

1 STATE OF ALASKA

2 BEFORE THE REGULATORY COMMISSION OF ALASKA

3 Before Commissioners:

4 T. W. Patch, Chairman  
5 Kate Giard  
6 Paul F. Lisankie  
7 Robert M. Pickett  
8 Janis W. Wilson

9 In the Matter of the Application for Authority to )  
10 Acquire a Controlling Interest in ENSTAR NATURAL )  
11 GAS COMPANY, A DIVISION OF SEMCO )  
12 ENERGY, INC., and ALASKA PIPELINE )  
13 COMPANY by AltaGas Ltd. and AltaGas Utility )  
14 Holdings (U.S.) LLC )

Docket No. U-12-005

15 DIRECT TESTIMONY OF  
16 GEORGE A. SCHREIBER, JR.

17 (1) Introduction

18 Q Please state your name and briefly describe your business relationships with the  
19 applicants in this proceeding.

20 A My name is George A. Schreiber, Jr. I am President and Chief Executive Officer of  
21 Continental Energy Systems LLC, a Delaware limited liability company with a  
22 principal place of business at 2301 West Big Beaver Road, Suite 212, Troy, Michigan  
48084 ("Continental"). I also am a member of the Continental Board of Managers. In  
addition, I am Chairman, President and Chief Executive Officer of Semco Holding  
Corporation ("Semco Holding") and SEMCO Energy, Inc. ("SEMCO"). ENSTAR

Date: 5-30-12 Exh # T-3  
Regulatory Commission of Alaska  
Schreiber By: CPT U-12-005  
Northern Lights Realtime & Reporting, Inc.  
(907) 337-2221

1 Natural Gas Company ("ENSTAR") is a division of SEMCO, and Alaska Pipeline  
2 Company ("APC") is a wholly-owned subsidiary of SEMCO. SEMCO also owns 100  
3 percent of Alaska Storage Holding Company, LLC, which in turn owns a 65 percent  
4 interest in Cook Inlet Natural Gas Storage Alaska, LLC ("CINGSA"). I also serve as  
5 chairman of Alaska Gas Storage Holding Company, LLC.

6 **Q Please describe your professional experience and educational background.**

7 A I have been at SEMCO since 2004 and in my current roles at Continental, Semco  
8 Holding, and SEMCO since at least 2007.

9 Before joining SEMCO in April 2004, I spent most of my career as a financial  
10 advisor to regulated investor-owned public utilities. Among other things, I provided  
11 financial advice relating to capital structures, credit quality and rating agency  
12 perspectives, asset acquisitions and dispositions, mergers and other business  
13 combinations, and financing plans. I also was involved, in various roles, in numerous  
14 transactions in both the domestic and international capital markets.

15 Immediately prior to joining SEMCO, I was Chairman of the Global Energy  
16 Group of Credit Suisse. At other points in my career, I was President of Pinnacle West  
17 Capital Corporation and Manager of Regulatory Affairs at Arizona Public Service  
18 Company.

19 I received both my Bachelor of Science (1970) and Masters of Business  
20 Administration (1971) degrees from Arizona State University in Tempe, Arizona.

21 A copy of my current resume is attached as **Exhibit GAS-1**.

22 **Q Have you previously testified before the Regulatory Commission of Alaska (the**

1           **“Commission”) or other state or federal regulatory agencies?**

2   A       Yes. I submitted testimony and appeared before the Commission in the proceedings to  
3           approve the acquisition of ENSTAR and APC by Cap Rock Holding Corporation, in  
4           Docket U-07-048.<sup>1</sup> I also testified in CINGSA’s certification proceedings, Docket  
5           U-10-051, and ENSTAR’s last base rate case, Docket Nos. U-09-069 and U-09-070. I  
6           also have provided expert testimony before regulatory agencies in ten other states  
7           (including before the Michigan Public Service Commission on behalf of SEMCO’s  
8           Michigan utility) as well as before the Federal Energy Regulatory Commission and a  
9           federal bankruptcy court.

10   **Q       What is the purpose of your testimony in this proceeding?**

11   A       The primary purpose of my testimony in this proceeding is to respectfully request that  
12           the Commission approve the Application. In support of this request, I provide  
13           information on various topics in my testimony that, together with the testimony of John  
14           E. Lowe, President of the Utility Division of AltaGas Ltd., and Deborah S. Stein, Senior  
15           Vice President Finance and Chief Financial Officer of AltaGas Ltd., warrant  
16           Commission approval of the Application.

17   **Q       Are you sponsoring any exhibits?**

18   A       Yes. I am sponsoring the exhibits listed below. **Exhibits GAS-1** and **GAS-2** were  
19           prepared by me or under my direction and supervision. The other exhibit is a recent  
20           Standard & Poor’s report.

