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BEFORE THE ARIZONA CORPORATION COMMISSION

2006 SEP 29 A 10:36

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

AZ CORP COMMISSION  
DOCUMENT CONTROL

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-<sup>9</sup>515

Energy West  
DOCKET NO. G-02696A-06-0515

**NOTICE OF FILING OF DIRECT  
TESTIMONY**

SemStream Arizona Propane, L.L.C., through undersigned counsel, hereby files the  
attached, direct testimony of Larry C. Payne in support of the above-captioned Application.

RESPECTFULLY SUBMITTED this 29th day of September 2006.

QUARLES & BRADY STREICH LANG LLP

By

Kevin D. Quigley  
One Renaissance Square  
Two North Central Avenue  
Phoenix, Arizona 85004-2391  
Attorneys for SemStream Arizona Propane, L.L.C.

Arizona Corporation Commission  
**DOCKETED**

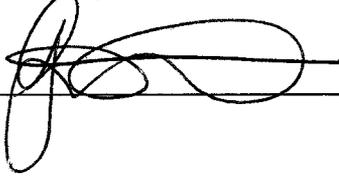
SEP 29 2006

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- 1 **Original and fifteen copies** filed this  
29<sup>th</sup> day of September, 2006, with:
- 2
- 3 Docket Control  
4 Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007
- 5 **Copies** of the foregoing hand-delivered  
this 29<sup>th</sup> day of September, 2006, to:
- 6
- 7 Chairman Jeff Hatch-Miller  
8 Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007
- 9 Commissioner William A. Mundell  
10 Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007
- 11
- 12 Commissioner Mike Gleason  
13 Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007
- 14 Commissioner Kristin K. Mayes  
15 Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007
- 16
- 17 Commissioner Barry Wong  
18 Arizona Corporation Commission  
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Phoenix, Arizona 85007
- 19 Maureen Scott, Legal Division  
20 Arizona Corporation Commission  
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Phoenix, Arizona 85007
- 21
- 22 Barbara Keene, Utilities Division  
23 Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007
- 24 Bob Gray, Utilities Division  
25 Arizona Corporation Commission  
1200 West Washington  
Phoenix, Arizona 85007
- 26

1 **Copy of the foregoing mailed**  
2 This 29<sup>th</sup> day of September 2006 to:

3 Michael M. Grant  
4 Garry D. Hays  
5 Gallagher & Kennedy, P.A.  
6 2575 East Camelback Road  
7 Phoenix, Arizona 85016-9225  
8 Attorneys for Energy West, Inc.

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

**COMMISSIONERS**

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

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

SemStream, L.P.  
DOCKET NO. G-20471A-06-1515

Energy West  
DOCKET NO. G-02696A-06-0515

**DIRECT TESTIMONY OF**  
**LARRY C. PAYNE**  
**ON BEHALF OF**  
**SEMSTREAM ARIZONA PROPANE, L.L.C.**  
**SEPTEMBER 29, 2006**

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Question: Please state your name and address.

Answer: My name is Larry C. Payne. My business address is SemStream, L.P.,  
6120 South Yale, Suite 700, Tulsa, Oklahoma, 74136.

Q: What is your position with SemStream, L.P.?

A: I am the President and Chief Operating Officer of SemStream, L.P., and the chief officer for its subsidiary, SemStream Arizona Propane, L.L.C. ("SemStream Arizona"). In this capacity, I am responsible for overall management and growth of SemStream, L.P. and subsidiaries.

Q: Please summarize your education and experience.

A: I have a Bachelor of Science degree in Business from Grambling State University and a Master of Business Administration degree (MBA) with concentration in Finance and Economics from Texas Southern University. I have over 30 years of total work experience. Over the last 20 years, I have served in key senior officer level positions in the energy industry. I have been responsible for Retail Propane Supply, Hedging and Risk Management; Natural Gas Liquid ("NGL") Supply and Marketing; Petrochemical Marketing; Commodity Management; and management of various NGL assets, such as terminals, pipelines, fractionators, storage and transportation equipment.

Q: On whose behalf are you filing your direct testimony in this matter?

A: My testimony is filed on behalf of SemStream Arizona. SemStream Arizona is the joint applicant for approval of the transfer of the CC&N and other regulated assets of Energy West, Inc. ("Energy West") in connection with the contemplated sale of Energy West's propane distribution system and business to SemStream Arizona.

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Q: Can you describe the contemplated sale?

A: Energy West and SemStream, L.P. entered into an Asset Purchase Agreement dated July 17, 2006 (the "Agreement") for the sale of Energy West's system in Gila County. SemStream, L.P. then assigned its rights to acquire Energy West's system to SemStream Arizona on July 25, 2006. The assets to be sold pursuant to the Asset Purchase Agreement include (i) all interests of Energy West in the regulated propane pipeline system used in the certificated area; (ii) all interests of Energy West in the machinery, equipment and vehicles used in connection with the business; (iii) all franchises, governmental license permits and approvals, including the CC&N issued by the Commission; and (iv) Energy West's other assets, which are described in Exhibit "A" to the Agreement. A copy of the Agreement was filed with our Application.

As a result of the transaction, SemStream Arizona will take over the ownership and operation of Energy West's propane gas distribution system within its service area in Gila County, Arizona, including the cities and outlying areas of Payson, Pine and Strawberry. SemStream Arizona will assume the existing operations of Energy West and, to assure a seamless transition, will retain Energy West's current employees and management, including its Vice President and General Manager of Arizona Operations, subject to decision making with respect to other individual employees based on performance and their own desire to remain employed in the business.

