135 FERC ¶ 61,048
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Jon Wellinghoff, Chairman;
Marc Spitzer, Philip D. Moeller,
John R. Norris, and Cheryl A. LaFleur.

Northern Natural Gas Company
Southern Natural Gas Company
Florida Gas Transmission Company, LLC
Transcontinental Gas Pipe Line Company, LLC
Enterprise Field Services, LLC

Docket No. CP10-82-000

ORDER DENYING ABANDONMENT REQUEST

(Issued April 21, 2011)

1. On March 5, 2010, Northern Natural Gas Company (Northern), Southern Natural Gas Company (Southern), Florida Gas Transmission Company, LLC (Florida Gas), Transcontinental Gas Pipe Line Company, LLC (Transco), and Enterprise Field Services, LLC (Enterprise) (collectively Applicants) filed a request for authorization under section 7(b) of the Natural Gas Act (NGA) to abandon certain jointly-owned offshore and onshore facilities collectively known as the Matagorda Offshore Pipeline System (MOPS) and the services provided on those facilities.[1] These facilities are located offshore in Texas state and federal waters, and onshore in Refugio and Calhoun Counties, Texas. For the reasons set forth below, the Commission is denying the requested abandonment authorization.

Background and Proposal

2. MOPS was constructed in three phases, with the initial phase being placed in service in 1981. MOPS currently consists of approximately 87 miles of jurisdictional and

[1] Northern, as majority owner and operator of MOPS, states that it filed the application on behalf of and with the approval of Southern, Florida Gas, Transco, and Enterprise (a non-jurisdictional entity), the other parties with an ownership interest in the MOPS.

non-jurisdictional pipeline and other facilities. The jurisdictional portion of the MOPS facilities begins in federal waters offshore Texas in the Gulf of Mexico at Matagorda Island Block (MAT) 686 and continues downstream to onshore interconnects with other pipelines in Refugio County, Texas.[2] The jurisdictional facilities consist of approximately 67 miles of various diameter pipelines (6 to 24 inches), the Tivoli Dehydration Plant (Tivoli Plant), and interconnections with several pipelines. The primarily 24-inch diameter jurisdictional mainline portion of MOPS extending from MAT 686 to the Tivoli plant is jointly owned by Northern (68 percent), Southern (18.56 percent), and Florida Gas (13.44 percent). Northern owns 86.56 percent of the Tivoli Plant, and Florida Gas owns 13.44 percent. The jurisdictional facilities which extend downstream from the Tivoli Plant are wholly-owned by Northern. Included in the 67 miles of jurisdictional pipeline is a 10-mile, 10-inch diameter lateral, wholly-owned by Southern, that connects with the 24-inch diameter mainline in MAT 665.

3. Applicants state that the MOPS facilities were initially constructed to connect gas supplies required for the pipelines' merchant functions. Since that time, they explain, the applicants have shifted from being merchants to being transporters of gas and, thus, no longer need the MOPS facilities, which are for the most part non-contiguous to the Applicants' transmission systems.[3] Applicants request permission to abandon in-place

[2] In 2001, the Commission authorized Northern to abandon its interest in the MAT 686 platform and all MOPS facilities upstream by sale to its affiliate, Enron Gulf Coast Gathering Limited Partnership and declared the primary function of the facilities to be non-jurisdictional gathering. *See Enron Gulf Coast Gathering Limited Partnership*, 95 FERC ¶ 61,318 (2001). The approximately 20 miles of gathering pipeline facilities upstream of the platform consist of approximately 17 miles of 24-inch pipeline owned by Northern (45.4546 percent), Transco (37.8787 percent), Enterprise (10.6061 percent), and Florida Gas (6.0606 percent), as well as approximately 3 miles of 10-inch line wholly-owned by Northern, which feeds into the 24-inch line. Transco discontinued its use of the gathering facilities effective April 1, 2005, but has not received abandonment authorization for its share of the facilities. Neither Enterprise nor Transco has any ownership interest in the jurisdictional MOPS facilities.

