

UNITED STATES OF AMERICA

DEPARTMENT OF ENERGY

OFFICE OF FOSSIL ENERGY

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FREEPORT LNG EXPANSION, L.P.,  
FLNG LIQUEFACTION, LLC,  
FLNG LIQUEFACTION 2, LLC, AND  
FLNG LIQUEFACTION 3, LLC

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FE DOCKET NO. 10-161-LNG

FINAL OPINION AND ORDER GRANTING LONG-TERM  
MULTI-CONTRACT AUTHORIZATION TO EXPORT  
LIQUEFIED NATURAL GAS BY VESSEL  
FROM THE FREEPORT LNG TERMINAL ON QUINTANA ISLAND, TEXAS,  
TO NON-FREE TRADE AGREEMENT NATIONS

DOE/FE ORDER NO. 3282-C

NOVEMBER 14, 2014

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## **FREQUENTLY USED ACRONYMS**

AEO	Annual Energy Outlook
APGA	American Public Gas Association
API	American Petroleum Institute
Bcf/d	Billion Cubic Feet per Day
Bcf/yr	Billion Cubic Feet per Year
CEQ	The Council on Environmental Quality
CH <sub>4</sub>	Methane
CO <sub>2</sub>	Carbon Dioxide
CO <sub>2</sub> e	Carbon Dioxide Equivalents
DOE	U.S. Department of Energy
EIA	U.S. Energy Information Administration
EIS	Environmental Impact Statement
EPA	U.S. Environmental Protection Agency
EUR	Estimated Ultimate Recovery
FE	Office of Fossil Energy, U.S. Department of Energy
FERC	Federal Energy Regulatory Commission
FLEX	Freeport LNG Expansion, L.P., FLNG Liquefaction, LLC, FLNG Liquefaction 2, LLC, and FLNG Liquefaction 3, LLC
FTA	Free Trade Agreement
GHG	Greenhouse Gas
GWP	Global Warming Potential
HAP	Hazardous Air Pollutant
IPCC	Intergovernmental Panel on Climate Change
kWh	Kilowatt-Hour
LCA	Life Cycle Analysis
LNG	Liquefied Natural Gas
LTA	Liquefaction Tolling Agreement
Mcf	Thousand Cubic Feet
MMBtu	Million British Thermal Units
mtpa	Million Metric Tons per Annum
MWh	Megawatt-Hour
NEPA	National Environmental Policy Act
NERA	NERA Economic Consulting
NETL	National Energy Technology Laboratory
NGA	Natural Gas Act
PM	Particulate Matter
ROD	Record of Decision
Tcf/yr	Trillion Cubic Feet per Year
VOC	Volatile Organic Compound

## I. INTRODUCTION

On May 17, 2013, the Office of Fossil Energy of the Department of Energy (DOE/FE) issued Order No. 3282 (FLEX I Conditional Order)<sup>1</sup> to Freeport LNG Expansion, L.P. and FLNG Liquefaction, LLC, pursuant to section 3(a) of the Natural Gas Act (NGA).<sup>2</sup> As discussed below, DOE/FE subsequently amended Order No. 3282 to add FLNG Liquefaction 2, LLC and FLNG Liquefaction 3, LLC as applicants and authorization holders, together with Freeport LNG Expansion, L.P. and FLNG Liquefaction, LLC (collectively, FLEX), and clarified the order in other respects.<sup>3</sup>

In the FLEX I Conditional Order, DOE/FE conditionally granted FLEX's Application<sup>4</sup> in FE Docket No. 10-161-LNG for long-term, multi-contract authority to export domestically produced liquefied natural gas (LNG) by vessel to nations with which the United States has not entered into a free trade agreement providing for national treatment for trade in natural gas (non-FTA nations). DOE/FE conditionally authorized FLEX to export LNG in a volume equivalent to 511 billion cubic feet per year (Bcf/yr) of natural gas (1.4 Bcf per day (Bcf/d)), or approximately 9 million metric tons per annum (mtpa) of LNG, for a term of 20 years. The authorization term was to commence on the earlier of the date of first commercial export or seven years from the date the order was issued (May 17, 2020). The proposed exports will originate from the existing Freeport Terminal, located on Quintana Island, southeast of the City

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<sup>1</sup> *Freeport LNG Expansion L.P., et al.*, DOE/FE Order No. 3282, FE Docket No. 10-161-LNG, Order Conditionally Granting Long-Term Multi-Contract Authorization to Export Liquefied Natural Gas by Vessel from the Freeport LNG Terminal on Quintana Island, Texas to Non-Free Trade Agreement Nations (May 17, 2013).

<sup>2</sup> 15 U.S.C. § 717b(a). This authority is delegated to the Assistant Secretary for Fossil Energy pursuant to Redelelegation Order No. 00-002.04F (July 11, 2013).

<sup>3</sup> On February 7, 2014, DOE/FE issued Order No. 3282-A, which added FLNG Liquefaction 2, LLC and FLNG Liquefaction 3, LLC as applicants and authorization holders. On June 6, 2014, DOE/FE issued Order No. 3282-B, which further amended Order No. 3282 to clarify certain ordering paragraphs. *See infra* Section IV.C. (Procedural History). Collectively, these three FLEX orders are referred to herein as the FLEX I Conditional Order.

<sup>4</sup> Application of Freeport LNG Expansion L.P., *et al.*, for Long-Term Authorization to Export Liquefied Natural Gas to Non-Free Trade Agreement Countries, FE Docket No. 10-161-LNG (Dec. 17, 2010) [hereinafter FLEX I App.].

of Freeport in Brazoria County, Texas, from liquefaction and related facilities to be constructed by FLEX (Liquefaction Project). DOE/FE authorized FLEX to export this LNG on its own behalf and as an agent for other entities that hold title to the LNG, after registering each such entity with DOE/FE.<sup>5</sup>

In addition to the FLEX I Conditional Order, DOE/FE has issued three other long-term LNG export authorizations to FLEX: (i) two orders each authorizing exports of domestically produced LNG by vessel from the Freeport Terminal in a volume equivalent to 511 Bcf/yr of natural gas (1.4 Bcf/d), to countries with which the United States has, or in the future enters into, a FTA requiring national treatment for trade in natural gas (FTA countries), issued in FE Docket Nos. 10-160-LNG<sup>6</sup> and 12-06-LNG,<sup>7</sup> respectively; and (ii) a second conditional non-FTA order authorizing exports of domestically produced LNG by vessel from the Freeport Terminal in a volume equivalent to 146 Bcf/yr of natural gas (0.4 Bcf/d) for a term of 20 years, issued in FE Docket No. 11-161-LNG.<sup>8</sup> Concurrently with this Order, DOE/FE is granting in part FLEX's second conditional non-FTA authorization in a separate final order, Order No. 3357-B (FLEX II Order).<sup>9</sup> Although the volume of LNG exports authorized in the two non-FTA orders are

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<sup>5</sup> The FLEX I Conditional Order contained numerous terms and conditions, which we are adopting in this Order. See *infra* Sections XI, XIII.

<sup>6</sup> *Freeport LNG Expansion L.P. et al.*, DOE/FE Order No. 2913, FE Docket No. 10-160-LNG, Order Granting Long-Term Authorization to Export Liquefied Natural Gas from Freeport LNG Terminal to Free Trade Nations (Feb. 10, 2011). On February 7, 2014, DOE/FE issued Order No. 2913-A, which amended Order No. 2913 to add FLNG Liquefaction 2, LLC and FLNG Liquefaction 3, LLC as applicants and authorization holders.

<sup>7</sup> *Freeport LNG Expansion L.P. et al.*, DOE/FE Order No. 3066, FE Docket No. 12-06-LNG, Order Granting Long-Term Authorization to Export Liquefied Natural Gas from Freeport LNG Terminal to Free Trade Nations (Feb. 10, 2012). On February 7, 2014, DOE/FE issued Order No. 3066-A, which amended Order No. 3066 to add FLNG Liquefaction 2, LLC and FLNG Liquefaction 3, LLC as applicants and authorization holders.

<sup>8</sup> *Freeport LNG Expansion L.P. et al.*, DOE/FE Order No. 3357, FE Docket No. 11-161-LNG, Order Conditionally Granting Long-Term Multi-Contract Authorization to Export Liquefied Natural Gas by Vessel from the Freeport LNG Terminal on Quintana Island, Texas to Non-Free Trade Agreement Nations (Nov. 15, 2013) [hereinafter FLEX II Conditional Order]. On June 6, 2014, DOE/FE issued Order No. 3357-A, which amended Order No. 3357 to clarify the terms of that conditional authorization.

<sup>9</sup> *Freeport LNG Expansion, L.P., et al.*, DOE/FE Order No. 3357-B, FE Docket No. 11-161-LNG, Final Opinion and Order Granting Long-Term Multi-Contract Authorization to Export Liquefied Natural Gas by Vessel from the

additive—for a total non-FTA export volume of 657 Bcf/yr of natural gas (1.8 Bcf/d)—they are not additive to the FTA export volumes, which together total 1022 Bcf/yr of natural gas (2.8 Bcf/d). Additional detail about FLEX’s authorizations is set forth below. *See infra* Section IV.C.

In August 2012, FLEX filed a separate application with the Federal Energy Regulatory Commission (FERC) to site, construct, and operate the Liquefaction Project under NGA section 3.<sup>10</sup> At the time that DOE/FE issued the FLEX I Conditional Order, FLEX’s application to FERC was still pending in FERC Docket CP12-509-000. Accordingly, the Conditional Order addressed the record evidence and entered findings on all non-environmental issues considered under NGA section 3(a), including the economic impacts, international impacts, and security of gas supply associated with FLEX’s proposed exports. *See infra* Section III (public interest standard). Because DOE/FE must also consider environmental issues, DOE/FE conditioned its authorization on the satisfactory completion of the environmental review process under the National Environmental Policy Act of 1969 (NEPA), 42 U.S.C. § 4321 *et seq.*, and on DOE/FE’s issuance of a finding of no significant impact or a record of decision (ROD).<sup>11</sup> DOE/FE stated that it “intends to complete its NEPA review as a cooperating agency in tandem with FERC’s review of the Liquefaction Project,” and explained that the FLEX I Conditional Order “indicates ... DOE/FE’s determination at this time on all but the environmental issues in this proceeding.”<sup>12</sup>

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Freeport LNG Terminal on Quintana Island, Texas, to Non-Free Trade Agreement Nations (Nov. 14, 2014) [hereinafter FLEX II Order]. FLEX’s two FTA orders are final and thus are not subject to further review.

<sup>10</sup> Freeport LNG Development, L.P., *et al.*, Application for Authorization Under Section 3 of the Natural Gas Act, FERC Docket CP-12-509 (Aug. 31, 2012) [hereinafter FLEX FERC App.].

<sup>11</sup> *See* FLEX I Conditional Order at 123 (Ordering Para. F).

<sup>12</sup> *Id.* at 120-21 (Terms and Conditions § H) (stating that “DOE/FE’s participation as a cooperating agency ... is intended to avoid duplication of effort by agencies with overlapping environmental review responsibilities, to achieve early coordination among agencies, and to concentrate public participation in a single forum.”).

FERC reviewed FLEX's application for the Liquefaction Project in FERC Docket No. CP12-509-000 in conjunction with FLEX's application in FERC Docket No. CP12-29-000 to modify FLEX's previously authorized LNG facilities to facilitate the import and export of LNG at the Freeport Terminal. *See infra* Section IV.A. In accordance with NEPA, FERC issued a draft Environmental Impact Statement (EIS) for the proposed Liquefaction Project and other facilities modifications on March 14, 2014,<sup>13</sup> and a final EIS on June 16, 2014.<sup>14</sup> The final EIS recommended that FERC subject any approval of FLEX's proposed Liquefaction Project, including the other facilities modifications, to 83 environmental conditions. Accordingly, on July 30, 2014, FERC issued an Order Granting Authorization Under Section 3 of the Natural Gas Act (FERC Order), which authorized FLEX to site, construct, and operate the Liquefaction Project subject to the 83 environmental conditions contained in Appendix A of that order.<sup>15</sup> Details of the FERC Order are discussed below. *See infra* Section VI.

Sierra Club intervened in FLEX's proceeding before FERC, challenging the adequacy of the draft EIS.<sup>16</sup> Sierra Club asserted, in part, that the draft EIS failed to consider: (i) the cumulative impacts from all proposed export terminals, including the LNG export applications already approved by or pending before DOE/FE and FERC;<sup>17</sup> and (ii) the indirect effects of

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<sup>13</sup> *See* Freeport LNG Development, L.P., FLNG Liquefaction, LLC, FLNG Liquefaction 2, LLC, and FLNG Liquefaction 3, LLC; Notice of Availability of the Draft Environmental Impact Statement for the Proposed Phase II Modification and Liquefaction Projects, 79 Fed. Reg. 15,989 (March 24, 2014).

<sup>14</sup> *See* Freeport LNG Development, L.P., FLNG Liquefaction, LLC, FLNG Liquefaction 2, LLC, and FLNG Liquefaction 3, LLC; Notice of Availability of the Final Environmental Impact Statement for the Proposed Phase II Modification and Liquefaction Projects, 79 Fed. Reg. 35,345 (June 20, 2014). *See also* *Freeport LNG Development, L.P., et al.*, Freeport LNG Liquefaction Project, Phase II Modification Project, Final Environmental Impact Statement, FERC/EIS-0250F (June 2014) [hereinafter Final EIS].

<sup>15</sup> *Freeport LNG Development, L.P., et al.*, Order Granting Authorizations Under Section 3 of the Natural Gas Act, 148 FERC ¶ 61,076 (July 30, 2014) [hereinafter FERC Order].

<sup>16</sup> In addition to Sierra Club, intervenors in the FERC proceeding included Tres Palacios Gas Storage LLC, ConocoPhillips Company, and Galveston Baykeeper, among others. *See id.* at 7.

<sup>17</sup> *See* FERC Order at 20-21.

induced natural gas production associated with the proposed Liquefaction Project.<sup>18</sup> In its Order, FERC rejected those arguments.

First, as to Sierra Club's argument for a cumulative environmental impact analysis, FERC found that Sierra Club was, in fact, seeking a programmatic EIS when there was no "program" before FERC that required such action under NEPA.<sup>19</sup> Second, FERC found that Sierra Club had not demonstrated that the Liquefaction Project would induce additional natural gas production and, even assuming that the Liquefaction Project would do so, such production is not "reasonably foreseeable" within the meaning of the Council on Environmental Quality's (CEQ) regulations implementing NEPA.<sup>20</sup> FERC concluded that the Liquefaction Project, if built and operated consonant with the specified environmental conditions, would be an "environmentally acceptable action."<sup>21</sup> Sierra Club sought rehearing of the FERC Order, but FERC denied that request on November 13, 2014.<sup>22</sup>

On October 3, 2014, after an independent review, DOE/FE adopted FERC's final EIS for the FLEX Liquefaction Project (DOE/EIS-0487), and the U.S. Environmental Protection Agency (EPA) published a notice of the adoption on October 10, 2014.<sup>23</sup> Concurrently with this Order, DOE/FE is issuing a ROD for FLEX's proposed Liquefaction Project and other related facilities modifications.<sup>24</sup> The condition imposed by DOE/FE in the FLEX I Conditional Order having been met, DOE/FE will now issue this final opinion and order (Order). As discussed below, this

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<sup>18</sup> *See id.* at 21-22.

<sup>19</sup> *Id.* at 20-21 (citing 40 C.F.R. § 1508.18(b)(3)).

<sup>20</sup> *Id.* at 21-22 (quoting 40 C.F.R. § 1508.8(b)).

<sup>21</sup> FERC Order at 23.

<sup>22</sup> *Freeport LNG Development, L.P., et al.*, Order Denying Rehearing and Clarification, 149 FERC ¶ 61,119 (Nov. 13, 2014).