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22           <sup>1</sup> In 2008, Cap Rock Holding Corporation became Continental.

1 Exhibit GAS-1 Current Resume  
2 Exhibit GAS-2 Continental Corporate Organizational Chart  
3 Exhibit GAS-3 Standard & Poor's Research Report dated February 9, 2012

4 **Q What topics do you address in your testimony?**

5 **A** I discuss the following topics in my testimony:

- 6 • A description of the current and post-closing Continental corporate  
7 organizational structures, including descriptions of various entities within the  
8 current corporate structure.
- 9 • My view of why the proposed transaction that is the subject of the Application  
10 (as defined below, the "Proposed Transaction") should be approved by the  
11 Commission.
- 12 • A summary description of the Proposed Transaction.
- 13 • A detailed description of why Continental and Semco Holding entered into the  
14 Stock Purchase Agreement (as defined below).
- 15 • Key provisions of the Stock Purchase Agreement (as defined below) that  
16 support Commission approval of the Proposed Transaction.
- 17 • Certain additional information related to the Proposed Transaction.
- 18 • The preferred timetable for closing the Proposed Transaction and the reasons for  
19 that timetable.  
20  
21  
22

(2) **Current and Post-Closing Continental Corporate Structure**

**Q Please describe Continental and its subsidiaries.**

**A** Continental has investments in public utilities that provide regulated gas utility service to nearly 1 million customers in Michigan, Alaska, and New Mexico.

Continental owns Semco Holding, a Delaware corporation with a principal place of business at 1411 Third Street, Suite A, Port Huron, Michigan 48060. In turn, Semco Holding owns SEMCO, a Michigan corporation with a principal place of business also at 1411 Third Street, Suite A, Port Huron, Michigan 48060. SEMCO owns interests in gas distribution, gas storage, and pipeline facilities in Alaska and Michigan. In Alaska, these investments consist of ENSTAR, APC, and CINGSA. All of these jurisdictional regulated utility activities are conducted, in whole or in part, in connection with providing gas utility service to customers of ENSTAR.

**Q Please describe ENSTAR.**

**A** As I said earlier, ENSTAR is a division of SEMCO. ENSTAR purchases natural gas or takes deliveries of gas from third-party suppliers and distributes it through its distribution system to approximately 133,000 residential, commercial, and industrial customers in Anchorage, the Matanuska-Susitna Valley, and portions of the Kenai Peninsula. Approximately 90 percent of the ENSTAR customer base consists of residential customers.

**Q Please describe APC.**

**A** APC is a wholly-owned subsidiary of SEMCO. APC owns and operates the approximately 371 miles of transmission pipelines that transport natural gas from the

1 production areas in and around Cook Inlet to ENSTAR's distribution system.

2 **Q Please describe CINGSA.**

3 A CINGSA is a gas storage utility with an underground gas storage facility located in  
4 Kenai, Alaska. CINGSA will provide natural gas storage service to ENSTAR and other  
5 Southcentral Alaska public utilities. Gas injections began in April 2012, and the facility  
6 is expected to go into service in November 2012 when withdrawal capability is  
7 available to customers. SEMCO owns 65 percent of Alaska Storage Holding Company,  
8 LLC, which in turn, owns a 100 percent interest in CINGSA. CINGSA's Annual  
9 Report for 2011, which was filed at the Commission on April 2, 2012, contains a more  
10 detailed description of CINGSA's ownership.

11 **Q Are the corporate relationships you just outlined depicted on an organizational**  
12 **chart?**

13 A Yes. **Exhibit GAS-2**, which is identical to Exhibit B to the Application, is an  
14 organizational chart depicting the corporate structure I just described and providing  
15 some additional information.

16 For simplicity's sake, the only thing that this chart does not show is  
17 Continental's ownership of New Mexico Gas Company through New Mexico Gas  
18 Intermediate, Inc. (collectively, "New Mexico Gas"). New Mexico Gas provides  
19 regulated gas utility service to approximately 500,000 customers in the State of New  
20 Mexico. Continental's ownership of New Mexico Gas is unaffected by the Proposed  
21 Transaction for which approval is sought in the Application. After the closing on the  
22 Proposed Transaction, Continental will continue to own New Mexico Gas, and the

1 operations of New Mexico Gas will not be changed in any way by the Proposed  
2 Transaction.

3 **Q What will happen to the entities depicted on Exhibit GAS-2 after the closing on the**  
4 **Proposed Transaction?**

5 A All of the entities depicted on **Exhibit GAS-2** except Continental will be transferred to  
6 AltaGas U.S. through the sale of 100 percent of the common stock of Semco Holding.