[3] Unlike the other Applicants, minority owner Florida Gas has an interconnection between the MOPS facilities and its transmission system (other onshore MOPS interconnections shown in Exhibit Z of the application are with Sea Drift, Houston Pipeline, KM Tejas, Gulf South Pipeline Co. LP, KM Texas Pipeline, and Natural Gas Pipeline Co. of America, LLC). However, Florida Gas was granted authority to abandon its obligation to provide transportation service using its ownership interests in the MOPS facilities as no customers were using Florida Gas's MOPS capacity. *See Florida Gas Transmission Co., LLC*, 129 FERC ¶ 61,135 (2009), *reh'g denied*, 131 FERC ¶ 61,119 (2010).

all the MOPS facilities and, to the extent required, to abandon service provided thereon, including gathering service.

4. Applicants state that the MOPS facilities are underutilized and uneconomic to operate.[4] Although the facilities have capacity to transport 480,000 Dth of natural gas per day from production areas in the Gulf of Mexico, MOPS was transporting less than 35,000 Dth per day (approximately seven percent of design capacity) at the time this application was filed. Applicants state that they expect throughput to continue to decline because MOPS gas supplies originate from a mature production area experiencing significantly declining production with no prospect for substantial new production. There are no longer any contracts for firm transportation service on MOPS.[5]

5. Applicants state that the MOPS facilities have experienced a series of integrity issues resulting in service outages, and that from August 2005 through November 2009 the system was out of service for 285 days. Applicants attribute the integrity problems and the attendant increased cost of maintenance and repairs to the fact that the facilities are designed to transport liquids produced along with the natural gas. As volumes of gas have decreased, aver Applicants, the amount of liquids associated with gas production has become a much larger proportion of the total throughput. Applicants state that, as a result, the liquids have to be forced to shore with frequent pigging, which overwhelms the onshore liquids separation facilities (the Tivoli plant), causing outages. Applicants assert that the higher liquid flows result in increasingly inefficient pigging, which compromises Applicants' efforts to control internal corrosion, and adds to the cost of operating MOPS.

6. Applicants assert that they have made good faith attempts to sell the MOPS facilities to the producer/shippers or other third parties. They aver that they offered to transfer the facilities at current net book value, with Applicants retaining certain obligations relating to future abandonment costs. According to Applicants, no one expressed interest in purchasing the system and, on July 1, 2009, Applicants posted a notice on their electronic bulletin boards indicating their desire to abandon the system.

7. Applicants state that, at the request of some MOPS producers, they evaluated the option of continuing to operate the system under a negotiated rate agreement that would

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[4] Exhibit Z-1 of the application indicates that, for Northern only, Operation and Maintenance (O&M) costs exceeded revenues by $1,649,094 cumulatively for the years 2005 through 2009.

[5] The last remaining firm service contract, for 7,500 Dth a day, expired December 31, 2010.

allow Applicants an opportunity to recover their costs. Applicants state that, on August 14, 2009, they offered such contracts to all the MOPS producers, but that only two smaller producers, with approximately 11 percent of the MOPS throughput, agreed to the proposal. Applicants state that they continued negotiations with the larger MOPS producers, but the parties could not agree on terms, in particular on a throughput commitment sufficient to generate revenues that would cover ongoing expenses. On November 13, 2009, Applicants rescinded the offer for negotiated rates.

8. Now, Applicants seek to abandon MOPS, permanently ceasing service on the system, asserting that the revenues received from services provided do not justify the ongoing costs and risks of leaks. Additionally, Applicants state, abandoning MOPS will benefit applicants' customers by eliminating the ongoing operation and maintenance costs associated with the facilities. Applicants further argue that the producers have comparable transportation alternatives available. Specifically, they aver that an investigation by the major producers has found that comparable alternative transportation is available for roughly 60 percent of the total throughput of MOPS on either the Central Texas Gathering System operated by Williams Field Services (WFS), located one mile from a production platform producing 25 percent of the MOPS throughput, or the Enterprise Seahawk System (Enterprise Seahawk), located ten miles from a production platform producing 43 percent of the MOPS throughput.

