STATE OF ALASKA

RECEIVED
By the Regulatory Commission of Alaska on May 01, 2012

BEFORE THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

T. W. Patch, Chairman
Kate Giard
Paul F. Lisankie
Robert M. Pickett
Janis W. Wilson

In the Matter of the Application by AltaGas Ltd., AltaGas Utility Holdings (U.S.) LLC and Continental Energy Systems LLC for Approval of Acquisition of Control of ENSTAR Natural Gas Company, Holder of Certificate of Public Convenience and Necessity No. 4 and Alaska Pipeline Company, Holder of Certificate of Public Convenience and Necessity No. 141, by AltaGas Ltd. and AltaGas Utility Holdings (U.S.) LLC	Docket No. U-12-005

DIRECT TESTIMONY OF JOHN E. LOWE

Q1 PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A1 My name is John E. Lowe. My business address is 1700, 355 4th Ave. S.W., Calgary, AB, T2P 0J1.

Q2 BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

Date: 5-30-12 Exh # T-1
Regulatory Commission of Alaska
Lowe By: CPT 4-12-005
Northern Lights Realtime & Reporting, Inc.
(907) 337-2221

A2 I am President of the Utility Division of AltaGas Ltd., one of the Applicants in this docket.

Q3 PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A3 I received a Bachelor of Arts degree from the University of Alberta in 1983 and a Bachelor of Laws degree from Dalhousie Law School in 1986. Over the next 25 years, I practiced energy and public utility law in Calgary, Alberta, representing gas, electric, water and telecommunications utilities in general rate cases, tariff filings, negotiated settlements and facilities approval matters. I was also involved in commercial transactions involving utilities and, on my own time, was a developer and founding shareholder of a hydro-electric power plant in Alberta. I have appeared before the British Columbia Utilities Commission, the Alberta Utilities Commission, the Energy Resources Conservation Board, the National Energy Board, the Canadian Radio-television and Telecommunications Commission, Industry Canada, the Alberta Court of Queen's Bench, the Alberta Court of Appeal, the Federal Court of Appeal and the Supreme Court of Canada. I was a partner in Bennett Jones LLP (1996 – 2005) and Burnet Duckworth & Palmer LLP (2005 – 2011). During my career, I have lectured and published on energy matters. My lectures included the 2011 University of Alberta Law/MBA Combined Course on Utility Law, the 2010 Incentive Regulation Workshop, Van Horne Institute/Alberta Utilities Commission and the 2010 Canadian Bar Association luncheon lecturer on Energy Regulation. My publications include *Recent*

Regulatory and Legislative Developments of Interest to Oil and Gas Lawyers, (2009) Alberta Law Review, Petroleum Law Edition, the Canada chapter, *The International Comparative Legal Guide to Telecommunications Laws & Regulations 2011*, Global Legal Group Ltd., London and *Towards a New Policy Framework for Oil Sands Development*, Canadian Bar Association (Alberta Law Conference) 2006.

Q4 PLEASE DESCRIBE YOUR CURRENT PROFESSIONAL RESPONSIBILITIES.

A4 In my current position as President of the Utility Division of AltaGas Ltd., I am responsible for utility company operations, with responsibility for three wholly-owned natural gas distribution businesses in Alberta, British Columbia and Nova Scotia. I was responsible for completing AltaGas Ltd.'s acquisition of Pacific Northern Gas Ltd. in December 2011; and I am Chief Executive Officer ("CEO") and Director of AltaGas Utilities Inc. ("AUI"), CEO and Director of Heritage Gas Limited, and Director of Pacific Northern Gas Ltd.

Q5 PLEASE DESCRIBE THE PROPOSED TRANSACTION THAT GIVES RISE TO THE CHANGE OF CONTROL FOR WHICH APPROVAL IS BEING SOUGHT, INCLUDING ALTAGAS LTD. AND ALTAGAS UTILITY HOLDINGS (U.S.) LLC.