7  
8 **(3) The Basis for Commission Approval of the Proposed Transaction**

9 **Q Briefly describe the subject-matter of the Application.**

10 A In the Application, the applicants seek Commission approval for the change of control  
11 contemplated by the transactions set forth in the Stock Purchase Agreement dated as of  
12 February 1, 2012, by and among AltaGas Ltd. ("AltaGas Ltd."), AltaGas Utility  
13 Holdings (U.S.) LLC ("AltaGas U.S."), Continental, and Semco Holding (the "Stock  
14 Purchase Agreement" or "SPA"). This request includes all approvals required for  
15 AltaGas Ltd. and AltaGas U.S. to control ENSTAR, APC, and CINGSA upon and after  
16 the closing of the transactions set forth in the Stock Purchase Agreement (the "Proposed  
17 Transaction"). A copy of the execution version of the Stock Purchase Agreement is  
18 attached to the Application as Exhibit A.

19 **Q What is your understanding of the standards for approval of the Application?**

20 A From a business standpoint, my understanding is that the relevant Alaska statute, AS  
21 42.05.281, provides that "[a] certificate may not be sold or leased, rented, transferred or  
22 inherited without prior approval of the commission." The Commission has

1 implemented this statute through regulations, codified at 3 AAC 48.600 – .661, and  
2 General Order No. 6 issued in Docket No. U-77-071. My understanding is that the  
3 Commission approves applications for the acquisition of control of a certificated Alaska  
4 utility when the Commission finds the applicant that would acquire control is “fit,  
5 willing, and able” to satisfy the utility’s public service obligations and thus approval of  
6 the application is in the public interest.

7 **Q In your opinion, is Commission approval of the Proposed Transaction warranted?**

8 A Yes. In my opinion, the Proposed Transaction satisfies the Commission’s standards and  
9 should be approved based on the information and for the reasons set forth in the  
10 Application, my testimony, and the testimony of Mr. Lowe and Ms. Stein.

11 **Q Explain in more detail why you believe that Commission approval of the**  
12 **Application in this proceeding is warranted.**

13 A From my perspective, approval of the Application is warranted because:

- 14 • The Proposed Transaction involves a straight-forward change of stock  
15 ownership such that, after the Proposed Transaction closes, SEMCO will  
16 continue to exist as a corporate entity.
- 17 • The Proposed Transaction will leave undisturbed the currently-effective rates,  
18 tariffs, and contractual, employment-related, and various other relationships of  
19 ENSTAR, APC, and CINGSA.
- 20 • The Proposed Transaction will not adversely affect the continued provision of  
21 safe, reliable, and adequate gas utility service by ENSTAR, APC, and CINGSA.

22 After the closing on the Proposed Transaction, gas utility service will continue



1 to be provided to customers by the same personnel based in the same offices  
2 doing the same work that they do now.

- 3 • AltaGas Ltd. is a financially strong and well-capitalized company that will be a  
4 stable owner of ENSTAR, APC, and CINGSA. It is an investment grade  
5 company with market capitalization of C\$2.8 billion. As of December 31, 2011  
6 its capital structure was approximately 50 percent debt and 50 percent equity.
- 7 • AltaGas Ltd has a proven record as a responsible, experienced, and prudent  
8 owner of regulated public utilities. AltaGas U.S. will be able to continue to  
9 provide safe, reliable, and adequate service to the customers of ENSTAR, APC,  
10 and CINGSA.
- 11 • It is noteworthy that important commitments were included in the Stock  
12 Purchase Agreement to maintain continuity in the ENSTAR workforce and  
13 ENSTAR, APC, and CINGSA operations and thus help provide for the  
14 continued provision of safe, reliable, and adequate gas utility service.
- 15 • Generally speaking, the Proposed Transaction is a “vote of confidence” in the  
16 State of Alaska as a good place to do business.

17  
18 (4) **Summary Description of the Proposed Transaction**

19 **Q Please summarize the Proposed Transaction.**

20 **A** The Proposed Transaction can be summarized as follows:

- 21 • Continental currently owns 100 percent of the issued and outstanding shares of  
22 the common stock of Semco Holding.

- 1       •       Semco Holding currently owns 100 percent of the issued and outstanding shares  
2             of the common stock of SEMCO (of which ENSTAR is a division) and, directly  
3             or indirectly, 100 percent of the issued and outstanding shares of common stock  
4             of various subsidiaries of SEMCO, including APC, and membership in Alaska  
5             Storage Holding Company, LLC (the majority owner of CINGSA).
- 6       •       At the closing of the Proposed Transaction, on the terms and subject to the  
7             conditions set forth in the Stock Purchase Agreement (including receipt of the  
8             Commission approvals sought in the Application), Continental will sell, transfer,  
9             and deliver to AltaGas U.S. all of the issued and outstanding shares of common  
10            stock of Semco Holding in exchange for US\$1,135,000,000 (including the  
11            assumption of certain debt), payable and subject to adjustment as set forth in the  
12            Stock Purchase Agreement.
- 13     •       If approved by the Commission and upon receipt of all other required regulatory  
14             approvals and the submission of various required filings, after the closing of the  
15             Proposed Transaction, control of ENSTAR, APC, and CINGSA would be  
16             transferred to AltaGas U.S. and AltaGas Ltd.
- 17     •       In addition, AltaGas U.S. would acquire various other non-jurisdictional  
18             SEMCO divisions, subsidiaries, and interests upon the closing of the Proposed  
19             Transaction, including SEMCO's subsidiaries and affiliates in Michigan. The  
20             Michigan Public Service Commission must approve the transfer of control of all  
21             Michigan jurisdictional regulated utilities (namely the SEMCO Energy Gas  
22             Company division of SEMCO, SEMCO Pipeline Company, and SEMCO Gas

