

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 7. Risk Management Activities and Derivative Transactions (continued)

on a portion of its long-term debt. This swap is designated as a cash flow hedge and the difference between the amounts paid and received under the swap is recorded as an adjustment to interest expense over the term of the agreement. The Company's share of changes in the fair value of the swap are recorded in accumulated other comprehensive income until the swap is terminated. As a result of this interest rate swap agreement, the Company's Consolidated Statements of Financial Position, at December 31, 2005, and December 31, 2004, reflected reductions of \$0.03 million and \$0.2 million, respectively, in the Company's equity investment in ERGSS and in accumulated comprehensive income.

The Company may, from time to time, enter into fixed-to-floating interest rate swaps in order to maintain its desired mix of fixed-rate and floating-rate debt. These swaps are designated as fair value hedges and the difference between the amounts paid and received under these swaps is recorded as an adjustment to interest expense over the term of the swap agreement. If the swaps are terminated, any unrealized gains or losses are recognized pro-rata over the remaining term of the hedged item as an increase or decrease in interest expense. The Company entered into one such interest rate swap in January 2004 in order to hedge one-third of its \$150 million 7.125% 2008 Notes. This agreement qualifies under the provisions of SFAS 133 as a fair value hedge. In accordance with SFAS 133, the Company's Consolidated Statements of Financial Position at December 31, 2005, included a liability of \$1.7 million and a decrease in long-term debt of \$1.7 million related to this interest rate swap. At December 31, 2004, the Company's Consolidated Statements of Financial Position included a liability of \$0.5 million and a decrease in long-term debt of \$0.5 million related to this interest rate swap.

Note 8. Pension Plans and Other Postretirement Benefits

Pensions. The Company has defined benefit pension plans for eligible employees. Pension plan benefits are generally based upon years of service or a combination of years of service and compensation during the final years of employment. The Company's funding policy is to contribute amounts annually to the plans based upon actuarial and economic assumptions intended to achieve adequate funding of projected benefit obligations. The Company also has a supplemental executive retirement plan ("SERP"), which is an unfunded defined benefit pension plan.

The total additional minimum pension liability at December 31, 2005, was \$14.5 million. The total accumulated benefit obligation for the Company's pension plans was \$84.4 million at December 31, 2005. The Company contributed \$5.7 million to its pension plans during 2005. The Company estimates it will contribute \$5.4 million to its pension plans in 2006 and, therefore, \$5.4 million of the Company accrued pension cost is reflected in other current liabilities in the Company's Consolidated Statement of Financial Position at December 31, 2005.

Other Postretirement Benefits. The Company has postretirement benefit plans that provide certain medical and prescription drug benefits to eligible retired employees, their spouses and covered dependents. Determination of benefits is based on a combination of the retiree's age and years of service at retirement. The Company accounts for retiree medical benefits in accordance with SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." This standard requires the full accrual of such costs during the years that the employee renders service to the Company until the date of full eligibility.

In 2005, 2004 and 2003, the Company expensed retiree medical costs of \$1.0 million, \$1.2 million and \$2.8 million, respectively. The retiree medical expense for each of those years includes \$0.9 million of amortization of previously deferred retiree medical costs. Prior to getting regulatory approval for the recovery of retiree medical benefits in rates, the Company deferred, as a regulatory asset, any portion of retiree medical expense that was not yet provided for in customer rates. After receiving rate approval for recovery of such costs, the Company began amortizing, as retiree medical expense, the amounts previously deferred. The Company, as a matter of practice, has paid retiree medical costs from its corporate assets. During 2005, the Company paid \$1.7 million from its corporate assets, net of participant contributions, to cover retiree medical

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 8. Pension Plans and Other Postretirement Benefits (continued)

costs. The Company estimates it will pay \$1.7 million from its corporate assets or its funded postretirement benefit plans in 2006 to cover retiree medical costs. As a result, \$1.7 million of the Company's accrued other postretirement benefit cost is reflected in other current liabilities in the Company's Consolidated Statement of Financial Position at December 31, 2005.

	Years Ended December 31,					
	Pension Benefits			Other Postretirement Benefits		
	2005	2004	2003	2005	2004	2003
	(In thousands)					
Components of net benefit cost						
Service cost	\$ 2,922	\$ 2,387	\$ 1,865	\$ 467	\$ 362	\$ 355
Interest cost	4,899	4,508	4,299	1,860	1,859	2,447
Expected return on plan assets	(5,460)	(5,072)	(4,812)	(2,163)	(1,910)	(1,647)
Amortization of transition obligation	—	2	23	69	69	413
Amortization of prior service cost	108	173	118	(286)	(286)	(59)
Amortization of net (gain) or loss	2,497	1,487	1,065	198	200	423
Amortization of regulatory asset	—	—	—	899	899	899
Net benefit cost	<u>\$ 4,966</u>	<u>\$ 3,485</u>	<u>\$ 2,558</u>	<u>\$ 1,044</u>	<u>\$ 1,193</u>	<u>\$ 2,831</u>

The Company has certain Voluntary Employee Benefit Association ("VEBA") trusts to fund its retiree medical benefits. There were no contributions to the VEBA trusts during 2005, 2004 and 2003. The Company can also partially fund retiree medical benefits on a discretionary basis through Internal Revenue Code Section 401(h) accounts. No cash contributions were made to the 401(h) accounts in 2005, 2004 and 2003.

The Company uses a measurement date of December 31 for all of its plans. The following tables provide reconciliations of the plan benefit obligations, plan assets, funded status of the plans and additional information related to the Company's benefit obligations.

	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
	(In thousands)			
Change in benefit obligation				
Benefit obligation at January 1	\$ 82,227	\$ 72,831	\$ 34,409	\$ 40,033
Service cost	2,922	2,387	467	362
Interest cost	4,899	4,508	1,860	1,859
Actuarial (gain) loss	8,122	5,996	1,074	(1,542)
Benefits paid from plan assets	(3,527)	(4,260)	—	—
Benefits paid from corporate assets, net of participant contributions	—	—	(1,677)	(829)
Plan amendments	202	765	—	(5,474)
Benefit obligation at December 31	<u>\$ 94,845</u>	<u>\$ 82,227</u>	<u>\$ 36,133</u>	<u>\$ 34,409</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 8. Pension Plans and Other Postretirement Benefits (continued)

	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
	(In thousands)			
Change in plan assets				
Fair value of plan assets at January 1	\$ 63,454	\$ 54,936	\$ 25,449	\$ 22,474
Actual return on plan assets	4,043	5,440	1,729	2,975
Company contributions	5,742	7,338	—	—
Benefits paid from plan assets	(3,527)	(4,260)	—	—
Fair value of plan assets at December 31	<u>\$ 69,712</u>	<u>\$ 63,454</u>	<u>\$ 27,178</u>	<u>\$ 25,449</u>
Reconciliation of funded status of the plans				
Funded (unfunded) status	\$ (25,133)	\$ (18,773)	\$ (8,955)	\$ (8,960)
Unrecognized net (gain) loss	33,101	26,060	5,828	4,518
Unrecognized prior service cost	898	804	(2,273)	(2,559)
Unrecognized net transition obligation	—	—	483	552
Additional minimum pension liability	(14,547)	(11,514)	—	—
Total liability at December 31	<u>\$ (5,681)</u>	<u>\$ (3,423)</u>	<u>\$ (4,917)</u>	<u>\$ (6,449)</u>
Amounts recognized in statements of financial position consist of:				
Prepaid benefit cost	\$ 8,866	\$ 8,091	\$ —	\$ —
Accrued benefit cost	—	—	(4,917)	(6,449)
Intangible asset	(456)	(302)	—	—
Accumulated comprehensive income	(14,091)	(11,212)	—	—
Total liability at December 31	<u>\$ (5,681)</u>	<u>\$ (3,423)</u>	<u>\$ (4,917)</u>	<u>\$ (6,449)</u>
Information for pension plans with an accumulated benefit obligation in excess of plan assets at December 31				
Accumulated benefit obligation	\$ 51,320	\$ 45,359	n/a	n/a
Fair value of plan assets	\$ 36,078	\$ 34,927	n/a	n/a
Information for pension and postretirement benefit plans with a projected benefit obligation in excess of plan assets at December 31				
Projected benefit obligation	\$ 84,096	\$ 73,285	\$ 22,267	\$ 21,180
Fair value of plan assets	\$ 58,769	\$ 54,284	\$ 12,182	\$ 11,422
Accumulated benefit obligation for all plans at December 31	\$ 84,418	\$ 73,322	n/a	n/a
Additional information				
Increase (decrease) in minimum liability included in other comprehensive income	\$ 2,880	\$ 1,201	n/a	n/a

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 8. Pension Plans and Other Postretirement Benefits (continued)

Assumptions. The following tables provide the assumptions used to determine the benefit obligations and the net periodic benefit costs for the Company's pension plans and other postretirement benefit plans.

	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
	(In thousands, except for percentages)			
Weighted average assumptions used to determine net periodic benefit cost for years ended December 31				
Discount rate	5.75%	6.25%	5.75%	6.25%
Expected long-term rate of return on plan assets	8.50%	8.50%	8.50%	8.50%
Rate of compensation increase	4.00%	4.00%	n/a	n/a
Weighted average assumptions used to determine benefit obligations at December 31				
Discount rate	5.50%	5.75%	5.50%	5.75%
Rate of compensation increase	4.00%	4.00%	n/a	n/a
Assumed health care cost trend rate				
Medical				
Rate assumed for next year	n/a	n/a	8.00%	8.00%
Rate to which cost trend rate is assumed to decline (the ultimate trend rate)	n/a	n/a	5.00%	5.00%
Year of ultimate trend rate	n/a	n/a	2013	2010
Prescription drug				
Rate assumed for next year	n/a	n/a	10.00%	12.00%
Rate to which cost trend rate is assumed to decline (the ultimate trend rate)	n/a	n/a	5.00%	5.00%
Year of ultimate trend rate	n/a	n/a	2013	2010
Effect of a 1% increase in health cost trend rate				
Effect on accumulated postretirement benefit obligation	n/a	n/a	\$ 5,734	\$ 5,161
Effect on aggregate of service and interest costs	n/a	n/a	\$ 412	\$ 362
Effect of a 1% decrease in health cost trend rate				
Effect on accumulated postretirement benefit obligation	n/a	n/a	\$ (4,658)	\$ (4,219)
Effect on aggregate of service and interest costs	n/a	n/a	\$ (327)	\$ (290)

The discount rate used by the Company is determined by reference to the CitiGroup pension discount curve, other long-term corporate bond measures and the expected cash flows of the plans. The duration of the securities underlying those indexes reasonably matches the expected timing of anticipated future benefit payments.

The expected long-term rate of return on plan assets is established based on the Company's expectations of asset returns for the investment mix in its plans (with some reliance on historical asset returns for the plans). The expected returns of various asset categories are blended to derive an appropriate long-term assumption.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 8. Pension Plans and Other Postretirement Benefits (continued)

Plan Assets. The weighted-average asset allocations of the Company's pension plans and its other postretirement benefit plans at December 31, 2005, and 2004 are presented in the following table:

December 31, Asset Category	Percentage Allocation			
	Pension Benefits		Other Postretirement Benefits	
	2005	2004	2005	2004
Equity securities	65.0%	67.5%	65.0%	61.9%
Debt securities	25.9%	25.6%	35.0%	35.2%
Other	9.1%	6.9%	0.0%	2.9%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The Company has a target asset allocation of 70% equities and 30% debt instruments for its pension plans. This does not include certain insurance contracts for retirees. Year-end pension contributions and cash held for retiree pension payments also impact the actual allocation compared to the target allocation. The other postretirement benefit plans have a target allocation of 60% equities and 40% debt and other instruments. The other instruments portion of this allocation consists of a life-insurance product, which was surrendered in 2005, with the proceeds reallocated to other assets within the VEBA trusts.

The primary goal of the Company's retirement plan investment approach is to ensure that pension and other postretirement liabilities are met. An emphasis is placed on the long-term characteristics of individual asset classes, and the benefits of diversification across multiple asset classes. The approach incorporates an assessment of the proper long-term level of risk for the plans, considering factors such as the long-term nature of the plans' liabilities, the current funded status of the plans, and the impact of asset allocation on the volatility and magnitude of the plans' contributions and expense.

Estimated Future Benefit Payments. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid.

		Other Postretirement Benefits		
	Pension Benefits	Gross Benefits	Less Medicare Part D Subsidy	Net Benefits
			(In thousands)	
2006	\$ 3,600	\$ 1,900	\$ 200	\$ 1,700
2007	3,800	1,900	200	1,700
2008	3,800	1,900	200	1,700
2009	4,300	2,000	200	1,800
2010	4,800	2,100	200	1,900
Years 2011 – 2015	28,100	11,900	1,500	10,400

401(K) Plans and Profit Sharing Plans. The Company has defined contribution plans, commonly referred to as 401(k) plans, covering eligible employees. Certain of the 401(k) plans contain provisions for Company matching contributions. The amount expensed for the Company match provisions was \$1.2 million for 2005 and \$1.1 million for both years 2004 and 2003.

The Company has profit sharing plans covering certain employees. Annual contributions are generally discretionary or determined by a formula, which contains minimum contribution requirements. Profit sharing expense was \$0.3 million for 2005 and \$0.2 million for both years 2004 and 2003.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 9. Share-Based Compensation

At the Company's 2004 Annual Meeting, shareholders approved the 2004 Stock Award and Incentive Plan ("2004 Plan"), which provides for, in various forms, the issuance of up to 1,500,000 shares of Common Stock plus any shares which become available through forfeiture or through other prescribed means from the Company's previous long-term incentive or stock option plans after the effective date of the 2004 Plan. Awards may be in the form of stock options, stock appreciation rights, restricted stock, deferred stock, bonus stock and awards in lieu of obligations, dividend equivalents, other share-based awards, or performance awards. Awards granted thus far under the 2004 Plan have been in the form of (i) stock options, (ii) performance share units and restricted stock units, and (iii) restricted stock. These awards are discussed in greater detail below.

The Company also has a deferred compensation plan for its Board and an employee stock gift program. The deferred compensation plan allows for the deferral of Board member compensation, at the Board member's election, that can be invested in the Company's Common Stock. Any deferral of Board member compensation is expensed in the Company's Consolidated Statement of Operations when earned by the Board member. The employee stock gift program provides one free share of Company Common Stock to an employee the first time he or she enrolls in the Company's program to make contributions to the Company's DRIP via employee payroll deductions.

At December 31, 2005, there were 966,168 share-based awards available for grant to employees and Board members under the plans discussed above.