<u>Notice, Interventions, and Protests</u>

9. Notice of the application was published in the *Federal Register* on March 22, 2010 (75 Fed. Reg. 13,524). Timely, unopposed motions to intervene were filed by the parties listed in the appendix. Timely, unopposed motions to intervene are granted by operation of Rule 214 of the Commission's Rules of Practice and Procedure.[6]

10. Hess Corporation (Hess) and Madison Gas and Electric Company (Madison) filed motions to intervene out of time. We will permit Hess's and Madison's late interventions.

11. Anglo-Suisse Texas Offshore Partners, LLC (Anglo-Suisse), Apache Corporation (Apache), Chevron Natural Gas, a division of Chevron U.S.A. Inc. (Chevron), EOG Resources, Inc. (EOG), Medco Energi US LLC (Medco), and Pisces Energy LLC (Pisces) (jointly MOPS Shippers),[7] as well as Arena Energy, LP (Arena) filed protests

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[6] 18 C.F.R. § 385.214(c) (2010)

[7] Anglo-Suisse, Apache, Chevron, EOG, Medco, and Pisces filed individual protests as well as a joint protest as the MOPS Shippers. Medco and Pisces are not

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with their interventions. The MOPS Shippers and Arena question Northern's assertions concerning operational problems, projected throughput, and uneconomical operation of MOPS.

12. Applicants filed a motion for leave to answer and an answer to the protests and later supplemented that answer. The MOPS Shippers filed an answer to Applicants' answer, and later filed a supplement to their protest,[8] which Applicants then answered. Although our rules do not permit answers to protests or answers to answers,[9] our rules do provide that we may, for good cause, waive this provision.[10] We find good cause to do so in this instance because the filings provide information that will assist us in our decision making. We will address these pleadings below.

13. In addition, the Texas General Land Office (Texas GLO) filed a comment expressing concern that abandonment of MOPS will result in loss of royalty income that supports public education in Texas. The Texas GLO suggests that, if Applicants believe that MOPS is no longer economical to operate, they can resolve the problem by requesting a rate increase.

Issues Raised in Protests

A. Available Supply

14. The MOPS Shippers contend that abandoning the facilities as Applicants propose will shut in the natural gas and liquid condensate production of numerous small producers in the Gulf of Mexico. They assert that there are still over 60 Bcf of remaining gas reserves connected to the MOPS facilities which they project will continue to be produced through 2021. They argue that, contrary to Applicants' claim, there are plans to drill new wells and there are new leases in the vicinity of MOPS. The shippers also state that producers have been active despite the uncertainty over

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actual shippers on MOPS but their gas sold at the wellhead is transported by shippers using the MOPS.

[8] Since we are denying the requested abandonment authority, the MOPS Shippers' February 15, 2010 motion requesting issuance of an order requiring Applicants to cease and desist the solicitation of bids for abandonment work, as supported by Walter Oil & Gas Corporation's February 18, 2010 filing, is moot.

[9] 18 C.F.R. § 385.213(a)(2) (2010).

[10] 18 C.F.R. § 385.101(e) (2010).

whether MOPS will continue to be available as a transportation option.[11] They assert that Anglo Suisse, for example, has drilled nine wells in the past four years, and that Apache completed a new drilling operation at the MAT 685 B-7 well in November 2010, with an initial flow rate of approximately 8,000 Dth per day. The MOPS Shippers assert that future flow levels on the MOPS facilities will be approximately double that projected by Applicants.

15. Arena states that the proposed abandonment, if granted by the Commission, would establish a dangerous precedent permitting a pipeline on the Outer Continental Shelf with a certificated obligation to provide transportation to terminate what the pipeline considers uneconomic operations despite a clear need for a continuation of service.

