

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

* * * * *

In the matter of the joint application of)
CONTINENTAL ENERGY SYSTEMS LLC, SEMCO)
HOLDING CORPORATION, SEMCO ENERGY,)
INC., SEMCO PIPELINE COMPANY, SEMCO GAS)
STORAGE COMPANY, ALTAGAS LTD. and)
ALTAGAS UTILITY HOLDINGS (U.S.) LLC, for)
approval, pursuant to MCL 460.6q, for the transfer)
of **SEMCO ENERGY GAS COMPANY, SEMCO**)
PIPELINE COMPANY and SEMCO GAS STORAGE)
COMPANY, and related approvals.)
_____)

Case No. U-16969

At the May 24, 2012 meeting of the Michigan Public Service Commission in Lansing,
Michigan.

PRESENT: Hon. John D. Quackenbush, Chairman
Hon. Orjiakor N. Isiogu, Commissioner
Hon. Greg R. White, Commissioner

ORDER APPROVING SETTLEMENT AGREEMENT

On February 15, 2012, Continental Energy Systems LLC (Continental), Semco Holding Corporation (Semco Holding), SEMCO Energy, Inc. (SEMCO Energy), SEMCO Pipeline Company (SEMCO Pipeline), SEMCO Gas Storage Company (SEMCO Storage), AltaGas Ltd., and AltaGas Utility Holdings (U.S.) LLC (AltaGas U.S.) (collectively, Applicants) filed a joint application, with supporting testimony and exhibits, requesting, pursuant to Section 6q of 2008 PA 286, MCL 460.6q, all required approvals in connection with the proposed purchase of 100% of the

issued and outstanding shares of the common stock of Semco Holding¹ by AltaGas U.S. Through the proposed transaction, control of SEMCO Energy Gas Company (SEMCO Gas), a division of SEMCO Energy, SEMCO Pipeline, and SEMCO Storage will be transferred from Continental to AltaGas Ltd. and AltaGas U.S.²

A prehearing conference was held on March 9, 2012, before Administrative Law Judge Dennis W. Mack. The Applicants and the Commission Staff (Staff) participated in the proceeding. On May 9, 2012, the Applicants and the Staff filed a settlement agreement resolving all issues in the case.

According to the terms of the settlement agreement, attached as Exhibit A, the parties agree that the Applicants stated in the joint application, testimony, and discovery responses that the proposed transaction and resulting change in control of SEMCO Gas, SEMCO Pipeline, and SEMCO Storage: (1) will not have an adverse effect on the rates of the customers affected by the acquisition; (2) will not have an adverse effect on the provision of safe, reliable, and adequate energy service in Michigan; (3) will not result in the subsidization of a non-regulated activity through the rates paid by the customers of the affected jurisdictional regulated utilities; (4) will not significantly impair the resulting jurisdictional regulated utilities' ability to raise necessary capital or to maintain a reasonable capital structure; and (5) is consistent with the public interest.

Based on its review, the Staff recommends Commission approval of the proposed transaction subject to the Applicants' commitment to the following conditions: (1) that AltaGas Ltd. and AltaGas U.S. will not seek rate recovery from SEMCO Gas customers of any transaction costs, acquisition premiums, goodwill or control premiums, or fees incurred in connection with the

¹ Semco Holding is now owned by Continental.

²SEMCO Gas, SEMCO Pipeline, and SEMCO Storage are also referred to as the "jurisdictional regulated utilities."