Restricted Stock Units for Executives. During 2005 and 2004, the Company issued 22,228 and 92,500 restricted stock units ("RSUs"), respectively, with weighted average fair values of \$6.50 and \$5.63, respectively, based on the market price of the Company's Common Stock on the dates of grant. Each RSU is equivalent to one share of Company Common Stock. 10,000 of the RSUs issued in 2004 have been forfeited because the individual to whom the RSUs were issued is no longer employed by the Company. 14,728 of the RSUs issued in 2005 vest in full on the three-year anniversary of issuance as long as the individual who received the RSUs remains employed on the vesting date. The remaining 90,000 outstanding RSUs vest at different dates over the period from issuance to March 31, 2007. Approximately 42% of these remaining 90,000 RSUs vest in full on approximately the one-year anniversary of issuance as long as the individuals who received the RSUs remain employed on the vesting date. Approximately 29% of these remaining 90,000 RSUs vest in 2006 and the remaining 29% vest in 2007, subject to the attainment of certain performance targets as long as the individuals remain employed on the vesting dates. Notwithstanding these vesting conditions, the RSUs vest in their entirety upon a change in control of the Company. Settlement of the vested RSUs will be made in shares of the Company's Common Stock. There were 69,728, and 92,500 non-vested RSUs outstanding at December 31, 2005 and 2004, respectively.

Employee Performance Share Units. During 2005, the Company issued 168,667 performance share units ("PSUs") at target ("Target Grant"). Each PSU is equivalent to one share of Company Common Stock. The PSUs have a weighted average fair value of \$6.15, based on the market price of the Company's Common Stock on the date of grant. Under the terms of the PSUs, the grantee can vest in PSUs equivalent to 25% to 150% of the Target Grant if actual performance results are within 25% to 150% of the target performance goals. Following a three-year performance period for 143,667 of the PSUs and a two-year performance period for 25,000 of the PSUs, a percentage of PSUs will vest if the individuals who received the PSUs are actively employed with the Company on the last day of the performance period and if the threshold level of performance is met or exceeded with respect to at least one of the established performance goals. Notwithstanding these vesting conditions, the PSUs vest in their entirety upon a change in control of the Company. Settlement of vested PSUs will be made in shares of the Company's Common Stock. There were 168,667 non-vested PSUs outstanding at December 31, 2005.

Restricted Stock for Directors. During 2005, the Company issued 176,583 shares of restricted stock to non-employee Directors with a weighted average fair value of \$5.83, based on the market price of the Company's Common Stock on the dates of grant. The restrictions on 7,833 of those shares were waived due to

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 9. Share-Based Compensation (Continued)

the immediate retirement of the individuals who were granted those shares. The remaining restricted stock vests over a three-year period as long as the individuals who received the restricted stock continue to serve on the Company's Board on the vesting dates. Notwithstanding these vesting conditions, the restricted stock for Directors vests in its entirety upon a change in control of the Company. At December 31, 2005, there were 168,750 shares of non-vested restricted stock outstanding.

Options to Purchase Common Stock. The exercise price of all options granted is equal to the average of the high and low market price on the options grant date. The options vest over the three-year period following the date of grant and expire ten years from the date of grant. Both the number of options granted and the exercise price are adjusted for any stock dividends and stock splits occurring during the life of the options. The fair values of the options were estimated at the grant date using a Black-Scholes option pricing model and the weighted average assumptions shown in the table below:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Risk-free interest rate	3.95%	3.44%	2.91%
Dividend yield	0.00%	0.26%	8.21%
Volatility	39.32%	43.35%	41.81%
Average expected term (years)	5	5	5
Fair value of options granted	\$ 2.59	\$ 2.20	\$ 0.52

The following table summarizes information concerning outstanding and exercisable options at December 31, 2005:

	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number</u>	<u>Remaining Contractual Life in Years</u>	<u>Weighted Average Exercise Price (\$)</u>	<u>Number</u>	<u>Weighted Average Exercise Price (\$)</u>
<u>Range of Exercisable Prices</u>	<u>Outstanding</u>			<u>Exercisable</u>	
\$ 4.13 – \$ 5.64	406,267	8.2	5.15	191,074	4.91
\$ 5.78 – \$ 7.43	413,113	7.6	6.66	231,777	7.16
\$ 9.99 – \$14.26	193,000	4.9	13.52	193,000	13.52
\$14.35 – \$17.14	146,979	3.6	15.42	146,979	15.42
	<u>1,159,359</u>			<u>762,830</u>	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 9. Share-Based Compensation (Continued)

The following table shows the stock option activity during the past three years and the number of stock options exercisable under the Company's plans at the end of each such year:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price (\$)</u>
Outstanding at December 31, 2002	1,139,218	12.96
Granted	184,285	4.29
Exercised	—	—
Canceled	(145,768)	11.99
Outstanding at December 31, 2003	1,177,735	11.72
Granted	419,800	5.51
Exercised	(2,668)	4.13
Canceled	(302,825)	11.66
Outstanding at December 31, 2004	1,292,042	9.73
Granted	136,813	6.11
Exercised	(2,333)	4.13
Canceled	(267,163)	13.78
Outstanding at December 31, 2005	1,159,359	8.38
Exercisable at December 31, 2003	781,208	13.81
Exercisable at December 31, 2004	857,523	11.92
Exercisable at December 31, 2005	762,830	9.80

For further information regarding stock-based compensation, refer to the caption "Share-Based Compensation" in Note 1.

Note 10. Earnings Per Share

The Company computes earnings per share ("EPS") in accordance with SFAS 128, "Earnings per Share." SFAS 128 requires the computation and presentation of two EPS amounts, basic and diluted. Basic EPS is computed by dividing income available to holders of Common Stock by the weighted average number of common shares outstanding during the period. The computation of diluted EPS is similar to that of basic EPS except that the weighted average number of common shares outstanding is increased to include any shares that would be available if outstanding stock options were exercised, shares of Preferred Stock and CPS were converted to shares of Common Stock, shares of non-vested restricted stock were fully vested, and stock purchase contracts, RSUs and PSUs were settled in shares of Common Stock. However, the diluted EPS calculation does not include these potential shares in instances when their inclusion in the diluted EPS calculation results in an EPS figure that is anti-dilutive when compared to basic EPS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 10. Earnings Per Share (continued)

The following table indicates the potential dilutive impact of the Company's dilutive securities on average Common Stock shares outstanding and potential adjustments to the Company's Consolidated Statements of Operations when computing diluted EPS:

	Years Ended December 31,		
	2005	2004	2003
	(In thousands)		
Potential dilutive impact on average common shares outstanding when calculating diluted earnings per share			
Assumed conversion of convertible cumulative preferred stock	7,283	—	—
Assumed conversion of convertible preference stock	1,614	5,430	—
Assumed exercise of stock options	55	24	20
Assumed settlement of restricted stock units and performance share units	13	9	—
Assumed vesting of non-vested restricted stock	16	—	—
Assumed failed remarketing and assumed retirement of trust preferred securities	—	—	5,280
Potential income statement adjustments when calculating diluted earnings per share			
Eliminate dividends on convertible cumulative preferred stock assumed converted	\$ 2,994	\$ —	\$ —
Eliminate dividends and repurchase premium on convertible preference stock assumed converted	\$ 9,112	\$ 3,203	\$ —
Eliminate dividends on trust preferred securities assumed retired	\$ —	\$ —	\$ 5,681

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 10. Earnings Per Share (continued)

The following table outlines the computations of basic and diluted EPS. The potential adjustments indicated in the previous table are not included in the following computations of diluted EPS if their impact for a given period is anti-dilutive when compared to basic EPS for the period:

	Years Ended December 31,		
	2005	2004	2003
	(In thousands, except per share amounts)		
Average common shares outstanding			
Issued	30,470	28,263	22,297
Adjustments to reconcile to average common shares outstanding for purposes of computing basic EPS:			
Subtract non-vested restricted stock	(83)	—	—
Add shares issuable under fully vested restricted stock units	21	—	—
As adjusted — basic	30,408	28,263	22,297
Adjustments to reconcile to average common shares outstanding for purposes of computing diluted EPS:			
Assumed conversion of convertible cumulative preferred stock	—	—	—
Assumed conversion of convertible preference stock	—	—	—
Assumed exercise of stock options	—	24	—
Assumed settlement of restricted stock units and performance share units	—	9	—
Assumed vesting of non-vested restricted stock	—	—	—
Assumed failed remarketing and assumed retirement of trust preferred securities	—	—	—
Diluted	30,408	28,296	22,297
Income (loss) from continuing operations			
As reported	\$ 11,737	\$ 4,156	\$ (5,084)
Adjustments to reconcile to income (loss) from continuing operations for purposes of computing basic EPS:			
Subtract dividends and repurchase premium on convertible preference stock	(9,112)	(3,203)	—
Subtract dividends on convertible cumulative preferred stock	(2,994)	—	—
As adjusted — basic	\$ (369)	\$ 953	\$ (5,084)
Adjustments to reconcile to income (loss) from continuing operations for purposes of computing diluted EPS:			
Eliminate dividends on convertible cumulative preferred stock assumed converted	—	—	—
Eliminate dividends and repurchase premium on convertible preference stock assumed converted	—	—	—
Diluted	\$ (369)	\$ 953	\$ (5,084)
Earnings per share from income (loss) from continuing operations			
Basic	\$ (0.01)	\$ 0.03	\$ (0.23)
Diluted	\$ (0.01)	\$ 0.03	\$ (0.23)
Income (loss) from discontinued operations			
As reported — basic	\$ 538	\$ (9,339)	\$ (24,871)
Diluted	\$ 538	\$ (9,339)	\$ (24,871)
Earnings per share from income (loss) from discontinued operations			
Basic	\$ 0.02	\$ (0.33)	\$ (1.11)
Diluted	\$ 0.02	\$ (0.33)	\$ (1.11)
Net income (loss) available to common shareholders			
As reported — basic	\$ 169	\$ (8,386)	\$ (29,955)
Adjustments to reconcile to net income (loss) available to common shareholders for purposes of computing diluted EPS:			
Eliminate dividends on convertible cumulative preferred stock assumed converted	—	—	—
Eliminate dividends and repurchase premium on convertible preference stock assumed converted	—	—	—
Eliminate dividends on trust preferred securities assumed retired	—	—	—
Diluted	\$ 169	\$ (8,386)	\$ (29,955)
Earnings per share from net income (loss) available to common shareholders			
Basic	\$ 0.01	\$ (0.30)	\$ (1.34)
Diluted	\$ 0.01	\$ (0.30)	\$ (1.34)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 11. Business Segments

The Company follows SFAS 131, "Disclosure about Segments of an Enterprise and Related Information," which specifies standards for reporting information about operating segments ("business segments") in annual financial statements and requires selected information in interim financial statements. Business segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, to make decisions on how to allocate resources and to assess performance. The Company's chief operating decision-making group is the Chief Executive Officer ("CEO") and certain other executive officers who report directly to the CEO. The Company evaluates the performance of its business segments based on the operating income generated. Operating income does not include income taxes, interest expense, discontinued operations, and non-operating income and expense items.

The Company has one reportable business segment: Gas Distribution. Under SFAS 131, a business segment that does not exceed certain quantitative levels is not considered a reportable business segment. Instead, business segments that do not exceed the quantitative thresholds are combined and reported in a separate category with other business activities that do not meet the definition of a business segment. The Company refers to this other category as "Corporate and Other." For a description of the Company's Gas Distribution segment, a description of the Company's non-separately reportable business segments included in Corporate and Other, and information regarding the sale of the discontinued construction services segment in September 2004, refer to Note 1. The accounting policies of the Company's business segments are the same as those described in Note 1 except that intercompany transactions have not been eliminated in determining individual segment results.

The Company's corporate division is a cost center rather than a business segment. Any corporate operating expenses that do not relate to the ongoing operations of the Company's business segments or are not allocable to them under various regulatory rules are not allocated to those segments. Instead, these unallocated expenses remain on the books of the corporate division. The corporate division is included in Corporate and Other.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 11. Business Segments (continued)

The following table provides business segment information as well as a reconciliation of the segment information to the applicable line in the consolidated financial statements:

	Years Ended December 31,		
	2005	2004	2003
	(In thousands)		
Operating revenues			
Gas distribution	\$ 606,315	\$ 498,249	\$ 462,889
Corporate and other	16,379	17,152	17,220
Reconciliation to consolidated financial statements			
Intercompany eliminations(a)	(7,592)	(7,065)	(7,154)
Consolidated operating revenues	<u>\$ 615,102</u>	<u>\$ 508,336</u>	<u>\$ 472,955</u>
Depreciation and amortization			
Gas distribution	\$ 26,825	\$ 25,925	\$ 25,528
Corporate and other	1,399	1,653	1,920
Consolidated depreciation and amortization	<u>\$ 28,224</u>	<u>\$ 27,578</u>	<u>\$ 27,448</u>
Operating income (loss)			
Gas distribution	\$ 57,964	\$ 52,760	\$ 59,222
Corporate and other	1,540	(7,275)	1,475
Consolidated operating income	<u>\$ 59,504</u>	<u>\$ 45,485</u>	<u>\$ 60,697</u>
Capital investments			
Gas distribution(b)	\$ 41,815	\$ 37,924	\$ 28,323
Corporate and other	1,417	954	840
Construction services(c)	—	34	1,003
Consolidated capital investments	<u>\$ 43,232</u>	<u>\$ 38,912</u>	<u>\$ 30,166</u>
Assets at year end			
Gas distribution	\$ 966,835	\$ 864,183	
Corporate and other	49,720	62,015	
Consolidated assets at year end	<u>\$ 1,016,555</u>	<u>\$ 926,198</u>	

- (a) Includes the elimination of intercompany gas distribution revenue of \$209, \$199 and \$174 for 2005, 2004 and 2003. Includes the elimination of intercompany corporate and other revenue of \$7,383, \$6,866 and \$6,980 for 2005, 2004 and 2003, respectively.
- (b) Gas Distribution capital investments for 2005 include \$3,076 for a business acquisition.
- (c) Effective January 1, 2004, the Company began accounting for the construction services segment as a discontinued operation. Accordingly, its operating results are segregated and reported as discontinued operations in the Consolidated Statements of Operations.

