SECURITIES AND EXCHANGE COMMISSION

FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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FILER

SEMCO ENERGY INC

CIK:**277158**| IRS No.: **382144267** | State of Incorp.:**MI** | Fiscal Year End: **1231**
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ___________ to ___________

Commission file number 0-8503

SEMCO Energy, Inc.
(Exact name of registrant as specified in its charter)

Michigan	38-2144267
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
405 Water Street, Port Huron, Michigan	48060
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 810-987-2200

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	N/A

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $1 Par Value
(Title of Class)

$2.3125, Series A, Convertible Cumulative Preferred Stock
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock (Common Stock, $1 Par Value) held by non-affiliates is computed at $261,439,000 based on 16,631,000 shares held by non--affiliates as of February 26, 1999 at the average of the bid and ask prices on the closest date on which trading occurred for such stock of $15.69 and $15.75, respectively, as quoted on the National Association of Securities Dealers Automated Quotation National Market System (NASDAQ/NMS) (which prices may not represent actual transactions).

Number of shares outstanding of each of the Registrant's classes of Common Stock, as of February 26, 1999: 17,462,000.

DOCUMENTS INCORPORATED BY REFERENCE:

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Portions of Registrant's definitive Proxy Statement (filed pursuant to Regulation 14A) with respect to Registrant's April 20, 1999 Annual Meeting of Shareholders are incorporated by reference herein in response to Part III.

T A B L E O F C O N T E N T S

CONTENTS		PAGE NUMBER
PART I		
ITEM 1.	BUSINESS	1
ITEM 2.	PROPERTIES	7
ITEM 3.	LEGAL PROCEEDINGS	9
ITEM 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS .	10
PART II		
ITEM 5.	MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS	10
ITEM 6.	SELECTED FINANCIAL DATA	11
ITEM 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	12
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	32
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	63
PART III		
ITEM 10.	DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT . .	64
ITEM 11.	EXECUTIVE COMPENSATION	65
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT	65
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS	65
PART IV		
ITEM 14.	EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K	66
SIGNATURES		70

GLOSSARY

AMR . . . . (Automated Meter Reading) a meter reading system that employs radio waves to collect consumption data

ATS . . . . (Aggregated Transportation Service) program that allows commercial and industrial gas company customers to purchase their gas from third-party gas suppliers

Bcf . . . . A measure of natural gas volumes equivalent to one

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billion cubic feet

Degree Day . . . . A measure of coldness computed by the number of degrees the average daily temperature falls below 65 degrees Fahrenheit

DRIP . . . . Direct Stock Purchase and Dividend Reinvestment Plan

FASB . . . . Financial Accounting Standards Board

FERC . . . . Federal Energy Regulatory Commission

Field Order System . . . A computerized dispatching system for field service calls

GCR . . . . (Gas Cost Recovery) a process by which the gas company, through annual gas cost proceedings before the MPSC, can recover the prudent and reasonable cost of gas sold

Mcf . . . . A measure of natural gas volumes equivalent to one thousand cubic feet

MMcf . . . . A measure of natural gas volumes equivalent to one million cubic feet

MPSC . . . . Michigan Public Service Commission

Normal Degree Days . . . An average of degree days over the last 10 years

Normal Weather . . . . . The average daily temperature during the last 10 years

NASDAQ . . . . National Association of Securities Dealers Automated Quotations System

NYMEX . . . . New York Mercantile Exchange

SFAS . . . . Statement of Financial Accounting Standards

FORWARD LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on current expectations, estimates and projections. Statements that are not historical facts, including statements about the Company's belief and expectations are forward-looking statements. These statements are subject to potential risks and uncertainties and, therefore, actual results may differ materially. The Company undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. Factors that may impact forward-looking statements include, but are not limited to, the following: (i) the effects of weather and other natural phenomena; (ii) the economic climate and growth in the geographical areas where the Company does business; (iii) the capital intensive nature of the Company's business; (iv) increased competition within the energy marketing industry as well as from alternative forms of energy; (v) the timing and extent of changes in commodity prices for natural gas; (vi) the effects of changes in governmental and regulatory policies, including income taxes, environmental compliance and authorized rates; (vii) the Company's ability to bid on and win business contracts; (viii) the impact of energy prices on the amount of projects and business available to Engineering Services; (ix) the nature, availability and projected profitability of potential investments available to the Company and (x) the conditions of capital markets and equity markets.

PART I

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ITEM 1. BUSINESS

SEMCO ENERGY, INC.

SEMCO Energy, Inc. is a diversified energy services and infrastructure holding company headquartered in southeastern Michigan. The Company was incorporated in Michigan in 1977. SEMCO Energy, Inc. and its subsidiaries (the "Company") operate five energy-related business segments. The business segments are gas distribution, engineering services, construction services, energy marketing and propane, pipelines and storage. The Company had approximately 860 employees at December 31, 1998.

GAS DISTRIBUTION

The Company's gas distribution business segment ("Gas Company") serves nearly 250,000 customers in twenty-four of the counties in the state of Michigan. It distributes and transports natural gas to residential, commercial and industrial customers. The Company's gas distribution business is operated through its SEMCO Energy Gas Company subsidiary and is its largest business segment. Set forth in the table below is gas sales and transportation information for the past three years:

	1998		1997		1996	
Gas sales revenue (in thousands):						
Residential	$118,220	71%	$139,538	64%	$138,644	63%
Commercial	42,041	25%	66,577	30%	65,509	30%
Industrial	6,439	4%	12,065	6%	15,218	7%
Total gas sales revenue	$166,700	100%	$218,180	100%	$219,371	100%
Gas transportation revenue (in thousands)	$ 14,832		$ 13,243		$ 12,358	
Volumes of gas sold (MMcf):						
Residential	21,946	68%	25,968	62%	26,703	61%
Commercial	8,840	27%	13,483	32%	13,670	31%
Industrial	1,461	5%	2,534	6%	3,385	8%
Total volumes sold	32,247	100%	41,985	100%	43,758	100%
Volumes of gas transported (MMcf)	23,791		21,373		20,532	

Refer to Note 12 of the Notes to the Consolidated Financial Statements for the Gas Company's operating revenues, operating income, assets and other financial information for the past three years.

Gas Sales. The Gas Company sells and delivers natural gas to residential, commercial and industrial customers. Revenues are generated primarily through sales to residential and commercial customers. These customers use

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natural gas mainly for space heating purposes. Consequently, weather has a significant impact on sales. Given the impact of weather on this business, most gas sales revenue is earned in the first and fourth quarters of the calendar year. Operating revenues from gas sales accounted for 26%, 28% and 40% of consolidated operating revenues in 1998, 1997 and 1996, respectively. If operating revenues from the Company's marketing business, which the Company entered into an agreement to sell in March 1999, are excluded, gas sales by the Gas Company would have accounted for 68%, 88% and 92% of consolidated operating revenues for those three years.

Competition in the gas sales market arises from the availability of alternate energy sources such as electricity, propane and oil. However, this competition is inhibited because of the time, inconvenience and investment for residential and commercial customers to convert to an alternate energy source when the price of natural gas fluctuates.

GAS DISTRIBUTION (CONT.)

The Gas Company continues to increase its customer base. Since 1988, it has added 59,225 customers, or approximately 6,000 customers per year. These additions have been primarily residential and are a result of expanded service territories, conversion of existing homes and new home construction.

On April 1, 1998, an aggregation tariff became effective and provides commercial and industrial customers the opportunity to aggregate multiple service locations and purchase their gas from a third-party supplier, while allowing the Gas Company to continue charging the existing distribution charges and customer fees. Refer to Management's Discussion and Analysis for further information regarding the impact of the aggregation tariff on gas sales and transportation revenue.

Transportation. The Gas Company provides transportation services to its large-volume commercial and industrial customers. This service offers those customers the option of purchasing natural gas directly from producers or marketing companies while utilizing the Gas Company's distribution network to transport the gas to their facilities.

The market price of alternate energy sources such as coal, electricity, oil and steam is the primary competitive factor affecting the demand for transportation. Many large industrial customers have some limited ability to convert to another form of energy when the price of natural gas increases significantly. In addition, downward pressure on transportation rates has resulted from the potential for industrial and power plants located on various parts of the Gas Company's distribution system to connect directly to interstate natural gas pipelines and bypass the Gas Company. Refer to Management's Discussion and Analysis for additional information regarding bypass potential. Partially offsetting the impact of price sensitivity has been the use of natural gas as an industrial fuel because of clean air legislation and the resultant pressures on industry and electric utilities to reduce emissions from their plants.

Gas Supply. The Gas Company is served by four major interstate pipelines: Panhandle Eastern Pipe Line Company, Northern Natural Gas Company, Great Lakes Gas Transmission Company and ANR Pipeline Company.

Natural gas purchases are transported to the Gas Company's systems under various firm and interruptible transportation arrangements with interstate and intrastate transmission companies.

The Gas Company utilizes on-system and leased storage capacity of 35% to 40% of average annual gas sales volumes to reduce its reliance on the interstate pipelines for peak day needs and allow for the purchase of natural gas at lower prices.

The Gas Company owns underground storage facilities with a working capacity of 5.0 billion cubic feet ("Bcf"). In addition, it leases 6.5 Bcf of storage from Eaton Rapids Gas Storage System and 4.5 Bcf from non-affiliates. SEMCO Gas Storage Company (an affiliated company) is a 50% owner of Eaton Rapids Gas Storage System.

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ITEM 1. BUSINESS (CONT.)

GAS DISTRIBUTION (CONT.)

The Company has entered into an agreement with TransCanada Gas Services, Inc., under which the latter will provide the Gas Company's natural gas requirements and manage the Gas Company's natural gas supply and the supply aspects of transportation and storage operations for the three year period beginning April 1, 1999. Refer to Note 2 of the Notes to the Consolidated Financial Statements for additional information about the agreement.

Rates and Regulation. The Gas Company is subject to the jurisdiction of the Michigan Public Service Commission ("MPSC") as to various phases of its operations including rates, accounting and service standards. However, rates charged to customers in the Battle Creek division are subject to the jurisdiction of the City Commissioners of Battle Creek, Michigan.

Management periodically reviews the adequacy of the Gas Company's rates and files requests for rate increases whenever it is deemed necessary and appropriate. However, a recent rate case includes provisions limiting the Gas Company's ability to request a rate increase during the next three years. Refer to Note 2 of the Notes to the Consolidated Financial Statements for further information on regulatory matters including the authorization by the MPSC to suspend the Gas Company's gas cost recovery ("GCR") clause and freeze for three years in its base rates a gas charge of $3.24 per Mcf.

Environmental Matters. The Gas Company currently owns seven sites which formerly housed manufactured gas plants. In the earlier part of this century, gas was manufactured from processes using coal, coke or oil. By-products of this process have left some contamination at these sites. The Company has submitted a plan to the State of Michigan for the proposed clean up at one of these sites. Refer to Note 14 of the Notes to the Consolidated Financial Statements for further discussion.

ENGINEERING SERVICES

The Company's engineering services business segment ("Engineering Services") is comprised of two companies, Maverick Pipeline Services, Inc. ("Maverick") and Oilfield Materials Consultants, Inc. ("OMC"). Maverick was acquired in December 1997 and was accounted for as a purchase. OMC was acquired in November 1998 and was accounted for as a pooling of interests (see Note 3 of the Notes to the Consolidated Financial Statements for information regarding acquisitions accounted for as a purchase or as a pooling of interests). Engineering Services has offices in New Jersey, Michigan, Louisiana and Texas and provides a variety of energy related engineering services in several states. Refer to Note 12 of the Notes to the Consolidated Financial Statements for Engineering Services' operating revenues, operating income, assets and other financial information for the past three years.

ITEM 1. BUSINESS (CONT.)

ENGINEERING SERVICES (CONT.)

Engineering Services serves the natural gas distribution and transmission, oil products, exploration/production and telecommunication industries. The primary services provided include engineering design, project management, field surveying, inspecting, testing, pipeline-mill quality assurance and full turnkey service. Engineering Services competes with regional, national and international firms as well as in-house engineering and field service departments. Refer to Management's Discussion and Analysis for further discussion concerning competitio-n in the engineering

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services industry.

With the recent downturn in oil prices, there has been a reduction in oil and gas production and related activities, as a result of which OMC has experienced a reduction in the level of available construction inspection and quality assurance projects. Management believes that the level of these activities and available projects will increase as oil prices recover.

CONSTRUCTION SERVICES

The Company's construction services business segment ("Construction Services") has offices in Michigan and Tennessee as of December 31, 1998. Its primary service is underground pipeline installation and replacement for the natural gas distribution industry. As of December, 31 1998, the construction services segment was comprised of two companies, Sub-Surface Construction Co. ("Sub-Surface") and King Energy & Construction Co. ("King"). Sub-Surface was acquired in August 1997 and King was acquired in May 1998. Both acquisitions were accounted for as purchases. Refer to Note 12 of the Notes to the Consolidated Financial Statements for Constructions Services' operating revenues, operating income, assets and other financial information for the past two years.

In January 1999, the Company acquired K&B Construction, Inc. ("K&B"). As of December 31, 1998 K&B employed 117 employees and had 1998 revenues of approximately $9 million. K&B provides underground construction services in Kansas and Missouri.

The natural gas construction services industry is comprised of a highly fragmented group of companies focused primarily on regional or local markets. The top six construction companies in the country have less than 6% of the market. Approximately 30% of the market represents work done by utility companies' in-house construction departments with the remainder of the market being served by a large number of small- and medium-size companies. The Company plans to expand Construction Services' market share significantly over the next several years by acquiring small- to medium-size companies that have a strong customer base.

Construction Services' business is seasonal in nature. Most of this segment's annual profits are made during the summer and fall months. Construction Services generally incurs losses during the winter months when underground construction is inhibited.

PROPANE, PIPELINES AND STORAGE

The Company's pipelines and storage operations consist of several pipelines and a gas storage facility. The Company has partial ownership interests or equity interests in certain of these operations. The pipelines and storage operations are all located in Michigan. Refer to Item 2 of this Form 10-K for additional information on each pipeline and storage facility such as its location and customers. In March 1998, the Company acquired its first propane distribution business, Hotflame Gas, Inc. and Hot Flame Transport Co., Inc. (together "Hotflame"). The acquisition of Hotflame was accounted for as a purchase. Hotflame supplies propane to over 7,500 retail customers in Michigan's upper peninsula and northeast Wisconsin. Refer to Note 12 of the Notes to the Consolidated Financial Statements for operating revenues, operating income, assets and other financial information for the past three years for the propane, pipelines and storage business segment.

The retail propane industry is highly fragmented with the largest firm in the industry serving less than 10% of the national market and the vast majority of propane companies individually having less than one percent market share. Propane is transported easily in pressurized containers and is generally the fuel used in rural areas where natural gas pipelines and distribution systems do not exist or are uneconomical to build. The Company purchases the majority of its propane from BP Amoco PLC. The propane operation competes with other regional propane providers. The basis of the competition is generally price and service. Because propane is used principally for heating, most of the operating income for the propane business is generated in the first and fourth quarters of the calendar year.

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ENERGY MARKETING

The Company's energy marketing business segment ("Energy Services") provides natural gas marketing services to approximately 188 customers in several states. Its customers include industrial, commercial and municipal natural gas users, natural gas distribution companies and other marketers. Energy marketing revenues accounted for 61%, 68% and 56% of the Company's consolidated revenues for 1998, 1997 and 1996, respectively. Despite accounting for a significant portion of the Company's total revenues, Energy Services has incurred operating losses in two of the past three years. Refer to Note 12 of the Notes to the Consolidated Financial Statements for Energy Services' operating revenues, operating income, assets and other financial information for the past three years.

Energy Services purchases and markets natural gas to customers on a month-to-month basis and under long-term agreements. It also arranges for transportation of gas supplies to the customers' premises and offers storage capacity, contract administration and a variety of risk management services.

Competition in the energy marketing industry is strong. Firms compete on the basis of price, the ability to arrange suitable transportation of the product to the customer and the ability to provide related services such as pipeline nominations and balancing. Refer to Management's Discussion and Analysis for further discussion concerning the competitive pressures associated with this industry.

ENERGY MARKETING (CONT.)

Energy Services obtains its gas supply from various production sources, primarily located in Louisiana, Oklahoma and Michigan. It generally contracts for gas supply on a monthly basis, however, it does enter into some long-term gas purchasing arrangements. See Note 8 of the Notes to the Consolidated Financial Statements for a description of Energy Services' hedging activities as they relate to its gas supply strategy.

On March 15, 1999, the Company entered into a stock sale agreement, subject to approval under the Hart-Scott-Rodino Anti-Trust Improvements Act of 1987, to sell Energy Services to another energy marketer. The transaction is anticipated to be effective as of March 31, 1999. Management has concluded that the relatively low margins, generally poor industry returns and high risks associated with natural gas marketing do not support remaining in the business. The gas marketing business no longer fits the Company's future strategic direction.

Pursuant to the stock sale agreement, the Company agreed that, for a period of two years after the closing date, it would not compete in the unregulated natural gas marketing business in the state of Michigan.

ITEM 2. PROPERTIES

SEMCO ENERGY, INC.

The properties of the SEMCO Energy, Inc. consist of the common stock of its first-tier subsidiaries, leasehold improvements and office equipment.

GAS DISTRIBUTION

The Gas Company owns gas supply systems which, on December 31, 1998, included approximately 151 miles of transmission pipelines and 5,170 miles of distribution pipelines. The pipelines are located throughout the southern half of Michigan's lower peninsula (centered around the cities of Port Huron, Albion, Battle Creek and Holland) and also in the central and western areas of Michigan's upper peninsula.

The Gas Company's distribution system and service lines are, for the most part, located on or under public streets, alleys, highways and other public places, or on private property not owned by the Gas Company with permission or consent, except to an inconsequential extent, of the individual

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owners. The distribution systems and service lines located on or under public streets, alleys, highways and other public places were all installed under valid rights and consents granted by appropriate local authorities.

The Gas Company owns and operates underground gas storage facilities in eight depleted salt caverns and two depleted gas fields together with measuring, compressor and transmission facilities. The aggregate working capacity of the storage system is approximately 5.0 Bcf.

The Gas Company also owns meters and service lines, gas regulating and metering stations, garages, warehouses and other buildings necessary and useful in conducting its business. It leases its computer and transportation equipment.

ENGINEERING SERVICES

Engineering Services' properties include primarily computers, trucks, testing equipment and related devices required to perform engineering and related services. Much of the equipment is portable and is used by the Company's employees at customer worksites throughout several states.

CONSTRUCTION SERVICES

The tangible properties of Construction Services include equipment required for the installation, repair or replacement of underground pipelines or similar items. This includes primarily equipment necessary for excavation such as backhoes, trenchers, directional drills and dumptrucks. This equipment can be driven or carried on trailers from one worksite to another. Substantially all of Construction Services' equipment at December 31, 1998 was located in Michigan and Tennessee.

PROPANE, PIPELINES AND STORAGE

The principal properties of this business segment include interests and operations in propane distribution, natural gas transmission and gathering and an underground gas storage system.

<TABLE>

Set forth in the following table are the equity investments of the propane, pipelines and storage business segment and its ownership percentage and equity investment at December 31, 1998:

<CAPTION>

<S>	Percent Ownership <C>	Equity Investment (in thousands of dollars) <C>
Eaton Rapids Gas Storage System............	50%	$4,165
Nimrod Limited Partnership.................	29%	257
Michigan Intrastate Pipeline System.........	50%	0
Michigan Intrastate Lateral System..........	50%	100
		$4,522

</TABLE>

The Company owns a 50% equity interest in the Eaton Rapids Gas Storage System. This system, located near Eaton Rapids, Michigan, became operational in March 1990 and consists of approximately 12.8 Bcf of underground storage capacity. Of the total, 6.5 Bcf is leased by the Gas Company.

The Company also owns 50% of the Michigan Intrastate Pipeline System and the Michigan Intrastate Lateral System partnerships. The sole purpose of these partnerships is to hold a 10% ownership of the Saginaw Bay Pipeline Project, a 126-mile pipeline from Michigan's Saginaw Bay area to processing plants in Kalkaska, Michigan.

The property of the propane distribution operation consists primarily of pressurized propane storage tanks used by customers to store propane purchased from the Company and trucks for transporting propane. The Company also owns large propane storage tanks that allow the Company to store up to 258,000 gallons of propane inventory. The propane distribution property is

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all located in Michigan's upper peninsula and northeast Wisconsin.

PROPANE, PIPELINES AND STORAGE (CONT.)

<TABLE>

The following table sets forth the pipeline operations wholly or partially owned by the Company, the total net property of the project, the Company's ownership percentage and net property at December 31, 1998:

<CAPTION>

<S>	Total Net Property <C>	The Company's Percent Ownership <C>	The Company's Net Property <C>
	(in thousands of dollars)		
Litchfield Lateral..............	$10,588	33%	$ 3,494
Greenwood Pipeline..............	6,088	100%	6,088
Iosco-Reno System...............	2,439	40%	976
Eaton Rapids Pipeline...........	944	100%	944
	$20,059		$11,502

</TABLE>

The Litchfield Lateral is a 31-mile pipeline located in southwest Michigan. The line, which is leased entirely to ANR Pipeline Company, links the Eaton Rapids Gas Storage System with interstate pipeline supplies. The Litchfield Lateral began operations in February 1993.

The Greenwood Pipeline, an 18-mile pipeline, was constructed in 1991, to serve Detroit Edison's Greenwood power plant located in Michigan's thumb area. The Company and Detroit Edison have entered into an agreement whereby Detroit Edison has contracted for the entire capacity of the line which amounts to 240 million cubic feet ("MMcf") per day.

The Iosco-Reno System includes the Iosco County Pipeline and Reno Gas Processing Plant, which was placed in service in March 1992. The Iosco-Reno System gathers and processes wet gas in the Au Gres and Santiago fields located in mid-Michigan for delivery to the processing plant and ultimate delivery to the gas markets.

The Eaton Rapids Pipeline is a 7.1 mile pipeline constructed in 1990. It provides direct delivery of gas from the Eaton Rapids Gas Storage System to the Gas Company's customers located in Battle Creek and Albion, Michigan.

ENERGY MARKETING

The properties of Energy Services include primarily computers and office furniture and equipment. At December 31, 1998 all such property was located in the state of Michigan.

ITEM 3. LEGAL PROCEEDINGS

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

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MARKET PRICE AND NASDAQ LISTING

NASDAQ Trading Symbol "SMGS"
The common stock of the Company is traded on The Nasdaq Stock Market under the symbol "SMGS." The table below shows high and low closing bid prices of the Company's common stock in the over-the-counter market as reported in the Wall Street Journal adjusted to reflect the 5% stock dividends in May 1998 and 1997. These quotations reflect dealer prices, without brokerage commission, and may not necessarily represent actual transactions.

1998	Price Range High	Price Range Low	1997	Price Range High	Price Range Low
First Quarter	$17-7/8	$15-1/4	First Quarter	$19-1/8	$16-1/4
Second Quarter	$18-3/8	$15-1/4	Second Quarter	$18-1/4	$15-2/3
Third Quarter	$18	$13-1/8	Third Quarter	$17-2/3	$15-2/3
Fourth Quarter	$17-1/2	$14-1/2	Fourth Quarter	$17-1/3	$15-2/3

See the cover page for a recent stock price and the number of shares outstanding.

See Selected Financial Data for the number of shareholders at year end for the past five years.

The Company issued unregistered shares of its common stock in connection with certain acquisition transactions during 1998. See Note 3 of the Notes to the Consolidated Financial Statements.

DIVIDENDS

See Notes 5 and 16 of the Notes to the Consolidated Financial Statements and Selected Financial Data.

ITEM 6. SELECTED FINANCIAL DATA

Years Ended December 31,	1998	1997<F11>	1996<F11>	1995	1994
INCOME STATEMENT DATA (000's)					
Operating revenue	$637,485	$775,932	$547,910	$335,538	$372,430
Operating expenses					
Cost of gas sold	$109,388	$150,967	$151,135	$120,619	$135,669
Cost of gas marketed	386,691	518,157	308,619	130,087	153,973
Operations and maintenance	92,696	55,209	43,211	36,217	35,558
Depreciation	15,349	12,877	11,334	12,035	11,549
Property and other taxes	9,166	9,555	8,777	7,966	8,186
	$613,290	$746,765	$523,076	$306,924	$344,935
Operating income	$ 24,195	$ 29,167	$ 24,834	$ 28,614	$ 27,495
Other income (deductions)	(7,835)<F4><F10>	(5,273)<F8>	(44,702)<F6>	(11,132)	(12,944)<F4>

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Income (loss) before income taxes..	$ 16,360	$ 23,894	$(19,868)	$ 17,482	$ 14,551
Income taxes......................	6,320	8,469	(7,106)	6,151	4,559
Net income (loss).................	$ 10,040 <F4><F10>	$ 15,425 <F8>	$(12,762)<F6>	$ 11,331	$ 9,992 <F4>
Common dividends..................	11,836	10,225	9,814	9,230	8,656
Earnings (deficit) reinvested in the business..................	$ (1,796)	$ 5,200	$(22,576)	$ 2,101	$ 1,336
COMMON STOCK DATA					
Average shares outstanding (000's) <F1>.........	15,906	14,608	14,573	13,696	13,440
Earnings (loss) per share - basic and diluted <F1>.........	$ 0.63 <F4><F10>	$ 1.06 <F8>	$ (0.88)<F6>	$ 0.83	$ 0.74 <F4>
Dividends paid per share <F1>......	$ 0.74	$ 0.70	$ 0.67	$ 0.67	$ 0.64
Dividend payout ratio.............	117.9%	66.0%	N/A	81.5%	86.6%
Book value per share <F1><F2>......	$ 7.61	$ 6.44	$ 5.95	$ 7.99	$ 7.86
Market value per share <F1><F2><F3>...........	$ 16.25	$ 17.20	$ 16.78	$ 15.54	$ 14.80
Number of registered common shareholders..............	9,336	8,755	8,509	8,334	8,149
BALANCE SHEET DATA <F2>					
Total assets (000's)..............	$489,662	$507,160	$479,037	$378,523	$368,498
Capitalization (000's)					
Long-term debt <F5>..............	$170,000	$163,548	$108,112	$107,325	$104,910
Preferred stock..................	3,255	3,269	3,269	3,272	3,288
Common equity....................	132,228	95,131	86,678	109,511	107,379
	$305,483	$261,948	$198,059	$220,108	$215,577
FINANCIAL RATIOS					
Capitalization					
Long-term debt <F5>..............	55.6%	62.4%	54.6%	48.8%	48.7%
Preferred stock..................	1.1%	1.3%	1.6%	1.5%	1.5%
Common equity....................	43.3%	36.3%	43.8%	49.7%	49.8%
	100.0%	100.0%	100.0%	100.0%	100.0%
Return on average common equity....	8.8%	17.0%<F9>	(13.0)%<F7>	10.4%	9.5%

<FN>
<F1>
Adjusted to give effect to 5 percent stock dividends in May each year, 1994 through 1998.
<F2>
Year end.
<F3>
Based on NASDAQ closing bid price.
<F4>
Includes $499 (net of tax) or $.03 per share and $1,286 (net of tax) or $.10 per share in 1998 and 1994, respectively, attributable to an extraordinary item-loss on early extinguishment of debt.
<F5>
Includes current maturities of long-term debt.
<F6>
Includes the write-down of the NOARK investment - $21,000 (net of tax) or $1.44 per share.
<F7>
Excluding the write-down of the NOARK investment, return on average common equity was 7.6%.
<F8>
Includes adjustment to reserve for NOARK investment - $5,025 (net of tax) or $.34 per share.
<F9>
Excluding the adjustment to reserve for NOARK investment, return on average common equity was 11.8%.
<F10>
Includes income of $1,784 (net of tax) or $.11 per share attributable to a change in accounting method, and a gain of $1,708 (net of tax) or $.11 per share from the sale of the NOARK investment.
<F11>
Restated to account for a 1998 acquisition as a pooling of interests. Years prior to 1996 were not restated for the pooling of interests as the effects were deemed not material.
</FN>
</TABLE>

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

NET INCOME. The Company's net income was $10.0 million (or $0.63 per share) in 1998. The unseasonably warm weather throughout 1998 had a significant impact on earnings. On a weather-normalized basis, net income for 1998 would have been $17.2 million (or $1.08 per share). The following table shows the net income and earnings per share ("EPS") for the past three years, as well as the impact of weather, the divestiture of the NOARK investment, a change in accounting method and an extraordinary charge.