Q: Who will run the Arizona business being acquired from Energy West?

A: The employees of Energy West currently involved in the Energy West propane business will be retained by SemStream Arizona and will continue to operate the business. Douglas Mann, who currently runs the day to day business of Energy West's propane operations, will also be retained and will be the key executive for SemStream Arizona's daily operations.

1 Doug Mann will report to David Wunch, who is the Executive Vice President for SemStream,  
2 L.P. and is responsible for all of SemStream, L.P.'s assets.  
3

4 Q: What is the SemStream Arizona entity?

5 A: SemStream Arizona is a Delaware limited liability company in good standing that  
6 will operate the propane system and own the assets currently held by Energy West. The current  
7 addresses for SemStream Arizona are 6120 South Yale, Suite 700, Tulsa, Oklahoma, 74136, and  
8 1209 Orange Street, Wilmington, Delaware, 19801. SemStream Arizona is registered with the  
9 Arizona Corporation Commission and is considered to be a limited liability company in good  
10 standing. SemStream Arizona maintains a domestic address and local statutory agent for service  
11 of process at CT Corporation System, 2394 E. Camelback Road, Phoenix, Arizona 85016. Once  
12 SemStream Arizona takes over the operation of the system from Energy West, its local presence  
13 will include the offices where Energy West's propane system employees work today.  
14

15 SemStream Arizona is a wholly-owned subsidiary of SemStream, L.P., which is one of the  
16 largest private propane terminal operators in the industry and is engaged nationally in natural gas  
17 liquids supply, marketing, propane terminal operations and risk management services.

18 SemStream, L.P. is, in turn, a subsidiary of SemGroup, L.P. of Tulsa, Oklahoma.

19 Q: Can you tell us more about SemStream, L.P.?

20 A: SemStream, L.P. is a Delaware limited partnership that owns and operates 10  
21 private propane terminals with a combined throughput in excess of 300 million gallons per year  
22 and more than 10 million gallons of physical storage. In 2005, SemStream, L.P. moved 6.8  
23 million gallons per day of NGLs via truck, pipeline, and rail. Propane accounted for 42% of this  
24 volume. SemStream, L.P. has access to more than 42 million gallons of storage capacity leased at  
25 multiple locations in the United States and Canada. It also operates a fleet of 450 leased and  
26

1 owned railcars. As its subsidiary, SemStream Arizona has access to all these assets and the  
2 management and staff that support them.

3  
4 Q: What experience does SemStream, L.P. or SemStream Arizona have in serving  
5 individual customers of a propane distribution system?

6 A: Each member of the senior management team at SemStream, L.P. has over 30  
7 years of work experience and more specifically, each has retail propane experience in one of the  
8 top two retail companies, which served individual customers with their propane distribution  
9 systems. I was responsible for retail propane supply at Ferrelgas for about 12 years; David  
10 Wunch was responsible for running a retail area for AmeriGas Propane as well as propane supply.  
11 The third member of the senior management team is Vance Harrington who is a Vice President  
12 for SemStream, L.P. Vance spent over 8 years running propane supply for Thermogas Propane,  
13 which was later sold to Ferrelgas.

14 Additionally, the Energy West employees currently involved in the existing propane  
15 distribution system which serves the Payson area will be retained and will continue working  
16 under Doug Mann's leadership. They bring their own considerable experience to SemStream  
17 Arizona.

18  
19 Q: Will the transfer of the system to SemStream Arizona have any benefits to Energy  
20 West's propane customers in Arizona?

21 A: Propane supply and storage have become increasingly uncertain in recent years.  
22 SemStream, L.P. has significant experience and resources in the propane marketplace. It has the  
23 resources to ensure an adequate storage capability as well as access to a large number of rail cars  
24 that will help resolve transportation bottlenecks in tight regional propane markets.

25 In this regard, the transfer of the system to SemStream Arizona will have several benefits.  
26

1 Energy West is primarily a natural gas company, whereas SemStream Arizona and SemStream,  
2 L.P. are primarily propane and NGLs companies. Through its parent, SemStream Arizona has  
3 access to significant storage and distribution resources, as I have discussed above. Since  
4 SemStream, L.P. focuses on the purchase and distribution of large quantities of propane and other  
5 NGLs, Energy West's customers can expect to benefit from increased supply security, which  
6 could lessen price swings in a volatile market. As a wholly-owned subsidiary of SemStream,  
7 L.P., SemStream Arizona will pass along to its customers the advantages and expertise that  
8 SemStream, L.P. has in the propane and other NGLs markets.

9 In addition, Energy West faces competition from non-regulated propane companies which  
10 deliver and supply propane tanks to consumers in its service area. Approval of the sale to  
11 SemStream Arizona will enhance the ability of the system to compete in and continue to supply  
12 safe, adequate and reliable service to this propane market. Customers are likely to benefit in a  
13 marketplace that provides options for propane customers in Gila County.

14  
15 Q: What is it that SemStream Arizona is asking of the Corporation Commission?

16 A: SemStream Arizona, together with Energy West, seeks an Order approving the  
17 transfer and sale of Energy West's regulated assets, including its Certificate of Convenience and  
18 Necessity, to SemStream Arizona.

19  
20 Q: Does this conclude your direct testimony?

21 A: Yes it does.  
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