Note 12. Investments in Affiliates

The equity method of accounting is used for interests where the Company has significant influence, but does not control an entity. The Company has a 50% ownership interest in ERGSS that it accounts for using the equity method of accounting. The investment in ERGSS is reported in deferred charges and other assets in the Consolidated Statements of Financial Position. ERGSS provides natural gas storage services to the Company's Gas Distribution Business. ERGSS had annual operating revenues associated with services

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 12. Investments in Affiliates

provided to the Gas Distribution Business of \$3.2 million, \$3.4 million and \$3.2 million in 2005, 2004 and 2003, respectively. The table below summarizes the financial information for ERGSS:

	2005	2004 (In thousands)	2003
Operating revenues	\$ 6,448	\$ 6,752	\$ 6,514
Operating income	\$ 3,947	\$ 4,308	\$ 4,141
Equity income	\$ 3,245	\$ 3,511	\$ 3,208
The Company's share of equity income	\$ 1,623	\$ 1,755	\$ 1,604
Current assets	\$ 6,203	\$ 4,232	\$ 4,358
Non-current assets	20,736	22,086	20,564
Total assets	\$ 26,939	\$ 26,318	\$ 24,922
Current liabilities	\$ 13,198	\$ 6,242	\$ 5,636
Non-current liabilities	—	7,313	9,013
Equity	13,741	12,763	10,273
Total liabilities and equity	\$ 26,939	\$ 26,318	\$ 24,922
The Company's equity investment in ERGSS	\$ 6,870	\$ 6,381	\$ 5,137

At December 31, 2004, the Company's had common equity investments of \$1.2 million in two capital trust subsidiaries. In 2005, these investments were redeemed by the trusts. Refer to Note 4 for further information.

Note 13. Commitments and Contingencies

Capital Investments. The Company's plans for expansion and improvement of its business properties are continually reviewed. Aggregate capital expenditures for property in 2006 are projected to be approximately \$42.1 million. The Company may also, as part of the execution of its strategic plan, make acquisitions of, or investments in, other businesses.

Lease Commitments. The Company leases buildings, vehicles and equipment. The resulting leases are classified as operating leases in accordance with SFAS 13, "Accounting for Leases." A significant portion of the Company's vehicles are leased. Leases on the majority of the Company's new vehicles are for a minimum of twelve months. The Company has the right to extend each vehicle lease annually and to cancel the extended lease at any time. During 2002, the Company sold two of its buildings located in Port Huron, Michigan to Acheson Ventures LLC ("Acheson") and leased these facilities back over the period January 2003 through January 2005. The annual lease payments associated with these facilities amounted to approximately \$0.5 million. In February 2005, the Company began leasing its new Port Huron headquarters building from Acheson for annual lease payments of \$0.8 million.

The Company's future minimum lease payments that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2005, totaled \$15.2 million consisting of (in millions):

2006	\$ 1.9
2007	\$ 1.8
2008	\$ 1.9
2009	\$ 1.9
2010	\$ 1.9
Thereafter	\$ 5.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 13. Commitments and Contingencies (continued)

Total lease payments were approximately \$2.8 million, \$2.9 million and \$2.7 million in 2005, 2004 and 2003, respectively. The annual future minimum lease payments are less than the lease payments incurred in 2003 through 2005, because most of the vehicle leases at December 31, 2005, were on a month-to-month basis and were subject to cancellation at any time. However, management expects to renew or replace substantially all of these leases.

Sublease Commitments. In February 2005, in conjunction with the commencement of the Company's lease of its new Port Huron headquarters building from Acheson, Acheson began paying the lease payments on the Farmington Hills, Michigan office space that was the Company's former headquarters. Acheson's obligation to make these lease payments extends through March 31, 2011, when the Company's lease on the Farmington Hills office space expires. As of December 31, 2005, the future payments that Acheson is obligated to pay amounted to approximately \$2.4 million. For additional information on Acheson's obligation and related legal action, refer to the caption "Other Contingencies" within this Note 13.

Commitments for Natural Gas Supplies. The Company enters into contracts to purchase natural gas and natural gas transportation and storage services from various suppliers for its Gas Distribution Business. These contracts, which have expiration dates that range from 2004 to 2010, are used to assure an adequate supply of natural gas to meet the needs of customers and to minimize exposure to market price fluctuations. The Company's gas purchase contractual obligations as of December 31, 2005, total \$228.9 million, consisting of (in millions):

2006	\$	168.7
2007	\$	26.6
2008	\$	19.4
2009	\$	11.6
2010	\$	2.6
Thereafter	\$	—

Guarantees. The Company has issued letters of credit through financial institutions for the benefit of third parties that have extended credit to the Company. At December 31, 2005, the outstanding letters of credit amounted to \$16.8 million. Under the terms of these letters of credit, if the Company does not pay amounts when due under the covered contracts, the beneficiary may present its claim for payment to the financial institution, which will in return request payment from the Company. The letters of credit are entered into on a short term basis, normally every six-to-twelve months, and are then renewed for another short term period. At December 31, 2005, the scheduled expiration dates for these letters of credits ranged from January 2006 through September 2006.

Environmental Issues. Prior to the construction of major interstate natural gas pipelines, gas for heating and other uses was manufactured from processes involving coal, coke or oil. Residual byproducts of these processes may have caused environmental conditions that require investigation and remediation. The Company owns seven sites in Michigan where such manufactured gas plants were located. Even though the Company never operated manufactured gas facilities at four of the sites, and did so at another site for only a brief period of time, the Company is subject to local, state and federal laws and regulations that require, among other things, the investigation and, if necessary, the remediation of contamination associated with these sites, irrespective of fault, legality of initial activity, or ownership, and which may impose liability for damage to natural resources. The Company has complied with the applicable Michigan Department of Environmental Quality ("MDEQ") requirements, which require current landowners to mitigate unacceptable risks to human health from the byproducts of manufactured gas plant operations and to notify the MDEQ and adjacent property owners of potential contaminant migration. The Company is currently investigating these sites and anticipates conducting any necessary additional investigatory and remedial activities as appropriate. The

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 13. Commitments and Contingencies (continued)

Company has already remediated and closed a site related to one of the manufactured gas plant sites, with the MDEQ's approval.

The Company is also attempting to identify other potentially responsible parties to bear some or all of the costs and liabilities associated with the investigatory and remedial activities at several of these sites and also is pursuing recovery of the costs of these activities from insurance carriers. The Company is unable to predict, however, whether and to what extent it will be successful in involving other potentially responsible parties in investigatory or remedial activities, or in bearing some or all of the costs thereof, or in securing insurance recoveries for some or all of the costs associated with these sites.

The Company also is unable to estimate, at present, the costs that may be incurred in connection with the investigation and remediation of these sites or other potential environmental liabilities relating to these sites. In accordance with an MPSC accounting order, environmental assessment and remediation costs associated with certain manufactured gas plant sites are deferred and amortized over ten years. Rate recognition of the related amortization expense does not begin until a review of the related costs in a base rate case.

Personal Property Taxes. The Company and other Michigan utilities have asserted that Michigan's valuation tables in effect prior to 2000 resulted in the substantial overvaluation of utility personal property. Valuation tables established by the Michigan State Tax Commission ("STC") are used to estimate the reduction in value of personal property based on the property's age. In 1998, the Company began filing its personal property tax information with local taxing jurisdictions, using a revised calculation of the value of personal property subject to taxation. A number of local taxing jurisdictions accepted the revised calculation, and the Company recorded lower property tax expense in 1998 and subsequent years associated with these taxing jurisdictions. The Company has also filed appeals to recover excess payments made in 1997 and subsequent years based on the revised calculation and recorded lower property tax expense as a result of the filings.

In November 1999, the STC approved new valuation tables for utility personal property. The new tables became effective in 2000 and are being used for current year assessments in most jurisdictions. However, several local taxing jurisdictions took legal actions attempting to prevent the STC from implementing the new valuation tables and others continued to prepare assessments based on the superseded tables. The legality of the new valuation tables providing lower values for gas distribution property was resolved in favor of the STC in January 2004.

Throughout the period that the prior years property tax appeals have been outstanding, the Company has reflected the amount of the excess property tax payments that it expected to recover in prepaid expenses in its Consolidated Statements of Financial Position. During 2004, the Company reduced its estimate for recovery of certain of these prior years excess property tax payments by \$1.4 million, such that at December 31, 2004, the Company had approximately \$2.5 million recorded in prepaid expenses for its estimated recovery. During 2005, the Company initiated settlement offers to all taxing jurisdictions involved with the property tax appeals. Numerous taxing jurisdictions have accepted the Company's settlement offer and, as a result, the Company reduced its 2005 property tax expense by approximately \$0.5 million. As of December 31, 2005, the Company had received cash refunds of \$0.5 million and had approximately \$2.4 million recorded in prepaid expenses in its Consolidated Statements of Financial Position representing prior years excess property tax payments expected to be recovered. The Company will continue to seek settlements with taxing jurisdictions that have not yet accepted the Company's offers. If any taxing jurisdictions do not accept the Company's settlement offers, the property tax appeals involving these jurisdictions would move forward before the Michigan Tax Tribunal.

Other Contingencies. In the normal course of business, the Company may be a party to lawsuits and administrative proceedings before various courts and government agencies. The Company also may be involved in private dispute resolution proceedings. These lawsuits and proceedings may involve personal injury,

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 13. Commitments and Contingencies (continued)

property damage, contractual issues and other matters (including alleged violations of federal, state and local laws, rules, regulations and orders). Management cannot predict the outcome or timing of any pending or threatened litigation or of actual or possible claims. Except as otherwise stated, management believes resulting liabilities, if any, will not have a material adverse impact upon the Company's financial position, results of operations, or cash flows.

In October 2004, two Company subsidiaries (SEMCO Energy Services, Inc. and SEMCO Pipeline Company) were added as defendants in a putative class action lawsuit brought in federal district court in West Virginia alleging that the approximately 30 defendants named in the lawsuit engaged in gas marketing activities that violated state and federal anti-trust laws and otherwise tortiously interfered with the business opportunities of the plaintiffs from 1996 to present. On October 4, 2005, the court granted a motion to dismiss filed by certain defendants, including the Company's subsidiaries, as to federal anti-trust claims arising prior to October 25, 2000. On January 30, 2006, the court declined a request that it amend its dismissal order to include any state anti-trust claims arising during the same period. The Company plans to file additional motions raising defenses with respect to all remaining claims. The Company sold its gas marketing business in 1999.

In connection with the issuance of CPS and Warrants to K-1, during 2004, the Company agreed to seek certain rulings from the RCA. As part of RCA proceedings instituted with respect to the rulings sought by the Company, the Alaska Attorney General asserted, among other things, that (i) the Company's issuance of the CPS and Warrants to K-1 resulted in a control change requiring prior approval by the RCA, (ii) such a control change did not adversely affect ENSTAR and therefore should be approved by the RCA, and (iii), in connection with approving this control change, the RCA should institute a rate proceeding to review the base rates of ENSTAR, using a 2005 test year and a new depreciation study for ENSTAR's property. The Company believed that no control change occurred upon the issuance of the CPS and Warrants to K-1 and thus no RCA approval was required. The Company also opposed the proposal that the RCA institute a rate proceeding to review ENSTAR's base rates and, in connection with that review, order that a depreciation study of ENSTAR's property be done.

After repurchasing the CPS and Warrants from K-1 on March 15, 2005, the Company filed a motion to terminate proceedings with the RCA on the basis that the repurchase made such proceedings moot. The Company also continued to oppose the proposal that the RCA institute a rate proceeding to review ENSTAR's base rates and conduct a depreciation study. On June 20, 2005, the RCA terminated the proceeding. It also required ENSTAR to file a revenue requirement and cost of service study (including rate design data) with the RCA by June 6, 2008 (using a test year ended December 31, 2007). In addition, ENSTAR is required to file a depreciation study of utility plant (as of December 31, 2006) by June 1, 2007. These filings also will include the Company's APC subsidiary.

In September 2002, the Company agreed to relocate its headquarters to Port Huron, Michigan, and leased part of a new office building in Port Huron from Acheson. As part of the transaction, Acheson agreed to sublease office space occupied by the Company in Farmington Hills, Michigan, and, beginning in February 2005, began to pay the Company's Farmington Hills lease costs (approximately \$36,000/ month until March 31, 2011, when the Farmington Hills lease expires), as agreed. In June 2005, Acheson ceased making these payments, ostensibly because the Company had breached its obligations by maintaining a satellite office in Troy, Michigan, for certain executives who also have offices in the Company's Port Huron headquarters. The Company has filed an action in Michigan state court, seeking (i) damages for Acheson's failure to pay the Company's Farmington Hills lease costs, and (ii) a declaratory judgment that the Company has met its obligations to Acheson. To mitigate its damages, the Company is paying the Farmington Hills lease costs and is attempting to market the space to prospective subtenants. On January 16, 2006, Acheson answered the Company's complaint, filed counter-claims alleging breach of contract, fraud, and negligent misrepresentation, and sought a change of venue for these proceedings, to Port Huron, Michigan. The Company has made filings to answer Acheson's counter claims, denying any liability to Acheson, and opposing a change of venue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 14. Acquisitions, Disposals and Discontinuation of Operations

Acquisition of Peninsular Gas Company. On June 1, 2005, the Company acquired substantially all of the assets and certain liabilities of Peninsular Gas for \$3.0 million in cash. The assets acquired included approximately \$0.3 million in cash. In accordance with the asset purchase agreement, the Company paid an additional \$0.3 million to the seller for excess working capital acquired. The cash paid by the Company to acquire Peninsular Gas, including \$0.1 million of transaction costs and the excess working capital payment, amounted to \$3.1 million, net of the cash acquired. This acquisition adds approximately 4,000 customers to the Company's Gas Distribution Business in the upper peninsula of Michigan. The operating results of Peninsular Gas for the period June 1 through December 31, 2005, are reflected in the Company's Consolidated Statements of Operations for 2005. The acquired assets and assumed liabilities are reflected in the Company's Consolidated Statements of Financial Position at December 31, 2005.

Disposal of Construction Services Business Segment. The Company began marketing the construction services business for sale during the first quarter of 2004. As a result, the Company has accounted for the business as a discontinued operation and, accordingly, the operating results and the estimated loss on the disposal of this business are segregated and reported as discontinued operations in the Consolidated Statements of Operations. In September 2004, the Company sold the assets of its construction services business to InfraSource Services, Inc. for approximately \$21.3 million. The proceeds from the sale were used for capital expenditures and general corporate purposes.

Operating income (losses), net of income taxes, from the discontinued operations were \$0.5 million, \$(4.6) million and \$(24.9) million, respectively, for the 2005, 2004 and 2003. The Company's income from discontinued operations for 2005 was from a settlement of litigation. Also included in discontinued operations for 2004 is a loss of \$4.7 million, net of income taxes, that the Company incurred on the disposal of the discontinued segment.