Years Ended December 31,	1998	1997	1996
	(in thousands, except per share amounts)		
Net income (loss):			
Reported	$ 10,040	$ 15,425	$(12,762)
Weather-normalized	$ 17,220	$ 15,425	$(13,997)
Earnings (loss) per share - basic and diluted (EPS):			
Reported	$ 0.63	$ 1.06	$ (0.88)
Weather-normalized	$ 1.08	$ 1.06	$ (0.96)
Impact of divestiture of NOARK on:			
Net income (loss):	$ 1,708	$ 5,025	$(21,000)
EPS	$ 0.11	$ 0.34	$ (1.44)
Impact of change in accounting method and extraordinary charge on:			
Net income (loss):	$ 1,285	$ --	$ --
EPS	$ 0.08	$ --	$ --
EPS, excluding special items above	$ 0.89	$ 0.72	$ 0.48

The divestiture of NOARK, the change in accounting method and the extraordinary charge are all discussed in greater detail after the following discussions regarding the Company's business segments.

SUMMARY OF BUSINESS SEGMENTS

The Company has five business segments. They are gas distribution, engineering services, construction services, energy marketing and propane, pipelines and storage. Refer to Notes 1 and 12 of the Notes to the Consolidated Financial Statements for additional information regarding each business segment.

The following table shows the operating revenues and operating income of each business segment as well as a reconciliation ("Corporate and other") of the segment information to the applicable line in the consolidated financial statements. Corporate and other includes corporate related expenses not allocated to segments, intercompany eliminations and results of other smaller operations.

SUMMARY OF BUSINESS SEGMENTS (CONT.)

Years Ended December 31,	1998	1997	1996

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	(in thousands)		
<S>	<C>	<C>	<C>
Operating revenues			
Gas Distribution	$184,221	$232,511	$232,985
Engineering Services	41,366	5,660	2,961
Construction Services	25,904	13,207	--
Propane, Pipelines and Storage	4,852	3,027	3,070
Energy Marketing	397,888	555,367	344,379
Corporate and other	(16,746)	(33,840)	(35,485)
Consolidated	$637,485	$775,932	$547,910
Operating income (loss)			
Gas Distribution	$ 22,363	$ 26,348	$ 27,438
Engineering Services	2,938	778	273
Construction Services	(102)	762	--
Propane, Pipelines and Storage	1,585	1,458	1,471
Energy Marketing	(696)	217	(3,857)
Corporate and other	(1,893)	(396)	(491)
Consolidated	$ 24,195	$ 29,167	$ 24,834

</TABLE>

Each business segment is discussed separately on the following pages. The Company evaluates the performance of its business segments based on the operating income generated. Operating income does not include non-operating items such as income taxes, interest expense, extraordinary charges, changes in accounting method and non-operating income and expense items. A review of the non-operating items follows the business segment discussions.

GAS DISTRIBUTION

WARMER TEMPERATURES IMPACT EARNINGS. The Company's operating income from its gas distribution business segment ("Gas Company") declined in 1998 due primarily to the impact of the unseasonably warm temperatures throughout the year. On a weather-normalized basis, the Gas Company's operating income would have increased by $6.8 million in 1998 when compared to 1997 and by $.8 million in 1997 compared to 1996.

GAS DISTRIBUTION (CONT.)

<TABLE>
<CAPTION>

Years Ended December 31,	1998	1997	1996
	(in thousands)		
<S>	<C>	<C>	<C>
Gas Distribution			
Gas sales revenue	$166,700	$218,180	$219,371
Cost of gas sold	109,388	150,967	151,135
Gas sales margin	$ 57,312	$ 67,213	$ 68,236
Gas transportation revenue	14,832	13,243	12,358
Other operating revenue	2,689	1,088	1,256

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Gross margin	$ 74,833	$ 81,544	$ 81,850
Operating expenses	52,470	55,196	54,412
Operating income	$ 22,363	$ 26,348	$ 27,438
Weather-normalized operating income	$ 33,163	$ 26,348	$ 25,538

<FN>
The amounts in the table above include intercompany transactions
</FN>
</TABLE>

GAS SALES MARGIN. In 1998, gas sales margin decreased by $9.9 million (or 15%) compared to 1997. This was due primarily to lower gas sales resulting from the unseasonably warm weather during 1998 and the adoption of a new aggregation tariff, offset partially by the addition of new gas sales customers and a rate increase in October 1997. The weather during 1998 was 20% warmer than normal. $10.8 million of the decrease in operating income is attributable to the warm temperatures.

The aggregation tariff, which was effective April 1, 1998, provides all commercial and industrial customers the opportunity to purchase their gas from a third-party supplier, while allowing the Gas Company to continue charging the existing distribution charges and customer fees. The program is referred to as the aggregated transportation service ("ATS") program. Distribution charges and customer fees associated with customers who have switched to third-party gas suppliers are recorded in gas transportation revenue rather than gas sales revenue because the Gas Company is now acting as a transporter for those customers. Therefore, the decrease in gas sales margin due to customers switching to third-party suppliers ($2.5 million) is offset by a corresponding increase in gas transportation revenue.

The addition of new customers increased gas sales margin by $1.8 million in 1998. The Gas Company added an average of 7,359 new gas sales customers in 1998. During the same period, an average of 2,900 gas sales customers switched from gas sales service to the Company's new ATS program.

The October 1997 rate increase was granted primarily to allow for the recovery of costs related to a change in accounting for retiree medical benefits. The rate increase and aggregation tariff referenced above were approved in the October 1997 Order of the Michigan Public Service Commission ("1997 rate case") (see Note 2 in the Notes to the Consolidated Financial Statements).

GAS DISTRIBUTION (CONT.)

In 1997, gas sales margin decreased by $1.0 million (or 2%), when compared to 1996, due primarily to lower gas sales resulting from warmer temperatures and several industrial gas sales customers converting to transportation. Weather was essentially normal in 1997 but was approximately 4% warmer than 1996. The impact of these items was offset partially by the addition of an average of 7,809 (or 3%) new gas sales customers in 1997.

GAS TRANSPORTATION REVENUE. Gas transportation revenue increased by $1.6 million in 1998 when compared to 1997, due primarily to revenues from the new ATS program discussed previously ($2.5 million), offset partially by lower off-peak transportation rates approved in the 1997 rate case. The new off-peak transportation rates are in effect from April through October and are $0.15 per Mcf lower than the Gas Company's regular transportation rates. Gas transportation revenue increased by $.9 million in 1997 when compared to 1996. This increase is primarily attributable to additional transportation customers, most of which were previously gas sales customers.

<TABLE>
<CAPTION>

Years Ended December 31,	1998	1997	1996

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<S> <C> <C> <C>

Volumes:			
Gas sold (MMcf)	32,247	41,985	43,758
Gas transported (MMcf)	23,791	21,373	20,532
Total (MMcf)	56,038	63,358	64,290
Average Number of Customers:			
Gas sales customers	241,070	236,611	228,802
Transportation and ATS customers	3,105	183	151
Average number of total customers	244,175	236,794	228,953
Weather Statistics:			
Heating degree days	5,566	6,838	7,099
Percent colder (warmer) than normal	(19.7%)	(0.6%)	4.5%

</TABLE>

OTHER OPERATING REVENUE. In 1998, other operating revenue increased by $1.6 million over 1997. The increase is due primarily to an increase in balancing charges and various miscellaneous fees charged to customers beginning in late 1997.

GAS DISTRIBUTION (CONT.)

OPERATING EXPENSES. Operating expenses decreased by $2.7 million (or 5%) in 1998 when compared to 1997. Approximately $1.9 million of the decrease is attributable to an overall reduction in general and administrative expenses due to cost cutting measures initiated during 1998, lower incentive compensation due to the decrease in Company earnings, and reductions in compensation and pension expenses due primarily to lower employee levels as a result of the Company's early retirement program and changes to the Company's employee pension plans. See Note 9 in the Notes to the Consolidated Financial Statements for more information on the early retirement program. In addition, there were decreases in uncollectible gas accounts ($.4 million) due to increased collection efforts and warmer weather, regulatory expenses ($.4 million) due to a reduced regulatory activity, and insurance costs ($.5 million) due primarily to efforts to reduce premiums while maintaining coverage levels. During 1998, the Gas Company also recorded a one-time $.4 million reduction in employee benefit expenses as a result of the early retirement program. These savings were offset partially by increases in depreciation expense as a result of new property, plant and equipment placed in service and increases in retiree medical expense. The 1997 rate case authorized a customer rate increase to offset the impact of the additional retiree medical expense.

In 1997, operating expenses increased by $.8 million (or 1%) when compared to 1996. The increase was attributable mainly to increases in depreciation and property tax expenses ($1.2 million) due to additional property, plant and equipment in service, an increase in uncollectible gas accounts resulting from the previous year's colder weather and higher gas prices, and a slight increase in retiree medical costs. Partially offsetting these increases were decreases in pension and employee benefit expenses.

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OUTLOOK. The strategy of the Gas Company is to maximize its earnings potential. With the approval of incentive rates by the MPSC in late 1997 and 1998, the Gas Company is allowed to retain a portion of earnings in excess of its authorized return and refund the remainder to customers. In 1998, the MPSC also authorized the Gas Company to, among other things, suspend its GCR clause and freeze for three years in its base rates a gas charge of $3.24 per Mcf. The GCR freeze and new rates take effect in April 1999 and generally extend through March 2002. The Gas Company was able to offer this GCR suspension partly as a result of agreements reached with TransCanada Gas Services, Inc., under which the latter will provide the Gas Company's natural gas requirements and manage the Gas Company's natural gas supply and the supply aspects of transportation and storage operations for the same three year period. Management believes that the overall impact of the MPSC order and the Gas Company's agreements with TransCanada will be lower rates for its customers and an opportunity for the Company to increase profitability while maintaining or improving service levels (see Note 2 of the Notes to the Consolidated Financial Statements).

GAS DISTRIBUTION (CONT.)

The Gas Company's 3% customer growth rate in 1998 was nearly double the industry average and is anticipated to continue. Efforts to offer new products and services will continue. Control of operating expenses will be enhanced through the early retirement program offered during 1998, the redesign of employee benefits during 1998 and increased use of technology to achieve operating efficiencies. These technologies include automatic meter reading and automated dispatch and scheduling. Through more effective management of the construction budget and financing costs, growth in capital costs are expected to be contained.

As is the case with many gas distribution utilities, there is a potential for industrial and generating plants on the Gas Company's system to bypass the Gas Company and connect directly to interstate natural gas pipelines. Refer to the Industry Trends section in the following pages for more information.

For information on environmental matters, regulatory matters and the application of SFAS 71, "Accounting for the Effects of Certain Types of Regulation", refer to Notes 2 and 14 of the Notes to the Consolidated Financial Statements.

ENGINEERING SERVICES

SIGNIFICANT GROWTH IN ENGINEERING REVENUES AND EARNINGS. The Company's engineering services business segment ("Engineering Services") contributed $41.4 million in revenues and $2.9 million in operating income for 1998. Engineering Services is comprised of two companies, Maverick Pipeline Services, Inc. ("Maverick") and Oilfield Materials Consultants, Inc. ("OMC"). The acquisition of Maverick, in December 1997, was accounted for as a purchase. Therefore, the consolidated financial statements and the table below include the results of Maverick's operations since December 1997. The acquisition of OMC, in November 1998, was accounted for as a pooling of interests and, accordingly, the consolidated financial statements and the table below have been restated to include the financial results of OMC as if it were part of the Company for all of 1998, 1997 and 1996 (see Note 3 of the Notes to the Consolidated Financial Statements).

<TABLE>
<CAPTION>

Years Ended December 31,	1998	1997	1996
	(in thousands, except billed hours)		
<S>	<C>	<C>	<C>
Engineering Services			
Operating revenues	$ 41,366	$ 5,660	$ 2,961
Operating expenses	$ 38,428	$ 4,882	$ 2,688

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Operating income	$ 2,938	$ 778	$ 273
Billed hours	586,000	180,000	72,000

<FN>
The amounts in the table above include intercompany transactions
</FN>
</TABLE>

ENGINEERING SERVICES (CONT.)

ENGINEERING REVENUES. Engineering Services' operating revenues in 1998 increased $35.7 million or nearly eight-fold from 1997. Approximately $24.5 million of the increase represents the 1998 revenues of Maverick, which was acquired in December 1997. Maverick's revenues reflect a $20 million turnkey project it completed in Vineland, New Jersey. Maverick performed the engineering and design-work and also managed construction of the project. Maverick was able to win the turnkey project due, in part, to the financial strength of SEMCO Energy, Inc. The remainder of the increase in 1998 engineering revenues ($11.2 million), when compared to 1997, is attributable to OMC. OMC's 200% increase in revenues is due to growth in OMC's customer base and growth in quality assurance and quality control projects worked on in 1998.

In 1997, engineering revenues increased by $2.7 million (or 90%) compared to 1996. The increase was due to growth in OMC's customer base, which led to increased revenue from quality assurance projects in the natural gas pipeline industry.

OPERATING EXPENSES. In 1998, operating expenses increased by $33.5 million, when compared to 1997. $23.1 million of the increase is Maverick's 1998 operating expenses. $10.4 million of the increase is attributable to OMC and represents increases in the level of business experienced in 1998.

Operating expenses increased by $2.2 million (or 82%) in 1997 compared to 1996. The increase is due primarily to increases in compensation, payroll taxes and project expenses to support the increase in revenues.

OUTLOOK. Management plans to expand Engineering Services by growing its existing operations and through acquisitions. Management believes there is a trend towards outsourcing in the utility industry and believes that Engineering Services is positioned to take advantage of this trend. It is also anticipated that the demand for turnkey services will increase. With the financial strength of SEMCO Energy, Inc., Engineering Services is in a position to win significant turnkey projects. Engineering Services successfully completed its first turnkey project in 1998 and expects to expand this type of business significantly in the future. With the recent downturn in oil prices, there has been a reduction in oil and gas production and related activities, as a result of which OMC has experienced a reduction in the level of available construction inspection and quality assurance projects. Management believes that the level of these activities and available projects will increase as oil prices recover.

CONSTRUCTION SERVICES

CONSTRUCTION BUSINESS EXPANDS. The construction services business segment ("Construction Services") expanded into Tennessee with the acquisition of King Energy & Construction Co. ("King") in May 1998. King provides underground construction services similar to those provided by Sub-Surface Construction Co. ("Sub-Surface"). Construction Services also started an overhead-line construction company in Florida in January 1998. However, the operations of this start-up business were halted in mid-1998 in resp-onse to lower than expected business levels and earnings. The start-up business generated an operating loss of $.9 million during the period it operated.

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CONSTRUCTION SERVICES (CONT.)

<TABLE>
<CAPTION>

Years Ended December 31,	1998	1997<F1>
	(in thousands, except billed hours)	
<S>	<C>	<C>
Construction Services		
Operating revenues	$ 25,904	$ 13,207
Operating expenses	$ 26,006	$ 12,445
Operating income (loss)	$ (102)	$ 762
Billed hours	564,000	291,000

<FN>
The amounts in the table above include intercompany transactions
<F1>
Includes results from August 1, 1997 to December 31, 1997 only.
</FN>
</TABLE>

OPERATING INCOME. Construction Services' operating income, excluding the start-up business mentioned above, was $.8 million in both 1998 and 1997. The 1997 results reflect the operations of Sub-Surface for the period subsequent to its acquisition in August 1997, which excludes the seasonal losses which are typical during the first half of the year.

OUTLOOK. Management believes there are significant opportunities for growth in the pipeline construction industry. The industry is viewed as large but highly fragmented. Management believes that customer preference is shifting from smaller construction companies to much larger contractors. The Company plans to expand Construction Services' market share significantly by acquiring established companies that have a strong customer base.

PROPANE, PIPELINES AND STORAGE

PROPANE COMPANY ACQUIRED. The Company entered the propane distribution business with the acquisition of Hotflame Gas, Inc. and Hot Flame Transport Co., Inc. (together "Hotflame") on March 31, 1998. The acquisition of Hotflame was accounted for as a purchase and, therefore, only the results of operations since April 1998 are included in the consolidated financial statements and the table below. Hotflame's 1998 operating results do not include the very profitable winter heating months of January through March.

The operating results of the Company's pipelines and storage operations have been fairly consistent over the past three years. The operations consist of several pipelines and an ownership interest in a gas storage facility (separate from the Gas Company), all of which are located in Michigan.

<TABLE>
<CAPTION>

Years Ended December 31,	1998	1997	1996
		(in thousands)	
<S>	<C>	<C>	<C>
Propane, Pipelines and Storage			
Operating revenues	$ 4,852	$ 3,027	$ 3,070
Operating expenses	$ 3,267	$ 1,569	$ 1,599
Operating income	$ 1,585	$ 1,458	$ 1,471

</TABLE>

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PROPANE, PIPELINES AND STORAGE (CONT.)

OPERATING REVENUES. Operating revenues were $4.8 million in 1998 compared to $3.0 million in 1997. The increase was due primarily to the propane distribution revenue recorded in 1998 for Hotflame.

OPERATING INCOME. Operating income was generally unchanged with nearly all income coming from the pipeline and storage operations. The propane operation did not contribute any operating income due to the combination of the warm weather (19% warmer than normal in the Company's propane market area) and the fact that the operating results did not include operating income from the profitable winter heating months of January through March. On a weather-normalized basis, the propane operation would have contributed $.2 million to operating income for the period of April through December of 1998.

OUTLOOK. Management's goal is to build a strong regional propane business. Growth will be focused in the Midwest and regions contiguous to the Company's existing propane or natural gas operations. Hotflame is currently the largest provider of propane in the upper peninsula of Michigan. Through prudent acquisitions, management will attempt to double or triple the size of the Company's propane operation over the next five years.

Management believes that the gas pipelines and storage operations could experience opportunities for growth with the increased deregulation of gas markets. As gas markets continue to expand, management feels that the quantity of gas moving through the Great Lakes Region will increase, therefore, creating additional pipeline and storage opportunities.

ENERGY MARKETING

On March 15, 1999, the Company entered into an agreement, subject to approval under the Hart-Scott-Rodino Anti-Trust Improvements Act of 1987, to sell its energy marketing business ("Energy Services") to another energy marketer. Management has concluded that the relatively low margins, generally poor industry returns and high risks associated with natural gas marketing do not support remaining in the business. The gas marketing business no longer fits the Company's future strategic direction.

Years Ended December 31,	1998	1997	1996
	(in thousands, except gas marketing volumes)		
Energy Marketing			
Gas marketing revenues	$397,888	$555,367	$344,379
Cost of gas marketed	393,762	546,562	344,295
Gas marketing margin	$ 4,126	$ 8,805	$ 84
Operating expenses	$ 4,822	8,588	3,941
Operating income (loss)	$ (696)	$ 217	$ (3,857)
Gas marketing volumes (MMcf)	166,197	199,689	129,429

The amounts in the table above include intercompany transactions

ENERGY MARKETING (CONT.)

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GAS MARKETING MARGIN. Gas marketing margin for 1998 decreased by $4.7 million when compared to 1997 due primarily to the impact of warm weather on market demand, increased competition, restructuring activities at Energy Services and a decrease in gas marketing volumes. The warm weather reduced prices which decreased gas marketing margins. Increased competition also continued to put downward pressure on gas marketing margins. During 1998, Energy Services terminated agreements with all of its third-party gas marketing companies in an effort to reduce risks, eliminate lower margin transactions and improve profitability. The termination of these agreements accounts for a portion of the decrease in gas marketing volumes when compared to 1997.

In 1997, natural gas marketing revenues and volumes increased $211 million (or 61%) and 70,260 MMcf (or 54%), respectively, when compared to 1996. Revenues and volumes increased significantly due to the development of additional marketing offices. The $8.7 million increase in gas marketing margin in 1997, when compared to 1996, was due to the impact on 1996 results of uneconomical trading contracts which Energy Services has since terminated.

OPERATING EXPENSES. Operating expenses decreased by $3.8 million (or 44%) in 1998, compared to 1997, due to lower incentive payments to the Company's third-party gas marketers and the termination of gas marketing agreements with these companies as discussed above.

In 1997, operating expenses increased $4.6 million (or 118%) when compared to 1996. The increase was due to larger third-party marketer incentive payments relating to higher margins ($2.2 million), additional expenses to support increased gas marketing volumes ($1.1 million), increased receivables write-offs ($.6 million) and other restructuring charges and taxes ($.7 million).

OTHER INCOME AND DEDUCTIONS

<TABLE>
<CAPTION>

Years Ended December 31,	1998	1997	1996
		(in thousands)	
<S>	<C>	<C>	<C>
Consolidated Other Income (Deductions):			
Divestiture of NOARK investment	$ 5,048	$ 7,730	$(32,308)
Interest expense	(14,811)	(13,059)	(11,083)
Dividends on preferred stock	(193)	(194)	(194)
Other	836	250	(1,117)
	$ (9,120)	$ (5,273)	$(44,702)

</TABLE>

DIVESTITURE OF NOARK INVESTMENT. On January 14, 1998, the Company sold its entire interest in the NOARK Pipeline System Partnership ("NOARK") to ENOGEX Arkansas Pipeline Corporation ("EAPC"). Refer to Note 15 of the Notes to the Consolidated Financial Statements for additional information regarding NOARK.

OTHER INCOME AND DEDUCTIONS (CONT.)

In December 1996, the Company recorded a $21.0 million after-tax non-cash write-down of its general partnership interest in NOARK. In December 1997, the Company reduced its reserve for NOARK by $5.0 million after-tax based on the terms of the pending sale. The sale occurred in January 1998 and, including subsequent adjustments, resulted in a final gain on the sale of NOARK of $1.7 million after-tax. The adjustments to the gain included income tax benefits related to tax losses generated by the partnership and adjustments to discount rates used to compute the present value of future cash flows pursuant to the terms of the sale. The discount

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rates were adjusted to better reflect actual market rates at the time of the sale.

INTEREST EXPENSE. Interest expense increased by $1.7 million (or 13%) in 1998 compared to 1997 due to the higher levels of debt outstanding during the first half of 1998. The additional debt had been incurred to finance the Company's ongoing capital expenditure program and for general corporate purposes. During August 1998 the Company sold 1.82 million shares of its common stock and used a significant portion of the net proceeds to repay short-term debt. See Note 5 of the Notes to the Consolidated Financial Statements for more information on debt issuances and refinancings. Interest expense increased by $2.0 million (or 18%) in 1997 compared to 1996 due primarily to increases in debt levels to finance the Company's capital expenditure program and for general corporate purposes.

OTHER. In 1998, other income increased by $.6 million when compared to 1997. The increase is due primarily to the impact of discontinuing the Company's unprofitable appliance merchandising programs in 1997 and an increase in equity income from partnership investments in gas pipeline and gas storage facilities. Other income increased by $1.4 million from 1996 to 1997. The increase is attributable mainly to the change in accounting treatment for NOARK in 1996. With its write-down of NOARK in December 1996, the Company discontinued accounting for NOARK under the equity method and stopped accruing interest income on advances to the NOARK partnership.

ACCOUNTING METHOD CHANGE AND EXTRAORDINARY ITEM

The Company changed its method of accounting for property taxes during 1998. The cumulative effect of the change in accounting method increased earnings by $1.8 million. The Company also incurred an extraordinary charge of $.5 million after-tax during 1998 for the early redemption of all of its outstanding 8.625% debentures due April 15, 2017. Refer to Note 1 of the Notes to the Consolidated Financial Statements for more information on these items.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS FROM INVESTING. The Company's single largest use of cash is capital investments. The following table identifies investments for the past three years:

<TABLE>
<CAPTION>

Years Ended December 31,	1998	1997	1996
		(in thousands)	
<S>	<C>	<C>	<C>
Capital Investments			
Property additions - gas distribution	$ 23,029	$ 28,201	$ 30,169
Property additions - diversified businesses	2,246	1,272	355
Business acquisitions <F1>	20,356 <F2>	15,567	--
	$ 45,631	$ 45,040	$ 30,524

<FN>
<F1>
Includes the value of Company stock issued for acquisitions.
<F2>
Includes $14,073 of Company stock issued for the acquisition of OMC. The acquisition of OMC was accounted for as a pooling of interests.
</FN>
</TABLE>

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Capital expenditures for gas distribution represent primarily new customer additions and, to a lesser extent, plant repair and replacement. In addition, the Company invested approximately $4.5 million, $8 million and $2 million in technology in 1998, 1997 and 1996, respectively. This technology consists of automated meter reading, automated dispatch and scheduling, in-truck computer terminals and other computer infrastructure improvements which are expected to increase significantly customer service and operational efficiency at the gas distribution operation.

In 1999, the Company plans to spend approximately $20 million on property additions for the gas distribution and diversified businesses. In addition, the Company is planning to incur additional expenditures for business acquisitions in 1999.

CASH FLOWS FROM OPERATIONS. The Company's net cash provided from operating activities totaled $24.7 million in 1998, $9.0 million in 1997, and $11.4 million in 1996. The change in operating cash flows is significantly influenced by changes in the level and cost of gas in underground storage, changes in accounts receivable and accrued revenue and other working capital changes. The changes in these accounts are largely the result of the timing of receipts and payments.

The Company uses significant amounts of short-term borrowings to finance natural gas purchases for storage during the non-heating season. The Company owns and leases natural gas storage facilities with available capacity approximating 35% to 40% of average annual gas sales. Generally, gas is stored during the months of April through October and withdrawn for sale from November through March. The carrying amount of natural gas stored underground peaked at $58 million, $59 million, and $38 million in October 1998, 1997, and 1996, respectively.

LIQUIDITY AND CAPITAL RESOURCES (CONT.)

CASH FLOWS FROM FINANCING. The Company raised $6.2 million by issuing new common shares during 1998 to meet the dividend reinvestment and stock purchase requirements of the DRIP.