proposed transaction, and that these costs will not be imposed on the customers of SEMCO Pipeline or the gas storage facility in which SEMCO Storage holds an interest; (2) that there are no covenants, agreements or legislative restrictions on AltaGas Ltd. or AltaGas U.S. that would reduce or impair the ability of the Michigan jurisdictional utilities to access the capital markets; (3) that AltaGas Ltd. and AltaGas U.S. will continue existing charitable contribution practices and community support practices in Michigan after the closing on the proposed transaction in accordance with the Stock Purchase Agreement; (4) that AltaGas Ltd. and AltaGas U.S. will maintain the existing corporate offices in Michigan and, other than in SEMCO Energy's normal course of business, have no plans to alter existing office locations; (5) that no labor force reductions are expected as a result of the proposed transaction, and that AltaGas Ltd. and AltaGas U.S. agreed in the stock purchase agreement to honor all collective bargaining agreements, maintain 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; (6) that AltaGas Ltd. and AltaGas U.S. will not terminate the employment of any employees without cause for a period of two years after the closing on the proposed transaction; (7) that AltaGas Ltd. and AltaGas U.S. will continue to provide retiree medical and long-term disability coverage and, if substitute benefits are put in place, recognize each employee's prior service and waive pre-existing condition limitations and other benefit plan requirements that might otherwise cause a loss or reduction in employee benefits; (8) that with respect to affiliate transactions between SEMCO Gas and AltaGas Ltd. or any subsidiary of AltaGas Ltd. in which AltaGas Ltd. holds a controlling interest, AltaGas Ltd. and AltaGas U.S. will make available to the Commission or its Staff, for inspection and examination at such time and place as the Commission or its Staff may designate, the books and records of SEMCO Gas and

the books and records of any subsidiary in which AltaGas Ltd. holds a controlling interest, relative to the transaction; (9) that SEMCO Gas customers will not be financially responsible for any adverse effects of any push-down accounting adjustments from the proposed transaction; (10) that except for: (a) new financing or refinancing of existing SEMCO Energy bank facilities which Continental and its current affiliates are paying off as part of the proposed transaction and which are to be replaced; or (b) new financing or refinancing of existing SEMCO Energy debt by SEMCO Energy or any of its affiliates subject to the Commission's jurisdiction, SEMCO Gas customers will not be responsible for any financing costs associated with the proposed transaction, including, but not limited to, any interest expense associated with any debt issued to finance the acquisition of Semco Holding's common stock and any replacement or refinancing of the debt; (11) that SEMCO Gas will maintain approximately 50% equity in its permanent capital structure while the current regulated capital structure of SEMCO Gas remains in effect, and that, in addition, SEMCO Gas will maintain a minimum of 45% equity in its permanent capital structure to January 1, 2015; (12) that the books and records of SEMCO Gas will be located in Michigan unless the Commission authorizes these books and records to be located elsewhere; (13) that unless the Consumer Price Index – All Urban Consumers metric meets or exceeds 3.0% as measured and published by the Value Line Investment Survey for calendar years 2012, 2013, or 2014, SEMCO Gas will not request an authorized return on equity of greater than 10.35% for any request for final rates that take effect prior to January 1, 2015; (14) that, for ratemaking purposes, SEMCO Gas ratepayers will not be responsible for any adverse effects associated with changes in deferred income tax balances resulting from the proposed transaction; (15) that, from the closing on the proposed transaction to January 1, 2015, SEMCO Gas will not issue dividends to any entity, measured collectively, in a manner that will cause the equity level of SEMCO Gas to vary by more

than 5% relative to a target equity level of 50%; (16) that AltaGas Ltd. and AltaGas U.S. shall notify the Commission by letter of the closing of the proposed transaction and file a copy of the letter in this docket; and (17) if the proposed transaction is not completed, Michigan customers of SEMCO Gas will not bear any costs associated with the failed transaction process or the failed transaction.

After a review of the settlement agreement, the Commission finds it reasonable and in the public interest and that it should be approved provided the proposed transaction: (1) will not have an adverse effect on the rates of the customers affected by the acquisition; (2) will not have an adverse effect on the provision of safe, reliable, and adequate energy service in this state; (3) will not result in the subsidization of a non-regulated activity through the rates paid by the customers of the affected jurisdictional regulated utilities; and (4) will not significantly impair the resulting jurisdictional regulated utilities' ability to raise necessary capital or to maintain a reasonable capital structure, and provided that the Applicants abide by the conditions recommended by the Staff.

THEREFORE, IT IS ORDERED that:

- A. The settlement agreement, attached as Exhibit A, is approved.
- B. The proposed transaction for the purchase of 100% of the issued and outstanding shares of Semco Holding Corporation by AltaGas Utility Holdings (U.S.) LLC through which control of SEMCO Energy Gas Company, SEMCO Pipeline Company, and SEMCO Gas Storage Company are to be transferred from Continental Energy Systems LLC to AltaGas Ltd. and AltaGas Utility Holdings (U.S.) LLC, is approved subject to the conditions agreed to in the settlement agreement.
- C. This order is issued pursuant to Section 6q of 2008 PA 286, MCL 460.6q and provides all required and related approvals in connection with the proposed transaction.

