial Customer List is accurate and complete in all material respects as of the dates specified therein.

## ARTICLE IV.
## REPRESENTATIONS AND WARRANTIES OF BUYER

Except as otherwise disclosed in the disclosure schedules delivered by Buyer to Seller on the date hereof, Buyer hereby represents and warrants to Seller as of the date hereof and as of the Closing Date as follows:

**Section 4.1. Formation and Power of Buyer**. Buyer is a limited liability company duly organized, validly existing and in good standing under the Laws of Pennsylvania and has the requisite limited liability company power and authority to execute, deliver and perform this Agreement and each of the Related Agreements to which it is a party.

**Section 4.2. Authorization; Validity**.

(a) Buyer has all necessary right, power, capacity and authority to execute and deliver this Agreement and each of the Related Agreements to which it is a party, to consummate the transactions contemplated hereby and thereby and to perform its obligations hereunder and thereunder, and no other limited liability company actions on the part of Buyer are necessary to authorize the execution, delivery and performance of this Agreement or the Related Agreements to which Buyer is a party or the consummation of the transactions contemplated hereby or thereby.

(b) This Agreement has been duly executed and delivered by Buyer and constitutes the valid and binding obligation of Buyer, enforceable against Buyer in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in effect relating to creditors' rights generally, and general equitable principles (whether considered in a proceeding in equity or at law). When executed and delivered by Buyer or any of its Affiliates on the Closing Date, each of the Related Agreements to which such Person is a party shall have been duly executed and delivered by such Person, and shall constitute the valid and binding obligation of such Person, enforceable against such Person in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar Laws now or hereafter in effect relating to creditors' rights generally, and general equitable principles (whether considered in a proceeding in equity or at law).

**Section 4.3. No Conflict**. The execution, delivery and performance by Buyer of this Agreement and each of the Related Agreements and all other documents and instruments contemplated hereby to which Buyer is a party and the consummation by Buyer of the transactions contemplated hereby and thereby will not (a) violate, conflict with or result in a breach of any provisions of the certificate or articles of incorporation, bylaws or other similar organizational documents of Buyer, (b) violate in any material respect any Law applicable to Buyer or any Governmental Order applicable to Buyer, or (c) violate or conflict with, in any material respect,

or constitute (with due notice or lapse of time or both) a material default under any material Contract of Buyer.

**Section 4.4. Consents and Approvals**. Except for (i) the filings required by the HSR Act and the expiration or earlier termination of all waiting periods under the HSR Act and (ii) any required approvals under the Federal Power Act (the filings and approvals referred to in clauses (i) through (ii) above are collectively referred to as the "Buyer's Required Approvals"), no registration or filing with, or consent or approval of or other action by, any Governmental Entity or any other Person is, or will be, necessary for the valid execution, delivery and performance by Buyer of this Agreement or any of the Related Agreements to which Buyer is a party and the consummation of the transactions contemplated hereby and thereby, except where the failure to make or obtain such registrations, filings, consents, or approvals would not reasonably be expected to have a Buyer Material Adverse Effect.

**Section 4.5. Brokers**. Neither Buyer nor any Affiliate of Buyer has any Contract, arrangement or understanding with any investment banking firm, broker or finder with respect to the transactions contemplated by this Agreement.

**Section 4.6. Financing**. Buyer has available to it, and will have available to it at the Closing, sufficient funds to pay the Purchase Price, together with all other fees and expenses payable by Buyer in connection with the transactions contemplated by this Agreement.

**Section 4.7. Investment**. Buyer is acquiring the Stock for investment and not with a view to its sale or distribution other than in a sale or distribution which is registered under applicable securities Laws or is exempt from such registration.

**Section 4.8. Proceedings**. Except as set forth on Schedule 4.8, there are no Actions pending or, to the knowledge of Buyer, threatened in writing, against Buyer, before or by any Governmental Entity, nor are there any Governmental Orders outstanding against Buyer, which would reasonably be expected to have a Buyer Material Adverse Effect or that could reasonably be expected to prevent the transactions contemplated by this Agreement.

**Section 4.9. Tax Matters**. Buyer is eligible to make an election under Section 338 (h)(10) of the Code with respect to the acquisition of the stock of the Company and the Section 338 Subsidiaries.

## ARTICLE V.
## COVENANTS

**Section 5.1. Access to Information; Continuing Disclosure**. Subject to applicable requirements of Law, including under antitrust Laws, Seller and Buyer shall cooperate in developing a mutually acceptable transition plan, which shall include (a) from the date hereof until the earlier of (x) the Closing or (y) the termination of this Agreement pursuant to its terms, reasonable access, at reasonable times and upon reasonable notice during normal business hours, to the employees, properties, Books and Records (other than the Excluded Records) of the Acquired Entities; provided, however, that Seller shall have the right to (i) have Seller

representative(s) present with the representative(s) of Buyer at all times that such Buyer representative(s) is on any properties of, or conducts a meeting or interview (whether in-person, telephonically or by other communication method) with any employee of, any Acquired Entity or Seller, and (ii) impose reasonable restrictions and requirements on such access as necessary for safety, security and confidentiality purposes; (b) the furnishing of financial and operating data and other information related to the Business reasonably requested by Buyer; and (c) Reasonable Efforts to facilitate the transition of data and information technology at or as soon as reasonably practicable after the Closing. Such access shall not include permitting Buyer or its representatives to conduct any sampling or testing of any environmental media or building materials, including soil, groundwater, surface water, sediment or air, at or around the Real Property. Promptly upon completion of any such access by such Buyer representative(s), Buyer shall repair any damage caused by such Buyer representative(s), and indemnify Seller and the Acquired Entities for any Adverse Consequences incurred by Seller or an Acquired Entity and caused by such Buyer representative(s) during such access; provided that as used in this Section 5.1, Adverse Consequences shall not include any regulatory or enforcement action that is the result of information obtained or uncovered by Buyer as part of its diligence and, further, as used in this Section 5.1, Adverse Consequences shall be limited exclusively to damages caused by the representative(s) of Buyer while visiting the property of Seller and its Affiliates. Neither Seller nor any Acquired Entity shall be required to take any action that would constitute a waiver of the attorney-client or other professional privilege, and neither Seller nor any Acquired Entity need supply to Buyer any information that Seller or such Acquired Entity is prohibited under applicable Law or any other legal obligation from supplying; provided, however, that Seller shall consider in good faith appropriate and lawful measures, including entering into joint defense or similar agreements, providing documents and information on an "attorney's eyes only" basis or seeking third party consent to disclosure of confidential information, reasonably requested by Buyer in order to provide Buyer and its representatives with access as contemplated by this Section 5.1. All information furnished by or on behalf of Seller or any Acquired Entity hereunder shall be subject to the terms of the Confidentiality Agreement.

**Section 5.2. Regulatory Approvals**.

(a) Each of Buyer and Seller shall use Reasonable Efforts to each file with the United States Federal Trade Commission (the "FTC") and the United States Department of Justice (the "DOJ") the Notification and Report Form under the HSR Act required in connection with the transactions contemplated hereby within ten (10) Business Days following the execution and delivery of this Agreement, and as promptly as practicable supply additional information, if any, requested in connection herewith pursuant to the HSR Act. Any such Notification and Report Form and additional information, if any, submitted to the FTC or the DOJ shall be in substantial compliance with the requirements of the HSR Act. Each of Buyer and Seller shall furnish to the other such information and assistance as the other may reasonably request in connection with its preparation of any filing or submission which is necessary under the HSR Act. Each of Buyer and Seller shall keep the other apprised in a prompt manner of the status and substance of any communications with, and inquiries or requests for additional information from, the FTC and the DOJ and shall comply promptly with any such inquiry or request. Each of Buyer and Seller shall use its

Reasonable Efforts to obtain the termination or expiration of any applicable waiting period required under the HSR Act for the consummation of the transactions contemplated hereby. The cost of all filing fees under the HSR Act shall be borne by equally by Buyer and Seller.

(b) Each of Buyer and Seller shall use Reasonable Efforts to submit to FERC all filings necessary and required under the Federal Power Act within ten (10) Business Days following the execution and delivery of this Agreement. With respect to such filings, Buyer and Seller shall use Reasonable Efforts to obtain, and to cooperate with each other in obtaining, all consents or approvals. Buyer and Seller shall furnish to each other all such information in its possession as may be necessary for the completion of the notifications or applications to be filed by the other Party and shall give each other a reasonable opportunity to comment on such draft filing(s).

(c) Each of Buyer and Seller shall use Reasonable Efforts to submit, within thirty (30) days following the execution and delivery of this Agreement, to the appropriate agencies or third parties all declarations, filings and registrations required in connection with obtaining the Required Approvals (other than those specifically provided above) and shall take such other actions to obtain or make any other consents, filings, notices, or other actions as appropriate to consummate the transactions contemplated hereby. With respect to any such filings or consents, Buyer and Seller shall use Reasonable Efforts to obtain, and to cooperate with each other in obtaining, all consents or approvals. Buyer and Seller shall furnish to each other all such information in its possession as may be reasonably necessary for the completion of the notifications or applications to be filed by the other Party and shall give each other a reasonable opportunity to comment on such draft filing(s).

(d) In connection with any material written communications or meetings with any Governmental Entity pertaining to the transactions contemplated hereby, each Party shall: (i) inform the other in advance of any such material communication or meeting, including the subject matter, contents, intended agenda and other aspects of any of the foregoing; (ii) consult and cooperate with the other Party and to take into account, in good faith, the comments of such other Party; (iii) request for representatives of the other Party to participate in any such meeting; (iv) notify the other Party of any material oral or written communications with any Governmental Entity relating to any of the foregoing; and (v) except as restricted by applicable Law, provide the other Party with copies of all written communications with any Governmental Entity relating to any of the foregoing. Notwithstanding any of the foregoing to the contrary, this Section 5.2(d) shall not apply to any communications or meetings with any Governmental Entity pertaining to Taxes, and nothing in this Section 5.2 shall restrict the ability of any Party to respond to requests or inquiries from a Governmental Entity or to file requests for approvals that (i) such Party alone may file in accordance with this Agreement and (ii) are necessary or desirable in connection with the consummation of the transactions contemplated hereby. Seller and Buyer shall each have the right to review and consult in advance on drafts of all such applications, notices, petitions, filings and other documents made or prepared by the other in connection with the transactions contemplated by this Agreement.

(e) Without limiting the foregoing, the Parties shall use Reasonable Efforts to take, or cause to be taken, any and all steps and to make, or cause to be made, any and all undertakings necessary to avoid or eliminate each and every impediment asserted by any Governmental Entity in connection with obtaining the Required Approvals so as to enable the Closing to occur as promptly as practicable, including in order to avoid the entry of, or to effect the lifting or dissolution of, any injunction or other Governmental Order (whether temporary, preliminary or permanent) which prohibits, restrains (or seeks to prohibit or restrain), prevents or materially delays the Closing. Notwithstanding the foregoing, nothing in this Section 5.2 or otherwise in this Agreement shall require Buyer to propose, negotiate, effect or agree to, the sale, divestiture, license or other disposition of any assets or businesses of Buyer or any of its Affiliates or the Marketing Company Group or otherwise take any action that limits the freedom of action with respect to, or its ability to retain any of the businesses, product lines or assets of Buyer or any of its Affiliates or the Marketing Company Group.

**Section 5.3. Further Assurances**.

(a) From time to time from the date hereof, as and when requested by any Party hereto, the requested Party shall use Reasonable Efforts to take or to cause to be taken, all action and to do, or cause to be done, or to execute and deliver, or cause to be executed and delivered, all such documents and instruments and shall take, or cause to be taken, all such further or other actions as such other Party may reasonably deem necessary, proper or advisable to consummate the transactions contemplated by this Agreement, as promptly as practicable, including such actions as are necessary in connection with obtaining any third party consents, including the Required Approvals, or any regulatory filings as any Party may undertake in connection herewith or to satisfy the conditions and covenants contained herein. Each Party shall cooperate fully with the other Party in assisting with complying with this Section 5.3 and shall be responsible for its own costs incurred in connection with obtaining the Required Approvals. Buyer shall bear all costs incurred in connection with obtaining any third party consents and approvals arising from facts and circumstances specific to Buyer under the agreements listed in the "General Consents" section of Schedule 3.10, and Seller shall bear all costs incurred in connection with obtaining all other third party consents and approvals. Seller shall not enter into any Material Contract or grant any material waiver or other material benefit with respect to any Material Contract in order to obtain any required third party consent without the written consent of Buyer, which consent shall not be unreasonably withheld, delayed or conditioned.

(b) Seller and Buyer shall use Reasonable Efforts to implement the provisions of this Agreement, and, for such purpose, at the request of the other Party, shall, at or after the Closing, promptly execute and deliver, or cause to be so executed and delivered, such documents to the other Party and take such further action as the other Party may deem reasonably necessary or desirable to facilitate or better evidence the consummation of the transactions contemplated hereby. In addition, in furtherance of the foregoing, Buyer shall use Reasonable Efforts to assist Seller in its efforts undertaken to mitigate its obligations pursuant to Section 10.1(a)(ix) in accordance with Section 10.5.

(c) Notwithstanding anything contained in this Agreement to the contrary, the Parties shall use Reasonable Efforts to (i) appeal any injunction or restraining order or other Governmental Order adversely affecting the ability of the Parties to consummate the transactions contemplated by this Agreement and (ii) defend any litigation seeking to enjoin, prevent or delay the consummation of the transactions contemplated hereby or seeking material damages as a result thereof; provided, that (A) no Party shall be required to take any such action to the extent there is not a reasonable likelihood of prevailing on the matter in question within a reasonable amount of time and in any event prior to the Outside Date and (B) the foregoing obligation shall not restrict the right of either Party to terminate this Agreement in accordance with Section 9.1(b) provided that the Party seeking to terminate this Agreement has performed and complied with its obligations under Section 5.2 and this Section 5.3 through and including the date of such termination.

**Section 5.4. Certain Tax Matters**.

(a) All Transfer Taxes incurred in connection with this Agreement and the transactions contemplated herein shall be shared equally by Seller and Buyer. Each Party shall use Reasonable Efforts to minimize such Transfer Taxes. Buyer shall timely prepare and file, to the extent required by applicable Tax Laws, all necessary Tax Returns and other documentation with respect to all such Transfer Taxes. Buyer shall submit such Tax Returns to Seller for Seller's review and approval at least thirty (30) days prior to the filing date of such Tax Return. If Seller disputes any item on such Tax Returns, within fifteen (15) days following the receipt by Seller of the applicable Tax Return, Seller shall provide written notice to Buyer specifying the disputed item (or items) and the basis for its objection in reasonable detail. If Seller does not object to such Tax Return within such period, it shall be deemed agreed upon by the Parties and Buyer shall be permitted to file such Tax Return in the form provided to Seller. Prior to the filing of any Tax Return relating to Transfer Taxes, Seller shall pay to Buyer its share of such Transfer Taxes.

