

FEDERAL ENERGY REGULATORY COMMISSION  
WASHINGTON, D.C. 20426

February 9, 2007

In Reply Refer To:  
Mississippi Canyon Gas Pipeline, L.L.C.  
Docket No. RP07-130-000

Mississippi Canyon Gas Pipeline, L.L.C.  
1100 Louisiana Street, Suite 3300  
Houston, TX 77002

Attention: Cynthia A. Corcoran  
FERC Chief Compliance Officer and Senior Counsel Specialist

Reference: Letter Order Conditionally Accepting Non-Conforming Agreements

Ladies and Gentlemen:

1. On January 12, 2007, Mississippi Canyon Gas Pipeline, L.L.C., (Mississippi Canyon) filed a series of non-conforming discount transportation and reserve commitment agreements it entered into with five shippers.<sup>1</sup> According to Mississippi Canyon, one of its current shippers recently sold a portion of a reserve block dedicated to Mississippi Canyon, dividing the reserve up among five shippers. Mississippi Canyon states that each of the new shippers requested that they be permitted to operate under the same transportation and reserve commitment agreements as the original shipper. Therefore, Mississippi Canyon states that it reassigned the agreements that the original shipper was operating under to the five new shippers, pursuant to section 8 of its Rate Schedule FT-2.<sup>2</sup>

2. Mississippi Canyon contends that because of this reassignment, certain of the reassigned agreements no longer conform to its *pro forma* service agreements. Therefore, Mississippi Canyon states that it filed the instant request for Commission

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<sup>1</sup> They are Bright & Company I; Howard Energy Co., Inc.; LLOG Exploration Company, L.L.C.; Palace Exploration Company; and, Stephens Production Company, L.L.C.

<sup>2</sup> Rate Schedule FT-2 is a firm volumetric transportation service. Shippers operating under Rate Schedule FT-2 must also hold a Reserve Commitment Agreement.

approval of these non-conforming discounted FT-2 Transportation Service Agreements and Reserve Commitment Agreements for service with each of the five shippers, as well as a Rate Schedule IT-1 Transportation Service Agreement for service with Bright & Company I. Mississippi Canyon states that it also filed revised tariff sheets<sup>3</sup> to incorporate these agreements into its list of non-conforming agreements. Mississippi Canyon requests a January 1, 2007, effective date for its tariff sheets.

3. Mississippi Canyon asserts that its agreements contain certain provisions that are potentially non-conforming. It states that all eleven agreements contain: (1) a provision stating that the agreement will become effective on January 1, 2007, subject to the approval of the Commission; (2) a provision that will render the agreement null and void should the Commission not approve the agreement; and, (3) certain bookkeeping and format changes. Mississippi Canyon also proposes to remove from each of its FT-2 Transportation Service Agreements and Reserve Commitment Agreements a provision requiring that shippers operating under the agreements have an estimated proven recoverable reserve for the committed fields of not less than 10 Bcf of natural gas.<sup>4</sup> Finally, Mississippi Canyon proposes to remove from each of its FT-2 Transportation Service Agreements a provision requiring that shippers operating under the agreement have a maximum daily quantity (MDQ) of not less than 1,000 Mcf per day.<sup>5</sup> Mississippi Canyon states that to avoid any possible discrimination, it is willing to remove these provisions from the agreements of similarly situated assignee shippers.

4. Mississippi Canyon explains that because each of the assignee shippers has received only a portion of the original dedicated reserve, they do not meet the 10 Bcf minimum reserve commitment requirement. Mississippi Canyon also contends that because each of the FT-2 Transportation Service Agreements reflects an MDQ of zero (*i.e.*, the shipper will transport gas from its reserve under its Rate Schedule IT-1 service agreements until the time it requests service under its FT-2 service agreement), the agreements do not meet its minimum MDQ requirements. Mississippi Canyon asserts that the new shippers cannot meet these requirements because of the depletion of the reserve, and also because of the size of the reserve interest conveyed to the new shippers.

5. Mississippi Canyon asserts that holding these shippers to the minimum reserve commitment and MDQ requirements would deter the efficient and maximum production

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<sup>3</sup> Second Revised Sheets No. 155 and 156 to its FERC Gas Tariff, First Revised Volume No. 1.

<sup>4</sup> This provision is set forth as footnote 3 in Mississippi Canyon's *pro forma* FT-2 Transportation Service Agreement and section 1.1 in its Form of Reserve Commitment Agreement.

<sup>5</sup> This provision is set forth as footnote 2 of Mississippi Canyon's *pro forma* FT-2 Transportation Service Agreement.

of gas from the area it serves in the Gulf of Mexico. According to Mississippi Canyon, as reserves decline and pressures decrease, production fields become less profitable for large producers. In such cases, Mississippi Canyon explains that the larger producers may have to break up its reserves into smaller blocks as those producers look to sell their reserves to smaller producers and/or to producers that specialize in enhanced recovery efforts. Mississippi Canyon states that eliminating the MDQ and minimum reserve requirements from its agreements is consistent with sound regulatory policy and does not create a possibility of discrimination because it is willing to remove the provisions from the agreements of other similarly situated shippers that are reassigned agreements. Mississippi Canyon adds that approval of the agreements would facilitate the ability of shippers to assign their rights in committed fields, which would in turn facilitate additional development and production in the Gulf.

6. The Commission noticed Mississippi Canyon's filing on January 17, 2007, allowing for protests as provided by section 154.210 of the Commission's regulations. Pursuant to Rule 214, 18 C.F.R. § 385.214 (2006), all timely filed motions to intervene and any motions to intervene out-of-time filed before the issuance date of this order are granted. Granting late intervention at this stage of the proceeding will not disrupt this proceeding or place additional burdens on existing parties. No party filed a protest or adverse comments.

7. We accept Mississippi Canyon's revised tariff sheets effective as proposed. We also accept Mississippi Canyon's service agreements subject to the conditions discussed below. The majority of Mississippi Canyon's non-conforming provisions are acceptable, since they do not pose a substantial risk of undue discrimination among shippers and would not affect the operations of other shippers on Mississippi Canyon's system. Two non-conforming elements, however, warrant discussion.

8. Mississippi Canyon's proposal to remove from certain agreements a shipper's minimum reserve commitment requirement and minimum MDQ requirement provides a valuable right to the five shippers operating under the subject agreements that is not currently available to other shippers under Mississippi Canyon's generally applicable tariff. This poses a risk for undue discrimination among shippers. In this case, Mississippi Canyon argues that, on its system, as reserves deplete and become less profitable, large producers often sell reserves to smaller producers that may not be able to meet the minimum reserve commitment or minimum MDQ requirements, and thus removing these provisions from their agreements is appropriate. In the Commission's view, reserve commitments may be necessary in developing a field and for initial service to such field. Therefore, we generally agree with Mississippi Canyon's rationale for its requested action. However, this does not obviate the fact that Mississippi Canyon must offer this right to all shippers in a manner that is not unduly discriminatory, even after the field is developed and/or enters into a phase of declining production. Mississippi Canyon asserts that it is willing to offer this right to all shippers in a manner that is not unduly

discriminatory. Accordingly, we will accept the eleven non-conforming service agreements subject to the condition that Mississippi Canyon file revised tariff sheets proposing the nondiscriminatory conditions pursuant to which it proposes to offer such provisions in a generally applicable manner.

9. Further, we will grant Mississippi Canyon's request to waive the 30-day notice period set forth in section 154.207 of the Commission's regulations for good cause shown.

By direction of the Commission.

Magalie R. Salas,  
Secretary.

cc: All Parties

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