

## **ALTAGAS ANNOUNCES US \$1.135 BILLION ACQUISITION OF NATURAL GAS DISTRIBUTION AND NATURAL GAS STORAGE UTILITIES IN ALASKA AND MICHIGAN**

On February 1, 2012, AltaGas Ltd. (“AltaGas” or the “Corporation”) entered into a definitive agreement (the “Agreement”) with Continental Energy Systems LLC (“Continental”) to acquire SEMCO Holding Corporation (“SEMCO”) for US\$1.135 billion, including approximately US\$355 million in assumed debt. SEMCO is the sole shareholder of SEMCO Energy, Inc. a privately held regulated public utility company headquartered in Port Huron, Michigan. SEMCO indirectly holds a regulated natural gas distribution utility in Alaska through ENSTAR Natural Gas Company (“ENSTAR”) and an interest in a regulated natural gas storage utility in Alaska under construction called Cook Inlet Natural Gas Storage Alaska, LLC (“CINGSA”). SEMCO also indirectly holds a regulated natural gas distribution utility and an interest in an unregulated natural gas storage facility in Michigan.

“AltaGas’ vision is to be a leading North American energy infrastructure company. This acquisition continues the successful execution of our growth strategy,” said David Cornhill, Chairman and CEO of AltaGas. “These assets come with strong management teams and employees who have a strong track record of delivering safe and reliable service to their customers and have excellent relationships with the communities in which they operate. We look forward to welcoming the SEMCO management teams and employees to AltaGas. We have a long history of operating natural gas utilities, and we will continue to deliver safe and reliable service to our customers. This acquisition establishes a significant foothold in the U.S. in areas with strong growth potential that are near existing AltaGas assets and operations. We are focused on creating shareholder value for the long term and this transaction adds stable, regulated, long-life cash flow,” said Mr. Cornhill.

The proposed transaction is expected to be accretive to earnings and cash flow per share by more than 10 percent, and is expected to add approximately US\$130 million in incremental EBITDA, in 2013, the first full year of ownership. The implied transaction multiple is 8.7 times 2013 EBITDA.

The acquisition of SEMCO adds approximately 570 employees and includes full management and operations teams in Alaska and Michigan. Each SEMCO natural gas

distribution utility is a stand-alone turn-key operation with its own billing system, call centers, accounting, IT and HR functions.

### **Investment Highlights**

#### Strategic Fit

- Fits with AltaGas' vision of being one of North America's leading energy infrastructure companies, and aligns with AltaGas' strategy of growing by adding stable, regulated, long life assets;
- Consistent with AltaGas' 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 owns today;
- Significantly increases natural gas distribution rate base by approximately US\$725 million and allows AltaGas to continue to add customers as natural gas continues to be more competitively priced compared to other fuels used for space heating; and
- Upon closing, AltaGas' utility business, on a pro forma basis, is expected to be approximately 40 percent of consolidated EBITDA until 2014, when the 195 MW Forrest Kerr run-of-river power project in British Columbia is scheduled to come into commercial operation. At that time, based on AltaGas' current plans, cash flows from the Power, Utility and Gas businesses are expected to be more equally weighted.

#### Stable Regulated Cash Flows

- In 2013, approximately two-thirds of AltaGas' consolidated annualized EBITDA is expected to come from regulated or long-term contracted assets;
- The acquisition provides stable, regulated, cash flows to further support both AltaGas' dividend and capital growth projects in the United States and Canada;
- Approximately 99 percent of SEMCO revenues are derived from regulated natural gas distribution and storage utilities; and

- No direct natural gas cost exposure due to pass-through mechanisms at both SEMCO natural gas distribution utilities.

#### Extensive Opportunities for Growth

- Significant historical customer growth at ENSTAR with a 2.5 percent compound annual growth rate over the past ten years;
- Potential to expand CINGSA from currently contemplated 11 Bcf of working natural gas capacity to estimated reservoir potential of 18 Bcf of working natural gas capacity;
- Growth projects available in Alaska including various system enhancements and expansions; and
- Opportunity to benefit from economic recovery in the state of Michigan and particularly the local economies that SEMCO serves.

#### Significant Positive Financial Impact

- The proposed transaction is expected to be accretive to earnings and cash flow per share by more than 10 percent, and is expected to add approximately US\$130 million in incremental EBITDA, in 2013, the first full year of ownership;
- Strengthens AltaGas' business profile with a significant increase in expected cash flow stability; and
- Results in continued conservative payout as a percentage of funds from operations. AltaGas will continue to monitor its dividend payout ratio as a percentage of funds from operations and net income. Dividend growth is expected to be modest until 2014 when the 195 MW Forrest Kerr run-of-river power project in British Columbia is expected to come into service. AltaGas expects to continue to deliver strong returns to shareholders in the form of dividend growth and potential capital appreciation.