(b) The Parties shall attempt to resolve any dispute with respect to any such Tax Return relating to Transfer Taxes within ten (10) days after Buyer receives notice of such dispute from Seller. If during such ten (10) day period any dispute cannot be resolved, the Parties shall, within three (3) days thereafter, submit the item in question to a mutually agreed upon arbitrator, which shall be an independent, nationally recognized accounting firm, to resolve the dispute. If Buyer and Seller are unable to mutually agree upon such arbitrator within twenty (20) days, either Buyer or Seller may thereafter request that the American Arbitration Association select an arbitrator and such selection shall be binding upon the Parties. Such arbitrator shall be instructed to deliver to the Parties a written determination of any revisions to the Tax Return within five (5) days after the date of referral thereof to such arbitrator. The Parties agree to accept such arbitrator's determination of any revisions to the Tax Return. The cost of the services of such arbitrator shall be borne equally by Buyer and Seller. To the extent required by applicable Tax Laws, Seller or any of its Affiliates shall join in the execution of any such Tax Returns or other documentation.

(c) Buyer shall not, and shall not cause or permit the Acquired Entities or any of Buyer's Affiliates to, file an amended Tax Return with respect to the Acquired Entities for any Taxable Periods ending on or prior to the Closing Date or the portion of any Straddle Period ending at the end of the day on the Closing Date (each such Taxable Period or portion thereof, a "Pre-Closing Period") without obtaining the prior written consent of Seller, which consent shall not be unreasonably withheld, conditioned or delayed; provided, however, that if any amendment, modification or change is required by Law, Buyer shall, prior to making such amendment, modification or change, provide Seller with a draft of the subject amended Tax Return for Seller's review and approval (such approval not to be unreasonably withheld, conditioned, or delayed) at least twenty (20) days prior to the filing date of such amended Tax Return. Notwithstanding the above, Seller may withhold consent in its sole and absolute discretion if such amended Tax Return is a combined, consolidated, unitary, affiliated group or similar Tax Return. The following provisions shall govern the allocation of responsibility as between the Parties for certain Tax matters following the Closing Date:

(i) Seller shall prepare or cause to be prepared and file or cause to be filed all Tax Returns for or with respect to the Acquired Entities for all Taxable Periods ending on or prior to the Closing Date (including, for the avoidance of doubt, Tax Returns on a combined, consolidated or unitary basis with Seller) regardless of when they are to be filed. Except as otherwise provided in this Section 5.4, Seller shall pay, or cause to be paid on each Acquired Entity's behalf, the Taxes attributable to such Acquired Entity with respect to such Taxable Periods (including any amounts due to Seller or any of its Affiliates under any agreements or arrangements with respect to any liability for, or sharing of, Taxes), but only to the extent such Taxes were not included in Adjusted Net Working Capital reflected in the Final Closing Adjustment Amount. If such Taxes were included in Adjusted Net Working Capital reflected in the Final Closing Adjustment Amount, the applicable Acquired Entity or Buyer shall be responsible for and shall pay, or shall be entitled to the benefit of (in the case of a prepaid Tax), as the case may be, the amount of such Taxes; if Seller pays such Taxes on behalf of any Acquired Entity, the applicable Acquired Entity or Buyer shall reimburse Seller therefor within fifteen (15) days after receipt by Buyer of written notice that the Taxes have been paid.

(ii) Buyer shall prepare or cause to be prepared and file or cause to be filed any Tax Returns of the Acquired Entities for Taxable Periods which begin on or before the Closing Date and end after the Closing Date (a "Straddle Period"). Any Tax Return to be prepared by Buyer pursuant to this Section 5.4(c)(ii) shall be prepared in a manner consistent with practices followed in prior years with respect to similar Tax Returns, except for changes required by changes in applicable Tax Laws or changes in facts. Buyer shall provide Seller a copy of such Tax Return reasonably in advance of, and not less than thirty (30) days prior to, the due date for filing such Tax Return (unless such Tax Return is required to be filed within one month of the relevant transaction, in which case a copy of such Tax Return can be provided not less than ten (10) days prior to the due date for filing such Tax Return) and shall not file such Tax Return without Seller's written consent, which shall not

be unreasonably withheld, conditioned or delayed. If Seller disputes any item on such Tax Returns, within fifteen (15) days following the receipt by Seller of the applicable Tax Return, Seller shall provide written notice to Buyer specifying the disputed item (or items) and the basis for its objection in reasonable detail. If Seller does not object to such Tax Return within such period, it shall be deemed agreed upon by the Parties and Buyer shall be permitted to file such Tax Return in the form provided to Seller. Any disputes between the Parties with respect to such Tax Returns shall be resolved in accordance with Section 5.4(b). If the Parties cannot resolve any disputed item, the item in question shall be resolved in accordance with Section 5.4(b). Except as otherwise provided in this Section 5.4, Seller shall pay, or cause to be paid, to Buyer within fifteen (15) days after receipt by Seller of written notice that the Taxes have been paid with respect to such Taxable Periods an amount equal to the portion of such Taxes that relates to the portion of such Taxable Periods ending at the end of the day on the Closing Date, but only to the extent such Taxes were not included in Adjusted Net Working Capital reflected in the Final Closing Adjustment Amount. For purposes of this subsection, in the case of any Taxes that are imposed and are payable for a Straddle Period, the portion of such Taxes which relate to the portion of such Taxable Period ending at the end of the day on the Closing Date shall, in the case of any Taxes imposed on a periodic basis (such as real property Taxes) and notwithstanding the date that any Liens may attach to the relevant assets on account of such Taxes, be deemed to be the amount of such Tax for the entire Taxable Period during which such Taxes accrue multiplied by a fraction, the numerator of which is the number of days in the Taxable Period ending at the end of the day on the Closing Date and the denominator of which is the number of days in the entire Taxable Period. In the case of non-periodic Taxes (*i.e.*, such as Taxes that are (w) based upon or related to income or receipts, (x) imposed in connection with any capital or debt restructuring, (y) imposed in connection with any sale, distribution, or other transfer or assignment of property (real or personal, tangible or intangible) or (z) payroll and similar Taxes), the portion of such Tax which relates to the portion of such Taxable Period ending at the end of the day on the Closing Date shall be determined based on a closing of the books of the Marketing Company Group at the end of the day on the Closing Date.

(iii) Notwithstanding the foregoing, Buyer shall be solely responsible for the payment of Taxes attributable to Taxable Periods or portions thereof beginning after the Closing Date and the portion of any Straddle Period beginning after the Closing Date (each such Taxable Period or portion thereof, a "Post-Closing Period") and shall indemnify Seller for any Taxes to the extent such Tax results from or is attributable to actions taken by Buyer or its Affiliates (including, for this purpose, actions taken by the Acquired Entities on or after the Closing Date).

(d) Each Party shall provide the other Party with such assistance as may reasonably be requested by the other Party in connection with the preparation of any Tax Return, any audit or other examination by any Tax Authority or any judicial or administrative proceedings relating to liability for Taxes, and each shall retain and provide the requesting

Party with any records or information which may be relevant to such return, audit or examination, proceedings or determination. Any information obtained pursuant to this Section 5.4 or pursuant to any other Section hereof providing for the sharing of information relating to or review of any Tax Return or other schedule relating to Taxes shall be subject to the terms of the Confidentiality Agreement. Notwithstanding anything to the contrary contained in this Agreement, under no circumstances shall Seller be obligated to provide Buyer with any records or information related to any combined, consolidated, unitary, affiliated group, or similar Tax Return; provided, however, that Seller shall be instead obligated to deliver pro forma Tax Returns relating solely to the relevant Acquired Entity.

(e) In the case of any audit, examination, or other proceeding ("Tax Proceeding") with respect to any Taxable Periods ending on or before the Closing Date, Buyer shall promptly inform Seller in writing of such Tax Proceeding. In the event Buyer fails to timely provide Seller with written notice of such Tax Proceeding, Seller's obligation to indemnify Buyer or its Affiliates hereunder shall be reduced only to the extent of any Adverse Consequence arising as a result of such failure to notify. In the case of any Tax Proceeding subject to this Section 5.4(e), Seller shall be entitled, at Seller's expense, to control the conduct of such Tax Proceeding; provided, however, that Buyer shall have the right, at Buyer's expense, to attend and participate in such Tax Proceeding and give comments which Seller shall reasonably consider, but only if and to the extent such Tax Proceeding does not pertain to or include a combined, unitary, affiliated group or similar Tax Return that includes Seller or any of Seller's Affiliates.

(f) In the case of a Tax Proceeding relating to any Straddle Period in which such Tax Proceeding cannot be separated into separate proceedings for the Pre-Closing Period and the Post-Closing Period, the Seller (if the claim for Taxes attributable to the Pre-Closing Period exceeds or reasonably could be expected to exceed in amount the claim for Post-Closing Period Taxes), or otherwise Buyer (Seller or Buyer, as the case may be, the "Tax Controlling Party"), shall be entitled to control such Tax Proceeding; provided, however, that (i) the Tax Controlling Party shall provide the other party (the "Tax Non-Controlling Party") with a timely and reasonably detailed account of each stage of such Tax Proceeding, (ii) the Tax Controlling Party shall consult with the Tax Non-Controlling Party before taking any significant action in connection with such Tax Proceeding, (iii) the Tax Non-Controlling Party shall be entitled to participate in such Tax Proceeding and attend any meetings or conferences with the relevant Tax Authority, at its own expense, and (iv) the Tax Controlling Party shall not settle, compromise or abandon any such Tax Proceeding without obtaining the prior written consent of the Tax Non-Controlling Party, which consent shall not be unreasonably withheld, conditioned or delayed, if such settlement, compromise or abandonment could have an adverse impact on the Tax Non-Controlling Party or any of its Affiliates.

(g) To the extent not included in Adjusted Net Working Capital reflected in the Final Closing Adjustment Amount, any refund of Taxes paid or payable by or with respect to the Marketing Company Group shall be promptly paid as follows, or to the extent payable but not paid due to offset against other Taxes shall be promptly paid by the Party receiving

the benefit of the offset as follows: (i) to Seller if attributable to any Taxable Periods or portion thereof ending on or prior to the Closing Date, or for any Straddle Period to the extent allocable, determined in a manner consistent with Section 5.4(c)(ii), to the portion of such Straddle Period beginning before and ending at the end of the Closing Date; and (ii) to Buyer if attributable to any Taxable Periods or portion thereof beginning after the Closing Date or for any Straddle Period to the extent allocable, determined in a manner consistent with Section 5.4(c)(ii), to the portion of such Straddle Period beginning after the Closing Date.

(h) Buyer and Seller acknowledge and agree that the Excluded Assets, including the Excluded Entities, shall not be included in the sale to Buyer and that the Purchase Price reflects the exclusion of the Excluded Assets, including the Excluded Entities, from the sale to Buyer. To effectuate such result, prior to the Closing, Seller shall cause the Acquired Entities to distribute to Seller all of its right, title and interest in the membership interests and capital stock, as applicable, of the Excluded Entities and in the other Excluded Assets owned by the Acquired Entities prior to the Closing, after giving effect to all other actions taken pursuant to Section 5.8(a) with respect to the Excluded Assets. Such distribution and the deemed distribution of all of the Company's assets to Seller in accordance with the Section 338(h)(10) Elections shall constitute, for U.S. federal income Tax purposes, a series of distributions by the Company in complete cancellation or redemption of all of its stock in accordance with a plan of liquidation within the meaning of Section 332 of the Code. The Company shall hereby be considered to have adopted a plan of complete liquidation pursuant to Section 332 of the Code.

(i) With respect to Seller's sale of the Stock hereunder, Seller and Buyer shall jointly make Section 338(h)(10) Elections in accordance with applicable Tax Laws as set forth herein:

(i) Buyer and its Affiliates and Seller shall report the transfer under this Agreement consistent with the Section 338(h)(10) Elections, and shall take no position contrary thereto unless required to do so by applicable Tax Laws or pursuant to a Final Determination.

(ii) Before the Closing, Buyer shall prepare the Section 338 Forms and Seller shall use its reasonable best efforts to provide any assistance requested by Buyer in preparing the Section 338 Forms. At the Closing, Buyer shall deliver the Section 338 Forms to Seller and both Seller and Buyer shall, and shall cause their Affiliates to, (A) execute (or cause to be executed) the Section 338 Forms (but not including IRS Form 8883 or any other similar form that sets forth the allocation of consideration), and (B) comply with all requirements of Section 338 of the Code (or any other similar provision of state and local law) and the U.S. Treasury Regulations promulgated thereunder. After the Closing Date, Seller and Buyer, in respect of the Acquired Entities, shall take all actions necessary and appropriate (including timely filing all forms, Tax Returns, elections, schedules and other documents as may be required) to effect the timely Section 338(h)(10) Elections in accordance with the

requirements of Section 338 of the Code and U.S. Treasury Regulations promulgated thereunder (and any corresponding elections under state, local) for each of the Company and the Section 338 Subsidiaries with respect to the acquisition of the Stock by Buyer and any deemed acquisitions of the stock of the Section 338 Subsidiaries resulting from such elections.

(j) All Tax sharing agreements or arrangements that provide for the allocation, apportionment, sharing, or assignment of Tax liability between any Acquired Entity and Seller or Seller's Affiliates shall be terminated with respect to the Acquired Entities as of the Closing Date.

(k) Except as otherwise provide herein, on the Closing Date, none of the Acquired Entities shall incur, and neither Buyer nor any of its Affiliates shall permit or otherwise allow any Acquired Entity to incur, any "extraordinary item" as defined in U.S. Treasury Regulation Section 1.1502-76(b)(2)(ii)(C) arising from transactions not contemplated by this Agreement.