<sup>23</sup> U.S. Env'tl. Prot. Agency, Environmental Impact Statements; Notice of Availability, 79 Fed. Reg. 61,303, 61,304 (Oct. 10, 2014) (providing notice that DOE/FE adopted FERC's final EIS for the FLEX Liquefaction Project).

<sup>24</sup> In the ROD, DOE/FE is concurrently issuing a Floodplain Statement of Findings, as required by 10 C.F.R. Part 1022 (Floodplain and Wetland Environmental Review Requirements).

Order is conditioned on FLEX's compliance with the 83 environmental conditions adopted in the FERC Order.

In connection with this and other LNG export proceedings, on June 4, 2014, DOE/FE issued two notices in the *Federal Register* proposing to evaluate different environmental aspects of the LNG production and export chain. First, DOE/FE announced that it had conducted a review of existing literature on potential environmental issues associated with unconventional gas production in the lower-48 states. The purpose of this review was to provide additional information to the public concerning the potential environmental impacts of unconventional natural gas exploration and production activities, including hydraulic fracturing. DOE/FE published its draft report for public review and comment, entitled *Draft Addendum to Environmental Review Documents Concerning Exports of Natural Gas From the United States* (Draft Addendum).<sup>25</sup> As detailed below, DOE/FE received comments on the Draft Addendum and, on August 15, 2014, issued the final Addendum (hereinafter Addendum) with its response to the public comments contained in Appendix B.<sup>26</sup>

Second, DOE/FE commissioned the National Energy Technology Laboratory (NETL), a DOE applied research laboratory, to conduct an analysis calculating the life cycle greenhouse gas (GHG) emissions for LNG exported from the United States. The purpose of this analysis was to determine: (i) how domestically-produced LNG exported from the United States compares with regional coal (or other LNG sources) for electric power generation in Europe and Asia from a life cycle GHG perspective, and (ii) how those results compare with natural gas sourced from

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<sup>25</sup> Dep't of Energy, Draft Addendum to Environmental Review Documents Concerning Exports of Natural Gas From the United States, 79 Fed. Reg. 32,258 (June 4, 2014). DOE/FE announced the availability of the Draft Addendum on its website on May 29, 2014.

<sup>26</sup> Dep't of Energy, Addendum to Environmental Review Documents Concerning Exports of Natural Gas From the United States, 79 Fed. Reg. 48,132 (Aug. 15, 2014).

Russia and delivered to the same markets via pipeline. DOE/FE published NETL's report entitled, *Life Cycle Greenhouse Gas Perspective on Exporting Liquefied Natural Gas From the United States* (LCA GHG Report).<sup>27</sup> DOE/FE also received public comment on the LCA GHG Report, and provides its response to those comments in this Order. *See infra* Section IX.B.

With respect to both the Addendum and the LCA GHG Report, DOE/FE has taken all public comments into consideration in this decision and has made those comments, as well as the underlying studies, part of the record in this proceeding.<sup>28</sup> As explained below, neither the Addendum nor the LCA GHG Report are required by NEPA, but DOE/FE believes that these documents will inform its review of the public interest under NGA section 3(a), and are responsive to concerns previously raised in this proceeding. Below, we discuss these documents, as well as other environmental issues evaluated as part of our public interest review.

## **II. SUMMARY OF FINDINGS AND CONCLUSIONS**

As noted above, the FLEX I Conditional Order presented DOE/FE's findings and conclusions on the non-environmental issues associated with FLEX's proposed exports. DOE/FE compiled an administrative record based on submissions by persons who intervened in, protested, and/or commented on FLEX's Application. DOE/FE also considered the LNG Export Study described below.<sup>29</sup> Based on that record, DOE/FE reviewed a number of public interest considerations and determined that the American Public Gas Association (APGA)—the sole

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<sup>27</sup> Dep't of Energy, *Life Cycle Greenhouse Gas Perspective on Exporting Liquefied Natural Gas From the United States*, 79 Fed. Reg. 32,260 (June 4, 2014) [hereinafter LCA GHG Report]. DOE/FE announced the availability of the LCA GHG Report on its website on May 29, 2014.

<sup>28</sup> By electronic mail, DOE/FE notified all parties to this proceeding of the issuance of both the draft Addendum and the LCA GHG Report, as well as the opportunity to submit comments on those documents.

<sup>29</sup> *See* 2012 LNG Export Study, 77 Fed. Reg. 73,627 (Dec. 11, 2012), *available at* [http://energy.gov/sites/prod/files/2013/04/f0/fr\\_notice\\_two\\_part\\_study.pdf](http://energy.gov/sites/prod/files/2013/04/f0/fr_notice_two_part_study.pdf) (Federal Register Notice of Availability of the LNG Export Study); LNG Export Study – Related Documents, *available at* <http://energy.gov/fe/downloads/lng-export-study-related-documents> (EIA Analysis (Study - Part 1) & (NERA Economic Consulting Analysis (Study - Part 2))).

party to file a protest—had not demonstrated that the requested authorization would be inconsistent with the public interest, as would be required to deny FLEX’s Application under NGA section 3(a).<sup>30</sup>

This Order adopts the key findings, terms, and conditions of the FLEX I Conditional Order, and focuses on the remaining issue: the potential environmental impacts of FLEX’s proposed exports. Based on a review of the record in this proceeding—including the final EIS on the proposed Liquefaction Project, the FERC Order granting authorization for FLEX to site, construct, and operate the Liquefaction Project, as well as the Addendum and LCA GHG Report—DOE/FE finds that the proposed exports have not been shown to be inconsistent with the public interest.

On this basis, DOE/FE grants final authorization for FLEX’s proposed exports of domestically produced LNG from the Freeport Terminal. FLEX’s exports are authorized in a volume equivalent to 511 Bcf/yr of natural gas, as requested in the Application. *See infra* Section XI.H. This authorization is subject to the Terms and Conditions and Ordering Paragraphs discussed below, which incorporate by reference the 83 environmental conditions imposed by FERC. *See infra* Sections XI-XIII.

### **III. PUBLIC INTEREST STANDARD**

Section 3(a) of the NGA sets forth the standard for review of FLEX’s Application:

[N]o person shall export any natural gas from the United States to a foreign country or import any natural gas from a foreign country without first having secured an order of the [Secretary of Energy<sup>31</sup>] authorizing it to do so. The [Secretary] shall issue such order upon application, unless after opportunity for hearing, [he] finds that the proposed exportation or importation will not be

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<sup>30</sup> *See* FLEX Conditional Order at 109-14.

<sup>31</sup> The Secretary’s authority was established by the Department of Energy Organization Act, 42 U.S.C. § 7172, which transferred jurisdiction over imports and export authorizations from the Federal Power Commission to the Secretary of Energy.

consistent with the public interest. The [Secretary] may by [the Secretary's] order grant such application, in whole or part, with such modification and upon such terms and conditions as the [Secretary] may find necessary or appropriate.

15 U.S.C. § 717b(a). This provision creates a rebuttable presumption that a proposed export of natural gas is in the public interest. DOE/FE must grant such an application unless opponents of the application overcome that presumption by making an affirmative showing of inconsistency with the public interest.<sup>32</sup>

While section 3(a) establishes a broad public interest standard and a presumption favoring export authorizations, the statute does not define “public interest” or identify criteria that must be considered. In prior decisions, however, DOE/FE has identified a range of factors that it evaluates when reviewing an application for export authorization. These factors include economic impacts, international impacts, security of natural gas supply, and environmental impacts, among others. To conduct this review, DOE/FE looks to record evidence developed in the application proceeding.<sup>33</sup>

DOE/FE's prior decisions have also looked to certain principles established in its 1984 Policy Guidelines.<sup>34</sup> The goals of the Policy Guidelines are to minimize federal control and

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<sup>32</sup> See, e.g., *Sabine Pass Liquefaction, LLC*, DOE/FE Order No. 2961, FE Docket No. 10-111-LNG, Opinion and Order Conditionally Granting Long-Term Authorization to Export Liquefied Natural Gas From Sabine Pass LNG Terminal to Non-Free Trade Agreement Nations, at 28 (May 20, 2011) [hereinafter *Sabine Pass*]; see also *Phillips Alaska Natural Gas Corp. & Marathon Oil Co.*, DOE/FE Order No. 1473, FE Docket No. 96-99-LNG, Order Extending Authorization to Export Liquefied Natural Gas from Alaska, at 13 (April 2, 1999) [hereinafter *Phillips Alaska Natural Gas*], citing *Panhandle Producers & Royalty Owners Ass'n v. ERA*, 822 F.2d 1105, 1111 (D.C. Cir. 1987).

<sup>33</sup> See, e.g., *Sabine Pass*, DOE/FE Order No. 2961, at 28-42 (reviewing record evidence in issuing conditional authorization); *LNG Devel. Co., LLC (d/b/a/ Oregon LNG)*, DOE/FE Order No. 3465, FE Docket No. 12-77-LNG, Order Conditionally Granting Long-Term Multi-Contract Authorization to Export Liquefied Natural Gas by Vessel from the Oregon LNG Terminal in Warrenton, Clatsop County, Oregon to Non-Free Trade Agreement Nations (July 31, 2014), at 8-28, 132-43 (same) [hereinafter *Oregon LNG*].

<sup>34</sup> New Policy Guidelines and Delegations Order Relating to Regulation of Imported Natural Gas, 49 Fed. Reg. 6684 (Feb. 22, 1984) [hereinafter 1984 Policy Guidelines].

involvement in energy markets and to promote a balanced and mixed energy resource system.

The Guidelines provide that:

The market, not government, should determine the price and other contract terms of imported [or exported] natural gas .... The federal government's primary responsibility in authorizing imports [or exports] will be to evaluate the need for the gas and whether the import [or export] arrangement will provide the gas on a competitively priced basis for the duration of the contract while minimizing regulatory impediments to a freely operating market.<sup>35</sup>

While nominally applicable to natural gas import cases, DOE/FE subsequently held in Order No. 1473 that the same policies should be applied to natural gas export applications.<sup>36</sup>

In Order No. 1473, DOE/FE stated that it was guided by DOE Delegation Order No. 0204-111. That delegation order, which authorized the Administrator of the Economic Regulatory Administration to exercise the agency's review authority under NGA section 3, directed the Administrator to regulate exports "based on a consideration of the domestic need for the gas to be exported and such other matters as the Administrator finds in the circumstances of a particular case to be appropriate."<sup>37</sup> In February 1989, the Assistant Secretary for Fossil Energy assumed the delegated responsibilities of the Administrator of ERA.<sup>38</sup>

Although DOE Delegation Order No. 0204-111 is no longer in effect, DOE/FE's review of export applications has continued to focus on: (i) the domestic need for the natural gas proposed to be exported, (ii) whether the proposed exports pose a threat to the security of domestic natural gas supplies, (iii) whether the arrangement is consistent with DOE/FE's policy

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<sup>35</sup> *Id.* at 6685.

<sup>36</sup> *Phillips Alaska Natural Gas*, DOE/FE Order No. 1473, at 14 (citing *Yukon Pacific Corp.*, DOE/FE Order No. 350, Order Granting Authorization to Export Liquefied Natural Gas from Alaska, 1 FE ¶ 70,259, at 71,128 (1989)).

<sup>37</sup> DOE Delegation Order No. 0204-111, at 1; *see also* 49 Fed. Reg. 6684, 6690 (Feb. 22, 1984).

<sup>38</sup> *See Applications for Authorization to Construct, Operate, or Modify Facilities Used for the Export or Import of Natural Gas*, 62 Fed. Reg. 30,435, 30,437 n.15 (June 4, 1997) (citing DOE Delegation Order No. 0204-127, 54 Fed. Reg. 11,436 (Mar. 20, 1989)).

of promoting market competition, and (iv) any other factors bearing on the public interest described herein.

#### **IV. DESCRIPTION OF REQUEST**

In its Application, FLEX requests long-term, multi-contract authorization to export, on its own behalf or as agent for others, domestically produced LNG up to the equivalent of 511 Bcf/yr by vessel from the Freeport Terminal to non-FTA countries for a 25-year term. In the FLEX I Conditional Order, DOE/FE granted this request for a 20-year term commencing on the earlier of the date of first commercial export or seven years from the date of issuance of the requested authorization.

##### **A. Description of Applicant and Facility**

FLEX is comprised of four entities:

- (1) Freeport LNG Expansion L.P., a Delaware limited partnership and a wholly owned subsidiary of Freeport LNG Development, L.P.;
- (2) FLNG Liquefaction, LLC (also called FLNG Liquefaction 1), a Delaware limited liability company and a wholly owned subsidiary of Freeport LNG Expansion, L.P.;
- (3) FLNG Liquefaction 2, LLC, a wholly owned subsidiary of Freeport LNG Expansion, L.P.; and
- (4) FLNG Liquefaction 3, LLC, a wholly owned subsidiary of Freeport LNG Expansion, L.P.

All have their principal place of business in Houston, Texas. The ultimate FLEX parent company, Freeport LNG Development, L.P., is a Delaware limited partnership. It owns and operates the Freeport Terminal.

Only the first two entities (Freeport LNG Expansion L.P. and FLNG Liquefaction, LLC) were the original FLEX applicants in this proceeding but, as described below, FLEX later requested that DOE/FE amend the FLEX I Conditional Order (as well as its other pending

applications and export authorizations) to add FLNG Liquefaction 2, LLC and FLNG Liquefaction 3, LLC as applicants and authorization holders. DOE/FE granted that amendment in this docket on June 6, 2014, as described below.

Most recently, in a submission to DOE/FE dated September 26, 2014,<sup>39</sup> FLEX stated that the management of its ultimate parent company, Freeport LNG Development, L.P., is vested entirely in its sole General Partner, Freeport LNG-GP, Inc. (or FLNG-GP, Inc.). FLNG-GP, Inc. is a Delaware corporation currently owned 50 percent by one individual, Michael S. Smith, and 50 percent by ConocoPhillips Company—although, as discussed below, FLEX has indicated that ConocoPhillips Company will soon transfer its interest to Michael Smith.<sup>40</sup>

According to FLEX, FLNG-GP, Inc. has no economic interest in Freeport LNG Development, L.P. or its subsidiaries, because all economic benefits are vested in Freeport LNG Development, L.P.'s limited partners. Additional information about FLEX's corporate ownership structure is discussed below.

**Phase I Development.** FLEX states that, in June 2004, FERC issued an order authorizing Freeport LNG Development, L.P. to site, construct, and operate what is now known as Phase I of the Freeport Terminal.<sup>41</sup> FLEX completed the Phase I facilities in June 2008. They include an LNG ship marine terminal and unloading dock, LNG transfer lines and storage tanks, high-pressure vaporizers, and a 9.6-mile send-out pipeline extending to the Stratton Ridge meter station.

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<sup>39</sup> Freeport LNG Expansion, L.P., *et al.*, Notification & Statement of Change Pursuant to DOE/FE September 26, 2014 Notice of Procedures, FE Docket Nos. 10-161-LNG, *et al.* (Sept. 26, 2014) [hereinafter FLEX Notification & Statement of Change].

<sup>40</sup> *See id.* at 2.

<sup>41</sup> *Freeport LNG Development, L.P.*, 107 FERC ¶ 61,278 (2004) (order granting authorization under NGA section 3); 108 FERC ¶ 61,253 (2004) (order granting rehearing and clarification); 112 FERC ¶ 61,194 (2005) (order amending NGA section 3 authorization).

**Phase II Development.** FLEX states that, on September 26, 2006, FERC issued an order authorizing the Phase II expansion of the Freeport LNG Terminal, which included an expansion of the Freeport Terminal's send-out capacity.<sup>42</sup> In December 2011, Freeport LNG Development, L.P. applied for an amendment to FERC's September 26, 2006 order. In the amendment, FLEX requested authority to reorient the marine berthing dock, eliminate one of the four authorized LNG unloading arms, and eliminate the authorized vaporization facilities, among other modifications.