A5 AltaGas Utility Holdings (U.S.) LLC ("AltaGas U.S."), AltaGas Ltd., Continental Energy Systems LLC ("Continental") and Semco Holding Corporation ("Semco Holding") have entered into a Stock Purchase Agreement dated as of February 1, 2012 (the "Stock Purchase Agreement" or "SPA"), under which AltaGas U.S. has agreed to

purchase all of the issued and outstanding common shares of Semco Holding (the "Proposed Transaction"). Semco Holding owns 100% of the outstanding shares of SEMCO Energy, Inc. ("SEMCO"). ENSTAR Natural Gas Company ("ENSTAR") is a division of SEMCO. Alaska Pipeline Company ("APC") is a wholly-owned subsidiary of SEMCO. SEMCO also owns 65% of Cook Inlet Natural Gas Storage Alaska, LLC ("CINGSA") through an indirect subsidiary, SEMCO-CINGSA Storage Company. ENSTAR, APC and CINGSA are public utilities regulated by the Commission. The Proposed Transaction will result in a straight forward change of ownership of Semco Holding from Continental to AltaGas U.S. and thus a change of control of ENSTAR, APC, and CINGSA.

AltaGas Ltd. is an energy infrastructure business with a focus on natural gas, power and regulated utilities. As at December 31, 2011, AltaGas Ltd. had assets exceeding C$3.5 billion and annual revenues of approximately C$1.6 billion. The common and preferred shares of AltaGas-Ltd. are traded on the Toronto Stock Exchange. AltaGas Ltd. was amalgamated on July 1, 2010, and its predecessor was incorporated on August 30, 1993, and commenced business on April 1, 1994. The address of the head office and principal place of business of AltaGas Ltd. is: 1700, 355 4th Ave. S.W., Calgary, AB, T2P 0J1. Currently, as noted earlier in my testimony, AltaGas Ltd. owns and operates three utilities in Canada.

AltaGas U.S. is a Delaware limited liability company formed on January 27, 2012. AltaGas U.S. is an indirect wholly-owned subsidiary of AltaGas Ltd. The address of its registered office in the State of Delaware is 2711 Centerville Road, Suite 400, Wilmington, Delaware 19808.

The goals of AltaGas Ltd. are to operate sound utility systems and deliver safe, reliable, and adequate service to its customers at reasonable rates. At times, I will collectively refer to AltaGas U.S. and AltaGas Ltd. as "AltaGas" in this testimony.

Q6 WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A6 My testimony is provided in support of the applications jointly submitted by AltaGas and Continental (the "Applications") for approval of the change of control of ENSTAR, APC, and CINGSA as a result of consummation of the Proposed Transaction embodied in the Stock Purchase Agreement, which is attached to each Application as Exhibit A. Ms. Deborah S. Stein, Senior Vice President, Finance and Chief Financial Officer of AltaGas Ltd., and Treasurer of AltaGas U.S., and I are providing testimony on behalf of AltaGas U.S. and AltaGas Ltd. Mr. George A. Schreiber, Jr., Continental and Semco Holding President and Chief Executive Officer, is providing testimony on behalf of Continental, ENSTAR, APC, and CINGSA. I will address the following topics:

(1) a description of AltaGas' business activities, including its experience in owning and operating regulated utilities;

(2) a discussion of the Proposed Transaction from AltaGas' viewpoint, including an explanation of the reasons for entering into the transaction;

(3) a discussion of the effects of the Proposed Transaction on utility customer rates and service;

(4) a discussion of the effects of the Proposed Transaction upon the management and labor force of the regulated utilities;

(5) a discussion of why AltaGas is fit, willing and able to own ENSTAR, APC, and CINGSA; and

(6) a statement explaining why Commission approval of the change of control resulting from the Proposed Transaction is consistent with the public interest.

Ms. Stein's testimony will discuss the capital structure of AltaGas Ltd. and AltaGas U.S before and after completion of the Proposed Transaction, why AltaGas Ltd. and AltaGas U.S. are financially capable of acquiring and owning ENSTAR, APC and CINGSA, the expected capital structure of ENSTAR, APC and CINGSA after closing of the Proposed Transaction, and the ability of ENSTAR, APC and CINGSA to access capital after the Proposed Transaction.

Q7 PLEASE DESCRIBE ALTAGAS U.S. AND ALTGAS LTD., INCLUDING ALL BUSINESS ACTIVITIES AND EXPERIENCE IN OWNING AND OPERATING REGULATED UTILITIES.

