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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
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KRISTIN K. MAYES
BARRY WONG

AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF
ENERGY WEST, INC. AND SEMSTREAM
ARIZONA PROPANE, L.L.C. FOR APPROVAL OF
THE TRANSFER OF ENERGY WEST'S ASSETS
TO SEMSTREAM

SemStream, L.P.
Docket No. G-20471A-06-0515
Energy West
Docket No. G-02696A-06-0515

**NOTICE OF FILING DIRECT
TESTIMONY**

GALLAGHER & KENNEDY, P.A.
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Notice is given that Energy West, Inc. files the direct testimony of Douglas Mann in support of the above-captioned Application.

RESPECTFULLY SUBMITTED this 29th day of September, 2006.

GALLAGHER & KENNEDY, P.A.

Arizona Corporation Commission

DOCKETED

SEP 29 2006

DOCKETED BY

By
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Original and fifteen copies filed this 29th day of September, 2006, with:

Docket Control
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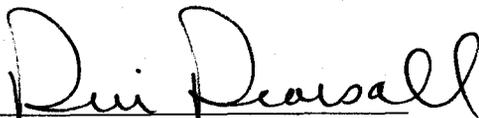
Copies of the foregoing delivered
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Copy of the foregoing mailed this
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10427-5/1450082

DIRECT TESTIMONY OF DOUGLAS MANN

On Behalf of Energy West, Inc.

SemStream, L.P. Docket No. G-20471A-06-0515

Energy West Docket No. G-02696A-06-0515

September 29, 2006

1 Commission for an Order approving the transfer of Energy West's regulated assets,
2 including its Certificate of Convenience and Necessity ("CC&N"), to SemStream.

3 **Q. WHAT IS YOUR ROLE IN PROVIDING THIS TESTIMONY?**

4 A. I will provide background on Energy West's system and some context to current events
5 taking place in the Arizona propane marketplace. I will also add my perspective on the
6 advantages I see this change bringing to both my employees and our customers in the
7 Payson area.

8 **Q. PLEASE DESCRIBE THE PROPANE UTILITY WHICH ENERGY WEST**
9 **OPERATES.**

10 A. In June of 1968, pursuant to Decision No. 39518, the Commission granted a CC&N to
11 Broken Bow Gas to operate a propane utility in the area generally surrounding Payson.
12 In January 1993, the Commission approved the transfer of the assets to Great Falls Gas
13 Company (which later changed its name to Energy West). In 1993, the Company had
14 about 2,000 customers and 88 miles of underground distribution piping.

15 Currently, the Company serves approximately 8,000 customers through 170 miles of
16 underground pipeline. We have ten 30,000-gallon tanks (nine in the Payson area and
17 one in Strawberry) and also maintain 18 satellite systems beyond our mains.

18 **Q. DOES ENERGY WEST HAVE A MONOPOLY IN PROVIDING PROPANE IN**
19 **THIS AREA?**

20 A. No. Our operations are somewhat unique as our propane distribution system does not
21 hold exclusive rights or a monopoly position in its territory—companies actively
22 compete with us in providing service to this area. Competitors can and do set propane
23 tanks anywhere for customers who are in the vicinity of our system. Thus, it is

1 especially critical for Energy West to focus on both the best level of customer service
2 and delivery of that service at competitive rates. In the Payson area, we are always
3 focused on prudent and least-cost decisions for our gas supply. If our product is priced
4 out-of-line with the market, our customers can and do make other supplier choices.