Components of amounts reflected in the Consolidated Statements of Operations for the construction services business are presented in the following table:

	Year Ended December 31,		
	2005	2004	2003
		(In thousands)	
Revenues	\$ —	\$ 34,106	\$ 72,400
Operating expenses	(850)	39,722	82,894
Goodwill impairment charge	—	—	17,649
Asset impairment charge	—	—	2,825
Operating income (loss)	850	(5,616)	(30,968)
Other deductions	—	(807)	(1,265)
Income tax (expense) benefit	(312)	1,782	7,362
Income (loss) from discontinued operations	\$ 538	\$ (4,641)	\$ (24,871)
Loss on divestiture of construction services operations, net of income tax (expense) benefit of \$0, \$1,722 and \$0	\$ —	\$ (4,698)	\$ —

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Note 15. Quarterly Financial Information (Unaudited)

In the opinion of the Company, the following quarterly information includes all adjustments necessary for a fair statement of the results of operations for such periods. Earnings per share for each quarter is calculated based upon the weighted average number of shares outstanding during each quarter. As a result, adding the earnings per share for each quarter of a year may not equal annual earnings per share due to changes in shares outstanding throughout the year. Due to the seasonal nature of the Company's Gas Distribution Business, the results of operations reported on a quarterly basis show substantial variations.

	Quarters during 2005			
	First	Second	Third	Fourth
	(In thousands, except per share amounts)			
Operating revenues	\$ 226,560	\$ 95,633	\$ 62,310	\$ 230,599
Operating income (loss)	30,143	7,143	(1,734)	23,952
Income (loss) from continuing operations	12,496	(2,113)	(7,930)	9,284
Discontinued operations	—	—	538	—
Net income (loss) available to common shareholders	3,232	(3,058)	(8,339)	8,334
Earnings per share from income (loss) from continuing operations:				
— basic	0.11	(0.11)	(0.29)	0.25
— diluted	0.11	(0.11)	(0.29)	0.22
Earnings per share from net income (loss) available to common shareholders:				
— basic	0.11	(0.11)	(0.27)	0.25
— diluted	0.11	(0.11)	(0.27)	0.22
Dividends paid per share	—	—	—	—
Dividends declared per share	—	—	—	—

	Quarters during 2004			
	First	Second	Third	Fourth
	(In thousands, except per share amounts)			
Operating revenues	\$ 207,784	\$ 81,762	\$ 54,034	\$ 164,756
Operating income (loss)	31,290	4,934	(1,492)	10,753
Income (loss) from continuing operations	12,861	(3,544)	(7,335)	2,174
Discontinued operations	(4,776)	(2,344)	(1,129)	(1,090)
Net income (loss) available to common shareholders	8,023	(6,756)	(9,617)	(36)
Earnings per share from income (loss) from continuing operations:				
— basic	0.46	(0.16)	(0.30)	0.04
— diluted	0.45	(0.16)	(0.30)	0.04
Earnings per share from net income (loss) available to common shareholders:				
— basic	0.29	(0.24)	(0.34)	(0.00)
— diluted	0.28	(0.24)	(0.34)	(0.00)
Dividends paid per share	0.075	0.075	—	—
Dividends declared per share	—	0.075	—	—

SCHEDULE II CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS

<u>Description</u>	<u>Balance Beginning of Period</u>	<u>Additions for Provisions Charged or (Credited) to Income</u>	<u>Deductions From Reserves for Purpose for Which the Reserve was Provided</u>	<u>Balance End of Period</u>
(In thousands)				
Year Ended December 31, 2005				
Allowance for doubtful accounts deducted from receivables in the Statement of Financial Position	\$ 2,247	\$ 2,378	\$ 2,867	\$ 1,758
Year Ended December 31, 2004				
Allowance for doubtful accounts deducted from receivables in the Statement of Financial Position	\$ 2,387	\$ 3,133	\$ 3,273	\$ 2,247
Reserve for restructuring costs included in current liabilities and deferred credits in the Statement of Financial Position	\$ 278	\$ —	\$ 278	\$ —
Year Ended December 31, 2003				
Allowance for doubtful accounts deducted from receivables in the Statement of Financial Position	\$ 1,909	\$ 3,616	\$ 3,138	\$ 2,387
Reserve for restructuring costs included in current liabilities and deferred credits in the Statement of Financial Position	\$ 1,093	\$ —	\$ 815	\$ 278

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

None.

Item 9A. *Controls and Procedures*

Disclosure Controls and Procedures. As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of the Company’s disclosure controls and procedures as defined in Rules 13a–15(e) and 15d–15(e) of the Securities and Exchange Act of 1934. Based on that evaluation, the CEO and the CFO have concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2005. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that the Company’s disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Company to disclose material information otherwise required to be set forth in the Company’s periodic reports.

Management’s Report on Internal Control Over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Exchange Act Rule 13a–15(f)). The Company’s internal control over financial reporting is a process designed under the supervision the Company’s CEO and CFO to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company’s financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. The Company’s internal control over financial reporting include those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company’s assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Company’s receipts and expenditures are being made only in accordance with authorizations of management and the Company’s Board; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control–Integrated Framework. Based on this assessment, management concluded that, as of December 31, 2005, the Company’s internal control over financial reporting was effective.

Management’s assessment of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in its report contained in Item 8 of this Form 10–K.

Changes in Internal Control Over Financial Reporting. During the fourth quarter of the year ended December 31, 2005, no change in the Company’s internal control over financial reporting (as such term is defined in Rules 13a–15(f) and 15d–15(f) of the Securities and Exchange Act of 1934) occurred that has materially affected or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Item 9B. Other Information

Item 1.01 Entry into a Material Definitive Agreement.

During 2004, the Company hired new executive officers with substantial utility industry experience. The compensation of these and other executive officers is based on the compensation paid to executives at a peer group of utilities, with an overall objective of providing competitive compensation at or near the 50th percentile of the peer group data. Refer to Item 11 of this Form 10-K for additional information.

On March 10, 2006, with Board authorization, the Compensation Committee of the Board (the "Committee") approved the annual base salaries for the Company's CEO and its four most highly compensated executive officers for the Company's last completed fiscal year (the "named executive officers"). The Committee also approved cash bonus awards under the Company's Short-Term Incentive Plan ("STIP") for certain executive officers, including all of the named executive officers, for the fiscal year ended December 31, 2005. Finally, the Committee established the performance criteria to be used in establishing cash bonus awards and award grants for the fiscal year ending December 31, 2006 under the STIP and the Company's 2004 Stock Award and Incentive Plan (referred to here as the "LTIP" and elsewhere as the "2004 Plan").

Base Salaries of Named Executive Officers

On March 10, 2006, with Board authorization, the Committee approved new annual base salaries (effective as of July 1, 2006) for the named executive officers. The following table (which is also included as Exhibit 10.21 to this Form 10-K) sets forth the new annual base salary levels of the named executive officers:

<u>Name and Position</u>	<u>Base Salary Effective July 2006</u>
George A. Schreiber, Jr. <i>President and CEO</i>	\$ 535,000
Michael V. Palmeri <i>Senior Vice President, Treasurer and CFO</i>	\$ 285,000
Eugene N. Dubay <i>Senior Vice President of Operations</i>	\$ 275,000
Peter F. Clark <i>Senior Vice President and General Counsel</i>	\$ 255,000
Mark T. Prendeville <i>Vice President and Deputy General Counsel</i>	\$ 180,000

Cash Bonus Awards under the STIP for 2005

On March 10, 2006, with Board authorization, the Committee approved the following cash bonus awards for the named executive officers under the STIP for the fiscal year ended December 31, 2005:

<u>Name and Position</u>	<u>Cash Bonus Award under STIP for 2005</u>
George A. Schreiber, Jr. <i>President and CEO</i>	\$ 200,000
Michael V. Palmeri <i>Senior Vice President, Treasurer and CFO</i>	\$ 83,200
Eugene N. Dubay <i>Senior Vice President of Operations</i>	\$ 72,800
Peter F. Clark <i>Senior Vice President and General Counsel</i>	\$ 65,800
Mark T. Prendeville <i>Vice President and Deputy General Counsel</i>	\$ 40,765

2006 Performance Criteria under the STIP

Whether a participant obtains his or her target award under the STIP depends on achievement of certain corporate financial results and then is further weighted based on the individual's annual performance assessment ranking. Individual performance weighting varies based on employment level, as described in the STIP. For 2006, the specific STIP corporate financial results that will be measured are net income and net operating profit after tax, each of these measures weighted equally when determining whether the corporate financial results were met.

In addition, with Board authorization, the Committee approved the following target bonuses for each of the named executive officers in the following table (a copy of which is filed as Exhibit 10.18.1 to this Form 10-K), which may be decreased depending on each named executive officer's performance and the corporate financial results of the Company, as permitted under the STIP:

<u>Name and Position</u>	<u>Target Bonus That May be Granted Under STIP for 2006</u>
George A. Schreiber, Jr. <i>President and CEO</i>	60% of Base Salary
Michael V. Palmeri <i>Senior Vice President, Treasurer and CFO</i>	40% of Base Salary
Eugene N. Dubay <i>Senior Vice President of Operations</i>	50% of Base Salary
Peter F. Clark <i>Senior Vice President and General Counsel</i>	35% of Base Salary
Mark T. Prendeville <i>Vice President and Deputy General Counsel</i>	30% of Base Salary

This explanation of the performance criteria under the STIP is qualified in its entirety by reference to the full text of the STIP, a copy of which is filed as an exhibit to the Company's Form 10-K for the fiscal year ended December 31, 2004, filed March 8, 2005.

2006 Performance Criteria under the LTIP

Whether a participant will obtain a target award for 2006 under the LTIP depends on (i) the growth of earnings per share compared to a peer group of gas utility companies, and (ii) achieving a certain target return on invested capital. These two factors are measured over a cumulative three-year period so that these LTIP performance measures for 2006 will be evaluated as of December 31, 2008. In addition, these two factors are weighted equally in determining the LTIP award.

This explanation of the performance criteria under the LTIP is qualified in its entirety by reference to the full text of (i) the LTIP, a copy of which is filed as Appendix A to the Company's 2004 Proxy Statement, filed April 6, 2004; (ii) the Form of Employee Performance Share Unit Award Agreement, a copy of which is filed as an exhibit to the Company's Form 10-K for the fiscal year ended December 31, 2004, filed March 8, 2005; (iii) the Forms of Restricted Stock Award Agreements (for the chairmen, for the directors and for employees), copies of which are filed as exhibits to the Company's Form 8-K filed July 1, 2005; and (iv) the Form of Restricted Stock Unit Award Agreement, a copy of which is filed as an exhibit to the Company's Form 8-K filed July 1, 2005.

PART III

Item 10. *Directors and Executive Officers of the Registrant*

The information appearing under the captions "Information About Nominees, Directors and Executive Officers," the subheading "Audit Committee" under the caption "Committees of the Board of Directors and Meeting Attendance" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's

definitive Proxy Statement (to be filed pursuant to Regulation 14A) with respect to the Company's 2006 Annual Meeting of Common Shareholders is incorporated by reference herein. In February 2003, the Company's Board adopted a Code of Business Conduct and Ethics ("Code of Ethics") that applies to all of the Company's employees (including the Company's officers), directors, affiliates, agents, consultants, advisors and representatives. The Company had a Code of Ethics in place prior to February 2003, but expanded the information provided into a handbook on conduct and ethics that would be better understood by those required to abide by it. The Company's Code of Ethics was filed as Exhibit No. 99.2 to the Form 10-K for the year ended December 31, 2003, and can also be found on the Company's website at www.semcoenergy.com in the Investor Information section under Corporate Governance.

Item 11. *Executive Compensation*

The information appearing under the captions "Compensation of Executive Officers and Directors" (including the subheadings "Summary Compensation Table," "Option Grants in 2005," "Aggregated Option Exercises in 2005 and Option Values at December 31, 2005," "Executive Severance Agreements," "Employee Pension Plan," "Pension Plan Table," "Total Pension Benefits," "Combined Pension Plan and Supplemental Retirement Plan Table," "Supplemental Executive Retirement Plan" and "Director Compensation"), "Compensation Committee Report on Executive Compensation" and "Performance Graph" in the Company's definitive Proxy Statement (to be filed pursuant to Regulation 14A) with respect to the Company's 2006 Annual Meeting of Common Shareholders is incorporated by reference herein. There are no compensation committee interlocks or insider participation.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information appearing under the caption "Beneficial Ownership" in the Company's definitive Proxy Statement (to be filed pursuant to Regulation 14A) with respect to the Company's 2006 Annual Meeting of Common Shareholders is incorporated by reference herein. Information regarding the Company's equity compensation plans, including plans approved by security holders and plans not approved by security holders, appearing under the caption "Equity Compensation Plan Information" in the Company's definitive Proxy Statement (to be filed pursuant to Regulation 14A) with respect to the Company's 2006 Annual Meeting of Common Shareholders is incorporated by reference herein.

Item 13. *Certain Relationships and Related Transactions*

The information appearing under the caption "Certain Relationships and Related Transactions" in the Company's definitive Proxy Statement (to be filed pursuant to Regulation 14A) with respect to the Company's 2006 Annual Meeting of Common Shareholders is incorporated by reference herein.

Item 14. *Principal Accountant Fees and Services*

The information appearing under the caption "Principal Accountant Fees" in the Company's definitive Proxy Statement (to be filed pursuant to Regulation 14A) with respect to the Company's 2006 Annual Meeting of Common Shareholders is incorporated by reference herein.

