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OPEN MEETING

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MEMORANDUM

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Arizona Corporation Commission
DOCKETED

JUN 27 2012

TO: DOCKET
FROM: Utilities Division
DATE: June 27, 2012

AZ CORP COMMISSION
DOCKET CONTROL

DOCKETED BY
ZJM

RE: SEMSTREAM ARIZONA PROPANE, LLC – APPLICATION ON BEHALF OF
SEMGROUP CORPORATION FOR A LIMITED WAIVER OF THE AFFILIATED
INTEREST RULES PURSUANT TO A.A.C. R14-2-806
(DOCKET NO. G-20471A-12-0189)

INTRODUCTION

On May 24, 2012, SemStream Arizona Propane, LLC (“SemStream Arizona”) filed its application on behalf of SemGroup Corporation (“SemGroup”) for a limited waiver of the Arizona Administrative Code (“A.A.C.”) R14-2-801, *et seq.* (“Affiliated Interest Rules”), pursuant to A.A.C. R14-2-806. Specifically, SemStream Arizona is requesting a waiver of A.A.C. R14-2-803. On June 7, 2012, SemStream Arizona filed a letter waiving the 30-day time-clock for Commission action. SemStream Arizona is a public utility, as that term is defined in A.A.C. R14-2-801(8), and provides underground propane gas utility service to the public in and around Payson and Page, Arizona. SemStream Arizona is owned by SemStream, L.P. (“SemStream LP”). SemStream LP is a wholly-owned subsidiary of SemGroup. Accordingly, SemGroup is SemStream Arizona’s indirect parent and is considered a “public utility holding company” under A.A.C. R14-2-801(4).

STAFF REVIEW

In its application, SemStream indicates that SemGroup is currently contemplating six transactions to be completed over the next five years. While SemGroup may be a party to the anticipated transactions, neither SemStream LP nor SemStream Arizona will be a party to, or will be involved in, the transactions. Further, the anticipated transactions will have no effect on the operations of SemStream Arizona. Semstream Arizona does not rely on any of the entities that are the subject of the proposed transaction for any of it operational needs.

With the first five transactions (the “Rose Rock Transactions”), SemGroup may transfer existing subsidiaries¹ into or within the Rose Rock structure,² a recently formed master limited partnership (“MLP”). The sixth transaction is the potential divestiture of certain subsidiaries that are

¹ The existing subsidiaries are: White Cliffs Pipeline, LLC; Glass Mountain Holding Company (a wholly-owned subsidiary of SemDevelopment, LLC); SemGas, LP and its wholly-owned subsidiaries; SemGroup Holding LLC (and its wholly-owned subsidiaries) and SemCanada II, LP (and its wholly-owned subsidiaries).

² The Rose Rock structure was a recently formed MLP and was the subject of the prior waiver application by SemStream Arizona which was filed on October 26, 2011, and became effective by operation of law on November 28, 2011 pursuant to A.A.C. R14-2-806.C.

not part of SemGroup's core business units. Specifically, SemGroup is contemplating divesting itself of SemMexico, LLC and SemMexico Materials HC³ as well as their respective wholly-owned subsidiaries. No assets of, or ownership interest in, either SemStream LP or SemStream Arizona will be transferred in or affected by the transactions specified above.

There will be no change in ownership of SemStream LP or SemStream Arizona as a result of the transactions. None of the anticipated transactions will involve a financing commitment or requirement on the part of SemStream LP or SemStream Arizona. Therefore, none of the assets or equity capital of either SemStream or SemStream Arizona will be pledged, encumbered or otherwise affected. In addition, the transactions will not change the current method of tax allocation to SemStream Arizona and will have no impact on SemStream Arizona's access to, or cost of, capital. SemStream Arizona will continue to have the same access to funding from SemGroup as it currently has. Attached is a pre-transaction and post transaction organizational chart illustrating the changes.