## **B. Liquefaction Project**

**Application.** FLEX states that the Liquefaction Project facilities will be integrated into the existing Freeport Terminal, which consists of a marine berth, two 160,000 m<sup>3</sup> full containment LNG storage tanks, LNG vaporization systems, associated utilities, and a 9.6-mile pipeline and meter station. According to FLEX, the proposed improvements to the Liquefaction Project will include facilities previously authorized by FERC in its September 26, 2006 order, including a second marine berthing dock, a third LNG storage tank, and transfer pipelines between the second marine dock and LNG storage tanks. They will be contained within the previously authorized operational area of the Freeport Terminal. FLEX states that the expanded facility will be designed so that the addition of liquefaction capability will not preclude the Freeport Terminal from operating in vaporization and send-out mode. FLEX further asserts that, when operating at full capacity, the Liquefaction Project will consume approximately 0.1 Bcf/d of natural gas to power the liquefaction facilities, resulting in a total natural gas volume requirement of 1.5 Bcf/d.

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<sup>42</sup> *Freeport LNG Development, L.P.*, 116 FERC ¶ 61,290 (2006).

**FERC Application and Revised Project Capacity.** In its application filed with FERC, FLEX described the Liquefaction Project as having “three propane pre-cooled mixed refrigerant trains, each with a nominal nameplate capacity of 4.4 [mtpa] of LNG ... for export, which equates to *a total liquefaction capacity of approximately 1.8 billion cubic feet per day ... of natural gas.*”<sup>43</sup> In a footnote, FLEX reiterated that the Liquefaction Project’s “[n]ameplate production is based on feed of 1.97 Bcf/d of pretreated natural gas, of which 1.8 Bcf/d is converted to LNG available for export.”<sup>44</sup> Based on these statements to FERC, DOE/FE has found that the planned liquefaction capacity of the Project is 1.8 Bcf/d of natural gas. *See infra* Section IV.C.

### **C. Procedural History**

Pertinent aspects of FLEX’s procedural history with DOE/FE are summarized as follows:

**FTA Order in FE Docket No. 10-160-LNG (DOE/FE Order No. 2913-A).** On February 10, 2011, in Order No. 2913 (later amended in Order No. 2913-A), DOE/FE granted FLEX’s request to export domestically produced LNG from the Freeport Terminal to FTA countries.<sup>45</sup> Pursuant to that order, FLEX is authorized to export LNG, on its own behalf and as agent for other entities, in a volume equivalent to 511 Bcf/yr of natural gas (1.4 Bcf/d) for a 25-year term commencing on the earlier of the date of first export or five years from the date the authorization was issued (February 10, 2016).

**FTA Order in FE Docket No. 12-06-LNG (DOE/FE Order No. 3066-A).** On February 10, 2012, in Order No. 3066 (later amended in Order No. 3066-A), DOE/FE granted FLEX’s second application to export domestically produced LNG from the Freeport Terminal to FTA

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<sup>43</sup> FLEX FERC App., Resource Report 1 (Aug. 2012), at 1-1 (emphasis added).

<sup>44</sup> *Id.* n.1.

<sup>45</sup> *See Freeport LNG Expansion L.P., et al.*, DOE/FE Order No. 2913.

countries in an identical volume as FTA Order No. 2913-A.<sup>46</sup> Pursuant to that order, FLEX is authorized to export LNG, on its own behalf and as agent for other entities, in a volume equivalent to 511 Bcf/yr of natural gas (1.4 Bcf/d) for a 25-year term commencing on the earlier of the date of first export or eight years from the date the authorization was issued (February 10, 2020), for a combined total FTA authorization of 1022 Bcf/yr of natural gas under both orders.

**FLEX I Non-FTA Conditional Order in FE Docket No. 10-160-LNG (DOE/FE Order No. 3282-B).** In the current proceeding, DOE/FE issued Conditional Order 3282 to FLEX on May 17, 2013 (later amended in Order Nos. 3282-A and 3282-B). As a condition of both the FLEX I Conditional Order and this Order, the volume of LNG approved for export to non-FTA countries is not additive to either of FLEX’s FTA orders. *See infra* Sections XI, XIII.

**FLEX II Non-FTA Conditional Order in FE Docket No. 11-161-LNG (DOE/FE Order No. 3357-A).** On November 15, 2013, DOE/FE conditionally granted a second non-FTA authorization to FLEX in DOE/FE Order No. 3357 (later amended in Order No. 3357-A). In support of its request for additional export volumes, FLEX explained that, “[d]emand for liquefaction capacity has been significant since FLEX filed its initial export applications a year ago, and FLEX expects to secure long-term contracts for the liquefaction and export of an additional 1.4 Bcf/d.”<sup>47</sup> Therefore, FLEX sought the second non-FTA authorization (as well as the second FTA authorization) “[t]o support the commercialization and financing necessary ... to build facilities to meet that demand ....”<sup>48</sup>

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<sup>46</sup> *See Freeport LNG Expansion L.P., et al.*, DOE/FE Order No. 3066.

<sup>47</sup> Application of Freeport LNG Expansion L.P., *et al.*, for Long-Term Authorization to Export Liquefied Natural Gas to Non-Free Trade Agreement Countries, FE Docket No. 11-161-LNG, at 5 (Dec. 19, 2011) [hereinafter FLEX II App.].

<sup>48</sup> *Id.* at 5-6.

As described herein, DOE/FE did not conditionally authorize FLEX to export the full volume requested. Rather, taking into account FLEX's statements to FERC concerning the planned 1.8 Bcf/d capacity of the Liquefaction Project and the fact that the NEPA review led by FERC studied a project with a capacity of 1.8 Bcf/d,<sup>49</sup> DOE/FE conditionally authorized FLEX to export LNG in a reduced volume equivalent to 146 Bcf/yr of natural gas (0.4 Bcf/d) for a 20-year term commencing on the earlier of the date of first export or seven years from the date the authorization was issued (November 15, 2020). Although not additive to either of FLEX's FTA authorizations, this second conditional non-FTA authorization of 0.4 Bcf/d of natural gas was additive to the 1.4 Bcf/d of natural gas conditionally authorized for export in the FLEX I Conditional Order.

As noted above, DOE/FE is issuing, concurrently with this Order, the FLEX II non-FTA authorization in a separate final order, captioned DOE/FE Order No. 3357-B. The 0.4 Bcf/d of natural gas authorized in the FLEX II Order, together with the 1.4 Bcf/d authorized in this Order, brings FLEX's total authorized non-FTA export volume to 1.8 Bcf/d of natural gas (657 Bcf/yr), which mirrors the known liquefaction capacity of the Liquefaction Project. This combined non-FTA export volume is not additive to FLEX's FTA authorizations.

**Notice of Long-Term Contracts.** FLEX filed letters on April 12 and October 25, 2013, in each of its four long-term docket proceedings providing information to DOE/FE as to the contracts it had executed to date.<sup>50</sup> FLEX informed DOE/FE that one or more of its subsidiaries

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<sup>49</sup> See Final EIS at ES-2 ("The Liquefaction Plant would consist of three propane pre-cooled mixed refrigerant liquefaction trains, ... [having] a total liquefaction capacity of approximately 1.8 billion cubic feet per day of natural gas.").

<sup>50</sup> Letter from John B. Tobola to J. Anderson, Long-Term Contracts, Freeport LNG Expansion, L.P. and FLNG Liquefaction, LLC, FE Docket No. 10-161-LNG (Apr. 12, 2013); Letter from L. Lo Baugh to J. Anderson, Long-Term Contracts, Freeport LNG Expansion, L.P. and FLNG Liquefaction, LLC, FE Docket No. 10-161-LNG (Oct. 25, 2013).

have executed a long-term Liquefaction Tolling Agreement (LTA)<sup>51</sup> with the following five customers as follows:

- Chubu Electric Power Co., Inc., for a volume of natural gas totaling approximately 115,000,000 million BTUs of LNG per contract year, for 20 contract years beginning from completion of FLEX's first liquefaction train;
- Osaka Gas Co., Ltd., for a volume of natural gas totaling approximately 115,000,000 million BTUs of LNG per contract year, for 20 contract years beginning from completion of FLEX's first liquefaction train;
- BP Energy Company, for a volume of natural gas totaling approximately 230,000,000 million BTUs of LNG per contract year, for 20 contract years beginning from completion of FLEX's second liquefaction train;
- SK E&S LNG, LLC, for a volume of natural gas totaling approximately 115,000,000 million BTUs of LNG per contract year, for 20 contract years beginning upon completion of construction and commencement of commercial operations of FLEX's third liquefaction train; and
- Toshiba Corporation, for a volume of natural gas totaling approximately 115,000,000 million BTUs of LNG per contract year, plus one-third of the production quantity available from FLEX's liquefaction facility in excess of the annual nameplate design production of 690,000,000 million BTUs, up to an additional 5,250,000 million BTUs of LNG per contract year, for 20 contract years beginning upon completion of construction and commencement of commercial operations of FLEX's third liquefaction train.

DOE/FE has previously noted that any production in excess of the authorization granted in this Order and in FLEX's second non-FTA authorization (DOE/FE Order No. 3357, as amended) would require an additional authorization from DOE and FERC.

**Procedural Order (DOE/FE Order Nos. 2913-A, 3066-A, and 3282-A).** As noted above, FLEX filed an Amendment and Supplement to its Application in September 2013, asking DOE/FE to include FLNG Liquefaction 2, LLC and FLNG Liquefaction 3, LLC as applicants in

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<sup>51</sup> References to LTAs and long-term contracts are synonymous for purposes of this Order.

this proceeding.<sup>52</sup> FLEX stated that it originally contemplated that FLNG Liquefaction, LLC would own the three liquefaction trains to be developed as part of the Liquefaction Project. Subsequently, however, FLEX determined that each liquefaction train must be a separate legal entity for purposes of development, financing, and construction.

In support of its request, FLEX stated that FLNG Liquefaction, LLC will own the first liquefaction train; FLNG Liquefaction 2, LLC will own the second train; and FLNG Liquefaction 3, LLC will own the third. Notwithstanding the separate ownership structure, FLEX stated that the three liquefaction trains will be integrated with the regasification and import facility, such that the Liquefaction Project will be operated as a single integrated liquefaction, regasification, LNG export, and LNG import facility. FLEX further stated that Freeport LNG Expansion, L.P. will coordinate all exports under FLEX's orders, and will act as agent for other entities, as stated in the Application. On February 7, 2014, DOE/FE granted the requested relief in this docket and in the other docket proceedings.<sup>53</sup>

**Procedural Order (DOE/FE Order Nos. 3282-B and 3357-A).** On June 6, 2014, in response to FLEX's Request for Clarification or Amendment of DOE/FE Order No. 3357 in DOE/FE Docket No. 11-161-LNG (among other filings), DOE/FE issued an order clarifying the terms of both the FLEX I Conditional Order and the FLEX II Conditional Order (DOE/FE Order No. 3357) in various respects, all of which are integrated into this final Order.<sup>54</sup>

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<sup>52</sup> FLEX Amendment at 5. FLEX filed an analogous amendment and supplement in each of its three other long-term docket proceedings.

<sup>53</sup> *Freeport LNG Expansion, L.P., et al.*, DOE/FE Order Nos. 2913-A, 3066-A, & 3282-A, FE Docket Nos. 10-160-LNG, 10-161-LNG, 11-161-LNG, & 12-06-LNG, Order Amending Applications in Docket Nos. 10-160-LNG, 10-161-LNG, 11-161-LNG, and 12-06-LNG and Granting Request in Docket No. 11-161-LNG to Add FLNG Liquefaction 2, LLC and FLNG Liquefaction 3, LLC as Applicants and Authorization Holders (Feb. 7, 2014).

<sup>54</sup> *Freeport LNG Expansion, L.P., et al.*, DOE/FE Order Nos. 3282-B & 3357-A, FE Docket Nos. 10-161-LNG & 11-161-LNG, Order Amending DOE/FE Order Nos. 3282 & 3357 (June 6, 2014).

**Change in Control Order (DOE/FE Order No. 3495).** On July 3, 2014, FLEX filed an application with DOE/FE requesting approval to transfer indirect control of the four LNG export authorizations that it currently holds due to proposed changes in the upstream ownership structure of FLNG Liquefaction, LLC and FLNG Liquefaction 2, LLC. FLEX sought DOE/FE’s approval of this proposed transaction pursuant to DOE/FE regulations (10 C.F.R. § 590.405)<sup>55</sup> and the FLEX I Conditional Order (as well as its other FTA and non-FTA orders).<sup>56</sup>

The specifics of the proposed changes in control are described in the notice of application<sup>57</sup> and in DOE/FE’s Order Approving Change in Control of Export Authorizations.<sup>58</sup> Briefly, under the proposed transactions, Osaka Gas and Chubu Electric will take an ownership interest in FLNG Liquefaction, LLC’s parent company (FLIQ1 Holdings, LLC) through their wholly owned U.S. subsidiaries—which, at the time of the filing, had not yet been formed.<sup>59</sup> Additionally, IFM Global Infrastructure Fund, a global infrastructure investment fund advised by IFM Investors, will take an ownership interest in FLNG Liquefaction 2, LLC’s parent company (FLIQ2 Holdings, LLC). The IFM entity that will hold the ownership interest in FLIQ2 Holdings, LLC will be IFM FLIQ Holding GP, a general partnership under Delaware law.

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<sup>55</sup> “Authorizations by the Assistant Secretary to import or export natural gas shall not be transferable or assignable, unless specifically authorized by the Assistant Secretary.” 10 C.F.R. § 590.405.

<sup>56</sup> See FLEX I Conditional Order at 125 (Ordering Para. N, requiring DOE/FE approval prior to any change in control of the authorization holder).

<sup>57</sup> Freeport LNG Expansion, L.P.; FLNG Liquefaction, LLC; FLNG Liquefaction 2, LLC; and FLNG Liquefaction 3, LLC; Request for Change in Control, 79 Fed. Reg. 47,446 (Aug. 13, 2014).

<sup>58</sup> See *Freeport LNG Expansion, L.P., et al.*, DOE/FE Order No. 3495, FE Docket Nos. 14-005-CIC, *et al.*, Order Approving Change in Control of Export Authorizations (Sept. 23, 2014).

<sup>59</sup> On September 26 and October 14, 2014, respectively, FLEX notified DOE/FE that the wholly owned U.S. subsidiaries of Osaka Gas and Chubu Electric had been formed. The new entities, Osaka Gas Liquefaction USA Corp. and Chubu Electric Power Company Freeport, Inc., are both Delaware corporations with their principal place of business in Houston, Texas. See Ltr. Filing of Freeport LNG Expansion, L.P., *et al.*, FE Docket Nos. 10-161-LNG, *et al.* (Sept. 26, 2014); Ltr. Filing of Freeport LNG Expansion, L.P., *et al.*, FE Docket Nos. 10-161-LNG, *et al.* (Oct. 14, 2014).

According to FLEX, the proposed changes in ownership interest are necessary components of the financing of the FLEX liquefaction project. The four entities comprising FLEX will continue to hold jointly the FTA and non-FTA authorizations. Finally, FLEX stated that the changes in control will not affect the Freeport Terminal or modify the proposed Liquefaction Project. On this basis, DOE/FE granted FLEX's application and approved the proposed changes in control on September 23, 2014, in DOE/FE Order No. 3495.

**Notification and Statement of Change.** On September 29, 2014, FLEX submitted a Notification and Statement of Change in this docket and its three other docket proceedings, pursuant to DOE/FE's recently-issued Procedures for Changes in Control Affecting Applications and Authorizations to Import or Export Natural Gas (hereinafter DOE/FE Procedures for Changes in Control).<sup>60</sup> As noted above, in that submission, FLEX informed DOE/FE about certain changes anticipated to occur in the upstream ownership structure of its parent company, Freeport LNG Development, L.P., which FLEX refers to as the "transfer event."<sup>61</sup> The anticipated change in the ownership structure concerns Freeport LNG Development, L.P.'s General Partner, FLNG-GP, Inc.