PART IV

Item 15. *Exhibits, Financial Statement Schedules*

- | | | |
|-----|---|--|
| (a) | 1 | Financial statements filed as part of this report are listed in Item 8 of this Form 10-K, and reference is made thereto. |
| (a) | 2 | Financial statement schedules filed as part of this report are listed in Item 8 of this Form 10-K, and reference is made hereto. |
| (a) | 3 | Exhibits, including those incorporated by reference, are included in the list of exhibits below. |
| (b) | | The exhibits filed herewith are identified in Item 15(a)3 above. |
| (c) | | The financial statement schedules filed herewith are identified under Item 15(a)2 above. |

EXHIBITS, INCLUDING THOSE INCORPORATED BY REFERENCE

Exhibit No.	Description	Filed	
		Herewith	By Reference
3.1	Articles of Incorporation of SEMCO Energy, Inc., as restated June 25, 1999, and amendments thereto through May 28, 2004, including Certificate of Designation of 6% Series B Convertible Preference Stock filed March 19, 2004.(m)		x
3.1.1	Certificate of Designation of 5% Series B Convertible Cumulative Preferred Stock, filed March 14, 2005.(q)		x
3.2	Bylaws — last revised June 28, 2005.(s)		x
4.1	Rights Agreement dated as of April 15, 1997 with Continental Stock Transfer & Trust Company, as Rights Agent.(b)		x
4.1.2	Amended Rights Agreement as of March 19, 2004 with National City Bank (successor Rights Agent).(l)		x
4.2	Indenture relating to Senior Debt Securities dated as of October 23, 1998, with Bank One Trust Company (formerly NBD Bank) as Trustee.(r)		x
4.2.1	Third Supplemental Indenture relating to Senior Debt Securities dated as of June 15, 2001, with Bank One Trust Company as Trustee.(e)		x
4.2.2	Fourth Supplemental Indenture relating to Senior Debt Securities dated as of September 19, 2002, with Bank One Trust Company as Trustee.(h)		x
4.3	Indenture, dated as of May 15, 2003, between SEMCO Energy, Inc. and Fifth Third Bank, relating to SEMCO Energy, Inc.'s 7 ³ / ₄ % Senior Notes due 2013.(i)		x
4.4	Indenture, dated as of May 21, 2003, between SEMCO Energy, Inc. and Fifth Third Bank, relating to SEMCO Energy, Inc.'s 7 ¹ / ₈ % Senior Notes due 2008.(i)		x
4.5	Registration Rights Agreement, dated March 15, 2005, for the benefit of holders of 5% Series B Convertible Cumulative Preferred Stock.(q)		x
10.1	1997 Long-Term Incentive Plan.(a)		x
10.2	Amendment (dated August 10, 2001) to Employment Agreement with William L. Johnson.(f)		x
10.3	Executive Security Agreement.(c)		x
10.4	Split-Dollar Agreement, dated April 14, 2000.(c)		x
10.5	Executive Security Trust, dated April 14, 2000.(c)		x
10.6	Stock Option Plan of 2000, dated April 14, 2000.(d)		x
10.7	Deferred Compensation and Stock Purchase Plan for Non-Employee Directors, effective as of January 1, 2002.(g)		x
10.7.1	First Amendment to the Deferred Compensation and Stock Purchase Plan for Non-Employee Directors, effective as of January 1, 2005.(v)		x
10.8	First Amended and Restated Deferred Compensation and Stock Purchase Plan for Non-Employee Directors amended and restated January 1, 2006.	x	
10.9	2004 Stock Award and Incentive Plan.(j)		x
10.9.1	Form of Employee Stock Option Agreement for stock options granted pursuant to the 2004 Stock Award and Incentive Plan.(p)		x
10.9.2	Form of Employee Performance Share Unit Award Agreement for performance share units granted pursuant to the 2004 Stock Award and Incentive Plan.(p)		x
10.9.3	Form of Restricted Stock Grant Agreement For Directors.(s)		x
10.9.4	Form of Restricted Stock Grant Agreement For Chairmen.(s)		x

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Exhibit No.	Description	Filed	
		Herewith	By Reference
10.9.5	Form of Restricted Stock Unit Award Agreement.(s)		x
10.9.6	Form of Stock Option Agreement pursuant to executive agreements.(s)		x
10.10	Severance Agreement dated June 29, 2005 between SEMCO Energy, Inc. and George A. Schreiber, Jr.(s)		x
10.10.1	Corrected exhibits D and E to Severance Agreement between SEMCO Energy, Inc. and George A. Schreiber, Jr. dated June 29, 2005.(t)		x
10.11	Severance Agreement dated June 29, 2005 between SEMCO Energy, Inc. and Peter F. Clark.(s)		x
10.12	Severance Agreement dated June 29, 2005 between SEMCO Energy, Inc. and Eugene N. Dubay.(s)		x
10.13	Severance Agreement dated June 29, 2005 between SEMCO Energy, Inc. and Michael V. Palmeri.(s)		x
10.14	Severance Agreement dated June 29, 2005 between SEMCO Energy, Inc. and Lance S. Smotherman.(s)		x
10.15	Change in Control Severance Agreement between SEMCO Energy, Inc. and Mark T. Prendeville dated June 29, 2005.(s)		x
10.16	Employment Agreement dated July 8, 2004 between SEMCO Energy, Inc. and Doris Friedrich Galvin.(n)		x
10.17	Severance and Consulting Agreement between SEMCO Energy, Inc. and Doris F. Galvin effective February 17, 2005.(o)		x
10.18	Short Term Incentive Plan effective January 1, 2005.(p)		x
10.18.1	2006 Target Bonuses under the Company's Short-Term Incentive Plan.	x	
10.19	2004 Supplemental Executive Retirement Plan.(p)		x
10.20	Non-Employee Director Compensation Summary.(s)		x
10.21	Base Salaries for Named Executive Officers.	x	
10.22	Second Amended and Restated Credit Agreement, dated as of September 15, 2005 by and among SEMCO Energy, Inc. as the Company, the various financial institutions as party thereto, as lenders, and LaSalle Bank Midwest National Association, a national banking association, as Administrative Agent, National City Bank of the Midwest, a national banking association, as Syndication Agent, U.S. Bank, N.A., as Documentation Agent and LaSalle Bank Midwest National Association, a national banking association, as Arranger (the "Second Amended and Restated Credit Agreement").(u)		x
10.22.1	First Amendment to Second Amended and Restated Credit Agreement, dated February 10, 2006.	x	
10.22.2	Letter Agreement between SEMCO Energy, Inc. and LaSalle Bank Midwest National Association, as Swing Line Lender under the Second Amended and Restated Credit Agreement, dated February 15, 2006.	x	
10.23	Gas Sales Agreement between Marathon Oil Company and Alaska Pipeline Company dated as of May 1, 1988.(v)		x
10.23.1	First Amendment, dated as of December 20, 1989, to Gas Purchase Agreement Between Marathon Oil Company and Alaska Pipeline Company dated May 1, 1988.(v)		x
10.23.2	Second Amendment, dated as of November 19, 1991, to Gas Purchase Agreement Between Marathon Oil Company and Alaska Pipeline Company dated May 1, 1988.(v)		x

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Exhibit No.	Description	Filed	
		Herewith	By Reference
10.24	Gas Sales Agreement between Union Oil Company of California and Alaska Pipeline Company effective November 17, 2000.	x	
10.24.1	Addendum No. 1, effective as of November 15, 2001, to Gas Sales Agreement between Union Oil Company of California and Alaska Pipeline Company.	x	
10.25	Gas Sales Agreement between Anadarko Petroleum Corporation, Phillips Alaska, Inc. and Alaska Pipeline Company effective January 1, 2002.	x	
10.26	Assignment Approval (dated as of December 26, 2002) by Alaska Pipeline Company and Joinder and Ratification by Aurora Gas, LLC of the Gas Sales Agreement between Anadarko Petroleum Corporation, Phillips Alaska, Inc. and Alaska Pipeline Company effective January 1, 2002.	x	
10.27	Assignment Approval (dated as of January 13, 2003) by Alaska Pipeline Company and Joinder and Ratification by Aurora Gas, LLC of the Gas Sales Agreement between Anadarko Petroleum Corporation, Phillips Alaska, Inc. and Alaska Pipeline Company effective January 1, 2002.	x	
10.28	Gas Purchase Contract between Shell Oil Company and Alaska Pipeline Company dated as of December 20, 1982.	x	
10.28.1	Letter Agreement No. 1 dated May 24, 1983 amending the Gas Purchase Contract between Shell Oil Company and Alaska Pipeline Company dated as of December 20, 1982.	x	
10.28.2	Letter Agreement between Shell Western E&P Inc. and Alaska Pipeline Company dated January 26, 1988 amending the Gas Purchase Contract between Shell Oil Company and Alaska Pipeline Company dated as of December 20, 1982.	x	
10.29	Partial Assignment of the Gas Purchase Contract between Shell Oil Company and Alaska Pipeline Company dated as of December 20, 1982, as amended, from Shell Western E&P Inc. to ARCO Alaska, Inc. effective October 1, 1989.	x	
10.30	Agreement between Alaska Pipeline Company and Shell Western E&P Inc. dated November 15, 1991, to amend a retained interest in the Gas Purchase Contract between Shell Oil Company and Alaska Pipeline Company dated as of December 20, 1982, as amended.	x	
10.31	Agreement between Alaska Pipeline Company and ARCO Alaska, Inc. dated November 15, 1991, to amend an assigned interest in the Gas Purchase Contract between Shell Oil Company and Alaska Pipeline Company dated as of December 20, 1982, as amended.	x	
10.32	Partial Assignment of Gas Purchase Contract between Shell Oil Company and Alaska Pipeline Company dated as of December 20, 1982, as amended, from Shell Western E&P Inc. to Chevron U.S.A. Inc. effective January 1, 1993.	x	
10.33	Assignment and Conveyance of the retained interest in the Gas Purchase Contract between Shell Oil Company and Alaska Pipeline Company dated as of December 20, 1982, as amended, from Shell Western E&P Inc. to the Municipality of Anchorage d/b/a Municipal Light & Power effective September 1, 1996.	x	
10.34	Partial Assignment of Gas Purchase Contract between Shell Oil Company and Alaska Pipeline Company dated as of December 20, 1982, as amended, from ARCO Alaska, Inc. to CH-Twenty, Inc. effective December 27, 1996.	x	

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Exhibit No.	Description	Filed	
		Herewith	By Reference
10.35	Partial Assignment of Gas Purchase Contract between Shell Oil Company and Alaska Pipeline Company dated as of December 20, 1982, as amended, from CH-Twenty, Inc. to ARCO Beluga, Inc. effective January 7, 1997.	x	
12.1	Ratio of Earnings to Fixed Charges.	x	
12.2	Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.	x	
14	Code of Business Conduct and Ethics approved February 20, 2003.(k)		x
21	Subsidiaries of the Registrant.	x	
23	Consent of Independent Registered Public Accounting Firm.	x	
31.1	CEO Certification as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	x	
31.2	CFO Certification as adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	x	
32.1	CEO and CFO Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	x	
99.1	Proxy Statement with respect to SEMCO Energy, Inc.'s 2006 Annual Meeting of Common Shareholders.(w)		x

Key to Exhibits Incorporated by Reference

- (a) Filed with SEMCO Energy, Inc.'s 1997 Proxy Statement, filed March 6, 1997, File No. 0-8503.
- (b) Filed with SEMCO Energy, Inc.'s Form 10-K for the fiscal year ended December 31, 1996, filed March 31, 1997, File No. 0-8503.
- (c) Filed with SEMCO Energy, Inc.'s Form 10-Q for the quarter ended September 30, 2000, filed November 13, 2000, File No. 001-15565.
- (d) Filed with SEMCO Energy, Inc.'s Form 10-K for the fiscal year ended December 31, 2000, filed March 30, 2001, File No. 001-15565.
- (e) Filed with SEMCO Energy, Inc.'s Form 8-K filed June 21, 2001, File No. 001-15565.
- (f) Filed with SEMCO Energy, Inc.'s Form 10-Q for the quarter ended September 30, 2001, filed November 13, 2001, File No. 001-15565.
- (g) Filed with SEMCO Energy, Inc.'s Form 10-K for the fiscal year ended December 31, 2001, filed March 27, 2002, File No. 001-15565.
- (h) Filed with SEMCO Energy, Inc.'s Form 8-K filed September 20, 2002, File No. 001-15565.
- (i) Filed with SEMCO Energy, Inc.'s Registration Statement, Form S-4, No. 333-107200, filed July 21, 2003.
- (j) Filed as Appendix A to SEMCO Energy, Inc.'s 2004 Proxy Statement, filed April 6, 2004, pursuant to Rule 14a-6 of the Exchange Act, File No. 001-15565.
- (k) Filed with SEMCO Energy, Inc.'s Form 10-K for the fiscal year ended December 31, 2003, filed March 4, 2004, File No. 001-15565.
- (l) Filed with SEMCO Energy, Inc.'s Form 10-Q for the quarter ended March 31, 2004, filed May 7, 2004, File No. 001-15565.
- (m) Filed with SEMCO Energy, Inc.'s Form 10-Q for the quarter ended June 30, 2004, filed August 9, 2004, File No. 001-15565.
- (n) Filed with SEMCO Energy, Inc.'s Form 10-Q for the quarter ended September 30, 2004, filed November 9, 2004, File No. 001-15565.

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- (o) Filed with SEMCO Energy, Inc.'s Form 8-K filed February 18, 2005, File No. 001-15565.
- (p) Filed with SEMCO Energy, Inc.'s Form 10-K for the fiscal year ended December 31, 2004, filed March 8, 2005, File No. 001-15565.
- (q) Filed with SEMCO Energy, Inc.'s Form 8-K filed March 17, 2005, File No. 001-15565.
- (r) Filed with SEMCO Energy, Inc.'s Registration Statement, Form S-3, No. 333-124005, filed April 11, 2005.
- (s) Filed with SEMCO Energy, Inc.'s Form 8-K filed July 1, 2005, File No. 001-15565.
- (t) Filed with SEMCO Energy, Inc.'s Form 10-Q for the quarter ended June 30, 2005, filed August 3, 2005, File No. 001-15565.
- (u) Filed with SEMCO Energy, Inc.'s Form 8-K filed September 19, 2005, File No. 001-15565.
- (v) Filed with SEMCO Energy, Inc.'s Form 10-Q/ A for the quarter ended September 30, 2005, filed January 10, 2006, File No. 001-15565.
- (w) To be filed in April 2006, pursuant to Rule 14a-6 of the Exchange Act, File No. 001-15565.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Semco Energy, Inc.

By

/s/ George A. Schreiber, Jr.
George A. Schreiber, Jr.
President and Chief Executive Officer
(principal executive officer)

Date: March 14, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ George A. Schreiber, Jr.	President, Chief Executive Officer and Director	March 14, 2006
George A. Schreiber, Jr.		
/s/ Michael V. Palmeri	Senior Vice President, Treasurer and Chief Financial Officer (principal financial and accounting officer)	March 14, 2006
Michael V. Palmeri		
/s/ John M. Albertine	Director and Chairman	March 14, 2006
John M. Albertine		
/s/ John T. Ferris	Director	March 14, 2006
John T. Ferris		
/s/ Harvey I. Klein	Director	March 14, 2006
Harvey I. Klein		
/s/ Paul F. Naughton	Director	March 14, 2006
Paul F. Naughton		
/s/ Edwina Rogers	Director	March 14, 2006
Edwina Rogers		
/s/ Ben A. Stevens	Director	March 14, 2006
Ben A. Stevens		
/s/ Donald W. Thomason	Director	March 14, 2006
Donald W. Thomason		
/s/ John C. Van Roden, Jr.	Director	March 14, 2006
John C. Van Roden, Jr.		

CERTIFICATION

I, George A. Schreiber, Jr., certify that:

1. I have reviewed this Annual Report on Form 10-K of SEMCO Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2006

/s/George A. Schreiber, Jr.

George A. Schreiber, Jr.
President and Chief Executive Officer
SEMCO Energy, Inc.

