136 FERC ¶ 61,059
UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, DC 20426

July 27, 2011

In Reply Refer To:
Dominion Cove Point LNG, LP
Docket No. RP11-2136-000

Dominion Cove Point LNG, LP
701 East Cary Street
4th Floor
Richmond, VA 23219

Attention: Margaret H. Peters, Assistant General Counsel

Reference: Letter Order Approving Uncontested Interim Partial Settlement

Ladies and Gentlemen:

1. On May 27, 2011, pursuant to section 4 of the Natural Gas Act (NGA), Dominion Cove Point LNG, LP (Cove Point) filed revised tariff records proposing changes to certain terms and conditions of service, to be effective June 26, 2011. Cove Point stated that it is currently experiencing a significant decline in usage of its Cove Point LNG Terminal in Lusby, Maryland and related facilities (Terminal), largely due to the development of large quantities of shale gas domestically and the consistent demand for Liquefied Natural Gas (LNG) outside of the United States. Cove Point asserted that the resulting decline in LNG cargoes to the Terminal is causing significant operating concerns because unless Cove Point receives periodic deliveries of LNG cargoes, it will be unable to keep the cryogenic portions of the Terminal cooled to the temperature necessary to receive LNG imports.

2. Cove Point therefore proposed to modify certain tariff provisions to encourage the arrival of LNG cargoes by: 1) providing for Cove Point's right to issue an Operational Flow Order (OFO) requiring the tender of LNG at the Terminal if Cove Point determines that the integrity and performance capability of its system is threatened and to allow Cove Point to bill the responsible buyer for the costs incurred in obtaining the LNG that have not been collected through any applicable OFO penalties; 2) allowing the prepayment of

fuel obligations; 3) removing current barriers to the availability of interruptible discharging service; and 4) modifying the Scheduling Provisions in Rate Schedule LTD-1 to encourage more accurate nominations and to provide for a $10,000 per occurrence scheduling penalty for its Rate Schedules LTD-1 and LTD-2 shippers.

3. On June 24, 2011, the Commission issued an order rejecting Cove Point's tariff revisions regarding Operational Flow Orders, without prejudice to a future filing proposing to amend Cove Point's authority to recover operational costs, and accepting and suspending for the maximum suspension period all other revised tariff records, to be effective November 26, 2011, subject to refund and the outcome of the technical conference.[1] Commission Staff convened a technical conference on July 14, 2011 to address issues raised by Cove Point's Filing. According to Cove Point, at the conclusion of the technical conference it and the Firm Import Shippers[2] agreed upon a timely but interim solution to settle the imminent operational issues at the Cove Point Terminal.

4. On July 22, 2011, Cove Point submitted a Stipulation and Agreement of Interim Partial Settlement (Interim Partial Settlement) pursuant to Rule 602 of the Commission's Rules of Practice and Procedure. Cove Point states that the Interim Partial Settlement provides a limited solution to the operational issues at the Terminal by arranging for a one-time operational purchase of LNG by Cove Point. Cove Point states that the Interim Partial Settlement is limited and will apply only to the delivery of one LNG cargo to the Cove Point Terminal in August 2011. In addition, Cove Point states that the settlement will have no adverse economic impact on Cove Point's peaking or transportation shippers and will not change their services in any way. Cove Point states that the purpose of the settlement is to provide all of the parties in this proceeding with additional time to arrive at a resolution of the issues pending in this docket. Cove Point states that Interim Partial Settlement in no way alters, amends, or limits the rights of any party in the captioned docket; all of the parties will retain all of their rights with respect to the outcome of the ongoing proceeding in this docket.

5. Cove Point further requests limited one-time waivers of certain sections of its tariff and of the Commission's regulations to effectuate the Interim Partial Settlement. Cove Point requests that the Commission approve the Initial Partial Settlement no later than July 27, 2011, given the commercial realities and time involved in shipping an LNG cargo to the United States.

---

[1] *Dominion Cove Point LNG, LP*, 135 FERC ¶ 61,261 (2011).

[2] The Firm Import Shippers are BP Energy Company, Shell NA LNG LLC, and Statoil Natural Gas, LLC.

6. The Commission granted Cove Point's request for a shortened comment period, making initial comments due on July 25, 2011 and reply comments due on July 26, 2011. No adverse comments were filed.