A7 In addition to the information set forth in A5 above, at December 31, 2011, AltaGas Ltd. reported consolidated financial and operating results on the basis of four reporting segments:

Gas

Extraction and Transmission consists of AltaGas Ltd.'s interests in ethane and natural gas liquids ("NGL") extraction plants and natural gas and NGL transmission systems; Field Gathering and Processing includes the field natural gas gathering and processing business; and

Energy Services consists of three main businesses: energy management services, gas services and natural gas storage.

Power

AltaGas Ltd.'s interests in coal-fired and gas-fired generation, wind power, run-of-river power and interests in wind and run-of-river renewable power projects under development.

Utilities

Natural gas transmission and distribution facilities in Alberta, British Columbia, Nova Scotia and the Northwest Territories, Canada.

Corporate

Corporate includes the cost of providing services and general corporate overhead (including treasury and access to capital markets), investments in public and private

entities and the effects of the changes in the value of risk management assets and liabilities.

One of AltaGas Ltd.'s principal businesses is the long-term ownership and operation of regulated utilities. AltaGas Ltd.'s goals include operation of sound utility systems and delivery of safe, reliable, and adequate service to its customers at reasonable rates. AltaGas Ltd., through the original operations in Alberta, Canada, of AUI, which it continues to own, has been a distributor of natural gas for over 57 years. Currently, AltaGas Ltd. owns and operates three utilities in Canada. AltaGas Ltd. has indirect 100% ownership interests in AUI, Heritage Gas Limited and Pacific Northern Gas Ltd., serving approximately 115,000 customers.

As noted earlier, AltaGas U.S. is a Delaware limited liability company formed on January 27, 2012. The sole member of AltaGas Utility Holdings (U.S.) LLC is AltaGas Services (U.S.) Inc., a Delaware corporation, and the sole shareholder of AltaGas Services (U.S.) Inc. is AltaGas Ltd. AltaGas U.S. was formed to hold AltaGas Ltd.'s utility investments in the U.S. Since its formation, AltaGas U.S. has conducted no business operations other than in connection with the transactions contemplated by the Stock Purchase Agreement.

Q8 PLEASE DISCUSS THE PROPOSED TRANSACTION FROM ATLAGAS' VIEWPOINT AND EXPLAIN ITS REASONS FOR ENTERING INTO IT.

A8 Mr. Schreiber's testimony accurately describes the Proposed Transaction. I would augment his description with the following additional information from AltaGas' perspective. On February 1, 2012, AltaGas Ltd. and AltaGas U.S. entered into the Stock Purchase Agreement with Continental and Semco Holding to acquire all issued and outstanding common stock of Semco Holding for US$1.135 billion, including approximately US$355 million in assumed debt, and subject to adjustment as set forth in the Stock Purchase Agreement. Semco Holding is the sole shareholder of SEMCO, and SEMCO owns ENSTAR and APC and, through its subsidiary, SEMCO-CINGSA Storage Company, has a 65 percent interest in Alaska Storage Holding Company, LLC, which owns CINGSA. The change of control over ENSTAR and APC as a result of the Proposed Transaction is the subject of this Application in this proceeding. The applicants have submitted a separate application with the Commission for the approval of the change of control of CINGSA. As the Commission knows, CINGSA is constructing an in-ground natural gas storage facility on the Kenai Peninsula. Injections of gas into the CINGSA facility began in April 2012.

After closing of the Proposed Transaction, AltaGas U.S. will become the 100% owner of Semco Holding and thus will have indirect control of ENSTAR and APC and a 65% indirect interest in CINGSA. Exhibit B and Exhibit C to the Application are the organization charts depicting the corporate organizational structure before and after Proposed Transaction closes. The only difference between these two organization charts

is that, after Proposed Transaction closes, Continental will be replaced by AltaGas U.S. as the 100% owner of Semco Holding. Notwithstanding this change in ownership, after closing, it will be "business as usual" in ENSTAR, APC and CINGSA. ENSTAR, APC, CINGSA and other assets and investments of SEMCO will continue to be managed and operated by the same management team and employees, providing the same safe, reliable and adequate service to their customers.