## **Transaction closing**

The transaction is subject to customary approvals including regulatory approvals from the Michigan Public Service Commission (“MPSC”), the Regulatory Commission of Alaska (“RCA”) and expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The regulatory process is expected to take approximately six months and the acquisition is expected to close in the third quarter, 2012.

## **Description of Key Assets**

### Alaska Assets

- SEMCO’s Alaska natural gas distribution utility, ENSTAR, has an approved regulated rate of return on equity of 12.55 percent on prescribed equity of 51.40 percent on a rate base of approximately US\$200 million;
- ENSTAR serves 132,000 primarily residential customers and is the largest natural gas distributor in Alaska through approximately 414 miles of natural gas transmission pipelines and 2,800 miles of natural gas distribution mains in the Anchorage and Cook Inlet area;
- ENSTAR has experienced 2.5 percent compounded annual growth over the past 10 years in customer and net plant growth. Growth is expected to continue as Alaska continues to benefit from the significant activity in the natural resource sector;
- CINGSA, is a regulated natural gas storage utility in which SEMCO owns a 65 percent interest. The facility is expected to be in service in second quarter, 2012. Upon completion, CINGSA is anticipated to have an initial capacity of 11 Bcf of natural gas, with potential future expansion to 18 Bcf of natural gas;
- CINGSA has an approved regulated rate of return on equity of 12.55 percent on prescribed equity of 50 percent upon completion of construction in 2012. SEMCO’s share of rate base is approximately US\$100 million; and
- The addition of natural gas storage capacity through CINGSA is expected to allow ENSTAR to cost effectively meet the needs of its customers during peak usage in

the winter months.

#### Michigan Assets

- The Michigan natural gas distribution utility has an approved regulated rate of return on equity of 10.35 percent on prescribed equity of 50 percent on a rate base of approximately US\$425 million;
- SEMCO's Michigan natural gas distribution utility delivers natural gas to approximately 286,000 customers through approximately 150 miles of natural gas transmission pipelines and 5,866 miles of natural gas distribution mains in Southern Michigan and Michigan's Upper Peninsula;
- The Michigan regulated rate base includes five natural gas storage facilities with 4.9 Bcf in capacity;
- SEMCO also owns a 50 percent interest in a 12.8 Bcf non-regulated natural gas storage facility;
- SEMCO's largely residential 286,000 customer base has remained stable through the recent economic downturn and is anticipated to have stable growth of approximately 1 to 2 percent over the long term as the Michigan economy, and in particular the local economies in SEMCO's service areas improve;
- SEMCO's Michigan utility has experienced consistent net plant growth of approximately 2 percent compounded annually over the last 10 years and rate base is anticipated to continue to grow at a similar rate in the near term;
- Customer conversions from alternative fuel sources to natural gas have increased in the recent past and are expected to continue in light of low natural gas prices relative to the cost of alternative fuel sources; and
- There is potential for new customer growth driven by industrial and commercial activities in Michigan.

Following completion of the transaction, SEMCO and its subsidiaries will continue to have

outstanding: (i) US\$300 million senior secured bonds maturing April 2020 bearing interest at an annual rate of 5.15 percent; (ii) US\$5 million medium term notes bearing interest at an annual rate of 7.03 percent and maturing in November 2013; and (iii) an estimated US\$75 million secured loan facility, maturing in November 2015, related to CINGSA in which SEMCO has a 65 percent interest.

### **New US\$300 Million Revolving Term Credit Facility**

AltaGas has obtained a commitment from three Canadian chartered banks to provide a revolving term credit facility in the amount of US\$300 million. This new credit facility will rank equally with AltaGas' senior unsecured obligations and will have a one year term. The new credit facility will contain terms that are customary for bank credit facilities of this nature.

### **Advisors**

BMO Capital Markets is acting as financial advisor and Stikeman Elliott LLP and Dykema Gossett PLLC are acting as legal advisors to AltaGas with respect to the transaction.

### **About AltaGas Ltd.**

AltaGas is an energy infrastructure business with a focus on natural gas, power and regulated utilities. AltaGas creates value by acquiring, growing and optimizing its energy infrastructure, including a focus on renewable energy sources.

AltaGas' regulated utilities serve end-users in Alberta, Nova Scotia and British Columbia. The Utility business is comprised of AltaGas Utilities Inc. (AUI), the Alberta utility business; Pacific Northern Gas, the British Columbia utility business; and Heritage Gas, the Nova Scotia utility business. AltaGas also owns a one-third interest in a utility which serves customers in the Northwest Territories. For more information visit: [www.altagas.ca](http://www.altagas.ca)