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BEFORE THE ARIZONA CORPORATION COMMISSION

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**COMMISSIONERS**

SUSAN BITTER SMITH, Chairman  
BOB STUMP  
BOB BURNS  
DOUG LITTLE  
TOM FORESE

2015 JUL 22 P 4:47

AZ CORP COMMISSION  
DOCKET CONTROL

IN THE MATTER OF COMMISSION  
PIPELINE SAFETY SECTION STAFF'S  
COMPLAINT AGAINST DESERT GAS, LP  
FOR VIOLATIONS OF COMMISSION  
RULES

DOCKET NO. G-20923A-15-0030

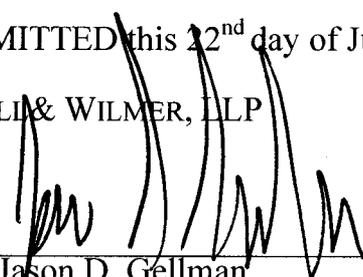
**NOTICE OF FILING DIRECT  
TESTIMONY IN SUPPORT OF  
THE SETTLEMENT  
AGREEMENT**

Desert Gas, LP ("Desert Gas" or the "Company") through undersigned-counsel, hereby submits the Direct Testimony of Raymond R. Latchem in this matter. Mr. Latchem provides testimony as to the circumstances leading up to and including the Settlement Agreement, as well as describing actions taken and to be taken and the key provisions in the Settlement Agreement that support its approval and adoption.

RESPECTFULLY SUBMITTED this 22<sup>nd</sup> day of July 2015.

SNELL & WILMER, LLP

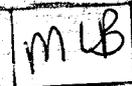
By

  
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*Attorney for Desert Gas, LP*

Arizona Corporation Commission  
**DOCKETED**

JUL 22 2015

DOCKETED BY 

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1 Original +13 copies of the foregoing  
filed this 22<sup>nd</sup> day of July 2015, with:

2 Docket Control  
3 Arizona Corporation Commission  
1200 West Washington  
4 Phoenix, AZ 85007

5 Copies of the foregoing hand-delivered/mailed  
this 22<sup>nd</sup> day of July 2015, to:

6 Dwight D. Nodes, Esq.  
7 Acting Chief Administrative Law Judge  
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16 By     *Jaclyn Howard*    

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 SUSAN BITTER SMITH, Chairman

4 BOB STUMP

5 BOB BURNS

6 DOUG LITTLE

7 TOM FORESE

8 IN THE MATTER OF COMMISSION PIPELINE  
9 SAFETY SECTION STAFF'S COMPLAINT  
10 AGAINST DESERT GAS, LP FOR VIOLATIONS  
11 OF COMMISSION RULES

DOCKET NO. G-20923A-15-0030

12 Direct Testimony of

13 Raymond R. Latchem

14 on Behalf of

15 Desert Gas, LP

16 July 22, 2015

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Snell & Wilmer

LLP

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1 **Q. Please state your name and address.**

2 A. My name is Raymond R. Latchem and my business address is 1709 Utica Square, Suite  
3 #240, Tulsa, Oklahoma 74114.

4  
5 **Q. With whom are you employed and in what capacity?**

6 A. I am the President of Spectrum LNG, LLC, parent company of Desert Gas, LP.  
7

8 **Q. Please describe your professional background.**

9 A. I studied mechanical engineering at Louisiana State University and I have been involved  
10 with the energy industry since 1977, including with specific experiences constructing and  
11 operating natural gas facilities, including LNG plants. In 1985, I formed Norgasco, Inc. to  
12 develop the local gas distribution company for the Prudhoe Bay/Deadhorse, Alaska area,  
13 which is home to many oilfield support contractors. Before that, I worked in a variety of  
14 positions in Alaska's North Slope oilfields.

15  
16 In 1992, I formed Northern Eclipse, Inc. and later its regulated subsidiary Fairbanks  
17 Natural Gas, LLC, which is the local gas distribution company that serves Alaska's largest  
18 interior city. In order to secure the utility certificate for the Fairbanks market, I led the  
19 development of an innovative small scale liquefied natural gas ("LNG") plant. Today that  
20 plant produces as much as 48,000 gallons per day of LNG. In addition to supplying LNG  
21 to Fairbanks, Northern Eclipse installed another satellite unit at a hotel complex in  
22 Talkeetna, Alaska under a long-term contract with the hotel owner.

23  
24 I then formed Spectrum Energy Services, LLC, (the parent company of Spectrum LNG) in  
25 2000 to pursue innovative developments dealing with LNG. These include the Integrated  
26 Satellite Unit that is designed for base loading or peak shaving gas supply and a 100-  
27 million cubic-foot-per day LNG-production unit for offshore Calabar, Nigeria.  
28

1 **Q. On whose behalf are you testifying in the proceeding?**

2 A. Desert Gas, LP, which I will refer to as “DG” or the “Company.”

3

4 **Q. Please describe the Company, in general.**

5 A. DG owns and operates a small scale LNG production facility in Ehrenberg, Arizona.

6

7 **Q. Please describe DG’s facilities in Ehrenberg, Arizona.**

8 A. DG operates a cryogenic natural gas liquefaction facility (the “Facility”) located in the  
9 vicinity of Ehrenberg, Arizona. Also within the vicinity is an interstate natural gas  
10 pipeline crossing the Colorado River approximately one half mile west of the facility, as  
11 well as a major truck stop, restaurant and motel within a half mile of the Facility. The  
12 Facility is automated and designed to take natural gas from the TransCanada North Baja  
13 Pipeline, remove contaminants, and compress and refrigerate the natural gas until it is a  
14 cryogenic liquid. The resulting LNG is stored at low pressure and temperature on site for  
15 transport by trucks operated by Clean Energy Fuels Corporation (“CEF”). Each CEF  
16 truck has the capacity to carry approximately 9,500 gallons of LNG. The facility has the  
17 capacity to store up to 104,000 gallons of LNG on site. Upon vaporization, the 104,000  
18 gallons approximates to 8,590,000 cubic feet of natural gas. The Facility has a security  
19 fence that prevents unauthorized persons from entering it. The Facility was also designed  
20 with calculated vapor dispersion and thermal radiation “exclusion zones”, which ensure  
21 that the public is a safe distance away from the Facility, if an incident occurs. Those  
22 exclusion zones are calculated in accordance with federal regulations.