Storage Company).

**Q Are there other things that you wish to point out about the Proposed Transaction?**

**A** Yes. First, as I said, the Proposed Transaction involves a straight-forward change of ownership. As a result, after the Proposed Transaction closes, SEMCO will continue to exist as a corporate entity. That this is true is best seen by comparing **Exhibit GAS-2** and the post-closing corporate organizational chart attached as Exhibit C to the Application.

Second, my experience with numerous utility transactions tells me that, among other things, when it is closed, the Proposed Transaction will leave undisturbed, as applicable, the currently-effective rates, tariffs, and the contractual, employment-related, and other relationships of ENSTAR, APC, and CINGSA. This is because the change in ownership of SEMCO and entities below SEMCO on the corporate organizational chart is being accomplished by the sale of the common stock of Semco Holding. AltaGas U.S. is simply being substituted for Continental.

**(5) Reasons for Entering into the Stock Purchase Agreement**

**Q Briefly describe the context for the decision by Continental and Semco Holding to enter into the Stock Purchase Agreement.**

**A** SEMCO's financial position has improved steadily since I joined SEMCO in March 2004. A key event for SEMCO in this process was the Continental share exchange transaction that closed in late-2007. As part of that transaction, Continental invested US\$100 million of additional equity capital in SEMCO and also refinanced virtually all

1 of SEMCO's then-existing debt.

2 As a result of these efforts to improve SEMCO's finances, by 2008, SEMCO's  
3 actual capital structure was restored to the industry average levels used throughout this  
4 period to set the rates charged by ENSTAR. The improvement in SEMCO's finances  
5 was mirrored in improved SEMCO credit ratings. In June 2003, SEMCO had non-  
6 investment grade ratings from both Standard & Poor's and Moody's Investor Service.  
7 By contrast, by April 2010 when SEMCO refinanced certain long-term debt, SEMCO's  
8 credit ratings had improved to investment grade.

9 **Q With that description as context, explain why Continental and Semco Holding**  
10 **entered into the Stock Purchase Agreement.**

11 A During 2011, representatives of Continental and AltaGas Ltd. held discussions  
12 concerning a possible business venture unrelated to Semco Holding. Those discussions  
13 did not result in any specific transaction or venture. However, out of those discussions  
14 arose AltaGas Ltd.'s interest in acquiring Semco Holding.

15 As discussions continued during 2011, it became clear that AltaGas Ltd. was a  
16 particularly appealing buyer from the perspective of Continental and Semco Holding,  
17 for several independent reasons.

18 **Q What are those reasons?**

19 A First, AltaGas Ltd. is a strong, well-capitalized entity that will be a financially stable  
20 owner of ENSTAR, APC, and CINGSA. It is an investment grade company with a  
21 market capitalization of approximately C\$2.8 billion and a debt/equity ratio of  
22 approximately 50 percent/50 percent as of December 31, 2011. In fact, following the

1 announcement of the Proposed Transaction, Standard & Poor's ("S&P") placed  
2 SEMCO on positive credit watch, essentially reaffirming SEMCO's investment grade  
3 ratings and improving SEMCO's outlook to positive. This S&P report is attached as  
4 **Exhibit GAS-3.**

5 Second, AltaGas Ltd. has a proven track record as a responsible, experienced,  
6 and prudent owner of regulated public utilities. Accordingly, from the viewpoint of  
7 Continental and Semco Holding, AltaGas U.S. will be well-positioned to continue to  
8 provide safe, reliable, and adequate service to the customers of ENSTAR, APC, and  
9 CINGSA after the closing of the Proposed Transaction.

10 Third, the Proposed Transaction is nothing more than a change in ownership.  
11 The same employees will continue to serve customers by doing the same jobs at the  
12 same offices, as they do today. As discussed later in my testimony, AltaGas Ltd. and  
13 AltaGas U.S. were willing to make commitments in the Stock Purchase Agreement with  
14 respect to employees and thus the continuity of current operations. This last element  
15 can be characterized as making commitments that "things will not change" as a result of  
16 the Proposed Transaction and thus, in my view, should be considered as a significant  
17 positive aspect of the Proposed Transaction.