16. Applicants state in reply that there is no indication that the reserves described by the MOPS Shippers would be economic to produce or that the reserves would even be attached to MOPS. Applicants assert that they have learned from experience in operating MOPS that there is a difference between having proven or probable reserves and having actual plans to develop those reserves. They assert that there is no evidence of any intent by the protesters to enter into any long-term transportation agreements for such potential future production, or even for their existing production levels. Applicants assert that, if there were in fact plans to produce the 60 Bcf of reserves alleged by the MOPS Shippers and the producers wanted to ensure that MOPS would be in place to transport those reserves, the producers would have purchased long-term transportation on MOPS.

17. Applicants, despite protestors' claims, predict that the flow of gas through the MOPS will continue to decrease. Applicants state that average daily throughput volumes, based on the actual days of flow in each year, have decreased each year since 2003 when 116,176 Dth per day were transported. Average daily throughput, they say, has declined from 42,661 Dth per day in 2007, to 36,348 Dth per day in 2008, and to 25,816 Dth per day in 2010 through August 2010.[12] Applicants contend that an incremental flow of 8,000 Dth per day by Apache from one new well is too small to counteract the trend of declining throughput.

B. <u>Alternative Transportation</u>

18. The MOPS Shippers state that there are no viable transportation alternatives for gas supply connected to MOPS. The pipeline systems suggested by Applicants as

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[11] *See* MOPS Shippers' July 22, 2010 Answer at 6.

[12] *See* Northern's June 10, 2010 Answer at 3.

alternatives, they point out, are not currently interconnected with the MOPS Shippers' gas supplies. They also point out that Applicants themselves concede that, even if the necessary pipeline facilities to interconnect with the suggested alternative transporters' systems were constructed, those alternatives would be available for only approximately 60 percent of the volumes currently transported by MOPS. Arena states that Applicants' assertion that transportation alternatives are available ignores the likely significant costs for the MOPS Shippers to construct connecting pipeline facilities, costs that are unnecessary given that MOPS is fully capable of transporting the gas in question.

19. Applicants counter that, contrary to MOPS Shippers' allegations, there are economically viable alternatives for the gas produced by Apache and Anglo Suisse, the major producers on the system.[13] According to Applicants, Apache could construct an approximately 4,000-foot pipeline from its platform in MAT 681 to interconnect with WFS. Similarly, Anglo Suisse could construct a two-mile pipeline from its production platform to a platform in MAT 633, where there is a pipeline connecting to the WFS pipeline. As another alternative, Applicants suggest that Anglo Suisse could build a pipeline to tie in with facilities of the Enterprise Seahawk system, approximately 10 miles away. The MOPS Shippers answer that constructing pipelines to connect with these facilities would be cost-prohibitive at well over $4 million per option,[14] and state that the Enterprise Seahawk system is unreliable because its low flows require frequent shut downs for pigging operations.[15]

C. <u>Offer to Sell and Negotiated Rate Proposals</u>

20. The MOPS Shippers state that they have little interest in purchasing MOPS because they are not in the interstate pipeline business. In any event, they state Applicants' proposal to sell was unacceptable because Applicants refused to offer the pipeline at a reasonable cost. The MOPS Shippers also assert that Applicants indicated that they preferred to abandon the line so they could collect the book value in transportation fees on the other portions of their systems.

21. The MOPS Shippers state that they have proposed to pay increased, negotiated rates for continued service on the MOPS facilities. The shippers state that both Anglo

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[13] Apache and Anglo Suisse currently account for approximately 16,400 Dth per day on MOPS, 70 percent of the gas volumes flowing through the system.

[14] *See* MOPS Shippers' July 22, 2010 Answer at 8.

[15] *See* MOPS Shippers' Protest at 12.

Suisse and Apache, the largest shippers on MOPS, proposed a sliding scale fee schedule that would account for declining transportation volumes to ensure that the MOPS operations and maintenance (O&M) costs were covered, thus rendering a specific, fixed-flow volume commitment unnecessary. They aver that the last proposal tendered to Applicants would have guaranteed that MOPS would collect sufficient transportation fees to cover costs, plus a 15 percent profit.