The Commission reserves jurisdiction and may issue further orders as necessary.

Any party desiring to appeal this order must do so in the appropriate court within 30 days after issuance and notice of this order, under MCL 462.26.

MICHIGAN PUBLIC SERVICE COMMISSION

John D. Quackenbush, Chairman

Orjiakor N. Isiogu, Commissioner

Greg R. White, Commissioner

By its action of May 24, 2012.

Mary Jo Kunkle, Executive Secretary

STATE OF MICHIGAN

BEFORE THE MICHIGAN PUBLIC SERVICE COMMISSION

In the matter of the joint application of
CONTINENTAL ENERGY SYSTEMS LLC,
SEMCO HOLDING CORPORATION,
SEMCO ENERGY, INC.,
SEMCO PIPELINE COMPANY,
SEMCO GAS STORAGE COMPANY,
ALTAGAS LTD., and
ALTAGAS UTILITY HOLDINGS (U.S.) LLC,
for approval, pursuant to MCL 460.6q, for the
transfer of control of
SEMCO ENERGY GAS COMPANY,
SEMCO PIPELINE COMPANY, and
SEMCO GAS STORAGE COMPANY,
and related approvals.

Case No. U-16969
(e-file paperless)

SETTLEMENT AGREEMENT

On February 15, 2012, Continental Energy Systems LLC (Continental), Semco Holding Corporation (Semco Holding), SEMCO Energy, Inc. (SEMCO Energy), SEMCO Pipeline Company (SEMCO Pipeline), SEMCO Gas Storage Company (SEMCO Storage), AltaGas Ltd. and AltaGas Utility Holdings (U.S.) LLC (AltaGas U.S.), (collectively, Joint Applicants) filed a joint application with the Michigan Public Service Commission (Commission) requesting all required and other related approvals in connection with the proposed purchase by AltaGas U.S. of 100% of the issued and outstanding shares of the common stock of Semco Holding now owned by Continental (Proposed Transaction) by which control of SEMCO Energy Gas Company (SEMCO Gas), a division of SEMCO Energy; SEMCO Pipeline and SEMCO Storage would be transferred from Continental to AltaGas

Ltd. and AltaGas U.S. The filing was submitted pursuant to 2008 PA 286, § 6q, MCL 460.6q. The joint application included testimony and exhibits of (i) Continental President and Chief Executive Officer George A. Schreiber, Jr., (ii) AltaGas Utility Division President John E. Lowe, and (iii) AltaGas Ltd. Senior Vice President, Finance, and Chief Financial Officer and AltaGas U.S. Treasurer Deborah S. Stein.

The joint application and prefiled testimony¹ stated that (a) AltaGas U.S. is the proposed purchaser of 100% of the issued and outstanding common stock of Semco Holding under a Stock Purchase Agreement, dated as of February 1, 2012, by and among Continental, Semco Holding, AltaGas Ltd. and AltaGas U.S. (the Stock Purchase Agreement), (b) AltaGas U.S. was formed to own AltaGas Ltd.'s utility investments in the United States, and, since its formation, AltaGas U.S. has conducted no business operations other than incidental to its formation and in connection with the transactions contemplated by the Stock Purchase Agreement, (c) the Stock Purchase Agreement sets forth the terms and conditions for the Proposed Transaction, (d) if the change in control resulting from the Proposed Transaction is approved by the Commission, then at closing, on the terms and subject to the conditions set forth in the Stock Purchase Agreement (including receipt of Commission approvals sought in the joint application), Continental will sell, transfer, and deliver to AltaGas U.S. 100% of the issued and outstanding shares of common stock of Semco Holding in exchange for US\$1.135 billion, payable