**Section 5.5. Conduct of Business of the Marketing Company Group.**

(a) From the date hereof until the Closing, Seller shall cause the Marketing Company Group to conduct its business according to its ordinary and usual course, consistent with past practices (except as is otherwise contemplated by the terms of this Agreement), and use its Reasonable Efforts to preserve the Business, maintain the rights and franchises applicable to the Business and preserve its relationships with Governmental Entities and with licensors, suppliers, dealers, customers, employees and others having business relationships with the Marketing Company Group. Without limiting the generality of the foregoing, except as expressly contemplated by this Agreement (including pursuant to Sections 5.8 and 5.9), as may be required by applicable Law or any Governmental Entity, or as set forth on Schedule 5.5, from the date hereof until the Closing, without the prior written consent of Buyer (which shall not be unreasonably withheld, conditioned or delayed), Seller shall not permit any Acquired Entity to:

(i) sell or dispose (in any one transaction or a series of transactions) of any of its material assets or properties, other than sales or dispositions in the ordinary course of business (including sales or dispositions pursuant to power or natural gas purchase or sale Contracts), sales or dispositions of obsolete or surplus assets, sales or dispositions in connection with the normal repair and/or replacement of assets or properties, sales or dispositions of Excluded Assets, or sales or dispositions in accordance with the terms of any Material Contract;

(ii) create or incur any Lien on any of its assets, except (A) Permitted Liens, or (B) if such Lien shall be released as of Closing;

(iii) amend in any material respect, terminate or assign, or waive any material rights under, any Material Contract, other than in the ordinary course of business;

(iv) create, suffer to exist, incur, assume or otherwise be liable for any Indebtedness other than (A) Indebtedness reflected on the Marketing Company Group Financial Statements, (B) Indebtedness incurred in the ordinary course of business and (C) Indebtedness to Affiliates which will be extinguished prior to or in connection with the Closing;

(v) make any capital contributions to, or investments in, any other Person;

(vi) merge or consolidate with, or acquire any or all of the capital stock or assets (including any business or line of business) of any other Person or enter into any Contract, letter of intent or similar arrangement (whether or not enforceable) with respect to the foregoing;

(vii) form any subsidiary;

(viii) assume, guarantee, endorse or otherwise become responsible for the obligations of any other Person, or make loans or advances, capital contributions to, or investments in, to any other Person, except in the ordinary course of business;

(ix) (A) grant, increase, or accelerate the vesting or payment of any compensation or benefits of any employee, officer, director, consultant or other service provider of any Acquired Entity, unless such action is required by an existing agreement, including any Employee Plan, (B) create, terminate, extend, modify or change in any respect any Employee Plan or any agreement, plan, or arrangement that would constitute an Employee Plan if it were in existence on the date hereof with respect to Company Employees (except as set forth in Section 5.7 or as may be required by applicable Law), (C) adopt, enter into, extend, renew or terminate any collective bargaining agreement or other similar agreement with respect to any Company Employee, (D) grant any new award, amend the terms of outstanding awards or change the compensation opportunity under any Employee Plan with respect to any employee, officer, director, consultant or other service provider of any Acquired Entity, or (E) terminate any Company Employee other than for cause or hire any Person whose annual base compensation exceeded or is reasonably expected to exceed $150,000;

(x) except as agreed between Buyer and Seller in writing, permit any employees who, as of the date of this Agreement, are primarily employed by any Acquired Entity to become primarily employed by Seller and its Affiliates (other than an Acquired Entity) or terminate any such employee, except for cause;

(xi) enter into or agree to enter into any Contract that would be a Material Contract other than those (A) Material Contracts executed in the ordinary course of business, including, for the avoidance of doubt, entering into non-speculative hedging arrangements of the type typically entered into by the Acquired Entities prior to the execution hereof and that are in compliance with the Company Risk

Policy and the Company Credit Policy, (B) Material Contracts which are terminable on not more than ninety (90) days' notice without penalty, fines or other Adverse Consequences, (C) having an aggregate value of less than $2,000,000, or (D) Material Contracts otherwise provided for or required in implementing another provision in this Section 5.5;

(xii) alter in any material way the manner in which it has regularly and customarily maintained its books of account and records, except as may be required by applicable Law or professional standards;

(xiii) split, exchange, combine or otherwise change its capital stock, or redeem any of its capital stock;

(xiv) issue or sell (or authorize the issuance or sale of) any shares of its capital stock or any securities or obligations convertible into or exchangeable for, or give any Person any right to acquire, any shares of its capital stock (including without limitation, any subscriptions, warrants, options, convertible securities or other rights (contingent or otherwise));

(xv) enter into any stock appreciation, phantom stock, profit participation or similar rights with respect to any Acquired Entity;

(xvi) amend or otherwise modify in any manner its articles of incorporation or bylaws or other organizational documents;

(xvii) change any method of financial accounting or accounting practice or policy used by the Company or any other Acquired Entity, other than such changes required by applicable Law or GAAP;

(xviii) fail to comply in any material respect with the Company Risk Policy or the Company Credit Policy, or to the extent the following does not conflict with the Company Risk Policy or the Company Credit Policy in effect as of the date hereof, take any of the following actions: (A) enter into transactions at negative margins (considered in the aggregate with related transactions), (B) liquidate forward hedge positions to capture realized mark-to-market value, (C) enter into transactions with a term of greater than 40 months, or (D) fail to maintain renewable energy credits sufficient to cover substantially all contracted customer positions, other than where the applicable alternative compliance payment under Law is included in the transaction price and reflected in the Company's pricing system, consistent with past practice; provided, that, in the event that any Acquired Company would be required to take any action inconsistent with clauses (A)-(D) due to the requirements of the Company Risk Policy or the Company Credit Policy, Seller shall notify Buyer as soon as commercially practicable and cooperate with Buyer to cause the applicable Acquired Company to comply with clauses (A)-(D) as closely as commercially practicable while maintaining compliance with the Company Risk Policy and the Company Credit Policy;

(xix) except as required by Law or in the ordinary course of business, make or change any Tax election, adopt or change a Tax accounting period, file any amended Tax Return, enter into any closing agreement with respect to Taxes, settle any Tax claim or assessment, surrender any right to claim a refund of Taxes, or consent to any extension or waiver of the limitation period applicable to any Tax claim or assessment, in each case solely with respect to any material Taxes paid or material Tax Returns filed directly by any Acquired Entity if such election, adoption, change, amendment, agreement, settlement, surrender or consent would be reasonably likely to materially adversely affect the Marketing Company Group with respect to a Taxable Period ending after the Closing Date, and excluding, without limitation, such items with respect to any combined, consolidated, unitary, affiliated group or similar Tax Returns;

(xx) cause the Company Insurance Policies to be canceled, non-renewed, terminated or materially modified, except in the ordinary course of business or the extent such Company Insurance Policy is replaced with commercially reasonable substitute insurance policies;

(xxi) agree to, request or adopt (A) any moratorium or suspension of payment of any Indebtedness, (B) the appointment of a receiver, administrator, liquidator, assignee, trustee or other similar official with respect to any Acquired Entity or any part of the Business, (C) an assignment for the benefit of creditors or an admission in writing of the inability of any Acquired Entity to pay its debts as they become due, or (D) any other thing under any applicable Law relating to bankruptcy or insolvency with similar effect as any of the foregoing (A) through (C);

(xxii) except as provided in Section 5.4(h), adopt a plan of complete or partial liquidation or other resolution providing for or authorizing a liquidation, dissolution, merger, consolidation or other restructuring;

(xxiii) incur any capital expenditures or any obligations or liabilities in respect thereof in excess of $250,000 in the aggregate (other than customer acquisition costs treated as capital expenditures and incurred in the ordinary course of business pursuant to the programs described in Schedule 5.5(a)(xxiii));

(xxiv) enter into any agreement or arrangement that limits or otherwise restricts in any material respect the Company, any other Acquired Entity or any of their respective Affiliates or any successor thereto or that could, after the Closing Date, limit or restrict in any material respect the Company, any other Acquired Entity, Buyer or any of their respective Affiliates, from engaging or competing in any line of business, in any location or with any Person;

(xxv) settle or resolve any pending or threatened material Action; or

(xxvi) enter into an agreement to do any of the things described in clauses (i) through (xvii) above.

(b) Until the earlier of the Closing or termination of this Agreement, within (i) ten (10) Business Days after the date that the unaudited consolidated monthly financial statements with respect to the Company have been finalized by Seller in the ordinary course of business, Seller shall deliver to Buyer copies of such unaudited monthly financial statements for such quarter, which financial statements shall be prepared from the Books and Records of the Acquired Entities consistent with past practice, together with an updated balance sheet for the Marketing Companies, prepared on the same basis as used in the Marketing Company Group Financial Statements, and (ii) ten (10) Business Days after the date that the unaudited consolidated annual financial statements with respect to the Company have been finalized by Seller in the ordinary course of business, Seller shall deliver to Buyer copies of such unaudited annual financial statements for such year, which financial statements shall be prepared from the Books and Records of the Acquired Entities consistent with past practice, together with an updated balance sheet for the Marketing Companies, prepared on the same basis as used in the Marketing Company Group Financial Statements.

(c) With respect to any written notice delivered by Seller to Buyer requesting consent to perform any activity that is prohibited without the written consent of Buyer pursuant to Section 5.5(a), Buyer shall consider such request in good faith and respond with its approval or denial of such request with reasonable promptness; provided, that, with respect to any action or inaction that would fall within the ordinary course of business but would be prohibited under Section 5.5(a) absent the consent of Buyer, if Buyer should fail to respond with its approval or denial of such consent within four (4) Business Days after delivery of Seller's written request, Buyer shall be deemed to have granted its consent for all purposes under this Agreement, so long as Seller's written request makes reference to this Section 5.5(c) and such four (4) Business Day time period.

**Section 5.6. Notice of Changes**. Prior to the Closing, Seller may notify Buyer in writing of any fact, event or circumstance first occurring or existing after the date of this Agreement that would result in the failure of any of the representations and warranties in Article III to be true and complete as of the Closing as though made at and as of the Closing. If any such failure (a) would not permit Buyer to exercise its right to terminate this Agreement in accordance with Section 9.1(e) or (b) would permit Buyer to exercise its right to terminate this Agreement in accordance with Section 9.1(e) after applicable notice and cure period have expired, but Buyer does not exercise such termination right within thirty (30) days after the date when such notice and cure periods expire, then such notice shall be deemed to have amended Article III of this Agreement, including any appropriate Schedule, with respect to such fact, event or circumstance for the purposes of Article VI hereof, but not for the other purposes of this Agreement, including Article X hereof (and Seller expressly agrees that the indemnities in Article X shall apply to such fact, event or circumstance to the extent set forth in Article X, notwithstanding such disclosure). For the avoidance of doubt, the preceding sentence shall not apply in the case where Seller notifies Buyer with respect to any fact, event or circumstance occurring or existing prior to or on the date of this Agreement or resulting from Seller's breach of or failure to comply with any covenant or

agreement in this Agreement, including Section 5.5. Any actions of the Marketing Company Group permitted by Section 5.5 or consented to by Buyer under Section 5.5 shall be deemed added to the appropriate Schedule for the purposes of the representations of Seller at Closing upon Seller providing written notice thereof to Buyer.

**Section 5.7. Employee Matters**.

(a) Company Employees.

(i) "Company Employees" shall mean all of those individuals, other than Retained Employees, who, as of the date of this Agreement, are employed as common law employees by any Acquired Entity, and such individuals are listed on Part I of Schedule 5.7(a). "Retained Employees" shall mean those employees identified and retained by the Seller with the mutual agreement of Buyer in accordance with Section 5.7(n) and includes all of those individuals listed on Part II of Schedule 5.7 (a). Individuals, other than Retained Employees, who have notified Seller or the Acquired Entities of their impending retirement but who do not retire until on or after the Closing Date are considered Company Employees for these purposes. Individuals, other than Retained Employees, who are otherwise Company Employees but who on the Closing Date are not actively at work due to a leave of absence covered by the Family and Medical Leave Act, or due to any other authorized leave of absence, shall nevertheless be treated as Company Employees.

(ii) No later than the fifteenth (15th) Business Day prior to the anticipated Closing Date, Buyer shall identify in writing to Seller which of the Company Employees it does not wish to employ following the Closing (the "Specified Employees"), which number of Specified Employees shall not exceed thirty (30). Effective immediately prior to the Closing, Seller shall cause the employment of each Specified Employee with the applicable Acquired Entity to be terminated, and the Specified Employees may be eligible for benefits in accordance with the Integrys Energy Group Severance Plan as in effect as of the date hereof (the "Severance Plan"); any benefits paid or provided to Specified Employees pursuant to the Severance Plan or otherwise shall remain the sole liability of Seller; provided that Buyer shall be responsible for the payment of any such severance benefits payable to any other Company Employees as a result of the termination of employment of such Company Employee in accordance with Section 5.7(c) below. For the avoidance of doubt, Buyer shall not be liable for any amounts that may be due to Specified Employees under a Retention Agreement.

(iii) Each Company Employee who is not a Specified Employee or a Retained Employee and who is employed by an Acquired Entity at the time of the Closing is referred to herein as a "Continuing Employee."

(b) Post-Closing Employee Benefits and Compensation. For a period of at least twelve (12) months following the Closing Date, Buyer agrees that it shall, or shall cause one of its Affiliates to, provide each Continuing Employee with: (i) annual base salary that

is not less than the annual base salary provided to such Continuing Employee immediately prior to the Closing Date; and (ii) employee and fringe benefits that, subject to Section 5.7 (g), are equivalent to the employee and fringe benefits maintained for newly-hired, similarly situated employees of Buyer or its Affiliates.

(c) Severance Benefits. If, within twelve (12) months of the Closing Date, the employment of any Continuing Employee is involuntarily terminated by an Acquired Entity, other than for cause, death or disability, or such Continuing Employee resigns by reason of the relocation, without his or her consent, of his or her work location more than fifty (50) miles from the individual's work location as of the Closing Date, Buyer shall provide, or cause to be provided, the terminated Continuing Employee with severance benefits which, subject to Section 5.7(f), are comparable, in the aggregate, to the severance benefits provided to newly-hired, similarly situated employees of Buyer or its Affiliates.

(d) Cessation of Participation in Seller Benefit Plans. Effective as of the Closing Date, each of the Acquired Entities, to the extent applicable, shall cease to be a participating employer in all Employee Plans sponsored by Seller or any of its ERISA Affiliates. All Continuing Employees shall cease to be active participants in all Employee Plans sponsored by Seller or any of its ERISA Affiliates and shall cease to accrue additional benefits under such plans for any periods from and after the Closing Date.

(e) Participation in Buyer Benefit Plans. As of the Closing Date, all Continuing Employees shall be eligible to participate in and, if elected, commence participation in the employee benefit plans (including employee benefit plans within the meaning of Section 3 (3) of ERISA), programs, policies, Contracts, fringe benefits or arrangements (whether written or unwritten) that Buyer determines Continuing Employees will participate in following the Closing Date (collectively, "Buyer's Employee Plans") pursuant to the terms and conditions of the applicable Buyer's Employee Plan. Buyer shall, or shall cause an Affiliate to, to the extent permissible under any Buyer's Employee Plan (provided that Buyer shall use Reasonable Efforts to remove any restrictions, including restrictions in any insurance policy), waive all limitations as to pre-existing condition exclusions and waiting periods with respect to eligible Continuing Employees and their eligible spouses and dependents, if applicable, under the Buyer's Employee Plans, other than, but only to the extent of, limitations or waiting periods that were in effect with respect to such employees under Seller's Employee Plans that have not been satisfied as of the Closing Date. Buyer shall, to the extent permissible under any Buyer's Employee Plan (provided that Buyer shall use Reasonable Efforts to remove any restrictions under any Buyer's Employee Plan or related insurance policy), provide each eligible Continuing Employee with credit for any co-payments and deductibles paid prior to the Closing Date in satisfying any deductible or out-of-pocket requirements under Buyer's Employee Plans for the calendar year in which the Closing Date occurs; provided that Seller provides Buyer with (i) the amount of co-payments and deductibles paid by each Continuing Employee under the Employee Plans that are "employee welfare plans" within the meaning of Section 3(1) of ERISA and (ii) all other information reasonably requested by Buyer to allow it to satisfy its obligations hereunder.

