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Arizona Corporation Commission

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- SANDRA D. KENNEDY
- PAUL NEWMAN
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AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
SEMSTREAM ARIZONA PROPANE, LLC FOR
APPROVAL OF A TEMPORARY PURCHASED
GAS ADJUSTOR SURCHARGE FOR THE PAGE
DIVISION

Docket No. G-20471A-11-0390

**EXCEPTIONS TO STAFF
REPORT AND RECOMMENDED
ORDER**

GALLAGHER & KENNEDY, P.A.
2575 E. CAMELBACK ROAD
PHOENIX, ARIZONA 85016-9225
(602) 530-8000

SemStream Arizona Propane, LLC ("SemStream") submits these exceptions to the Staff Report ("Report") and Recommended Opinion and Order ("ROO") filed in this docket on December 23, 2011.

Staff's recommendation of a 12-cent winter surcharge and varying summer surcharges of 20 cents, then 30 cents, then 20 cents again over the next 27 months will cause rates to change six times over that period and, therefore, will be exceptionally confusing for customers.

Also, because higher gas costs this winter have driven the uncollected bank balance higher than was anticipated when SemStream made its \$0.37 per-therm surcharge request in October, Staff's "12 to 20 to 12 to 30 to 12 to 20 to 12 cents" recommendation is currently projected to produce an uncollected bank balance of approximately \$517,000 by May 2013. That is more than \$135,000 higher than November's bank balance. Thus, there will be no progress in reducing the bank if Staff's proposal is approved and the situation, instead, will worsen considerably. In fairness, Staff was not aware of the recent worsening conditions when it filed its Report and ROO.

1 SemStream strongly urges the Commission to approve its surcharge request of \$0.37 per
2 therm. Even this authorization will still leave a projected negative bank of about \$209,000 by
3 May, 2013. But, it will allow some progress in gradually recovering propane costs which,
4 unfortunately, are continuing to show greater increases than anticipated three months ago.

5 **Bank/Fuel Cost Update and Background**

6 When SemStream made its filing in October, it estimated the uncollected November's
7 end bank balance would be about \$351,000. Instead, the balance has grown to almost \$383,000
8 as of November 30.¹ In addition to this almost ten percent unexpected jump in incurred but
9 unrecovered propane costs, actual gas costs for this winter of 2011-2012 are also trending higher
10 by about \$0.09 per therm.

11 What both of these factors demonstrate is (1) even SemStream's request of a 37 cents
12 per-therm surcharge is not going to recover the bank balance in 18 months as originally
13 anticipated and (2) approval of Staff's winter/summer shifting 12-20/30 cents proposal will allow
14 the current under-collection to increase by a projected \$135,000. In other words, if the
15 Commission approves Staff's recommendation, the bank balance will grow to an estimated
16 \$517,000 by May of next year.

17 As background, the Payson and Page propane systems are both owned by SemStream and
18 have very similar propane costs. Last year, Staff recommended and the Commission approved a
19 surcharge for the Payson system of 55 cents per therm.² Further, when SemStream acquired the
20 Page system from Southwest Gas, there was a surcharge in effect for this system of
21 approximately 26 cents per therm.³ Both surcharge levels demonstrate the consistency and

22 _____
23 ¹ SemStream provided revised, updated spreadsheets to Staff on its impact calculations on January 3, 2012.

² Decision No. 72228. The surcharge began at 25 cents, but after two months increased to 55 cents.

³ Decision No. 68816.

1 reasonableness of SemStream's current 37 cents request when compared with those prior
2 authorizations approved by the Commission.

3 Finally, the winter season for the Page system is the six months from October through
4 March of this year. Because this surcharge is not going to take effect until February, most of its
5 impact will have been mitigated for the current winter season.