¹ <http://efile.mpsc.state.mi.us/efile/docs/16969/0001.pdf>

and subject to adjustment as set forth in the Stock Purchase Agreement, (e) upon closing on the Proposed Transaction, AltaGas Ltd. and AltaGas U.S. would control SEMCO Energy, including SEMCO Gas, SEMCO Pipeline and SEMCO Storage, (f) upon closing, AltaGas U.S. would also acquire various other non-jurisdictional SEMCO Energy divisions, subsidiaries, and interests, including SEMCO Energy's ENSTAR Natural Gas Company division and Alaska Pipeline Company subsidiary (collectively, ENSTAR) and SEMCO Energy's indirect partial ownership interest in Cook Inlet Natural Gas Storage Alaska, LLC (CINGSA),² (g) consummation of the Proposed Transaction will result in a change of ownership of Semco Holding, (h) after closing, SEMCO Energy will remain a wholly-owned subsidiary of Semco Holding, and SEMCO Energy will continue to exist as a separate corporate entity, (i) the transactions contemplated by the Stock Purchase Agreement, including the Proposed Transaction, will leave undisturbed, as applicable, all currently-effective rates, tariffs, contracts and other business relationships of SEMCO Gas, SEMCO Pipeline and SEMCO Storage, (j) the Proposed Transaction will not adversely affect the continued provision of safe, reliable, and adequate gas utility service by SEMCO Gas, nor will service provided to SEMCO Gas and other customers by SEMCO Pipeline or the storage facility in which SEMCO Storage owns an interest be

² CINGSA is constructing and will own and operate an in-ground natural gas storage facility in Alaska. ENSTAR and CINGSA provide gas utility and storage service to approximately 133,000 customers in Alaska, subject to the jurisdiction of, and regulation by, the Regulatory Commission of Alaska (RCA). RCA approval is required with respect to the change in control of ENSTAR and CINGSA contemplated by the Stock Purchase Agreement. The applications for such approval are currently pending in RCA Docket Nos. U-12-005 and U-12-006.

adversely affected by the Proposed Transaction, (k) after closing, gas utility service will continue to be provided to customers in Michigan by the same personnel, based in the same offices, including the current SEMCO Energy headquarters in Port Huron, Michigan, doing the same jobs they do now,³ (l) since AltaGas U.S. is acquiring sole ownership of Semco Holding, SEMCO Energy will continue to exist as a separate corporate entity, therefore, the Proposed Transaction will have no effect on competition or market power, and (m) commitments were included in the Stock Purchase Agreement to maintain continuity in the SEMCO Gas workforce and thus help provide for the continued provision of safe, reliable, and adequate gas utility service to customers.

Pursuant to MCL 460.6q(4) and after due notice, interested parties, including the Attorney General and intervenors in SEMCO Gas's most recently filed general rate case proceeding, Case No. U-16169, were provided an opportunity to file, within 60 days from the date the joint application was filed, comments with the Commission on the proposed acquisition and related transactions. No comments were filed.

Pursuant to due notice, a prehearing conference was held at Constitution Hall, 525 West Allegan, Lansing Michigan on March 9, 2012, with Administrative

³ As referenced in Mr. Lowe's prefiled testimony, page 11, this statement should not be read as indicating that AltaGas Ltd. and AltaGas U.S. intend to operate SEMCO Gas without continuing to assess prudently and in the ordinary course of business changes that lead to improved service, safety and reliability. However, the Proposed Transaction will not be the driver of such changes to the existing utility business.

Law Judge Dennis W. Mack presiding. At the prehearing conference,⁴ the Joint Applicants presented proofs of service,⁵ affidavits of publication evidencing service, and publication of the Notice of Opportunity to File Comments and Notice of Hearing.⁶ The Staff also participated in the prehearing conference. No petitions to intervene were filed.

This proceeding was conducted as a contested case matter pursuant to Chapter 4 of the Administrative Procedures Act of 1969, 1969 PA 306, as amended (APA).

Subsequent to the prehearing conference, the parties exchanged information and engaged in discussions and extensive discovery concerning the Joint Applicants' filing.