Any affected entity may petition the Commission for a waiver of the Affiliated Interest Rules by filing a verified application, setting forth with specificity the circumstances whereby the public interest justifies noncompliance with all or part of the provisions of the Affiliated Interest Rules. However, if the Commission fails to approve, disapprove, or suspend the application for further consideration within 30 days of the filing of the verified application, the waiver becomes effective on the thirty-first day following the filing. As previously stated, SemStream Arizona filed a letter waiving the 30-day time clock for Commission action on June 7, 2012.

RECOMMENDATIONS

Staff recommends that the Commission approve SemStream Arizona's request for a limited waiver of the Affiliated Interest Rules. The anticipated transactions will not have any financial impact on SemStream LP or SemStream Arizona. The anticipated transactions will not impair the ability of SemStream Arizona to provide safe, reasonable and adequate service to its customers. Based on the information above, Staff recommends approval of SemStream's application for a waiver of A.A.C. R14-2-801, *et seq.*



Steven M. Olea
Director
Utilities Division

SMO:CLA:sms\WVC

ORIGINATOR: Candrea Allen

³ Both SemMexico, LLC and SemMexico Materials, HC are wholly-owned subsidiaries of SemMaterials, LP and are engaged in the asphalt business.

SERVICE LIST FOR: SEMSTREAM ARIZONA PROPANE, LLC
DOCKET NO. G-20471A-12-0189

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2
3 GARY PIERCE
Chairman

4 BOB STUMP
Commissioner

5 SANDRA D. KENNEDY
Commissioner

6 PAUL NEWMAN
Commissioner

7 BRENDA BURNS
Commissioner

8
9 IN THE MATTER OF THE APPLICATION)
10 OF SEMSTREAM ARIZONA PROPANE,)
11 LLC ON BEHALF OF SEMGROUP)
12 CORPORATION FOR A LIMITED WAIVER)
13 OF THE AFFILIATED INTEREST RULES)
PURSUANT TO A.A.C R14-2-806)

DOCKET NO. G-20471A-12-0189

DECISION NO. _____

ORDER

14 Open Meeting
15 July 18 and 19, 2012
Phoenix, Arizona

16 BY THE COMMISSION:

17 FINDINGS OF FACT

18 1. Semstream Arizona Propane, LLC (“Semstream Arizona”) is certificated to provide
19 propane service within portions of Arizona, pursuant to authority granted by the Arizona
20 Corporation Commission (“Commission”).

21 INTRODUCTION

22 2. On May 24, 2012, SemStream Arizona filed its application on behalf of SemGroup
23 Corporation (“SemGroup”) for a limited waiver of the Arizona Administrative Code (“A.A.C.”)
24 R14-2-801, *et seq.* (“Affiliated Interest Rules”), pursuant to A.A.C. R14-2-806. Specifically,
25 SemStream Arizona is requesting a waiver of A.A.C. R14-2-803. On June 7, 2012, SemStream
26 Arizona filed a letter waiving the 30-day time-clock for Commission action.

27 ...

28 ...

Decision No. _____

1 3. SemStream Arizona is a public utility, as that term is defined in A.A.C. R14-2-
2 801(8), and provides underground propane gas utility service to the public in and around Payson
3 and Page, Arizona. SemStream Arizona is owned by SemStream, L.P. (“SemStream LP”).
4 SemStream LP is a wholly-owned subsidiary of SemGroup. Accordingly, SemGroup is
5 SemStream Arizona’s indirect parent and is considered a “public utility holding company” under
6 A.A.C. R14-2-801(4).

7 **STAFF REVIEW**

8 4. In its application, SemStream indicates that SemGroup is currently contemplating
9 six transactions to be completed over the next five years. While SemGroup may be a party to the
10 anticipated transactions, neither SemStream LP nor SemStream Arizona will be a party to, or will
11 be involved in, the transactions. Further, the anticipated transactions will have no effect on the
12 operations of SemStream Arizona. Semstream Arizona does not rely on any of the entities that are
13 the subject of the proposed transaction for any of it operational needs.