18 (6) **Key Provisions of the Stock Purchase Agreement**

19 **Q Please discuss in more detail the comment you just made that "things will not**  
20 **change" as a result of the Proposed Transaction and the basis for that statement.**

21 **A** If the Application is approved and the Proposed Transaction closes, as noted earlier,  
22 SEMCO will continue to exist as a corporate entity, with the same experienced team of

1 employees doing the same jobs and working from the same offices. This means that,  
2 from the perspectives of both customers and employees, things on the operational side  
3 at ENSTAR will remain essentially the same as they are today. Similarly, nothing will  
4 change as a result of the Proposed Transaction when it comes to APC or CINGSA.

5 I see this aspect of the Proposed Transaction as a significant positive for two  
6 primary reasons. Continuity is important to customers – they will be dealing with the  
7 same business entities and the same people in the same roles, at the same offices. This  
8 makes the Proposed Transaction essentially invisible to them. The same can be said for  
9 various vendors whose existing relationships will be unaffected by the Proposed  
10 Transaction. Continuity also is important to employees, who, when changes are  
11 minimized, are able to remain focused on providing reasonably-priced, safe, reliable,  
12 and adequate service to customers, as they do today.

13 **Q Does the Stock Purchase Agreement contain any assurances that, in your mind,**  
14 **bear on this topic?**

15 **A** Yes. Aside from the form of the Proposed Transaction (in which AltaGas U.S. becomes  
16 the new owner of Semco Holding), from my perspective, it is particularly significant, in  
17 terms of employee retention and thus continuity of operations for customers and  
18 vendors that AltaGas Ltd. and AltaGas U.S. committed in the Stock Purchase  
19 Agreement, to: (i) honor all commitments under collective bargaining agreements  
20 (SPA, Section 6.05(g)); (ii) maintain current compensation and benefits (or, if changes  
21 are made, ensure that employees enjoy substantially comparable compensation and  
22 benefit levels, in the aggregate), for at least two years (SPA, Section 6.05(a)-(e)); (iii)

1 not terminate employees without “cause” during that two-year timeframe (SPA, Section  
2 6.05(a)); and (iv) maintain existing Alaska corporate offices (SPA, Section 6.05(g)).

3 In my experience, transactions can be viewed by employees as disruptive,  
4 simply because they are occurring and represent change. In this instance, however,  
5 AltaGas Ltd. and AltaGas U.S. have given appropriate assurances about honoring past  
6 commitments and keeping things the same as they are right now for a reasonable period  
7 of time following the closing on the Proposed Transaction. Those commitments should  
8 minimize disruptions among the ENSTAR workforce – and thus in utility operations  
9 and services. In my view, those commitments directly support the goal of continuing to  
10 provide safe, reliable, and adequate gas utility service to customers, as ENSTAR does  
11 now. The same can be said for APC and CINGSA operations.

12 **Q Are there other commitments in the Stock Purchase Agreement that you believe**  
13 **relate to the business continuity point you are making?**

14 **A** Yes. I should add that, for their part, Continental and Semco Holding agreed to the  
15 provisions of Article V of the Stock Purchase Agreement governing what are commonly  
16 called “interim operations.” While this is a lengthy part of the Stock Purchase  
17 Agreement, in general, Article V calls for ENSTAR, APC, and CINGSA to:

18 . . . . conduct [their] business[es] . . . . in substantially the same manner as  
19 previously conducted . . . and use commercially reasonable efforts to preserve  
20 intact [their] current business organization[s], keep available the services of  
21 its current officers and employees, and maintain [their] relations with  
suppliers, customers, licensors and others having business relationships with  
[them] so that [their] goodwill and ongoing business[es] shall be unimpaired  
on the Closing Date . . . .

22 (SPA Section 5.01(a)). In other words, under the Stock Purchase Agreement, until

1 closing, ENSTAR will be operating its business basically as it does now. The same is  
2 true for APC and CINGSA.

3 **Q Do you mean that nothing will ever change at SEMCO, including ENSTAR, APC,**  
4 **and CINGSA, after the closing on the Proposed Transaction?**

5 A From my perspective, no. Changes occur all of the time in any business, including at  
6 ENSTAR, APC, and CINGSA in part because there should be a continuing focus on  
7 finding better ways to do things and also because business organizations are comprised  
8 of human beings and therefore are always adapting to personal decisions and business  
9 events. What I mean is that, in my view, given the way the Proposed Transaction is  
10 structured and the commitments made in the Stock Purchase Agreement, the Proposed  
11 Transaction itself will not be a driver of changes in the existing regulated utilities in  
12 Alaska.