In April 1998 the Company redeemed all of its outstanding 8.625% debentures due April 15, 2017. The redemption was accomplished using short-term debt.

The Company and SEMCO Capital Trust filed a registration statement on Form S-3 ("registration statement") with the Securities and Exchange Commission ("Commission") in July 1998 for the registration of debt securities and common stock of the Company and trust preferred securities of SEMCO Capital Trust in any combination up to $200 million.

During August 1998 the Company sold 1.82 million shares of its common stock in a public offering. The proceeds of the offering were $26.2 million after underwriting discounts but before expenses. The Company used the net proceeds from the stock issuance to repay short-term debt and for general corporate purposes.

In October 1998, the Company entered into a Distribution Agreement with Merrill Lynch & Co., Morgan Stanley Dean Witter, A.G. Edwards & Sons, Inc. and Edward D. Jones & Co., L.P. pursuant to which it may issue, from time to time, an aggregate of $150 million of medium-term notes.

The Company issued, in November 1998, $5 million of 6.40% medium-term notes due November 2008, $15 million of 6.50% medium-term notes due November 2005, and $10 million of 7.03% medium-term notes due November 2013.

During 1998, the Company made a $9.2 million payment on a note payable to EAPC pursuant to the terms of the sale of NOARK (See Note 15 of the Notes to the Consolidated Financial Statements).

The Company issued 1.3 million shares of its common stock to the shareholders of businesses acquired during 1998. Of the shares issued, .9 million were for the acquisition of OMC which was accounted for as a pooling of interests. See Notes 1 and 3 of the Notes to the Consolidated

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Financial Statements for more information.

Dividends paid to common shareholders increased from 1996 through 1998 due to the impact of 5% stock dividends in each of those three years. The stated cash dividend of $.20 per share per quarter did not change. However, the acquisition of OMC was accounted for as a pooling of interests and, accordingly, the 1998, 1997 and 1996 dividends paid have been restated to include the dividends paid by OMC.

FUTURE FINANCING. In general, the Company funds its capital expenditure program and dividend payments with operating cash flows and the utilization of short-term lines of credit. When appropriate, the Company will refinance its short-term lines with long-term debt, common stock or other long-term financing instruments. The Company expects to acquire additional businesses in 1999 and will likely raise the required capital through a combination of utilizing short-term lines of credit and issuing long-term debt or equity. At December 31, 1998, the Company had $110 million of short-term credit facilities, of which $50.2 million was unused.

LIQUIDITY AND CAPITAL RESOURCES (CONT.)

During 1999, the Company will make a $3.1 million payment to EAPC pursuant to the terms of the sale of NOARK. See Note 15 of the Notes to the Consolidated Financial Statements for a discussion of the amounts to be paid in conjunction with the sale of NOARK.

COMMODITY HEDGING. Energy Services has entered into various long-term sales commitments which may extend up to 60 months into the future. Energy Services maintains a hedging program with the objective of preserving the anticipated margin on these sales commitments. The hedges are designed to ensure that the impact of natural gas price fluctuations on the fair value of long-term sales commitments will be offset by gains and losses on the hedging instrument. The most frequently used hedging instruments are natural gas futures and options, although Energy Services may also enter into natural gas swap agreements, enter into contracts to purchase natural gas from producers for future delivery or inject gas into storage for later withdrawal.

Critical to the success of the hedging program is the performance by both the party to the hedge and the marketing customer buying gas under the long-term sales commitment. Energy Services performs extensive credit reviews on new and existing marketing customers and only enters into hedging transactions with reputable dealers, primarily on the NYMEX, or directly with reliable suppliers.

At December 31, 1998 and 1997, Energy Services had recorded net deferred gains (losses) from its hedging program of approximately ($3.3 million) and $.1 million, respectively. At the same time, Energy Services had offsetting amounts of unrecorded gains or losses pursuant to the underlying long-term sales commitments.

See Note 8 of the Notes to the Consolidated Financial Statements for further information regarding the types, underlying notional volumes, and fair values of Energy Services' hedges at December 31, 1998 and 1997.

MARKET RISK INFORMATION. The market risk inherent in the Company's market risk sensitive instruments and positions is the potential loss arising from adverse changes in natural gas prices. The prices of natural gas are subject to fluctuations resulting from changes in supply and demand. To reduce price risk caused by these market fluctuations, the Company's policy is to hedge (through the use of derivatives) inventory and related purchase and sale contracts. Because commodities covered by these derivatives are substantially the same commodities that the Company buys and sells in the physical market, no special correlation studies other than monitoring the degree of convergence between the derivative and cash markets, are deemed necessary. (The changes in market value of these financial instruments have a high correlation to the price changes of natural gas.)

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONT.)

LIQUIDITY AND CAPITAL RESOURCES (CONT.)

A sensitivity analysis has been prepared to estimate the price exposure to the market risk of the Company's natural gas commodity position. The Company's monthly net commodity position consists of natural gas inventories, purchase and sale contracts, and derivative financial and commodity instruments. The fair value of this position is a summation of the fair value of each position calculated by valuing each net position at quoted futures prices. Market risk is estimated as the potential loss in fair value resulting from a hypothetical 25% adverse change in such prices over the next 12 months. The results of this analysis, which may differ from actual results, showed that this type of change would reduce the market value of the Company's net commodity position by less than $50,000.

IMPACT OF INFLATION

The cost of gas sold by the Gas Company is recovered from natural gas distribution customers on a current basis through its GCR clause. However, the MPSC has authorized the Company to suspend its GCR clause and freeze for three years in its base rates a gas charge of $3.24 per Mcf. The GCR suspension and rate freeze take effect in April 1999 and generally extend through March 2002. See Note 2 of the Notes to the Consolidated Financial Statements for more information regarding the rate freeze.

Increases in other utility operating costs are recovered through the regulatory process of a rate case and, therefore, may adversely affect the results of operations in inflationary periods due to the time lag involved in this process. The Company attempts to minimize the impact of inflation by controlling costs, increasing productivity and filing rate cases on a timely basis.

INDUSTRY TRENDS

COMPETITION. The market prices of alternate sources of energy such as coal and #6 fuel oil compete to a limited degree with the price the Gas Company charges for industrial sales and transportation of natural gas. To lessen the possibility of a fuel switch by industrial customers, the Company offers additional services, such as gas storage and balancing, in addition to a more environmentally friendly fuel.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONT.)

INDUSTRY TRENDS (CONT.)

The Gas Company serves a number of industrial and generating plants on various parts of its system. Some of these plants are also located in the vicinity of interstate natural gas pipelines. As is the case with many local gas distribution utilities, the Gas Company is subject to being bypassed by these pipelines. In response to this threat, the Gas Company, from time to

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time, enters into agreements with companies under which the Gas Company may reduce the rates it charges for transportation of natural gas to the companies' plants, in return for which the plants will continue to use the Gas Company system for all of their requirements for natural gas distribution and transportation service, and not connect directly to the pipelines. The Gas Company is currently negotiating agreements with two plants. There can be no assurance that other plants located on the Gas Company's system and accessible to interstate pipelines will not also seek to take advantage of bypass opportunities in the future.

Engineering Services competes with regional, national and international firms as well as in-house engineering and field service departments. Because of the minimal initial capital requirements it is likely that new competition will arise from other firms that possess the professional requirements and qualifications.

Success in the engineering services market depends on factors such as technical expertise, experience, price, financial stability and the availability of skilled, technical personnel possessing required industry qualifications. On the basis of these factors, the Company believes it will compete favorably. With the recent downturn in oil prices, there has been a reduction in oil and gas production and related activities, as a result of which OMC has experienced a reduction in the level of available construction inspection and quality assurance projects. Management believes that the level of these activities and available projects will increase as oil prices recover.

Construction Services competes with small- and medium-size regional utility contractors who provide similar services and utilize comparable equipment and installation techniques. There is also competition from in-house construction crews of the existing or prospective customers. The Company believes that its level of expertise, experience and resources will allow it to compete favorably in the construction industry.

The Company's retail propane business competes with other energy sources such as natural gas, fuel oil and electricity. There is also competition from other regional propane providers. Expansion of natural gas service into propane markets is inhibited due to the capital costs involved in the pipeline infrastructure. Propane is less expensive to use than electricity and conversion of appliances from one fuel to another is costly thereby protecting existing propane markets.

The basis of competition with other regional propane providers is price and service. Based on the Company's history of providing safe, reliable and timely service to its customers, the Company believes it will compete favorably with other propane providers.

Energy Services competes based on its ability to access competitively priced natural gas and efficiently utilize the pipeline transmission system. Price is the prominent competitive factor in sales to wholesale customers, such as gas distribution companies and municipalities. In retail activities, Energy Services competes based on its ability to offer a broad range of competitively priced products and services that are tailored to meet the needs of individual customers.

INDUSTRY TRENDS (CONT.)

REGULATION. Since 1994 interstate pipelines have unbundled their services to offer separate service for gas transportation, storage and gathering. As a result, natural gas distribution companies have the ability to select and pay for only those pipeline services they require. In addition, customers on natural gas distribution systems may purchase the same level of unbundled service directly from the interstate pipelines. Under such circumstances, natural gas distribution companies generally provide transportation services to those customers.

The availability of unbundled pipeline services has resulted in continued pressure on gas distribution companies to offer similar unbundled services in order to facilitate the customers' choice of possible suppliers. This competition has resulted in some reduction in natural gas transportation margins. Currently, the Gas Company is providing transportation services principally to large industrial and commercial customers.

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YEAR 2000

STATE OF READINESS. The Company uses computer systems, equipment, software and related devices ("technology systems") that have date-sensitive embedded technology that may not be able to distinguish between the year 1900 and the year 2000 ("Y2K"). If not corrected, this could cause the Company to, among other things, report inaccurate data, issue inaccurate bills or incur gas delivery problems. The Company has initiated an enterprise-wide plan to prepare for Y2K (the "Y2K Plan"). The Y2K Plan has four phases: (i) identification; (ii) remediation; (iii) testing; and (iv) contingency planning. The identification phase includes identification, inventory, assessment, and prioritization plan development for all technology systems. The remediation phase involves the upgrading, modification, or replacement of technology systems. The testing phase includes testing the remediated technology systems to ensure that they accurately handle the year 2000 date and monitoring the remediated systems to ensure that Y2K problems are not reintroduced. The contingency planning phase involves the development of contingency plans to address certain risk scenarios.

The Y2K Plan is being used for traditional information technology ("IT") which includes essential business systems such as payroll, billing, accounting systems, wide area networks, local area networks, personal computers, etc. The Company is also using the Y2K Plan for process control computers and embedded systems contained in buildings, equipment and the gas supply and delivery systems.

The Company has completed the identification phase for all significant internal technology systems and is currently in the remediation and testing phases on most of its Y2K projects. The Company currently plans to complete the remediation phase for all significant internal technology systems by July 1999 and complete the testing phase by September 1999, with continuous monitoring of tested systems through the end of 1999. The Company is in the early stages of contingency planning for its Y2K projects and plans to be completed with all contingency planning by November 1999.

YEAR 2000 (CONT.)

The Company has inquired of third parties, i.e., vendors, suppliers and customers, which have a material relationship with the Company, as to the status of their Y2K readiness. To date, the Company has not received all of the responses from these third parties and, therefore, is unable to state with reasonable assurance the status of their readiness for Y2K. The Company continues to work with critical vendors, suppliers and customers to gain assurance of their Y2K readiness, and will develop contingency plans to mitigate anticipated shortcomings in their readiness.

COST OF REMEDIATION. The Company is expensing the cost of modifications to technology systems as incurred, while capitalizing and amortizing the cost of new software over its useful life. The Company estimates that the total cost of the Y2K Plan is approximately $2.0 to $2.5 million. Costs incurred through December 31, 1998 related to the Y2K Plan were approximately $1.3 million, with the majority of the work being performed by Company employees. The Company has incurred an opportunity cost for implementing the Y2K Plan, thus deferring potentially beneficial IT projects.

RISK ASSESSMENT. The Company has identified what it believes are the most significant worst case Y2K scenarios. These scenarios are (i) interference with the Company's ability to receive and deliver gas to customers and perform services for customers; (ii) interference with the Company's ability to monitor gas pressure and safety throughout the Company's gas distribution system; (iii) interference with communications during safety related emergencies and (iv) interference with the Company's ability to bill and receive payments from customers. These scenarios could result in the Company not being able to deliver gas or perform other services for a period of time, which could have a material adverse effect on the Company's liquidity, financial condition and results of operations. The Company's Y2K Plan is being used to address these worse case scenarios. Contingency plans will be

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revised and executed to further mitigate the risks associated with these scenarios.

The Company expects that its Y2K Plan will be adequate to address its Y2K issues and is developing contingency plans to further assure that vital functions of the Company dependent on third parties will continue uninterrupted. Contingency plans will include existence of short-term in-house capabilities (i.e. back-up power generation) and diversification of goods and services among multiple suppliers (i.e. pipeline companies). However, there are functions, which cannot be duplicated, such as the local telephone network, which remain a vulnerability to the Company. Of course, there can be no assurance as to whether the contingency plans will successfully address all contingencies that may arise. In the event that the Company is unsuccessful in addressing its Y2K issues, there could be a material adverse effect on the Company's liquidity, financial condition and results of operations.

NEW ACCOUNTING STANDARDS

In June of 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

SFAS 133 is effective for fiscal years beginning after June 15, 1999. The Company has not yet quantified the impacts of adopting SFAS 133 on its financial statements and has not determined the timing of or method of its adoption of SFAS 133. However, SFAS 133 could increase volatility in earnings and other comprehensive income.

In December 1998, the Emerging Issues Task Force reached consensus on Issue No. 98-10, "Accounting for Contracts Involved in Energy Trading and Risk Management Activities" ("EITF Issue 98-10"). EITF Issue 98-10 is effective for fiscal years beginning after December 15, 1998. EITF Issue 98-10 requires energy trading contracts to be recorded at fair value on the balance sheet, with the changes in fair value included in earnings. The effects of initial application of EITF Issue 98-10 will be reported as a cumulative effect of a change in accounting principle. Financial statements for periods prior to initial adoption of EITF Issue 98-10 may not be restated. The Company has not yet quantified the impacts of adopting EITF Issue 98-10 on its financial statements but does not anticipate that the accounting change will have a material effect going forward.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONT.)

FORWARD LOOKING STATEMENTS

This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on current expectations, estimates and projections. Statements that are not historical facts, including statements about the Company's belief and expectations are forward-looking statements. These statements are subject to potential risks and uncertainties and, therefore, actual results may differ materially. The Company undertakes no obligation to update publicly any forward-looking statements whether as a result of new information, future events or otherwise. Factors that may impact forward-looking statements include, but are not limited to, the following: (i) the effects of weather and other natural phenomena; (ii) the economic climate and growth in the geographical areas where the Company does business; (iii) the capital intensive nature of the Company's business; (iv) increased competition within the energy marketing industry as well as from alternative forms of energy; (v) the timing and extent of changes in commodity prices for natural gas; (vi) the effects of changes in governmental and regulatory policies, including income taxes, environmental compliance and authorized rates; (vii) the Company's ability to bid on and win business contracts; (viii) the impact of energy prices on the amount of projects and business available to Engineering Services; (ix) the nature, availability and projected profitability of potential investments available to the Company and (x) the conditions of capital markets and equity markets.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

<TABLE>
CONSOLIDATED STATEMENTS OF INCOME
<CAPTION>

Years Ended December 31,	1998	1997	1996
	(in thousands of dollars, except per share amounts)		
<S>	<C>	<C>	<C>
OPERATING REVENUES			
Gas sales	$166,700	$218,180	$219,371

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Gas transportation	14,832	13,243	12,358
Engineering services	40,937	5,660	2,961
Construction services	16,621	7,484	--
Gas marketing	390,817	526,962	308,703
Other operations	7,578	4,403	4,517
	$637,485	$775,932	$547,910
OPERATING EXPENSES			
Cost of gas sold	$109,388	$150,967	$151,135
Cost of gas marketed	386,691	518,157	308,619
Operations and maintenance	92,696	55,209	43,211
Depreciation	15,349	12,877	11,334
Property and other taxes	9,166	9,555	8,777
	$613,290	$746,765	$523,076
OPERATING INCOME	$ 24,195	$ 29,167	$ 24,834
OTHER INCOME (DEDUCTIONS)			
Divestiture of NOARK investment	$ 5,048	$ 7,730	$(32,308)
Interest expense	(14,811)	(13,059)	(11,083)
Dividends on preferred stock	(193)	(194)	(194)
Other	836	250	(1,117)
	$ (9,120)	$ (5,273)	$(44,702)
INCOME (LOSS) BEFORE INCOME TAXES	$ 15,075	$ 23,894	$(19,868)
INCOME TAXES	$ 6,320	$ 8,469	$ (7,106)
NET INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING METHOD CHANGE AND EXTRAORDINARY CHARGE	$ 8,755	$ 15,425	$(12,762)
Cumulative effect of change in accounting method for property taxes, net of income taxes of $960	1,784	--	--
Extraordinary charge due to early retirement of debt, net of income taxes of $269	(499)	--	--
NET INCOME (LOSS)	$ 10,040	$ 15,425	$(12,762)
EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED	$ 0.63	$ 1.06	$ (0.88)
CASH DIVIDENDS PAID PER SHARE	$ 0.74	$ 0.70	$ .67
AVERAGE COMMON SHARES OUTSTANDING	15,906	14,608	14,573

</TABLE>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

<TABLE>
CONSOLIDATED STATEMENTS OF CASH FLOWS
<CAPTION>

Years Ended December 31,	1998	1997	1996
	(in thousands of dollars)		
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 10,040	$ 15,425	$ (12,762)
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Depreciation	15,349	12,877	11,334
Extraordinary charge	499	--	--
Divestiture of NOARK investment	(5,048)	(7,730)	32,308
Deferred taxes and investment tax credit	1,832	6,388	(7,148)
Equity (income) loss, net of distributions	168	402	3,740
Changes in assets and liabilities, net of effects of acquisitions and other changes as shown below:	1,848	(18,393)	(16,099)

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Net Cash From Operating Activities	$ 24,688	$ 8,969	$ 11,373
CASH FLOWS FROM INVESTING ACTIVITIES			
Property additions - gas distribution	$ (23,029)	$ (28,201)	$ (30,169)
Property additions - diversified businesses	(2,246)	(1,272)	(355)
Property sales proceeds, net of retirement costs	871	373	865
Acquisitions of businesses, net of cash acquired	26	(15,117)	--
Advances to equity investees	(4,284)	(3,308)	(844)
Net Cash From Investing Activities	$ (28,662)	$ (47,525)	$ (30,503)
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of common stock, net of expenses	$ 32,570	$ 5,874	$ 5,132
Repurchase of common stock and related expenses	--	(3,071)	(5,629)
Net cash change in notes payable	(20,561)	(19,976)	39,612
Issuance of long-term debt, net of expenses	29,390	60,000	--
Repayment of long-term debt and related expenses	(24,503)	(25)	(15)
Payment of dividends	(12,029)	(10,419)	(10,008)
Net Cash From Financing Activities	$ 4,867	$ 32,383	$ 29,092
CASH AND TEMPORARY CASH INVESTMENTS			
Net increase (decrease)	$ 893	$ (6,173)	$ 9,962
Beginning of year	4,060	10,233	271
End Of Year	$ 4,953	$ 4,060	$ 10,233
Changes in assets and liabilities, net of effects of acquisitions and other changes:			
Receivables, net	$ 21,095	$ (3,836)	$ (10,619)
Accrued revenue	6,083	9,551	(37,695)
Materials, supplies and gas in underground storage	(1,710)	(3,175)	(12,380)
Gas charges, recoverable from customers	8,375	(6,140)	(7,937)
Accounts payable	(24,449)	(20,439)	57,489
Customer advances and amounts payable to customers	1,594	(2,263)	(1,539)
Other	(9,140)	7,909	(3,418)
	$ 1,848	$ (18,393)	$ (16,099)

</TABLE>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

<TABLE>
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
<CAPTION>

At December 31,	1998	1997
	(in thousands of dollars)	
<S>	<C>	<C>
ASSETS		
Current Assets		
Cash and temporary cash investments, at cost	$ 4,953	$ 4,060
Receivables, less allowances of $632 and $1,498	31,003	51,635
Accrued revenue	60,915	66,998
Materials and supplies, at average cost	2,191	2,924
Gas in underground storage	38,526	36,083
Gas charges, recoverable from customers	11,556	19,931
Other	13,906	11,702
	$163,050	$193,333
Property, Plant and Equipment		
Gas Distribution	$364,513	$344,568
Diversified Businesses	43,857	37,267

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	$408,370	$381,835
Less - Accumulated depreciation	118,132	106,256
	$290,238	$275,579
Deferred Charges and Other		
Unamortized debt expense	$ 5,619	$ 5,284
Advances to equity investees	--	8,370
Other	30,755	24,594
	$ 36,374	$ 38,248
Total Assets	$489,662	$507,160
LIABILITIES AND CAPITALIZATION		
Current Liabilities		
Notes payable	$ 63,576	$ 71,406
Accounts payable	57,498	80,043
Customer advance payments	10,417	8,035
Accumulated deferred income taxes	2,344	1,594
Accrued interest	1,935	1,997
Other	7,270	13,986
	$143,040	$177,061
Deferred Credits and Other		
Reserve for equity investment	$ --	$ 25,212
Accumulated deferred income taxes	17,985	15,046
Unamortized investment tax credit	2,247	2,515
Customer advances for construction	3,147	3,935
Other	17,760	21,443
	$ 41,139	$ 68,151
Capitalization		
Long-term debt	$170,000	$163,548
Cumulative preferred stock of subsidiary	3,100	3,100
Cumulative convertible preferred stock	155	169
Common shareholders' equity	132,228	95,131
	$305,483	$261,948
Total Liabilities and Capitalization	$489,662	$507,160

</TABLE>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

<TABLE>
CONSOLIDATED STATEMENTS OF CAPITALIZATION

<CAPTION>

At December 31,	1998	1997
	(in thousands of dollars)	
<S>	<C>	<C>
LONG-TERM DEBT		
6.83% notes due 2002	$ 30,000	$ 30,000
8.00% notes due 2004	55,000	55,000
7.20% notes due 2007	30,000	30,000
8.32% notes due 2024	25,000	25,000
6.50% medium-term notes due 2005	15,000	--
6.40% medium-term notes due 2008	5,000	--
7.03% medium-term notes due 2013	10,000	--
8.625% debentures due 2017	--	23,548

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	$170,000	$163,548
CUMULATIVE PREFERRED STOCK OF SUBSIDIARY		
$100 par value (callable at option of Subsidiary)		
6.0% series A--15,000 shares authorized and outstanding	$ 1,500	$ 1,500
5.5% series B--10,000 shares authorized and outstanding	1,000	1,000
5.5% series C--5,000 shares authorized; 4,000 shares outstanding	400	400
5.5% series D--2,000 shares authorized and outstanding	200	200
	$ 3,100	$ 3,100
CUMULATIVE CONVERTIBLE PREFERRED STOCK		
Convertible preferred stock, par value $1 per share--authorized 500,000 shares issuable in series; 6,218 and 6,751 shares outstanding	$ 6	$ 7
Capital surplus	149	162
	$ 155	$ 169
COMMON SHAREHOLDERS' EQUITY		
Common stock, par value $1 per share--authorized 20,000,000 shares; 17,382,229 and 14,066,244 shares outstanding	$ 17,382	$ 14,066
Capital surplus	116,663	81,086
Retained earnings (deficit)	(1,817)	(21)
	$132,228	$ 95,131
	$305,483	$261,948

</TABLE>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

<TABLE>
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' INVESTMENT

<CAPTION>

Years Ended December 31,	1998	1997	1996
	(in thousands of dollars)		
<S>	<C>	<C>	<C>
CUMULATIVE CONVERTIBLE PREFERRED STOCK			
Beginning of year	$ 7	$ 7	$ 7
Conversion of preferred stock	(1)	--	--
End of year	$ 6	$ 7	$ 7
CUMULATIVE CONVERTIBLE PREFERRED STOCK CAPITAL SURPLUS			
Beginning of year	$ 162	$ 162	$ 165
Conversion of preferred stock	(13)	--	(3)
End of year	$ 149	$ 162	$ 162
COMMON STOCK			

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Beginning of year	$ 14,066	$13,221	$12,619
5% stock dividends May 1998, May 1997 and May 1996	726	661	629
Issuance of common stock for acquisitions, the DRIP and other	770	346	293
Issuance of common stock through public offering	1,820	--	--
Repurchase of common stock	--	(162)	(320)
End of year	$ 17,382	$14,066	$13,221
COMMON STOCK CAPITAL SURPLUS			
Beginning of year	$ 81,086	$78,678	$79,774
5% stock dividends May 1998, May 1997 and May 1996	(726)	(661)	(629)
Issuance of common stock for acquisitions, the DRIP and other	12,243	5,978	4,842
Issuance of common stock through public offering	24,060	--	--
Repurchase of common stock	--	(2,909)	(5,309)
End of year	$116,663	$81,086	$78,678
RETAINED EARNINGS (DEFICIT)			
Beginning of year	$ (21)	$(5,221)	$17,355
Net income (loss)	10,040	15,425	(12,762)
Cash dividends on common stock	(11,836)	(10,225)	(9,814)
End of year	$ (1,817)	$ (21)	$(5,221)

</TABLE>

The accompanying notes to the consolidated financial statements are an integral part of these statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

SEMCO Energy, Inc., is an investor-owned holding company. SEMCO Energy, Inc. and its subsidiaries (the "Company") operate five business segments. The business segments are gas distribution, engineering services, construction services, energy marketing and propane, pipelines and storage. The Company's gas distribution business segment ("Gas Company") distributes and transports natural gas to nearly 250,000 customers within the state of Michigan. The engineering services segment ("Engineering Services") has offices in New Jersey, Michigan, Louisiana and Texas and provides a variety of energy related engineering services in several states. The construction services business segment ("Construction Services") with offices throughout Michigan and one in Tennessee provides primarily pipeline construction services in Michigan, Tennessee and Florida. The propane, pipelines and storage segment supplies propane to over 7,500 retail customers in Michigan's upper peninsula and northeast Wisconsin and operates natural gas transmission, gathering and storage facilities in Michigan. The energy marketing business segment ("Energy Services") engages in energy marketing to approximately 188 customers located in several states.

POOLING OF INTERESTS. During 1998, the Company acquired Oilfield Materials Consultants, Inc. ("OMC"). The acquisition of OMC was accounted for as a pooling of interests, and accordingly, the consolidated financial statements and notes for the periods presented have been restated to include the financial results of OMC. See Note 3 for further information.

FINANCIAL STATEMENT PRESENTATION. The financial statements of the Company are presented in the conventional classification format rather than a

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regulated utility format, which has been used in the past. Certain reclassifications have been made to the prior years' financial statements to conform with the 1998 presentation.