Specifically, FLEX states that ConocoPhillips Company intends to transfer its existing 50% interest in FLNG-GP, Inc., to Michael Smith, bringing Mr. Smith's ownership interest in FLNG-GP, Inc. to 100%. Further, FLNG-GP, Inc. is managed by a six-member Board of Directors, with each of Michael Smith and ConocoPhillips Company having the right to appoint three of the six members. FLEX states that, by contractual arrangement, ConocoPhillips

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<sup>60</sup> See U.S. Dep't of Energy, Procedures for Changes in Control Affecting Applications and Authorizations to Import or Export Natural Gas, 79 Fed. Reg. 65,641 (Nov. 5, 2014) (effective Sept. 26, 2014).

<sup>61</sup> FLEX Notification & Statement of Change, at 2.

Company is excluded from decision-making with respect to the management, operations, or other activities of Freeport LNG Development, L.P. or FLEX related to the Liquefaction Project.

FLEX asserts that the transfer event will not involve the transfer of any direct or indirect power to control the management or policy of FLEX, the FLEX export authorizations issued by DOE/FE (including this Order), or the FLEX Liquefaction Project. The transferee of ConocoPhillips Company's interest, Michael Smith, is and will remain the only person who may direct any action on the part of FLNG-GP, Inc. as it relates to the FLEX Liquefaction Project. Finally, FLEX states that Freeport LNG Expansion, L.P. will remain the single point of contact with DOE/FE with respect to reporting and administration under this Order (and FLEX's other export authorizations).

**Notice, Amendment, and Statement of Change.** On October 14, 2014, FLEX submitted a Notification, Amendment, and Statement of Change in this docket and its three other docket proceedings, pursuant to DOE/FE's Procedures for Changes in Control. In that submission, FLEX informed DOE/FE about two separate, but related, prospective transactions which FLEX expects to occur "upstream of the Applicants" in the various dockets.<sup>62</sup>

In the first set of transactions, FLEX states that GIP II FLNG Holding Partnership, L.P. (GIP II FLNG) will acquire ZHA FLNG, LLC from a consortium of institutional investors managed by Hasting Funds Management (USA) Inc. and Zachary American Infrastructure LLC (ZHA)—collectively, the Sellers. FLEX states that GIP II FLNG is a Delaware limited partnership ultimately owned by Global Infrastructures Partners (GIP), a leading independent global infrastructure investor headquartered in New York. FLEX further asserts that, after the

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<sup>62</sup> Freeport LNG Expansion, L.P., *et al.*, Notification, Amendment, & Statement of Change Pursuant to DOE/FE September 26, 2014 Notice of Procedures Change, FE Docket Nos. 10-161-LNG, *et al.*, at 1 (Oct. 1, 2014) [hereinafter FLEX Notification, Amendment, & Statement of Change].

conclusion of these transactions, GIP II FLNG will have acquired an indirect interest in excess of 10%, but less than a majority of the limited partner interests, in Freeport LNG Development, L.P.

In the second transaction, FLEX states that the balance of the Sellers' interest would be acquired by Michael Smith and his family trusts. According to FLEX, Sellers will have no further ownership interest at closing. FLEX states that it will notify DOE when these transactions are completed.

As a result of these transactions, FLEX asserts that: (1) Michael Smith and his family trusts will own and control a majority of the limited partner interests in Freeport LNG Development, L.P.; and (2) ZHA FLNG Purchaser, LLC will retain a minority, but greater than 10%, of the limited partnership interests in Freeport LNG Development, L.P., with GIP II FLNG having acquired ZHA FLNG, LLC from the Sellers. Thus, according to FLEX, GIP II FLNG will indirectly hold a minority limited interest in Freeport LNG Development, L.P. Additional detail about these two anticipated transactions is set forth in FLEX's Notice, Amendment, and Statement of Change.

FLEX states that, after completion of these transactions, the operation and maintenance of the Freeport LNG facilities (both regasification and liquefaction) will continue to be under the control of the existing owner/operator of the facility, Freeport LNG Development, L.P., through various contractual arrangements with and among FLIQ1, FLIQ2, and FLIQ3. FLEX states that Freeport LNG Expansion, L.P. will remain the single point of contact with DOE/FE with respect to reporting and administration under this Order (and FLEX's other export authorizations).

#### **D. Business Model**

FLEX states that, rather than enter into long-term natural gas supply or LNG export contracts, it expects that its business model will be based primarily on LTAs. Individual

customers who hold title to natural gas will have the right to deliver that gas to FLEX and receive LNG. FLEX states that, like long-term supply contracts, LTAs will provide stable commercial arrangements between companies involved in natural gas services.

FLEX proposes to export LNG on its own behalf or as agent for others. FLEX anticipates that the title holder at the point of export<sup>63</sup> may be: (i) FLEX, (ii) one of FLEX's LTA customers, or (iii) another party that has purchased LNG from an LTA customer pursuant to a long-term contract. FLEX requests authorization to register as agent for each LNG title holder for whom FLEX seeks to export LNG. FLEX proposes that this registration include a written statement by the title holder acknowledging and agreeing to comply with all applicable requirements included in FLEX's export authorization, and to insert those requirements in any subsequent purchase or sale agreement entered into by that title holder. FLEX further proposes to file under seal with DOE/FE any relevant long-term commercial agreements between FLEX and an LNG title holder, including LTAs, once those agreements have been executed.

At the time it submitted its Application, FLEX had not yet entered into any long-term LTAs for the LNG it proposes to export. As noted above, however, FLEX subsequently notified DOE/FE that it has executed long-term LTAs with Osaka Gas Company, Ltd., Chubu Electric Power Company, Inc., BP Energy Company, SK E&S LNG, LLC, and Toshiba Corporation. These five LTAs in total will permit the export of 690 million MMBtu of natural gas per year, representing approximately 1.8 Bcf/d. This contracted amount represents 100 percent of the total

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<sup>63</sup> Export occurs when the LNG is delivered to the flange of the LNG export vessel. *See Dow Chem. Co.*, DOE/FE Order No. 2859, FE Docket No. 10-57-LNG, Order Granting Blanket Authorization to Export Liquefied Natural Gas (Oct. 5, 2010).

combined non-FTA export volume authorized for FLEX in this Order and in the FLEX II Order (DOE/FE Order No. 3357-B, issued concurrently with this Order).<sup>64</sup>

#### **E. Source of Natural Gas**

FLEX anticipates that each LTA customer will rely on its own sources for natural gas. FLEX further anticipates that the source of natural gas for its proposed exports will come primarily from the Texas market, but may draw from the interconnected U.S. natural gas market. FLEX asserts that the Texas natural gas market is one of the largest in the world, and is highly liquid because it is connected to other major U.S. markets through a vast pipeline network. FLEX states that, although some of the proposed export supply may be secured through long-term contracts, it expects to draw large volumes of natural gas for itself and for its LTA customers from the spot market. In support of its requested authorization, FLEX cites the size, liquidity, and expanding development of the natural gas markets in close proximity to the Freeport Terminal, as well as the growth in domestic pipeline capacity both within Texas and in the United States generally.

#### **V. 2012 LNG EXPORT STUDY**

DOE/FE's public interest analysis in the FLEX I Conditional Order relied in significant part on the two-part LNG Export Study, commenced in 2011 and published in 2012.

On May 20, 2011, several months after FLEX filed its Application, DOE/FE issued *Sabine Pass Liquefaction, LLC*, DOE/FE Order No. 2961 (*Sabine Pass*), the Department's first order conditionally granting a long-term authorization to export LNG produced in the lower-48

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<sup>64</sup> DOE/FE estimates are based on annual data used by EIA in AEO 2013, which show that, in 2011, the gross heat content of domestic dry natural gas consumption was estimated at 1,022 Btu per cubic foot. See *EIA Natural Gas Annual*, Table B2 for 2011, available at [http://www.eia.gov/naturalgas/annual/pdf/appendix\\_b.pdf](http://www.eia.gov/naturalgas/annual/pdf/appendix_b.pdf).

states to non-FTA countries.<sup>65</sup> In August 2011, with other non-FTA applications pending before it, DOE/FE determined that study of the cumulative economic impact of LNG exports was warranted to better inform its public interest review under section 3 of the NGA.<sup>66</sup> Accordingly, DOE/FE engaged the U.S. Energy Information Administration (EIA) and NERA Economic Consulting (NERA) to conduct a two-part study of the economic impacts of LNG exports.<sup>67</sup>

First, DOE/FE requested that EIA assess how prescribed levels of natural gas exports above baseline cases could affect domestic energy markets. EIA examined the impact of two DOE/FE-prescribed levels of assumed natural gas exports (6 Bcf/d and 12 Bcf/d) under numerous scenarios and cases based on projections from EIA's 2011 *Annual Energy Outlook* (AEO 2011), the most recent EIA projections available at that time.<sup>68</sup> EIA published its study, *Effect of Increased Natural Gas Exports on Domestic Energy Markets*, in January 2012 (2012 EIA Study).<sup>69</sup> As detailed in the FLEX I Conditional Order, EIA generally found that LNG exports will lead to higher domestic natural gas prices, increased domestic natural gas

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<sup>65</sup> *Sabine Pass*, DOE/FE Order No. 2961. In August 2012, DOE/FE granted Sabine Pass's final authorization. *Sabine Pass Liquefaction, LLC*, DOE/FE Order No. 2961-A, FE Docket No. 10-111-LNG, Final Opinion and Order Granting Long-Term Authorization to Export Liquefied Natural Gas From Sabine Pass LNG Terminal to Non-Free Trade Agreement Nations (Aug. 7, 2012). See also *Sabine Pass Liquefaction, LLC*, DOE/FE Order No. 2961-B, FE Docket No. 10-111-LNG, Opinion and Order Denying Request for Rehearing of Order Denying Motion for Late Intervention, Dismissing Request for Rehearing of Order No. 2961-A, and Dismissing Motion for a Stay Pendente Lite (Jan. 25, 2013).

<sup>66</sup> See *Sabine Pass*, DOE/FE Order No. 2961, at 33 (DOE/FE "will evaluate the cumulative impact of the [Sabine Pass] authorization and any future authorizations for export authority when considering any subsequent application for such authority.").

<sup>67</sup> See 2012 LNG Export Study, 77 Fed. Reg. 73,627 (Dec. 11, 2012), available at [http://energy.gov/sites/prod/files/2013/04/f0/fr\\_notice\\_two\\_part\\_study.pdf](http://energy.gov/sites/prod/files/2013/04/f0/fr_notice_two_part_study.pdf) (Federal Register Notice of Availability of the LNG Export Study).

<sup>68</sup> The Annual Energy Outlook (AEO) presents long-term projections of energy supply, demand, and prices. It is based on results from EIA's National Energy Modeling System (NEMS) model.

<sup>69</sup> See LNG Export Study – Related Documents, available at <http://energy.gov/fe/downloads/lng-export-study-related-documents> (EIA Analysis (Study - Part 1)).

production, reduced domestic natural gas consumption, and increased natural gas imports from Canada via pipeline.<sup>70</sup>

Second, DOE contracted with NERA to assess the potential macroeconomic impact of LNG exports. Building on the EIA Study, NERA analyzed the potential macroeconomic impacts of LNG exports under a range of global natural gas supply and demand scenarios, including scenarios with unlimited LNG exports. DOE published the NERA study, *Macroeconomic Impacts of LNG Exports from the United States*, in December 2012.<sup>71</sup> Among its key findings, NERA projected that the United States would gain net economic benefits from allowing LNG exports. For every market scenario examined, net economic benefits increased as the level of LNG exports increased.<sup>72</sup>

On December 11, 2012, DOE/FE published a Notice of Availability of the EIA and NERA studies (collectively, the LNG Export Study).<sup>73</sup> DOE/FE invited public comment on the LNG Export Study, and stated that its disposition of FLEX's Application and 14 other LNG export applications then pending would be informed by the Study and the comments received in response thereto.<sup>74</sup>

As discussed in the FLEX I Conditional Order, DOE/FE received more than 188,000 initial comments and over 2,700 reply comments, of which approximately 800 were unique.<sup>75</sup>

DOE/FE extensively reviewed and responded to these public comments in the Conditional

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<sup>70</sup> See FLEX I Conditional Order at 31-39 (2012 EIA Study).

<sup>71</sup> See LNG Export Study – Related Documents, available at <http://energy.gov/fe/downloads/lng-export-study-related-documents> (NERA Economic Consulting Analysis (Study - Part 2)).

<sup>72</sup> See FLEX I Conditional Order at 39-55 (NERA Study).

<sup>73</sup> 77 Fed. Reg. at 73,627.

<sup>74</sup> *Id.* at 73,628. DOE/FE specifically invited comment on “the impact of LNG exports on: domestic energy consumption, production, and prices, and particularly the macroeconomic factors identified in the NERA analysis, including Gross Domestic Product (GDP), welfare analysis, consumption, U.S. economic sector analysis, and ... any other factors included in the analyses.” *Id.* at 73,629.

<sup>75</sup> See FLEX I Conditional Order at 4-5.

Order.<sup>76</sup> Some of the comments submitted by Sierra Club, *et al.*<sup>77</sup> and others in response to the Notice of Availability addressed environmental issues, which DOE/FE determined were outside the scope of the LNG Export Study proceeding. In the Conditional Order, DOE/FE stated:

[P]ersons wishing to raise questions regarding the environmental review of the present Application are responsible for doing so within the FERC proceedings. Insofar as a participant in the FERC proceeding actively raises concerns over the scope or substance of environmental review but is unsuccessful in securing that agency's consideration of its stated interests, DOE/FE reserves the right to address the stated interests within this proceeding.<sup>78</sup>

Accordingly, DOE/FE has considered the environmental comments submitted in the LNG Export Study proceeding as part of the record in this proceeding. Where not already addressed in FERC's or DOE/FE's review of the intervenors' protests and comments, these issues are discussed below.

On the basis of the two-part Study and its review of the comments, DOE/FE explained that, "[t]he conclusion of the LNG Export Study is that the United States will experience net economic benefits from issuance of authorizations to export domestically produced LNG."<sup>79</sup> DOE/FE further found that the LNG Export Study is "fundamentally sound and supports the proposition that [FLEX's] proposed authorization would not be inconsistent with the public interest."<sup>80</sup>

In the FLEX I Conditional Order, DOE/FE also considered more recent EIA projections in response to criticisms by commenters that the AEO 2011 projections were based on outdated data and significantly underestimated actual and future demand for natural gas. DOE/FE

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<sup>76</sup> See *id.* at 56-109 (Section VIII).

<sup>77</sup> In the LNG Export Study proceeding, Sierra Club filed comments on behalf of itself and a coalition of non-profit organizations, including Catskill Citizens for Safe Energy, Center for Biological Diversity, Clean Air Council, Columbia Riverkeeper, Delaware Riverkeeper, Lower Susquehanna Riverkeeper, Shenandoah Riverkeeper, and Upper Green River Alliance (collectively, Sierra Club).

<sup>78</sup> FLEX I Conditional Order at 97.

<sup>79</sup> *Id.* at 110.

<sup>80</sup> *Id.*

explained its basis for relying on the AEO 2011 projections, yet also concluded that post-AEO 2011 EIA projections (specifically, the AEO 2012 final projections and the AEO 2013 Early Release Overview projections) would not have materially affected the findings of the LNG Export Study.<sup>81</sup> However, in May 2014, EIA issued its most recent update, the Annual Energy Outlook 2014 (AEO 2014), with projections to 2040.<sup>82</sup> Below, we consider the AEO 2014 projections and conclude that they do not undermine our conclusions regarding the consistency of FLEX's proposed exports with the public interest. *See infra* Section X.D. With this background, we turn to the present stage of this proceeding.

