

[back to story page](#)

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URL: <http://www.abqjournal.com/biz/277295metro01-15-08.htm>

Tuesday, January 15, 2008

## PNM to Sell Gas Company

**By Jack King***Copyright © 2008 Albuquerque Journal; Journal Staff Writer*

The Public Service Company of New Mexico has reached an agreement to sell its natural gas operation to a Michigan-based company for \$620 million.

If the deal is approved by state and federal regulators, Continental Energy Systems will provide gas service to PNM's 495,000 business and residential gas customers in New Mexico.

PNM announced the deal late Monday, and spokesman Don Brown said most of the 540 gas division employees and 275 PNM-employed personnel who support it are expected to transfer to the new company.

George A. Schreiber Jr., a New Mexico native and CEO of Continental Energy Systems, said the new company serving the state would be called New Mexico Gas Co. and would have its headquarters here.

He said retired PNM executive William Real is expected to be named chairman.

Schreiber said the salaries and benefits of PNM employees who move to his company would remain the same.

The deal would include all of PNM's natural gas transmission and distribution pipeline infrastructure, construction and maintenance equipment and buildings dedicated to the gas utility.

PNM serves gas customers in 22 counties and 110 towns and cities in the state.

As part of the transaction, PNM will purchase a small Texas electric utility owned by Continental Energy Systems for \$202 million.

Jeff Sterba, chairman of PNM Resources, said the sale is part of a comprehensive strategic plan and isn't expected to net PNM a significant amount of cash.

In addition to the \$202 million PNM would pay for Cap Rock Holding, there would be taxes and debt retirement on the gas utility.

After the money it pays for Cap Rock and the other expenses, PNM is expected to realize only \$35 million from the sale, Sterba said.

Sterba said in a Journal interview that the sale is part of an effort by PNM to focus its resources in advance of an expected \$1.7 billion investment in its New Mexico electric system over the next five years.

The company is also in the midst of a case at the state Public Regulation Commission in which it is seeking to boost electric rates and a gain provision that would allow it to automatically pass through fuel cost increases to electric customers.

"This is a strategic transaction geared around our focus on electric operations," Sterba said of the proposed sale.

"It's a hard decision in the sense that we've been in the gas business for 20 years. But as we look forward we have to take a hard look at where we best serve our customers and shareholders in terms of concentrating our efforts."

"As capital gets constrained— and we have an enormous amount of capital that is required by our business, both in New Mexico and elsewhere— we have to look at that."

### **New Mexico native**

Schreiber, a 1966 Highland High School graduate whose father was a top PNM executive, described Continental Energy as privately owned by institutional-type investors and some "extremely wealthy" individuals.

He said he had no immediate plans to move to New Mexico.

In addition to Real, who retired in 2007 as PNM's senior vice president for public policy, he said New Mexico Gas Co.'s top management team here will include Melissa Davis, formerly president of Cap Rock Energy Co.

She will serve as president.

Schreiber said acquiring PNM's gas holdings is part of Continental's strategic plan.

The company, which owns gas utilities in Michigan and Alaska, has decided to get out of the electric utility business and concentrate on natural gas.

"With the need on the electric side for additional generation and the tremendous capital expenditures, we've thought for a while that there are opportunities for us to aggregate gas companies from combination companies," he said in a Journal interview.

Although PNM Gas showed a zero return on equity in 2006, Schreiber said he believes the division shows promise.

Unlike many states, he said New Mexico shows a growing number of gas customers, with 2 percent growth a year, compared to Michigan's growth rate of 1 percent or less.

He described Michigan's economy as "flat on its back," while New Mexico's shows more potential.

Schreiber said New Mexico Gas Co. would abide by the gas rates the PRC approved for PNM in 2007.

PNM stock closed down 27 cents at \$19.10 on the New York Stock Exchange on Monday. The stock has been trading near its 52-week low in recent weeks— down from a high of \$34.28 last year.

The company's investment securities were also downgraded recently by Standard & Poor's. The transaction with Continental Energy faces approval from New Mexico and Texas regulatory agencies, the Federal Energy Regulatory Commission and the Department of Justice.

Sterba said he expects the sale to be completed in about eight months.

### **PNM Gas Sale**

**WHAT:** PNM selling natural gas business to Continental Energy Systems of Troy, Mich.

**PRICE:** \$620 million

**CUSTOMERS:** 495,000 homes and businesses

**EMPLOYEES:** About 815 N.M. employees to move over

**CHANGES:** None right away, new bills down the road

**NEW NAME:** Will be called New Mexico Gas Co.

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[Back to story page](#)