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CERTIFICATION

I, Michael V. Palmeri, certify that:

1. I have reviewed this Annual Report on Form 10-K of SEMCO Energy, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2006

/s/ Michael V. Palmeri

Michael V. Palmeri
Senior Vice President and
Chief Financial Officer
SEMCO Energy, Inc.

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CERTIFICATION

The undersigned, as the President and Chief Executive Officer, and as the Senior Vice President and Chief Financial Officer of SEMCO Energy, Inc., respectively, certify that, to the best of their knowledge and belief, the Annual Report on Form 10-K for the period ended December 31, 2005, which accompanies this certification fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of SEMCO Energy, Inc. at the dates and for the periods indicated. The foregoing certifications are made pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) and shall not be relied upon for any other purpose.

This 14th day of March, 2006.

/s/ George A. Schreiber, Jr.

George A. Schreiber, Jr.
President and Chief Executive Officer

/s/ Michael V. Palmeri

Michael V. Palmeri
Senior Vice President and
Chief Financial Officer

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Section A-4 of Part II of the Michigan
Public Service Commission's Rate Case
Filing Requirements is contained in
Volume 4.

Case No. U-14893

SEMCO ENERGY, INC.												
Tax due to/from affiliates												
Based on 9/05 Original Return for 2004												
				ENSTAR	Alaska							
	SEMCO	MPSC	Battle Creek	Natural Gas	Pipeline		SEMCO	SEMCO	SEMCO	Sub-Surface	Hotflame	K & B
	<u>Energy, Inc.</u>	<u>Gas Co. Div.</u>	<u>Gas Co. Div.</u>	<u>Division</u>	<u>Company</u>	<u>NORSTAR</u>	<u>Ventures</u>	<u>Pipeline</u>	<u>Gas Storage</u>	<u>Construction</u>	<u>Gas</u>	<u>Construction</u>
Taxable Income-1120 Line 30	(33,392,604)	17,554,327	2,842,074	2,497,368	(4,318,980)	60,814	(552,496)	1,140,667	3,222,503	(2,767,047)	383,289	0
Consolidating adj. - contrib.	157,490	7,383	21,750	18,951	0	0	0	0	0	346	722	0
Consol adj - contrib - carry on parent	2,168	0	0	0	0	0	0	0	0	(346)	(722)	0
Consolidated taxable income per return	(33,232,946)	17,561,710	2,863,824	2,516,319	(4,318,980)	60,814	(552,496)	1,140,667	3,222,503	(2,767,047)	383,289	0
System clerical error in tax calculation - NOL												
Clerical error in tax calc - carry on parent												
Consolidated Taxable Income (for tax calc)	(33,232,946)	17,561,710	2,863,824	2,516,319	(4,318,980)	60,814	(552,496)	1,140,667	3,222,503	(2,767,047)	383,289	0
Tax Rate	0.3500	0.3500	0.3500	0.3500	0.3500	0.3500	0.3500	0.3500	0.3500	0.3500	0.3500	0.3500
Regular Tax	(11,631,531)	6,146,599	1,002,338	880,712	(1,511,643)	21,285	(193,374)	399,233	1,127,876	(968,466)	134,151	0
Form 8697 Tax (Lookback calc.)												
AMT Credit for prior AMT tax												
AMT Tax												
Total Tax	(11,631,531)	6,146,599	1,002,338	880,712	(1,511,643)	21,285	(193,374)	399,233	1,127,876	(968,466)	134,151	0
Late Payment Penalty	0	0	0	0	0	0	0	0	0	0	0	0
Total Tax & Penalty	(11,631,531)	6,146,599	1,002,338	880,712	(1,511,643)	21,285	(193,374)	399,233	1,127,876	(968,466)	134,151	0
Paid for 2004:												
Overpayment applied from 2003	821,287											
1Q	0											
2Q	0											
3Q	0											
4Q	3,500,000											
2004 Ext. Pmt	0											
Total	4,321,287	0	0	0	0	0	0	0	0	0	0	0
Fuel Tax Credit (enter as positive amt.)										13,588		0
Due to/(fr) SEMCO Energy, Inc.	(5,412,750)	6,146,599	1,002,338	880,712	(1,511,643)	21,285	(193,374)	399,233	1,127,876	(982,054.00)	134,151	0.00
Advance Pmts. Received [to/(fr) SEMCO]	0	0	0									
2004 Settle-Up [to/(fr) SEMCO]	(5,412,750)	6,146,599	1,002,338	880,712	(1,511,643)	21,285	(193,374)	399,233	1,127,876	(982,054.00)	134,151	0.00

SEMCO ENERGY, INC.								
Tax due to/from affiliates								
Based on 9/05 Original Return for 2004								
	Iowa	Flint	Long's					
	<u>Pipeline</u>	<u>Construction</u>	<u>Underground</u>	<u>Aretech</u>	<u>EnStructure</u>	<u>Total</u>		
Taxable Income-1120 Line 30	(2,108,413)	(565,137)	734,179	961,841	(3,613,536)	(17,921,151)		
Consolidating adj. - contrib.	0	1,100	0	0	0	207,742		
Consol adj - contrib - carry on parent	0	(1,100)	0	0	0	0		
						0		
Consolidated taxable income per return	(2,108,413)	(565,137)	734,179	961,841	(3,613,536)	(17,713,409)		
System clerical error in tax calculation - NOL	0					0	(A)	
Clerical error in tax calc - carry on parent	0					0		
Consolidated Taxable Income (for tax calc)	(2,108,413)	(565,137)	734,179	961,841	(3,613,536)	(17,713,409)	True-up tax rate	
Tax Rate	0.3500	0.3500	0.3500	0.3500	0.3500		0.35	
Regular Tax	(737,945)	(197,798)	256,963	336,644	(1,264,738)	(6,199,694)	0	
Form 8697 Tax (Lookback calc.)		0				0		
AMT Credit for prior AMT tax						0		
AMT Tax						0		
Total Tax	(737,945)	(197,798)	256,963	336,644	(1,264,738)	(6,199,694)	(6,199,694)	
Late Payment Penalty	0	0	0	0	0	0		
Total Tax & Penalty	(737,945)	(197,798)	256,963	336,644	(1,264,738)	(6,199,694)	(6,199,694.00)	Total tax
					5,431,837		4,917,307.51	Trans to dfd. 12/04
Paid for 2004:							1,282,386.49	Trans to dfd. 9/05
Overpayment applied from 2003						821,287		
1Q						0		
2Q						0		
3Q						0		
4Q						3,500,000		
2004 Ext. Pmt						0		
Total	0	0	0	0	0	4,321,287		
Fuel Tax Credit (enter as positive amt.)	0	5,499	0			19,087		
Due to/(fr) SEMCO Energy, Inc.	(737,945.00)	(203,297.00)	256,963.00	336,644	(1,264,738.00)	0		
					5,412,750	0	O/P applied to 2005	
						4,340,374	O/P to be refunded	
Advance Pmts. Received [to/(fr) SEMCO]								
2004 Settle-Up [to/(fr) SEMCO]	(737,945.00)	(203,297.00)	256,963.00	336,644	(1,264,738.00)			

SEMCO ENERGY GAS COMPANY - MPSC DIVISION							
ABAF							
Y.E. 12-31-04							
		ACTUAL	ACTUAL				
		AS BOOKED	AS FILED			Tax Effect	
		Y.E. 12-31-04	Y.E. 12-31-04	DIFFERENCE		@ 35%	
		DR <CR>	DR <CR>	DR <CR>		DR <CR>	New
							Acct. No.
PRE-TAX BOOK (INCOME)/LOSS	1	(14,418,863)	(14,418,863)	0		0	92120
SCHEDULE M ADJUSTMENTS:							
PERMANENT DIFFERENCES:							
MEAL ALLOWANCE	2	(36,122)	(37,071)	949		332	92120
LOBBYING EXPENSES	3	0	0	0		0	92120
PENALTIES		(8,358)	(8,358)	0		0	92120
CLUB DUES AND AUTO EXPENSES	5	(6,238)	0	(6,238)		(2,183)	92120
NON-TAXABLE MEDICARE SUBSIDY - RET MED		371,115	371,115	0		0	92120
AMORTIZATION OF ACQUISITION COSTS	A	0	0	0		0	
						(1,851)	
TEMPORARY DIFFERENCES:							
TAX DEPR. GREATER THAN BOOK	22	9,981,446	8,896,205	1,085,241		379,834	46510
NGV CLEAN AIR ACT ALLOWANCE		0	0	0		0	
PREPAID PROPERTY TAXES	7	(109,989)	(977,978)	867,989		303,796	45960
PROPERTY TAX SEC. 481 (a) ADJ.		0	0	0		0	
CIAC- MAINS	18	(4,773,590)	(5,245,398)	471,808		165,133	34100
CIAC- SERVICES	18	0	0	0		0	34100
CIAC-ADVANCES FOR STEP REVENUES	18	0	0	0		0	
AMORTIZATION OF DEBT EXPENSE		(245,316)	(245,316)	0		0	
ADR REMOVAL COSTS	24	284,793	139,233	145,560		50,946	46510
GAS IN STORAGE ADJ. - FIFO	11	0	(276,729)	276,729		96,855	18400
GAS IN STORAGE ADJ.-NEW WRITEOFF		(52,260)	(52,260)	0		0	
LOSS ON REACQ. DEBT 15%		0	0	0		0	
LOSS ON REACQ. DEBT 10% + HARRIS	13	0	0	0		0	
GCR/SUPPLIER REFUND RECOVERIES	8	(6,119,971)	(5,983,282)	(136,689)		(47,841)	46510
GAIN(LOSS) ON DISPOSAL OF ASSETS	23	628,162	1,011,846	(383,684)		(134,289)	46510
BAD DEBT PROVISION VS W/O	6	221,279	221,279	0		0	
IRC SEC. 263A Adj.	21	(239,821)	(11,647)	(228,174)		(79,861)	18400
LIMIT ACCRUED VACATION	16	(70,303)	(187,484)	117,181		41,013	18400
CAPITALIZE INT. SELF/CONST PROP	20	(40,846)	(40,846)	0		0	34100
TAKE-OR-PAY PAYMENTS		0	0	0		0	
TAKE-OR-PAY ADDITIONAL LIABILT	9	0	0	0		0	
DEFERRED RATE CASE	12	(5,271)	(5,271)	0		0	46510
RESERVE FOR CONTINGENCIES		0	0	0		0	
RETIREE MEDICAL EXPENSE		(743,064)	(743,064)	0		0	46510
FAS 106 EXPENSES (RETIREE MEDICAL)	10	716,770	716,770	0		0	34100
RESERVE FOR INJURIES	14	197,328	197,328	0		0	
RESERVE FOR DEFERRED COMP.		0	0	0		0	34100
ACCRUED SEVERANCE PAY	15	0	0	0		0	
UNCLAIMED DEPOSITS	17	(18,248)	(18,248)	0		0	
ESOT	25	0	0	0		0	46550
ACCRUED PENSIONS	26	(671,305)	(671,305)	0		0	
ACCRUED BONUS	27	0	0	0		0	46510
EARNINGS OF SUBSIDIARY (MI-GAS PROPAN	28	0	0	0		0	
DFD. MANUF. GAS PLANT CLEAN UP		159,017	159,017	0		0	
INTEREST INCOME - AFUDC		0	0	0		0	46510
K. I. Sawyer W/O		0	0	0		0	18400
ACCRUED MEDICAL - IBNR			(344,000)	344,000		120,400	18400
ROUNDING		0	0			0	
TOTAL SCH. M'S		(580,792)	(3,135,464)	2,554,672		895,986	
TAXABLE INCOME		(14,999,655)	(17,554,327)	2,554,672		894,135	
TAX		(5,249,879)	(6,144,014)	894,135	894,135		45120
		(A)	(B)		(A) - (B)		
SEC. 1341 ADJUSTMENT		0	0	0			
ITC REGULAR		0	0	0			
SUPERFUND TAX		0	0	0			
ITC RECAPTURE		0	0	0			
NET TAX PAYABLE		(5,249,879)	(6,144,014)	894,135	894,135		

2004

Check if: 1 Consolidated return (attach Form 851) ☐ 2 Personal holding company (attach Sch. PH) ☐ 3 Personal service corporation (see instructions) ☐ 4 Schedule M-3 required (attach Sch. M-3) ☒	Use IRS label, otherwise, print or type. Name SEMCO ENERGY, INC. & SUBSIDIARIES Number, street, and room or suite no. If a P.O. box, see page 9 of instructions. 1411 THIRD STREET, SUITE A City or town, state, and ZIP code PORT HURON, MI 48060	B Employer identification number 38-2144267 C Date incorporated 03/03/1977 D Total assets (see page 8 of instructions) \$ 881,216,894.
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E Check if:		(1) Initial return	(2) Final return	(3) Name change	(4) ☒ Address change
Income	1a Gross receipts or sales	650,236,671.		b Less returns and allowances	2,899.
	2 Cost of goods sold (Schedule A, line 8)				
	3 Gross profit. Subtract line 2 from line 1c				
	4 Dividends (Schedule C, line 19)	79.			
	5 Interest	SEE STATEMENT 4.			
	6 Gross rents	725,480.			
	7 Gross royalties	330,493.			
	8 Capital gain net income (attach Schedule D (Form 1120))	NONE			
	9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)	4,360,684.			
	10 Other income (see page 11 of instructions - attach schedule)	SEE STATEMENT 5.			
	11 Total income. Add lines 3 through 10	162,513,152.			
Deductions (See instructions)	12 Compensation of officers (Schedule E, line 4)	3,853,448.			
	13 Salaries and wages (less employment credits)	9,517,592.			
	14 Repairs and maintenance	859,814.			
	15 Bad debts	3,580,912.			
	16 Rents	1,586,692.			
	17 Taxes and licenses	SEE STATEMENT 8.			
	18 Interest	SEE STATEMENT 13.			
	19 Charitable contributions (see page 14 of instructions for 10% limitation)	SEE STATEMENT 15.			
	20 Depreciation (attach Form 4562)	20	50,053,415.		
	21 Less depreciation claimed on Schedule A and elsewhere on return	21a			
	Tax and Payments	22 Depletion			
23 Advertising		417,844.			
24 Pension, profit-sharing, etc., plans		3,754,292.			
25 Employee benefit programs		7,384,908.			
26 Other deductions (attach schedule)		SEE STATEMENT 19.			
27 Total deductions. Add lines 12 through 26		180,226,505.			
28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11		-17,713,354.			
29 Less: a Net operating loss deduction (see page 25 of instructions)		29a	NONE		
b Special deductions (Schedule C, line 20)		29b	55.		
30 Taxable income. Subtract line 29c from line 28 (see instructions if Schedule C, line 12, was completed)		30	-17,713,409.		
31 Total tax (Schedule J, line 11)		31	NONE		
Signatures	32 Payments: a 2003 overpayment credited to 2004	32a	821,287.		
	b 2004 estimated tax payments	32b	3,500,000.		
	c Less 2004 refund applied for on Form 4466	32c	()		
	d Tax deposited with Form 7004	32d	4,321,287.		
	e Credit for tax paid on undistributed capital gains (attach Form 2439)	32e			
	f Credit for Federal tax on fuels (attach Form 4136). See instructions	32f			
	g Estimated tax penalty (see page 17 of instructions). Check if Form 2220 is attached	32g	19,087.		
	33 Tax due. If line 32h is smaller than the total of lines 31 and 33, enter amount owed	33	4,340,374.		
	34 Overpayment. If line 32h is larger than the total of lines 31 and 33, enter amount overpaid	34			
	35 Enter amount of line 35 you want: Credited to 2005 estimated tax	35	4,340,374.		
	36 Refunded	36	4,340,374.		