USE OF ESTIMATES. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of SEMCO Energy, Inc. and its wholly-owned subsidiaries. Investments in unconsolidated companies at least 20% owned, but not greater than 50% owned, are reported using the equity method of accounting.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

Certain of the Company's nonregulated businesses supply goods and services at a profit to the Company's regulated gas distribution business. In these situations, intercompany profits remaining in the assets of the regulated business at a particular date are not eliminated since it is probable that, through the ratemaking process, the cost will be recovered through future revenue. As a result, $595,000 and $437,000 of profit on sales earned from the Company's regulated business by the Company's nonregulated businesses was not eliminated during consolidation in 1998 and 1997, respectively. All other significant intercompany transactions have been eliminated.

RATE REGULATION. The rates of the Gas Company's customers located in the Battle Creek division are subject to the jurisdiction of the City Commission of Battle Creek, Michigan. The Michigan Public Service Commission ("MPSC") authorizes the rates charged to all of the remaining Gas Company customers.

PROPERTY, PLANT, EQUIPMENT AND DEPRECIATION. The Company's property, plant and equipment ("property") is recorded at cost. The Company provides for depreciation on a straight-line basis over the estimated useful lives of the related property. The ratio of depreciation to the average balance of property approximated 3.9%, 3.6% and 3.6% for the years 1998, 1997 and 1996, respectively. Certain investments in unconsolidated companies recorded using the equity method are reported in the property of the diversified businesses. See Note 13 for further discussion.

GAS IN UNDERGROUND STORAGE. Gas in underground storage for the Gas Company's MPSC division is reported at average cost. The Battle Creek division's gas inventory is stated at last-in, first-out ("LIFO") cost. At December 31, 1998 and 1997, the replacement cost of the Battle Creek division's gas inventory did not exceed the LIFO cost. Energy Services reports gas in storage at average cost.

In general, commodity costs and variable transportation costs are capitalized as gas in underground storage. Fixed costs, primarily pipeline demand charges and storage charges, are expensed as incurred through cost of gas.

REVENUE RECOGNITION. The Gas Company bills monthly on a cycle basis and follows the industry practice of recognizing accrued revenue for gas services rendered to its customers but not billed at month end. Engineering Services and Construction Services recognize revenues as services are rendered and recognize accrued revenue for services rendered but not billed at month end. The propane business recognizes propane sales in the same period that the

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propane is delivered to customers. Energy Services recognizes marketing revenues, and any related hedging gains or losses, in the same period natural gas is delivered to customers. See Note 8 for further discussion about Energy Services' hedging activities.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

COST OF GAS. The Gas Company has regulator approved gas cost recovery ("GCR") mechanisms which allow for the adjustment of rates charged to customers in response to increases and decreases in the cost of gas purchased. In 1998, the MPSC authorized the Gas Company to suspend its GCR clause and freeze for three years in its base rates a gas charge of $3.24 per Mcf. The GCR freeze and new rates take effect in April 1999 and generally extend through March 2002. As a result of the GCR suspension, customer rates will not be adjusted during the three year period. See Note 2 for more information.

INCOME TAXES. Investment tax credits ("ITC") utilized in prior years for income tax purposes are deferred for financial accounting purposes and are amortized through credits to the income tax provision over the lives of the related property. The Company files a consolidated federal income tax return and income taxes are allocated to each subsidiary based on its separate taxable income.

EXTRAORDINARY CHARGE. During the second quarter of 1998, the Company redeemed all of its outstanding 8.625% debentures due April 15, 2017 at a redemption price of 104% of the principle amount of $23,548,000. The payment of the call premium and the unamortized debt expense associated with the non-regulated operations of the Company is reflected as an extraordinary charge of $499,000 after-tax.

CHANGE IN METHOD OF ACCOUNTING. During the first quarter of 1998, the Gas Company implemented a change in its method of accounting for property taxes so that such taxes are expensed monthly during the fiscal period of the taxing authority for which the taxes are levied. This change provides a better matching of property tax expense with both the payment of services and those services provided by the taxing authority. Prior to 1998, the Company expensed property taxes monthly during the year following the assessment date. The cumulative effect of this change in accounting for property taxes increased 1998 earnings by $1,784,000 after-tax. The pro forma effect on prior years' consolidated net income of retroactively recording property taxes as if the new method of accounting had been in effect for all periods presented is not material.

STATEMENTS OF CASH FLOWS. For purposes of the consolidated statements of cash flows, the Company considers all highly liquid investments purchased with original maturities of three months or less to be cash and temporary cash investments. The Company paid income taxes of $2,100,000, $3,153,000 and $3,275,000 during 1998, 1997 and 1996, respectively. The Company paid $14,423,000, $11,949,000 and $10,566,000 for interest during 1998, 1997 and 1996, respectively.

1. SIGNIFICANT ACCOUNTING POLICIES (CONT.)
<TABLE>
Supplemental cash flow information for the years ended December 31, 1998, 1997 and 1996, is summarized as follows (in thousands of dollars):

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<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Non-Cash Investing and Financing Activities:			
Capital stock issued for acquisitions	$ 6,309 <F1>	$ 450	$ --
Property purchased under capital leases	$ --	$ 360	$ 3,252
Capital leases amortized and retired	$ --	$ 4,899	$ 2,450
Details of Acquisitions:			
Fair value of assets acquired	$ 10,301	$ 22,464	$ --
Liabilities assumed	(3,992)	(6,330)	--
Stock issued	(6,309)	(450)	--
Cash paid	$ --	$ 15,684	$ --
Less cash acquired	26	567	--
Net cash paid for (acquired via) acquisitions	$ (26)	$ 15,117	$ --

<FN>
<F1>
Does not include $14,073 of Company stock issued for the acquisition of OMC because the acquisition was accounted for as a pooling of interests. Refer to Note 3 for more information.
</FN>
</TABLE>

2. REGULATORY MATTERS

SUSPENSION OF GAS COST RECOVERY CLAUSE AND NEW INCOME SHARING MECHANISM. In September 1998, the Gas Company's MPSC division received authority from the MPSC to: (1) implement an experimental residential gas customer choice program; (2) suspend its gas cost recovery ("GCR") clause; (3) roll into its base rates and freeze for three years a gas charge of $3.24 per thousand cubic feet ("Mcf"); (4) freeze distribution rate adjustments for the same three year period, with exceptions; (5) suspend the income sharing mechanism adopted in October 1997 and adopt a new income sharing mechanism for use during the 1999, 2000 and 2001 calendar years; and (6) establish gas service performance criteria. The new rates take effect in April 1999 and generally extend through March 2002.

Under the experimental residential gas customer-choice program up to 21,000 residential customers, 10% of the Gas Company's residential customer base, will be allowed to choose their own gas supplier by the third year of the program. The Gas Company will deliver the customer-choice gas under a tariff similar to its existing tariff used to provide such service to its commercial and industrial customers. The Company anticipates that this program will not significantly affect the Gas Company's income because the Gas Company's approved rates for transportation service are designed to recover all costs other than the cost of gas and provide a return in approximately the same amounts as such costs are recovered from residential customers for whom the Gas Company is the supplier.

2. REGULATORY MATTERS (CONT.)

Several of the changes in the MPSC order are interrelated. The $3.24 GCR rate represents a reduction of approximately $.33 per Mcf from the Gas Company's present rates. The suspension of the GCR clause means that the Gas Company will not be able to recover any amounts by which its gas costs exceed a weighted average cost of gas in excess of the $3.24 GCR for the three year period. If the Gas Company is able to reduce its gas costs below the $3.24 level, a portion of the savings is retained. The Gas Company was able to offer this GCR suspension mainly as a result of agreements reached with TransCanada Gas Services Inc., under which the latter will provide the Gas

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Company's natural gas requirements and manage the Gas Company's natural gas supply and the supply aspects of transportation and storage operations for the three year period.

There are two exceptions to the three year distribution rate freeze: first, the incentive sharing mechanism described in the following paragraph, and second, rate revisions arising in response to unanticipated legislative or accounting actions. The MPSC order is applicable only in the geographic areas subject to the regulatory jurisdiction of the MPSC, and, therefore, does not govern rates regulated by the City of Battle Creek, Michigan. However, the Gas Company is voluntarily reducing its Battle Creek GCR rate to the $3.24 level to correspond with its GCR under the MPSC order.

The new income sharing mechanism substantially matches mechanisms approved by the MPSC for two other major natural gas utilities in Michigan. Under the mechanism, if the Gas Company's return on equity for its natural gas utility business exceeds 12.75%, amounts equal to 50% of the excess return between 12.76% and 16.75%, plus amounts equal to 75% of the excess over 16.75% would be credited to customers, i.e., would be reflected prospectively in reduced rates. Four safety and reliability performance measures need to be met in order not to reduce the return on equity threshold used in the income sharing mechanism.

Management believes that the overall impact of the MPSC order and the Gas Company's agreements with TransCanada will be lower rates for its customers and an opportunity for the Company to improve service to its customers as well as improve profitability.

SOUTHEASTERN AND MICHIGAN GAS RATE CASE. In October 1997, the MPSC approved the merger of Southeastern and Michigan Gas in a general rate case. This allowed the Company to combine the rate structures, GCR clauses, tariffs, and rules and regulations for those two divisions. It additionally granted a rate increase to the combined divisions, which included the recovery of costs related to a change in accounting for retiree medical benefits. There were also adjustments to other fees and rates as a result of the rate case. Overall, the adjustments offset one another and the rate case did not have a material impact on the Company's results of operations. The MPSC also approved incentive regulation, where profits generated in excess of the authorized rate of return will be shared with the ratepayer. Finally, the MPSC granted the Company the ability to offer its commercial and industrial customers the option to aggregate their demand for gas into a pool and choose a supplier.

2. REGULATORY MATTERS (CONT.)

STATE PROPERTY TAX REDUCTIONS. In June 1994, the MPSC issued Orders U-10617 and U-10618 to Michigan Gas and Southeastern, respectively. These orders required the companies to offset deferred retiree medical costs with certain reductions in Michigan state property taxes until the MPSC issued a final order in the companies' general rate case, which occurred in October 1997. In accordance with orders U-10617 and U-10618, Michigan Gas and Southeastern have reduced deferred retiree medical costs by a combined total of $553,000 in 1997 and $663,000 in 1996.

REGULATORY ASSETS AND LIABILITIES. The Gas Company is subject to the provisions of SFAS 71, "Accounting for the Effects of Certain Types of Regulation." As a result, the actions of regulators affect when revenues and expenses are recognized. Regulatory assets represent incurred costs to be recovered from customers through the ratemaking process. Regulatory liabilities represent benefits to be refunded to customers. The following regulatory assets and liabilities were recorded on the consolidated statements of financial position as of December 31 (in thousands of dollars):

<TABLE>
<CAPTION>

<S>	1998 <C>	1997 <C>
Regulatory Assets		
Deferred retiree medical benefits	$12,588	$13,487

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Deferred pension benefits	2,287	2,287
Unamortized loss on retirement of debt	2,862	3,107
Other	1,827	1,763
	$19,564	$20,644
Regulatory Liabilities		
Unamortized investment tax credit	$ 2,687	$ 3,052
Tax benefits amortizable to customers	4,179	4,329
	$ 6,866	$ 7,381

</TABLE>

In the event the Gas Company determines that it no longer meets the criteria for following SFAS 71, the accounting impact would be an extraordinary, non-cash charge to operations of an amount that could be material. Criteria that give rise to the discontinuance of SFAS 71 include (1) increasing competition that restricts the Gas Company's ability to establish prices to recover specific costs, and (2) a significant change in the manner in which rates are set by regulators from cost-based regulation to another form of regulation. The Gas Company's periodic review of these criteria currently supports the continuing application of SFAS 71.

3. MERGERS AND ACQUISITIONS

On March 31, 1998, the Company acquired the assets, liabilities and business of Hotflame Gas, Inc. and Hotflame Transport Company, Inc. (together "Hotflame"). Hotflame supplies propane gas to over 7,500 retail customers in Michigan's upper peninsula and northeast Wisconsin. The acquisition was a form of merger whereby the Company exchanged 353,000 shares of its common stock for 100% of the outstanding stock of Hotflame. The fair value of the tangible assets acquired and liabilities assumed were $5,343,000 and $3,074,000, respectively. Included in the assets acquired by the Company were several non-compete agreements with the prior owners of Hotflame totaling $200,000 ranging from two to ten years. The balance of the purchase price, $3,731,000, was recorded as an excess of cost over net assets acquired ("goodwill") and is being amortized on the straight line method over forty years.

On May 15, 1998, the Company acquired the assets, liabilities and business of King Energy and Construction, Inc. ("King"). King, which is located in Tennessee, is a multi-utility service provider furnishing water, sewer and natural gas construction services to customers. The acquisition of King was also a form of merger whereby the Company exchanged 18,000 shares of its common stock for 100% of the outstanding stock of King. The fair value of tangible assets acquired and liabilities assumed were $506,000 and $773,000, respectively. The balance of the purchase price, $576,000, is goodwill and is being amortized on the straight line method over forty years.

For financial statement purposes, the acquisition of both Hotflame and King were accounted for as purchases and, accordingly, results of operations are included in the consolidated financial statements since the date of each acquisition. There were no adjustments necessary to the accounting practices of Hotflame or King to conform with the practices of the Company.

On November 3, 1998, the Company acquired the assets, liabilities and business of Oilfield Materials Consultants, Inc. ("OMC"). OMC is an engineering and consulting firm located in Texas that specializes in quality control and quality assurance services for the natural gas, oil products, exploration/production and telecommunication industries. The acquisition of OMC was also a form of merger whereby the Company exchanged 905,000 shares of its common stock for 100% of the outstanding stock of OMC. The acquisition of OMC was accounted for as a pooling of interests, and accordingly, the

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consolidated financial statements for the periods presented have been restated to include the financial results of OMC. Operating revenues, extraordinary items, net income (loss) and common shareholders' equity for the individual companies reported prior to the merger were as follows (in thousands of dollars):

3. MERGERS AND ACQUISITIONS (CONT.)

	Ten Months Ended Oct. 31, 1998 (unaudited)	1997	1996
Operating Revenue			
SEMCO, as previously reported	$489,495	$770,272	$544,949
OMC	14,142	5,660	2,961
Combined	$503,637	$775,932	$547,910
Extraordinary Charge			
SEMCO, as previously reported	$ 499	$ --	$ --
OMC	--	--	--
Combined	$ 499	$ --	$ --
Net Income (Loss)			
SEMCO, as previously reported	$ 3,296	$ 14,921	$(12,803)
OMC	542	504	41
Combined	$ 3,838	$ 15,425	$(12,762)
Common shareholders' equity at end of period			
SEMCO, as previously reported	$127,603	$ 94,502	$ 86,544
OMC	1,065	629	134
Combined	$128,668	$ 95,131	$ 86,678

For the periods preceding the merger of the Company and OMC, there were no intercompany transactions which required elimination from the combined results of operations and there were no adjustments necessary to conform the accounting practices of the two companies.

The Company acquired Maverick Pipeline Services, Inc. ("Maverick") on December 17, 1997. The acquisition was accounted for as a purchase and was included in the Company's 1997 consolidated financial statements. Because Maverick was acquired late in 1997, a complete review of the asset values and liabilities was not complete until 1998. The determination of the final values resulted in a $145,000 increase in goodwill and corresponding increase in liabilities acquired.

4. INCOME TAXES

SFAS NO. 109. The Company accounts for income taxes in accordance with SFAS 109, "Accounting For Income Taxes." SFAS 109 requires an annual measurement

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of deferred tax assets and deferred tax liabilities based upon the estimated future tax effects of temporary differences and carry forwards.

4. INCOME TAXES (CONT.)

<TABLE>
PROVISION FOR INCOME TAXES. The components of the provision for income taxes are as follows (in thousands of dollars):
<CAPTION>

Years Ended December 31,	1998	1997	1996
<S>	<C>	<C>	<C>
Federal			
Currently payable	$ 5,511	$ 2,259	$ 1,160
Deferred to future periods	1,767	6,477	(7,999)
Investment tax credits (ITC)	(267)	(267)	(267)
Total income taxes	$ 7,011	$ 8,469	$ (7,106)
Less amounts included in:			
Cumulative effect of change in accounting method	960	--	--
Extraordinary charge	(269)	--	--
Income Taxes, excluding amounts shown separately	$ 6,320	$ 8,469	$ (7,106)

</TABLE>

<TABLE>
RECONCILIATION OF STATUTORY RATE TO EFFECTIVE RATE. A reconciliation of the difference between the Company's provision for income taxes and income taxes computed at the statutory rate follows (in thousands of dollars):
<CAPTION>

Years Ended December 31,	1998	1997	1996
<S>	<C>	<C>	<C>
Net income (loss)	$ 10,040	$ 15,425	$(12,762)
Add back:			
Preferred dividends	193	194	194
Income taxes	7,011	8,469	(7,106)
Pre-tax income (loss)	$ 17,244	$ 24,088	$(19,674)
Computed federal income taxes	$ 6,035	$ 8,431	$ (6,886)
Amortization of deferred ITC	(267)	(267)	(267)
Amortization of non-deductible amounts resulting from acquisitions	216	216	216
Other	1,027	89	(169)
Total incomes taxes	$ 7,011	$ 8,469	$ (7,106)

</TABLE>

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4. INCOME TAXES (CONT.)

<TABLE>
DEFERRED INCOME TAXES. Deferred income taxes arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. The principal components of the Company's deferred tax assets (liabilities) were as follows (in thousands of dollars):
<CAPTION>

At December 31,	1998	1997
<S>	<C>	<C>
Property	$(19,430)	$(22,801)
Reserve for equity investment	--	8,824
Retiree medical benefit obligation	4,480	4,795
Retiree medical benefit regulatory assets	(4,406)	(4,720)
Gas in underground storage	3,789	3,243
ITC	1,176	1,257
Unamortized debt expense	(989)	(1,111)
Gas cost underrecovery	(3,707)	(6,411)
Other	(1,242)	284
Total deferred taxes	$(20,329)	$(16,640)
Gross deferred tax liabilities	$(42,129)	$(46,369)
Gross deferred tax assets	21,800	29,729
Total deferred taxes	$(20,329)	$(16,640)

</TABLE>

At December 31, 1998 and December 31, 1997 there was no valuation allowance recorded against deferred tax assets.

5. CAPITALIZATION

REGISTRATION STATEMENT AND DISTRIBUTION AGREEMENT. The Company and SEMCO Capital Trust filed a registration statement on Form S-3 ("registration statement") with the Securities and Exchange Commission ("Commission") in July 1998 for the registration of debt securities and common stock of the Company and trust preferred securities of SEMCO Capital Trust in any combination up to $200 million. In October 1998, the Company entered into a distribution agreement with Merrill Lynch & Co., Morgan Stanley Dean Witter, A.G. Edwards & Sons, Inc. and Edward D. Jones & Co., L.P. pursuant to which it may issue, from time to time, an aggregate of $150 million of medium-term notes, which were included in the securities registered.

COMMON STOCK EQUITY. The Company issued five percent stock dividends in May 1998, May 1997 and May 1996. Earnings per share of common stock, cash dividends per share of common stock and average number of common shares outstanding have been restated to reflect the stock dividends.

5. CAPITALIZATION (CONT.)

Pursuant to its DRIP, the Company issued 367,000 shares of common stock in 1998 and 298,000 shares in 1997 and 292,000 shares in 1996. The Company

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did not purchase shares on the open market in 1998 for the DRIP. The Company purchased a total of 162,000 shares in 1997 and 320,000 shares in 1996 for the DRIP. The Company contributed 30,000 shares of Company stock to the Company's primary 401(k) plan in 1998, and 22,000 shares to the Company's Employee Stock Ownership Trust in 1997.

During August 1998, the Company sold 1,820,000 shares of its common stock in a public offering. Proceeds of the offering were $26,153,000 after underwriting discounts but before expenses. The proceeds from the common stock issuance were used to repay short-term debt and for general corporate purposes.

The Company also issued 1,276,000 and 26,000 shares of its common stock in 1998 and 1997, respectively, as part of certain business acquisitions. Of the shares issued in 1998, 905,000 were for the acquisition of OMC which was accounted for as a pooling of interests. See Notes 1 and 3 for more information on the accounting for a pooling of interests.

CUMULATIVE CONVERTIBLE PREFERRED STOCK. At December 31, 1998 and 1997, only 6,218 and 6,751 shares of the Company's $2.3125 cumulative convertible preferred shares were outstanding and each share was convertible at the option of the holder to 4.11 shares of common stock. At December 31, 1998, a total of 25,556 common shares are reserved for issuance upon conversion of the convertible preferred stock.

CUMULATIVE PREFERRED STOCK OF SUBSIDIARY. The cumulative preferred stock of the Gas Company is callable at the subsidiary's option at $105 per share. Payment of dividends on this preferred stock is fully guaranteed by the Company.

LONG-TERM DEBT. In April 1998, the Company redeemed all of its outstanding 8.625% debentures due April 15, 2017 at a redemption price of 104% of the principle amount of $23,548,000. Later in 1998, the Company issued $30,000,000 of medium-term notes with interest rates ranging from 6.40% to 7.03%.

In 1997, the Company issued $60,000,000 of private placement debt to reduce short-term notes payable incurred to finance the Company's ongoing capital expenditure program and for general corporate purposes.

The Company has long-term and short-term debt arrangements which contain restrictive financial covenants including, among others, limits on the payment of dividends beyond certain levels. The Company is currently in compliance with all of the covenants in these agreements.

There are no annual maturities or sinking fund requirements for the Company's existing debt over the next five years, except for the maturity of $30,000,000 of 6.83% notes in 2002.

6. SHORT-TERM BORROWINGS

The Company maintains unsecured lines of credit at two banks. Interest on all such lines are at variable rates, which do not exceed the banks' prime lending rates. These arrangements are set to expire during 1999 and the Company expects they will be renegotiated at comparable terms. The Company also has a note payable in connection with the sale of its investment in the NOARK Pipeline System Partnership ("NOARK") (see Note 15).

<TABLE>

Information regarding these borrowings for each of the last three years is as follows (in thousands of dollars):

<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Notes payable balance at year end	$63,576	$71,406	$91,382
Unused lines of credit at year end	$50,200	$39,363	$ 8,968
Average interest rate at year end	5.6%	6.4%	7.0%
Maximum borrowings at any month-end	$78,668	$99,037	$91,382
Average borrowings	$49,418	$60,784	$41,388

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Weighted average cost of borrowings	6.5%	6.2%	6.0%

</TABLE>

7. FINANCIAL INSTRUMENTS

FINANCIAL INSTRUMENTS. The following methods and assumptions were used to estimate the fair value of each significant class of financial instruments:

CASH, TEMPORARY CASH INVESTMENTS, ACCOUNTS RECEIVABLES, PAYABLES, AND NOTES PAYABLE. The carrying amount approximates fair value because of the short maturity of those instruments.

LONG-TERM DEBT. The fair values of the Company's long-term debt are estimated based on quoted market prices for the same or similar issues or, where no market quotes are available, based on discounted future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit ratings and remaining maturities. Although the current fair value of the long-term debt may differ from the current carrying amount, settlement of the reported debt is generally not expected until maturity.
<TABLE>
The estimated fair values of the Company's long-term debt as of December 31, 1998 and 1997 are as follows (in thousands of dollars):
<CAPTION>

<S>	1998 <C>	1997 <C>
Long-term debt		
Carrying amount	$170,000	$163,548
Fair value	187,737	172,594

</TABLE>

HEDGING ARRANGEMENTS. Refer to Note 8 for a description of Energy Services' price hedging arrangements and their fair values.

8. RISK MANAGEMENT ACTIVITIES AND DERIVATIVE TRANSACTIONS

Energy Services enters into sales commitments which may extend up to 60 months into the future. Because of the volatility of natural gas prices, there are significant market risks associated with these commitments. Energy Services utilizes derivative financial and commodity instruments ("derivatives"), including futures contracts, options and swaps, to reduce market risk associated with fluctuations in the price of natural gas. The derivatives are utilized to ensure that the impact of natural gas price fluctuations on the fair value of long-term sales commitments will be offset by gains and losses on the hedging instrument. Energy Services' risk management policy prohibits the utilization of derivatives for trading purposes.

Gains or losses on derivatives associated with firm commitments are recognized as adjustments to the cost of sales or revenues when the associated transactions affect earnings. Gains and losses on derivatives associated with forecasted transactions are recognized when such forecasted transactions affect earnings. If a derivative instrument is terminated early because it is probable that a transaction will not occur, any gain or loss as of such date is immediately recognized in earnings. If a derivative is terminated early for other economic reasons, any gain or loss as of the termination date is deferred and recorded when the associated transaction or forecasted transaction affects earnings. If a derivative is sold or matures, any gain or loss is deferred and recognized as adjustments to the cost of sales or revenues when the associated transaction affects earnings. In order to meet the criteria for the gains and losses on derivatives to be deferred and recognized in the same period as the physical transaction, the commodity must expose the Company to price risk and the derivative used as a hedging

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instrument must reduce that exposure. Because the commodities covered by the derivatives are substantially the same commodities that the Company buys and sells in the physical market, there is a high degree of correlation between price changes in the derivative and cash markets. If those criteria were not met, the derivative would be marked to market and any change in market value would be recognized in earnings in the period of change.

Energy Services is also subject to credit risks due to the volume of large transactions it enters into with third parties. Energy Services maintains credit policies that management believes significantly minimizes the overall credit exposure. These policies include an evaluation of the potential parties' financial condition and the use of standardized agreements which allow for netting of positive and negative exposures associated with a single party. While notional amounts listed below are used to express the volume of various derivatives, those amounts do not generally represent the amounts exchanged by the parties and, thus, are not a measure of the exposure to the Company. The amounts subject to credit risk are substantially smaller. Energy Services does not anticipate any material impact to its financial position or results of operations as a result of non-performance by third parties.

8. RISK MANAGEMENT ACTIVITIES AND DERIVATIVE TRANSACTIONS (CONT.)

<TABLE>

The following summarizes the types of derivatives used and the related financial information on open contracts as of December 31, 1998 and 1997 (in thousands of dollars):

<CAPTION>

<S>	1998 <C>	1997 <C>
Futures Contracts		
Notional amount (MMcf)	14,990	7,710
Unrealized gain (loss)	$(4,798)	$ (759)
Fair value	$(4,798)	$ (759)
Commodity Price Swaps		
Notional amount (MMcf)	2,085	4,778
Unrealized gain (loss)	$ (654)	$ 114
Fair value	$ (654)	$ 114
Options		
Notional amount (MMcf)	--	84
Unrealized gain (loss)	$ --	$ (21)
Fair value	$ --	$ 42

</TABLE>

Energy Services estimates the fair value of the derivatives by using available market data and valuation methodologies. Some judgment is required in interpreting market data, and the use of market assumptions or estimation methodologies may affect the estimated fair value amounts.

In addition to the unrealized gains and losses on open contracts shown in the table above, Energy Services had approximately $2,202,000 and $782,000 in net deferred gains on contracts closed prior to December 31, 1998 and December 31, 1997, respectively, related to sales commitments in the following month. The deferred gains and losses on both the open and closed contracts are included in other current assets.

Energy Services also had margin deposits of $3,923,000 and $4,890,000 as of December 31, 1998 and 1997, respectively, which are also included in other current assets. The cost of margin deposits approximates fair value.