## **VI. FERC PROCEEDING AND GRANT OF AUTHORIZATION TO FLEX**

### **A. FERC's Pre-Filing Procedures**

Authorizations issued by FERC permitting the siting, construction, and operation of LNG export terminals are reviewed under NGA section 3(a) and (e), 15 U.S.C. § 717b(a), (e). FERC's approval process for such an application consists of a mandatory pre-filing process during which the environmental review required by NEPA commences,<sup>83</sup> and a formal application process that starts no sooner than 180 days after issuance of a notice that the pre-filing process has commenced.<sup>84</sup>

FLEX filed a request with FERC for use of the pre-filing procedures on December 23, 2010. On January 5, 2011, in Docket No. PF11-2-000, the Director of the Office of Energy Projects at FERC granted FLEX's request to commence the pre-filing review process. On July

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<sup>81</sup> *See id.* at 60-64.

<sup>82</sup> U.S. Energy Information Administration, *Annual Energy Outlook 2014* (May 7, 2014), available at <http://www.eia.gov/forecasts/aeo/> [hereinafter AEO 2014].

<sup>83</sup> 18 C.F.R. § 157.21.

<sup>84</sup> 18 C.F.R. § 157.21(a)(2)(i-ii).

19, 2012, FERC issued a Supplemental Notice of Intent to Prepare an Environmental Impact Statement of the Liquefaction Project.<sup>85</sup>

DOE agreed to participate as a cooperating agency in FERC's preparation of FLEX's environmental analysis,<sup>86</sup> as set forth in the Notice of Intent.<sup>87</sup> Consistent with its practice, FERC mailed the Notice of Intent to federal, state, and local government representatives and agencies, elected officials, environmental and public interest groups, Native American Tribes, other interested parties, and local libraries and newspapers.

### **B. FERC's Environmental Review**

On August 31, 2012, FLEX began the second part of FERC's approval process by filing its formal application in FERC Docket No. CP12-509-000 for authorization to site, construct, and operate the Liquefaction Project under NGA section 3.<sup>88</sup> FERC issued its draft EIS for the Project on March 14, 2014. FERC mailed the draft EIS to persons likely to have an interest in the EIS, including various environmental and public interest groups. FERC published the final EIS on June 20, 2014, and addressed timely, substantive comments received on the draft EIS.

The final EIS was mailed to the same parties as the draft EIS, as well as to those who commented on the draft EIS.

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<sup>85</sup> See Freeport LNG Development, L.P., Freeport LNG Expansion, L.P., FLNG Liquefaction LLC; Supplemental Notice of Intent to Prepare an Environmental Impact Statement for the Planned Liquefaction Project, Request for Comments on Environmental Issues, and Notice of Public Scoping Meeting, 77 Fed. Reg. 43,589 (Jul. 25, 2012).

<sup>86</sup> 40 C.F.R. § 1501.6 ("In addition, any other Federal agency which has special expertise with respect to any environmental issue, which should be addressed in the statement may be a cooperating agency upon request of the lead agency."); see also *id.* § 1501.6(b) (responsibilities of a cooperating agency).

<sup>87</sup> See 77 Fed. Reg. at 43,590.

<sup>88</sup> In addition to its request for authorization to site, construct, and operate the Liquefaction Project, on December 9, 2011, in Docket No. CP12-29-000, FLEX also requested an amendment to its authorization to expand existing LNG import facilities previously granted by FERC on September 26, 2006, in Docket No. CP05-361-000 (the Phase II Modification Project). The modifications to existing facilities in the Phase II Modification Project would facilitate the import and export of LNG at the existing Quintana Island terminal. FERC combined its environmental analyses of the two requests in its Final Environmental Impact Statement.

The final EIS addresses numerous environmental issues including potential impacts on water resources, vegetation, wildlife, fisheries, federally listed species, air quality, noise, and safety.<sup>89</sup> FERC staff concluded that “construction and operation of Freeport LNG’s Liquefaction Project and the Phase II Modification Project would result in mostly temporary and short-term adverse environmental impacts.”<sup>90</sup> Based on its environmental analysis, FERC staff recommended 83 mitigation measures for the project. FERC staff determined that implementation of the mitigation measures “would ensure that impacts in the area would, with the exception of construction impacts on the residents to the Town of Quintana, be avoided or minimized and would not be significant.”<sup>91</sup> FERC staff recommended that, if FERC approved FLEX’s requested authorization, the 83 mitigation measures be included as conditions of FERC’s authorization.<sup>92</sup>

### **C. FERC’s Order Granting FLEX’s Authorization**

On July 30, 2014, FERC issued its Order granting FLEX’s requested authorization to modify previously authorized LNG facilities to facilitate the import and export of LNG at FLEX’s Quintana Island terminal (the Phase II Modification Project) and granted authorization to site, construct, and operate the proposed Liquefaction Project.

FERC concluded that FLEX’s Phase II Modification Project and Liquefaction Project would result in only temporary impacts to residents of the Town of Quintana, and that such impacts would be minimized by conditions imposed in the Order.<sup>93</sup> FERC further concluded that other adverse impacts would be reduced to less than significant impacts with the

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<sup>89</sup> Final EIS at ES-5.

<sup>90</sup> *Id.* at 5-1.

<sup>91</sup> *Id.*

<sup>92</sup> *See id.*

<sup>93</sup> FERC Order at 10.

implementation of the mitigation measures set forth in the conditions of the Order, and thus the FLEX project was not inconsistent with the public interest.<sup>94</sup> On this basis, FERC adopted the 83 mitigation measures recommended in the final EIS as environmental conditions of its Order, set forth in Appendix A.<sup>95</sup>

FERC addressed Sierra Club's claims that the EIS failed to consider the cumulative environmental impacts from all proposed export terminals in the United States, including the effect of increased gas prices. FERC found no merit in Sierra Club's argument, concluding that Sierra Club effectively was seeking a programmatic EIS for a program that is not before the Commission.<sup>96</sup> FERC found that the proposed FLEX project does not constitute a program for which a programmatic EIS is required pursuant to CEQ's NEPA regulations.<sup>97</sup> FERC concluded that the EIS properly fulfilled its purpose, which is to disclose the potential environmental impacts of the FLEX Project, and to set forth measures to mitigate, minimize, or eliminate any potential impacts.<sup>98</sup>

FERC next addressed Sierra Club's assertion that the EIS failed to consider the indirect effects of induced natural gas production associated with the Project. FERC cited the CEQ NEPA regulation, which states the "indirect effects" of a proposed action are those that are "caused by the action and are later in time or farther removed in distance, but are still reasonably foreseeable."<sup>99</sup> FERC disagreed with Sierra Club's position, and noted that "no specific shale-play has been identified as a source of natural gas for the project, nor has Sierra Club identified

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<sup>94</sup> *Id.*

<sup>95</sup> *See id.* at 26-43.

<sup>96</sup> *Id.* at 20.

<sup>97</sup> *See id.* at 20-21.

<sup>98</sup> FERC Order at 21.

<sup>99</sup> 40 C.F.R. § 1508.8(b).

any.”<sup>100</sup> FERC also noted that “the purpose of the Project is not to facilitate additional shale production” and that such production “may occur for reasons unrelated to the Project and over which the Commission has no jurisdiction.”<sup>101</sup>

FERC stated that even if, for the sake of argument, it agreed that the FLEX Project would cause induced production, such production is not reasonably foreseeable as contemplated by the CEQ regulations. FERC noted that “[i]t is speculative as to where the gas processed by the Projects will originate, much less where the wells, gathering line locations and the potential associated environmental impacts will occur.”<sup>102</sup> FERC concluded that such speculative analysis would not provide meaningful information to inform its decision whether to approve the FLEX Project.<sup>103</sup>

Because the Phase II Modification Project’s location, design, and purpose are wholly dependent on existing plant facilities and operations at the Quintana Island terminal, FERC noted that geographically separate sites could not satisfy operational flexibility requirements and therefore consideration of such alternatives was unnecessary. Similarly, FERC found that because siting of the liquefaction plant was dictated by the need to be close to existing offloading areas, LNG storage tanks, the docking area, and other existing LNG infrastructure, no viable alternatives were available for siting of the Liquefaction Project.<sup>104</sup> FERC noted that the EIS identified one alternative site for the pretreatment plant, but concluded that, in light of comments from residents regarding the lack of a suitable evacuation route in case of emergency and concerns about materials storage and flood protection, the alternative would not provide a

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<sup>100</sup> FERC Order at 21.

<sup>101</sup> *Id.*

<sup>102</sup> *Id.*

<sup>103</sup> *Id.* at 21-22.

<sup>104</sup> *Id.* at 22-23.

significant environmental advantage over the proposed site.<sup>105</sup> As to the route of the sendout pipeline and utility line system, FERC agreed with the EIS that the proposed route constitutes the preferred route because it follows an existing right-of-way and minimizes environmental impacts.<sup>106</sup>

FERC also noted that the EIS evaluated whether other proposed LNG export facilities on the West Coast, Gulf Coast, and East Coast of the United States could serve as alternatives, but found in each instance that the alternatives did not address the Liquefaction Project's purpose and would not offer any significant environmental advantage.<sup>107</sup> FERC stated that the final EIS addressed the possibility of expanding the size of another proposed LNG export terminal to provide FLEX's desired export capacity, but found that the alternative would involve environmental impacts at those sites that would not be significantly different than those that would occur as a result of FLEX's proposal.<sup>108</sup>

FERC stated that it reviewed the information and analyses contained in the record regarding the potential environmental effects of FLEX's Phase II Modification Project and the Liquefaction Project and agreed with the conclusions presented in the EIS. FERC concluded that approval of FLEX's Liquefaction Project, if constructed and operated as described in the EIS, is "an environmentally acceptable action."<sup>109</sup> On this basis, FERC granted FLEX's requested authorizations for the Phase II Modification Project and the Liquefaction Project and included as

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<sup>105</sup> See FERC Order at 23.

<sup>106</sup> See *id.* at 23.

<sup>107</sup> See *id.* at 22.

<sup>108</sup> See *id.*

<sup>109</sup> *Id.* at 23.

conditions to the FERC Order the 83 environmental mitigation measures recommended in the EIS.<sup>110</sup>

## **VII. CURRENT PROCEEDING BEFORE DOE/FE**

### **A. Overview**

As noted above, the FLEX I Conditional Order granted FLEX's Application in DOE/FE Docket No. 10-161-LNG but reserved the environmental issues raised in the proceedings for future review and decision. In its Application, FLEX argues that natural gas, as the cleanest-burning fossil fuel, offers a number of environmental benefits when compared to oil and coal. FLEX contends that in comparison to the average air emissions of coal-fired power plants, power plants burning natural gas produce half as much carbon dioxide, less than a third of the nitrogen oxides, and one percent of the sulfur oxides. FLEX asserts that unlike petroleum products and coal, natural gas is not a significant contributor to either acid rain or smog formation. FLEX argues that its proposed Liquefaction Project will offer significant environmental benefits by supplying cleaner energy to help meet increased global demand.

DOE/FE received 17 non-intervenor letters and resolutions in this proceeding, all in support of FLEX's Application.<sup>111</sup> Three of the letters provided comment on environmental issues, asserting that FLEX's proposed LNG exports would "contribute to the displacement of dirty-burning coal and fuel oil around the world."<sup>112</sup> Four parties submitted timely motions to intervene (APGA, Macquarie Energy LLC, Shell US Gas & Power LLC, and Cheniere Energy), but only APGA filed a protest opposing FLEX's requested authorization.<sup>113</sup>

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<sup>110</sup> See FERC Order at 23.

<sup>111</sup> See FLEX I Conditional Order at 22-24.

<sup>112</sup> These three identical comments were submitted by Texas State Senator Joan Huffman, Texas State Representative Dennis Bonnen, and Texas State Representative Jim Keffer.

<sup>113</sup> See FLEX I Conditional Order at 22.

## **B. APGA's Protest of FLEX's Application**

APGA filed a Motion for Leave to Intervene and Protest in this proceeding on March 28, 2011.<sup>114</sup> APGA's protest is principally directed at the potential economic impacts of FLEX's proposed authorization, which are addressed in the FLEX I Conditional Order. Insofar as APGA's protest can be construed as environmental in nature, APGA's argument is that exports of domestically produced LNG will increase domestic natural gas prices, which in turn will decrease the capacity for natural gas to displace coal in domestic electric generation and will also inhibit efforts to foster the growth of natural gas as a transportation fuel. This concern is addressed below. *See infra* Section X.C.1.

## **C. FLEX's Answer to APGA's Protest**

In response to APGA's protest, on April 12, 2011, FLEX filed an Answer to APGA's Motion for Leave to Intervene and Protest.<sup>115</sup> In its Answer, FLEX contends that APGA provides no evidence to support its claim that FLEX's proposed exports would deprive the United States of the natural gas needed to convert coal-fired power plants to natural gas-fired power plants, or to fuel natural gas vehicles. Citing EIA's 2011 Annual Energy Outlook, FLEX argues that domestic natural gas supplies are more than adequate to supply FLEX's proposed exports while meeting all existing domestic demand for natural gas, as well as any realistic projected future demand associated with transportation and electric power generation.

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<sup>114</sup> Freeport LNG Expansion, L.P. and FLNG Liquefaction, LLC, FE Docket No. 10-161-LNG, Motion for Leave to Intervene and Protest of the American Public Gas Association (Mar. 28, 2011) [hereinafter APGA Mot.].

<sup>115</sup> Freeport LNG Expansion, L.P. and FLNG Liquefaction, LLC, FE Docket No. 10-161-LNG, Motion for Leave to Answer and Answer of Freeport LNG Expansion, L.P. and FLNG Liquefaction, LLC to Motion for Leave to Intervene and Protest of the American Public Gas Association (Apr. 12, 2011).

**VIII. DOE/FE ADDENDUM TO ENVIRONMENTAL REVIEW DOCUMENTS CONCERNING EXPORTS OF NATURAL GAS FROM THE UNITED STATES**

On June 4, 2014, DOE/FE published the Draft Addendum for public comment. The purpose of the Addendum, DOE/FE explained, was to provide information to the public regarding the potential environmental impacts of unconventional natural gas production. Although not required by NEPA, DOE/FE prepared the Addendum in an effort to be responsive to the public and to provide the best information available on a subject that had been raised by commenters in this and other LNG export proceedings. The 45-day comment period on the Draft Addendum closed on July 21, 2014. DOE/FE received 40,745 comments in 18 separate submissions, and considered those comments in issuing the Addendum on August 15, 2014.<sup>116</sup> DOE provided a summary of the comments received and responses to substantive comments in Appendix B of the Addendum.<sup>117</sup> DOE/FE has incorporated the Draft Addendum, comments, and final Addendum into the record in this proceeding.

The Addendum focuses on the environmental impacts of unconventional natural gas production, which primarily includes production from shale formations, but also includes tight gas and coalbed methane production. DOE/FE elected to focus the Addendum on unconventional production because such production is considered more likely than other forms of production to increase in response to LNG export demand. EIA's 2012 Study, published as part of the LNG Export Study, projected that more than 90% of the incremental natural gas produced to supply LNG exports would come from these unconventional sources.<sup>118</sup>

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<sup>116</sup> Addendum at 3.

<sup>117</sup> *Id.* at 79-151.

<sup>118</sup> See LNG Export Study – Related Documents, available at <http://energy.gov/fe/services/natural-gas-regulation/lng-export-study> (EIA 2012 Study) at 11 (total from shale gas, tight gas, and coalbed sources).

Although the 2012 EIA Study made broad projections about the types of resources from which additional production may come, the Addendum stated that DOE cannot meaningfully estimate where, when, or by what particular method additional natural gas would be produced in response to non-FTA export demand. Therefore, the Addendum focuses broadly on unconventional production in the United States as a whole, making observations about regional differences where appropriate.