(f) Recognition of Prior Service. Except to the extent it would result in a duplication of benefits, Buyer shall, or shall cause an Affiliate to, recognize each Continuing Employee's prior service (but excluding vacation service date with respect to vacation and sick leave policies), with the Acquired Entities or their Affiliates as though it were prior service with Buyer for purposes of vesting and eligibility under Buyer's Employee Plans, including fringe benefit plans, vacation and sick leave policies, severance plans or policies (for purposes of determining the amount of severance pay only), and matching, employer non-elective or other contributions under defined contribution plans maintained or provided by Buyer or its Affiliates, in which such Continuing Employees are eligible to participate after the Closing Date; provided that Buyer shall not be required to recognize such prior service for purposes of benefit accruals under a defined benefit pension plan or any retiree medical plans.

(g) Vacation, Sick Leave and Other Time Off. Seller shall fund and cash-out each Continuing Employee's accrued but unused vacation and other paid time-off as of the Closing Date in accordance with Seller's paid time-off policies in the last regular payroll period processed by Seller with respect to the Continuing Employees following the Closing Date. Effective as of the Closing Date, each Continuing Employee shall, subject to Section 5.7(f), accrue vacation, sick leave and other paid time-off in accordance with the terms and conditions of the relevant Buyer Employee Plan described in Schedule 5.7(g); provided that during the calendar year in which the Closing Date occurs, Buyer or its Affiliates shall provide Continuing Employees with the opportunity to take unpaid time-off to the extent that a Continuing Employee's vacation request exceeds the amount of the Continuing Employee's accrued vacation under the applicable Buyer Benefit Plan (subject to Buyer's regular approval policies with respect to vacation requests in the ordinary course of business).

(h) Defined Contribution Plans. As of the Closing Date, Seller shall take all necessary action to cause the qualified defined contribution plans maintained by Seller to (i) fully vest the Continuing Employees in their account balances and/or accrued benefits under such plans and (ii) provide an age/service point contribution to the Continuing Employees based on the eligible compensation of each such Continuing Employee from January 1 of the calendar year in which the Closing Date occurs to the Closing Date. Further, to the extent allowable by Law, Buyer shall take any and all necessary action to cause the trustee of a qualified defined contribution plan of Buyer or one of its Affiliates, if requested to do so by a Continuing Employee, to accept a direct "rollover" in cash of all or a portion of such Continuing Employee's distribution from Seller's qualified defined contribution plan (excluding employer securities, but including an in-kind rollover of plan loans).

(i) Other Benefit Programs. Seller and its Affiliates shall be responsible for paying any claims of Continuing Employees submitted prior to the Closing Date for benefits under Seller's Employee Plans with respect to relocation costs and reimbursements, educational assistance and adoption assistance programs, subject to and in accordance with Seller's Employee Plans.

(j) Allocation of Certain Medical, Dental, Vision and Life Obligations. Seller shall retain all liabilities and obligations arising under any Seller medical, dental, long-term disability, vision, life insurance or accident insurance benefit plans to the extent that such liability or obligation relates to claims incurred (whether or not reported or paid) prior to the Closing Date, and Buyer shall be responsible for all liabilities and obligations arising under any Buyer medical, dental, long-term disability, vision, life insurance or accident insurance benefit plans to the extent that such liability or obligation relates to claims incurred on or after the Closing Date. For purposes of this Section 5.7(j), a claim shall be deemed to be incurred (i) with respect to medical, prescription drug, dental and vision benefits, on the date that the medical, dental or vision services or treatment giving rise to such claim are performed or the prescription drug giving rise to such claim is received, (ii) with respect to life insurance, on the date that the death occurs and (iii) with respect to long-term disability, accidental death and dismemberment and business travel accident insurance, on the date that the accident occurs.

(k) COBRA. Seller shall be responsible for providing coverage under the Consolidated Omnibus Budget Reconciliation Act ("COBRA") to any Company Employee, his or her spouse or dependent person as to whom a "qualifying event" as defined in Section 4890B of the Code has occurred prior to the Closing. Buyer and its Affiliates shall be responsible for providing coverage under COBRA to any Company Employee, his or her spouse or dependent person as to whom a "qualifying event" as defined in Section 4980B of the Code occurs on or after Closing.

(l) WARN Act. If a plant closing or a mass layoff occurs or is deemed to occur with respect to the Marketing Company Group at any time on or after the Closing, Buyer shall be solely responsible for providing all notices required under the WARN Act or by any similar state Laws, and for taking all remedial measures, including the payment of all amounts, penalties, liabilities, costs and expenses if such notices are not provided. Seller shall provide notice to each such Company Employee that it determines, in its good faith discretion, could be entitled to such notice in accordance with the WARN Act and any similar state Laws related solely to actions of Seller or its Affiliates prior to the Closing Date and not related to decisions or determinations made by Buyer with respect to the Continuing Employees hereunder.

(m) No Third Party Rights. Nothing in this Agreement is intended to amend any Employee Plan or any of Buyer's Employee Plans or affect Seller's or Buyer's right to amend or terminate any Employee Plan pursuant to the terms of such plan. No provision of this Agreement shall create any third-party beneficiary rights in any Company Employee, Specified Employee or Continuing Employee or any other participant in any Employee Plan or Buyer Employee Plan, or any respective beneficiary or dependent thereof, with respect to the compensation, terms and conditions of employment and/or benefits that may be provided to any Continuing Employee or under any benefit plan which Buyer or any of its Affiliates may maintain. Nothing herein shall be deemed to be (i) a guarantee of employment for any employee or to restrict the right of Buyer or any of its Affiliates to terminate or cause to be terminated the employment of any employee at any time for any or no reason with or

without notice or (ii) an arrangement or establishment of any employee benefit plan, program or arrangement.

(n) Retained Employees. Seller may cause, in any reasonable manner determined in Seller's discretion, the hiring by or transfer to the Excluded Entities, Seller or its Affiliates (other than the Acquired Entities) of each Retained Employee effective prior to or on the Closing Date. Effective immediately prior to the Closing, Seller shall cause the employment of any Retained Employee not hired or transferred in accordance with this Section 5.7(n) to be terminated, and Seller will be responsible for any benefits to which any such Retained Employees become entitled under the Severance Plan, any other Employee Plan, or any Retention Agreement.

(o) 2014 Annual Bonuses. Seller shall accrue all bonuses prior to the Closing Date in its accounting records that are reflected in the Financial Statements. In the event the Closing Date occurs prior to February 15, 2015, Buyer shall, or shall cause the Acquired Entities to, pay, on or prior to March 15, 2015, annual bonuses, to the extent earned, to Continuing Employees under the Acquired Entities' annual bonus and incentive arrangements, in respect of calendar year 2014 in accordance with the terms of such plan, in each case, as determined in good faith in a manner consistent with the Acquired Entities' past practice and taking into account full-year 2014 performance of the Continuing Employees and the Acquired Entities; provided that neither Buyer nor any Acquired Entity shall pay any bonus in respect of calendar year 2014 prior to February 15, 2015. In addition, in the event the Closing Date occurs on or after February 15, 2015, either (i) if the payment occurs before the Closing Date, Seller shall cause the Acquired Entities to pay all bonuses in respect of calendar year 2014 prior to March 15, 2015, and the accrual for 2014 bonuses shall be correspondingly reduced or (ii) if the payment occurs after the Closing Date, Seller shall pay all bonuses in respect of calendar year 2014 prior to March 15, 2015, and the accrual for 2014 annual bonuses shall be correspondingly reduced, in each case, for the purposes of calculating Adjusted Net Working Capital.

(p) Processing of Final Payroll and Commission Payments. Seller shall process, or cause to be processed, the payroll for all periods prior to the Closing Date. Seller shall also pay, or cause the Acquired Entities to pay, all commissions that become due and payable prior to the Closing Date under the terms of the applicable compensation or commission plan.

(q) Seller Retained Obligations. Notwithstanding the foregoing, on and after the Closing Date, Seller shall retain and be responsible for all obligations relating to vested benefits under any Tax-qualified defined benefit pension plan that is an Employee Plan in which Continuing Employees participated prior to the Closing Date. Seller shall be liable for, and indemnify and hold Buyer harmless from, all claims, demands, costs or other liabilities, including reasonable attorneys' fees: (i) related to employees who do not become Continuing Employees; (ii) to the extent such liability arises from any action, event or course of conduct (except for any action, event or course of conduct by Buyer) that occurs prior to the Closing Date; or (iii) to the extent such liability arises under or relates to any Employee

Plan that is not a Company Plan. Seller also shall remain solely responsible for all workers' compensation claims of any current or former employees, officers, directors, consultants or other service providers of any Acquired Entity which relate to events occurring on or prior to the Closing Date. Seller shall pay, or cause to be paid, all such amounts to the appropriate persons as and when due.

**Section 5.8. Excluded Assets**.

(a) The Excluded Assets shall be excluded from the transaction and Seller shall, and shall cause the Acquired Entities to, consummate the Reorganization in accordance with the terms of the Reorganization Plan set forth in Schedule 1.1(f) prior to the Closing. The "Excluded Assets" shall mean:

(i) all Seller Marks shall remain the sole property of Seller or its Affiliates, as applicable;

(ii) any refunds or credits or any other Tax assets or attributes related to Taxes to the extent attributable to Taxable Periods or portions thereof ending on or prior to the Closing Date, but only to the extent such refunds or credits were not included in Adjusted Net Working Capital reflected in the Final Closing Adjustment Amount;

(iii) the software listed on Schedule 5.8(a)(iii);

(iv) the Excluded Entities, including all assets, liabilities, properties and businesses of the Excluded Entities, and all membership interests and capital stock, as applicable, of the Excluded Entities;

(v) the Excluded Records;

(vi) all current and former insurance policies covering the Marketing Company Group, including the Company Insurance Policies; and

(vii) all pension and retiree medical assets.

(b) To the extent that any proceeds relating to the Excluded Assets are received by Buyer after the Closing, Buyer shall remit such proceeds to Seller within ten (10) Business Days of receipt.

**Section 5.9. Affiliate Transactions**.

(a) Any Indebtedness owed by any Acquired Entity to Seller or any of its Affiliates (other than an Acquired Entity) shall be repaid through deemed contributions to the capital of the applicable Acquired Entity immediately prior to the Closing and shall be cancelled and of no further force and effect. Any Indebtedness owed by Seller or any of its Affiliates (other than an Acquired Entity) to any Acquired Entity shall be repaid, through deemed distributions to Seller or its Affiliates, immediately prior to the Closing and shall be cancelled and of no further force and effect.

(b) All material Contracts solely between an Acquired Entity, on the one hand, and Seller or an Affiliate thereof (other than an Acquired Entity), on the other hand (collectively, "Affiliate Contracts"), shall be terminated on or prior to the Closing, except for those Contracts set forth on Schedule 5.9. In addition, for all Affiliate Contracts that are not terminated, in accordance with the General Release and Discharge Agreement, Seller shall be solely responsible, without any contribution from any Acquired Entity, for all obligations of the Acquired Entities allocable to the period prior to the Closing Date, other than obligations reflected in the calculation of Adjusted Net Working Capital in accordance with Schedule 1.1(b).

**Section 5.10. Related Agreements**. At the Closing, the Parties shall, or shall cause their Affiliates to, enter into the following related agreements (the "Related Agreements"):

(a) Transition Services Agreement, between the Company and IBS, an Affiliate of Seller, substantially in the form attached hereto as Exhibit A (the "Transition Services Agreement"). Between the date hereof and the Closing, the Parties shall cooperate in good faith and use Reasonable Efforts to develop and finalize (through addition, deletion or modification) the scope of transition services set forth on Annex A to the Transition Services Agreement; provided, however, under no circumstances shall IBS be obligated to provide any services to the Acquired Entities that Seller or its Affiliates do not provide to the Acquired Entities as of the Closing Date;

(b) Trademark License Assignment Agreement, between Seller and the Company, substantially in the form attached hereto as Exhibit B (the "Trademark License Assignment Agreement"), with respect to the trademarks set forth on Schedule 5.10(b); and

(c) General Release and Discharge Agreement, executed and delivered by Seller in favor of the Acquired Entities, substantially in the form attached hereto as Exhibit C (the "General Release and Discharge Agreement").

**Section 5.11. Removal of Marked Materials**. Buyer covenants and agrees to take Reasonable Efforts to delete the Seller Marks and use of the "Integrys" or "Integrys Energy Group" name as soon as reasonably practicable after the Closing. Buyer shall be solely responsible for any direct or indirect costs or expenses that it incurs in the process of removing all Seller Marks, including the cost of notifying customers and other third parties and, if applicable, filing name change certificates with the applicable jurisdictions. To the extent that any Acquired Entity uses any trademarks, service marks, corporate logos, brand names or trade, corporate or business names which are owned by Seller (or any of its Affiliates other than an Acquired Entity), or which incorporate the words "Integrys" or "Integrys Energy Group" (collectively, the "Seller Marks") on any goods, stationery, signage, invoices, receipts, forms, packaging, advertising and promotional materials, product, training and service literature and materials, computer programs or like materials ("Marked Materials"), after the Closing, Buyer shall and shall cause the Marketing Company Group to use Reasonable Efforts to limit and minimize its or the Marketing Company Group's usage of such Marked Materials; provided that in any event, Buyer shall, and shall cause the Marketing Company Group to, (a) begin the process of ceasing their usage of such Marked Materials within thirty (30) days after the Closing Date and (b) use Reasonable Efforts to cease

their usage of such Marked Materials as soon as reasonably practicable thereafter, but in any event within six (6) months after the Closing Date, unless otherwise agreed in writing by the Parties. Notwithstanding the foregoing, Buyer shall not be required to remove the Seller Marks from any Records or other materials that are intended for the internal use and operations of the Acquired Entities (as distinguished from materials commonly or frequently presented to customers, vendors, other counterparties or the general public); provided that Buyer shall not create any new Records or materials for internal use with such Seller Marks.

**Section 5.12. Files and Records**. Buyer shall cause the Acquired Entities to retain possession of the Records for a period and in a manner consistent with Buyer's generally applicable document retention policies or, if longer, such other time period required by Law; provided, that, for a period of two (2) years after the Closing Date, prior to Buyer or its Affiliates destroying or discarding any Records, Buyer shall provide at least thirty (30) days' written notice to Seller specifying in reasonable detail the Records to be destroyed or discarded; provided, further, that Buyer shall cause the Acquired Entities to retain possession of the Records relating to the ENCOA Agreement and the transactions and payments contemplated thereby until such time as the Seller has no further obligations pursuant to Section 10.1(a)(ix). After the Closing Date, Buyer shall cause the Acquired Entities to provide to Seller for any reasonable purpose relating to Seller's ownership of the Acquired Entities reasonable access to the Records upon reasonable prior notice during regular business hours and permit Seller to make such extracts and copies thereof as Seller may deem necessary, at Seller's sole expense; provided, that Seller shall have entered into an agreement with Buyer or the Company, as the case may be, containing customary terms obligating Seller to keep such materials confidential.