Energy Services also hedges certain of its sales commitments with gas held in storage. At December 31, 1998 and 1997, Energy Services held approximately 3,829,000 Mcf and 4,027,000 Mcf in storage with a carrying value of $8,879,000 and $10,364,000, respectively. At December 31, 1998 and 1997, Energy Services also had approximately 888,000 Mcf and 3,055,000 Mcf of

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outstanding gas loans owed to third parties with a carrying value of $2,286,000 and $6,614,000, respectively.

9. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

<TABLE>
The Company has non-contributory, defined benefit pension plans and postretirement benefit plans that cover the employees of certain companies in the consolidated group. At December 31, 1998, plan assets consisted of 61.3% equity investments, 12.5% guaranteed income insurance contracts, 25.9% fixed income securities and 0.3% cash equivalents. The following table provides a reconciliation of the benefit obligations, plan assets and funded status of the plans (in thousands of dollars):
<CAPTION>

<S>	Pension Benefits 1998 <C>	Pension Benefits 1997 <C>	Other Postretirement Benefits 1998 <C>	Other Postretirement Benefits 1997 <C>
Change in benefit obligation				
Benefit obligation at January 1	$ 53,701	$ 52,869	$ 26,053	$ 26,525
Service cost	738	1,371	447	862
Interest cost	3,070	3,716	2,004	2,212
Actuarial (gain)/loss	2,537	2,002	1,034	3,837
Contributions by plan participants	--	--	64	--
Benefits paid from plan assets	(2,558)	(2,470)	--	--
Benefits paid from corporate assets	--	--	(1,547)	(916)
Plan amendments	180	(3,787)	1,017	(6,467)
(Gain)/loss from reduction in workforce	1,840	--	2,240	--
Lump sums paid for reduction in workforce	(16,981)	--	--	--
Special termination benefits	1,818	--	--	--
Benefit obligation at December 31	$ 44,345	$ 53,701	$ 31,312	$ 26,053
Change in plan assets				
Fair value of plan assets at January 1	$ 60,403	$ 49,788	$ 11,737	$ 7,702
Actual return on plan assets	9,875	10,586	1,740	1,505
Company contributions	1,082	2,499	2,463	2,530
Benefits paid from plan assets	(2,558)	(2,470)	--	--
Lump sums paid for reduction in workforce	(16,981)	--	--	--
Fair value of plan assets at December 31	$ 51,821	$ 60,403	$ 15,940	$ 11,737
Reconciliation of funded status of the plans				
Funded (unfunded) status	$ 7,476	$ 6,702	$(15,372)	$(14,316)
Unrecognized net (gain) loss	(8,603)	(10,344)	(14,943)	(18,479)
Unrecognized prior service cost (benefit)	13	(153)	--	--
Unrecognized net transition obligation	332	426	17,199	18,730
Prepaid (accrued) benefit cost	$ (782)	$ (3,369)	$(13,116)	$(14,065)
Weighted average assumptions as of December 31				
Discount rate	6.75%	7.00%	6.75%	7.00%
Expected long-term rate of return on plan assets	9.00%	9.00%	9.00%	9.00%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%

</TABLE>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT.)

9. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS (CONT.)

<TABLE>
Net periodic pension and other postretirement benefit costs include the following components (in thousands of dollars):
<CAPTION>

Years ended December 31,	1998	1997	1996	1998	1997	1996
	Pension Benefits			Other Postretirement Benefits		
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Service cost	$ 738	$ 1,371	$ 1,796	$ 447	$ 862	$ 865
Interest cost	3,070	3,716	3,803	2,004	2,212	1,854
Expected return on plan assets	(3,775)	(4,119)	(3,783)	(1,055)	(693)	(535)
Amortization of transition obligation	77	79	79	1,250	1,680	1,680
Amortization of prior service costs	51	471	471	--	--	--
Amortization of net (gain) or loss	(24)	(436)	133	(946)	(1,286)	(1,310)
Net (gain) loss due to settlements, curtailments and special termination benefits	(1,641)	--	--	1,298	--	--
Net benefit cost (credit)	$(1,504)	$ 1,082	$ 2,499	$ 2,998	$ 2,775	$ 2,554

</TABLE>

PENSIONS. Pension plan benefits are generally based upon 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 designed to achieve adequate funding of projected benefit obligations.

On December 31, 1997, the pension plans were amended to provide a special frozen benefit to all employees with at least two years of service on December 31, 1997. This special frozen benefit added both three years of service and three years of age to all eligible employees for purposes of computing accrued pension benefits at December 31, 1997. In conjunction with the amendment, the Company offered an early retirement program to all eligible employees with at least two years of service on December 31, 1997. The program was open from January 14, 1998 through February 27, 1998 and offered employees the additional options of receiving either a lump-sum pension benefit payment or an immediate annuity commencing April 1, 1998. One hundred and one employees accepted the early retirement offer. As a result of the early retirement program and in accordance with the provisions of SFAS 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits", the Company incurred a one-time gain which reduced 1998 net periodic pension costs by $1,641,000. This reduction was partially offset by a one-time charge in the net retiree medical costs discussed below.

OTHER POSTRETIREMENT BENEFITS. The Company provides certain medical and prescription drug benefits to qualified retired employees, their spouses and covered dependents. Retirees with less than 30 years of service are required to contribute from 5% to 50% of the Company's coverage cost, with the percentage depending on the retiree's age and years of service. 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.

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In December 1992, the MPSC issued a generic order addressing the adoption of SFAS 106 by utilities under its jurisdiction. The order allows Michigan utilities to adopt SFAS 106 for accounting and ratemaking purposes, subject to a final order in a general rate case and requires the external funding for amounts recovered in rates. The general rate case approved by the MPSC in October 1997 allowed for such recovery of retiree medical benefits, as discussed in Note 2. The City Commission of Battle Creek allowed the recovery of retiree medical benefits in Battle Creek's December 1995 rate increase. Prior to getting rate approval for the Gas Company's portion of retiree medical costs, the Company deferred, as a regulatory asset, those amounts not funded externally. After receiving rate approval for recovery of such costs, the Company began amortizing, as retiree medical expense, the amounts previously deferred.

In 1998, 1997 and 1996, the Company expensed retiree medical costs of $3,897,000, $2,471,000 and $2,058,000, respectively. The 1998 retiree medical expense includes a one-time charge of $1,298,000 related to the early retirement program and $899,000 of amortization of previously deferred retiree medical costs. In 1997 and 1996, the Company's retiree medical expense included $553,000 and $663,000, respectively, of deductions pursuant to certain MPSC orders regarding the reduction in Michigan state property taxes. See Note 2 for further discussion of these MPSC orders. In 1997 and 1996, the Company also deferred, and recorded as a regulatory asset, $304,000 and $496,000, respectively of retiree medical costs.

The Company established a Voluntary Employee Benefit Association ("VEBA") trust in 1997 to fund its retiree medical benefits and contributed $2,339,000 and $2,023,000 to the trust in 1998 and 1997, respectively. Previously, and to a lesser extent in 1998, the Company had partially funded retiree medical benefits on a discretionary basis through an Internal Revenue Code Section 401(h) account. In 1998, 1997 and 1996, the Company made cash contributions to the 401(h) account of $124,000, $508,000 and $744,000, respectively.

The 1998 costs were developed based on the health care plan in effect at January 1, 1998. As of December 31, 1998, the actuary assumed that retiree medical cost increases would be 7.8% and prescription drug cost increases would be 10.3% in 1999 and both would decrease uniformly to 5.0% in 2005 and thereafter. At December 31, 1997, the actuary assumed that retiree medical cost increases would be 8.2% and prescription drug cost increases would be 11.3% in 1998 and both would decrease uniformly to 5.0% in 2005 and thereafter. The health care cost trend rate assumption significantly affects the amounts reported. For example, a one percentage point increase in each year would increase the accumulated retiree medical obligation as of December 31, 1998 by $4,250,000 and the aggregate of the service and interest cost components of net periodic retiree medical costs for 1998 by $361,000.

401(K) PLANS AND THE EMPLOYEE STOCK OWNERSHIP TRUST. The Company has a defined contribution plan, commonly referred to as the primary 401(k) plan, covering the employees of certain companies in the controlled group. The Company also has an Employee Stock Ownership Trust ("ESOT") covering approximately the same group of employees. During 1998, the Company merged the assets of the ESOT into the primary 401(k) plan. Under the provisions of the ESOT prior to the merger, Company contributions were discretionary. The Company did not contribute to the ESOT in 1996. In 1997, the Company contributed $400,000 in Company stock to the ESOT. During 1998, in conjunction with the merger of the ESOT, the Company amended its primary 401(k) plan to allow for Company matching contributions made in Company stock. The amount expensed for the Company match provision was $491,000 in 1998. The Company has other 401(k) plans which were acquired through business

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acquisitions during 1998 and 1997. There were no Company matching contributions to these plans in 1998 or 1997.

10. STOCK-BASED COMPENSATION

At the Company's 1997 annual meeting, the shareholders approved a long-term incentive plan providing for the issuance of up to 500,000 shares of non-qualified common stock options over the next ten years adjusted for any subsequent stock dividends and stock splits. The options are reserved for the executives and directors of the Company and are awarded based upon both the Company's and individual's performance. The options vest at the rate of 33 1/3% per year beginning one year after the date of grant and expire ten years after the grant date. Additionally, pursuant to an executive employment agreement, the Company granted 30,000 and 15,000 common stock options during 1997 and 1996, respectively. These options vest three years after the grant date and expire ten years after the grant date.

<TABLE>

The exercise price of all the options granted is equal to the average of the high and low market price on the options' grant date. Both the number of options granted and the exercise price are adjusted accordingly for any stock dividends and stock splits occurring during the options' life. Fair value of the options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions:

<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Risk-free interest rate	5.55%	6.54%	6.47%
Dividend yield	6.11%	5.67%	6.50%
Volatility	22.97%	19.13%	19.13%
Average expected term (years)	5	5	6
Fair value of options granted	$2.26	$2.61	$2.28

</TABLE>

10. STOCK-BASED COMPENSATION (CONT.)

<TABLE>

The status of the options granted under the long-term stock incentive plan and the employment agreement are as follows:

<CAPTION>

<S>	Number of Shares<F1> <C>	Average Price Per Share<F1> <C>
Outstanding at December 31, 1995	--	$ --
Granted	16,537	$14.97
Exercised	--	--
Canceled	--	--
Outstanding at December 31, 1996	16,537	$14.97
Granted	131,925	$17.07
Exercised	--	--
Canceled	(18,000)	$18.00
Outstanding at December 31, 1997	130,462	$16.68
Granted	102,948	$16.01
Exercised	--	--
Canceled	(15,780)	$16.11
Outstanding at December 31, 1998	217,630	$16.40

<FN>

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<F1>
Adjusted to give retroactive effect to the 5% stock dividends of May 1997 and 1998.
</FN>
</TABLE>

<TABLE>
Employee stock options available for grant were 357,000 and 444,000 at December 31, 1998 and 1997, respectively, after adjusting for the 1998 stock dividend. Employee stock options exercisable under these plans are as follows:
<CAPTION>

<S>	Number of Shares <C>	Average Price Per Share <C>
Options exercisable at December 31, 1996	--	$ --
Options exercisable at December 31, 1997	1,050	$17.14
Options exercisable at December 31, 1998	29,394	$16.97

</TABLE>

<TABLE>
In October 1995, the FASB issued SFAS 123, "Accounting for Stock-Based Compensation." In general, SFAS 123 recommends that all stock-based compensation given to employees in exchange for their services be expensed based on the fair value of the options granted. The Company has chosen to continue accounting for these transactions under previously existing accounting standards as allowed in SFAS 123. However, if expense had been determined in a manner consistent with the provisions of SFAS 123, the Company's net income and earnings per share would have been reduced to the pro-forma amounts indicated below (in thousands of dollars, except for per share amounts):
<CAPTION>

Years Ended December 31, <S>	1998 <C>	1997 <C>	1996 <C>
Net income (loss)			
As reported	$ 10,040	$ 15,425	$(12,762)
Pro-forma	$ 9,940	$ 15,374	$(12,767)
Earnings per share - basic and diluted			
As reported	$ 0.63	$ 1.06	$ (0.88)
Pro-forma	$ 0.62	$ 1.05	$ (0.88)

</TABLE>

11. 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 common shareholders 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, warrants, or convertible securities ("dilutive securities") were exercised. Accordingly, income available to common shareholders is also adjusted for any changes to income or loss that would result from the assumed conversion of the dilutive securities. The diluted EPS calculation excludes the effect of stock options when their exercise prices exceed the average market price over the period.
<TABLE>
The computations of basic and diluted earnings (loss) per share for the years ended December 31, 1998, 1997 and 1996 are as follows (in thousands of dollars except per share amounts):
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Basic Earnings (Loss) Per Share Computation			
Income (loss) before accounting change and extraordinary charge	$ 8,755	$15,425	$(12,762)

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Cumulative effect of change in accounting	1,784	--	--
Extraordinary charge	(499)	--	--
Net Income (Loss)	$10,040	$15,425	$(12,762)
Weighted average common shares outstanding	15,906	14,608	14,573
Earnings (Loss) Per Share - Basic			
Income (loss) before accounting change and extraordinary charge	$ 0.55	$ 1.06	$ (0.88)
Cumulative effect of change in accounting	0.11	--	--
Extraordinary charge	(0.03)	--	--
Net Income (Loss)	$ 0.63	$ 1.06	$ (0.88)
Diluted Earnings (Loss) Per Share Computation			
Income (loss) before accounting change and extraordinary charge	$ 8,755	$15,425	$(12,762)
Adjustment for effect of assumed conversions:			
Preferred convertible stock dividends	15	16	--
Adjusted income (loss) before accounting change and extraordinary charge	8,770	15,441	(12,762)
Cumulative effect of change in accounting	1,784	--	--
Extraordinary charge	(499)	--	--
Net Income (Loss)	$10,055	$15,441	$(12,762)
Weighted average common shares outstanding	15,906	14,608	14,573
Incremental shares from assumed conversions of:			
Preferred convertible stock	26	28	--
Stock options	3	3	--
Diluted weighted average common shares outstanding	15,935	14,639	14,573
Earnings (Loss) Per Share - Diluted			
Income (loss) before accounting change and extraordinary charge	$ 0.55	$ 1.06	$ (0.88)
Cumulative effect of change in accounting	0.11	--	--
Extraordinary charge	(0.03)	--	--
Net Income (Loss)	$ 0.63	$ 1.06	$ (0.88)

</TABLE>

As a result of the loss in 1996, basic loss per share was not adjusted because to do so would be antidilutive.

12. BUSINESS SEGMENTS

The Company adopted SFAS 131, "Disclosure about Segments of an Enterprise and Related Information," during 1998. SFAS 131 established 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 that report directly to the CEO. The operating segments are organized and managed separately because each segment offers different products or services. The Company evaluates the performance of its business segments based on the operating income generated. Operating income does not include income taxes, interest expense, extraordinary charges, changes in accounting method and non-operating income and expense items.

Under SFAS 131, an operating segment that does not exceed certain quantitative levels is not considered a reportable segment. Instead, the results of all segments that do not exceed the quantitative thresholds are combined and reported as one segment and referred to as "all other." The Company's construction services business segment and propane, pipelines and

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storage business segment did not meet these quantitative thresholds and could have been grouped into the "all other" category. However, the Company has decided to voluntarily disclose information on these two business segments because they are an integral part of the Company's strategic plans to grow and diversify the Company.

The Company has five business segments. They are gas distribution, engineering services, construction services, energy marketing and propane, pipelines and storage. Refer to Note 1 for a brief description of each business segment.

The accounting policies of the operating segments are the same as those described in Note 1 except that intercompany transactions have not been eliminated in determining individual segment results. The following table provides business segment information as well as a reconciliation ("Corporate and other") of the segment information to the applicable line in the consolidated financial statements. Corporate and other includes corporate related expenses not allocated to segments, intercompany eliminations and results of other smaller operations.

12. BUSINESS SEGMENTS (CONT.)

<TABLE>
<CAPTION>

Years Ended December 31,	1998	1997	1996
	(in thousands of dollars)		
<S>	<C>	<C>	<C>
Operating Revenues			
Gas Distribution	$184,221	$232,511	$232,985
Engineering Services	41,366	5,660	2,961
Construction Services	25,904	13,207	--
Propane, Pipelines and Storage	4,852	3,027	3,070
Energy Marketing	397,888	555,367	344,379
Corporate and other <F1>	(16,746)	(33,840)	(35,485)
Total consolidated revenues	$637,485	$775,932	$547,910
Depreciation			
Gas Distribution	$ 12,110	$ 11,112	$ 10,405
Engineering Services	182	14	17
Construction Services	1,903	743	--
Propane, Pipelines and Storage	793	622	629
Energy Marketing	44	60	41
Corporate and other	317	326	242
Total consolidated depreciation	$ 15,349	$ 12,877	$ 11,334
Operating Income (Loss)			
Gas Distribution	$ 22,363	$ 26,348	$ 27,438
Engineering Services	2,938	778	273
Construction Services	(102)	762	--
Propane, Pipelines and Storage	1,585	1,458	1,471
Energy Marketing	(696)	217	(3,857)
Corporate and other	(1,893)	(396)	(491)
Total consolidated operating income	$ 24,195	$ 29,167	$ 24,834
Assets			

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Gas Distribution	$359,592	$362,906	$352,314
Engineering Services	8,897	2,618	799
Construction Services	20,471	21,028	--
Propane, Pipelines and Storage	27,175	18,110	18,483
Energy Marketing	65,017	89,653	91,387
Corporate and other	8,510	12,845	16,054
Total consolidated assets	$489,662	$507,160	$479,037
Capital Investments <F2>			
Gas Distribution	$ 23,029	$ 28,201	$ 30,169
Engineering Services	14,586	459	15
Construction Services	1,076	15,990	--
Propane, Pipelines and Storage	6,285	--	--
Energy Marketing	--	156	1
Corporate and other	655	234	339
Total consolidated capital investments <F3>	$ 45,631	$ 45,040	$ 30,524

<FN>
<F1>
Includes the eliminations of intercompany energy marketing revenues of $7,071, $28,405 and $35,676 for 1998, 1997 and 1996, respectively. Includes the elimination of intercompany engineering services revenue of $429 for 1998. Includes the elimination of intercompany construction services revenue of $9,283 and $5,723 for 1998 and 1997, respectively.
<F2>
Capital investments include amounts paid for business acquisitions, including non-cash amounts such as Company stock issued as part of the acquisitions.
<F3>
The 1998 capital investments, shown in the above table, include $14,073 of Company stock issued as part of the acquisition of OMC. The acquisition of OMC was accounted for as a pooling of interests, therefore, the supplemental cash flow information in Note 1 does not include the stock issued for the OMC acquisition.
</FN>
</TABLE>

13. INVESTMENTS IN AFFILIATES

<TABLE>
The equity method of accounting is used for interests in affiliates 20% to 50% owned. These affiliate companies are generally involved in natural gas transmission, storage or associated operations. The Company records income taxes on its share of undistributed earnings of these affiliates at the time the earnings are included in consolidated income. At December 31, 1998, the Company held the following interests in these affiliates:
<CAPTION>

<S>	Percent Ownership <C>
Eaton Rapids Gas Storage System	50%
Michigan Intrastate Lateral System	50%
Michigan Intrastate Pipeline System	50%
Nimrod Limited Partnership	29%

</TABLE>

<TABLE>
Summarized combined financial information for investments in affiliates for the years ended December 31, 1998, 1997 and 1996 is as follows (in thousands of dollars):
<CAPTION>

<S>	1998 <C>	1997 <C>	1996 <C>
Net sales	$ 8,199	$ 13,368	$ 13,866
Operating income	$ 2,100	$ 3,568	$ 4,029
Net income (loss)	$ 285	$ (7,107)	$ (4,230)

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The Company's share of net income (loss)	$ 160	$ (1,967)	$ (1,196)
Current assets	$ 2,796	$ 2,843	$ 2,744
Non-current assets	28,092	125,455	131,211
Total assets	$30,888	$128,298	$133,955
Current liabilities	$ 2,784	$ 42,745	$ 9,659
Non-current liabilities	15,942	88,348	114,997
Equity	12,162	(2,795)	9,299
Total liabilities and equity	$30,888	$128,298	$133,955
The Company's equity investment	$ 4,522	$ 4,710	$ 5,120
The Company's share of undistributed gains (losses)	$ --	$ 475	$ (1,733)

</TABLE>

14. COMMITMENTS AND CONTINGENCIES

CAPITAL INVESTMENTS. The Company's plans for expansion and improvement of its natural gas delivery system and its other diversified business properties are continually reviewed. Aggregate capital expenditures for property in 1999 are projected at $20,000,000. In addition, the Company is planning to incur additional expenditures for business acquisitions in 1999.

GUARANTEES. On January 14, 1998, the Company sold its entire 32% interest in NOARK. The sale released the Company from all its NOARK guarantees, which related to 40% of NOARK's debt. See Note 15 for more information on NOARK.

14. COMMITMENTS AND CONTINGENCIES (CONT.)

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." Vehicle leases comprise a significant portion of total lease expense. Leases on 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.
<TABLE>
The following is a schedule by year of future minimum lease payments that have initial or remaining noncancelable lease terms in excess of one year at December 31, 1998:

<S>	<C>	<S>	<C>
1999	$ 395,000	2002	$ 250,000
2000	328,000	2003	237,000
2001	278,000	Thereafter	1,078,000

</TABLE>

Total lease expense approximated $2,164,000, $2,092,000 and $2,305,000 in 1998, 1997 and 1996, respectively. The annual future minimum lease payments shown in the previous schedule are substantially less than the lease expense incurred in 1996 through 1998 because most of the vehicle leases at December 31, 1998 were on a month-to-month basis and were cancelable at any time. However, management expects to renew or replace substantially all leases.

ENVIRONMENTAL ISSUES. Prior to the construction of major natural gas pipelines, gas for heating and other uses was manufactured from processes involving coal, coke or oil. The Gas Company owns seven sites which formerly housed such manufacturing facilities and expects that it will ultimately incur investigation and remedial action costs at some of these sites, and a number of other sites. The Gas Company has submitted a plan to the appropriate environmental regulatory authority in the State of Michigan

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for work to begin at one site. The extent of the Gas Company's liabilities and potential costs in connection with these sites cannot be reasonably estimated at this time. In accordance with an MPSC accounting order, any environmental investigation and remedial action costs will be deferred and amortized over ten years. Rate recognition of the related amortization expense will not begin until after a prudence review in a general rate case.

15. DIVESTITURE OF NOARK INVESTMENT

On January 14, 1998, the Company sold its entire interest in NOARK to ENOGEX Arkansas Pipeline Corporation ("EAPC"). NOARK is a 302-mile intrastate natural gas pipeline which experienced significant cost overruns during construction, resulting in higher than expected financing costs. In addition, competition from two interstate pipelines required NOARK to discount its transportation charges to attract volumes to the pipeline. Even with discounted rates, NOARK had operated at less than 65% capacity since its inception in 1992. As a result, NOARK continued to generate losses and its operating cash flows were insufficient to meet principal and interest payments on its debt.

15. DIVESTITURE OF NOARK INVESTMENT (CONT.)

In December 1996, the Company recorded a $21,000,000 after-tax non-cash write-down of its general partnership interest in NOARK. In December 1997, the Company reduced its reserve for NOARK by $5,025,000 after-tax based on the terms of the pending sale. The sale occurred in January 1998 and, including subsequent adjustments, resulted in a final gain on the sale of NOARK of $1,708,000 after-tax. The adjustments to the gain included income tax benefits related to tax losses generated by the partnership and adjustments to discount rates used to compute the present value of future cash flows pursuant to the terms of the sale. The discount rates were adjusted to better reflect actual market rates at the time of the sale.

Pursuant to terms included in the sales agreement, the Company paid EAPC $9,200,000 in April 1998 and will pay $3,100,000 and $800,000 in April 1999 and 2000, respectively. The sale released the Company from all debt obligations and guarantees related to NOARK. The Company will receive annual payments of $842,000 from EAPC for 17 years beginning in the year 2004.

16. 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 and dividends per share of common stock are calculated based upon the weighted average number of shares outstanding during each quarter adjusted for five percent stock dividends in May 1998 and May 1997. The total earnings per share each 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.

<TABLE>
<CAPTION>

Quarters	First	Second	Third	Fourth
<S>	<C>	<C>	<C>	<C>
1998				
Operating revenue	$226,471	$111,280	$113,075	$186,659
Operating income (loss)	12,837	762	(496)	11,092
Net income (loss)	8,571	(2,639)	(2,357)	6,465
Earnings (loss) per share	0.58	(0.17)	(0.14)	0.37
Cash dividends per share	0.18	0.19	0.18	0.20
1997				
Operating revenue	$254,237	$122,987	$125,005	$273,703

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Operating income (loss)	18,151	3,189	(1,613)	9,440
Net income (loss)	9,809	231	(3,013)	8,398
Earnings (loss) per share	0.67	0.02	(0.21)	0.57
Cash dividends per share	0.17	0.17	0.18	0.18

</TABLE>

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO SEMCO ENERGY, INC.:

We have audited the accompanying consolidated statements of financial position and capitalization of SEMCO Energy, Inc. (a Michigan corporation) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in shareholders' investment and cash flows for each of the three years in the period ended December 31, 1998. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SEMCO Energy, Inc. and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

As discussed in Note 1 of the consolidated financial statements, effective January 1, 1998, the Company changed its method of accounting for property taxes.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in item 14(a)2 is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. The schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Detroit, Michigan
February 4, 1999

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information appearing under the captions "Information About Directors" in Registrant's definitive Proxy Statement (filed pursuant to Regulation 14A) with respect to Registrant's April 20, 1999 Annual Meeting of Shareholders is incorporated by reference herein.

The executive officers of the Company are William L. Johnson, Sebastian Coppola, Rudolfo D. Cifolelli, Carl W. Porter and Barrett Hatches.

Mr. Johnson (age 56) was elected Chairman of the Board of Directors in December 1997. He has been President and Chief Executive Officer of the Company since May 1996. From 1994 to May 1996 he was Chief Executive Officer of Northern Pipeline Construction Company of Kansas City, Missouri, and from 1990 to 1994 he was President, Gas Service Division of Western Resources, Inc. of Topeka, Kansas.

Mr. Coppola (age 47) has been Senior Vice President and Chief Financial Officer of the Company since January 1999. He was Senior Vice President of Finance, Treasurer and Investor Relations Officer of MCN Energy Group, Inc., Detroit, Michigan, from September 1994 to December 1998. While at MCN Energy Group, Inc., he was Director of Accounting Services and Investor Relations

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from October 1988 to August 1994.

Mr. Porter (age 49) has been Senior Vice President and Chief Operating Officer of the Company since July 1996. He was Vice President-Gas Utilities of Itron, Inc., Spokane, Washington, from August 1995 to July 1996. From 1992 to 1995 he was Senior Vice President of Operations of New Jersey Natural Gas, Wall, New Jersey, and from 1990 to 1992 he was Vice President of Operations of Western Resources, Inc., Topeka, Kansas.

Mr. Cifolelli (age 58) has been Senior Vice President and Chief Information Officer of the Company since November 1998. He was President and Owner of OACIS, Inc., Bloomfield, Michigan from June 1996 to October 1998. While employed by the GENIX Group, a subsidiary of MCN Energy Group, Inc., Detroit, Michigan, he was President and Chief Executive Officer from 1994 to 1996 and President and Chief Operating Officer from 1990 to 1994.