6 Conclusion

7 As the Staff Report in this matter states, even though it was entitled to file a surcharge
8 request at the end of 2010, SemStream elected not to increase customer bills, but instead to carry
9 for the past year a substantial under-collection in the well-founded, but ultimately incorrect,
10 belief that the bank balance would correct itself. Unfortunately, that did not occur.

11 Staff's recommendation will make no progress in correcting the situation. Rather, it will
12 increase the current negative balance by more than \$135,000 over the next 17 months. Even
13 SemStream's \$0.37 surcharge will still leave it with a sizable negative balance by May of 2013,
14 but at least will allow SemStream to make some progress in recovering costs which have been
15 incurred in serving its customers and which the Commission has approved for recovery.

16 Attached as Exhibit A are requested amendments to the Staff ROO. They authorize a
17 \$0.37 per-therm surcharge effective with February 1, 2012 usage which SemStream asks that the
18 Commission approve.

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RESPECTFULLY SUBMITTED this 4th day of January, 2012.

GALLAGHER & KENNEDY, P.A.

By Michael M. Grant
Michael M. Grant
2575 East Camelback Road
Phoenix, Arizona 85016-9225
Attorneys for SemStream Arizona Propane, LLC

Original and 13 copies filed this
4th day of January, 2012, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copies of the foregoing delivered
this 4th day of January, 2012, to:

Commissioner Gary Pierce, Chairman
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Commissioner Bob Stump
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Commissioner Sandra D. Kennedy
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Commissioner Paul Newman
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

1 Commissioner Brenda Burns
Arizona Corporation Commission
2 1200 West Washington Street
Phoenix, Arizona 85007

3
4 Steve Olea, Director
Utilities Division
Arizona Corporation Commission
5 1200 West Washington Street
Phoenix, Arizona 85007

6
7 Ranelle Paladino
Utilities Division
Arizona Corporation Commission
8 1200 West Washington Street
Phoenix, Arizona 85007

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EXHIBIT A

SemStream's Requested Amendments to the Staff Recommended Opinion and Order

At page 7, line 3, insert the following new Findings:

15. On January 4, 2012, SemStream filed Exceptions to the Staff Report and Requested Amendments to the Staff Recommended Opinion and Order. The Exceptions pointed out that Staff's recommendation of a 12-cent winter surcharge and varying summer surcharges of 20 cents, then 30 cents returning to 20 cents will cause rates to change six times over the next 27 months and be exceptionally confusing to customers.

16. SemStream also indicated that, after the Staff Report was issued, it had provided revised spreadsheets to Staff which updated its October, 2011 impact calculations supplied with its Surcharge request. SemStream stated that November's bank balance had unexpectedly increased by another \$32,000 and its actual incurred gas costs for this winter were trending higher than its initial projections by approximately \$0.09 per therm. Based on this updated information, SemStream estimates that if the Commission approves the Staff recommended surcharge levels, no progress will be made in recovering any of the current under-collection and, instead, its bank balance will grow by more than \$135,000 to an estimated \$517,000 by May, 2013. Finally, SemStream indicated that even if the Commission approves its request for a 37 cents per-therm surcharge, the bank balance will not be reduced to zero in the next 17 months, but that surcharge level will allow it to make gradual progress in recovering costs it has incurred in serving its customers.

At page 7, lines 8-10, delete Conclusion 3 and insert the following new Conclusion 3:

3. The Commission, having reviewed the application, Staff's memorandum dated December 23, 2011 and SemStream's Exceptions dated January 4, 2012, concludes that it is in the public interest to approve the PGA surcharge requested by SemStream.

At page 7, lines 12-16, delete the first ordering paragraph and insert the following:

IT IS THEREFORE ORDERED that SemStream Arizona Propane, LLC's request to collect a surcharge of \$0.37 per therm be and hereby is approved.

At page 7, lines 19-22, delete the third ordering paragraph and insert the following:

IT IS FURTHER ORDERED that this Purchased Gas Adjustor surcharge shall remain in effect until the first month after the Purchased Gas Adjustor bank balance has reached zero.