22. The MOPS Shippers aver, moreover, that producers are not able to guarantee flow rates by year, because there are many factors beyond their control, including reservoir characteristics, government regulations, gas prices, storm damage and related outages, and access to credit.[16] Further, while Applicants stopped entering into new firm service agreements in anticipation of filing the instant abandonment application and the last remaining service contract for firm service on the MOPS facilities expired December 31, 2010, MOPS Shippers emphasize that, as there is significant extra capacity on MOPS, there is no economic reason or need for shippers to enter into firm service agreements.[17]

23. Applicants state that their offer to sell MOPS is a viable solution that places the associated risk of producing the reserves on the producers where it rightfully belongs, rather than forcing Applicants and their onshore customers to subsidize operation of MOPS. Applicants assert that the MOPS Shippers' proposal to pay higher rates for continued service and the proposals by Apache and Anglo Suisse to commit their future production to MOPS without a specific volume commitment are misleading because they have not demonstrated the ability or willingness to ensure sufficient production to make Applicants' provision of continued service on MOPS economically feasible.

24. Arena asserts that Applicants should propose new rates that they believe would compensate them for the continued operation of MOPS, either under section 4 of the NGA, or through negotiated rates. Applicants respond that any proposed increase in its interruptible rates for service on MOPS would be meaningless without a long-term commitment by shippers to flow volumes that would support service on MOPS. The continually declining flows would necessitate a series of rate proceedings, Applicants maintain.

D. Internal Corrosion and Operational Problems

25. The MOPS Shippers argue that Applicants' statements regarding deteriorating conditions and service outages on MOPS are inaccurate or misleading. For example,

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[16] *See*, MOPS Shippers' July 22, 2010 Answer at 7.

[17] *Id*. at 8.

allege the MOPS Shippers, the 285 days of outages on MOPS from 2005 to 2009 were the result of a single incident caused by an "act of God" and faulty pipeline construction, rather than by a deteriorating pipeline. The MOPS Shippers also state that, contrary to Applicants' claim, they have not experienced significant downtime associated with pigging operations.

26. Further, the MOPS Shippers dispute Applicants' claim that the need to transport liquids along with natural gas has caused integrity problems on the system. The MOPS Shippers aver that the liquids to which Applicants refer are actually natural gas condensate, not water. Gas condensates, they assert, are transported by all pipelines operating in the Gulf of Mexico. Moreover, state the MOPS Shippers, the liquids are long chain hydrocarbons, which are not corrosive. They aver that Anglo-Suisse, for example, has been operating several offshore oil and gas lines that were constructed as long ago as 1955 without corrosion issues.

27. Applicants refute the MOPS Shippers' contention that MOPS outages have been limited to one incident, stating that MOPS has experienced multiple leaks on various sections of the pipeline and a mechanical failure causing outages. Applicants also dispute the MOPS Shippers' statement that the liquids Applicants describe as harming its pipelines are really gas condensates that do not harm pipelines. Rather, aver Applicants, MOPS is in fact being damaged by water. Applicants state that it is scientifically accepted in the industry that water mixed with bacteria and carbon dioxide under high pressure causes the type of corrosion that concentrates in areas or colonies that accelerate corrosion through the wall of the pipe. In its October 6, 2010 data response No. 8, Northern provides a 2006 analysis by Baker Hughes Pipeline Management Group identifying corrosion risks on MOPS and concluding that water is present at varying levels throughout the system and that the gas flow rate is not sufficient to adequately sweep the water through the pipelines without pigging. In its data response No. 8, Northern indicates that in 2002, there were two internal corrosion leaks on the 24-inch TOS82131 mainline and one leak in 2003. In 2006 and 2007, it states, there were five internal corrosion leaks on the 20-inch TOS84061 lateral, which has since been abandoned.

