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BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman

GARY PIERCE
Commissioner

PAUL NEWMAN
Commissioner

SANDRA D. KENNEDY
Commissioner

BOB STUMP
Commissioner

Arizona Corporation Commission

DOCKETED

OCT 30 2009

DOCKETED BY	NR
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IN THE MATTER OF THE APPLICATION
OF SEMSTREAM PROPANE, LLC FOR
APPROVAL OF A TEMPORARY
PURCHASED GAS ADJUSTOR CREDIT
FOR THE PAYSON DIVISION

DOCKET NO. G-20471A-09-0458

DECISION NO. 71318

ORDER

Open Meeting
October 20 and 21, 2009
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Semstream Arizona Propane, L.L.C. ("Semstream" or "Company") is engaged in providing propane service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission").

2. On September 21, 2009, Semstream filed for Commission approval of a \$0.35 per therm¹ purchased gas adjustor ("PGA") credit for a 12-month period, beginning on November 1, 2009 for the Company's Payson Division.

3. Semstream provides propane service to approximately 7,500 customers in the Payson area.

4. Semstream has a PGA mechanism where the monthly PGA rate is based on a 12-month rolling average cost of propane. The monthly PGA rate cannot change more than \$0.16 per

¹ Note, one therm equals 1.1 gallons of propane.

1 therm over a 12 month period and thus, when there are large changes in Semstream's cost of
2 propane over a short period of time, the PGA bank balance tends to become significantly over or
3 under-collected. In such situations, the Commission has set a \$120,000 threshold. When the PGA
4 bank balance exceeds that threshold, either as an over-collection or under-collection, the Company
5 is required to either demonstrate to Staff that the bank balance does not need to be addressed
6 within 30 days, or file within 45 days with the Commission to address the bank balance.

7 5. On May 18, 2009, Semstream filed its monthly PGA report, documenting activities
8 related to the PGA in April 2009. This report showed that Semstream's PGA bank balance moved
9 from a \$121,876 under-collection at the beginning of April 2009 to an over-collection of \$266,539
10 at the end of April 2009. Semstream did not initiate discussions with Staff within 30 days of the
11 May 18th filing, or make a filing to address the PGA bank balance with the Commission within 45
12 days of the May 18th filing.

13 6. Semstream's failure to take action in a timely manner regarding its PGA bank
14 balance, as required by the operating procedures for the PGA mechanism, will result in customers
15 receiving the over-collected PGA bank balance in a less timely fashion. Semstream's inaction,
16 particularly in light of the difficult circumstances faced by its customers in the current economic
17 climate, is astounding. Semstream, as with all utilities, should be looking for all opportunities to
18 minimize costs for its customers and its delay in taking action to address the PGA overcollection is
19 inexcusable. Semstream must ensure that it is following the Commission's filing requirements for
20 PGA bank balances that exceed the designated threshold or be prepared to face potential penalties.

21 7. Semstream's over-collected PGA bank balance has continued to grow since the end
22 of April 2009, standing at a total over-collection of \$652,058 as of the end of August 2009. Given
23 current propane market conditions, and prices Semstream has locked in for supplies this winter,
24 Staff believes that it is likely the over-collected bank balance will continue to grow larger, absent
25 action by the Commission.

26 8. Propane prices have been very volatile in recent years, leading to large under-
27 collected PGA bank balances at times for the Payson Division. Most recently, the Commission
28 had approved a temporary PGA surcharge of \$0.55 per therm to address an under-collected PGA

1 bank balance, with the surcharge ending at the end of April 2008. Since that time, there has been
2 no surcharge in place for the Payson Division, with customers paying only the regular base cost of
3 gas contained in the tariffed rates, as well as the on-going monthly PGA rate.

4 9. Semstream's parent company, SemGroup L.P., filed for Chapter 11 bankruptcy on
5 July 22, 2008, as a result of losses incurred in oil trading by certain other parts of SemGroup L.P.
6 The Semstream operations in Payson were not part of the bankruptcy filing. Semstream has been
7 filing reports with the ACC in Docket No. G-00000C-08-0501 regarding developments in the
8 bankruptcy proceeding as well as any impacts the bankruptcy proceeding has had on its Payson
9 operations.

10 10. To date Semstream has indicated that the bankruptcy proceeding has not had any
11 direct impacts on the Payson operation, although construction of a propane terminal near Winslow,
12 Arizona which could have facilitated greater service options for the Payson Division has been
13 delayed shelved. Recent news reports indicate that SemGroup L.P. hopes to emerge from Chapter
14 11 bankruptcy in late 2009.