Mr. Hatches (age 43) was elected Senior Vice President of Human Resources and Public Affairs of the Company in February 1999. He has been with the Company as Vice President of Human Resources and Public Affairs since February 1997. He was Vice President of V. Robinson & Company, Inc., Kansas City, Missouri, from 1996 to February 1997. He was Director of Logistics and Chief Operating Officer H & N Railroad of North American Salt Company, Overland Park, Kansas, from 1995 to 1996. While employed by Missouri Gas Energy, Kansas City, Missouri, he was Director Field Services from May 1994 to January 1995 and Director Customer Information from July 1992 to May 1994.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing under the captions "Compensation of Directors and Executive Officers" and "Compensation Committee Interlocks and Insider Participation" in Registrant's definitive Proxy Statement (filed pursuant to Regulation 14A) with respect to Registrant's April 20, 1999 Annual Meeting of Shareholders is incorporated by reference herein.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information appearing under the caption "Stock Outstanding, Voting Rights and Votes Required" in the Registrant's definitive Proxy Statement (filed pursuant to Regulation 14A) with respect to Registrant's April 20, 1999 Annual Meeting of Shareholders, is incorporated by reference herein.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information appearing under the captions "Certain Business Relationships of Directors" and "Employment and Related Agreements" in the Registrant's definitive Proxy Statement (filed pursuant to Regulation 14A) with respect to Registrant's April 20, 1999 Annual Meeting of Shareholders, is incorporated by reference herein.

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PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) 1. Consolidated Financial Statements. The following financial statements are included in Part II, item 8 above.

	Pages in 10-K
Consolidated Statements of Income for the years ended December 31, 1998, 1997 and 1996	32
Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996	33
Consolidated Statements of Financial Position as of December 31, 1998 and 1997	34
Consolidated Statements of Capitalization as of December 31, 1998 and 1997	35
Consolidated Statements of Changes in Shareholders' Investment for the years ended December 31, 1998, 1997 and 1996	36
Notes to the Consolidated Financial Statements	37-61
Report of Independent Public Accountants	62

(a) 2. Financial Statement Schedules.

The following additional data should be read in conjunction with the Consolidated Financial Statements in Part II, item 8 above. Schedules not included herein have been omitted because they are not applicable or the required information is shown in such financial statements or notes thereto.

Schedule Number		Pages in 10-K
I	Consolidated Valuation and Qualifying Accounts for the years ended December 31, 1998, 1997 and 1996	71

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(a) 3. Exhibits, including those incorporated by reference

Exhibit No.	Description	Filed Herewith	Filed By Reference
2	Plan of Acquisition, etc.	NA	NA
3.(i).1	Articles of Incorporation of SEMCO Energy, Inc., as restated July 11, 1989.(a)		x
3.(i).2	Certificate of Amendment to Article III of the Articles of Incorporation dated May 16, 1990.(b)		x
3.(i).3	Certificate of Amendment to Articles I, III and VI of the Articles of Incorporation dated April 16, 1997.(j)		x
3.(ii)	Bylaws--last revised December 17, 1998.	x	
4.1	Trust Indenture dated April 1, 1992, with NBD Bank, N.A. as Trustee.(c)		x
4.2	Note Agreement dated as of June 1, 1994, relating to issuance of $80,000,000 of long-term debt.(e)		x
4.3	Rights Agreement dated as of April 15, 1997 with Continental Stock Transfer & Trust Company, as Rights Agent.(h)		x
4.4	Note Agreement dated as of October 1, 1997, relating to issuance of $60,000,000 of long-term debt.(l)		x
9	Voting Trust Agreement.	NA	NA
10	Material Contracts.		
10.1	Short-Term Incentive Plan.(d)		x
10.2	Deferred Compensation and Phantom Stock Purchase Agreement (for outside directors only).(f)		x
10.3	Supplemental Retirement Plan for Certain Officers.(g)		x
10.4	1997 Long-Term Incentive Plan.(h)		x
10.5	Stock Option Certificate and Agreement dated October 10, 1996 with William L. Johnson.(i)		x
10.6	Stock Option Certificate and Agreement dated February 26, 1997 with William L. Johnson.(i)		x
10.7	Employment Agreement dated October 10, 1996, with William L. Johnson.(j)		x
10.8	Change of Control Employment Agreement dated October 10, 1996, with William L. Johnson.(j)		x
10.9	Form of Change in Control Agreement effective March 20, 1998, for all officers except Mr. Johnson.(n)		x

Exhibit No.	Description	Filed Herewith	Filed By Reference
10.10	Asset Purchase Agreement dated August 9, 1997 between Sub-Surface Construction Co., Stewart Kniff and SEMCO Energy Construction Co., First Amendment to Asset Purchase Agreement, Amendment to Leased Equipment Purchase Agreements and Asset Purchase Agreement, List of Schedules and Exhibits and Agreement to Furnish Schedules and Exhibits.(k)		x
10.11	Purchase Agreement between the Company and Merrill Lynch & Co., etc., pertaining to an		

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	offering of 1,600,000 Shares of Common Stock.(o)		x
10.12	Distribution Agreement between the Company and Merrill Lynch & Co., etc., pertaining to an offering of $150,000,000 Medium-Term Notes and Form of Medium Term Note.(p)		x
10.13	Agreement and Plan of Merger dated as of October 30, 1998, between the Company, SEMCO Consultants, Inc. and Jimmy C. Foster and the Press Release announcing the merger.(q)		x
10.14	Executive Security Agreement.	x	
10.15	Split-Dollar Agreement.	x	
10.16	Deferred Compensation and Stock Purchase Agreement for Outside Directors for 1999.	x	
11	Statement re computation of per share earnings.	NA	NA
12	Ratio of Earnings to Fixed Charges.	x	
13	Annual report to shareholders.	NA	NA
16	Letter re change in certifying accountant.	NA	NA
18	Letter re change in accounting principle.(m)		x
21	Subsidiaries of the Registrant.	x	
22	Published report regarding matters submitted to a vote of security holders.	NA	NA
23	Consent of Independent Public Accountants.	x	
24	Power of Attorney.	x	
27	Financial Data Schedule.	x	
99.1	Proxy Statement dated March 15, 1999.(r)		x
99.2	Announcement of agreement to sell SEMCO Energy Services, Inc.(s)		x

Key to Exhibits Incorporated by Reference

(a) Filed with SEMCO Energy, Inc.'s Form 10-K for 1989, dated March 29, 1990, File No. 0-8503.
(b) Filed with SEMCO Energy, Inc.'s Form 10-K for 1990, dated March 28, 1991, File No. 0-8503.
(c) Filed with SEMCO Energy, Inc.'s Form 10-Q for the quarter ended March 31, 1992, File No. 0-8503.
(d) Filed with SEMCO Energy, Inc.'s Form 10-K for 1992, dated March 30, 1993, File No. 0-8503.
(e) Filed with SEMCO Energy, Inc.'s Form 10-Q for the quarter ended June 30, 1994, File No. 0-8503.

Key to Exhibits Incorporated by Reference (Continued)

(f) Filed with SEMCO Energy, Inc.'s Form 10-Q for the quarter ended September 30, 1994, File No. 0-8503.
(g) Filed with SEMCO Energy, Inc.'s Form 10-Q for the quarter ended March 31, 1996, File No. 0-8503.
(h) Filed March 6, 1997 as part of SEMCO Energy, Inc.'s 1997 Proxy Statement, dated March 7, 1997, File No. 0-8503.
(i) Filed with SEMCO Energy, Inc.'s Form 10-K for 1996, dated March 27, 1997, File No. 0-8503.
(j) Filed with SEMCO Energy, Inc.'s Form 10-Q for the quarter ended March 31, 1997, File No. 0-8503.
(k) Filed with SEMCO Energy, Inc.'s Form 8-K dated August 13, 1997, File No. 0-8503.
(l) Filed with SEMCO Energy, Inc.'s Form 10-Q for the quarter ended September 30, 1997, File No. 0-8503.
(m) Filed with SEMCO Energy, Inc.'s Form 10-Q for the quarter ended March 31, 1998, File No. 0-8503.
(n) Filed with SEMCO Energy, Inc.'s Form 10-Q/A for the quarter ended March 31, 1998, File No. 0-8503.
(o) Filed with SEMCO Energy, Inc.'s Form 8-K dated August 13, 1998, File No. 0-8503.
(p) Filed with SEMCO Energy, Inc.'s Form 8-K dated October 21, 1998, File No. 0-8503.
(q) Filed with SEMCO Energy, Inc.'s Form 8-K dated November 5, 1998, File No. 0-8503.
(r) Filed March 11, 1999, pursuant to Rule 14a-6 of the Exchange Act, File No. 0-8503.
(s) Filed with SEMCO Energy, Inc.'s Form 8-K dated March 23, 1999, File

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No. 0-8503.

ITEM 14. (Continued)

(b) On October 23, 1998, the Company filed Form 8-K to file the Distribution Agreement between the Company and the underwriters pertaining to an offering of $150,000,000 Medium-Term Notes.

The Company filed Form 8-K on November 5, 1998, to file the Agreement and Plan of Merger dated as of October 30, 1998, between the Company, SEMCO Consultants, Inc. and Jimmy C. Foster.

(c) The Exhibits, if any, filed herewith are identified on the Exhibit Index.

(d) The financial statement schedules filed are listed under Item 14.(a).2. above.

SIGNATURES

Pursuant to the requirements of Section 13 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.

Date: March 26, 1999

By /s/William L. Johnson

William L. Johnson
Chairman, President and
Chief Executive Officer

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.

Signature	Title	Date
/s/William L. Johnson William L. Johnson	Chairman, President and Chief Executive Officer (Director)	March 26, 1999
/s/Sebastian Coppola Sebastian Coppola	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 26, 1999
/s/Daniel A. Burkhardt* Daniel A. Burkhardt	Director	March 26, 1999
/s/Edward J. Curtis* Edward J. Curtis	Director	March 26, 1999
/s/John T. Ferris* John T. Ferris	Director	March 26, 1999
/s/Michael O. Frazer*	Director	March 26, 1999

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Michael O. Frazer

/s/Harvey I. Klein*	Director	March 26, 1999
Harvey I. Klein		
/s/Stewart J. Kniff*	Director	March 26, 1999
Stewart J. Kniff		
/s/Bruce G. Macleod*	Director	March 26, 1999
Bruce G. Macleod		
/s/Frederick S. Moore*	Director	March 26, 1999
Frederick S. Moore		
/s/Edith A. Stotler*	Director	March 26, 1999
Edith A. Stotler		
/s/Donald W. Thomason*	Director	March 26, 1999
Donald W. Thomason		
*By /s/William L. Johnson		March 26, 1999

William L. Johnson
Attorney-in-fact

SCHEDULE I

<TABLE>

SEMCO Energy, Inc.
SCHEDULE I - CONSOLIDATED VALUATION AND QUALIFYING ACCOUNTS
(Thousands of Dollars)

<CAPTION>

Description	Balance Beginning of Period	Additions Provision Charged to Income	Deductions From Reserve for Purpose of Which the Reserve Was Provided	Balance End of Period
FOR THE YEAR ENDED DECEMBER 31, 1998				
<S>	<C>	<C>	<C>	<C>
RESERVE DEDUCTED FROM RECEIVABLES IN BALANCE SHEET - UNCOLLECTIBLE ACCOUNTS	$ 1,498	$ 742	$ 1,608	$ 632
RESERVE DEDUCTED FROM OTHER PROPERTY IN BALANCE SHEET	$ 2,401	$ 100	$ 1,100	$ 1,401
RESERVE FOR EQUITY INVESTMENT	$25,212	$ 0	$25,212	$ 0

<CAPTION>

Description	Balance Beginning of Period	Additions Provision Charged to Income	Deductions From Reserve for Purpose of Which the Reserve Was Provided	Balance End of Period
FOR THE YEAR ENDED DECEMBER 31, 1997				
<S>	<C>	<C>	<C>	<C>
RESERVE DEDUCTED FROM RECEIVABLES IN BALANCE SHEET - UNCOLLECTIBLE ACCOUNTS	$ 1,247	$ 2,199	$ 1,948	$ 1,498
RESERVE DEDUCTED FROM OTHER PROPERTY IN BALANCE SHEET	$ 2,401	$ 0	$ 0	$ 2,401

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	=======	=======	=======	=======
RESERVE FOR EQUITY INVESTMENT	$32,942	$ 0	$ 7,730	$25,212
	=======	=======	=======	=======

<CAPTION>

FOR THE YEAR ENDED DECEMBER 31, 1996

<S>	<C>	<C>	<C>	<C>
RESERVE DEDUCTED FROM RECEIVABLES IN BALANCE SHEET - UNCOLLECTIBLE ACCOUNTS	$ 729	$ 1,209	$ 691	$ 1,247
	=======	=======	=======	=======
RESERVE DEDUCTED FROM OTHER PROPERTY IN BALANCE SHEET	$ 2,401	$ 0	$ 0	$ 2,401
	=======	=======	=======	=======
RESERVE FOR EQUITY INVESTMENT	$ 0	$32,942	$ 0	$32,942
	=======	=======	=======	=======

</TABLE>

SEMCO ENERGY, INC.
Exhibit Index
Form 10-K
1998

Exhibit No.	Description	Filed Herewith	Filed By Reference
2	Plan of Acquisition, etc.	NA	NA
3.(i).1	Articles of Incorporation of SEMCO Energy, Inc., as restated July 11, 1989.(a)		x
3.(i).2	Certificate of Amendment to Article III of the Articles of Incorporation dated May 16, 1990.(b)		x
3.(i).3	Certificate of Amendment to Articles I, III and VI of the Articles of Incorporation dated April 16, 1997.(j)		x
3.(ii)	Bylaws--last revised December 17, 1998.	x	
4.1	Trust Indenture dated April 1, 1992, with NBD Bank, N.A. as Trustee.(c)		x
4.2	Note Agreement dated as of June 1, 1994, relating to issuance of $80,000,000 of long-term debt.(e)		x
4.3	Rights Agreement dated as of April 15, 1997 with Continental Stock Transfer & Trust Company, as Rights Agent.(h)		x
4.4	Note Agreement dated as of October 1, 1997, relating to issuance of $60,000,000 of long-term debt.(l)		x
9	Voting Trust Agreement.	NA	NA
10	Material Contracts.		
10.1	Short-Term Incentive Plan.(d)		x
10.2	Deferred Compensation and Phantom Stock Purchase Agreement (for outside directors only).(f)		x
10.3	Supplemental Retirement Plan for Certain Officers.(g)		x
10.4	1997 Long-Term Incentive Plan.(h)		x
10.5	Stock Option Certificate and Agreement dated October 10, 1996 with William L. Johnson.(i)		x
10.6	Stock Option Certificate and Agreement dated February 26, 1997 with		

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	William L. Johnson.(i)		x
10.7	Employment Agreement dated October 10, 1996, with William L. Johnson.(j)		x
10.8	Change of Control Employment Agreement dated October 10, 1996, with William L. Johnson.(j)		x
10.9	Form of Change in Control Agreement effective March 20, 1998, for all officers except Mr. Johnson.(n)		x

Exhibit No.	Description	Filed Herewith	Filed By Reference
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10.11	Purchase Agreement between the Company and Merrill Lynch & Co., etc., pertaining to an offering of 1,600,000 Shares of Common Stock.(o)		x
10.12	Distribution Agreement between the Company and Merrill Lynch & Co., etc., pertaining to an offering of $150,000,000 Medium-Term Notes and Form of Medium Term Note.(p)		x
10.13	Agreement and Plan of Merger dated as of October 30, 1998, between the Company, SEMCO Consultants, Inc. and Jimmy C. Foster and the Press Release announcing the merger.(q)		x
10.14	Executive Security Agreement.	x	
10.15	Split-Dollar Agreement.	x	
10.16	Deferred Compensation and Stock Purchase Agreement for Outside Directors for 1999.	x	
11	Statement re computation of per share earnings.	NA	NA
12	Ratio of Earnings to Fixed Charges.	x	
13	Annual report to shareholders.	NA	NA
16	Letter re change in certifying accountant.	NA	NA
18	Letter re change in accounting principle.(m)		x
21	Subsidiaries of the Registrant.	x	
22	Published report regarding matters submitted to a vote of security holders.	NA	NA
23	Consent of Independent Public Accountants.	x	
24	Power of Attorney.	x	
27	Financial Data Schedule.	x	
99.1	Proxy Statement dated March 15, 1999.(r)		x
99.2	Announcement of agreement to sell SEMCO Energy Services, Inc.(s)		x

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(d) Filed with SEMCO Energy, Inc.'s Form 10-K for 1992, dated March 30, 1993, File No. 0-8503.
(e) Filed with SEMCO Energy, Inc.'s Form 10-Q for the quarter ended June 30, 1994, File No. 0-8503.

Key to Exhibits Incorporated by Reference (Continued)

(f) Filed with SEMCO Energy, Inc.'s Form 10-Q for the quarter ended September 30, 1994, File No. 0-8503.
(g) Filed with SEMCO Energy, Inc.'s Form 10-Q for the quarter ended March 31, 1996, File No. 0-8503.

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(h) Filed March 6, 1997 as part of SEMCO Energy, Inc.'s 1997 Proxy Statement, dated March 7, 1997, File No. 0-8503.
(i) Filed with SEMCO Energy, Inc.'s Form 10-K for 1996, dated March 27, 1997, File No. 0-8503.
(j) Filed with SEMCO Energy, Inc.'s Form 10-Q for the quarter ended March 31, 1997, File No. 0-8503.
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(p) Filed with SEMCO Energy, Inc.'s Form 8-K dated October 21, 1998, File No. 0-8503.
(q) Filed with SEMCO Energy, Inc.'s Form 8-K dated November 5, 1998, File No. 0-8503.
(r) Filed March 11, 1999, pursuant to Rule 14a-6 of the Exchange Act, File No. 0-8503.
(s) Filed with SEMCO Energy, Inc.'s Form 8-K dated March 23, 1999, File No. 0-8503.

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EXHIBIT 3.(ii)

Revised 12/17/98

SEMCO Energy, Inc.

BYLAWS

ARTICLE I

STOCK

Section 1. Capital Stock. The Capital of this Corporation consists of Twenty Million (20,000,000) shares designated "Common Stock, $1.00 Par Value", Five Hundred Thousand (500,000) shares designated "Cumulative Preferred Stock, $1 Par Value" and Three Million (3,000,000) shares designated "Preference Stock, $1 Par Value".

Section 2. Certificate of Shares. The Certificates for shares of the Capital Stock of this Corporation shall be in such form, not inconsistent with the Articles of Incorporation of the Corporation, as shall be prepared or be approved by the Board of Directors. The Certificates shall be signed by the President or a Vice President. The signatures may be facsimiles to the extent allowed by law.

Section 3. Record Date for Determination of Shareholders. The Board of Directors may in its discretion for the purpose of determining shareholders entitled to notice of and to vote at a meeting of shareholders or any adjournment thereof, or to express consent or dissent from a proposal without a meeting, or for the purpose of determining shareholders entitled to receive payment of a dividend or allotment of a right, or for the purpose of any other action, fix in advance a date as the record date for any such determination of shareholders. The record date shall not be more than sixty (60) nor less than ten (10) days before the date of the meeting, nor more than sixty (60) days before any other action. When a determination of shareholders of record entitled to notice of or to vote at a meeting of shareholders has been made as provided in this Section 3, the determination applies to any adjournment of the meeting, unless the Board fixes a new record date under this Section 3 for the adjourned meeting.

Section 4. Lost Certificates. In case of the loss of any certificate of shares of stock, upon due proof by the registered holder or his representatives, by affidavit of such

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loss, the transfer agent shall issue a duplicate certificate in its place, upon the Corporation's being fully indemnified therefor.

Section 5. Fiscal Year. The fiscal year of the Corporation shall end on the 31st day of December in each year.

Section 6. Corporate Seal. Each certificate shall contain the seal of the Corporation or a facsimile thereof.

Section 7. Redemption of Control Shares. Consistent with the provisions of Section 799 of the Michigan Business Corporation Act, MCL 450.1799, control shares of the Company acquired in a control share acquisition, with respect to which no acquiring person statement has been filed with the Company, are, at any time during the period ending 60 days after the last acquisition of control shares or the power to direct the exercise of voting power of control shares by the acquiring person, subject to redemption by the Company at the fair value of the shares pursuant to procedures adopted by the Board of Directors.

After an acquiring person statement has been filed and after the meeting at which the voting rights of the control shares acquired in a control share acquisition are submitted to the shareholders, the shares are subject to redemption by the Company at the fair value of the shares pursuant to procedures adopted by the Board of Directors unless the shares are accorded full voting rights by the shareholders as provided in Section 798 of the Michigan Business Corporation Act.

ARTICLE II

SHAREHOLDERS' MEETINGS

Section 1. Time, Place and Purpose. Meetings of the shareholders of the Corporation shall be held annually on the third Tuesday in April in each year, beginning in the year 1978, (or if said day be a legal holiday, then on the next succeeding day not a holiday) at 2:00 o'clock P.M., at the office of the Corporation in the City of Port Huron, Michigan, or at such other place within or without the State of Michigan as may be fixed by the Board of Directors, for the purpose of electing Directors and for th-e transaction of such other business as may properly be brought before the meeting.

Section 2. Special Meetings. Special meetings of the shareholders may be called by the President and Secretary, and shall be called by either of them by vote of a majority of the Board of Directors or at the request in writing of shareholders of record owning a majority of the entire shares of the

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Corporation issued and outstanding and entitled to vote at such meetings.

Section 3. Notice. Written notice of any shareholders' meeting shall be mailed to each shareholder of record entitled to vote at the meeting at his last known address, as the same appears on the stock book of the Corporation, or otherwise, or delivered in person, not less than ten (10) nor more than sixty (60) days before any meeting, and such notice of meeting shall indicate the object or objects thereof. Nevertheless, if all the shareholders entitled to vote at the meeting shall waive notice of the meeting, no notice of the same shall be required and, whenever all the shareholders entitled to vote at the meeting shall meet in person or by proxy, such meeting shall be valid for all purposes, without call or notice, and at such meeting any corporate action shall not be invalid for want of notice.

Section 4. Quorum. At any meeting of the shareholders, the holders of the issued and outstanding shares of the Corporation entitled to cast a majority of the votes at the meeting, whether present in person or represented by proxy, shall constitute a quorum. The shareholders present in person or by proxy at such meeting may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum. Whether or not a quorum is present, meetings may be adjourned from time to time to a further date without further notice other than the announcement at such meeting and, when a quorum shall be present upon such adjourned date, any business may be transacted which might have been transacted at the meeting as originally called.

Section 5. Voting. Each shareholder entitled to vote at any meeting shall have one vote in person or by proxy for each share held by him which has voting power upon the matter in question at the time, but no proxy shall be voted after three years from its date unless said proxy provides for a longer period. In all elections for Directors, each shareholder entitled to vote shall have the right to vote, in person or by proxy, the number of voting shares owned by him, for as many persons as there are Dire-ctors to be elected, or to cumulate said shares and give one candidate as many votes as the number of Directors multiplied by the number of his voting shares shall equal, or to distribute them on the same principle among as many candidates as he shall see fit.

Section 6. Organization. Meetings of the shareholders shall be presided over by the Chairman of the Board, or the President, or if neither is present, by any Vice President or, if no Vice President is present, by a chairman to be chosen at the meeting. The Secretary of the Corporation or, if he is not present, an Assistant Secretary of the Corporation, if present,

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shall act as Secretary of the meeting, but if no such officer is present, the presiding officer shall appoint any person to act as Secretary of the meeting.

Section 7. Inspectors. The Board of Directors, in advance of a shareholders' meeting, may appoint one or more inspectors to act at the meeting or any adjournment thereof. The inspectors shall perform such duties and shall make such determinations as are prescribed by law.

Section 8. Giving Notice. Any notice required by statute or by these Bylaws to be given to the shareholders, or to Directors, or to any officer of the Corporation, shall be deemed to be sufficient to be given by depositing the same in a post office box in a sealed, postpaid wrapper, addressed to such shareholder, Director, or officer at his last known address with proper postage and such notice shall be deemed to have been given at the time of such mailing.

Section 9. New Shareholders. Every person becoming a shareholder in this Corporation shall be deemed to assent to these Bylaws, and shall designate to the Secretary the address to which he desires that the notice herein required to be given may be sent, and all notices mailed to such addresses, with postage prepaid, shall be considered as duly given at the date of mailing, and any person failing to so designate his address shall be deemed to have waived notice of such meeting.

ARTICLE III

DIRECTORS

Section 1. Number, Classification and Term of Office. The business and the property of the Corporation shall be managed and controlled by the Board of Directors. The number of Directors shall be eleven (11). Directors shall hold office for staggered terms as provided in the Articles of Incorporation.

Section 2. Place of Meeting. The Directors may hold their meetings in such place or places within or without this State as a majority of the Board of Directors may, from time to time, determine.

Section 3. Meetings. Meetings of the Board of Directors may be called at any time by the Chairman, President or Secretary, or by a majority of the Board of Directors. Directors shall be notified in writing of the time, place and purpose of all meetings of the Board at least three days prior thereto. Any Director shall, however, be deemed to have waived such notice by his attendance at any meeting. The Chairman of the Board, or in

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his absence the President, shall preside at meetings of the Board.

Section 4. Quorum. A majority of the Board of Directors shall constitute a quorum for the transaction of business and, if at any meeting of the Board of Directors there be less than a quorum present, a majority of those present may adjourn the meeting from time to time.

Section 5. Vacancies. Vacancies in the Board of Directors shall be filled by the remaining members of the Board and each person so elected shall be a Director until his successor is elected by the shareholders.

Section 6. Compensation. No Director shall receive any salary or compensation for his services as Director, unless otherwise especially ordered by the Board of Directors or by the Bylaws.

Section 7. Age of Retirement. Notwithstanding anything above to the contrary, no individual shall serve as a director past the Retirement Age. Any individual reaching the Retirement Age while serving as director shall be considered to have resigned as of that date. No individual who has reached the Retirement Age shall qualify to run for election, or serve, as a director. The Retirement Age for individuals serving as directors on January 1, 1987 shall be 75 years. The Retirement Age for all other individuals shall be 70 years. The Board of Directors, however, may waive the provisions of this Section as to any director in its discretion by majority vote of the remaining directors in office.

Section 8. Resignation of Employee Director. Notwithstanding anything above to the contrary, any individual who is an employee of the Corporation or any majority-owned subsidiary when elected or appointed as a director, shall cease to be a director when that employment ends for any reason and shall be considered to have resigned as a director as of that date. The Board of Directors, however, may waive the provisions of this Section as to any director in its discretion by majority vote of the remaining directors in office.

Section 9. Qualifications. In addition to any other qualifications for a director imposed by law, these Bylaws, or the Articles of Incorporation, a person shall not qualify to serve as a director if that person has previously served concurrently as a director of the Corporation and an employee of the Corporation or any majority-owned subsidiary, but is no longer an employee. The Board of Directors, however, may waive the provisions of this Section as to any director in its discretion by majority vote of the remaining directors in office.