28. As further indication of events that they aver can increase risk to the pipeline system, Applicants state that Apache has recently decided to decommission its platform in MAT 696, which Applicants state is the anchor platform from which the cleaning and maintenance pigs were launched to protect Southern's 10-inch lateral from internal corrosion.[18]

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[18] On March 16, 2011, Southern filed an application under the Commission's blanket certificate prior notice procedures in Docket No. CP11-139-000 seeking

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E. Uneconomic Operation

29. The MOPS Shippers assert that increased maintenance costs, rather than being the result of falling gas volumes, include significant costs for non-recurring expenses, such as those in 2007 and 2009 associated with laying a new section of line around the offshore block MAT 686 platform that was being abandoned and later with repairing leaks to the new section of pipeline.[19]

30. Applicants answer that the costs referred to by the MOPS Shippers as "non-recurring" costs are actually recurring costs. Applicants state that MOPS will continue to have these types of costs because of the age of the facilities and the significantly lower volumes flowing through them. These physical factors, Applicants aver, will adversely affect their ability to maintain the system in an economic manner.[20] To support their position, Northern's October 6, 2010 data response No. 4 provided O&M costs, revenue, and commodity throughput for 2003 through August 2010. The data indicate a negative cash flow (O&M less Revenue) of $307,530 over that term. Northern's data response No. 5 shows that the cost of repairs related to the MAT 686 platform bypass totaled approximately $3.3 million in the years 2007 and 2009.

31. The MOPS Shippers argue that Northern's data responses show that its original estimates of throughput declines were overstated. They argue that throughput from 2007 through 2010 remained relatively constant if the anomalies in 2009, where there was an approximately five-month hiatus in throughput on MOPS, are removed. The MOPS Shippers also argue that the original estimates of increasing O&M were overstated, with 2010 costs being more in line with 2008 costs than with those of 2009. Further, the MOPS Shippers argue that the original estimates of revenue and cash flows were understated, as evinced by a positive cash flow of $50,205 for the first 8 months of 2010.

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authorization to abandon its lateral described in this order as part of the MOPS jurisdictional facilities, for which Applicants seek abandonment in their entirety. Southern proposes to abandon its 10-inch line because of Apache's plans to remove its platform. Southern's separate request to abandon the lateral pursuant to its blanket authorization will be addressed under Docket No. CP11-139-000. The Commission's notice of Southern's filing will provide 60 days following issuance of the notice for the filing of protests. If no protests are filed, Southern's requested abandonment authority will become effective the day after the deadline for filing of protests.

[19] *See* MOPS Shipper's Protest at 13.

[20] *See* Northern's Answer at 14.

32. Applicants respond that throughput and revenue will continue to decline, but acknowledge that, assuming there are no unforeseen incidents in the remaining months of 2010, the 2010 O&M costs may be comparable to other years. However, they contend that each unforeseen incident adds considerable cost to maintaining the facilities.

Discussion

33. Because the facilities Applicants propose to abandon are certificated facilities used to transport natural gas in interstate commerce subject to the jurisdiction of the Commission, the proposed abandonment is subject to the requirements of section 7(b) of the NGA.

34. Pursuant to section 7(b), a grant of abandonment authorization is appropriate when the Commission finds either that the supply of natural gas that can be accessed by the subject facilities has decreased to the extent that the continuance of service on the facilities is unwarranted or that other considerations support a finding that the abandonment of the facilities is permitted by the public convenience or necessity.[21] The applicant has the burden of providing evidence to support these findings.

35. As we explained recently in another proceeding involving the proposed abandonment of transportation service on MOPS by Florida Gas, we will consider all relevant factors in determining whether a proposed abandonment is warranted, but that those criteria will vary as the circumstances of the abandonment proposal vary.[22] In making our determination, we weigh the claimed benefits of the abandonment against any detriments. While the Commission is sensitive to the economic realities faced by pipelines, there is, however, a presumption in favor of continued certificated service.[23] Hence, continuity and stability of existing service are the primary considerations in assessing the public convenience or necessity of a permanent cessation of service under section 7(b) of the NGA.[24] As discussed below, we find that the circumstances present here do not permit abandonment at this time.

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[21] 15 U.S.C. § 717f(b) (2006).

[22] *See Florida Gas Transmission Co.*, 129 FERC ¶ 61,135 (2009), *order denying reh'g*, 131 FERC ¶ 61,119 (2010).