By this Settlement Agreement, the Joint Applicants and Staff agree and stipulate as follows:

1. Joint Applicants represented in the joint application, prefiled testimony, and discovery responses that the Proposed Transaction:
 - a) will not have an adverse impact on the rates of the Michigan customers affected by the acquisition,
 - b) will not have an adverse impact on the provision of safe, reliable, and adequate energy service in this state,

⁴ <http://efile.mpsc.state.mi.us/efile/docs/16969/0047.pdf>

⁵ <http://efile.mpsc.state.mi.us/efile/docs/16969/0006.pdf>

⁶ <http://efile.mpsc.state.mi.us/efile/docs/16969/0024.pdf>

- c) will not result in the subsidization of a non-regulated activity of the resulting entities through the rates paid by customers of any of the jurisdictional regulated utilities,
- d) will not significantly impair the ability of the Michigan jurisdictional regulated utilities to raise necessary capital or to maintain a reasonable capital structure, and
- e) is not otherwise inconsistent with public policy and interest.

2. Based upon Staff's due diligence review of the Proposed Transaction, Staff recommends the Commission's approval of the Proposed Transaction subject to Joint Applicants' commitment to the following conditions:

- a) AltaGas Ltd. and AltaGas U.S. will not seek rate recovery from SEMCO Gas customers of any transaction costs, acquisition premiums, goodwill or control premiums or fees incurred in connection with the Proposed Transaction. Nor will such costs be imposed on the customers of SEMCO Pipeline or the gas storage facility in which SEMCO Storage holds an interest.
- b) There are no covenants, agreements or legislative restrictions on AltaGas Ltd. or AltaGas U.S. that would reduce or impair the ability of the Michigan jurisdictional utilities to access the capital markets.

- c) AltaGas Ltd. and AltaGas U.S. will continue existing charitable contribution practices and community support practices in Michigan after the closing on the Proposed Transaction in accordance with the Stock Purchase Agreement.⁷
- d) AltaGas Ltd. and AltaGas U.S. will maintain the existing corporate offices in Michigan and other than in SEMCO Energy's normal course of business, have no plans to alter existing office locations.⁸
- e) No labor force reductions are expected as a result of the Proposed Transaction. More specifically, AltaGas Ltd. and AltaGas U.S. agreed in Stock Purchase Agreement to (i) honor all collective bargaining agreements, (ii) maintain 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 transactions contemplated by the Stock Purchase Agreement,⁹ (iii) not terminate the employment of any employees without cause for a period of two years after the closing on the transactions contemplated by the Stock Purchase Agreement,¹⁰ and (iv) continue to provide retiree medical and long-

⁷ Section 6.05(g) of Stock Purchase Agreement at page 41.

⁸ SEMCO Gas offices in Three Rivers and Albion are currently in the process of being moved to other locations in those same areas.

⁹ Section 6.05 of Stock Purchase Agreement at page 38.

¹⁰ Section 6.05(a) of Stock Purchase Agreement at pages 38, 39.

term disability coverage and, if substitute benefits are put in place, recognize each employee's prior service and waive pre-existing condition limitations and other benefit plan requirements that might otherwise cause a loss or reduction in employee benefits.

- f) With respect to affiliate transactions between SEMCO Gas and AltaGas Ltd. or any subsidiary of AltaGas Ltd. in which AltaGas Ltd. holds a controlling interest, AltaGas Ltd. and AltaGas U.S. will make available to the Commission or its Staff, for inspection and examination at such time and place as the Commission or its Staff may designate, the books and records of SEMCO Gas and the books and records of any subsidiary in which AltaGas Ltd. holds a controlling interest, relative to such transaction.
- g) SEMCO Gas customers will not be financially responsible for any adverse impacts of any push-down accounting adjustments from the transactions contemplated by the Stock Purchase Agreement.
- h) SEMCO Gas customers will not be responsible for any financing costs associated with the transactions as contemplated by the Stock Purchase Agreement, including, but not limited to, any interest expense associated with any debt issued to finance the acquisition of Semco Holding's common stock and any replacement or refinancing of said debt. This does not apply to (i) new financing or refinancing of existing SEMCO Energy bank facilities which

Continental and its current affiliates are paying off as part of the transactions contemplated by the Stock Purchase Agreement and which are to be replaced or (ii) new financing or refinancing of existing SEMCO Energy debt by SEMCO Energy or any of its affiliates subject to the Commission's jurisdiction.