15 11. Propane is derived from two sources, the processing of natural gas, and the refining
16 of oil. Traditionally, propane prices have roughly tracked oil prices. The Energy Information
17 Administration ("EIA") publishes propane pricing data for the Mont Belvieu trading hub in Texas.
18 While Semstream does not receive supplies from Mont Belvieu, it is a useful pricing point for the
19 purpose of tracing changes in propane prices in the United States.

20 12. At Mont Belvieu, propane prices reached very high levels in early to mid-2008, as
21 did international oil prices, before falling off significantly in the last year or so. On July 11, 2008,
22 Mont Belvieu's propane prices peaked at \$1.98 per gallon. This price dropped below \$1.00 per
23 gallon in mid-October 2008, reaching a low point of \$0.53 per gallon on December 5, 2008.
24 Prices have moved upward since then, but remain under \$1.00 per gallon, with prices since mid-
25 August 2009 ranging between \$0.90 and \$1.00 per gallon. Semstream's prices tend to be a little
26 higher than the Mont Belvieu prices, due to a lack of propane infrastructure in Arizona and higher
27 delivery costs.

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1 13. The EIA also provides propane price projections. For the western United States,
2 the EIA projects wholesale propane prices for the western region of \$0.93 per gallon in the fourth
3 quarter of 2009 and \$0.95 per gallon in 2010. However, wholesale propane prices can be very
4 volatile and may change unexpectedly due to a variety of factors, including oil market conditions
5 and weather.

6 14. Semstream has provided Staff with projections regarding sales, purchases, prices,
7 and other inputs to estimate how the bank balance would change over the coming year under
8 Semstream's proposed \$0.35 per therm credit, with an effective date of November 1, 2009.
9 Semstream projects the bank balance dropping from \$652,051 at the beginning of September 2009
10 to a low of \$130,324 at the end of February 2010. The balance then rises to a high point of
11 \$528,250 at the end of May 2010 before falling back to a level of \$281,831 at the end of October
12 2010. Under Semstream's proposal the PGA credit would drop off at the end of October 2010.

13 15. Semstream's projections include an estimate of how the monthly PGA rate will
14 change over the next year. Semstream's monthly PGA rate has a band on it, such that when the
15 new monthly PGA rate is set each month, it cannot differ from the historical monthly PGA rate
16 from any of the previous 12 months by more than \$0.16 per therm. While reviewing Semstream's
17 information, Staff discovered that Semstream had miscalculated its monthly PGA rate for July
18 2009 through September 2009, by failing to apply the \$0.16 per therm band as the monthly PGA
19 rate declined over these months.

20 16. During the spring of 2009, Semstream's monthly PGA rate peaked at \$1.0522 per
21 therm for April and May 2009. Thus, the monthly PGA rate in the intervening months should
22 have been no lower than \$0.8922 per therm. In July 2009, Semstream charged a monthly PGA
23 rate of \$0.8894 per therm. In August 2009, Semstream charged a monthly PGA rate of \$0.8719
24 per therm. In September 2009, Semstream charged a monthly PGA rate of \$0.8351 per therm.
25 Semstream's sheet in this filing showing future monthly PGA rates shows a rate of \$0.8922 per
26 therm for the months of October 2009 through May 2010, thus applying the \$0.16 per therm band
27 again to the monthly PGA rate.

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1 17. Staff is concerned with Semstream's failure to properly apply the \$0.16 per therm
2 band, but in this case the error was to the benefit of customers as they paid lower rates than they
3 would have if the \$0.16 per therm band had been properly applied. Further, given Semstream's
4 large over-collected PGA bank balance, the Company's error in charging a lower monthly PGA
5 rate kept the monthly PGA bank balance from becoming even more over-collected. Staff has held
6 discussions with Semstream to ensure the Company understands how the \$0.16 per therm band
7 operates and that the Company will apply it properly in the future.

8 18. Attached to this order is a set of tables showing a number of possible scenarios for
9 crediting the over-collected PGA bank balance back to Semstream's customers. The attachment
10 includes tables of the credits, bank balances, and average residential customer bill for each month
11 from November 2009 through October 2010. Average residential customer bill calculations for
12 November 2008 and January 2009 are provided for comparison purposes. It should be noted that
13 the PGA bank balance projections are based on projected information, including prices, and actual
14 prices may vary significantly.