**Section 5.13. Confidentiality**.

(a) The Parties agree to continue to abide by the Confidentiality Agreement. From and after the Closing, the confidentiality obligations of Buyer under the Confidentiality Agreement shall terminate with respect to all "Confidential Information" (as defined in the Confidentiality Agreement) that relates exclusively to the Business and not to any of the businesses or operations of Seller, Seller's Affiliates or the Excluded Entities. From and after the Closing, Seller shall, and shall cause each of its Affiliates and its and their respective directors, officers, stockholders, employees, agents, consultants, lenders, advisors and representatives (its "Restricted Persons") to, maintain the confidentiality of, and not use for their own benefit or the benefit of any other Person (except as and to the extent permitted by the terms of this Agreement or a Related Agreement), any Confidential Information to the extent relating primarily to the Business.

(b) Neither Seller nor Buyer shall, and Seller and Buyer shall cause each of their respective Restricted Persons not to, disclose to any Person any information with respect to the legal, financial or other terms or conditions of this Agreement, any of the Related Agreements or any of the transactions contemplated hereby or thereby; provided that the foregoing does not restrict the right of any Party to disclose such information (i) to its respective Restricted Persons to the extent reasonably required to facilitate the negotiation, execution, delivery or performance of this Agreement and the Related Agreements, (ii) to

any Governmental Entity in connection with seeking the regulatory approvals set forth in Section 5.2 or (iii) to any Governmental Entity to the extent reasonably required by securities exchange requirements or in connection with any Action relating to the enforcement of this Agreement or any Related Agreement. Each Party shall advise its respective Restricted Persons with respect to the confidentiality obligations under this Section 5.13 and shall be responsible for any breach or violation of such obligations by its Restricted Persons.

(c) If a Party or any of its respective Restricted Persons become legally compelled to make any disclosure that is prohibited or otherwise restricted by this Section 5.13, then such Party shall (i) give the other Party prompt written notice of such requirement, (ii) consult with and assist the other Party in obtaining an injunction or other appropriate remedy to prevent such disclosure, (iii) use its Reasonable Efforts to obtain a protective order or other reliable assurance that confidential treatment shall be accorded to any information so disclosed and (iv) to the extent legally permissible, consult with the other Party in advance of such disclosure regarding the contents thereof. Subject to the previous sentence, the disclosing Party or such Restricted Persons may make only such disclosure that, in the opinion of its counsel, it is legally compelled or otherwise required to make to avoid standing liable for contempt or suffering other penalties.

(d) Seller shall use Reasonable Efforts to deliver to the Company, if not already in its possession, copies of all material notes, data, manuals, documents, records, data bases, programs, blueprints, memoranda, specifications, customer lists, financial reports and all other material tangible embodiments of Confidential Information relating primarily to the Business (other than Excluded Records) and which are specifically and reasonably requested by Buyer and, to the extent that Seller has not done so prior to the Closing, Seller shall, promptly following the Closing, use Reasonable Efforts to deliver the foregoing to the Company.

**Section 5.14. Non-Solicitations; Non-Compete**.

(a) Seller, for itself and on behalf of its Affiliates agrees that prior to Closing, neither Seller nor any of its Affiliates shall, without the prior written consent of Buyer, (i) initiate, solicit or knowingly encourage any inquiries or the making of any offer or proposal with respect to any transaction to acquire the Acquired Entities or the Business or any portion thereof (other than the transactions contemplated by this Agreement) that would prevent or materially impede the consummation of the transactions contemplated by this Agreement or the Related Agreements (any such other transaction, an "Alternative Transaction"), (ii) engage in any negotiations or discussions with, or provide any non-public information or data relating to the Acquired Entities or the Business to, any Person other than Buyer and its representatives, regarding, or for the purpose of facilitating, any Alternative Transaction, or (iii) otherwise cooperate, assist, participate in, facilitate or knowingly encourage, any Alternative Transaction.

(b) Seller, for itself and on behalf of its Affiliates agrees that for a period of thirty-six (36) months beginning at the Closing, neither Seller nor any of its Affiliates shall, without the prior written consent of Buyer, (i) hire any Continuing Employee or (ii) directly

or indirectly, solicit, encourage, entice or induce any Continuing Employee to terminate his or her employment with the Acquired Entities, Buyer or any of their respective Affiliates; provided, however, that the foregoing shall not prevent Seller or its Affiliates from conducting general solicitations or advertising activities not targeted at any Continuing Employee (it being understood that clause (i) above shall be applicable to such solicitations and activities), and shall not apply to any Continuing Employee whose employment is terminated by Buyer or any of its Affiliates (including the Acquired Entities) after the Closing Date.

(c) Seller, for itself and on behalf of its Affiliates agrees that for a period of thirty-six (36) months beginning at the Closing, neither Seller nor any of its Affiliates shall, without the prior written consent of Buyer, directly or indirectly (either alone or as owner, partner, consultant, creditor, agent, coventurer or in any other capacity), enter into any Contract, engage in any activity or license its Intellectual Property, in each case for the purpose of competing with the Business as it is conducted as of the Closing (any such activity, a "Competitive Activity"), except for Contracts with or for the benefit of Buyer or any of its Affiliates or the Acquired Entities expressly contemplated by this Agreement or entered into in connection with the consummation of the transactions contemplated by this Agreement. Notwithstanding the foregoing provisions of this Section 5.14(c), nothing herein shall prevent (x) Seller or any of its Affiliates from (i) owning not more than five percent (5%) of the equity interests of any Person that is engaged in any Competitive Activity, so long as neither Seller nor any of its Affiliates manages or exercises control over any such Person or otherwise takes any part in any of its businesses other than exercising its rights as an equityholder; (ii) conducting regulated utility operations, including retail gas and electric distribution and supply services; or (iii) making any investment in or engaging in any business combination transaction with (including by merger, acquisition of equity interests, consolidation or otherwise) any Person that derives less than fifteen percent (15%) of its sales (based on its latest published annual audited financial statements) from Competitive Activities, or (y) Seller from engaging in a business combination transaction (including by merger, sale of all or substantially all of its assets, consolidation or otherwise) with any Person that derives more than fifteen percent (15%) of its sales (based on its latest published annual audited financial statements) from Competitive Activities, so long as the individuals that are members of the board of directors or other ultimate management body of Seller immediately prior to the commencement of negotiations of such business combination transaction (or successor individuals appointed with the approval of such body), upon the consummation of such business combination transaction, no longer constitute the majority voting interest of the board of directors or other ultimate management body of, or otherwise have the power to direct the management and policies of, the combined enterprise resulting from such business combination transaction.

**Section 5.15. Release of Seller Credit Support**.

(a) At least sixty (60) days prior to the Closing, Seller shall provide Buyer a complete list of all letters of credit issued in connection with the Acquired Entities or the Business for which Seller or any of its Affiliates (other than the Acquired Entities) is an

applicant and indemnities, performance bonds, surety bonds, performance guarantees, other guarantee obligations, keepwells, net worth maintenance agreements, reimbursement obligations, letters of comfort and other similar arrangements to which Seller or any of its Affiliates (other than any Acquired Entity) is a party or by which any of them are bound in favor of, or for the benefit of, any Acquired Entity or the Business (collectively, the "Seller Credit Support"), which list shall include (i) contact information for the holders of such Seller Credit Support, (ii) the obligation or relationship being supported by such Seller Credit Support and (iii) the amount drawn or used. At least thirty (30) days prior to Closing, Seller shall provide Buyer an accurate and complete copy of each Seller Credit Support.

(b) Beginning on the Closing, and until such time as no Seller Credit Support remains outstanding, Buyer shall use Reasonable Efforts to obtain and deliver to each beneficiary new letters of credit, bonds, deposits, guaranties or other credit assurances of a comparable and commercially reasonable nature to substitute for the Seller Credit Support. In connection therewith, Buyer shall use its Reasonable Efforts to obtain from each beneficiary of Seller Credit Support and deliver to Seller a full and unconditional release of all of the obligations of Seller and its applicable Affiliates (other than the Acquired Entities) with respect to such Seller Credit Support, which release shall be reasonably acceptable to Seller and provide for the return to Seller or the applicable issuing bank of each such replaced form of Seller Credit Support marked cancelled. In addition, beginning 150 days after the Closing, to the extent any Seller Credit Support in the form of guaranties remains outstanding, Buyer must offer to the beneficiaries thereof to replace such guaranties with letters of credit in an amount equal to the stated amount of such guaranties; provided that this requirement shall not apply to guaranties that do not have a stated amount or are unlimited. Buyer shall in any event complete the substitution and replacement of the Seller Credit Support as contemplated herein within 180 days after the Closing, at which time Seller shall be entitled to terminate any Seller Credit Support that remains outstanding to the extent permitted under the terms of thereof; provided that Seller will consider in good faith, but without obligation, proposals by Buyer for actions in lieu of such termination if such termination would cause a breach or default under applicable Contracts.

(c) Buyer shall (i) reimburse Seller (within thirty (30) days of Buyer's receipt of a demand for reimbursement) for all payments made by Seller or any of its Affiliates after the Closing with respect to any obligation arising under any Seller Credit Support and (ii) not permit any of the Acquired Entities or their Affiliates to (A) renew or extend the term of, (B) increase the obligations under, or (C) transfer to another third party, any Seller Credit Support.

(d) Within five (5) Business Days following receipt of Seller's invoice for such amounts in reasonable detail following the end of each calendar month after Closing, Buyer shall (i) reimburse Seller for any issuance fees paid by Seller to financial institutions after Closing, and any facing fees paid by Seller to financial institutions allocable to the period after Closing, with respect to letters of credit constituting Seller Credit Support and (ii) pay to Seller, beginning 90 days after Closing, an amount equal to 50 basis points per annum, based on a 365 day year for the actual number of days elapsed, on the stated amount of

guaranties constituting Seller Credit Support remaining outstanding from time to time (other than guaranties that do not have a stated amount or are unlimited, for which no such amount shall be due).

(e) Seller shall cooperate with Buyer to facilitate the release of the Seller Credit Support, including introducing Buyer to each counterparty or, if requested by Buyer, initiating contact with each of the counterparties and requesting the release thereof, providing all reasonably requested information to Buyer and providing dedicated personnel of Seller or its Affiliates to interact with Buyer and the counterparties.

(f) Notwithstanding the foregoing in this Section 5.15, Seller shall maintain in full force and effect, without payment by Buyer of any fee with respect thereto, that certain guaranty issued by Seller in favor of NextEra Energy Power Marketing LLC, dated as of June 4, 2010, with the maximum guaranteed amount of $10,000,000, in accordance with its terms, and Buyer shall not be required to replace such guaranty. Seller shall be solely responsible, without any contribution from any Acquired Entity, for providing any substitute credit support for such guaranty that may be required as a result of the transactions contemplated in this Agreement.

**Section 5.16. Customer List and Position Report.** Seller shall deliver to Buyer an updated Customer List and an updated Position Report, each dated as of 10 Business Days prior to the anticipated Closing Date, or the most recent date(s) as commercially practicable, if earlier, which updated Customer List and Position Report each shall be accurate and complete in all material respects as of the date(s) specified therein.

**Section 5.17. Attrition Adjustment.** The Parties shall effectuate the Attrition Adjustment in accordance with the terms and conditions set forth in Schedule 1.1(k), and as reflected in Sections 2.1(b) and (c).

## ARTICLE VI.
## CONDITIONS PRECEDENT TO BUYER'S OBLIGATIONS

Subject to Section 8.3, the obligations of Buyer to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction (or waiver by Buyer), at or before the Closing, of each of the following conditions:

**Section 6.1. No Injunction**. No Governmental Entity shall have issued any injunction or other Governmental Order (whether temporary, preliminary or permanent) which prohibits or restrains (or seeks to prohibit or restrain) the consummation of the transactions contemplated hereby.

**Section 6.2. No Action**. No Action by any Governmental Entity shall, on the Closing Date, be pending or threatened in writing which seeks to prohibit, or restrain or obtain material damages or other material relief in connection with, the consummation of the transactions contemplated by this Agreement; provided, however, that the foregoing condition shall be deemed satisfied with respect to any Action threatened in writing if, within thirty (30) days after the date

of written notice of such threatened Action is given, the applicable Governmental Entity has not formally commenced an Action seeking remedies of the type set forth in this sentence.

**Section 6.3. Representations and Warranties**. Without regard to any "materiality," "Material Adverse Effect" and similar qualifiers, (a) the Fundamental Seller Representations shall have been true and complete as of the date of this Agreement and shall be true and complete as of the Closing as though made at and as of the Closing (except, in each case, for *de minimis* inaccuracies); and (b) the representations and warranties of Seller set forth in Article III (excluding the Fundamental Seller Representations) shall be true and complete as of the Closing as though made at and as of the Closing, except in the case of this clause (b) to the extent that the failure to be so true and complete would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect.

**Section 6.4. Performance**. Seller shall have performed and complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by it at or prior to the Closing.

**Section 6.5. Approvals and Filings**. The Required Approvals shall have been obtained and remain in effect and shall otherwise be or made free of any term, condition, restriction, imposed liability or other provisions that would reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect and shall not include any material term, condition or restriction, or impose any material liability on Buyer or any of its Affiliates or an Acquired Entity, that is unsatisfactory to Buyer in its reasonable discretion, except where the failure to obtain or make the same is a result of Buyer's breach of its obligations hereunder.

**Section 6.6. No Legislation**. No Law shall prohibit or restrict the consummation of the transactions contemplated hereby.

**Section 6.7. Delivery of Closing Documents**. Seller shall have tendered for delivery to Buyer a fully executed copy of each of the documents, agreements and other writings and each of the other deliveries to be delivered by the Marketing Company Group, Seller or its Affiliates at the Closing pursuant to Section 8.2.

**Section 6.8. Material Adverse Effect**. The Marketing Company Group and the Business shall not have experienced a Material Adverse Effect.

## ARTICLE VII.
## CONDITIONS PRECEDENT TO SELLER'S OBLIGATIONS

Subject to Section 8.3, the obligations of Seller to consummate the transactions contemplated by this Agreement shall be subject to the satisfaction (or waiver by Seller), at or before the Closing, of each of the following conditions:

**Section 7.1. No Injunction**. No Governmental Entity shall have issued any injunction or other Governmental Order (whether temporary, preliminary or permanent) which prohibits or

restrains (or seeks to prohibit or restrain) the consummation of the transactions contemplated hereby.

**Section 7.2. No Action**. No Action by any Governmental Entity shall, on the Closing Date, be pending or threatened in writing which seeks to prohibit, or restrain or obtain material damages or other material relief in connection with, the consummation of the transactions contemplated by this Agreement; provided, however, that the foregoing condition shall be deemed satisfied with respect to any Action threatened in writing if, within thirty (30) days after the date of written notice of such threatened Action is given, the applicable Governmental Entity has not formally commenced an Action seeking remedies of the type set forth in this sentence.