13  
14 (7) **Additional Information**

15 **Q Please comment on the other regulatory approvals and filings required in**  
16 **connection with the Proposed Transaction.**

17 A Regulatory approval is required from this Commission and the Michigan Public Service  
18 Commission. Filings also must be made with the Federal Energy Regulatory  
19 Commission, the Federal Communications Commission, and the federal Department of  
20 Justice and Federal Trade Commission.

21 **Q Does the Commission have copies of SEMCO's audited consolidated financial**  
22 **statements?**



1 A Yes, the audited consolidated financial statements of SEMCO as of December 31, 2011,  
2 2010, and 2009 are on file with the Commission. These financial statements include the  
3 results for ENSTAR and APC for the same periods, and CINGSA's information has  
4 been included since it was formed in 2010.

5 **Q Please provide the names and addresses of persons authorized to receive, on behalf**  
6 **of Continental, Semco Holding, SEMCO (including ENSTAR), APC and CINGSA,**  
7 **notices and communications about the Application, including telephone and**  
8 **facsimile numbers and e-mail addresses for those persons.**

9 A The names and addresses of those persons and other requested contact information  
10 appear below:

11 A. William Saupe  
12 Matthew T. Findley  
13 Ashburn & Mason, P.C.  
14 1227 West Ninth Avenue, Suite 200  
15 Anchorage, Alaska 99501  
16 Phone: 907.276.4331  
17 Facsimile: 907.277.8235  
18 Electronic mail: [aws@anchorlaw.com](mailto:aws@anchorlaw.com)  
19 [mtf@anchorlaw.com](mailto:mtf@anchorlaw.com)

17 (8) **Preferred Closing Timetable for the Proposed Transaction**

18 **Q What is the preferred timetable for closing on the Proposed Transaction and why?**

19 A The goal is to close on the Proposed Transaction by August 30, 2012. The submissions  
20 of the applicants in this case are intended to aid the Commission in completing the case  
21 within six months. The desire to close on the Proposed Transaction by this date arises,  
22 in large part, from a belief that a shorter period of interim operations under the Stock

1 Purchase Agreement would minimize any potential disruption of operations caused by  
2 the pendency of the Proposed Transaction. Also, as a straight-forward change in  
3 ownership, the Proposed Transaction presents a simpler case for approval than other  
4 more complex transactions, especially in view of the efforts of the parties to the Stock  
5 Purchase Agreement to anticipate and address various factors that might affect the  
6 judgment made by the Commission in this matter.

7 **Q Do you have anything else to add on this topic?**

8 A Yes. I urge the Commission to consider the Proposed Transaction favorably and move  
9 as expeditiously as possible to approve the Application.

10 **Q Does that conclude your pre-filed direct testimony in this proceeding?**

11 A Yes, it does.  
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22

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George A. Schreiber, Jr.

**EMPLOYMENT HISTORY**

**President and Chief Executive Officer**

Continental Energy Systems, Troy, MI

November 2007 to Present

- Member of the Board of Managers of Continental Energy Systems
- Chairman and Member of the Board of Directors of SEMCO Energy, Inc.
- President and Chief Executive Officer of SEMCO Energy, Inc.
- Member of the Board of Directors of Energy Conversion Devices, Inc.
- Member of the Board of Directors of the American Gas Association

**President and Chief Executive Officer**

SEMCO Energy, Inc., Port Huron, MI

March 2004 to November 2007

- Member of the Board of Directors of SEMCO Energy, Inc.
- Member of the Board of Directors of American Gas Association

**Chairman, Global Energy Group**

Credit Suisse First Boston, New York, NY

September 1999 to March 2004

**President**

Pinnacle West Capital Corp, Phoenix, AZ

February 1997 to August 1999

- Member of the Board of Directors of Arizona Public Service Company
- Member of the Board of Directors of Pinnacle West Capital Corporation

