

Oil storage customers signed

by: ROD WALTON World Staff Writer
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Leaders of the SemGroup public company give an update on operations and financial challenges.

SemGroup Energy Partners LP has found some new customers for its crude oil storage services, but the public subsidiary of bankrupt SemGroup LP is still struggling with a credit default, possible de-listing from the Nasdaq and parent company's financial woes, senior managers said in a conference call Wednesday.

The 10-minute update, SemGroup Energy Partners' first since a conference call shortly after SemGroup LP filed for bankruptcy July 22, relayed some new business, statistics and a few other somewhat sketchy details. None of the executives took questions due to "legal questions" surrounding SemGroup LP's demise and the public company's own problems.

"While the private company's bankruptcy is a frustration that makes our job much more difficult, you can see we are making progress," SemGroup Energy Partners CEO and President Kevin Foxx said. "SGLP is not SemGroup LP."

The good news included two new contracts to store crude oil for other companies. All in all, Foxx said, SemGroup Energy Partners, known as SGLP on the stock market, now has four "third-party" agreements to store up to 5 million barrels of the 6.8 million capacity in company facilities at Cushing.

About 85 percent of the crude oil shipped by SGLP is now for third-party customers, making up a big part of the business lost from services for the parent company, Foxx said. Those new contracts are done at "modest discounts" to the contract prices negotiated with SemGroup LP for oil storage and transportation.

"We believe that as these contracts roll over, in different circumstances, that we will be able to contract at previous or better rates," Foxx said.

Chief Financial Officer Michael Brochetti said the company has about \$15.4 million in cash. It is not borrowing any additional funds because of the credit default and is paying 8 percent in penalty interest to lenders while trying to work out another agreement, he added.

SemGroup Energy Partners did receive a partial payment of about \$2.7 million from its bankrupt parent for services earlier this month, Brochetti said. The public subsidiary also has filed a motion for future assurance of payments, with a Sept. 2 hearing set in U.S. Bankruptcy Court in Wilmington, Del.

SemGroup LP spokesman Lance Igonon said the parent company would not make a comment on SGLP's revelations Wednesday.

Gabriel Hammond, an SGLP board member, said the growing volume of third-party business makes a "very strong statement" but also admitted that the public partnership did not expect to pay out a third-quarter cash distribution to unitholders.

SemGroup Energy Partners' conference call provided some reassurance but also stirred up credibility issues, said Fred Russell, CEO of Fredric E. Russell Investment Management in Tulsa. He pointed out that none of the new third-party customers were named and said it was a mistake not to let analysts and other listeners ask questions.

"It's a scary proposition," Russell said. "They've offered some solace, some comfort indicating they recaptured some business, but the fact that there's no real details about this business makes you a little queasy."

Other companies that face legal challenges often hold conference calls and take queries, even if they cannot answer all of the questions, he added.

"They may have been advised by their attorneys not to take questions, but I think that was a mistake," Russell said. "Anybody who is an investor now has got to really believe in the power of faith to be an investor."

SemGroup Energy Partners also faces possible delisting from the Nasdaq Stock Market for failing to file its second-quarter earnings report by last week. A Nasdaq staff letter sent to SGLP earlier this week apparently warns that the delisting could happen Aug. 28, although the company could seek a hearing to contest that move.

"We intend to request such a hearing," Brochetti said. "But there is no assurance they will grant a hearing."

The company is working with its auditors and other officials to try to release the quarterly report as soon as possible, he added.

The trading value for SGLP dropped to \$8.17 per unit Wednesday, down 18 cents. It was the eighth straight day of trading declines and the lowest closing since July 28.

SemGroup Energy Partners' fight for survival became well known July 17 when the stock value was chopped in half amid rumors about the parent company's debt and cash-flow problems. SemGroup LP later revealed its liquidity crisis and filed for Chapter 11 bankruptcy protection.

In court papers, acting SemGroup LP CEO Terry Ronan, who joined the company only a few months before the bankruptcy, reported that the company ran up \$2.4 billion in margin calls on failed trading strategies in the oil futures market. About \$290 million of those losses is allegedly owed by co-founder and former CEO Tom Kivisto's own personal trading company, Westback Holdings LLC, according to reports.

The move to shift that trading account from the New York Mercantile Exchange to the Barclay's financial firm on July 16 overwhelmed the company's already tight cash flow and forced it to acknowledge its losses to some creditors. Kivisto has not spoken about the reasons behind SemGroup's fall, but the U.S. Department of Justice's Office of Trustee has asked the bankruptcy court to appoint an examiner to investigate what some creditors are calling "unauthorized" trading practices on the direction of oil prices.

The Securities and Exchange Commission and U.S. Attorney's Office also are looking into SGLP and its previous disclosures about the financial health of its parent company, which has owned a controlling interest. Two hedge funds, Manchester Securities and Alerian Capital Management, took voting control of SGLP last month after SemGroup defaulted on a \$150 million loan.

Board members from those two hedge funds and other SGLP managers have said they want to continue company operations by clearing up the financial mess and finding more third-party customers. The public firm also would consider selling some of its assets, Hammond said Wednesday, but he did not go into any detail.

SemGroup LP, meanwhile, is going to sell off all of its assets to pay creditors, according to court records. The Tulsa energy trader and transport firm was once one of the nation's largest private companies. It sponsored many local organizations and events, including the LGPA golf tournament in May.

SemGroup LP laid off 230 people last week, including 110 of its 400 in Tulsa. The bankruptcy judge approved their two-week severance packages Monday.

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