By this, I do not want to leave the impression that AltaGas intends to operate ENSTAR, APC, and CINGSA on automatic pilot, without continually assessing changes that lead to improved service, safety and reliability. In any prudently run operation, improvements are always being sought in the ordinary course of business. The important point to stress is that the Proposed Transaction itself will not be a driver of changes in the existing utility businesses.

From AltaGas' perspective as the purchaser, the businesses of ENSTAR, APC and CINGSA are complementary to AltaGas' proven core competencies in managing regulated utility investments and other energy infrastructure. The Proposed Transaction fits with AltaGas Ltd's vision of being one of North America's leading energy infrastructure companies and aligns with the strategy of growing by adding stable, regulated, long-life assets to AltaGas' holdings. The Proposed Transaction is consistent with AltaGas Ltd.'s strategy to grow in the northern U.S. and establishes a significant

foothold in areas with growth potential and in proximity to assets and operations AltaGas Ltd. owns today. In addition, AltaGas Ltd. believes the Proposed Transaction provides a broader platform on which to deploy its regulatory and management expertise. The management team of SEMCO (including the ENSTAR division), which AltaGas expects to retain, will contribute valuable operational expertise in natural gas distribution.

In addressing Continental's perspectives on the Proposed Transaction, Mr. Schreiber's testimony states that he sees "the Proposed Transaction [as] a 'vote of confidence' in the State of Alaska as a good place to do business." I share Mr. Schreiber's perspective on this matter.

Q9 PLEASE DISCUSS THE EFFECTS OF THE PROPOSED TRANSACTION ON UTILITY CUSTOMER SERVICE AND RATES.

A9 As I said earlier, after closing, it will be "business as usual" at ENSTAR, APC and CINGSA. The only difference will be that a new entity, AltaGas U.S., will own 100% of Semco Holding's issued and outstanding shares and thus control these entities. Gas utility, gas transmission and gas storage service will continue to be provided to customers in Alaska by the same personnel based in the same offices, doing the same jobs they do now.

AltaGas Ltd. has a long history of operating natural gas utilities. Safety for employees and the public is a core value of AltaGas Ltd. and all of its utility businesses. The

Proposed Transaction will not adversely affect the continued provision of safe, reliable, and adequate gas utility service by ENSTAR, APC and CINGSA.

Utility rates will not change as a result of the Proposed Transaction. Assuming approval of the Application as requested, AltaGas Ltd. and AltaGas U.S. will not seek recovery from utility customers of any transaction costs, acquisition premiums, goodwill or control premiums, or any fees or other costs incurred in connection with the Proposed Transaction. Thus, the Proposed Transaction will leave undisturbed all currently-effective rates, tariffs and contractual relationships.

Q10 PLEASE DISCUSS THE EFFECTS OF THE PROPOSED TRANSACTION UPON THE MANAGEMENT AND LABOR FORCE OF ENSTAR, APC AND CINGSA.

A10 AltaGas Ltd. and AltaGas U.S. will retain the current management team and the employees involved in the operation of ENSTAR, APC and CINGSA. No labor force reductions are expected as a result of the Proposed Transaction. In fact, specific commitments are included in the Stock Purchase Agreement to maintain continuity in the existing management and workforce, and thus help provide for the continued provision of safe, reliable, and adequate gas utility service to customers. Commitments in the Stock Purchase Agreement include: (i) honoring all collective bargaining agreements; (ii) maintaining existing compensation and benefits arrangements (or substantially comparable compensation and benefits, in the aggregate, if changes are made) for a period of two years after the closing on the Proposed Transaction; (iii) not terminating

the employment of any employees without cause for a period of two years after the closing of the Proposed Transaction; and (iv) maintaining current Alaska corporate offices.

The Proposed Transaction will not affect current employee compensation policies and practices applicable to ENSTAR, APC and CINGSA. The Stock Purchase Agreement provides that, for a period of two years after the closing on the Proposed Transaction, AltaGas Ltd. and AltaGas U.S. will maintain existing compensation and benefit arrangements (or put in place substantially comparable compensation and benefits, in the aggregate, if changes are made). This commitment includes continuing to provide retiree medical and long-term disability coverage and, if substitute benefits are put in place, recognizing each employee's prior service and waiving pre-existing condition limitations and other benefit plan requirements that might otherwise cause a loss or reduction in employee benefits.