14 5. With the first five transactions (the “Rose Rock Transactions”), SemGroup may
15 transfer existing subsidiaries¹ into or within the Rose Rock structure,² a recently formed master
16 limited partnership (“MLP”). The sixth transaction is the potential divestiture of certain
17 subsidiaries that are not part of SemGroup’s core business units. Specifically, SemGroup is
18 contemplating divesting itself of SemMexico, LLC and SemMexico Materials HC³ as well as their
19 respective wholly-owned subsidiaries. No assets of, or ownership interest in, either SemStream LP
20 or SemStream Arizona will be transferred in or affected by the transactions specified above.

21 6. There will be no change in ownership of SemStream LP or SemStream Arizona as a
22 result of the transactions. None of the anticipated transactions will involve a financing
23 commitment or requirement on the part of SemStream LP or SemStream Arizona. Therefore, none
24

25 ¹ The existing subsidiaries are: White Cliffs Pipeline, LLC; Glass Mountain Holding Company (a wholly-owned
26 subsidiary of SemDevelopment, LLC); SemGas, LP and its wholly-owned subsidiaries; SemGroup Holding LLC (and
its wholly-owned subsidiaries) and SemCanada II, LP (and its wholly-owned subsidiaries).

27 ² The Rose Rock structure was a recently formed MLP and was the subject of the prior waiver application by
SemStream Arizona which was filed on October 26, 2011, and became effective by operation of law on November 28,
2011 pursuant to A.A.C. R14-2-806.C.

28 ³ Both SemMexico, LLC and SemMexico Materials, HC are wholly-owned subsidiaries of SemMaterials, LP and are
engaged in the asphalt business.

1 of the assets or equity capital of either SemStream or SemStream Arizona will be pledged,
2 encumbered or otherwise affected. In addition, the transactions will not change the current method
3 of tax allocation to SemStream Arizona and will have no impact on SemStream Arizona's access
4 to, or cost of, capital. SemStream Arizona will continue to have the same access to funding from
5 SemGroup as it currently has. Attached is a pre-transaction and post transaction organizational
6 chart illustrating the changes.

7 7. Any affected entity may petition the Commission for a waiver of the Affiliated
8 Interest Rules by filing a verified application, setting forth with specificity the circumstances
9 whereby the public interest justifies noncompliance with all or part of the provisions of the
10 Affiliated Interest Rules. However, if the Commission fails to approve, disapprove, or suspend the
11 application for further consideration within 30 days of the filing of the verified application, the
12 waiver becomes effective on the thirty-first day following the filing. As previously stated,
13 SemStream Arizona filed a letter waiving the 30-day time clock for Commission action on June 7,
14 2012.

15 RECOMMENDATIONS

16 8. The anticipated transactions will not have any financial impact on SemStream LP or
17 SemStream Arizona. The anticipated transactions will not impair the ability of SemStream Arizona
18 to provide safe, reasonable and adequate service to its customers. Based on the information above,
19 Staff has recommended approval of SemStream's application for a waiver of A.A.C. R14-2-801, *et*
20 *seq.*

21 CONCLUSIONS OF LAW

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

24 2. The Commission has jurisdiction over Semstream Arizona and over the subject
25 matter of the Application.

26 3. The Commission, having reviewed the application and Staff's Memorandum dated
27 July 27, 2012, concludes that it is in the public interest to approve SemStream Arizona's request
28 for a waiver of A.A.C. R14-2-801, *et seq* as described in Finding of Fact number eight above.

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ORDER

IT IS THEREFORE ORDERED that SemStream Arizona Propane, LLC's request for a limited waiver of Arizona Administrative Code R14-2-801, *et seq.* (the Affiliated Interest Rules) is hereby approved as discussed herein.

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2012.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:CLA:sms\WVC

1 SERVICE LIST FOR: Semstream Arizona Propane, LLC
2 DOCKET NO.: G-20471A-12-0189

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