**Managing Director and Group Head of Infrastructure Finance**

PaineWebber, New York, NY

February 1990 to January 1997

**Director and Group Head, Utilities and Telecommunications Group**

The First Boston Corporation, New York, NY

February 1987 to January 1990

**Vice President and Stockholder**

Kidder Peabody & Co., New York, NY

1975 – 1978, 1979 - 1987

**Manager – Regulatory Affairs**

Arizona Public Service Company, Phoenix, AZ

1978 – 1979

**Associate, Corporate Finance Division**

The First Boston Corporation, New York, NY

1971 – 1975

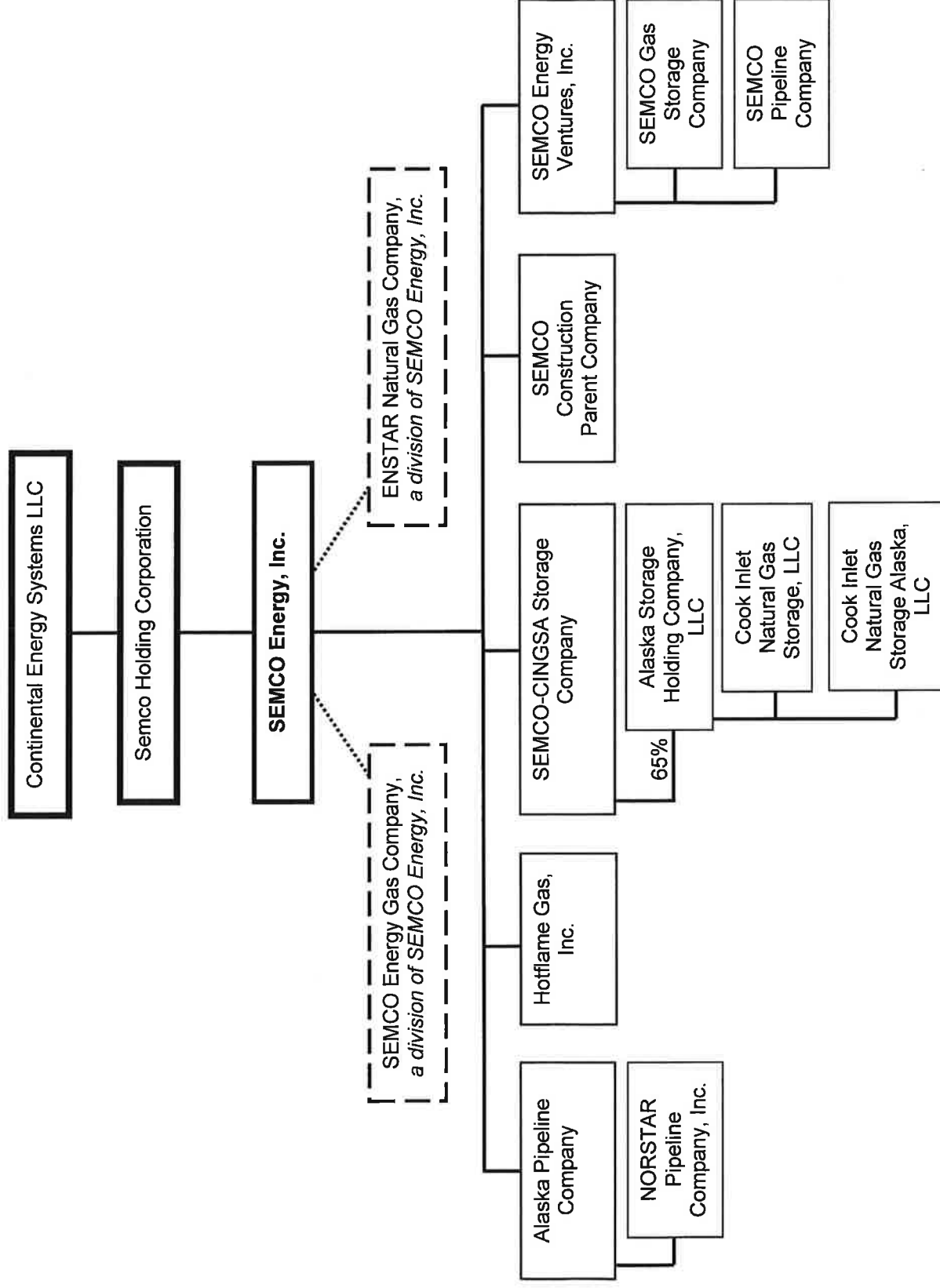
***EDUCATION***

*BS, Arizona State University, 1970*

*MBA, Arizona State University, 1971*

*College of Business Hall of Fame Inductee, Arizona State University, 2000*

# Continental Energy Systems LLC Corporate Organization Chart (Semco Holding Entities)



\* Additional Membership Interests in Alaska Storage Holding Company, LLC are: 26.5% held by Alaska Gas Transmission Company, LLC; 4.25% held by CIRI-CINGSA Holdings, LLC; and 4.25% held by First Alaska Capital Partners – Gas Storage, LLC.

February 9, 2012

### Research Update:

## Ratings On SEMCO Energy Inc. Are Placed On CreditWatch Positive After Announced Sale To AltaGas

#### Primary Credit Analyst:

Manish Consul, New York (1) 212-438-3870;manish\_consul@standardandpoors.com

#### Secondary Contact:

Michael V Grande, New York (1) 212-438-2242;michael\_grande@standardandpoors.com

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Overview

Rating Action

Rationale

CreditWatch

Related Criteria And Research

Ratings List

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[www.standardandpoors.com/ratingsdirect](http://www.standardandpoors.com/ratingsdirect)

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## Research Update:

# Ratings On SEMCO Energy Inc. Are Placed On CreditWatch Positive After Announced Sale To AltaGas

## Overview

- AltaGas Ltd. (BBB/Stable/--) is purchasing U.S. natural gas distribution company SEMCO Holding Co., the parent of SEMCO Energy Inc., from Continental Energy Systems LLC (CES; unrated) for \$1.14 billion. Upon close, we expect to link SEMCO's ratings with those of AltaGas.
- We are placing our 'BBB-' corporate credit and 'BBB+' issue-level ratings on SEMCO on CreditWatch with positive implications.

