

INSIGHTS

Number Four "“ DOE Approves LNG Exports for Cove Point

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On September 11, 2013, the Department of Energy ("DOE") issued an order authorizing Dominion Cove Point, LNG, LP ("Cove Point") to export to non-Free Trade Agreement ("FTA") countries up to 0.77 Bcf/day of domestically produced liquefied natural gas. This is the fourth order authorizing non-FTA LNG exports, coming after similar orders for Sabine Pass, Freeport, and Lake Charles. The Cove Point order brings the cumulative total of authorized LNG exports up to 6.37 Bcf/day, which is slightly greater than the "low" export case evaluated in the DOE-commissioned LNG Export Study that evaluated the economic impacts of exporting domestic LNG. While DOE has suggested it would issue orders every six to eight weeks, the Cove Point order comes after just five weeks since the Lake Charles order (August 7, 2013). It's unclear if DOE is hastening its pace, but a reduced delay between orders is likely to please Senator Murkowski, who has asked DOE to expedite the approvals. Still, even at the quicker pace it could take DOE over two years to process the remaining 20 pending applications, assuming DOE does not pause its review of the applications. The Cove Point order is largely similar to DOE's previous export authorization orders as the discussion of the LNG Exports Study remains largely unaltered, and DOE imposed similar conditions and limitations. For example, Cove Point is authorized to export LNG for only a 20-year term, not the 25-year term requested. Further, the order is conditioned upon completion of the environmental review process at the Federal Energy Regulatory Commission, a process currently underway. In addition, Cove Point must file all long-term contracts associated with the export of LNG with the DOE, and Cove Point was authorized to act as agent for other entities retaining title to the LNG so long as Cove Point causes those entities to register with DOE. Cove Point originally sought permission to export 1.0 Bcf/day, but it notified DOE in May, 2013 that the updated capacity of the liquefaction was expected to be only 0.77 Bcf/day. Accordingly, DOE authorized export of only 0.77 Bcf/day and explained that there was no need to authorize export quantities in excess of what the liquefaction facilities could produce. The Cove Point liquefaction project is expected to cost approximately \$3.8 billion and enter service in 2017. Cove Point has executed Terminal Services Agreements with Pacific Summit Energy LLC and GAIL Global (USA) LNG, LLC for a combined capacity of 0.65 Bcf/day, with possible overrun capacity. DOE recently updated the list establishing the order in which it will review pending LNG export applications. The ordering of the list remains unchanged, except that DOE has added in chronological order the 7 most recently filed applications. DOE is expected to issue an order on Freeport LNG Expansion, L.P.'s

application next.