7. The main provisions of the Interim Partial Settlement may be summarized as follows.

8. Article I sets forth the procedural background.

9. Article II describes the scope of the Interim Partial Settlement.

10. Article III provides that, on or about August 15, 2011, but no later than August 31, 2011, Shell NA LNG LLC (Shell) shall deliver, or cause to be delivered, a LNG cargo (as adjusted for retainage) of approximately 2,560,000 Dth to the Terminal via tanker, and Cove Point shall accept such LNG cargo pursuant to provisions of the Rate Schedule LTD-1 service agreement between Shell and Cove Point. The Article also provides that, upon completion of the unloading of the entire LNG cargo, Cove Point shall immediately make an operational purchase of the LNG quantities, net of retainage, associated with such LNG cargo (Article III Operational Purchase) at the price calculated as described in the Article. The Article states that the Article III Operational Purchase shall be an operational purchase of LNG pursuant to General Terms &Conditions (GT&C) .section 28, and the point of the operational purchase shall be Cove Point's LNG storage tanks, pursuant to GT&C section 28(b). The Article further states that the posting and bidding requirements of GT&C section 28(c) shall not apply to this purchase and, accordingly, Cove Point shall request waiver of this provision.

11. Article IV provides that, immediately upon completion of the Article III Operational Purchase, Cove Point shall make an operational sale of the same LNG quantities (Article IV Operational Sale) to Statoil Natural Gas, LLC (Statoil) at a price of $4.75 per Dth. The Article states that the Article IV Operational Sale shall be an operational sale of LNG pursuant to GT&C section 28, and the point of the sale shall be Cove Point's LNG storage tanks. The Article also states that the point of sale provisions of GT&C section 28(b) and posting and bidding requirements of GT&C section 28(c) shall not apply to this sale transaction and, accordingly, Cove Point shall request waiver of these provisions.

12. Article V requires that, beginning the day after the completion of the Article IV Operational Sale and continuing until all the Article IV Operational Sale quantities have been delivered to Statoil in the form of natural gas, Statoil shall nominate for vaporization and delivery as natural gas no more than 22,000 Dth/day with respect to the Article IV Operational Sale quantities. The Article further requires that daily nomination for the vaporization of Article IV Operational Sale quantities shall not exceed 22,000 Dth/day, except with the written consent of Cove Point, which shall not be unreasonably withheld, and as long as the date on which the next required operational

purchase cargo is not advanced thereby. The Article states that Cove Point shall request that the Commission waive the provisions of Cove Point's tariff that allow Statoil to circumvent the send-out limitations with respect to Article IV Operational Sale quantities.

13. Article VI sets forth various cost recovery and billing and payment provisions. In particular, the Article provides that the Firm Import Shippers agree to reimburse Cove Point for the difference between the amount paid by Cove Point for the Article III Operational Purchase and the amount received by Cove Point for the Article IV Operational Sale (Cost Differential Amount), with the Cost Differential Amount allocated to each Firm Import Shipper using the specified percentages.

14. Article VII provides that, upon the effective date of the Interim Partial Settlement, Cove Point will allow Cap Period Under Recovery quantities described in GT&C section 1.42B to be fulfilled via tenders of Natural Gas for Under Recoveries incurred in the second and third quarters of 2011.

15. Article VIII addresses the effect on the Settlement of a Commission order denying, modifying, or conditioning any provision of the Interim Partial Settlement or Expedited Motion that materially and adversely affects any Party or of a Commission failure to act on the Interim Partial Settlement by the date requested in the Expedited Motion.

16. Article IX establishes the effectiveness of the Interim Partial Settlement.

17. Article X sets forth various reservations to the Interim Partial Settlement, including that, to the extent the Commission considers any changes to the terms of the Interim Partial Settlement while it is in effect, the standard for review of such changes shall be the most stringent standard permissible under applicable law.

18. The Interim Partial Settlement appears to be fair and reasonable and in the public interest, and is hereby approved. In addition, for good cause shown, the Commission grants the limited, one-time waivers of Cove Point's tariff and of our regulations requested by Cove Point and necessary to effectuate the Interim Partial Settlement. The Commission's approval of the Interim Partial Settlement and grant of waiver does not constitute approval of, or precedent regarding, any principle or issue in this proceeding.

By direction of the Commission.

Nathaniel J. Davis, Sr.,
Deputy Secretary.