[23] *See Transcontinental Gas Pipe Line Corp. v. FPC*, 488 F.2d 1325 at 1330 (D.C. Cir. 1973), *cert. denied sub nom., Natural Gas Pipeline Co. v. Transcontinental Gas Pipe Line Corp.*, 417 U.S. 921 (1974).

[24] *See Southern Natural Gas Co.*, 126 FERC ¶ 61,246 (2009).

36. First, we find that Applicants have not adequately supported their contention that the available supply of natural gas is depleted to the extent that the continuance of service over the MOPS facilities is unwarranted. Applicants have indeed shown that throughput on MOPS has been declining, and we recognize, as Applicants have stated, that there is a general trend of declining production in the shallow water of the Gulf of Mexico.[25] We also recognize, as confirmed by the MOPS Shippers, that the assured availability of interruptible capacity due to declining throughput is likely to cause shippers to decide that they no longer need to commit to firm service transportation agreements.

37. Nonetheless, it appears that at least 20,000 Dth per day of gas are still flowing on MOPS, and that new well development activities continue. The MOPS Shippers estimate that 60 Bcf of reserves in the immediate area of MOPS remain to be produced. We cannot overlook the likelihood that concerns about continued access to transportation on MOPS have made producers reluctant to invest in new production. If MOPS is abandoned, known and as yet undiscovered reserves could be precluded from development as part of the nation's gas supply resource. Based on the information presented, we cannot confidently determine at this point how quickly the throughput on MOPS will decline in the foreseeable future, or if, in view of recent drilling efforts by producers, that decline will continue if Applicants' request for abandonment authority is not granted.

38. We further find that there are no readily-accessible transportation alternatives available to MOPS shippers. There are currently no direct alternative interconnections with other pipelines. While it appears that Apache and Anglo Suisse could possibly construct pipeline facilities to access alternative transportation for the production currently transported by MOPS, it has not been demonstrated that those alternatives would be cost-effective. Moreover, there is no suggestion that there would be any alternative transportation for approximately 30 to 40 percent of the volumes currently

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[25] The U.S. Energy Information Agency's *Gulf of Mexico Proved Reserves and Production by Water Depth* report accompanying its annual proved reserves summary, *U.S. Crude Oil, Natural Gas, and Natural Gas Liquids Proved Reserves, 2009,* released on November 30, 2010, states that shallow water output has been falling steadily since the late 1990's and that, in recent years, onshore shale gas activity has provided abundant exploration targets. The report states that the higher costs and greater risks associated with offshore drilling, combined with lingering low natural gas prices may result in a reduced emphasis on drilling for natural gas in the Gulf of Mexico. The report may be accessed at http://www.eia.gov/pub/oil_gas/natural_gas/data_publications/crude_oil_natural_gas_reserves/current/pdf/gomwaterdepth.pdf.

flowing on the MOPS facilities. If MOPS is removed from service, it may be economically impractical for producers to construct alternatives to support exploration and development of new reserves in the region. Thus, we cannot determine that alternatives reasonably exist for transportation currently provided through MOPS.

39. We do not take lightly Applicants assertions that preventing internal corrosion is a major concern on the MOPS because of gas flow rates that are inadequate to effectively sweep liquids, including water, through the system. However, it appears that to date the Applicants have been generally successful in controlling internal corrosion. Moreover, where internal corrosion could not be controlled on a segment of MOPS pipeline, we have authorized abandonment. We also acknowledge that Applicants have experienced significant force majeure events in recent years related to corrosion control procedures. However, other significant events, including the approximately five-month hiatus in operations in 2009 due to repairs, were not related to internal corrosion or its prevention. In sum, Applicants have not shown that MOPS is unsafe to operate, nor have they demonstrated that their operational problems have been significantly increased by internal corrosion or that routine procedures have not been successful in preventing corrosion.

40. The Commission also has reviewed the data underlying Northern's economic claims. Review of Northern's data response No. 4 reveals that revenue exceeded its O&M costs in 2003 and each year since, except for 2007 and 2009. We believe that the 2007 and 2009 costs related to newly-constructed pipeline facilities and their subsequent repair are not the sort of costs expected to be incurred on an ongoing basis. Removal of those costs from the analysis results in a cash flow in excess of O&M costs since 2003.