- i) SEMCO Gas shall maintain approximately fifty (50) percent equity in its permanent capital structure while the current regulated capital structure of SEMCO Gas remains in effect. In addition, SEMCO Gas shall maintain a minimum of forty-five (45) percent equity in its permanent capital structure to January 1, 2015.
- j) The books and records of SEMCO Gas will be located in Michigan unless the Commission authorizes such book and records to be located elsewhere.
- k) SEMCO Gas shall not request an authorized ROE of greater than 10.35% for any request for final rates that take effect prior to January 1, 2015. This 10.35% provision will expire if the Consumer Price Index (CPI) – All Urban Consumers metric meets or exceeds 3.0% as measured and published by the Value Line Investment Survey for calendar years 2012, 2013, or 2014.
- l) For ratemaking purposes, SEMCO Gas ratepayers shall not be responsible for any adverse impacts associated with changes in

deferred income tax balances resulting from the Proposed Transaction.

- m) From the closing on the Proposed Transaction to January 1, 2015, SEMCO Gas will not issue dividends to any entity, measured collectively, in a manner that will cause the equity level of SEMCO Gas to vary by more than 5% relative to a target equity level of 50%.
- n) AltaGas Ltd. and AltaGas U.S. shall notify the Commission by letter of the closing of the transactions contemplated by the Stock Purchase Agreement and file a copy of said letter in this docket.

3. As a further condition of approval of the Proposed Transaction, Continental agrees that, if the transactions contemplated by the Stock Purchase Agreement are not completed, the Michigan customers of SEMCO Gas will not bear any costs associated with the failed transaction process or the failed transactions.

4. It is the opinion of the Joint Applicants and Staff that Commission approval of this Settlement Agreement will promote the public interest, will aid the expeditious conclusion of this case, and will minimize the time and expense which would otherwise have to be devoted to this matter by the Commission and the parties.

5. This Settlement Agreement is for the purpose of final resolution of this case, and all provisions of the Settlement Agreement are dependent upon all other provisions contained therein.

6. Joint Applicants and Staff agree not to appeal, challenge or contest the Commission's order adopting this Settlement Agreement if such order accepts and approves this Settlement Agreement without modification. If the Commission does not accept this Settlement Agreement without modification, this Settlement Agreement shall be withdrawn and shall not constitute any part of the record in this proceeding or be used for any other purpose whatsoever.

7. Joint Applicants and Staff jointly recommend that the Commission issue its Order Adopting Settlement Agreement and resolve this case with prejudice, granting all required and requested approvals in connection with the Proposed Transaction.

8. This Settlement Agreement has been made for the sole and express purpose of recommending approval of the purchase by AltaGas U.S. of SEMCO Holdings' issued and outstanding stock in Case No. U-16969 without prejudice to the rights of Joint Applicants and Staff to take new and/or different positions in other proceedings. If the Commission approves this Settlement Agreement without modification, Joint Applicants, Staff and the Commission shall not make any reference to or use of the Settlement Agreement or the order approving it as a reason, authority, rationale or example for taking any action or position or making any subsequent decision in this case or any other cases or proceedings; provided,

however, such reference or use may be made to enforce the Settlement Agreement and order approving the Settlement Agreement.

9. Section 81 of the APA, MCL 24.281, is waived by the signatories.

Ronald W. Bloomberg
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Digitally signed by: Ronald W. Bloomberg
DN: CN = Ronald W. Bloomberg C
= US O = Miller Canfield Paddock
and Stone PLC
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Dated: May 9, 2012

CONTINENTAL ENERGY SYSTEMS LLC,
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SEMCO PIPELINE COMPANY, AND
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P R O O F O F S E R V I C E

STATE OF MICHIGAN)

Case No. U-16969

County of Ingham)

Mignon Middlebrook being duly sworn, deposes and says that on May 24, 2012 A.D. she served a copy of the attached Commission Order by first class mail, postage prepaid, or by inter-departmental mail, to the persons as shown on the attached service list.

Mignon Middlebrook

Subscribed and sworn to before me
This 24th day of May 2012

Gloria Pearl Jones
Notary Public, Ingham County, MI
My commission expires June 5, 2016
Acting in Eaton County

Service List U-16969

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