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Section 10. Lead Director. So long as the positions of the Chairman of the Board and Chief Executive Officer are held by the same person, there may be a Lead Director who shall be an Outside Director of the Company selected by the Outside Directors to serve a two-year term commencing every other year on the same date as the annual meeting. As used in this Article III, Section 10, "Outside Director" means a Director who is not and never has been an officer of the Company or any of its direct or indirect subsidiaries. The duties of the Lead Director shall be to convene and chair meetings of the Outside Directors and to assume other responsibilities which the Outside Directors might designate from time to time.

ARTICLE IV

OFFICERS

Section 1. Number, Classification and Term of Office. The Board of Directors shall select a President, a Secretary and a Treasurer and may select one or more additional Executive Vice Presidents, Senior Vice Presidents, Vice Presidents, Assistant Secretaries and Assistant Treasurers, who shall be elected by the Board of Directors at their regular annual meeting. The term of office shall be for one year and until their successors are chosen. No one of such officers, except the President, need be a Director. Any two of the offices, except those of President and Vice President, may be held by the same person, but no officer shall execute, acknowledge, or verify any instrument in more than one capacity. The Board of Directors shall fix the salaries of the officers of the Corporation. The Board of Directors may also fill any vacancy in the foregoing offices at any regular or special meeting duly called and held.

Section 2. Appointments and Removal of Officers. The Board of Directors may also appoint such other officers and agents as they may deem necessary for the transaction of the business of the Corporation. All officers and agents shall respectively have such authority and perform such duties in the management of the property and affairs of the Corporation as may be designated by the Board of Directors. Without limitation of any right of an officer or agent to recover damages for breach of contract, the Board of Directors may remove any officer or agent whenever, in their judgment, the business interests of the Corporation will be served thereby.

Section 3. Bonding of Officers. The Board of Directors may secure the fidelity of any or all of such officers by bond or otherwise.

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ARTICLE V

DUTIES OF OFFICERS

Section 1. President. The President shall be the chief executive officer of the Company and, as such, shall have supervision of its policies, business and affairs, and such other powers and duties as are commonly incident to the office of chief executive officer. He may sign, execute, and deliver in the name of the Company powers of attorney, contracts, bonds, and other obligations and shall perform such other duties as may be prescribed from time to time by the Board of Directors or by the Bylaws. He may appoint officers, agents, or employees other than those appointed by the Board of Directors.

Section 2. Vice President(s). If the Board of Directors shall have selected one or more additional Executive Vice Presidents, Senior Vice Presidents or Vice Presidents, any such Vice President shall do and perform such acts and shall exercise such powers and have such responsibilities as the Board of Directors may, from time to time, authorize or direct.

Section 3. Treasurer. The Treasurer shall have custody and keep account of all money, funds and property of the Corporation, unless otherwise determined by the Board of Directors, and he shall render such accounts and present such statement to the Directors and President as may be required of him. He shall deposit all funds of the Corporation which may come into his hands in such bank or banks as the Board of Directors may designate. He shall keep his bank accounts in the name of the Corporation, and shall exhibit his books and accounts, at all reasonable times, to any Director of the Corporation upon application at the offices of the Corporation during business hours. He shall pay out money as the business may require upon the order of the properly constituted officer or officers of the Corporation, taking proper vouchers therefor; provided, however, that the Board of Directors shall have power by resolution to delegate any of the duties of the Treasurer to other officers, and to provide by what officers, if any, all bills, notes, checks, vouchers, orders or other instruments shall be countersigned. He shall perform, in addition, such other duties as may be delegated to him by the Board of Directors.

Section 4. Secretary. The Secretary of the Corporation shall keep the minutes of all the meetings of the Shareholders, Board of Directors and Committees of the Board in books provided for that purpose; shall attend to the giving and receiving of all notices of the Corporation; and, in addition, shall perform such other duties as may be delegated to the Secretary by the Board of Directors.

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ARTICLE VI

INDEMNIFICATION OF DIRECTORS AND OFFICERS

1. The Corporation shall indemnify any person against expenses (including attorney fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person by reason of the fact that such person is or was a director or officer of the Corporation, in connection with any threatened, pending or completed action, suit or proceeding to the full extent allowed by Sections 561, 562, 563 and 564 of the Michigan Business Corporation Act from time to time in effect (including, where permitted and upon any undertaking required, payment in advance of expenses); provided, however, that except with respect to actions, suits or proceedings initiated by any such person to enforce his or her rights to indemnification or advancement of expenses under this Article or otherwise, the Corporation shall indemnify any such person in connection with an action, suit or proceeding initiated by such person only if such action, suit or proceeding was authorized or ratified by the Board of Directors of the Corporation. "Proceeding" as used in this Article shall include any proceeding within an action or suit.

2. Without limiting in any way Section 1 of this Article:

(a) The Corporation may, by action of or approval by its Board of Directors, provide indemnification and/or advancement of expenses to employees or agents of the Corporation who are not directors or officers in the same manner and to the same extent as such rights are provided to directors and officers pursuant to this Article.

(b) The indemnification and advancement of expenses provided by or granted pursuant to this Article shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under these Bylaws, the Articles of Incorporation, contractual agreement, or otherwise by law and shall continue as to a person who has ceased to be a director or officer of the Corporation and shall inure to the benefit of the heirs, executors and administrators of such person.

ARTICLE VII

AMENDMENTS

The shareholders entitled to vote or the Board of Directors may alter, amend, add to or repeal these Bylaws, including the fixing and altering of the Board of Directors; provided that the

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Board of Directors shall not make or alter any Bylaws fixing their number, qualifications, classification, or term of office.

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Exhibit 10.14

EXECUTIVE SECURITY AGREEMENT

This Executive Security Agreement (hereinafter called "Agreement") is made this ____ day of ______________ by and between SEMCO Energy, a corporation, with principal offices and place of business in the State of Michigan (hereinafter called the "Company"), and ___________________ (hereinafter called "Executive").

WITNESSETH:

WHEREAS, Executive is and has been employed in a managerial capacity by the Company and has performed valuable services; and

WHEREAS, Executive possesses an intimate knowledge of the business and affairs of the Company, its policies, methods and personnel; and

WHEREAS, the Company desires further to compensate Executive for his past services, to secure his future services, and to compensate him therefor,

NOW, THEREFORE, the Company and Executive mutually agree as follows:

Article 1

Death Benefit

1.1 In the event Executive dies while this Agreement is in effect and prior to his Retirement ("Retirement" and "Retire" shall mean severance of employment, other than by death, with the Company (i) at or after the attainment of age sixty-five (65), (ii) after this Agreement has been in effect for five (5) years or more, the Executive has not yet attained the age of sixty-five (65) years but is at least fifty-five (55) years of age, and such severance of employment has been favorably approved by the Company as constituting Executive's early retirement from the Company, or (iii) at such time that the Executive is deemed to have Retired in accordance with Section 4.1 below due to the Executive's total disability, as hereinafter defined), the Company will cause to be paid to Executive's Beneficiary, in accordance with the attached Split Dollar Agreement, a death benefit (the "Pre-Retirement Death Benefit") equal to five

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hundred percent (500%) of the Executive's Base Salary ("Base Salary" is defined to not include any bonus or incentive compensation to which the Executive may be entitled) for the Plan Year ("Plan Year" is defined, for purposes of this Agreement, to be the one (1) year period beginning on January 1 of each

calendar year and continuing through December 31 of the subsequent calendar year) within which the Executive's death occurs.

1.2 The Company will pay or cause to be paid such Death Benefit only if the following conditions are satisfied:

(a) At the time of Executive's death, (i) he was an Employee ("Employee" is defined in this Agreement to mean any person who is in the regular full time employment of the Company as determined by the personnel rules and practices of the Company); or (ii) he was totally disabled (as hereinafter defined) and was deemed to be an Employee of the Company in accordance with Article 4 below; and

(b) Such death was due to causes other than suicide within two years after the date of this Agreement.

The Company shall be entitled to rely upon the decision(s) of its insurance carrier(s) as to the determination of the applicability of the foregoing clause (b).

Article 2

Retirement Benefit

2.1 If Executive remains an Employee of the Company until age 65 and shall then Retire and if this Agreement has been kept in force, the Company will pay or cause to be paid to Executive, as a retirement benefit (the "Retirement Benefit"), an annual amount equal to fifty percent (50%) of the Executive's Base Salary for the Plan Year within which his Retirement occurs, to be paid in equal monthly installments, commencing on the first day of the month following the Executive's Retirement and continuing on the first day of each month thereafter for a total period of fifteen (15) years (or 180 monthly payments in total). In the event that (i) the Executive Retires from the Company after this Agreement has been in effect for five (5) years or more, the Executive has not yet attained the age of sixty-five (65) years but is at least fifty-five (55) years of age, and the Executive's severance of employment has been favorably approved

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by the Company as constituting Executive's early retirement from the Company, or (ii) the Executive is deemed to have Retired in accordance with Section 4.1 below due to the Executive's total disability (as hereinafter defined), then the Retirement Benefit that the Company will pay or cause to be paid to Executive in the manner and for the duration described above shall equal the percentage of the Executive's Base Salary for the Plan Year within which his Retirement occurs, as set forth below, that

corresponds to the Executive's age at the time of his Retirement, as set forth below:

Executive's Retirement Age	Retirement Benefit As Percentage of Base Salary
64	48%
63	46%
62	44%
61	42%
60	40%
59	38%
58	36%
57	34%
56	32%
55	30%

2.2 If Executive shall die after becoming entitled to a Retirement Benefit but before all such payments are made, then any Retirement Benefit payments remaining unpaid to Executive shall be paid to his Beneficiary in accordance with his Beneficiary Designation Form attached hereto as Exhibit 1.

2.3 If Executive shall die after becoming entitled to a Retirement Benefit under the circumstances set forth in Section 2.2 above, then no Pre-Retirement Death Benefit as provided for in Article 1 shall be payable to Executive's Beneficiary in accordance with the attached Split Dollar Agreement.

Article 3

Beneficiary

Executive shall designate the Beneficiary to receive his Pre-Retirement Death Benefit or Retirement Benefit provided in this Agreement and/or in the attache Split Dollar Agreement, by completing the appropriate space in the Beneficiary Designation Form attached hereto as Exhibit 1. If more than one Beneficiary is named, the shares and/or precedence of each Beneficiary shall be indicated and, in the absence of any such designation, the

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shares shall be equally divided without precedence to any one Beneficiary. Executive shall have the right to change the Beneficiary by submitting to the Company an amended or new Beneficiary Designation Form; provided, however, no change of Beneficiary shall be effective until acknowledged in writing by the Company. If the Company has any doubt as to the proper Beneficiary to receive payments hereunder, or if Executive shall for any reason not have on file a valid Beneficiary Designation Form, then Executive's estate shall be the Beneficiary. If the Company has any doubt as to the manner of payment of the Pre-Retirement Death Benefit to the Beneficiary, or if the Executive shall not have on file a valid Beneficiary Designation

Form regarding the manner of payment of such Pre-Retirement Death Benefit, then the Company shall have the absolute discretion to pay such Pre-Retirement Death Benefit in one lump sum payment to the Executive's estate. Any payment made by the Company, in good faith and in accordance with this Agreement, shall fully discharge the Company from all further obligations with respect to such payment.

Article 4

Waiver of Contributions

4.1 If Executive (while an Employee of the Company) becomes totally disabled after age 55 but before age 65 and, therefore, ceases to be an Employee of the Company, then Executive will be deemed to have Retired at such time and the payment of his Retirement Benefit shall commence in accordance with Section 2.1 above based upon Executive's age at such time; provided, however, that notwithstanding anything to the contrary contained herein, if Executive (while an Employee of the Company) shall not then have attained 55 years of age when he becomes totally disabled, then Executive will be deemed to be an Employee of the Company for purposes of this Agreement (and the attached Split Dollar Agreement) only until Executive attains age 55, at which time Executive (if then living) will be deemed to have Retired. If (as described above) the totally disabled Executive is deemed to have Retired at age 55, then in such circumstances, the Executive's Base Salary for the Plan Year within which such Retirement is deemed to have occurred shall be deemed to be the Executive's Base Salary for the Plan Year within which the Executive's total disability occurred. For purposes of this Agreement, "total disability" is defined to mean when, on the basis of medical evidence, it is determined that Executive (i) is disabled to such an extent that he is prevented from any employment with the Company, including a disability resulting from an occupational cause, and (ii) will be disabled permanently.

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4.2 In the event Executive dies prior to attaining age 55 while, being totally disabled, he is deemed to remain an Employee of the Company in accordance with Section 4.1 above, then the Pre-Retirement Death Benefit provided in Article 1 will be paid to Executive's Beneficiary in accordance with the attached Split Dollar Agreement. In such circumstances, the Executive's Base Salary for the Plan Year within which the Executive's death occurs shall be deemed to be the Executive's Base Salary for the Plan Year within which the Executive's total disability occurred.

4.3 The final determination of what constitutes total disability and the continuance thereof, for purposes of this Article, shall be made by the Company, and such determination shall be conclusive. In the event the Company elects to utilize

insurance contracts on the life of Executive as a means for making, offsetting or contributing to any payment specified hereunder, it shall have the right to rely upon the decision of such insurance carrier(s) as to the determination of the applicability of this provision.

Article 5

Insurance

5.1 The Company will be obligated to make benefit payments from time to time in accordance with the terms of this Agreement. In the event the Company elects to utilize insurance contracts on the life of Executive as a means for making, offsetting or contributing to any payment, in full or in part, which becomes due and payable by the Company under this Agreement, Executive agrees to cooperate in the securing of life insurance on his life by furnishing such information as the Company and the insurance carrier may require, including the results and reports of previous Company and other insurance carrier physical examinations, and taking such additional physical examinations as may be requested by the Company and the insurance carrier to obtain such insurance coverage. If Executive does not cooperate in the securing of such life insurance, or if the Company for any reason is unable to obtain life insurance in the requested amount on the life of Executive, the Company shall have no further obligation to Executive under this Agreement, and this Agreement between the Company and Executive shall immediately terminate without the necessity of any notice from either party to the other.

5.2 Except as may be provided to the contrary in the attached Split Dollar Agreement, the Company shall be the sole

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owner of any insurance policy or policies acquired on the life of Executive, with all incidents of ownership therein, including (but not limited to) the right to cash and loan values, dividends (if any), death benefits, and the right of termination thereof. In the event the Executive shall die under the circumstances described in Article 1 and/or Section 4.2 above, then the Company shall designate or cause to designate (i) Executive's Beneficiary as the beneficiary of such insurance policies or annuity contracts to the extent of the total amount of the Pre-Retirement Death Benefit (as determined in accordance with Section 1.1 above) and (ii) with respect to the total amount of the Pre-Retirement Death Benefit (as determined in accordance with Section 1.1 above), a manner of payment under such insurance policies or annuity contracts that corresponds with the manner of payment designated by the Executive (in accordance with Article 3 above) in the Beneficiary Designation Form filed by the Executive with the Company. Executive's ownership and/or rights in any such insurance policies or annuity contracts acquired on the life of Executive shall be limited in the manner set forth in this Section 5.2 and in the attached Split Dollar Agreement.

5.3 Notwithstanding anything to the contrary contained or implied herein, the Company shall not be required to fund, or otherwise to segregate, assets to be used for the payment of any benefits payable under either Article 1 or Article 2 of this Agreement. The obligations which the Company incurs hereunder are to be satisfied only out of its general corporate funds, except to the extent described in this Article 5 with regard to any Pre-Retirement Death Benefit which the Company has elected to fund with insurance policies or annuity contracts on the life of the Executive.

Article 6

Termination of Employment

This Agreement does not in any way obligate the Company to continue the employment of Executive with the Company, nor does this Agreement limit the right of the Company to terminate Executive's employment with the Company at any time and for any reason. Termination of Executive's employment with the Company for any reason, other than for death which is provided for in Article 1 above and other than for total disability which is provided for in Article 4 above, whether by action of the Company or Executive, (i) shall immediately result in Executive's Retirement as provided in this Agreement (without the necessity of any notice from either party to the other), provided that Executive is then at least 65 years of age, and any further obligations of either party to the other shall continue only as

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expressly provided in this Agreement or (ii) shall immediately result in termination of this Agreement, provided that Executive is not then at least 65 years of age, and the parties shall thereafter have no further obligations to each other pursuant to this Agreement, unless at such time this Agreement has been in effect for five (5) years or more, the Executive is at least fifty-five (55) years of age and such severance of employment has been favorably approved by the Company as constituting Executive's early retirement from the Company, in which event any further obligations of either party to the other shall continue only as expressly provided in this Agreement. In no event shall this Agreement by its terms or implications constitute an employment contract of any nature between the Company and Executive.

Article 7

Restrictive Covenants

Executive agrees (i) during the term of this Agreement (including any time during which Executive is determined to be totally disabled, as described in Article 4 above), and (ii) during the time Executive is receiving any benefits provided for under Article 2 hereof, that he will not, without the written

consent of the Board of Directors of the Company directly or indirectly own, manage, operate, control or participate in the ownership, management, operation or control of, or be connected as an officer, employee, partner, director or otherwise with, or have any financial interest in, or aid or assist anyone else in the conduct of any business which competes with any business conducted by the Company (or any of its subsidiary or affiliated companies) in any area where such business of the Company (or any of its subsidiary or affiliated companies) is being conducted. Ownership of five percent (5%) or less of the voting stock of any publicly-held corporation shall not constitute a violation hereof.

Article 8

Other Benefits and Agreements

The benefits provided for Executive and his Beneficiary under this Agreement are in addition to any other benefits available to Executive under any other plan or program of the Company for its employees, and, except as may otherwise be expressly provided for, this Agreement shall supplement and shall not supersede, modify or amend any other plan or program between the Company and Executive.

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Article 9

Restrictions on Alienation of Benefits

No right or benefit under this Agreement shall be subject to anticipation, alienation, sale, assignment, pledge, encumbrance or charge, and any attempt to anticipate, alienate, sell, assign, pledge, encumber or charge the same shall be void. No right or benefit hereunder shall in any manner be liable for or subject to the debts, contracts, liabilities, or torts of the person entitled to such benefit. If Executive or any of his Beneficiaries under this Agreement shall become bankrupt or attempt to anticipate, alienate, sell, assign, pledge, encumber or charge any right to a benefit hereunder, then such right or benefit, in the discretion of the Company, shall cease and, in such event, the Company may hold or apply the same or any part thereof for the benefit of Executive or such Beneficiary, his spouse, children, or other dependents, or any of them, in such manner and in such portions as the Company may deem proper.

Article 10

Administration of this Agreement

10.1 The general administration of this Agreement, as well as construction and interpretation thereof, shall be vested in the Company.

10.2 The Company shall have and retains the right in its sole and absolute discretion (without any obligation whatsoever) to approve or disapprove of Executive's severance of employment with the Company (after this Agreement has been in effect for five (5) years or more and provided that the Executive has not yet attained the age of sixty-five (65) years but is at least fifty-five (55) years of age) for any reason other than Executive's death and total disability as constituting Executive's early retirement from the Company. Such decision of the Company shall be conclusive and binding upon all parties having or claiming to have any right or interest in or under this Agreement.

10.3 Subject to this Agreement, the Company shall from time to time establish rules, forms and procedures for the administration of this Agreement. Except as herein otherwise expressly provided, the Company shall have the exclusive right to interpret this Agreement and to decide any and all matters arising thereunder or in connection with the administration of this Agreement. The Company shall have the exclusive right to

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determine (i) disability in respect of Executive and (ii) the degree thereof, either or both determinations to be made on the basis of such medical and/or other evidence as the Company, in its sole judgment, may require. Such decisions, actions and records of the Company shall be conclusive and binding upon all persons having or claiming to have any right or interest in or under this Agreement.

10.4 The officers and directors of the Company shall be entitled to rely on all certificates and reports made by any duly appointed accountants, and on all opinions given by any duly appointed legal counsel. Such legal counsel may be counsel for the Company and/or counsel responsible for the drafting of this Agreement.

10.5 In addition to the powers hereinabove specified, the Company shall have the power to compute and certify under this Agreement the amount and kind of benefits from time to time payable to Executive and his Beneficiaries and to authorize all disbursements for such purposes.

10.6 The Company shall also have the power, in its sole discretion, to change the manner and time of payments to be made to Executive or his Beneficiaries from that set forth in the Agreement Plan, if requested to do so by Executive or his Beneficiaries.

Article 11

Miscellaneous

11.1 Any notice which shall be or may be given under this Agreement shall be in writing and shall be mailed by United States certified mail, postage prepaid. If notice is to be given to the Company, such notice shall be addressed to the Company at 405 Water Street, Port Huron, Michigan 48061; or, if notice to Executive, addressed to Executive at the address shown on this Agreement.

11.2 Any party may, from time to time, change the address to which notices shall be mailed by given written notice of such new address.

11.3 This Agreement shall be binding upon the Company and its successors and assigns, and upon Executive, his Beneficiaries, assigns, heirs, executors and administrators.

11.4 This Agreement shall be governed and construed under the laws of the State of Michigan as in effect at the time of its adoption and execution.

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11.5 Masculine pronouns wherever used shall include feminine pronouns and the singular shall include the plural.

11.6 Executive, by the execution of this Agreement, acknowledges that he did not rely upon any oral or written representations by the Company when deciding to enter into this Agreement.

SEMCO Energy ("Company")

By________________________________

_____________________("Executive")

____
(Address)

EXHIBIT 1

BENEFICIARY DESIGNATION FORM RELATIVE TO THE
EXECUTIVE SECURITY AGREEMENT
BETWEEN
SEMCO ENERGY AND ____________________

I acknowledge that, as an Employee of SEMCO ENERGY (the "Company"), I have entered into an Executive Security Agreement ("Agreement") with such Company described in the attached Agreement, which is incorporated by this reference for all purposes.

I hereby designate as Primary Beneficiary (to receive in one lump sum payment at my death, unless specified otherwise) under the Agreement:

____

____

and I hereby designate as Secondary Beneficiary (to receive in one lump sum payment at my death, unless specified otherwise) under the Agreement:

____

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____

The term Beneficiary, as used herein, shall mean the Primary Beneficiary if such Primary Beneficiary survives me by at least thirty (30) days, and shall mean the Secondary Beneficiary if Primary Beneficiary does not survive me by at least thirty (30) days, and shall mean my estate if neither Primary Beneficiary nor Secondary Beneficiary survives me by at least thirty (30) days. I shall have the right to change my designation of Primary Beneficiary and/or Secondary Beneficiary from time to time in such manner as shall be required by the Company, it being agreed that no change in Beneficiary shall be effective until acknowledged in writing by the Company. (If Beneficiary is to be irrevocable, I will strike and initial previous sentence.)

_____________________________:
Employee

____
(Signature)

____
(Address)

SEMCO Energy hereby acknowledges receipt of this Beneficiary Designation Form on this ____ day of _________________.

SEMCO ENERGY

By:______________________________

[FN]
Executive Security Agreements are in effect for the following Executives of the Company:

-- Rudolfo D. Cifolelli dated January 19, 1999
-- Sebastian Coppola dated January 18, 1999
-- Barrett Hatches dated February 12, 1997 and amended March 31, 1998
-- William Johnson dated February 12, 1997 and amended March 31, 1998
-- Carl W. Porter dated February 12, 1997 and amended March 31, 1998

</FN>

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Exhibit 10.15

SPLIT DOLLAR AGREEMENT

THIS AGREEMENT made and entered into as of this ____ day of _________________, by and between SEMCO Energy, a corporation, with principal offices and place of business in the State of Michigan (hereinafter referred to as the "Company"), and ___________________, an individual residing in the State of Michigan (hereinafter referred to as the "Executive"),

WITNESSETH THAT:

WHEREAS, the Executive is and has been employed in a managerial capacity by the Company and has performed valuable services;

WHEREAS, the Executive wishes to provide life insurance protection for his family in the event of his death, under a policy of life insurance insuring his life (hereinafter referred to as the "Policy"), which is described in Exhibit A attached hereto and by this reference is made a part hereof, and which is being issued by Transamerica Occidental Life Insurance Company (hereinafter referred to as the "Insurer"); and

WHEREAS, in order to implement a certain Executive Security Agreement entered into as of the same day hereof by and between the Company and the Executive, the Company is willing to pay the premiums due on the Policy as an additional compensation benefit to the Executive on the terms and conditions hereinafter set forth; and

WHEREAS, the Company is the owner of the Policy and, as such, possesses all incidents of ownership in and to the Policy; and

WHEREAS, the Company wishes to retain such ownership rights, in order to secure repayment of (i) the amounts which it will pay toward the premiums on the Policy and (ii) such additional interest the Company may have in the Policy pursuant to this Agreement;

NOW, THEREFORE, in consideration of the premises and of the mutual promises contained herein, the parties hereto agree as follows:

1. Purchase of Policy. The Company shall contemporaneously purchase the Policy from the Insurer in the initial face amount of $___________, which face amount shall be

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subject to increases and/or decreases in dollar amount on the first day of each Plan Year ("Plan Year" is defined, for purposes of this Agreement, to be the one (1) year period beginning on January 1 of each calendar year and continuing through December 31 of the subsequent calendar year), commencing with the

Plan Year that starts on January 1, _____ and continuing for each Plan Year thereafter, in order for the face amount of the Policy to always total at least the sum of (i) and (ii) described in paragraph b of Section 9 below. The parties hereto agree that they will take all necessary action to cause the Insurer to issue the Policy, and shall take any further action which may be necessary to cause the Policy to conform to the provisions of this Agreement. The parties hereto agree that the Policy shall be subject to the terms and conditions of this Agreement and of the endorsement to the Policy filed with the Insurer.

2. Ownership of Policy. The Company shall be the sole and absolute owner of the Policy, and may exercise all ownership rights granted to the owner thereof by the terms of the Policy, except as may otherwise be provided herein.

3. Election of Settlement Option and Beneficiary. The Executive may select the settlement option for payment of the portion of the death benefit provided under the Policy, and the beneficiary or beneficiaries to receive the portion of policy proceeds, to which the Executive is entitled hereunder, by specifying the same in the Beneficiary Designation Form attached to the above-referenced Executive Security Agreement entered into as of the same day hereof by and between the Company and the Executive. Upon receipt of such Beneficiary Designation Form, the Company shall execute and deliver to the Insurer the forms necessary to elect the requested settlement option and to designate the requested person, persons or entity as the beneficiary or beneficiaries to receive the death proceeds of the Policy in the amount to which the beneficiary or beneficiaries are entitled hereunder. The parties hereto agree to take all action necessary to cause the beneficiary designation and settlement election provisions of the Policy to conform to the provisions hereof. The Company shall not terminate, alter or amend such designation or election without the express written consent of the Executive.

4. Dividends. The Company shall have the option to apply any dividend declared on the Policy either to purchase one year term insurance on the life of the Executive or to purchase paid-up additional insurance on the life of the Executive, whichever the Company deems appropriate. The parties hereto agree that the dividend election provisions of the Policy shall conform to the provisions hereof.