Q11 PLEASE EXPLAIN , IN YOUR OPINION, WHY ALTAGAS IS FIT, WILLING AND ABLE TO CONTROL ENSTAR, APC, AND CINGSA.

A11 AltaGas is fit, willing and able to control ENSTAR, APC, and CINGSA for the following independent reasons:

(1) AltaGas Ltd. has a good understanding of the regulatory, business and social environment in which ENSTAR, APC, and CINGSA operate in Alaska. AltaGas

Ltd. has successfully operated regulated utilities in several locations in Canada and has a demonstrated track record of successful, safe, and reliable operation and regulatory compliance. Through its wholly- owned subsidiaries that operate utilities in North America, AltaGas Ltd. has considerable regulatory, operating and financial expertise in relation to the management of regulated utilities. AltaGas Ltd. believes that the Semco Holding businesses, having well diversified, mature customer bases and operating principally under cost-of service regulation, are similar in all fundamental respects to the businesses of the utilities in the AltaGas Ltd. group of companies.

(2) In addition to utility management expertise, AltaGas Ltd. has a Board of Directors with extensive utility management and regulatory experience, as described in Exhibit K of the Applications.

(3) AltaGas Ltd. has a proven track record of successful regulatory compliance. Local managers of AltaGas Ltd.'s utility business maintain good, long-standing working relationships with regulators in their respective jurisdictions, including the Alberta Utilities Commission, the British Columbia Utilities Commission (the "BCUC"), and the Nova Scotia Utility and Review Board.

(4) AltaGas Ltd. is financially sound. It has the financial strength to complete the Proposed Transaction and to finance the continued growth of the ENSTAR, APC and CINGSA. AltaGas Ltd. maintains an Investment Grade Credit Rating (BBB) with both the Dominion Bond Rating Service ("DBRS") and Standard & Poor's. Prior to

announcement of the Proposed Transaction, AltaGas Ltd. had approximately C$1 billion of available liquidity through undrawn credit facilities and cash on hand. In conjunction with the announcement of the Proposed Transaction, AltaGas Ltd. issued C$403 million subscription offering receipts, including the exercise of the over-allotment option, and also obtained a new US$300 million syndicated credit facility, which closed on March 2, 2012. In addition, AltaGas Ltd. has an established track record in the issuance of medium term notes and preferred shares in the capital market, most recently evidenced by the issuance of C$200 million (approximately US$200 million) medium term notes maturing June 1, 2020, on April 13, 2012. AltaGas Ltd.'s stable financial condition is underscored by DBRS' confirmation of AltaGas Ltd.'s BBB credit rating with a stable trend and S&P's affirmation of AltaGas Ltd.'s BBB credit rating with a stable outlook after the announcement of the Proposed Transaction. Furthermore, Standard & Poor's views the Proposed Transaction to be positive for both AltaGas Ltd. and SEMCO, and confirmed AltaGas Ltd.'s good access to capital markets, as is evident from Standard & Poor's February 9, 2012 Research Update entitled "*Ratings on SEMCO Energy Inc. Are Placed on Credit Watch Positive After Announced Sale to AltaGas*", attached to Mr. Schreiber's testimony as Exhibit GAS-3. AltaGas Ltd.'s strong access to capital will support the continued growth of ENSTAR, APC and CINGSA.

Q12 PLEASE EXPLAIN WHY COMMISION APPROVAL OF THE CHANGE OF CONTROL RESULTING FROM THE PROPOSED TRANSACTION IS CONSISTENT WITH THE PUBLIC INTEREST.

A12 Mr. Schreiber's testimony addresses the public interest question from his viewpoint. AltaGas Ltd. and AltaGas U.S. are of the view that Commission approval of the change of control resulting from the Proposed Transaction is consistent with the public interest for the following reasons:

(1) The service provided to their Alaska customers by ENSTAR, APC and CINGSA will be unaffected by the Proposed Transaction. As I noted, safety of its employees and the public is a core value of AltaGas Ltd. AltaGas consistently delivers safe, reliable, and adequate natural gas distribution services in North America. Following the closing of the Proposed Transaction, ENSTAR, APC and CINGSA will remain focused on the provision of safe, reliable, adequate, and cost-effective service to their customers.