**Section 7.3. Representations and Warranties**. Without regard to any "materiality," "Buyer Material Adverse Effect" and similar qualifiers, (a) the Fundamental Buyer Representations shall have been true and complete as of the date of this Agreement and shall be true and complete as of the Closing as though made at and as of the Closing (except, in each case, for *de minimis* inaccuracies); and (b) the representations and warranties of Buyer set forth in Article IV (excluding the Fundamental Buyer Representations) shall be true and complete as of the Closing as though made at and as of the Closing, except in the case of this clause (b) to the extent that the failure to be so true and complete would not reasonably be expected, individually or in the aggregate, to have a Buyer Material Adverse Effect.

**Section 7.4. Performance**. Buyer shall have performed and complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by it at or prior to the Closing.

**Section 7.5. Approvals and Filings**. The Required Approvals shall have been obtained and remain in effect and shall otherwise be or made free of any term, condition, restriction, imposed liability or other provisions that would reasonably be expected, individually or in the aggregate, to result in a material adverse effect on Seller or its Affiliates and shall not include any material term, condition or restriction, or impose any material liability on Seller or any of its Affiliates, that is unsatisfactory to Seller in its reasonable discretion, except where the failure to obtain or make the same is a result of Seller's breach of its obligations hereunder, or that would limit or restrict Seller's receipt or retention in full of the Purchase Price.

**Section 7.6. No Legislation**. No Law shall prohibit or restrict the consummation of the transactions contemplated hereby.

**Section 7.7. No Major Attrition Delay Event**. No Major Attrition Delay Event shall have occurred and be continuing.

**Section 7.8. Delivery of Closing Documents**. Buyer shall have tendered for delivery to Seller a fully executed copy of each of the documents, agreements and other writings and each of the other deliveries to be delivered by Buyer or its Affiliates at the Closing pursuant to Section 8.2.

## ARTICLE VIII.
## CLOSING

**Section 8.1. Time and Place**. Subject to Article IX, the closing of the sale by Seller and the purchase by Buyer of the Stock (the "Closing") shall take place at the offices of Bracewell & Giuliani LLP, 1251 Avenue of the Americas, 49th Floor, New York, NY 10020 on the first (1st) Business Day of the calendar month immediately following the calendar month in which all of the conditions contained in Articles VI and VII are satisfied or waived (other than those conditions that by their nature are to be satisfied at the Closing, including execution and delivery of the applicable Related Agreements, but subject to the fulfillment or waiver of those conditions) (the date on which the Closing occurs being herein referred to as the "Closing Date"). The Closing shall be deemed to be effective for purposes of this Agreement as of 12:01 a.m. on the Closing Date.

**Section 8.2. Deliveries**. At the Closing:

(a) Payment of Estimated Purchase Price. Buyer shall pay to Seller an amount equal to the Estimated Purchase Price.

(b) Stock Certificates. Seller shall deliver to Buyer certificate(s) evidencing all of the shares of Stock, duly endorsed in blank for transfer or accompanied by stock power duly executed in blank.

(c) Buyer Certificates. Buyer shall deliver to Seller (i) an officer's certificate dated as of the Closing Date, certifying on behalf of Buyer that the conditions set forth in Sections 7.2 and 7.3 have been satisfied and (ii) copies of the certificates of good standing (or other equivalent certificates) of Buyer, issued as of a recent date by the Secretary of State (or other Government Entity regulating business entities) of each entity's jurisdiction of organization.

(d) Seller Certificates. Seller shall deliver to Buyer (i) an officer's certificate dated as of the Closing Date, certifying on behalf of Seller that the conditions set forth in Sections 6.2 and 6.3 have been satisfied; (ii) copies of the certificates of good standing (or other equivalent certificates) of Seller and the Acquired Entities, each issued as of a recent date by the Secretary of State (or other Government Entity regulating business entities) of each entity's jurisdiction of organization; and (iii) a certification in a form reasonably satisfactory to Buyer pursuant to Treas. Reg. § 1.1445-2(b)(2) stating that Seller is not a foreign person.

(e) Section 338 Forms. Buyer and Seller shall execute and deliver to the other Party Seller the Section 338 Forms.

(f) Resignations. Seller shall deliver, or cause to be delivered, the resignations and mutual releases of all directors and officers of the Acquired Entities reasonably acceptable to Buyer.

(g) Corporate Documents. Each Party shall execute and deliver to the other Party a secretary's (or officer's) certificate certifying as to the resolutions adopted by such Party authorizing the transactions and certifying the authorization of the officers executing documents in connection with the transactions.

(h) Related Agreements. Each Party (or its Affiliates, as applicable) shall execute and deliver to the other Party the Related Agreements.

(i) Reorganization. Seller shall deliver to Buyer documents reasonably satisfactory to Buyer evidencing that the Reorganization has been effected in accordance with Schedule 1.1(f).

(j) Additional Documents. Each Party shall execute and deliver to the other Party all documents which the other reasonably determines are necessary to consummate the transactions contemplated hereby.

**Section 8.3. Frustration of Closing Conditions**. Neither Buyer nor Seller may rely on the failure of any condition set forth in Articles VI or VII to be satisfied if such failure was caused by such Party's failure to act in good faith or to use its Reasonable Efforts to cause the Closing to occur in accordance with this Agreement.

## ARTICLE IX.
## TERMINATION AND ABANDONMENT

**Section 9.1. Methods of Termination**. Prior to the Closing, this Agreement may be terminated and the transactions herein contemplated may be abandoned as follows:

(a) by mutual written consent of Seller and Buyer;

(b) by either Party by written notice to the other if the Closing has not occurred on or before six (6) months after the date hereof (the "Outside Date"); provided, however, that (i) the Outside Date may be extended by either Party, by written notice to the other, by additional increments of sixty (60) days (each, an "Extension") if the applicable Governmental Entity approvals have not been obtained by the date that is six (6) months (or later, as extended by one or more Extensions pursuant to the terms hereof) after the date hereof; provided that (x) the aggregate number of Extensions effected by both Parties shall not exceed three (3) and (y) without the agreement of both Parties, no Extensions shall be permitted if Required Approvals cannot be obtained to satisfy, or have been obtained in a manner that does not satisfy, applicable conditions precedent to Closing, and (ii) the right to terminate this Agreement under this Section 9.1(b) shall not be available to a Party if such Party has failed to fulfill its obligations under this Agreement in accordance with the terms and conditions set forth herein;

(c) by either Party by written notice to the other if any final and non-appealable Governmental Order restraining, enjoining or otherwise prohibiting the transactions contemplated by this Agreement shall have been issued; provided that the Party seeking to

terminate this Agreement pursuant to this Section 9.1(c) shall have used its Reasonable Efforts to seek relief from such Governmental Order;

(d) by Seller by written notice to Buyer, if Buyer shall have breached any of its representations, warranties, covenants or agreements contained in this Agreement which would give rise to the failure of a condition set forth in Article VII, which breach cannot be or has not been cured within sixty (60) days following written notification thereof; or

(e) by Buyer by written notice to Seller, if Seller shall have breached any of its representations, warranties, covenants or agreements contained in this Agreement which would give rise to the failure of a condition set forth in Article VI, which breach cannot be or has not been cured within sixty (60) days following written notification thereof.

**Section 9.2. Procedure Upon Termination; Exclusive Remedy; Effect of Termination**.

(a) Buyer or Seller may terminate this Agreement when permitted pursuant to Section 9.1 and such termination shall be effective upon delivery of written notice in accordance with Section 11.3, which notice shall specify the provisions of this Agreement pursuant to which termination is claimed.

(b) Any termination pursuant to Sections 9.1(a), (b) or (c) shall be without any liability or any further obligation of or to any Buyer Protected Party or any Seller Protected Party relating to or arising out of this Agreement or the transactions contemplated by this Agreement. If this Agreement is validly terminated pursuant to Section 9.1(d) or (e), the terminating Party shall be entitled to all rights and remedies available to it under law or equity, subject to Section 9.2(d). In any event, the confidentiality obligations set forth in Section 9.2(c) shall survive any termination of this Agreement.

(c) The Confidentiality Agreement and Section 5.13 shall survive the termination of this Agreement, including with respect to information that is subject to the Confidentiality Agreement pursuant to this Agreement. If this Agreement is terminated as provided herein, Buyer (and its agents and representatives), subject to applicable Law, shall return to Seller or destroy all documents, work papers and other material relating to the Acquired Entities or the transactions contemplated hereby, whether obtained before or after the execution of this Agreement.

(d) UNDER NO CIRCUMSTANCES SHALL EITHER PARTY, OR ITS AFFILIATES, STOCKHOLDERS, DIRECTORS, OFFICERS, EMPLOYEES OR AGENTS, BE RESPONSIBLE FOR ANY INDIRECT, INCIDENTAL, PUNITIVE, SPECIAL OR CONSEQUENTIAL DAMAGES (INCLUDING SUCH TYPES OF DAMAGES RELATED TO LOST BUSINESS, LOST PROFITS, DIMINUTION IN VALUE, LOSS OF USE, AND LOSS OF DATA, OR FAILURE TO REALIZE SAVINGS OR BENEFITS) ARISING UNDER THIS AGREEMENT OR ANY RELATED AGREEMENTS, EVEN IF ADVISED OF THE POSSIBILITY OF SUCH LOSS. THE FOREGOING SHALL NOT LIMIT THE RIGHTS OF ANY PARTY TO THE RECOVERY

OF DAMAGES OR INDEMNIFICATION UNDER ARTICLE X OR OTHERWISE IN ACCORDANCE WITH THIS AGREEMENT WITH RESPECT TO ANY CLAIM FOR DAMAGES ASSERTED AGAINST SUCH PARTY BY ANY UNAFFILIATED THIRD PARTY.

## ARTICLE X.
## INDEMNIFICATION

**Section 10.1. Indemnification**.

(a) From and after the Closing, Seller shall indemnify, defend and hold harmless Buyer from any and all Adverse Consequences incurred by Buyer, the Acquired Entities (after the Closing), any of their respective Affiliates and any of their respective stockholders, partners, members, officers, directors, employees, consultants and agents (the "Buyer Protected Parties") as a result of, or with respect to (i) any breach of any representation or warranty of Seller set forth in this Agreement, (ii) any breach of any covenant or agreement of Seller contained in this Agreement, (iii) any liability to the extent relating to an Excluded Asset or an Excluded Entity, (iv) any liability for Taxes of Seller or the Acquired Entities as a result of the Reorganizations or the Section 338(h)(10) Elections, (v) any liability for Taxes of or with respect to Seller, the Acquired Entities or the Business for any Pre-Closing Period, except to the extent included in Adjusted Net Working Capital reflected in the Final Closing Adjustment Amount, or pursuant to Section 5.4, (vi) any liability for Taxes of a Person for any Pre-Closing Period to the extent such Taxes are imposed on any Acquired Entity, except to the extent included in Adjusted Net Working Capital reflected in the Final Closing Adjustment Amount, (x) as a result of the provisions of Treasury Regulations Section 1.1502-6 or the analogous provisions of any foreign, state or local law, (y) as successor or transferee or (z) by Contract, (vii) any liability to the extent relating to the current or former business and operations of Integrys Energy Services of Canada Corp, (viii) any liability with respect to Texas miscellaneous gross receipts tax under that certain Purchase and Sale Agreement, dated as of June 4, 2010, by and among the Company, Integrys Energy Services of New York, Inc., NextEra Texas Acquisition GP, LLC and NextEra Texas Acquisition LP, LLC (ix) the ENCOA Agreement or (x) to the extent resulting in Adverse Consequences in excess of a net aggregate amount of $100,000, any failure of the net renewable energy credit positions of the Company on the Closing Date to settle all historical customer deliveries and related compliance requirements through the Closing Date, other than with respect to transactions where the applicable alternative compliance payment under Law is included in the transaction price and reflected in the Company's pricing system. Seller agrees that the foregoing indemnification shall not be impaired by any diligence conducted by or on behalf of any Buyer Protected Parties, including any knowledge of any Buyer Protected Party of any breach of any representation, warranty or covenant before Closing.

(b) From and after the Closing, Buyer shall indemnify, defend and hold harmless Seller from any and all Adverse Consequences incurred by Seller, the Acquired Entities (before the Closing), any of their respective Affiliates and any of their respective

stockholders, partners, members, officers, directors, employees, consultants and agents (the "Seller Protected Parties"), as a result of, or with respect to (i) any breach of any representation or warranty of Buyer set forth in this Agreement, (ii) any breach of any covenant or agreement of Buyer contained in this Agreement, or (iii) any liability for Taxes of Buyer or the Acquired Entities that is the responsibility of Buyer pursuant to Section 5.4. Buyer agrees that the foregoing indemnification shall not be impaired by any diligence conducted by or on behalf of any Seller Protected Parties, including any knowledge of any Seller Protected Party of any breach of any representation, warranty or covenant before Closing.

**Section 10.2. Procedure for Indemnification**.

(a) Each claim for indemnification pursuant to this Article X must be made by delivery by the Party to be indemnified (the "Indemnified Party") to the Party responsible for the indemnification obligation (the "Indemnifying Party") of written notice (a "Claim Notice") containing specifically the obligation with respect to which the claim is made, the facts giving rise to and the alleged basis for such claim and, to the extent then known or ascertainable, the amount of the liability asserted or which may be asserted by reason thereof within ninety (90) days after the Indemnified Party obtains knowledge of such claim. Notwithstanding the foregoing, any failure in the delivery of such notice shall not affect the obligations of the Indemnifying Party, except when and then only to the extent that the rights and remedies of the Indemnifying Party are prejudiced as a result of the failure to give, or delay in giving, such notice.

(b) If another Person not a party to this Agreement alleges facts that, if true, would mean that a Party has breached its representations and warranties in this Agreement or any Related Agreement, the Party for whose benefit the representations and warranties are made shall be entitled to indemnification for those allegations and demands and related Adverse Consequences under and pursuant to this Article X. If the Indemnified Party seeks indemnity under this Article X in respect of, arising out of or involving a claim or demand, whether or not involving an Action, by another Person not a party to this Agreement (a "Third Party Claim"), then the Indemnified Party shall include in the Claim Notice (i) notice of the commencement or threat of any Action relating to such Third Party Claim within thirty (30) days after the Indemnified Party has received written notice of the commencement of the Third Party Claim and (ii) the facts constituting the basis for such Third Party Claim and the amount of the damages claimed by the other Person, in each case to the extent known to the Indemnified Party. Notwithstanding the foregoing, any failure in the delivery of such notice shall not affect the obligations of the Indemnifying Party, except when and then only to the extent that the rights and remedies of the Indemnifying Party are prejudiced as a result of the failure to give, or delay in giving, such notice.