15 19. Semstream's proposed \$0.35 per therm PGA credit for 12 months, shown as
16 Scenario One on the attachment, would result in a projected PGA bank balance over-collection of
17 \$281,831 at the end of October 2010, when Semstream's proposed PGA credit would expire.
18 While the PGA credit proposed by Semstream is substantial, the sizable over-collection remaining
19 at the end of October 2010 argues that a larger PGA credit could be implemented while avoiding
20 movement to a large under-collected PGA bank balance.

21 20. Scenario Two would implement a \$0.45 per therm PGA credit for a period of 12
22 months beginning in November 2009. Under this scenario, the PGA bank balance is projected to
23 be very near zero, with an under-collected bank balance of \$10,493 as of the end of October 2009.
24 Staff believes that a PGA credit of \$0.45 per therm returns the entirety of the current and projected
25 over-collection to Semstream customers in a more substantive and timely fashion than
26 Semstream's initial proposal.

27 21. Scenario Three shows a PGA credit option where credits are concentrated in the
28 winter months, peaking at \$0.55 per therm in January and February 2010, and then a lower \$0.35

1 per therm PGA credit in lower use months through October 2010. Under Scenario Three, the PGA
2 bank balance would be near zero at the end of October 2010, with an under-collection of \$28,948.

3 22. Scenario Four is similar to Scenario Three, but concentrates the PGA credit more
4 heavily in the winter months with a \$0.60 per therm PGA credit, and gradually reduces the credit
5 over the summer and fall of 2010 so that when it would drop off customer bills, the customer
6 would not see as large of a change from month to month after it is gone. Under Scenario Four, the
7 PGA bank balance would be near zero at the end of October 2010, with an over-collection of
8 \$3,856.

9 23. Scenario Five is provided for reference purposes and shows what is projected to
10 happen with Semstream's over-collected PGA bank balance if no PGA credit of any sort is
11 implemented.

12 24. Staff recommends approval of Scenario Two, entailing a PGA credit of \$0.45 per
13 therm, beginning on November 1, 2009. While the \$0.45 per therm PGA credit would be
14 projected to last through October 2010, if propane prices move noticeably higher or lower than
15 expected, the PGA bank balance could reach zero either before or after October 2010. Therefore,
16 Staff further recommends that the PGA credit end the first month after June 2010 where the PGA
17 bank balance has reached zero.

18 25. Under Scenario Two, an average residential customer using 56 therms in January
19 2010, would have a projected bill of \$96.49, excluding taxes and assessments if Staff's proposal
20 were adopted. Absent the \$0.45 per therm PGA credit proposed by Staff, an average residential
21 customer using 56 therms in January 2010 would have a projected bill of \$121.69. Staff's
22 proposal would reduce this bill by \$25.20 or 20.7 percent. By comparison, a residential customer
23 using 56 therms in January 2009 would have paid \$127.75. Thus, Staff's proposal would result in
24 a reduction of \$31.26, or 24.5 percent, for an average residential customer using 56 therms in
25 January 2010, in comparison to what they paid in January 2009.

26 26. Staff further recommends that the Commission direct Staff to file a petition for an
27 Order to Show Cause if Semstream fails to file in a timely fashion with the Commission in the
28 future if its PGA bank balance threshold is exceeded.

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CONCLUSIONS OF LAW

1. Semstream is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Semstream and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated October 6, 2009, concludes that it is in the public interest to approve a PGA credit of \$0.45 per therm, as described in Finding of Fact No. 23.

ORDER

IT IS THEREFORE ORDERED that a Purchased Gas Adjustor credit of \$0.45 per therm is approved for Semstream Arizona Propane, LLC's Payson Division, effective November 1, 2009.

IT IS FURTHER ORDERED that the Purchased Gas Adjustor credit shall remain in effect until the first month after June 2010 where the Purchased Gas Adjustor bank balance has reached zero.

IT IS FURTHER ORDERED that Semstream Arizona Propane, LLC shall take all appropriate steps to ensure it is following the Commission's filing requirements for Purchased Gas Adjustor bank balances that exceed the designated threshold and be prepared to face potential penalties in the event of delay or inaction.

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1 IT IS FURTHER ORDERED that Commission Staff shall file a petition for an Order to
2 Show Cause if Semstream Arizona Propane, LLC fails to file in a timely fashion with the
3 Commission in the future if its Purchased Gas Adjustor bank balance threshold is exceeded.