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5. Payment of Premiums. On or before the due date of each Policy premium, or within the grace period provided therein, the Company shall pay the full amount of the premium to the Insurer, and shall, upon request, promptly furnish the Executive evidence of timely payment of such premium. The Company shall annually furnish the Executive a statement of the amount of income reportable by the Executive for federal and state income tax purposes as a result of the insurance protection provided the Policy beneficiary.

6. Designation of Policy Beneficiary/Endorsement. Contemporaneously with the execution of this Agreement, the Company has executed a beneficiary designation for and/or an endorsement to the Policy, under the form used by the Insurer for such designations, in order to secure the Company's recovery of the amount of the premiums on the Policy paid by the Company hereunder, plus such additional beneficial interest the Company may have in the Policy pursuant to this Agreement. Such beneficiary designation or endorsement shall not be terminated, altered or amended by the Company, without the express written consent of the Executive. The parties hereto agree to take all action necessary to cause such beneficiary designation or endorsement to conform to the provisions of this Agreement.

7. Limitations on Company's Rights in Policy. Except as otherwise provided herein, the Company shall neither sell, assign, transfer, surrender or cancel the Policy nor change the beneficiary designation provision thereof without, in any such case, the express written consent of the Executive.

8. Policy Loans. The Company may pledge or assign the Policy, subject to the terms and conditions of this Agreement, for the sole purpose of securing a loan from the Insurer or from a third party. The amount of such loan, including accumulated interest thereon, shall not exceed the cash surrender value of the Policy (as defined therein) as of the date to which premiums have been paid. Interest charges on such loan shall be paid by the Company. If the Company so encumbers the Policy, other than by a policy loan from the Insurer, then, upon the death of the Executive, the Company shall promptly take all action necessary to secure the release or discharge of such encumbrances.

9. Collection of Death Proceeds.

a. Upon the death of the Executive, the Company shall cooperate with the beneficiary or beneficiaries designated by the Executive to take whatever action is necessary to collect the death benefit provided under the Policy; when such benefit has been collected and paid as provided herein, this Agreement shall thereupon terminate.

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b. Upon the death of the Executive while the Policy and this Agreement are in force, (i) the Company shall have the unqualified right to receive a portion of such death benefit equal to the total amount of the premiums paid by the Company, reduced by any indebtedness against the Policy existing at the death of the Executive (including any interest due on such indebtedness); (ii) the lesser of the balance (after (i) above has been satisfied) of the death benefit provided under the Policy or an amount equal to five hundred percent (500%) of the Executive's base salary (this does not include any bonus or incentive compensation to which the Executive may be entitled) for the Plan Year within which his death occurs shall be paid

directly to the beneficiary or beneficiaries designated by the Company at the direction of the Executive, in the manner and in the amount or amounts provided in the beneficiary designation provision of the Policy; and (iii) the Company shall be entitled to receive the balance (after (i) and (ii) above have been satisfied), if any, of the death benefit provided under the Policy. In no event shall the amount payable to the Company hereunder exceed the Policy proceeds payable at the death of the Executive. No amount shall be paid from such death benefit to the beneficiary or beneficiaries designated by the Company at the direction of the Executive, until the total amount of the premiums paid by the Company hereunder, reduced by any indebtedness against the Policy existing at the death of the Executive (including any interest due on such indebtedness), has been paid to the Company. The parties hereto agree that the beneficiary designation provision of the Policy shall conform to the provisions hereof.

c. Notwithstanding any provision hereof to the contrary, in the event that, for any reason whatsoever, no death benefit is payable under the Policy upon the death of the Executive and in lieu thereof the Insurer refunds all or any part of the premiums paid for the Policy, the Company and the Executive's beneficiary or beneficiaries shall have the unqualified right to share such premiums based (i) on their respective cumulative contributions thereto, if Executive's death is due to suicide within two years after the date of this Agreement, or (ii) in all other situations, on their respective shares of the death benefit that was otherwise to have been paid under the Policy at the death of the Executive.

10. Termination of the Agreement During the Executive's Lifetime. This Agreement shall terminate, during the Executive's lifetime, without notice, upon the occurrence of any of the following events: (a) total cessation of the Company's business; (b) bankruptcy, receivership or dissolution of the Company; or (c) termination of Executive's employment by the

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Company for any reason other than Executive's death (whether such cessation of employment is due to the Executive's disability, retirement, voluntary termination or involuntary termination, etc.). However, notwithstanding anything to the contrary contained herein, if the Executive (while an Employee of the Company, as defined in the above-referenced Executive Security Agreement entered into as of the same day hereof by and between the Company and the Executive) shall not then have attained the age of fifty-five (55) years of age when he becomes totally disabled, then Executive will be deemed to be an Employee of the Company for purposes of this Agreement (and the above-referenced Executive Security Agreement) only until Executive attains age 55, at which time Executive will be deemed to have retired. For purposes of this Agreement, "total disability" is defined to mean when, on the basis of medical evidence, it is determined that Executive (i) is disabled to such an extent that he is prevented from any employment with the Company, including a disability

resulting from an occupational cause, and (ii) will be disabled permanently.

11. Insurer Not a Party. The Insurer shall be fully discharged from its obligations under the Policy by payment of the Policy death benefit to the beneficiary or beneficiaries named in the Policy, subject to the terms and conditions of the Policy. In no event shall the Insurer be considered a party to this Agreement, or any modification or amendment hereof. No provisions of this Agreement, nor of any modification or amendment hereof, shall in any way be construed as enlarging, changing, varying or in any way affecting the obligations of the Insurer as expressly provided in the Policy, except insofar as the provisions hereof are made a part of the Policy by the beneficiary designation executed by the Company and filed with the Insurer in connection herewith.

12. Assignment by Executive. Notwithstanding any provision hereof to the contrary, the Executive shall have the right to absolutely and irrevocably assign by gift all of his right, title and interest in and to this Agreement and to the Policy to an assignee. This right shall be exercisable by the execution and delivery to the Company of a written assignment, in substantially the form attached hereto as Exhibit B, which by this reference is made a part hereof. Upon receipt of such written assignment executed by the Executive and duly accepted by the assignee thereof, the Company shall consent thereto in writing, and shall thereafter treat the Executive's assignee as the sole owner of all of the Executive's right, title and interest in and to this Agreement and in and to the Policy. Thereafter, the Executive shall have no right, title or interest in and to this Agreement or the Policy, all such rights being vested in and exercisable only by such assignee.

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13. Named Fiduciary, Determination of Benefits, Claims Procedure and Administration.

a. The Company is hereby designated as the named fiduciary under this Agreement. The named fiduciary shall have authority to control and manage the operation and administration of this Agreement, and it shall be responsible for establishing and carrying out a funding policy and method consistent with the objectives of this Agreement.

b. (1) Claim.

A person who believes that he is being denied a benefit to which he is entitled under this Agreement (hereinafter referred to as a "Claimant") may file a written request for such benefit with the Company, setting forth his claim. The request must be addressed to the President of the Company at its then principal place of business.

(2) Claim Decision. Upon receipt of a claim, the Company shall advise the Claimant that a reply will be forthcoming within ninety (90) days and shall, in fact, deliver such reply within such period. The Company may, however, extend the reply period for an additional ninety (90) days for reasonable cause.

If the claim is denied in whole or in part, the Company shall adopt a written opinion, using language calculated to be understood by the Claimant, setting forth: (a) the specific reason or reasons for such denial; (b) the specific reference to pertinent provisions of this Agreement on which such denial is based; (c) a description of any additional material or information necessary for the Claimant to perfect his claim and an explanation why such material or such information is necessary; (d) appropriate information as to the steps to be taken if the Claimant wishes to submit the claim for review; and (e) the time limits for requesting a review under subsection (3) and for review under subsection (4) hereof.

(3) Request for Review. Within sixty (60) days after the receipt by the Claimant of the written opinion described above, the Claimant may request in writing that the Secretary of the Company review the determination of the Company. Such request must be addressed to the Secretary of the Company, at its then principal place of business. The Claimant or his duly authorized representative may, but need not, review the pertinent documents and submit issues and comments in writing for consideration by the

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Company. If the Company does not request a review of the Company's determination by the Secretary of the Company within such sixty (60) day period, he shall be barred and estopped from challenging the Company's determination.

(4) Review of Decision. Within sixty (60) days after the Secretary's receipt of a request for review, he will review the Company's determination. After considering all materials presented by the Claimant, the Secretary will render a written opinion, written in a manner calculated to be understood by the Claimant, setting forth the specific reasons for the decision and containing specific references to the pertinent provisions of this Agreement on which the decision is based. If special circumstances require that the sixty (60) day time period be extended, the Secretary will so notify the Claimant and will render the decision as soon as possible, but no later than one hundred twenty (120) days after receipt of the request for review.

14. Amendment. This Agreement may not be amended, altered or modified, except by a written instrument signed by the parties hereto, or their respective successors or assigns, and may not be otherwise terminated except as provided herein.

15. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the Company and its successors and assigns, and the Executive, his successors, assigns, heirs, executors, administrators and beneficiaries.

16. Notices. Any notice, consent or demand required or permitted to be given under the provisions of this Agreement shall be in writing, and shall be signed by the party giving or making the same. If such notice, consent or demand is mailed to a party hereto, it shall be sent by United States certified mail, postage prepaid, addressed to such party's last known address as shown on the records of the Company. The date of such mailing shall be deemed the date of notice, consent or demand.

17. Governing Law. This Agreement, and the rights of the parties hereunder, shall be governed by and construed in accordance with the laws of the State of Michigan.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, in duplicate, as of the day and year first above written.

SEMCO Energy ("Company")

By:______________________________

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ATTEST:

____
Secretary

____
("Employee")

EXHIBIT A

The following life insurance policy is subject to the attached Split Dollar Agreement:

Insurer: Transamerica Occidental Life Insurance Company

Insured: ______________________

Policy Number: ______________________

Initial Face Amount: $_______________

Date of Issue: ______________________

EXHIBIT B

IRREVOCABLE ASSIGNMENT OF SPLIT-DOLLAR AGREEMENT

THIS ASSIGNMENT, dated this ______ day of __________________,

WITNESSETH THAT:

WHEREAS, the undersigned (the "Assignor") is the Executive party to that certain Split Dollar Agreement (the "Agreement"), dated as of ______________________, by and between the undersigned and SEMCO Energy (the "Company"), which Agreement confers upon the undersigned certain rights and benefits with regard to one or more policies of insurance insuring the Assignor's life; and

WHEREAS, pursuant to the provisions of said Agreement, the Assignor retained the right, exercisable by the execution and delivery to the Company of a written form of assignment, to absolutely and irrevocably assign all of the Assignor's right, title and interest in and to said Agreement to an assignee; and

WHEREAS, the Assignor desires to exercise said right:

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NOW, THEREFORE, the Assignor, without consideration, and intending to make a gift, hereby absolutely and irrevocably assigns, gives, grants and transfers to ________________________, (the "Assignee") all of the Assignor's right, title and interest in and to the Agreement and said policies of insurance, intending that, from and after this date, the Agreement be solely between the Company and the Assignee and that hereafter the Assignor shall neither have nor retain any right, title or interest therein.

____
Assignor

ACCEPTANCE OF ASSIGNMENT

The undersigned Assignee hereby accepts the above assignment of all right, title and interest of the Assignor therein in and to the Agreement by and between such Assignor and the Company, and the undersigned hereby agrees to be bound by all of the terms and conditions of said Agreement, as if the original Executive party thereto.

____
Assignee

Dated:_________________

CONSENT TO ASSIGNMENT

The undersigned Company hereby consents to the foregoing assignment of all of the right, title and interest of the Assignor in and to the Agreement by and between the Assignor and the Company to the Assignee designated therein. The undersigned Company hereby agrees that, from and after the date hereof, the undersigned Company shall look solely to such Assignee for the performance of all obligations under said Agreement which were heretofore the responsibility of the Assignor, shall allow all rights and benefits provided therein to the Assignor to be exercised only by said Assignee, and shall hereafter treat said Assignee in all respects as if the original Executive party thereto.

SEMCO Energy

By:______________________________

Date:_________________

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[FN]
Split Dollar Agreements are in effect for the following Executives of the Company:

-- Rudolfo D. Cifolelli dated January 19, 1999, in the initial face amount of $625,000, subject to increases and/or decreases commencing with the Plan Year starting January 1, 2000.
-- Sebastian Coppola dated January 18, 1999, in the initial face amount of $950,000, subject to increases and/or decreases commencing with the Plan Year starting January 1, 2000.
-- Barrett Hatches dated February 12, 1997, and amended March 31, 1998, in the initial face amount of $487,500, subject to increases and/or decreases commencing with the Plan Year starting January 1, 1999.
-- William Johnson dated February 12, 1997, and amended March 31, 1998, in the initial face amount of $1,150,000, subject to increases and/or decreases commencing with the Plan Year starting January 1, 1999.
-- Carl W. Porter dated February 12, 1997, and amended March 31, 1998, in the initial face amount of $828,000, subject to increases and/or decreases commencing with the Plan Year starting January 1, 1999.
</FN>

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Exhibit 10.16

DEFERRED COMPENSATION AND STOCK PURCHASE AGREEMENT FOR OUTSIDE DIRECTORS FOR 1999

Deferred Compensation and Stock Purchase Agreement for Outside Directors for 1999 dated __________________________, between SEMCO Energy, Inc. (the "Company") and ____ (the "Director"), who agree as follows:

1. ELECTION OF AMOUNT OF DEFERRED COMPENSATION. The Company and the Director agree to irrevocably defer payment of the below delineated annual compensation, which would otherwise be payable to the Director in calendar year 1999. The amounts so deferred are hereinafter referred to as "Deferred Compensation."

This Agreement must be signed by the Director, and a copy delivered to the Secretary of the Company, prior to January 1 of the year for which it is applicable. Provided, however, in the case of a new Director, such signing and delivery must occur no later than 30 days after becoming a Director and must relate only to services performed by the Director in his (her) capacity as such after such election.

Compensation to be deferred:

(a) Monthly retainer:

____ All ____ None
____ The first $_________

(b) Board & Committee Meeting Fees:

____ All ____ None
____ The first $_________

(c) _____ Compensation in Lieu of Medical Plan Participation (this amount is to be invested in common shares only).

2. DEFERRED COMPENSATION ACCOUNT.

(a) The Company shall establish a bookkeeping account (the "Account") to evidence the Company's liability to the Director under this Agreement. The Account shall be credited

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with an amount equal to the Deferred Compensation otherwise payable.

(b) If the Director checks the appropriate box below, interest on the Account shall accrue and be credited to the

Account at the end of the calendar year (and at the beginning of the Payment Period described in 3(b) below) in an amount equal to the Average Balance times the Average Prime Rate times the portion of the year represented by the operative period where:

(i) "Average Balance" equals the sum of the Account balances on each day during the operative period, divided by the number of days in the operative period; and

(ii) "Average Prime Rate" equals the sum of the rates announced by Michigan National Bank as its prime rate each day during the operative period, divided by the number of such days.

(c) If the Director checks the appropriate box below, he (she) will be deemed to have waived interest as described in subparagraph (b) above. In lieu of such interest, all Deferred Compensation credited to such account will be used to purchase shares of Company common stock at the price, at the time and otherwise in the manner actual shares of common stock would be purchased if such Deferred Compensation were invested in the Company's Direct Stock Purchase and Dividend Reinvestment Plan ("DRIP") at the earliest DRIP investment date after the amount is credited to the Account. The Account will be credited with further shares at the time and otherwise in the manner that an equal number of actual shares would be credited to a DRIP account for which dividends are reinvested.

____ (i) I elect to have my Account invested in common stock (stock issued will be restricted to the extent required by law).

____ (ii) I elect to have interest paid on my Account at the Average Prime Rate as described above.

On or before March 31 of each year, the Company will notify the director in writing of the value of his Account as of the preceding December 31.

(d) Other than for common stock, as described above, the Company is not required to earmark any assets for payment of, or make any investment with respect to, the Account. Any assets allocated to pay the Account will at all times remain subject to the claims of the Company's general creditors, and will at all

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times be available for the Company's use for whatever purpose it desires. The Company shall have, in general, the power to do and perform any and all acts with respect to any such assets in the same manner and to the same extent as an individual might or could do with respect to his own property including the voting of common stock. Except for the common stock, as described above, the Company may invest in any and all types of property, whether real or personal, without regard to its location, including stock, securities, and property of the Company and any business entity controlling, controlled by or under common control with the Company. No enumeration of specific powers herein made shall be construed as a limitation upon the foregoing general power, nor shall any of the powers herein conferred upon the Company be exhausted by the use thereof, but each shall be continuing.

(e) The Director shall have no property interest whatsoever in any assets or investments of the Company whether or not any assets are earmarked to pay the Account. The Director has the status of a general unsecured creditor of the Company. This Agreement constitutes a mere promise by the Company to make benefit payments in the future. No trust shall be created by the Company to hold assets related to this Agreement and this Agreement is intended to be, and shall be, unfunded for tax purposes and for -purposes of Title 1 of ERISA.

3. DISTRIBUTION FROM DEFERRED COMPENSATION ACCOUNT.

(a) Amount of Distribution. The Account shall be valued on the earliest date it could be distributed pursuant to the election made in (b) below. Common shares shall be distributed in certificate form. Fractional shares shall be paid out at the price which would be paid for such shares pursuant to a DRIP withdrawal effected on that date.

The Company shall have the right to withhold from any payment made under this Agreement an amount sufficient to satisfy any federal, state or local tax withholding requirements imposed in connection with such payment.

(b) Election of Commencement of Distribution. By INITIALING his choice below, the Director irrevocably elects to receive payment of amounts credited to the Account:

____ (i) Within thirty days after the date on which the Director ceases to be a full-time Director of the Company or any business entity controlling, controlled by or under common control with the Company.

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OR

____ (ii) Within thirty days after January 1, ______.

OR

____ (iii) Within thirty days after the earlier of the date described in (b)(i) and (b)(ii) above. Note: If this option is chosen, the year in (b)(ii) above must be filled in.

OR

____ (iv) Within thirty days after the later of the date described in (b)(i) and (b)(ii) above. Note: If this option is chosen, the year in (b)(ii) above must be filled in.

The above thirty-day period is referred to herein as the "Payment Period."

(c) Date of Payment. The entire value of the Account shall be paid to the Director on a date, selected at the discretion of the Company, within the Payment Period elected by the Director.

(d) Selection of Beneficiary. If the Director dies prior to distribution of the Account, payment of the Account shall be made to the Primary Beneficiary named below, or, in the event the Primary Beneficiary has predeceased the Director, to the Alternate Beneficiary named below. The Director may change beneficiaries at any time by submitting written notice of such change to the Company. If the Director dies and has not designated a beneficiary, or if all named beneficiaries have predeceased him, payment from the Account shall be made to the Director's estate.

The Director hereby designates the following Primary Beneficiary:

Name and Address   Relationship to Director

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The Director hereby designates the following Alternate Beneficiary:

Name and Address   Relationship to Director

4. RESTRICTION AGAINST ALIENATION. Neither the Director nor any beneficiary shall have any right to sell, assign, transfer, pledge, hypothecate or otherwise convey or encumber any

right to receive any payment hereunder, and all such payments and all rights thereto are expressly declared to be non-assignable and non-transferable.

5. AGREEMENT NOT AN EMPLOYMENT AGREEMENT. This Agreement does not constitute a contract for the employment of the Director by the Company. The Company reserves the right to modify the Director's compensation.

6. PURPOSE. The purpose of this Agreement is to accomplish the deferral of the incidence of federal income tax on a Director's deferred fees and the earnings thereon until such time as a Director, his beneficiary or estate actually receives payment of the same, and the Agreement shall be construed in accordance with such purpose.

7. MISCELLANEOUS.

(a) Delivery of Notice. Notice to the Director may be given either by personal delivery to the Director or by deposit in the United States Mail, postage prepaid, addressed to his last known address. Notice to a beneficiary may be given either by personal delivery to the beneficiary or by deposit in the United States Mail, postage prepaid, addressed to the address set forth above. Notice to the Company may be given either by delivery in person or by deposit in the United States Mail, postage prepaid, addressed to

Attn: Corporate Secretary

(b) Governing Law. This Agreement shall be governed by the laws and rules of the State of Michigan and any other entity whose laws or rules must be complied with in order to achieve the purposes of this Agreement. Any provision hereof

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which precludes the deferral of Deferred Compensation for federal tax purposes shall be null and void from the start.

(c) Counterparts; Director Acknowledgment. This Agreement may be executed in several counterparts (i.e. copies), each of which shall be an original, but such counterparts shall together constitute but one instrument. The Director acknowledges that he has read all parts of this Agreement and has sought and obtained satisfactory answers to any questions as to his rights, obligations, and potential liabilities under this Agreement prior to affixing his signature or initials to any part of this Agreement.

(d) Immunity. So long as they act in good faith, the Company and any of its officers, directors, agents, or employees may act pursuant to this Agreement without any liability to the Director, any beneficiary or any other person.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

SEMCO ENERGY, INC.

By:______________________________

____
Director

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Exhibit 12

<TABLE>

SEMCO ENERGY, INC.
Ratio of Earnings to Fixed Charges
(Thousands of Dollars)

<CAPTION>

Description	Year Ended 1998	1997<F3>	1996<F3>	1995	1994
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Earnings as Defined <F1>					
Net Income (Loss)	$10,040	$15,425	$(12,762)	$11,331	$ 9,992
Income taxes	7,011	8,469	(7,106)	6,151	4,560
Other items	672	(96)	(96)	(96)	1,882
Fixed charges as defined	15,085	16,690	14,588	14,402	14,092
Earnings as defined	$32,808	$40,488	$ (5,376)	$31,788	$30,526
Fixed charges as defined <F1>					
Interest on long-term debt	$11,488	$ 9,389	$ 8,514	$ 8,546	$ 8,605
Amortization of debt expense	450	449	431	520	454
Other interest charges	2,873	6,611	5,399	5,062	4,759
Preferred securities dividends and distributions	274	274	274	274	274
Fixed charges as defined	$15,085	$16,723	$ 14,618	$14,402	$14,092
Ratio of earnings to fixed charges	2.17	2.42	<F2>	2.21	2.17

<FN>
Notes:
<F1>
Earnings and fixed charges as defined in instructions for Item 503 of Regulation S-K.
<F2>
For the year ended December 31, 1996, fixed charges exceeded earnings by $20.0 million. Earnings as defined include a $32.3 million non-cash pretax write-down of the NOARK investment. Excluding the NOARK write-down, the ratio of earnings to fixed charges would have been 1.84.
<F3>
Restated to account for a 1998 acquisition as a pooling of interests. Years prior to 1996 were not restated for the pooling of interest as the effects were deemed not material.
</FN>
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EXHIBIT 21

SEMCO ENERGY, INC.

List of Subsidiaries
Exhibit 21 to Form 10-K (1998)

The subsidiaries of SEMCO Energy, Inc. (the Registrant) are:

SEMCO Energy Gas Company
MI-GAS PROPANE COMPANY (a subsidiary of SEMCO Energy Gas Company)
SEMCO Energy Services, Inc.
SEMCO Energy Ventures, Inc.
Hotflame Gas, Inc. (a subsidiary of SEMCO Energy Ventures, Inc.)
King Energy & Construction Co. (a subsidiary of SEMCO Energy Ventures, Inc.)
Maverick Pipeline Services, Inc. (a subsidiary of SEMCO Energy Ventures, Inc.)
Oilfield Materials Consultants, Inc. (a subsidiary of SEMCO Energy Ventures, Inc.)
SEMCO Arkansas Pipeline Company (a subsidiary of SEMCO Energy Ventures, Inc.)
SEMCO Energy Construction Co. (a subsidiary of SEMCO Energy Ventures, Inc.)
SEMCO Gas Storage Company (a subsidiary of SEMCO Energy Ventures, Inc.)
SEMCO Gathering Company (a subsidiary of SEMCO Energy Ventures, Inc.)
SEMCO Pipeline Company (a subsidiary of SEMCO Energy Ventures, Inc.)
Southeastern Development Company (a subsidiary of SEMCO Energy Ventures, Inc.)
Southeastern Financial Services, Inc. (a subsidiary of SEMCO Energy Ventures, Inc.)
Sub-Surface Construction Co. (a subsidiary of SEMCO Energy Ventures, Inc.)
Utility Construction Services, Inc. (a subsidiary of SEMCO Energy Ventures, Inc.)

Each is incorporated in the State of Michigan and each does business only under its respective corporate name indicated above.

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Exhibit 23

Consent of Independent Public Accountants

As independent public accountants, we hereby consent to the incorporation of our report dated February 4, 1999, included in this Form 10-K for the year ended December 31, 1998, into the Company's previously filed Registration Statements No. 333-18927, 333-58715 and 333-60391.

ARTHUR ANDERSEN LLP

Detroit, Michigan,
March 22, 1999.

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EXHIBIT 24

SEMCO ENERGY, INC.

POWER OF ATTORNEY

Whereas, the Board of Directors of SEMCO Energy, Inc., a Michigan corporation, at a meeting held on February 27, 1999, authorized and approved the execution of Form 10-K Annual Report for 1998 pursuant to Section 13 of the Securities Exchange Act of 1934 and the filing of said Form 10-K with the Securities and Exchange Commission under the Securities Exchange Act of 1934.

NOW, THEREFORE, each of the undersigned in his capacity as a Director or officer, or both, as the case may be, of said Corporation, does hereby appoint William L. Johnson and Sebastian Coppola, and each of them severally, his true and lawful attorneys or attorney to execute in his name, place and stead, in his capacity as a Director or officer or both, as the case may be, of said Corporation, the Form 10-K for the year ended December 31, 1998, and any and all amendments thereto and all instruments necessary or incidental in connection therewith, and to file the same with the Securities and Exchange Commission. Each of said attorneys shall have full power of substitution and resubstitution. Each of said attorneys shall have full power and authority to do and perform in the name and on behalf of each of the undersigned, in any and all capacities, each act whatsoever requisite or necessary to be done in the premises, as fully and to all intents and purposes as each of the undersigned might or could do in person, and each of the undersigned hereby ratifies and approves the acts of said attorneys and each of them.

IN WITNESS WHEREOF, we have hereunto set our hands as of the 27th day of February, 1999.

/s/Daniel A. Burkhardt

Daniel A. Burkhardt, Director

/s/Harvey I. Klein

Harvey I. Klein, Director

/s/Sebastian Coppola

Sebastian Coppola, Senior Vice President and Principal Financial and Accounting Officer

/s/Stewart J. Kniff

Stewart J. Kniff, Director

/s/Edward J. Curtis

Edward J. Curtis, Director

/s/Bruce G. Macleod

Bruce G. Macleod, Director

/s/John T. Ferris

John T. Ferris, Director

/s/Frederick S. Moore

Frederick S. Moore, Director

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/s/Michael O. Frazer

Michael O. Frazer, Director

/s/William L. Johnson

William L. Johnson, Chairman,
President and Chief Executive Officer
and Director

/s/Edith A. Stotler

Edith A. Stotler, Director

/s/Donald W. Thomason

Donald W. Thomason, Director

POA10K.SAM(sla)

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Consolidated Statements of Income, Consolidated Statements of Financial
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Statements of Cash Flows and is qualified in its entirety by reference to such
financial statements.
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