## Rating Action

On Feb. 9, 2012, Standard & Poor's Ratings Services placed its ratings on SEMCO Energy Inc. (SEMCO) on CreditWatch with positive implications.

## Rationale

The CreditWatch positive status stems from SEMCO's acquisition by a higher rated Canadian company, AltaGas. Consequently, we no longer base the ratings on the consolidated credit profile of former parent CES. We view the announced transaction to be positive for SEMCO because it will no longer be exposed to weaker cash flows for CES's other subsidiary New Mexico Gas Co. Inc.

We also view the announced transaction as a positive for AltaGas's business risk profile because its regulated utility business will diversify and improve the stability of the company's existing asset base. As a result, we have revised our business risk profile designation on AltaGas to "strong" from "satisfactory" and the financial risk profile to "significant" from "aggressive". The company is financing the transaction consistent with its cash flow characteristics and existing capital structure, and we believe the cash flows' stable nature help support the pro forma balance sheet.

SEMCO owns regulated natural gas distribution and transmission assets in Michigan and Alaska, and is building a regulated natural gas storage facility in Alaska.

In our view, SEMCO maintains an "excellent" business risk profile on a stand-alone basis and we are revising its financial risk profile to "significant" from "aggressive" in line with that of its new parent, AltaGas. Pro forma for the transaction, we estimate that the portion of EBITDA from direct commodity sales (fractionation margin and power generation) to be 24%,

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down from 2010's 38%. We view this shift to be positive for credit.

SEMCO's primary operating assets are SEMCO Gas, a regulated natural gas distribution system in Michigan serving about 288,000 customers, and ENSTAR Natural Gas, a regulated natural gas distribution system in Alaska serving about 133,000 customers. SEMCO has also received regulatory approval to develop and operate a storage facility in Alaska called Cook Inlet Natural Gas Storage Alaska. Unregulated operations contribute less than 5% of EBITDA and include a 50% share of Eaton Rapid Gas Storage System in Michigan, a propane gas business, and ownership of three pipelines.

Financial performance at SEMCO has been improving steadily, with the ratio of funds from operation (FFO) to debt of about 18% over the next two years. However, we view AltaGas' balance sheet to be stretched, largely due to the continued high capital spending on long-term projects that will depress 2012 and 2013 financial metrics. The company has a combined capital spending program of more than C\$1 billion on projects that we expect will contribute only partway into 2012 and future years. We recognize that more stable cash flows can support a higher degree of leverage.

We view the pro forma financial metrics as weak for the ratings, but do see improvements into next year as projects such as the Gordondale processing facility in the gas segment contribute to a full year's operating results. We forecast significant improvements with the contribution of Forest Kerr in 2014; however, we note there remains about 10% of the project's C\$725 million cost to be fixed. If the project timing slips, there would be a delay in the movement to a more appropriate financial profile for the ratings.

### **Liquidity**

We view SEMCO's liquidity on a consolidated basis. When including the company's revolving credit facility that matures beyond the next six months, we calculate sources divided by uses of more than 2x. On a stand-alone basis, SEMCO had a \$130 million credit facility of which about \$56.5 million is unused, as of Sept. 30, 2011. In addition, with about \$80 million of FFO expected over the next 12 months, the company should have enough funds to meet its uses of liquidity, primarily mandatory capital expenses and any distributions.

We believe that AltaGas has good access to the capital markets, as evidenced by the announced C\$350 million subscription receipt deal to partially finance the transaction's cash portion.

### **CreditWatch**

The CreditWatch positive listing reflects the stronger consolidated credit profile of AltaGas. We expect SEMCO to be an integral part of AltaGas, providing between one-quarter to one-third of overall cash flows. When the acquisition is complete, we would likely raise SEMCO's rating to that of

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AltaGas. We expect the sale to close by the third quarter of 2012, when we will remove the ratings from CreditWatch.

## Related Criteria And Research

Criteria: Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008.

## Ratings List

### Ratings Placed On CreditWatch Positive

	To	From
SEMCO Energy Inc.		
Corporate Credit Rating	BBB-/Watch Pos	BBB-/Negative/--
Senior secured	BBB+/Watch Pos	BBB+
Recovery Rating	1+	

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.



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