The Addendum discusses several categories of environmental considerations—Water Resources, Air Quality, Greenhouse Gas, Induced Seismicity, and Land Use Impacts—each of which is summarized briefly below.

## **A. Water Resources**

### **1. Water Quantity**

Natural gas production from shale resources requires water at various stages of development, approximately 89 percent of which is consumed through the process of hydraulic fracturing.<sup>119</sup> The Addendum presents information regarding water usage for shale gas production both in comparison to other energy sources and other regional uses. Although production of natural gas from shale resources is more water-intensive than conventional natural gas production, it is substantially less water-intensive than many other energy sources over the long term after the well has been put into production. As shown in the Addendum, the following table captures differences in water intensity across energy sources.

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<sup>119</sup> Addendum at 10.

**Table 1: Water Intensity<sup>120</sup>**

<b>Energy Source</b>	<b>Range in Water Intensity (gallons/mmBtu)</b>
Conventional Natural Gas	~0
Shale Gas	0.6 – 1.8
Coal (no slurry transport)	2 – 8
Nuclear (uranium at plant)	8 – 14
Conventional oil	1.4 – 62
Oil Shale Petroleum (mining)	7.2 – 38
Oil Sands Petroleum ( <i>in situ</i> )	9.4 – 16
Synfuel (coal gasification)	11 – 26
Coal (slurry transport)	13 – 32
Oil Sands Petroleum (mining)	14 – 33
Syn Fuel (coal Fischer-Tropsch)	41 – 60
Enhanced Oil Recovery	21 – 2,500
Fuel ethanol (irrigated corn)	2,500 – 29,000
Biodiesel (irrigated soy)	13,800 – 60,000

The Addendum also explains that, despite its relatively low long-term water intensity, shale gas production could impact water supply in specific areas, particularly arid regions such as the Eagle Ford Shale play in Texas. The Addendum notes that the relationship between shale gas production and water quantity is principally a local issue, and that the degree of impact depends on “the local climate, recent weather patterns, existing water use rates, seasonal fluctuations, and other factors.”<sup>121</sup> The following table shows the variation in the proportion of water usage by activity in shale gas regions:

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<sup>120</sup> *Id.* at 11 (Table 2).

<sup>121</sup> *Id.* at 12.

**Table 2: Water Usage in Shale Gas Regions<sup>122</sup>**

Play	Public Supply (%)	Industry & Mining (%)	Power Generation (%)	Irrigation (%)	Livestock (%)	Shale Gas (%)	Total Water Use (Bgal/yr)*
Barnett 1	82.7	4.5	3.7	6.3	2.3	0.4	133.8
Eagle Ford <sup>2</sup>	17	4	5	66	4	3 – 6	64.8
Fayetteville <sup>1</sup>	2.3	1.1	33.3	62.9	0.3	0.1	378
Haynesville <sup>1</sup>	45.9	27.2	13.5	8.5	4.0	0.8	90.3
Marcellus <sup>1</sup>	12.0	16.1	71.7	0.1	0.01	0.06	3,570
Niobrara <sup>3</sup>	8	4	6	82		0.01	1,280

[\*Bgal/yr = billion gallons per year]

## 2. Water Quality

Observing that water quality concerns may have received more attention than any other aspect of unconventional natural gas production, the Addendum addresses water quality issues arising from four aspects of unconventional natural gas production: construction, drilling, use of hydraulic fracturing fluids, and handling of flowback and produced waters.

Runoff from the construction of access roads and other earth-disturbing activities can lead to temporary increases in turbidity and sedimentation in surface waters when well sites are being developed. However, the Addendum states that “when standard industry practices and preventative measures are deployed, only minor impacts are likely to result.”<sup>123</sup>

Drilling in unconventional natural gas production requires penetrating shallower fresh water aquifers. Referring to NETL’s *Modern Shale Gas Development in the United States: A Primer*, the Addendum briefly explains the manner in which such drilling can be undertaken to protect fresh water aquifers.<sup>124</sup> The Addendum acknowledges, however, that while

<sup>122</sup> *Id.* at 12 (Table 3) (citations omitted).

<sup>123</sup> *Id.* at 13.

<sup>124</sup> Addendum at 13-14 (citing GWPC and ALL Consulting, 2009. *Modern Shale Gas Develop. In the United States: A Primer*. Nat’l Energy Tech. Lab.; available at: [http://www.netl.doe.gov/File%20Library/Research/Oil-Gas/Shale\\_Gas\\_Primer\\_2009.pdf](http://www.netl.doe.gov/File%20Library/Research/Oil-Gas/Shale_Gas_Primer_2009.pdf)).

unconventional natural gas formations are thousands of feet below aquifers associated with public water supply or surface hydrological connection, poor construction practices may cause failure of a casing or cement bond. This failure, in turn, could lead to potential contamination of an aquifer. The Addendum also observes that drilling may create connections with existing fractures or faults, or improperly plugged or abandoned wells, allowing contaminants to migrate through the subsurface.<sup>125</sup>

The fluid used for hydraulic fracturing consists of over 98 percent water, but also may include several different chemical compounds.<sup>126</sup> These compounds can vary from well to well based on site specific geological information. The Addendum describes federal and state efforts to gather information and require disclosure of the types of chemical additives being used in hydraulic fracturing. The risks posed by the use of these fluids may come from spills and leakages during transport to the well, storage on the well pad, or during the chemical mixing process.<sup>127</sup> Further, chemical additives may contaminate groundwater should the integrity of the casing or cement seal of the well be compromised.<sup>128</sup>

The Addendum considers the potential environmental impacts associated with produced water recovered during flowback operations. Produced water may contain elevated levels of total dissolved solids, salts, metals, organics, and natural occurring radioactive materials, as well as the chemicals included in the fracturing fluid noted above. The Addendum discusses the three principal ways of mitigating the impacts associated with produced water: minimization of the quantity of water used, recycling and re-use of produced water, and disposal.

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<sup>125</sup> *Id.* at 14.

<sup>126</sup> *Id.* at 14-15.

<sup>127</sup> *Id.* at 18.

<sup>128</sup> *Id.*

Concluding its discussion of water resources, the Addendum observes that “[u]nconventional natural gas production, when conforming to regulatory requirements, implementing best management practices, and administering pollution prevention concepts, may have temporary, minor impacts to water resources.”<sup>129</sup> Further, risks may arise when best practices are not employed: “[I]mproper techniques, irresponsible management, inadequately trained staff, or site-specific events outside of an operator’s control could lead to significant impacts on local water resources.”<sup>130</sup>

## **B. Air Quality**

The Addendum discusses air pollutants emitted at different stages of the natural gas production process. These emissions and their sources are captured in the table below:

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<sup>129</sup> Addendum at 19.

<sup>130</sup> *Id.* at 19.

**Table 3: Source Categories of Airborne Emissions from Upstream Natural Gas Activities (EPA, 2013)<sup>131</sup>**

<b>Category</b>	<b>Type of Emissions</b>	<b>Sources of Emissions</b>
<b>Combustion Emissions</b>	NO <sub>x</sub> and carbon monoxide (CO) resulting from the burning of hydrocarbon (fossil) fuels. Air toxics, PM, un-combusted VOCs, and CH <sub>4</sub> are also emitted.	Engines, heaters, flares, incinerators, and turbines.
<b>Vented Emissions</b>	VOCs, air toxics, and CH <sub>4</sub> resulting from direct releases to the atmosphere.	Pneumatic devices, dehydration processes, gas sweetening processes, chemical injection pumps, compressors, tanks, well testing, completions, and workovers.
<b>Fugitive Emissions</b>	VOCs, air toxics, and CH <sub>4</sub> resulting from uncontrolled and under-controlled emissions.	Equipment leaks through valves, connectors, flanges, compressor seals, and related equipment and evaporative sources including wastewater treatment, pits, and impoundments.

The Addendum describes the existing regulatory framework relating to such emissions, as well as the U.S. Environmental Protection Agency’s (EPA) 2012 New Sources Performances Standards for hydraulically fractured natural gas wells<sup>132</sup> and EPA’s 2013 update to those standards covering storage tanks.<sup>133</sup> The Addendum also summarizes the existing literature on each significant category of air pollutant and describes the potential contribution of oil and gas production activities to ground-level ozone pollution and reduced visibility in sensitive areas.

The Addendum concludes its discussion of air quality by stating that natural gas development leads to both short- and long-term increases in local and regional air emissions, especially methane, VOCs, and HAPs. According to the Addendum, the intermittent nature of air emissions from sources such as wells makes it difficult to analyze impacts at the regional level.

<sup>131</sup> *Id.* at 23 (Table 6).

<sup>132</sup> *Id.* at 20-22.

<sup>133</sup> *Id.* at 22.

As more data become available, a better understanding of trends in local and regional air quality and potential impacts may emerge.<sup>134</sup>

### **C. GHG Emissions**

Separate from the LCA GHG Report described below in Section IX, the Addendum includes a discussion of GHG emissions associated with unconventional natural gas production—principally methane and carbon dioxide. The Addendum describes the nature of GHG emissions from each phase of the production process, including: well drilling and completion; gas production; well re-completions, workovers, and maintenance; gas processing; and gas transmission and storage.

The Addendum also summarizes regulations affecting GHG emissions from upstream natural gas activity. As in the air quality section, the Addendum discusses EPA's 2012 New Source Performance Standards regulations. The Addendum also describes EPA's publication in April 2014 of five technical white papers on potentially significant sources of emissions in the oil and gas sector, including completions and ongoing production of hydraulically fractured oil wells, compressors, pneumatic valves, liquids unloading, and leaks.<sup>135</sup> EPA stated that it will use these white papers, along with input from peer reviewers and the public to determine how best to pursue emissions reductions from these sources, possibly including the development of additional regulations.<sup>136</sup>

Finally, the Addendum summarizes the existing literature estimating GHG emissions and methane leakage rates from the upstream natural gas industry, noting that most studies suggest that

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<sup>134</sup> *Id.* at 32.

<sup>135</sup> Addendum at 22 (citing U.S. Env'tl. Prot. Agency, Office of Air Quality Planning & Standards, *White Papers on Methane and VOC Emissions*, available at: <http://www.epa.gov/airquality/oilandgas/whitepapers.html>) (released April 15, 2014).

<sup>136</sup> *Id.* at 44.

“emissions of GHGs from the upstream industry are of similar magnitude for both conventional and unconventional sources.”<sup>137</sup>

#### **D. Induced Seismicity**

The Addendum provides information on induced seismicity across various types of energy resource activities, namely the production of natural gas, gas condensates, and oil from currently targeted unconventional plays. More specifically, it provides greater detail about the potential for induced seismicity from hydraulic fracturing and wastewater disposal via injection, which is one method of disposing of produced water. Because the duration of injection of hydraulic fracturing fluids is generally minutes or hours and the quantity of injected fluid is relatively low, the Addendum states that “the probability of injecting enough fluid into a natural fault to trigger a felt earthquake is relatively low.”<sup>138</sup> By contrast, the Addendum states that the “incidence of felt earthquakes is higher for wastewater disposal via wastewater injection wells because a large volume of water is injected over a longer period of time without any withdrawal of fluids, with the result that fluid pressures can be increased within a large area surrounding the injection well.”<sup>139</sup> The Addendum identifies seismic events thought to have been triggered by wastewater disposal into injection wells in Oklahoma, Colorado, Arkansas, and Ohio.

Addressing the severity of seismic events induced by natural gas activities, the Addendum cites a 2013 National Research Council report characterizing the risk of induced seismicity as principally one of alarm to the public and minor property damage, as opposed to significant disruption.<sup>140</sup>

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<sup>137</sup> *Id.* at 40.

<sup>138</sup> *Id.* at 51.

<sup>139</sup> *Id.* at 52.

<sup>140</sup> *Id.* at 55-56 (citing *Induced Seismicity Potential in Energy Technologies*. National Research Council. The National Academies Press, Washington, D.C. (2013) at 5).

## **E. Land Use**

The Addendum addresses potential land use impacts resulting from unconventional natural gas production. Land use impacts arise from the construction and development of new access roads, heavy truck traffic on existing local roadways, well pads, pipeline rights of way, and other structures such as compressor stations. The Addendum includes discussions of increased vehicle traffic, habitat fragmentation, reflective light pollution, noise, and other impacts associated with these land use changes. According to the Addendum, “[t]he real issue with land use impacts is not the minor impacts related to each well pad, access road, or pipeline.”<sup>141</sup> Rather, “[w]hen the impacts from these individual components of shale gas development are considered in aggregate, or cumulatively, the impacts become magnified on an ecosystem or regional scale.”<sup>142</sup> The Addendum identifies siting and design considerations that may minimize land use impacts, as well as traffic and road way impacts associated with large vehicles and concerns for vehicular safety for the motoring public.

## **IX. DOE/FE LIFE CYCLE GREENHOUSE GAS PERSPECTIVE ON EXPORTING LIQUEFIED NATURAL GAS FROM THE UNITED STATES**

### **A. Description of LCA GHG Report**

In January 2014, DOE/FE commissioned NETL to undertake a study analyzing the life cycle emissions of greenhouse gases (GHG), including carbon dioxide (CO<sub>2</sub>) and methane (CH<sub>4</sub>), associated with natural gas produced in the United States and exported as LNG to other countries for use in electric power generation. The study was intended to inform DOE/FE’s decisionmaking under NGA section 3(a) and to provide additional information to the public. The study—entitled *Life Cycle Greenhouse Gas Perspective on Exporting Liquefied Natural Gas from the United*

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<sup>141</sup> Addendum at 62.

<sup>142</sup> *Id.*

*States* (LCA GHG Report)—estimated the life cycle GHG emissions of domestically produced LNG (also referred to as U.S. LNG) exports to Europe and Asia, compared with alternative fuel supplies (such as regional coal and other imported natural gas), for electric power generation in the destination countries.

NETL published the LCA GHG Report on May 29, 2014, as well as a 200-page supporting document entitled, *Life Cycle Analysis of Natural Gas Extraction and Power Generation*.<sup>143</sup> On June 4, 2014, DOE/FE provided notice of the documents in the *Federal Register* and invited public comment.<sup>144</sup> The 45-day public comment period closed July 21, 2014. In this section, we summarize the scope of the LCA GHG Report, as well as its methods, limitations, and conclusions. Below, we summarize the public comments on the Report and respond to those comments. *See* Section IX.B.

### **1. Purpose of the LCA GHG Report**

The LCA GHG Report was designed to answer two principal questions:

- How does LNG exported from the United States compare with regional coal (or other LNG sources) used for electric power generation in Europe and Asia, from a life cycle GHG perspective?
- How do those results compare with natural gas sourced from Russia and delivered to the same European and Asian markets via pipeline?

In establishing this framework, NETL considered the following:

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<sup>143</sup> *See* Dep't of Energy, Nat'l Energy Tech. Lab., *Life Cycle Greenhouse Gas Perspective on Exporting Liquefied Natural Gas from the United States* (May 29, 2014), available at: <http://energy.gov/fe/life-cycle-greenhouse-gas-perspective-exporting-liquefied-natural-gas-united-states>; *see also* Dep't of Energy, Nat'l Energy Tech. Lab., *Life Cycle Analysis of Natural Gas Extraction and Power Generation* (May 29, 2014), available at: <http://energy.gov/fe/LCA-GHG-Report> (link to "NETL Natural Gas LCA Model and Analysis") [hereinafter NETL, *Life Cycle Analysis of Natural Gas Extraction and Power Generation*].