(c) In the event of a Third Party Claim, the Indemnifying Party shall be entitled to participate in the defense thereof and, if it so chooses, assume the control of the defense thereof with counsel reasonably satisfactory to the Indemnified Party by giving to the Indemnified Party written notice of its intention to assume control of the defense of such

Third Party Claim within thirty (30) days after delivery of the Claim Notice with respect to such Third Party Claim. Following the assumption of control of the defense of any Third Party Claim by the Indemnifying Party, the Indemnified Party may participate in the defense of such Third Party Claim with its own counsel at its own expense. If the Indemnifying Party does not assume or maintain control of the defense of a Third Party Claim, the Indemnified Party shall have the right to control the defense of the Third Party Claim. If the Indemnified Party controls the defense of the Third Party Claim, the Indemnifying Party agrees to pay to the Indemnified Party promptly upon demand from time to time all reasonable attorneys' fees and other reasonable costs and expenses of defending the Third Party Claim. In connection with any Third Party Claim, the Party not controlling the defense (the "Noncontrolling Party") may participate therein at its own expense. However, if the Indemnifying Party assumes control of such defense and the Indemnified Party reasonably concludes that the Indemnifying Party and the Indemnified Party have conflicting interests or different defenses available with respect to the Third Party Claim, then the reasonable fees and expenses of counsel to the Indemnified Party shall be considered and included as "Adverse Consequences" for purposes of this Agreement. The Party controlling the defense (the "Controlling Party") shall reasonably advise the Noncontrolling Party of the status of the Third Party Claim and the defense thereof and the Controlling Party shall consider in good faith recommendations made by the Noncontrolling Party. The Noncontrolling Party shall furnish the Controlling Party with such information as it may have with respect to such Third Party Claim and related Actions (including copies of any summons, complaint or other pleading which may have been served on such Party and any written claim, demand, invoice, billing or other document evidencing or asserting the same) and will otherwise cooperate with and assist in the defense of the Third Party Claim.

(d) The Indemnifying Party shall not agree to any settlement of, or consent to the entry of any Governmental Order (other than a Governmental Order of dismissal on the merits without costs) arising from any such Third Party Claim without the prior written consent of the Indemnified Party, which shall not be unreasonably withheld, conditioned or delayed; provided that the consent of the Indemnified Party shall not be required if the Indemnifying Party agrees in writing to pay any amounts payable pursuant to such settlement or any Governmental Order and such settlement or Governmental Order includes a full, complete and unconditional release of the Indemnified Party from further liability. The Indemnified Party shall not agree to any settlement of, or the entry of any Governmental Order (other than a Governmental Order of dismissal on the merits without costs) arising from, any such Third Party Claim without the prior written consent of the Indemnifying Party, which consent shall not be unreasonably withheld, conditioned or delayed. To the extent this Section 10.2 conflicts with the procedures in Section 5.4(e), Section 5.4(e) shall govern.

(e) Seller shall be entitled to assume control of all negotiations related to the determination and settlement of amounts arising under the ENCOA Agreement and settle any amounts or Third Party Claims in respect thereof, subject to the limitations, obligations and other terms applicable, *mutatis mutandis,* to a Controlling Party under Section 10.2(c) and an Indemnifying Party under Section 10.2(d).

**Section 10.3. Survival.**

(a) The representations and warranties of Seller contained in this Agreement shall survive for a period of twelve (12) months after the Closing Date; provided, however, that the Fundamental Seller Representations shall survive indefinitely and the representations and warranties contained in Section 3.8 (Tax Matters) shall survive until ninety (90) days after the expiration of the applicable statute of limitations. The right of any Buyer Protected Party to assert a claim for indemnification relating to the breach of any covenant or agreement contained in this Agreement to the extent required to be performed or complied with by Seller prior to the Closing Date shall survive for a period of twelve (12) months after the Closing Date. All covenants and agreements contained in this Agreement required to be performed or complied with by Seller in whole or in part after the Closing Date shall survive the Closing until the expiration of the applicable statute of limitations or for such shorter period specified in this Agreement, and the covenants in Section 5.4 (Tax Matters) shall survive the Closing until ninety (90) days after the expiration of the applicable statute of limitations.

(b) The representations and warranties of Buyer contained in this Agreement shall survive for a period of twelve (12) months following the Closing; provided, however, that the Fundamental Buyer Representations shall survive indefinitely and the representations and warranties contained in Section 4.9 (Tax Matters) shall survive until ninety (90) days after the expiration of the applicable statute of limitations. The right of any Seller Protected Party to assert a claim for indemnification relating to the breach of any covenant or agreement contained in this Agreement to the extent required to be performed or complied with by Buyer prior to the Closing Date shall survive for a period of twelve (12) months after the Closing Date. All covenants and agreements contained in this Agreement required to be performed or complied with by Buyer in whole or in part after the Closing Date shall survive the Closing until the expiration of the applicable statute of limitations or for such shorter period specified in this Agreement.

(c) For the avoidance of doubt, the indemnification obligations set forth in Section 10.1(a)(iii) and 10.1(a)(vii) shall survive the Closing and shall continue indefinitely, and the indemnification obligations set forth in Sections 10.1(a)(iv), (v), (vi), (viii), and (ix) shall survive the Closing until ninety (90) days after the expiration of the applicable statute of limitations.

(d) No Indemnifying Party shall have any liability for any claim for indemnification made pursuant to Section 10.1(a)(i) or (ii), Section 10.1(b)(i) or (ii) unless the Indemnified Party delivers a Claim Notice on or before the expiration of the applicable survival periods set forth above in Section 10.3(a) or 10.3(b), as the case may be. If an Indemnified Party delivers to an Indemnifying Party, before expiration of the applicable survival period of a representation, warranty, covenant, agreement or indemnification obligation as set forth in Section 10.3(a) or 10.3(b), a Claim Notice based upon a breach thereof or indemnification obligation thereunder, then the applicable representation, warranty, covenant, agreement or indemnification obligation shall survive until, but only

for purposes of, the resolution of the matter covered by such Claim Notice, and the Indemnified Party shall not be obligated to commence any Action to preserve its right to indemnification in connection with the breaches of representation, warranty, covenant, agreement or indemnification obligation relating to such Claim Notice. Any claim for indemnification not made on or before the expiration of such applicable survival period shall be irrevocably and unconditionally released and waived.

**Section 10.4. Exclusivity**. Except for intentional fraud or willful misconduct, the rights and remedies of the Seller Protected Parties, on the one hand, and the Buyer Protected Parties, on the other hand, for monetary damages under this Article X are, solely as between Seller and the Seller Protected Parties on the one hand, and Buyer and the Buyer Protected Parties on the other hand, exclusive and in lieu of any and all other rights and remedies of such Persons after the Closing with respect to all post-Closing claims for monetary damages which each of Seller and the Seller Protected Parties on the one hand, and Buyer and the Buyer Protected Parties on the other hand, may have under this Agreement or under applicable Laws with respect to any indemnifiable claim, whether at common law or in equity. Notwithstanding the foregoing, a Party may bring an action to enforce this Article X and shall be entitled to seek specific performance for other breaches of this Agreement in accordance with Section 11.9.

**Section 10.5. Limitation of Claims**. Notwithstanding anything to the contrary contained herein:

(a) An Indemnified Party shall use Reasonable Efforts to mitigate all Adverse Consequences relating to an indemnifiable claim; provided, however, that with respect to such obligation to mitigate, an Indemnified Party shall not be required to (i) waive any material right or claim the Indemnified Party may have against any other Person, (ii) modify or change in any material respect the manner in which the business of such Indemnified Party is conducted, (iii) discontinue or otherwise materially modify the use by such Indemnified Party of any material Intellectual Property or (iv) incur any cost or expense or incur any material liability (including any contingent or potential liability) or obligation.

(b) An Indemnifying Party's indemnification obligations under this Article X shall be reduced to the extent that the subject matter of the claim is covered by and paid to the Indemnified Party pursuant to a warranty or indemnification from a third party or insurance; provided, that, Buyer and Seller agree to (and agree to cause the other Indemnified Parties to) use Reasonable Efforts to make any claims for insurance and/or indemnification available from any third party with respect to Adverse Consequences for which any Indemnified Party will or may seek indemnification hereunder and to diligently pursue such claims in good faith. If any such insurance proceeds and/or other amounts are received by any Buyer Protected Parties after receipt of any indemnification payment pursuant to this Article X, Buyer shall promptly repay to Seller such portion of such indemnification payment equal to the amounts so recovered or realized. Where an Indemnified Party is absolved of the obligation to apply for insurance recovery under the preceding sentence, the Indemnified Party shall not be deemed, for that reason, to have failed to mitigate Adverse Consequences under this Section 10.5.

(c) Except with respect to intentional fraud or willful misconduct, notwithstanding anything to the contrary contained in this Agreement: (i) an Indemnifying Party shall not be liable for any claim for indemnification pursuant to Section 10.1(a)(i) or 10.1(b)(i), as applicable, unless and until the aggregate amount of all Adverse Consequences relating to all claims for indemnification pursuant to Section 10.1(a)(i) or 10.1(b)(i), as applicable, equals or exceeds $1,750,000 (the "Indemnification Threshold"), after which such Indemnifying Party shall be liable for all Adverse Consequences relating to all such claims incurred by the Indemnified Parties in excess (in the aggregate) of the Indemnification Threshold; and (ii) the maximum aggregate liability of (A) Seller under Section 10.1(a)(i) in the aggregate or (B) Buyer under Section 10.1(b)(i) each shall not exceed $30,000,000 (the "Indemnification Cap"); provided that neither the Indemnification Threshold nor the Indemnification Cap shall apply to any claim for indemnification with respect to any breach or violation of any of the following: the Fundamental Seller Representations, the Fundamental Buyer Representations, Section 3.8 (Tax Matters) or Section 4.9 (Tax Matters).

(d) For purposes of any indemnity obligation under this Article X with respect to any breach of any representation or warranty contained in this Agreement, solely for purposes of calculating Adverse Consequences and not for purposes of determining if a breach occurred, any express qualifications or limitations set forth in such representation or warranty as to Knowledge, materiality, material adverse effect, "Material Adverse Effect" or "Buyer Material Adverse Effect" (or other similar materiality qualifier) contained therein, shall be disregarded.

(e) Notwithstanding anything herein to the contrary, no Indemnified Party shall be entitled to indemnification or reimbursement under any provision of this Agreement for any amount to the extent such Person has been otherwise indemnified or previously reimbursed for such amount under any other provision of this Agreement.

**Section 10.6. Tax Treatment of Indemnity Payments**. Seller and Buyer agree to treat any indemnity payment made pursuant to this Article X as an adjustment to the Purchase Price for Tax purposes.

## ARTICLE XI.
## MISCELLANEOUS

**Section 11.1. Amendment and Modification**. This Agreement may be amended, modified and supplemented only by written agreement of Buyer and Seller. Any amendment, modification or supplement to this Agreement not made in accordance with this Section 11.1 shall be void.

**Section 11.2. Waiver of Compliance**. Any failure of Buyer or Seller to comply with any obligation, covenant, agreement or condition contained herein may be expressly waived in writing by Seller, in the event of any such failure by Buyer, or by Buyer, in the event of any such failure by Seller, but such waiver or failure to insist upon strict compliance shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

**Section 11.3. Notices**. All notices, requests, demands, waivers and other communications required or permitted to be given under this Agreement shall be in writing and may be given by any of the following methods: (a) personal delivery, (b) facsimile transmission, registered or certified mail, postage prepaid, return receipt requested, (c) electronic mail or (d) next day air courier service. Notices shall be sent to the appropriate party at its address or facsimile number given below (or at such other address or facsimile number for such party as shall be specified by notice given hereunder).

If to Seller, to:

Integrys Energy Group, Inc.
130 East Randolph Street
Chicago, IL 60601
Attn: Mark A. Radtke, Executive Vice President – Shared Services
& Chief Strategy Officer
Fax No.: (920) 433-1693
E-mail Address: MARadtke@integrysgroup.com

with copies (which shall not constitute notice) to:

Integrys Energy Group, Inc.
130 East Randolph Street
Chicago, IL 60601
Attn: Jodi J. Caro, Vice President, General Counsel & Secretary
Fax No.: (312) 240-4219
E-mail Address: JJCaro@integrysgroup.com

Bracewell & Giuliani LLP
1251 Avenue of the Americas, 49th Floor
New York, NY 10020-1104
Attn: John G. Klauberg
Frederick J. Lark
Fax No.: (800) 404-3970
E-mail Address: john.klauberg@bgllp.com
fritz.lark@bgllp.com

or to such other Person or address as Seller shall designate in writing.

If to Buyer to:

Exelon Generation Company, LLC
10 South Dearborn Street, 49th Floor
Chicago, IL 60603
Attn: Carter Culver, Deputy General Counsel
Fax No.: (312) 394-4462
E-mail Address: carter.culver@exeloncorp.com

with copies (which shall not constitute notice) to:

Cadwalader, Wickersham & Taft LLP
One Allen Center
500 Dallas Street, Ste 2800
Houston, TX 77002
Attn: Robert Stephens
Email: robert.stephens@cwt.com

or to such other Person or address as Buyer shall designate in writing.

All such notices, requests, demands, waivers and communications shall be deemed effective upon (i) actual receipt thereof by the addressee, (ii) actual delivery thereof to the appropriate address or (iii) in the case of a facsimile transmission, transmission thereof by the sender and issuance by the transmitting machine of a confirmation slip that the number of pages constituting the notice have been transmitted without error.

**Section 11.4. Binding Nature; Assignment**. This Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the Parties hereto, except that upon written notice to the other Party, a Party may assign its rights and delegate its obligations hereunder to any Affiliate of such Party; provided that no such assignment shall relieve the assigning Party of its obligations hereunder.

**Section 11.5. Entire Agreement**. This Agreement, including the Schedules and Exhibits, together with the Related Agreements, and the Confidentiality Agreement, embody the entire agreement and understanding of the Parties hereto in respect of the subject matter contained herein and supersede all prior agreements and understandings among the Parties with respect to such subject matter and supersede any letters, memoranda or other documents or communications, whether oral, written or electronic, submitted or made by (i) Buyer or its agents or representatives to Seller, the Acquired Entities, or any of their respective agents or representatives, or (ii) Seller, the Acquired Entities or their respective agents or representatives to Buyer or any of its agents or representatives which occurred prior to the execution of this Agreement or otherwise in connection with the negotiation and execution of this Agreement. No communications by or on behalf of Seller, including responses to any questions or inquiries, whether orally, in writing or electronically, and no information provided in any data room or any copies of any information

from any data room provided to Buyer or any other information shall be deemed to constitute a representation, warranty or an agreement of Seller or be part of this Agreement.

**Section 11.6. Expenses**. Except as otherwise expressly stated otherwise herein, each Party to this Agreement shall pay its own expenses in connection with the negotiation of this Agreement, the performance of its obligations hereunder, and the consummation of the transactions contemplated herein.