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer: Steven W. Warren Date: 4/15/05 Title: VICE PRESIDENT

May the IRS discuss this return with the preparer shown below (see instructions)? ☐ Yes ☒ No

Preparer's signature	Date	Check if self-employed ☐	Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code	EIN	Phone no	

Note: The corporation is not required to complete Schedules L, M-1, and M-2 if Question 13 on Schedule K is answered "Yes."

Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
Assets		(a)	(b)	(c)	(d)
1	Cash		2,683,269.		2,622,884.
2	Trade notes and accounts receivable	57,404,401.		34,118,128.	
3	Less allowance for bad debts	(2,386,994.)	55,017,407.	(2,247,358.)	31,870,770.
4	Inventories		63,947,541.		69,042,653.
5	U.S. government obligations				
6	Tax-exempt securities (see instructions)				
7	Other current assets (attach schedule)	STMT 51	75,097,892.		75,309,300.
8	Loans to shareholders				
9	Mortgage and real estate loans				
10	Other investments (attach schedule)	STMT 54	6,406,824.		-40,755,999.
11	Buildings and other depreciable assets	762,703,188.		747,175,293.	
12	Less accumulated depreciation	(265,652,093.)	497,051,095.	(257,533,141.)	489,642,152.
13	Depletable assets			896,129.	
14	Less accumulated depletion	()		(896,129.)	
15	Land (net of any amortization)		4,098,789.		4,016,576.
16	Intangible assets (amortizable only)	182,071,768.		160,990,306.	
17	Less accumulated amortization	(29,978,423.)	152,093,345.	(12,396,014.)	148,594,292.
18	Other assets (attach schedule)	STMT 55	98,533,096.		100,874,266.
19	Total assets		954,929,258.		881,216,894.
Liabilities and Shareholders' Equity					
20	Accounts payable		19,052,591.		28,581,114.
21	Mortgages, notes, bonds payable in less than 1 year		81,947,882.		39,300,000.
22	Other current liabilities (attach schedule)	STMT 58	27,265,756.		25,012,077.
23	Loans from shareholders				
24	Mortgages, notes, bonds payable in 1 year or more	STMT 63	528,327,358.		498,426,645.
25	Other liabilities (attach schedule)	STMT 64	123,917,280.		123,811,521.
26	Capital stock: a Preferred stock			51,766.	
27	b Common stock	28,059,438.	28,059,438.	28,344,772.	28,396,538.
28	Additional paid-in capital	STMT 66	207,806,769.		209,638,079.
29	Retained earnings-Appropriated (attach schedule)				
30	Retained earnings - Unappropriated		-61,447,816.		-71,949,080.
31	Adjustments to shareholders' equity (attach schedule)				
32	Less cost of treasury stock		()		()
33	Total liabilities and shareholders' equity		954,929,258.		881,216,894.

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return (See page 20 of instructions)

1	Net income (loss) per books		7	Income recorded on books this year not included on this return (itemize):	
2	Federal income tax per books			Tax-exempt interest \$	
3	Excess of capital losses over capital gains				
4	Income subject to tax not recorded on books this year (itemize):		8	Deductions on this return not charged against book income this year (itemize):	
5	Expenses recorded on books this year not deducted on this return (itemize):			a Depreciation \$	
	a Depreciation \$			b Charitable contributions \$	
	b Charitable contributions \$				
	c Travel and entertainment \$		9	Add lines 7 and 8	
6	Add lines 1 through 5		10	Income (page 1, line 28) - line 6 less line 9	

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)

1	Balance at beginning of year	-61,447,816.	5	Distributions: a Cash	2,115,158.
2	Net income (loss) per books	-8,386,108.		b Stock	
3	Other increases (itemize):			c Property	
			6	Other decreases (itemize): STMT 72	-1.
	SEE STATEMENT 72	1.	7	Add lines 5 and 6	2,115,157.
4	Add lines 1, 2, and 3	-69,833,923.	8	Balance at end of year (line 4 less line 7)	-71,949,080.

2004

Check if: Consolidated return (attach Form 851) ☐ 2 Personal holding co. (attach Sch. PH) ☐ 3 Personal service corp. (see instructions) ☐ 4 Schedule M-3 required (attach Sch. M-3) ☒	Use IRS label, Other-wise, print or type.	Name MPSC DIVISION Number, street, and room or suite no. If a P.O. box, see page 9 of instructions. City or town, state, and ZIP code	B Employer identification number C Date incorporated D Total assets (see page 8 of instructions) \$ 311,673,978.
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E Check if: (1) Initial return (2) Final return (3) Name change (4) Address change			
1a Gross receipts or sales 331,318,351.	b Less returns and allowances	c Bal ▶	1c 331,318,351.
2 Cost of goods sold (Schedule A, line 8)			2 256,636,012.
3 Gross profit. Subtract line 2 from line 1c			3 74,682,339.
4 Dividends (Schedule C, line 19)			4
5 Interest SEE STATEMENT 1			5 190,718.
6 Gross rents			6 1,698.
7 Gross royalties			7
8 Capital gain net income (attach Schedule D (Form 1120))			8
9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)			9 -970,565.
10 Other income (see page 11 of instructions - attach schedule) SEE STATEMENT 1			10 2,388.
11 Total income. Add lines 3 through 10 ▶			11 73,906,578.
12 Compensation of officers (Schedule E, line 4)			12
13 Salaries and wages (less employment credits)			13 2,868,474.
14 Repairs and maintenance			14 94,329.
15 Bad debts			15 1,408,793.
16 Rents			16 497,034.
17 Taxes and licenses SEE STATEMENT 2			17 6,565,383.
18 Interest			18 8,523,722.
19 Charitable contributions (see page 14 of instructions for 10% limitation) SEE STATEMENT 3			19 7,383.
20 Depreciation (attach Form 4562) 20 20,631,690.			
21 Less depreciation claimed on Schedule A and elsewhere on return 21a			21b 20,631,690.
22 Depletion			22
23 Advertising			23 23,909.
24 Pension, profit-sharing, etc., plans			24 1,008,726.
25 Employee benefit programs			25 2,919,043.
26 Other deductions (attach schedule) SEE STATEMENT 3			26 11,803,765.
27 Total deductions. Add lines 12 through 26 ▶			27 56,352,251.
28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11			28 17,554,327.
29 Less: a Net operating loss deduction (see page 16 of instructions) 29a			
b Special deductions (Schedule C, line 20) 29b			29c
30 Taxable income. Subtract line 29c from line 28 (see instructions if Schedule C, line 12, was completed)			30 17,554,327.
31 Total tax (Schedule J, line 11)			31 NONE
32 Payments: a 2003 overpayment credited to 2004 32a			
b 2004 estimated tax payments 32b			
c Less 2004 refund applied for on Form 4465 32c			
d Bal ▶ 32d			
e Tax deposited with Form 7004 32e			
f Credit for tax paid on undistributed capital gains (attach Form 2439) 32f			
g Credit for Federal tax on fuels (attach Form 4136). See instructions 32g			32h
33 Estimated tax penalty (see page 17 of instructions). Check if Form 2220 is attached ☐			33
34 Tax due. If line 32h is smaller than the total of lines 31 and 33, enter amount owed			34
35 Overpayment. If line 32h is larger than the total of lines 31 and 33, enter amount overpaid			35
36 Enter amount of line 35 you want: Credited to 2005 estimated tax ▶ Refunded ▶			36

Sign ere	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.		May the IRS discuss this return with the preparer shown below (see instructions)? Yes ☐ No ☒	
	Signature of officer	Date	Title	
Paid Preparer's Use Only	Preparer's signature ▶	Date	Check if self-employed ☐	Preparer's SSN or PTIN
	Firm's name (or yours if self-employed), address, and ZIP code ▶	EIN	Phone no	

Form 1120 (2004)

Note: The corporation is not required to complete Schedules L, M-1, and M-2 if Question 13 on Schedule K is answered "Yes."

Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
Assets		(a)	(b)	(c)	(d)
Cash			34,710.		1,387,924.
2a Trade notes and accounts receivable	27,960,232.			25,503,262.	
b Less allowance for bad debts	(841,014.)	27,119,218.		(619,735.)	24,883,527.
3 Inventories		50,080,838.			55,651,269.
4 U.S. government obligations					
5 Tax-exempt securities (see instructions)					
6 Other current assets (attach schedule)	STMT 5	43,943,984.			47,223,528.
7 Loans to shareholders					
8 Mortgage and real estate loans					
9 Other investments (attach schedule)					
10a Buildings and other depreciable assets	387,523,500.			398,486,485.	
b Less accumulated depreciation	(154,155,320.)	233,368,180.		(164,207,905.)	234,278,580.
11a Depletable assets					
b Less accumulated depletion	()			()	
12 Land (net of any amortization)		1,099,508.			1,096,002.
13a Intangible assets (amortizable only)	13,431,597.			13,538,943.	
b Less accumulated amortization	(4,345,902.)	9,085,695.		(4,360,847.)	9,178,096.
14 Other assets (attach schedule)	STMT 5	-73,345,473.			-62,024,948.
15 Total assets		291,386,660.			311,673,978.
Liabilities and Shareholders' Equity					
16 Accounts payable		5,232,925.			12,987,629.
17 Mortgages, notes, bonds payable in less than 1 year					
18 Other current liabilities (attach schedule)	STMT 5	19,161,738.			21,743,980.
19 Loans from shareholders					
20 Mortgages, notes, bonds payable in 1 year or more		70,000,000.			82,850,000.
21 Other liabilities (attach schedule)	STMT 6	45,480,096.			45,613,523.
22 Capital stock: a Preferred stock					
b Common stock	7,477,130.	7,477,130.		7,477,130.	7,477,130.
23 Additional paid-in capital		50,983,855.			50,983,855.
24 Retained earnings-Appropriated (attach schedule)					
25 Retained earnings - Unappropriated		93,050,916.			90,017,861.
26 Adjustments to shareholders' equity (attach schedule)					
27 Less cost of treasury stock		()		()	
28 Total liabilities and shareholders' equity		291,386,660.			311,673,978.

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return (See page 20 of instructions)

1 Net income (loss) per books		7 Income recorded on books this year not included on this return (itemize):	
2 Federal income tax per books		Tax-exempt interest \$	
3 Excess of capital losses over capital gains			
4 Income subject to tax not recorded on books this year (itemize):		8 Deductions on this return not charged against book income this year (itemize):	
5 Expenses recorded on books this year not deducted on this return (itemize):		a Depreciation \$	
a Depreciation \$		b Charitable contributions . \$	
b Charitable contributions . \$			
c Travel and entertainment . \$		9 Add lines 7 and 8	
6 Add lines 1 through 5		10 Income (page 1, line 28) - line 6 less line 9	

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)

1 Balance at beginning of year	93,050,916.	5 Distributions: a Cash	12,850,000.
2 Net income (loss) per books	9,816,945.	b Stock	
3 Other increases (itemize):		c Property	
		6 Other decreases (itemize):	
		7 Add lines 5 and 6	12,850,000.
4 Add lines 1, 2, and 3	102,867,861.	8 Balance at end of year (line 4 less line 7)	90,017,861.

Form 1120 (2004)

	COMBINED	ELIMINATIONS	ADJUSTMENTS	SEMCO ENERGY, INC. & SUBSIDIARIES
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Consolidated Schedules

1120 Page 1

1 a	Gross receipts or sales	657,302,132.	-7,065,461.	650,236,671.
1 b	Less returns and allowances	2,899.		2,899.
1 c	Balance	657,299,233.	-7,065,461.	650,233,772.
2	Cost of goods sold	502,857,414.	-7,065,461.	495,791,953.
3	Gross profit	154,441,819.		154,441,819.
4	Dividends	79.		79.
5	Interest	22,609,752.	-21,884,272.	725,480.
6	Gross rents	330,493.		330,493.
7	Gross royalties			
8	Capital gain net income	28,371.	-28,371.	NONE
9	Net gain or (loss)			
	from Form 4797	4,332,313.	28,371.	4,360,684.
10	Other income	2,654,597.		2,654,597.
11	Total income	184,397,424.	-21,884,272.	162,513,152.
12	Compensation of officers	3,853,448.		3,853,448.
13	Salaries and wages	9,517,593.	-1.	9,517,592.
14	Repairs and maintenance	859,814.		859,814.
15	Bad debts	3,580,912.		3,580,912.
16	Rents	1,586,692.		1,586,692.
17	Taxes and licenses	11,869,020.		11,869,020.
18	Interest	66,734,395.	-21,884,272.	44,850,123.
19	Charitable contributions	207,742.	-207,742.	NONE
20	Depreciation	50,053,415.		50,053,415.
21 a	Less depreciation claimed elsewhere			
21 b	Net depreciation	50,053,415.		50,053,415.
22	Depletion			
23	Advertising	417,844.		417,844.
24	Pension, profit-sharing, etc. plans	3,754,292.		3,754,292.
25	Employee benefit programs	7,384,908.		7,384,908.
26	Other deductions	42,498,445.		42,498,445.
27	Total deductions	202,318,520.	-21,884,272.	180,226,505.
28	Taxable income before			
	NOL & Spec. Deductions	-17,921,096.	NONE	207,742.
29 a	NOL deduction	NONE	NONE	NONE
29 b	Special deductions	55.		55.
30	Taxable income	-17,921,151.	NONE	207,742.