4 IT IS FURTHER ORDERED this Order shall become effective immediately.

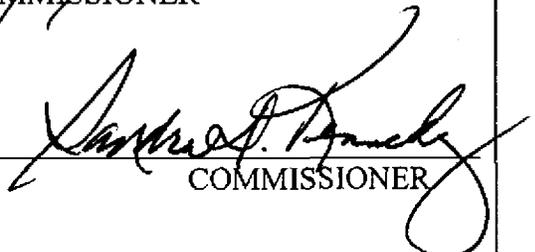
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6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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8 CHAIRMAN


COMMISSIONER

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11 COMMISSIONER


COMMISSIONER


COMMISSIONER

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13 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
14 Executive Director of the Arizona Corporation Commission,
15 have hereunto, set my hand and caused the official seal of
16 this Commission to be affixed at the Capitol, in the City of
17 Phoenix, this 30 day of OCTOBER, 2009.

18 
19 ERNEST G. JOHNSON
20 EXECUTIVE DIRECTOR

21 DISSENT: _____

22 DISSENT: _____

23 SMO:RGG:lhm\CH
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1 SERVICE LIST FOR: Semstream Arizona Propane, L.L.C.
2 DOCKET NO. G-20471A-09-0458

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Semstream Propane Purchased Gas Adjustor Credit Scenarios

1. Semstream Proposal - \$0.35 per therm credit for 12 months, beginning in November 2009
2. Staff Recommendation - Zero Balance in 12 Months - Set the credit so the projected PGA bank balance is zero at the end of October 2010
3. Zero Balance in 12 Months, Winter Concentration - Scenario 2 with refunds focused on the winter 2009-2010 heating season
4. Zero Balance in 12 months, Winter Concentration, Phase-Out
5. Do Nothing

Purchased Gas Adjustor Credit Per Therm Each Month

Scenario	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-08	Jan-09
1	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.00	\$0.00
2	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	0.45	\$0.00	\$0.00
3	\$0.35	\$0.45	\$0.55	\$0.55	\$0.45	\$0.45	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.35	\$0.00	\$0.00
4	\$0.45	\$0.45	\$0.60	\$0.60	\$0.45	\$0.35	\$0.35	\$0.30	\$0.25	\$0.20	\$0.15	\$0.10	\$0.00	\$0.00
5	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Purchased Gas Adjustor Bank Balance at the End of Each Month

Scenario	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10
1	\$ 423,127	\$ 122,323	\$ 180,333	\$ 130,324	\$ 210,482	\$ 405,614	\$ 528,250	\$ 523,467	\$ 508,775	\$ 477,118	\$ 424,583	\$ 281,831
2	\$ 408,168	\$ 77,453	\$ 80,950	\$ (17,050)	\$ 18,425	\$ 182,925	\$ 283,795	\$ 267,377	\$ 244,065	\$ 202,905	\$ 141,584	\$ (10,493)
3	\$ 423,127	\$ 92,415	\$ 41,414	\$ (104,561)	\$ (69,109)	\$ 95,369	\$ 217,920	\$ 213,051	\$ 199,271	\$ 166,523	\$ 113,898	\$ (28,948)
4	\$ 408,168	\$ 77,453	\$ (804)	\$ (170,772)	\$ (135,337)	\$ 59,723	\$ 182,264	\$ 183,170	\$ 178,930	\$ 158,813	\$ 123,598	\$ 3,856
5	\$ 475,484	\$ 279,368	\$ 528,175	\$ 646,133	\$ 882,593	\$ 1,185,024	\$ 1,383,840	\$ 1,419,780	\$ 1,439,762	\$ 1,436,861	\$ 1,415,080	\$ 1,304,964

Note: A positive number denotes an over-collected PGA bank balance. A negative number denotes an under-collected PGA bank balance.

Average Residential Customer Bill

Scenario	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-08	Jan-09
1	\$28.95	\$56.63	\$102.09	\$91.69	\$81.28	\$57.01	\$41.41	\$20.74	\$17.59	\$16.03	\$15.70	\$16.44	\$34.47	\$127.75
2	\$27.56	\$53.66	\$96.49	\$86.69	\$76.88	\$54.01	\$39.31	\$19.74	\$16.79	\$15.33	\$15.02	\$15.71	\$34.47	\$127.75
3	\$28.95	\$53.66	\$90.89	\$81.69	\$76.88	\$54.01	\$41.41	\$20.74	\$17.59	\$16.03	\$15.70	\$16.44	\$34.47	\$127.75
4	\$27.56	\$53.66	\$88.09	\$79.19	\$76.88	\$57.01	\$41.41	\$21.24	\$18.39	\$17.08	\$17.06	\$18.26	\$34.47	\$127.75
5	\$33.78	\$67.06	\$121.69	\$109.19	\$96.68	\$67.51	\$48.76	\$24.24	\$20.39	\$18.48	\$18.08	\$18.98	\$34.47	\$127.75