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ARIZONA CORPORATION COMMISSION

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July 24, 2008

Chairman Mike Gleason
Commissioner William A. Mundell
Commissioner Jeff Hatch-Miller
Commissioner Gary Pierce

Re: Proposed Commission Public Meeting to address SemGroup, LP's bankruptcy filing; steps the Commission can take to shield Semstream customers from the effects of the bankruptcy.

Dear Colleagues:

Yesterday we learned the disturbing news that SemGroup, LP, the parent company of Semstream, Arizona, which provides propane service in Payson and Page, filed for Chapter 11 bankruptcy. Early reports indicate that the bankruptcy was precipitated by \$3.2 billion in speculative oil trading by SemGroup, LP.¹

Officials with Semstream, Arizona, the entity that provides service in Arizona, have informed our Staff that the bankruptcy filing will not disrupt service to the Company's customers. However, Semstream also stated that the bankruptcy likely will postpone or derail its efforts to build a new storage facility in Winslow which would have helped mitigate the high cost of propane currently being experienced by Semstream's customers. If the Company does not build this new storage facility, it will likely be forced to rely more heavily on short-term market purchases. This could aggravate an already very difficult situation in Payson and Page, where consumers have been forced to pay increasingly high propane prices, and, last winter, endured an unusually lengthy billing period as a result of apparent mistakes by Semstream's management. Semstream officials have also informed our Staff that the bankruptcy could leave Semstream – during a one-week period – short of the funding needed to make long-term propane purchases.

As a result, I believe the Commission should expeditiously hold a public meeting designed to require Semstream and SemGroup officials to answer a number of questions, including, but not limited to:

- How the bankruptcy occurred, and whether it could lead to unnecessarily high propane prices this winter.

¹ According to news reports, SemGroup experienced significant short positions as the oil market escalated in recent months.

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- How the bankruptcy will impact the quality of propane service in Arizona in the short-term and the long-term.
- Why Semstream cannot move forward on its originally planned schedule with the construction of the propane storage facility in Winslow, and, if it will not, whether the Commission should require the construction of that facility.
- Why the Commission was not informed of the parent Company's significant exposure to hedging activity that had the potential to lead to a bankruptcy.

The Commission should also immediately consider ways to shield Semstream's customers from any increase in price caused by the failure of the utility to build new propane gas storage, including the possibility of preventing these additional costs from being passed on to Semstream's customers. And in light of the report recently filed by Staff in response to our request for additional information regarding the run-up in prices at Semstream last winter, I believe it behooves the Commission to consider an Order to Show Cause against Semstream for allowing its January billing period to extend beyond the period allowed under Commission rules. This Order to Show Cause could be expanded to include circumstances surrounding this bankruptcy filing, depending on the information gathered at a public meeting.

Finally, this bankruptcy filing raises once again the question of whether Payson and Page could one day be served by a natural gas company. The Commission should continue to examine ways to incentivize the purchase of these assets by a natural gas company such as Southwest Gas, or Unisource Natural Gas, in order to provide long-term price and service stability to these communities.

I look forward to discussing these issues at an upcoming Staff meeting.

Sincerely,



Kris Mayes
Commissioner

Cc: Ernest Johnson
Brian McNeil
Rebecca Wilder