	SEMCO ENERGY, INC	ALASKA PIPELINE COMPANY	SEMCO INFORMATION TECHNOLOGY, INC.	SEMCO GEORGIA CONSTRUCTION COMPANY	HOTFLAME GAS, INC.	SEMCO IOWA CONSTRUCTION COMPANY	K & B CONSTRUCTION, INC.	SEMCO MICHIGAN CONSTRUCTION COMPANY
Consolidated Schedules								
1120 Page 1	38-2144267	74-1363231	38-3533996	58-0691440	38-3386501	31-1644535	48-1113672	38-3365134
1 a Gross receipts or sales	510,711,305.	88,788,694.	9,168,743.	15,885,615.	5,490,518.	10,390,151.		14,098,893
1 b Less returns and allowances					2,899.			
1 c Balance	510,711,305.	88,788,694.	9,168,743.	15,885,615.	5,487,619.	10,390,151.		14,098,893
2 Cost of goods sold	382,458,277.	77,602,813.	5,103,775.	11,258,885.	4,380,435.	9,664,377.		11,941,480
3 Gross profit	128,253,028.	11,185,881.	4,064,968.	4,626,730.	1,107,184.	725,774.		2,157,413
4 Dividends	79.							
5 Interest	21,813,699.		5,585.		17,489.			60
6 Gross rents	138,787.							
7 Gross royalties								
8 Capital gain net income					5,597.	22,774.		
9 Net gain or (loss)								
from Form 4797	-1,677,503.	-39,764.	-171,135.	1,053,824.	938.	1,025,171.		2,855,939
10 Other income	148,290.			-4,313.	33,070.	-32,322.		50
11 Total income	148,676,380.	11,146,117.	3,899,418.	5,676,241.	1,164,278.	1,741,397.		5,013,462
12 Compensation of officers	2,644,240.		165,916.	257,053.		122,057.		102,740
13 Salaries and wages	5,851,113.	10,927.	801,435.	997,842.	186,224.	265,694.		663,616
14 Repairs and maintenance	507,313.	4,649.		297,297.		10,723.		26,082
15 Bad debts	1,865,432.		7,920.	236,530.	95,037.	75,221.		101,750
16 Rents	1,311,309.			156,136.				
17 Taxes and licenses	10,442,180.	343,296.	322,102.	178,004.	55,137.	92,457.		284,724
18 Interest	62,776,613.	2,929,513.	7,580.	78,868.	56,909.	232,155.		212,955
19 Charitable contributions	205,574.			1,100.	722.			346
20 Depreciation	39,300,549.	6,710,518.	373,309.	607,965.	207,822.	648,725.		884,948
21 a Less depreciation claimed elsewhere								
21 b Net depreciation	39,300,549.	6,710,518.	373,309.	607,965.	207,822.	648,725.		884,948
22 Depletion								
23 Advertising	284,390.		5,374.	81,485.	40,424.	1,237.		4,259
24 Pension, profit-sharing, etc. plans	3,691,420.		48,594.	1,250.	12,228.			
25 Employee benefit programs	6,090,263.	108.	261,178.	586,473.	9,406.	324,812.		154,299
26 Other deductions	24,204,764.	5,466,086.	944,169.	2,761,375.	117,080.	2,076,729.		5,344,790
27 Total deductions	159,175,160.	15,465,097.	2,937,577.	6,241,378.	780,989.	3,849,810.		7,780,509
28 Taxable income before								
NOL & Spec. Deductions	-10,498,780.	-4,318,980.	961,841.	-565,137.	383,289.	-2,108,413.		-2,767,047
29 a NOL deduction	NONE			NONE				
29 b Special deductions	55.							
30 Taxable income	-10,498,835.	-4,318,980.	961,841.	-565,137.	383,289.	-2,108,413.		-2,767,047

	LONG'S UNDERGROUND TECHNOLOGIES, INC.	SEMCO CONSTRUCTION PARENT COMPANY	NORSTAR PIPELINE COMPANY, INC.	SEMCO ENERGY VENTURES, INC.	SEMCO GAS STORAGE COMPANY	SEMCO PIPELINE COMPANY
Consolidated Schedules	INC.					
1120 Page 1	31-1668568	38-3548669	92-0175356	38-2683829	38-2882586	38-2882585
1 a Gross receipts or sales	-5,686.		468,482.	31,436.	6,890.	2,267,091.
1 b Less returns and allowances						
1 c Balance	-5,686.		468,482.	31,436.	6,890.	2,267,091.
2 Cost of goods sold	377,099.			70,273.		
3 Gross profit	-382,785.		468,482.	-38,837.	6,890.	2,267,091.
4 Dividends						
5 Interest	42,937.	5,035.		461,033.	145,267.	118,647.
6 Gross rents	490.			191,216.		
7 Gross royalties						
8 Capital gain net income		NONE				
9 Net gain or (loss)						
from Form 4797	1,324,194.	-39,351.				
10 Other income	7,022.	10,913.	-10,303.	-499,842.	3,075,346.	-73,314.
11 Total income	991,858.	-23,403.	458,179.	113,570.	3,227,503.	2,312,424.
12 Compensation of officers		561,442.				
13 Salaries and wages	26,607.	490,066.	101,850.	122,219.		
14 Repairs and maintenance	13,750.					
15 Bad debts	116,983.	1,082,039.				
16 Rents	11,090.	108,157.				
17 Taxes and licenses	-33,682.	38,270.	6,330.	11,062.	5,000.	124,140.
18 Interest	1,065.	407,640.		31,097.		
19 Charitable contributions						
20 Depreciation	318,217.	10,239.		150,092.		841,031.
21 a Less depreciation claimed elsewhere						
21 b Net depreciation	318,217.	10,239.		150,092.		841,031.
22 Depletion				675.		
23 Advertising						
24 Pension, profit-sharing, etc. plans		800.				
25 Employee benefit programs	116,308.	-157,939.				206,586.
26 Other deductions	-312,659.	1,049,419.	289,185.	350,921.		
27 Total deductions	257,679.	3,590,133.	397,365.	666,066.	5,000.	1,171,757.
28 Taxable income before						
NOL & Spec. Deductions	734,179.	-3,613,536.	60,814.	-552,496.	3,222,503.	1,140,667.
29 a NOL deduction	NONE	NONE				
29 b Special deductions						
30 Taxable income	734,179.	-3,613,536.	60,814.	-552,496.	3,222,503.	1,140,667.

COMBINED	ELIMINATIONS	ADJUSTMENTS	SEMCO ENERGY, INC. & SUBSIDIARIES
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Consolidated Schedules

Sch. L - Ending

Assets				
1	Cash	2,622,884.		2,622,884.
2 a	Trade Notes and A/R	34,118,128.		34,118,128.
b	Less allowance for Bad Debts	2,247,358.		2,247,358.
3	Inventories	69,042,653.		69,042,653.
4	US Government Obligations			
5	Tax-exempt Securities			
6	Other Current Assets	75,309,300.		75,309,300.
7	Loans to Stockholders			
8	Mtge and Real Estate Loans			
9	Other Investments	112,351,948.	-153,107,947.	-40,755,999.
10 a	Buildings and Other Depreciable			
Assets	747,175,293.			747,175,293.
b	Less Accum. Depreciation	257,533,141.		257,533,141.
11 a	Depletable Assets	896,129.		896,129.
b	Less. Accum. Depletion	896,129.		896,129.
12	Land (net of any Amortization)	4,016,575.	1.	4,016,576.
13 a	Intangible Assets	160,990,306.		160,990,306.
b	Less Accum. Amortization	12,396,014.		12,396,014.
14	Other Assets	335,369,266.	-234,495,000.	100,874,266.
15	Total Assets	1,268,819,840.	-387,602,947.	881,216,894.
Liabilities and Stockholders' Equity				
16	Accounts Payable	28,581,114.		28,581,114.
17	Mtges, Notes, Bond Payable			
	in less than 1 year	39,300,000.		39,300,000.
18	Other Current Liabilities	25,012,077.		25,012,077.
19	Loans from Stockholders			
20	Mtges, Notes, Bonds Payable			
	in 1 year or more	732,921,645.	-234,495,000.	498,426,645.
21	Other Liabilities	123,811,521.		123,811,521.
22 a	Capital stock-Preferred	51,766.		51,766.
b	Capital stock-Common	32,021,091.	-3,676,319.	28,344,772.
23	Additional Paid-in Capital	361,760,114.	-152,122,035.	209,638,079.
24	Retained earnings-Appropriated			
25	Retained earnings-Unappropriated	-74,639,488.	2,690,407.	-71,949,080.
26	Adj to shareholders' equity			
27	Less cost of Treasury Stock			
28	Total Liabilities and			
Stockholders' Equity	1,268,819,840.	-387,602,947.	1.	881,216,894.

SEMCO ENERGY, INC	ALASKA PIPELINE COMPANY	SEMCO INFORMATION TECHNOLOGY, INC.	SEMCO GEORGIA CONSTRUCTION COMPANY	HOTFLAME GAS, INC.	SEMCO IOWA CONSTRUCTION COMPANY	K & B CONSTRUCTION, INC.	SEMCO MICHIGAN CONSTRUCTION COMPANY
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Consolidated Schedules

Sch. L - Ending	38-2144267	74-1363231	38-3533996	58-0691440	38-3386501	31-1644535	48-1113672	38-3365134
Assets								
1 Cash	2,420,567.			NONE	225,305.	NONE		NONE
2 a Trade Notes and AVR	32,442,669.	-55,147.	213,054.	NONE	415,034.	NONE	NONE	NONE
b Less allowance for Bad Debts	1,402,349.		12,200.	NONE	72,831.	NONE	NONE	
3 Inventories	68,700,652.				155,461.			NONE
4 US Government Obligations								
5 Tax-exempt Securities								
6 Other Current Assets	70,924,153.	110,511.	94,946.	NONE	165,933.	NONE	NONE	NONE
7 Loans to Stockholders								
8 Mtge and Real Estate Loans								
9 Other Investments	84,279,937.							
10 a Buildings and Other Depreciable								
Assets	656,061,689.	63,630,963.	3,658,628.	NONE	6,194,772.	NONE		NONE
b Less Accum. Depreciation	227,614,769.	17,165,688.	1,219,198.	NONE	1,811,490.	NONE		NONE
11 a Depletable Assets	896,129.							
b Less. Accum. Depietion	896,129.							
12 Land (net of any Amortization)	2,051,395.	1,215,325.	109,800.		135,000.	NONE		
13 a Intangible Assets	108,318,760.	49,246,807.	52,408.	NONE	3,372,331.	NONE	NONE	NONE
b Less Accum. Amortization	9,376,376.	2,661,605.	41,877.	NONE	316,156.	NONE	NONE	NONE
14 Other Assets	313,115,403.	10,902,991.	974,860.	NONE	-866,714.	NONE	NONE	NONE
15 Total Assets	1,099,921,731.	105,224,157.	3,830,421.	NONE	7,596,645.	NONE	NONE	NONE
Liabilities and Stockholders' Equity								
16 Accounts Payable	17,269,002.	9,300,763.	70,550.	NONE	362,940.	NONE		NONE
17 Mtges, Notes, Bond Payable								
in less than 1 year	39,300,000.			NONE		NONE		
18 Other Current Liabilities	22,939,696.	-2,370,030.	432,788.	NONE	965,013.	NONE	NONE	NONE
19 Loans from Stockholders								
20 Mtges, Notes, Bonds Payable								
in 1 year or more	697,021,645.	35,900,000.	NONE	NONE				
21 Other Liabilities	108,900,429.	9,195,727.	696,360.	NONE	1,457,182.	NONE	NONE	NONE
22 a Capital stock-Preferred	51,766.							
b Capital stock-Common	28,396,538.	1,900,500.	100.	NONE	100.	NONE	NONE	NONE
23 Additional Paid-in Capital	257,991,736.	49,841,297.	1,099,900.	NONE	3,943,141.	NONE	NONE	NONE
24 Retained earnings-Appropriated								
25 Retained earnings-Unappropriated	-71,949,081.	1,455,900.	1,530,723.	NONE	868,269.	NONE	NONE	NONE
26 Adj to shareholders' equity								
27 Less cost of Treasury Stock								
28 Total Liabilities and								
Stockholders' Equity	1,099,921,731.	105,224,157.	3,830,421.	NONE	7,596,645.	NONE	NONE	NONE

		LONG'S UNDERGROUND TECHNOLOGIES, INC.	SEMCO CONSTRUCTION PARENT COMPANY	NORSTAR PIPELINE COMPANY, INC.	SEMCO ENERGY VENTURES, INC.	SEMCO GAS STORAGE COMPANY	SEMCO PIPELINE COMPANY
Consolidated Schedules							
Sch. L - Ending		31-1668568	38-3548669	92-0175356	38-2683829	38-2882586	38-2882585
Assets							
1	Cash	NONE	-22,988.				
2 a	Trade Notes and AVR	NONE	771,610.	194,601.	16,533.		119,774.
b	Less allowance for Bad Debts	NONE	759,978.				
3	Inventories				186,540.		
4	US Government Obligations						
5	Tax-exempt Securities						
6	Other Current Assets	NONE	3,528,092.		381,884.		103,781.
7	Loans to Stockholders						
8	Mtge and Real Estate Loans						
9	Other Investments		NONE		21,690,625.	6,381,386.	
10a	Buildings and Other Depreciable						
	Assets	NONE	138,550.		2,217,001.		15,273,690.
b	Less Accum. Depreciation	NONE	328,979.		1,987,153.		7,405,864.
11a	Depletable Assets						
b	Less. Accum. Depletion						
12	Land (net of any Amortization)	NONE	500,000.		5,055.		
13a	Intangible Assets	NONE					
b	Less Accum. Amortization	NONE					
14	Other Assets	NONE	-6,208,922.	161,078.	10,111,864.	3,572,260.	3,606,446.
15	Total Assets	NONE	-2,382,615.	355,679.	32,622,349.	9,953,646.	11,697,827.
Liabilities and Stockholders' Equity							
16	Accounts Payable	NONE	1,466,900.		11,027.		99,932.
17	Mtges, Notes, Bond Payable						
	in less than 1 year	NONE					
18	Other Current Liabilities	NONE	-384,120.	71,719.	686,923.	2,165,733.	504,355.
19	Loans from Stockholders						
20	Mtges, Notes, Bonds Payable						
	in 1 year or more						
21	Other Liabilities	NONE	668,682.		936,856.		1,956,285.
22a	Capital stock-Preferred						
b	Capital stock-Common	NONE	217,753.		1,504,100.	1,000.	1,000.
23	Additional Paid-in Capital	NONE	30,799,316.		25,060,206.	-3,185,086.	-3,790,396.
24	Retained earnings-Appropriated						
25	Retained earnings-Unappropriated	NONE	-35,151,146.	283,960.	4,423,237.	10,971,999.	12,926,651.
26	Adj to shareholders' equity						
27	Less cost of Treasury Stock						
28	Total Liabilities and						
	Stockholders' Equity	NONE	-2,382,615.	355,679.	32,622,349.	9,953,646.	11,697,827.