<sup>144</sup> Dep't of Energy, Notice of Availability of Life Cycle Greenhouse Gas Perspective on Exporting Liquefied Natural Gas from the United States and Request for Comment, 79 Fed. Reg. 32,260 (June 4, 2014). The NETL documents and all comments received were placed in the administrative record for each of the 25 non-FTA export application dockets then before DOE/FE, including this docket. *See id.*

- In what countries will the natural gas produced in the United States and exported as LNG be used?
- How will the U.S. LNG be used in those countries, *i.e.*, for what purpose?
- What are the alternatives to using U.S. LNG for electric power generation in those countries?

Because the exact destination country (or countries) of U.S. LNG cannot be predicted for this study, NETL considered one medium-distance destination (a location in Europe) and one long-distance destination (a location in Asia). NETL chose Rotterdam, Netherlands, as the European destination and power plant location, and Shanghai, China, as the Asian location. NETL used other locations for the alternative sources of natural gas and coal, as specified in the Report. NETL also determined that one of the most likely uses of U.S. LNG is to generate electric power in the destination countries. In considering sources of fuel other than U.S. LNG, NETL assumed that producers in Europe and Asia could generate electricity in the following ways: (1) by obtaining natural gas from a local or regional pipeline, (2) by obtaining LNG from a LNG producer located closer geographically than the United States, or (3) by using regional coal supplies, foregoing natural gas altogether.

Using this framework, NETL developed four study scenarios, identified below. To compare scenarios, NETL used a common denominator as the end result for each scenario: one megawatt-hour (MWh) of electricity delivered to the consumer, representing the final consumption of electricity. Additionally, NETL considered GHG emissions from all processes in the LNG supply chains—from the “cradle” when natural gas or coal is extracted from the ground, to the “grave” when electricity is used by the consumer. This method of accounting for

cradle-to-grave emissions over a single common denominator is known as a life cycle analysis, or LCA.<sup>145</sup>

Using this LCA approach, NETL’s objective was to model realistic LNG export scenarios, encompassing locations at both a medium and long distance from the United States, while also considering local fuel alternatives. The purpose of the medium and long distance scenarios was to establish likely results for both extremes (*i.e.*, both low and high bounds).

## 2. Study Scenarios

NETL identified four modeling scenarios to capture the cradle-to-grave process for both the European and Asian cases. The scenarios vary based on where the fuel (natural gas or coal) comes from and how it is transported to the power plant. For this reason, the beginning “cradle” of each scenario varies, whereas the end, or “grave,” of each scenario is the same because the uniform goal is to produce 1 MWh of electricity. The first three scenarios explore different ways to transport natural gas; the fourth provides an example of how regional coal may be used to generate electricity, as summarized below:

**Table 4: LCA GHG Scenarios Analyzed by NETL<sup>146</sup>**

Scenario	Description	Key Assumptions
1	<ul style="list-style-type: none"> <li>• Natural gas is extracted in the United States from the Marcellus Shale.</li> <li>• It is transported by pipeline to an LNG facility, where it is cooled to liquid form, loaded onto an LNG tanker, and transported to an LNG port in the receiving country (Rotterdam, Netherlands, for the European case and Shanghai, China, for the Asian case).</li> </ul>	The power plant is located near the LNG import site.

<sup>145</sup> The data used in the LCA GHG Report were originally developed to represent U.S. energy systems. To apply the data to this study, NETL adapted its natural gas and coal LCA models. The five life cycle stages used by NETL, ranging from Raw Material Acquisition to End Use, are identified in the LCA GHG Report at 1-2.

<sup>146</sup> The four scenarios are set forth in the LCA GHG Report at 2.

	<ul style="list-style-type: none"> <li>Upon reaching its destination, the LNG is re-gasified, then transported to a natural gas power plant.</li> </ul>	
<b>2</b>	<ul style="list-style-type: none"> <li>Same as Scenario 1, except that the natural gas comes from a regional source closer to the destination.</li> <li>In the European case, the regional source is Oran, Algeria, with a destination of Rotterdam.</li> <li>In the Asian case, the regional source is Darwin, Australia, with a destination of Osaka, Japan.</li> </ul>	Unlike Scenario 1, the regional gas is produced using conventional extraction methods, such as vertical wells that do not use hydraulic fracturing. The LNG tanker transport distance is adjusted accordingly.
<b>3</b>	<ul style="list-style-type: none"> <li>Natural gas is produced in the Yamal region of Siberia, Russia, using conventional extraction methods.<sup>147</sup></li> <li>It is transported by pipeline directly to a natural gas power plant in either Europe or Asia.</li> </ul>	The pipeline distance was calculated based on a “great circle distance” (the shortest possible distance between two points on a sphere) between the Yamal district in Siberia and a power plant located in either Rotterdam or Shanghai.
<b>4</b>	<ul style="list-style-type: none"> <li>Coal is extracted in either Europe or Asia. It is transported by rail to a domestic coal-fired power plant.</li> </ul>	This scenario models two types of coal widely used to generate steam-electric power: surface mined sub-bituminous coal and underground mined bituminous coal. Additionally, U.S. mining data and U.S. plant operations were used as a proxy for foreign data.

In all four scenarios, the 1 MWh of electricity delivered to the end consumer is assumed to be distributed using existing transmission infrastructure.

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<sup>147</sup> Yamal, Siberia, was chosen as the extraction site because that region accounted for 82.6% of natural gas production in Russia in 2012.

### **3. GHGs Reported as Carbon Dioxide Equivalents**

Recognizing that there are several types of GHGs, each having a different potential impact on the climate, NETL normalized GHGs for the study. NETL chose carbon dioxide equivalents (CO<sub>2</sub>e), which convert GHG gases to the same basis: an equivalent mass of CO<sub>2</sub>. CO<sub>2</sub>e is a metric commonly used to estimate the amount of global warming that GHGs may cause, relative to the same mass of CO<sub>2</sub> released to the atmosphere. NETL chose CO<sub>2</sub>e using the global warming potential (GWP) of each gas from the 2013 Intergovernmental Panel on Climate Change (IPCC) Fifth Assessment Report (AR5) (IPCC, 2013). The LCA GHG Report applied the respective GWPs to a 100-year and a 20-year time frame.

### **4. Natural Gas Modeling Approach**

NETL states that its natural gas model is flexible, allowing for the modeling of different methods of producing natural gas. For Scenario 1, all natural gas was modeled as unconventional gas from the Marcellus Shale, since that shale play reasonably represents new marginal gas production in the United States. For Scenarios 2 and 3, the extraction process was modeled after conventional onshore natural gas production in the United States. This includes both the regional LNG supply options that were chosen for this study (Algeria for Europe and Australia for Asia) and extraction in Yamal, Siberia, for pipeline transport to the power plants in Europe and Asia.

In the above three natural gas scenarios, the natural gas is transported through a pipeline, either to an area that processes LNG (Scenarios 1 and 2) or directly to a power plant (Scenario 3). NETL's model also includes an option for all LNG steps—from extraction to consumption—known as an LNG supply chain. After extraction and processing, natural gas is transported through a pipeline to a liquefaction facility. The LNG is loaded onto an ocean tanker,

transported to an LNG terminal, re-gasified, and fed to a pipeline that transports it to a power plant. NETL assumed that the natural gas power plant in each of the import destinations already exists and is located close to the LNG port.

The amount of natural gas ultimately used to make electricity is affected by power plant efficiency. Therefore, the efficiency of the destination power plant is an important parameter required for determining the life cycle emissions for natural gas power. The less efficient a power plant, the more gas it consumes and the more GHG emissions it produces per unit of electricity generated. For this study, NETL used a range of efficiencies that is consistent with NETL's modeling of natural gas power in the United States.<sup>148</sup> NETL also assumed that the efficiencies used at the destination power plants (in Rotterdam and Shanghai) were the same as those used in the U.S. model.

## **5. Coal Modeling Approach**

NETL modeled Scenario 4, the regional coal scenario, based on two types of coal: bituminous and sub-bituminous. Bituminous coal is a soft coal known for its bright bands. Sub-bituminous coal is a form of bituminous coal with a lower heating value. Both types are widely used as fuel to generate steam-electric power. NETL used its existing LCA model for the extraction and transport of sub-bituminous and bituminous coal in the United States as a proxy for foreign extraction in Germany and China. Likewise, NETL modeled foreign coal production as having emissions characteristics equivalent to average U.S. coal production. No ocean transport of coal was included to represent the most conservative coal profile (whether regionally sourced or imported).

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<sup>148</sup> See LCA GHG Report at 3 (citing NETL, *Life Cycle Analysis of Natural Gas Extraction and Power Generation*).

The heating value of coal is the amount of energy released when coal is combusted, whereas the heat rate is the rate at which coal is converted to electricity by a power plant. Both factors were used in the model to determine the feed rate of coal to the destination power plant (or the speed at which the coal would be used). For consistency, this study used the range of efficiencies that NETL modeled for coal power in the United States. The study also assumed the same range of power plant efficiencies for Europe and Asia as the U.S. model.

## 6. Key Modeling Parameters

NETL modeled variability among each scenario by adjusting numerous parameters, giving rise to hundreds of variables. Key modeling parameters described in the LCA GHG Report include: (1) the method of extraction for natural gas in the United States, (2) methane leakage for natural gas production,<sup>149</sup> (3) coal type (sub-bituminous or bituminous),<sup>150</sup> (4) the flaring rate for natural gas,<sup>151</sup> (5) transport distance (ocean tanker for LNG transport, and rail for coal transport),<sup>152</sup> and (6) the efficiency of the destination power plant.

For example, as shown in Table 5-1 of the LCA GHG Report, NETL used two different ranges for methane leakage rates for Scenarios 1 and 2: from 1.2 to 1.6% for natural gas extracted from the Marcellus Shale, and from 1.1 to 1.6% from gas extracted using conventional extraction methods. For Scenario 3 (the Russian cases), however, NETL used a higher range for methane leakage rates for both the European and Asian locations, in light of the greater pipeline

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<sup>149</sup> The key modeling parameters for the natural gas scenarios are provided in Table 5-1 (LNG) and Table 5-2 (Russian natural gas). *See* LCA GHG Report at 6. The key parameters for natural gas extraction, natural gas processing, and natural gas transmission by pipeline are set forth in Tables 5-4, 5-5, and 5-6, respectively. *See id.* at 7-8.

<sup>150</sup> The modeling parameters and values for the coal scenarios are provided in Table 5-3. *See* LCA GHG Report at 6.

<sup>151</sup> Flaring rate is a modeling parameter because the global warming potential of vented natural gas, composed mostly of methane, can be reduced if it is flared, or burned, to create CO<sub>2</sub>. *See id.* at 7.

<sup>152</sup> The distances used for pipeline transport of Russian gas are provided in Table 5-2. *See id.* at 6.

distance from Russia.<sup>153</sup> As the pipeline distance increases, the total methane leakage from pipeline transmission also increases, as does the amount of natural gas that is extracted to meet the same demand for delivered natural gas. Notably, as part of the study, NETL conducted a methane leakage breakeven analysis to determine the “breakeven leakage” at which the life cycle GHG emissions for natural gas generated power would equal those for the coal reference case (Scenario 3).<sup>154</sup>

In sum, NETL noted that the LCA study results are sensitive to these key modeling parameters, particularly changes to natural gas and coal extraction characteristics, transport distances, and power plant performance.<sup>155</sup> NETL also identified several study limitations based on the modeling parameters, including: (1) NETL’s LCA models are U.S.-based models adapted for foreign natural gas and coal production and power generation, and (2) the specific LNG export and import locations used in the study represent an estimate for an entire region (e.g., New Orleans representing the U.S. Gulf Coast).<sup>156</sup>

## **7. Results of the LCA GHG Report**

NETL states that two primary conclusions may be drawn from the LCA GHG Report.<sup>157</sup> First, use of U.S. LNG exports to produce electricity in European and Asian markets will *not* increase GHG emissions on a life cycle perspective, when compared to regional coal extraction and consumption for power production. As shown below, NETL’s analysis indicates that, for most scenarios in both the European and Asian regions, the generation of

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<sup>153</sup> See LCA GHG Report at 5.

<sup>154</sup> The methane leakage breakeven analysis is described in the LCA GHG Report at 14 and 15.

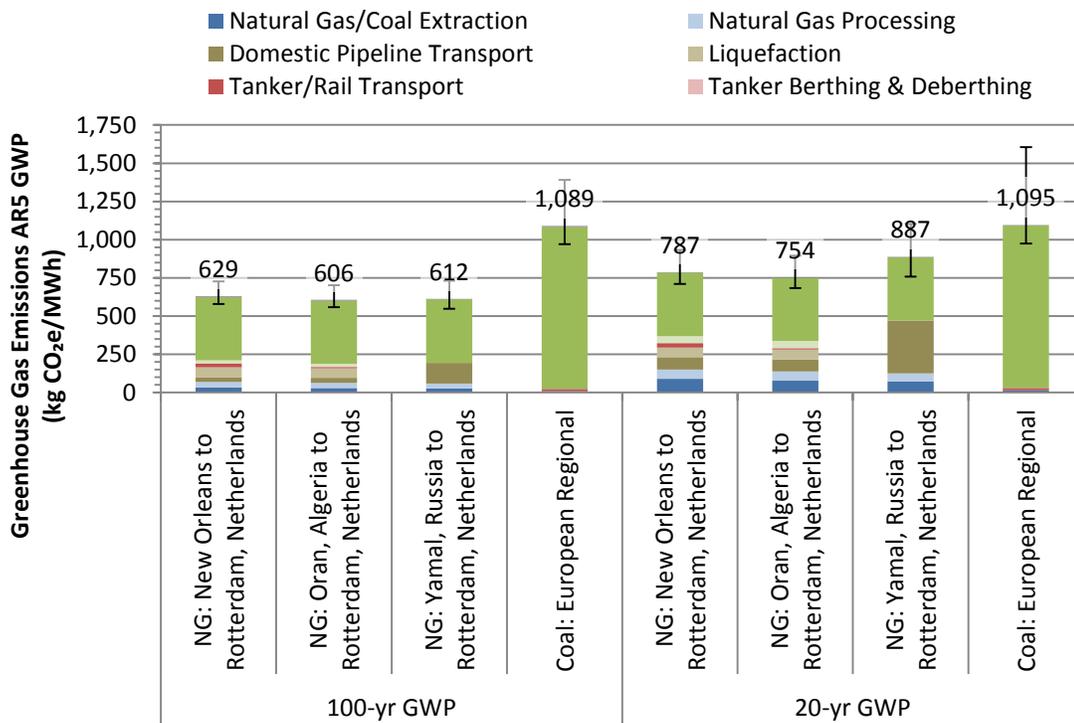
<sup>155</sup> See LCA GHG Report at 5. To ensure that the study results were robust, NETL conducted several side analyses and sensitivity calculations, as discussed in the LCA GHG Report.

<sup>156</sup> The study limitations are described in the LCA GHG Report at 18.

<sup>157</sup> NETL’s detailed study results, with corresponding figures, are set forth on pages 8 through 18 of the LCA GHG Report.

power from imported natural gas has lower life cycle GHG emissions than power generation from regional coal.<sup>158</sup> (The use of imported coal in these countries will only increase coal’s GHG profile.) Given the uncertainty in the underlying model data, however, NETL states that it is not clear if there are significant differences between the corresponding European and Asian cases other than the LNG transport distance from the United States and the pipeline distance from Russia.