(2) As with all the utilities that AltaGas Ltd. owns, ENSTAR, APC and CINGSA will continue to operate on a stand-alone basis after completion of the Proposed Transaction. AltaGas Ltd. and AltaGas U.S. plan to maintain the existing Alaska offices. AltaGas Ltd. and AltaGas U.S. will retain the current management team and the employees involved in ENSTAR, APC, and CINGSA operations. Therefore, from the perspectives of customers and employees, it will be "business as usual" after the completion of the Proposed Transaction.

(3) AltaGas Ltd. is committed to employee health and safety and the communities it serves. It is voted one of Canada's Top Employers six times in the last decade and is one of Alberta's Top Employers for the past seven years. In 2011, AltaGas Ltd. was awarded one of Canada's Most Admired Corporate Cultures in Western Canada, and most recently in February 2012, AltaGas Ltd. received Best Employer Award for 50-Plus Canadians. In addition, AltaGas Ltd. has strong relationship with the United Way and other charities with a strong commitment to community.

(4) ENSTAR, APC and CINGSA will continue to be regulated by the Commission and will remain subject to the Commission's affiliate transaction and cost allocation rules.

(5) Assuming approval of the Application as requested, AltaGas Ltd. and AltaGas U.S. will not seek recovery through the rates paid by ENSTAR, PC and CINGSA customers of any transaction costs, acquisition premiums, goodwill or control premiums, or any fees or other costs incurred in connection with the Proposed Transaction. Therefore, the Proposed Transaction will not adversely impact the currently-effective tariffs, rates and contractual relationships of ENSTAR, APC, or CINGSA.

(6) Post-closing, ENSTAR, APC, and CINGSA will be adequately funded. The Proposed Transaction will not reduce or impair their ability to access capital. Equity capital will continue to be provided by, or through, SEMCO. There are no covenants, agreements or legislative restrictions on AltaGas Ltd. or AltaGas U.S. that would

reduce or impair the ability of these Alaska jurisdictional utilities to have continued access to capital markets.

(7) Completion of the Proposed Transaction will have no adverse impact upon the ongoing operations of ENSTAR, APC and CINGSA.

(8) ENSTAR, APC and CINGSA will continue to be regulated by the Commission. There is nothing about the Proposed Transaction that would adversely affect the exercise by the Commission of its ongoing regulatory jurisdiction over each of the affected Alaska jurisdictional utilities.

Q13 IN COMMENTS FILED ON MARCH 12, 2012, IN THIS PROCEEDING, ANCHORAGE MUNICIPAL LIGHT & POWER ("ML&P") STATED THAT IT IS CRITICAL THAT THE ENTITIES PROPOSING TO ACQUIRE CONTROL OF ENSTAR, APC, AND CINGSA DEMONSTRATE A WILLINGNESS TO COMMIT THE RESOURCES NECESSARY FOR ENSTAR, APC, AND CINGSA TO DO THEIR PARTS TO ADEQUATELY MEET THE CHALLENGES CONFRONTING NATURAL GAS SUPPLY AND TRANSPORTATION SERVICE IN SOUTHCENTRAL ALASKA. HOW DO YOU RESPOND?

A13 Before agreeing to enter into the Proposed Transaction, AltaGas conducted a thorough "due diligence" investigation of the utilities it proposes to acquire, including ENSTAR, APC, and CINGSA, and the environments in which they operate. AltaGas is fully aware of the challenges described by ML&P and is willing to work cooperatively with ML&P and other Southcentral Alaska utilities to explore and develop options for overcoming

those challenges. The Commission can rest assured that AltaGas is committed to take the necessary actions to ensure the long-term success of ENSTAR, APC and CINGSA, all of which require a reliable long-term supply of natural gas. As ML&P acknowledged in its comments, meeting the gas supply needs of Southcentral Alaska is a challenge that will require cooperative efforts by all Southcentral utilities to overcome. AltaGas will see to it that APC, ENSTAR and CINGSA will continue to contribute their fair share to those important efforts.

Q14 DOES THIS CONCLUDE YOUR TESTIMONY?

A14 Yes, it does.