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1 **Q. Were these facilities inspected by Arizona Corporation Commission Pipeline Safety**  
2 **Staff (“ACC Staff”) in 2014?**

3 A. Yes, they were inspected on August 25 through August 29, 2014. My understanding is  
4 that Staff conducts an annual safety compliance audit of this facility as part of its pipeline  
5 safety responsibilities.

6  
7 **Q. What is your understanding of the circumstances that gave rise to the complaint**  
8 **filed by ACC Staff?**

9 A. I was not physically present for the audit, but I understand from those that report to me  
10 that during the audit performed by Staff investigators, Staff inquired about the new  
11 methane compressor and associated pipeline that DG installed recently. We confirmed  
12 that the new methane compressor and pipeline went into continuous service on July 28,  
13 2014. Staff then asked for records regarding qualified welding procedures and individual  
14 welders’ qualification records. The circumstances surrounding the welds performed gave  
15 rise to the complaint filed by Staff earlier this year.

16  
17 **Q. Did the Company provide documentation to Staff?**

18 A. Yes, on September 29, 2014, we provided Staff with documentation addressing the  
19 welding procedures, welding qualification records, nondestructive testing of welds and  
20 qualification records of the individuals who conducted the nondestructive testing. We  
21 explained that DG’s original contractor did have qualified procedures, but that those  
22 records did not belong to DG. The welders had been formerly employed by the original  
23 contractor and had been trained under the qualified procedures with the original  
24 contractor; but these welders had then quit their employer and formed their own  
25 independent company (the “new contractor”). We also indicated to Staff at that time we  
26 had relied upon the statements from the new contractor that that it was fully qualified and  
27 possessed the required procedures.

28

1 **Q. Please describe the welds that were performed by the new contractor?**

2 A. The Settlement Agreement describes the issues with the weld, but to put it simply, the  
3 welds performed were not to the satisfaction of DG. In response to the concerns from  
4 Staff, DG performed 26 nondestructive tests; in all instances of rejected welds detected by  
5 the nondestructive testing it has performed re-welds to produce adequate welds. DG and I  
6 were disappointed about the welding work that was done by the welders under the  
7 supervision of the new contractor, understood the need for us to take action, and  
8 undertook appropriate actions to address the rejected welds. DG has further performed  
9 nondestructive testing of all remaining welds since the filing of the Staff Complaint and  
10 we re-welded each rejected weld to a satisfactory level. All rejected welds were repaired  
11 and retested and found to be satisfactory. We have completed nondestructive x-ray testing  
12 of 100% of the welds in question, and verified that all of the welds in question meet or  
13 exceed the American Society of Mechanical Engineers (ASME) Code standard B31.3, and  
14 that the welds in question met the ASME Code prior to the piping being returned to  
15 service. We recognized the need to repair those welds and we have repaired all of welds  
16 identified to be faulty at the Facility. These are some of the steps taken to ensure that the  
17 operations at the Facility are safe.

18  
19 **Q. Are you authorized to enter into the Settlement Agreement for DG?**

20 A. Yes, as the Company's President, I have the authority to act on behalf of DG and sign the  
21 agreement.

22  
23 **Q. Regarding the Settlement Agreement, do you believe the settlement is in the public  
24 interest?**

25 A. Yes, the Settlement Agreement is the result of meeting of Pipeline Safety Staff and  
26 understanding its concerns about the welds and the installation of the new compressor.  
27 The Settlement Agreement is a coordinated and constructive result that allows us to work  
28

1 with Pipeline Safety Staff in a productive fashion going forward and puts in place  
2 measures designed to emphasize safety, such as establishing a field office, retaining a  
3 trained and qualified welding inspector to ensure all welding work done at the Facility  
4 meets applicable requirements, DG establishing its own written procedures for future  
5 welding work and implementing a Process Safety Management System Program that  
6 includes operator training and safety promotion. We believe this will lead to improved  
7 communication with Pipeline Safety, and allow us to better use them as a resource to  
8 improve safety of operations at the Facility.

9  
10 **Q. Did DG agree to make an immediate payment as part of the Settlement?**

11 A. Yes, we agreed to a \$7,500 payment to the Arizona General Fund. Given that we are a  
12 small company with very specific operations, this is a significant payment. But DG also  
13 agreed to a future penalty of \$42,500 – over five times as much – should it be found that  
14 the Company failed to follow through on the terms and conditions in this settlement for  
15 the next five years.

16  
17 **Q. What steps has the Company undertaken to implement procedures to ensure  
18 compliance with all applicable requirements regarding any future welding  
19 specifically and ensuring safety in general at the Facility?**

20 A. In addition to the steps I mentioned earlier in my testimony to repair the rejected welds for  
21 the new compressor, the Company has implemented a new program for plant  
22 modifications or additions that involves producing a project document that is shared with  
23 the ACC Staff for comment before the work begins. We have already implemented this  
24 program and have made a modification under it where the ACC Staff elected to have an  
25 inspector on site during the work, which included welding.

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**Q. Does this conclude your direct testimony?**

A. Yes.