5 **Q. PLEASE GIVE THE COMMISSION SOME BACKGROUND ON CURRENT**
6 **PROPANE MARKET CONDITIONS AND SUPPLY ISSUES.**

7 A. Over the years, we have developed a number of methods to try to mitigate the high
8 volatility of energy costs. Not only do we store supply each summer for our customers'
9 winter use, we also try to spread out purchases such that we are not trying to "time" the
10 markets. Sufficient amounts must be placed in storage to meet our customers' winter
11 demands. Recently, in addition to cost challenges, the Arizona propane market has
12 been facing growing supply difficulties as well. For example, there have been a
13 number of recent interruptions in wintertime propane supply—in part because of
14 greater international market demand by countries such as China and India. Demand for
15 production of more profitable products at the refinery level and last year's U.S.
16 production interruptions have left retailers in Arizona scrambling for good, reliable
17 sources of supply. In addition this year, starting into the Fall market, a key storage
18 field developed a storage problem and all users of the field were cut back from their
19 allotted storage levels. Another of this area's storage fields in Moab, Utah sprung a
20 leak and was shut down from service this winter, which put further pressure on the
21 other fields. Maintaining a reliable supply and storage in this environment is becoming
22 a greater and greater challenge.

1 **Q. WHY HAS ENERGY WEST DECIDED TO SELL ITS ARIZONA**
2 **OPERATIONS TO SEMSTREAM?**

3 A. For a number of reasons. Although we are very proud of the job we have done in
4 providing propane to the Payson area since the 1990s, this is our only propane
5 operation. Energy West's primary business is natural gas, with distribution systems in
6 Great Falls, Montana and Cody, Wyoming. Energy West recently decided to focus on
7 that business and related energy opportunities in the Rocky Mountain region. Energy
8 West is also a relatively small company. Because of price volatility in propane over the
9 past several years and delays in recovering those costs, Energy West's financial
10 resources have been strained by carrying these large under-recovered gas costs.
11 SemStream is a much larger company with greater resources and an emphasis
12 specifically on propane procurement, supply and delivery. While SemStream has long
13 been involved in marketing in the Southwest, it recently decided to invest in physical
14 assets in the Southwest. Our decision to sell to SemStream will further both
15 companies' goals and complement and enhance our respective strengths to the benefit
16 of our customers and employees.

17 **Q. PLEASE DESCRIBE THE BENEFITS TO CUSTOMERS FROM THE**
18 **TRANSFER.**

19 For our customers, the timing of this sale couldn't be more important. As I have
20 discussed, providing a reliable propane supply in this market is increasingly a bigger
21 and bigger challenge. SemStream's motto is "The Power to Move Energy". This is
22 precisely the need we and our customers are facing. Not only to find the propane, but
23 to be able to get it into storage in a timely fashion from many different points around
24 the country is key. SemStream, with its NGL (natural gas liquid) assets, which include

1 terminals, transportation and supply connections throughout North America, represents
2 the investment in assets and specialized propane capabilities that are candidly beyond
3 Energy West's reach. SemStream's ability to respond to customer needs despite
4 refinery shutdowns, storage failures, hurricanes and Mother Nature in general is what
5 our customers justifiably expect from us. This sale to SemStream gives the system a
6 significantly greater resource to respond to those challenges.

7 **Q. WHY IS THE TRANSFER GOOD FOR EMPLOYEES?**

8 A. SemStream senior management has met with all of our employees. All positions will
9 remain in Payson to support operations. I am staying with the Company as well. Both
10 developments are good for workforce stability, morale and our continued ability to
11 provide safe and reliable service. Also, because of SemStream's larger size, they are
12 able to offer a more comprehensive benefit package than what we have currently with
13 Energy West. SemStream managers recognize that it is the people dealing directly with
14 the customers that make the difference in the success of propane sales. They have been
15 very positive about our team in Payson and are confident we can make a positive
16 contribution to their company.

17 **Q. WHAT IS YOUR RECOMMENDATION FOR THE COMMISSION?**

18 A. I'd ask that the Commission approve the Application as soon as possible. As I've
19 discussed, there are a number of advantages associated with the transfer. Having
20 access to SemStream's expertise and capabilities will help us do our job better as the
21 winter season progresses. SemStream's total focus is on NGLs, of which propane is the
22 largest component. They purchase, sell, store and move by pipeline, rail or truck large
23 quantities daily. That is a focus and expertise to be welcomed by our staff and our

1 customers. This transfer and sale is a good thing for all involved. We need to move
2 forward on a very timely basis and would ask for the Commission's help in doing so.

3 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

4 **A. Yes.**