**Section 11.7. Press Releases and Announcements; Disclosure**. Except as necessary to obtain any Required Approval, prior to the Closing Date, each of the Parties shall, prior to any issuance by it or any of its Affiliates of any description of the transactions contemplated by this Agreement and the Related Agreements in any press release or other public statements, provide the other with a reasonable opportunity to review and comment upon any such description, and shall not issue any such press release or make any such public statement prior to providing such opportunity to review, except as may be required by applicable Law or securities exchange requirements; provided such required disclosure is made in accordance with Section 5.13(c). The Parties shall use Reasonable Efforts to agree on the description of the transactions contemplated by this Agreement contained in the initial press release(s) to be issued by the Parties with respect to their execution and delivery of this Agreement. The Parties shall reasonably cooperate to develop a mutually agreed strategy to communicate with customers and other interested Persons regarding the transactions contemplated in this Agreement and the Related Agreements, the transition of the Acquired Entities to Buyer's ownership and matters related thereto.

**Section 11.8. Acknowledgment**.

(a) BUYER ACKNOWLEDGES THAT NEITHER SELLER, THE ACQUIRED ENTITIES NOR ANY OTHER PERSON HAS MADE ANY REPRESENTATION OR WARRANTY, EXPRESSED OR IMPLIED, AS TO THE ACCURACY OR COMPLETENESS OF ANY INFORMATION REGARDING SELLER OR THE ACQUIRED ENTITIES OR THE CONDITION OF THE ASSETS OF THE MARKETING COMPANY GROUP, VALUE OR QUALITY OF THE ASSETS OR OPERATIONS OF THE MARKETING COMPANY GROUP OR THE PROSPECTS, (FINANCIAL OR OTHERWISE), RISKS, AND OTHER INCIDENTS OF THE MARKETING COMPANY GROUP NOT INCLUDED IN THIS AGREEMENT, THE SCHEDULES OR THE RELATED AGREEMENTS.

(b) Buyer further acknowledges that (i) Buyer, either alone or together with any Persons Buyer has retained to advise it with respect to the transactions contemplated hereby has knowledge and experience in transactions of this type and in the business of the Marketing Company Group, and is therefore capable of evaluating the risks and merits of acquiring the Stock, (ii) it has relied on its own independent investigation, and has not relied on any information furnished by Seller, the Acquired Entities or any representative or agent thereof or any other Person in determining to enter into this Agreement (except for such representations or warranties contained in this Agreement or the Related Agreements), and (iii) neither Seller, the Acquired Entities nor any representative or agent thereof or any other Person has given any investment, legal or other advice or rendered any opinion as to whether

the purchase of the Stock is prudent, and Buyer is not relying on any representation or warranty by Seller or the Acquired Entities or any representative or agent thereof except as set forth in this Agreement or the Related Agreements.

(c) Buyer has received certain projections and other forecasts, including projected financial statements, cash flow items, capital expenditure budgets and certain business plan information and acknowledges that (i) there are uncertainties inherent in attempting to make such projections and forecasts and, accordingly, it is not relying on them, (ii) Buyer is familiar with such uncertainties and is taking full responsibility for making its own evaluation of the adequacy and accuracy of all such projections and forecasts, (iii) Buyer has no claim under this Agreement against anyone with respect to the accuracy of such projections and forecasts and (iv) Seller and its Affiliates have made no representation or warranty with respect to such projections and forecasts.

**Section 11.9. Specific Performance**. Each Party acknowledges and agrees that in the event of any breach of this Agreement by the other Party, the non-breaching Party would be irreparably and immediately harmed and could not be made whole by monetary damages. It is accordingly agreed that, subject to Section 10.4, (a) the breaching Party shall waive, in any Action for specific performance, the defense of adequacy of a remedy at Law and (b) the non-breaching Party shall be entitled, in addition to any other remedy to which it may be entitled under the terms of this Agreement, to compel specific performance of this Agreement and to injunctive relief, and the breaching Party further agrees to waive any requirement for the securing or posting of any bond in connection with the obtaining of any such specific performance or injunctive relief. For the avoidance of doubt, the Parties agree that the non-breaching Party shall be entitled to enforce specifically the terms and provisions of this Agreement to prevent breaches of or enforce compliance with those covenants of the breaching Party that require the breaching Party to consummate the transactions contemplated hereby. Except as expressly set forth herein, the non-breaching Party's pursuit of specific performance at any time will not be deemed an election of remedies or waiver of the right to pursue any other right or remedy to which the non-breaching Party may be entitled, including the right to pursue remedies for liabilities or damages incurred or suffered by the non-breaching Party as may be otherwise permitted under this Agreement. The Parties acknowledge and agree that this Section 11.9 shall be subject in all respects to Section 10.4 which shall govern the rights and obligations of the Parties under the circumstances described therein.

**Section 11.10. Governing Law**. This Agreement shall be construed and enforced in accordance with the Laws of the State of New York without giving effect to the choice of law principles thereof. Each Party consents to personal jurisdiction in any action brought in any court, federal or state, within the Borough of Manhattan, City of New York, New York, having subject matter jurisdiction arising under this Agreement, and each of the Parties hereto agrees that any action instituted by either of them against the other with respect to this Agreement shall be instituted exclusively in a court, federal or state, within the Borough of Manhattan, City of New York, New York.

**Section 11.11. Submission to Jurisdiction; Service of Process; Exclusive**. Final judgment in any Action brought in accordance with this Section 11.11 shall be conclusive and

may be enforced in any other jurisdiction (i) by Action on the judgment, a certified or true copy of which shall be conclusive evidence of the fact and of the amount of the liability of the relevant Party therein described or (ii) in any other manner provided by or pursuant to the Laws of such other jurisdiction.

**Section 11.12. Waiver of Jury Trial**. EACH OF THE PARTIES HERETO KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHTS IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY SUIT, ACTION OR OTHER PROCEEDING BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH, THIS AGREEMENT OR THE CONTEMPLATED TRANSACTIONS HEREBY, OR ANY COURSE OF CONDUCT, COURSE OF DEALING OR STATEMENTS (WHETHER VERBAL OR WRITTEN) RELATING TO THE FOREGOING (INCLUDING, ANY ACTION TO RESCIND OR CANCEL THIS AGREEMENT AND ANY CLAIMS OR DEFENSES ASSERTING THAT THIS AGREEMENT WAS FRAUDULENTLY INDUCED OR IS OTHERWISE VOID OR VOIDABLE). THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE PARTIES HERETO TO ENTER INTO THIS AGREEMENT, AND SHALL SURVIVE THE CLOSING OR TERMINATION OF THIS AGREEMENT.

**Section 11.13. Counterparts**. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Delivery of an executed counterpart of a signature page of this Agreement by facsimile or electronic transmission shall be effective as delivery of a manually executed counterpart of this Agreement.

**Section 11.14. Third Party Beneficiaries**. Except for the indemnification provisions in Article X which shall inure to the benefit of, and be enforceable by, the Buyer Protected Parties and the Seller Protected Parties as provided therein, this Agreement is not intended to and does not confer upon any Person other than the Parties hereto or their permitted successors and assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement.

**Section 11.15. Interpretation**. In this Agreement, except to the extent otherwise provided or that the context otherwise requires:

(a) when a reference is made in this Agreement to an Article, Section, Exhibit or Schedule, such reference is to an Article or Section of, or an Exhibit or Schedule to, this Agreement unless otherwise indicated;

(b) the table of contents and headings for this Agreement are for reference purposes only and do not affect in any way the meaning or interpretation of this Agreement;

(c) whenever the words "include," "includes" or "including" are used in this Agreement, they are deemed to be followed by the words "without limitation" whether or not they are in fact followed by such words or words of similar import;

(d) the words "hereof," "herein" and "hereunder" and words of similar import, when used in this Agreement, refer to this Agreement as a whole and not to any particular provision of this Agreement;

(e) all terms defined in this Agreement have the defined meanings when used in any certificate or other document made or delivered pursuant hereto, unless otherwise defined therein;

(f) the definitions contained in this Agreement are applicable to the singular as well as the plural forms of such terms;

(g) references to a Person are also to its successors and permitted assigns;

(h) the use of "or" is not intended to be exclusive unless expressly indicated otherwise; provided that the use of "or" preceded by the word "either" is intended to be exclusive;

(i) reference to "day" or "days" are to calendar days;

(j) any reference in this Agreement to "writing" or comparable expressions includes a reference to facsimile transmission or comparable means of communication;

(k) when a reference is made in this Agreement to "ordinary course of business," such reference shall be deemed to be followed by "consistent (in scope and amount) with past practice" and

(l) "made available" with reference to any document provided by Seller hereunder means made available to Buyer or its representatives in the Data Room or otherwise e-mailed directly to Buyer or its representatives.

**(SIGNATURE PAGE FOLLOWS)**

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed on the day and year first above written.

INTEGRYS ENERGY GROUP, INC.

By:
Name:
Title:

EXELON GENERATION COMPANY, LLC

By:
Name:
Title:

**Exhibit A**
**Form of Transition Services Agreement**

[Attached]

**Exhibit B**
**Form of Trademark License Assignment Agreement**

[Attached]

**Exhibit C**
**Form of General Release and Discharge Agreement**

[Attached]

AMENDMENT NO. 1 TO STOCK PURCHASE AGREEMENT

This Amendment No. 1 to Stock Purchase Agreement ("Amendment"), dated as of October 31, 2014, is between EXELON GENERATION COMPANY, LLC, a Pennsylvania limited liability company ("Buyer"), and INTEGRYS ENERGY GROUP, INC., a Wisconsin corporation ("Seller"). Seller and Buyer are referred to collectively herein as the "Parties."

Reference is made to the Stock Purchase Agreement, dated as of July 29, 2014 (the "SPA"), between Seller and Buyer, the defined terms of which are used herein unless otherwise defined herein. The Parties desire to amend the SPA as set forth herein. Accordingly, the Parties hereby agree as follows:

Section 1. SPA Amendments

1.1 The following definitions are added to Section 1.1 of the SPA in alphabetical order:

"Escrow Account" means the account established and to be maintained by the Escrow Agent pursuant to the Escrow Agreement.

"Escrow Agent" means U.S. Bank National Association, in its capacity as escrow agent under the Escrow Agreement.

"Escrow Agreement" means an escrow agreement, in a form reasonably acceptable to the parties thereto, to be executed prior to the Closing Date, by and among Buyer, Seller and the Escrow Agent.

1.2 The last two sentences of Section 2.1(b) of the SPA are deleted in their entirety and replaced with the following:

The Parties shall enter into the Escrow Agreement with the Escrow Agent, and on the Business Day immediately preceding the Closing Date, (x) Buyer shall pay (or cause to be paid) the Estimated Purchase Price into the Escrow Account by wire transfer of immediately available funds and (y) the Parties shall issue unconditional and irrevocable joint escrow instructions to the Escrow Agent to pay the Estimated Purchase Price to Seller on the next Business Day following the Closing Date by wire transfer of immediately available funds from the Escrow Account to a bank account designated by Seller to the Escrow Agent in writing.

1.3 Section 8.1 of the SPA is amended in its entirety to read as follows:

**Section 8.1. Time**. Subject to Article IX, the closing of the sale by Seller and the purchase by Buyer of the Stock (the "Closing") shall take place on the first (1st) calendar day of the calendar month immediately following the calendar month in which all of the conditions contained in Articles VI and VII are satisfied or waived (other than those conditions that by their nature are to be satisfied at the Closing, including execution and

delivery of the applicable Related Agreements, but subject to the fulfillment or waiver of those conditions) (the date on which the Closing occurs being herein referred to as the "Closing Date"). The Closing shall be deemed to be effective for purposes of this Agreement as of 12:01 a.m. on the Closing Date. On the Business Day immediately prior to the Closing Date, the Parties shall (a) make the deliveries set forth in Section 8.2, and (b) irrevocably agree in writing that all conditions contained in Articles VI and VII are satisfied or waived; provided, that, no such deliveries or agreements shall alter the effective time of the Closing on the Closing Date.

1.4 Subsections (a) and (f) of Section 8.2 of the SPA are hereby amended in their entireties to respectively read as follows:

(a) Payment of Estimated Purchase Price. Buyer shall pay to Seller an amount equal to the Estimated Purchase Price in accordance with Section 2.1(b).

(f) Resignations. Seller shall deliver, or cause to be delivered, the resignations and mutual releases, or evidence of removal from office by valid board or other management action, of all directors and officers of the Acquired Entities in a form reasonably acceptable to Buyer, effective as of the Closing Date.

1.5 Section 5.7(p) of the SPA is amended in its entirety to read as follows:

(p) Processing of Final Payroll and Commission Payments. Seller shall process, or cause to be processed, the payroll for all periods prior to the Closing Date. Seller shall accrue all unpaid commissions consistent with historical accrual calculations prior to the Closing Date in its accounting records that are reflected in the Financial Statements, and such liabilities shall be reflected in Adjusted Net Working Capital in accordance with Schedule 1.1(b). Buyer shall, or shall cause the Acquired Entities to, pay all commissions in the ordinary course following the Closing Date.

1.6 Schedule 1.1(b) (Working Capital Calculation) of the SPA is amended in its entirety to read as set forth in **Attachment A** attached hereto.

1.7 If the Closing Date does not occur by November 3, 2014, Sections 1.1 through 1.4 of this Amendment shall be void and shall have no effect.

Section 2. Miscellaneous

The provisions of Article XI of the SPA shall apply to this Amendment, *mutatis mutandis*.

(signatures follow)

The Parties have executed and delivered this Amendment as of the date first above written.

| EXELON GENERATION COMPANY, LLC | INTEGRYS ENERGY GROUP, INC. |
| --- | --- |
| By: | By: |
| Name: | Name: |
| Title: | Title: |

**ATTACHMENT A**

**Schedule 1.1(b) (Working Capital Calculation)**

**Exhibit 31.1**

## Certification of Chief Executive Officer
## Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a) or 15d-14(a) under the Securities Exchange Act of 1934

I, Charles A. Schrock, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Integrys Energy Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2014

/s/ Charles A. Schrock
Charles A. Schrock
Chairman and Chief Executive Officer

**Exhibit 31.2**

**Certification of Chief Financial Officer**
**Pursuant to Section 302 of the Sarbanes-Oxley Act and Rule 13a-14(a)**
**or 15d-14(a) under the Securities Exchange Act of 1934**

I, James F. Schott, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Integrys Energy Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an Annual Report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2014

/s/ James F. Schott
James F. Schott
Executive Vice President and Chief Financial Officer

**Exhibit 32**

**Written Statement of the Chief Executive Officer and Chief Financial Officer**
**Pursuant to 18 U.S.C. Section 1350**

Solely for the purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, we, the undersigned Chief Executive Officer and Chief Financial Officer of Integrys Energy Group, Inc. (the "Company"), hereby certify, based on our knowledge, that the Quarterly Report on Form 10-Q of the Company for the quarter ended September 30, 2014 (the "Report") fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Charles A. Schrock
Charles A. Schrock
Chairman and Chief Executive Officer

/s/ James F. Schott
James F. Schott
Executive Vice President and Chief Financial Officer

Date: November 5, 2014

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by Integrys Energy Group, Inc. for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to Integrys Energy Group, Inc. and will be retained by Integrys Energy Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.