41. The data do show that absent an increase in MOPS-related transportation revenue, Northern is at risk of operating MOPS with a negative cash flow. While certain costs may be increasing due to the age of the system and expenses related to internal corrosion and its prevention, we believe the trend toward negative cash flow operation is primarily the result of declining throughput rather than increased expenses. However, there are steps short of abandonment that Northern can take to remedy this situation. All natural gas companies are entitled to an opportunity to recover their reasonably incurred costs, including a return on their investment, though their rates.

42. Applicants have offered certain terms for sale of MOPS and certain negotiated rate terms for transportation on MOPS as alternatives to abandonment. While smaller producer/shippers representing 11 percent of the throughput accepted the negotiated rate terms, others did not. Applicants argue that the general rejection of its sale terms and of its negotiated rate terms by producer/shippers reflects the fact that reserves are depleted to such an extent that producer/shippers do not believe they are economic to develop without subsidization by Applicants and their onshore shippers.

43. We do not agree. We believe it was, and continues to be, appropriate for Applicants to explore the options of either selling MOPS or negotiating with shippers rates that will cover their costs. However, Applicants' claim that the rejection of these offers demonstrates that the only way the facilities can continue to be operated is with subsidies from the Applicants and/or their onshore shippers is not valid. Applicants' onshore shippers are not currently subsidizing service on MOPS. In the absence of Applicants and their shippers agreeing to negotiated rates, the appropriate forum for determining what rates are necessary to provide the Applicants an opportunity to recover their costs in providing services using the MOPS facilities is a section 4 rate case.[26] At their root, the issues raised by Applicants here are economic. Contrary to Applicants' assertion that the section 4 process is inadequate to address the rate issues presented by the circumstances, section 4 rate cases are exactly where costs, billing determinants, cost allocations among services and rate designs are best examined. If, after an appropriate rate for service on MOPS is established, giving full consideration to the costs of operating the facilities and the level of throughput, the MOPS shippers do not value the service sufficiently to take it at that rate, Applicants could present that fact in support of a renewed application for abandonment.

44. For the above reasons, we cannot find either that the available supply of natural gas accessed by the MOPS facilities is depleted to the extent that the continuance of service is unwarranted or that the evidence presented by Applicants supports a finding that the proposed abandonment is permitted by the public convenience or necessity. Under the circumstances described above, it is reasonable to require Applicants to continue to offer service in accordance with their certificates. Based on the record in this proceeding, the Commission finds that the potential detriment to shippers and the general public from loss of the MOPS service outweighs any benefits that would derive from approving the proposed abandonments. Thus, we deny the abandonment application. This action is without prejudice to the Applicants filing a renewed request to abandon, if they desire, at such time as they can demonstrate that abandonment is warranted, as discussed herein.

45. At hearing held on April 21, 2011, the Commission on its own motion, received and made a part of the record all evidence, including the applicant(s), as supplemented, and exhibits thereto, submitted in this proceeding and upon consideration of the record,

[26] Part 154, subpart D (2010).

The Commission orders:

The request by Applicants to abandon MOPS and the service provided on those facilities is denied.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

APPENDIX

Intervenors

Anglo-Suisse Texas Offshore Partners, LLC

Apache Corporation

Arena Energy, LP

Black Hills Utility Holdings, Inc., doing business as Black Hills Energy

Chevron Natural Gas, a Division of Chevron U.S.A. Inc.

Consolidated Edison of New York, Inc. and Philadelphia Gas Works

EOG Resources, Inc.

Florida Power Corporation, doing business as Progress Energy Florida, Inc.

Hess Corporation *

Madison Gas and Electric Company *

Medco Energi US LLC

MidAmerican Energy Company

Minnesota Energy Resources Corporation

Northern States Power Company-Minnesota, Northern States Power Company-Wisconsin, and Southwestern Public Service Company

Pisces Energy LLC

Walter Oil & Gas Corporation

* late filed