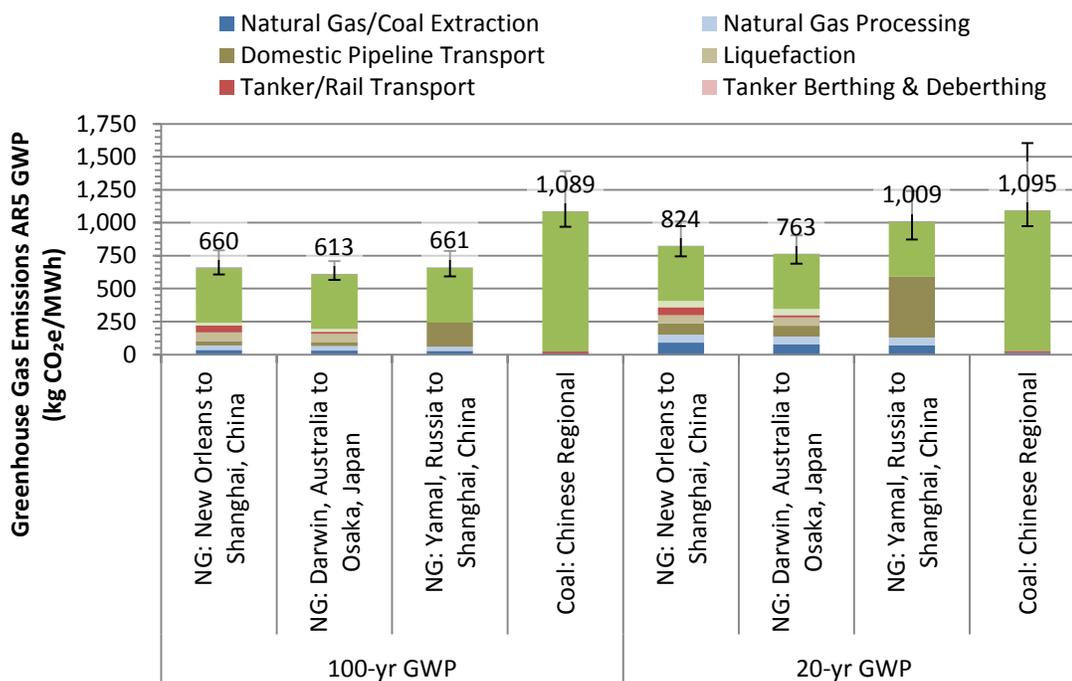
**Table 5: Life Cycle GHG Emissions for Natural Gas and Coal Power in Europe<sup>159</sup>**



<sup>158</sup> Although these figures present an expected value for each of the four scenarios, NETL states that the figures should not be interpreted as the most likely values due to scenario variability and data uncertainty. Rather, the values allow an evaluation of trends only—specifically, how each of the major processes (*e.g.*, extraction, transport, combustion) contribute to the total life cycle GHG emissions. *See* LCA GHG Report at 8-9.

<sup>159</sup> LCA GHG Report at 9 (Figure 6-1).

**Table 6: Life Cycle GHG Emissions for Natural Gas and Coal Power in Asia<sup>160</sup>**



Second, there is an overlap between the ranges in the life cycle GHG emissions of U.S. LNG, regional alternative sources of LNG, and natural gas from Russia delivered to the European or Asian markets. Any differences are considered indeterminate due to the underlying uncertainty in the modeling data. Therefore, the life cycle GHG emissions among these sources of natural gas are considered similar, and no significant increase or decrease in net climate impact is anticipated from any of these three scenarios.

### **B. Comments on the LCA GHG Report and DOE/FE Analysis**

As discussed above, the LCA GHG Report compares life cycle GHG emissions from U.S. LNG exports to regional coal and other imported natural gas for electric power generation in Europe and Asia. Following the close of the public comment period on the LCA GHG

<sup>160</sup> LCA GHG Report at 10 (Figure 6-2).

Report, DOE/FE identified 18 unique submissions received from the general public, interest groups, industry, and academia/research institutions, which DOE/FE categorized into seven distinct comments.<sup>161</sup>

DOE/FE identifies below: (i) the pertinent arguments by topic, with reference to representative comments, and (ii) DOE/FE's basis for the conclusions that it drew in reviewing those comments. In so doing, DOE/FE will respond to the relevant, significant issues raised by the commenters.

## **1. Study Conclusions**

### **a. Comments**

Several commenters, including Citizens Against LNG and Oregon Wild, claim that the life cycle GHG emissions from natural gas are higher than those from coal.

### **b. DOE/FE Analysis**

These comments assert that natural gas has higher GHGs than coal, but they do not cite data sources applicable to the comparison of U.S.-exported LNG to regional coal, nor do they acknowledge that the different end uses of coal and natural gas (i.e., heating, power, or transportation) affect their relative life cycle GHG performance. If the characteristics of each fuel (most critically, the carbon content per unit of the fuel's energy) and power plant efficiencies are considered, the lower per-MWh CO<sub>2</sub> emissions from natural gas power plants in comparison to coal power plants make natural gas lower than coal in the context of power plant operations by 61% (see Table 7 below,  $[(415 - 1,063)/1,063 \times 100]$ ). The life cycle of baseload

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<sup>161</sup> In some instances, single letters were sent on behalf of a group of people. In one case, multiple copies of a form letter were received from 149 individuals, hereinafter referred to as "Concerned Citizens." Most of the individuals in the Concerned Citizens group live in New York, but other states and countries are also represented.

electricity generation is a reasonable basis for comparing natural gas and coal because both types of fuels are currently used on a large scale by baseload power plants.

The following table shows the life cycle GHG emissions of carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), and sulfur hexafluoride (SF<sub>6</sub>) from natural gas and coal systems and demonstrates the importance of power plant operations to total life cycle GHG emissions over 100- and 20-year GWP timeframes. This table is representative of European end-use scenarios, which consume natural gas exported from the United States and coal extracted in Europe. (This table is based on the same data as used by Figure 6-1 of the LCA GHG Report.)

**Table 7: Life Cycle GHG Emissions from Natural Gas and Coal Systems  
(kg CO<sub>2</sub>e/MWh)**

Life Cycle Process	100-yr GWP		20-yr GWP	
	Natural Gas: New Orleans to Rotterdam, Netherlands	Coal: European Regional	Natural Gas: New Orleans to Rotterdam, Netherlands	Coal: European Regional
Natural Gas/Coal Extraction	33.9	7.8	88.7	13.6
Natural Gas Processing	34.5	-	60.4	-
Domestic Pipeline Transport	32.3	-	81.4	-
Liquefaction	63.6	-	63.6	-
Tanker/Rail Transport	25.0	14.4	28.4	15.3
Tanker Berthing & Deberthing	1.5	-	1.6	-
LNG Regasification	20.0	-	45.3	-
Power Plant Operations	415	1,063	415	1,064
Electricity T&D	3.4	3.4	2.5	2.5
<b>Total</b>	<b>629</b>	<b>1,089</b>	<b>787</b>	<b>1,095</b>

## **2. Boundaries of the LCA GHG Report**

### **a. Comments**

Sierra Club,<sup>162</sup> Food & Water Watch,<sup>163</sup> Americans Against Fracking *et al.*, Susan Sakmar, and Concerned Citizens, among others, contend that the LCA GHG Report has flawed boundaries and scenarios. In particular, these commenters contend that the LCA GHG Report assumes that LNG will displace coal power without also accounting for the displacement of renewable energy.

### **b. DOE/FE Analysis**

The boundaries of the LCA were developed with respect to questions about two fossil fuels, coal and natural gas, and where they come from. The scenarios in the LCA do not model displacement of any kind. These two scenarios are purely attributional, meaning that they focus on independent supply chains for each scenario and do not account for supply or demand shifts caused by the use of one fuel instead of another fuel.

## **3. Natural Gas Transport between Regasification and Power Plants**

### **a. Comments**

Sierra Club and Concerned Citizens, among others, assert that the LCA GHG Report does not account for natural gas transport between LNG regasification facilities and power plants in the importing countries.

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<sup>162</sup> Sierra Club submitted comments on behalf of its members and supporters as well as Cascadia Wildlands, Otsego 2000, Inc., Columbia Riverkeeper, Stewards of the Lower Susquehanna, Inc., Friends of the Earth, Chesapeake Climate Action Network, Food and Water Watch, and EarthJustice.

<sup>163</sup> Food & Water Watch submitted comments in the form of a letter signed by 85 individuals representing various national, state, and local public interest groups.

## **b. DOE/FE Analysis**

The choice to exclude transportation between regasification and the power plant was a modeling simplification. The sensitivity analysis of GHG emissions with changes to pipeline transport distance, as illustrated by Figures 4-7 and 4-8 of NETL's *Life Cycle Analysis of Natural Gas Extraction and Power Generation*, shows that the *doubling* (i.e., a 100% increase) of natural gas pipeline transport distance increases the *upstream* GHG emissions from natural gas by 30%. When this upstream sensitivity is applied to the life cycle boundary of the LCA GHG Report, an additional 100 miles beyond the LNG import terminal increases the life cycle GHG emissions for the LNG export scenarios by 0.8%, and an additional 500 miles beyond the LNG import terminal increases the life cycle GHG emissions for the LNG export scenarios by 4% (using 100-year GWPs as specified by the IPCC Fifth Assessment Report). Although this parameter modification changes the results of the LCA slightly, it does not change the conclusions of the LCA GHG Report.

## **4. Data Quality for LNG Infrastructure, Natural Gas Extraction, and Coal Mining**

### **a. Comments**

Several commenters, including the American Petroleum Institute (API), Concerned Citizens, and Sierra Club, commented on whether the data used in the LCA GHG Report is current and fully representative of the natural gas industry. In particular, API asserts that NETL's model is representative of inefficient liquefaction technologies that overstate the GHG emissions from the LNG supply chain, coal data that understates the methane emissions from coal mines, and natural gas extraction data that mischaracterizes "liquids unloading" practices.<sup>164</sup>

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<sup>164</sup> For purposes of this term, we refer to EPA's description of "liquids unloading" as follows: "In new gas wells, there is generally sufficient reservoir pressure to facilitate the flow of water and hydrocarbon liquids to the surface

API proposes the use of newer data for both liquefaction terminals in the United States and methane emission factors from unconventional natural gas extraction and coal mining.

Concerned Citizens argue that the LCA GHG Report does not clearly identify its source of data for estimates of loss related to LNG production, shipping, and regasification, as well as the basis for estimates of pipeline losses from Russia. Sierra Club points to inaccurate referencing of EPA's Subpart W report, which was the basis for many of NETL's emission factors for natural gas extraction.

## **b. DOE/FE Analysis**

### **(1) Liquefaction Data**

API points to newer data for liquefaction facilities that have higher efficiencies than the liquefaction process in the LCA GHG Report. API points to the GHG intensities of the liquefaction facilities proposed by Sabine Pass, Cameron, and Freeport (each of whom had been conditionally granted a non-FTA LNG export order by DOE/FE) that, according to API, produce 0.26, 0.29 and 0.12 tonnes of CO<sub>2</sub>e per tonne of LNG, respectively. The majority of a liquefaction facility's energy is generated by combusting incoming natural gas, so the GHG intensity of a liquefaction facility is directly related to its efficiency. As API correctly points out, the LCA model assumes a GHG intensity of 0.44 tonnes of CO<sub>2</sub>e per tonne of LNG; this GHG

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along with produced gas. In mature gas wells, the accumulation of liquids in the well can occur when the bottom well pressure approaches reservoir shut-in pressure. This accumulation of liquids can impede and sometimes halt gas production. When the accumulation of liquid results in the slowing or cessation of gas production (i.e., liquids loading), removal of fluids (i.e., liquids unloading) is required in order to maintain production. Emissions to the atmosphere during liquids unloading events are a potentially significant source of VOC and methane emissions." U.S. Env'tl. Prot. Agency, Office of Air Quality Planning & Standards, *Oil & Natural Gas Sector Liquids Unloading Processes*, Report for Oil & Gas Sector Liquids Unloading Processes Review Panel, at 2 (April 2014), available at: <http://www.epa.gov/airquality/oilandgas/pdfs/20140415liquids.pdf>.

intensity is representative of a facility that consumes 12% of incoming natural gas as plant fuel.<sup>165</sup>

The above GHG intensities and liquefaction efficiencies are not life cycle numbers, but represent only the gate-to-gate operations of liquefaction facilities, beginning with the receipt of processed natural gas from a transmission pipeline and ending with liquefied natural gas ready for ocean transport. As illustrated by Figures 6-1 and 6-2 in the LCA GHG Report (reproduced as tables herein), liquefaction accounts for approximately 10% of the life cycle GHG emissions of U.S. LNG used for electric power generation in Europe and Asia. A doubling of liquefaction efficiency (thus achieving a GHG intensity comparable to the average of the Sabine Pass, Cameron, and Freeport facilities) would lead to a 6% reduction in the feed rate of natural gas to the liquefaction plant.<sup>166</sup> This feed rate reduction would also reduce natural gas extraction, processing, and transmission emissions by 6%, but would not affect the processes downstream from liquefaction (ocean tankers, power plants, and electricity transmission networks). Applying the increased liquefaction efficiency and the 6% reduction in feed rate to the results of the LCA GHG Report would reduce the life cycle GHG emissions for LNG export scenarios by only 1.5% (using 100-year GWPs as stated in the IPCC Fifth Assessment Report). Increasing liquefaction efficiency may significantly reduce the emissions from one point in the supply chain, but it does not change the conclusions of the LCA.

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<sup>165</sup> NETL (2010). NETL Life Cycle Inventory Data – Unit Process: LNG Liquefaction, Operation. U.S. Department of Energy, National Energy Technology Laboratory. Last Updated: May 2010 (version 01); *available at*: [http://www.netl.doe.gov/File\\_Library/Research/Energy\\_Analysis/Life\\_Cycle\\_Analysis/UP\\_Library/DS\\_Stage1\\_O\\_LNG\\_Liquefaction\\_2010-01.xls](http://www.netl.doe.gov/File_Library/Research/Energy_Analysis/Life_Cycle_Analysis/UP_Library/DS_Stage1_O_LNG_Liquefaction_2010-01.xls).

<sup>166</sup> *See id.*

## (2) Natural Gas Methane Data

API and Concerned Citizens criticize the quality of data that DOE/NETL uses for natural gas extraction. API's concern is that NETL overstates the GHG emissions from unconventional well completion. API compares NETL's emission factor for unconventional well completions (9,000 Mcf of natural gas/episode) to the emission factor that EPA states in its 2014 GHG inventory (approximately 2,500 Mcf of natural gas/episode). EPA revised its unconventional completion emission factor between its 2013 and 2014 inventory reports,<sup>167</sup> after NETL's model had been finalized and during the time that NETL was completing the LCA GHG Report. These factors are referred to as "potential emission factors" because they do not represent natural gas that is directly released to the atmosphere, but they represent the volume of natural gas that can be sent to flares and other environmental control equipment. NETL uses a potential emission factor of 9,000 Mcf of natural gas per each episode of shale gas hydraulic fracturing, and a potential emission factor of 3.6 Mcf of natural gas per each episode of liquids unloading (with 31 liquids unloading episodes per well-year). NETL's model augments potential emission factors with flaring, thereby reducing the amount of methane that is released to the atmosphere. These emission factors are consistent with the findings of a survey jointly conducted by API and America's Natural Gas Alliance and released in September 2012.<sup>168</sup> They also match the factors used by EPA's 2013 GHG inventory.<sup>169</sup>

NETL's current model accounts for liquids unloading emissions from conventional wells, but does not account for liquids unloading from unconventional wells. Applying liquids

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<sup>167</sup> U.S. Env'tl. Prot. Agency, Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990-2012, available at: <http://www.epa.gov/climatechange/Downloads/ghgemissions/US-GHG-Inventory-2014-Main-Text.pdf>.

<sup>168</sup> *Characterizing Pivotal Sources of Methane Emissions from Natural Gas Production: Summary and Analysis of API and ANGA Survey Responses*. Final Report (Sept. 21, 2012).

<sup>169</sup> U.S. Env'tl. Prot. Agency, Inventory of U.S. Greenhouse Gas Emissions and Sinks: 1990-2011 (Apr. 12, 2013).

unloading to the unconventional wells in this analysis increases the life cycle GHGs by 0.6% for LNG export scenarios (using 100-year GWPs as stated in the IPCC Fifth Assessment Report). This 0.6% was estimated by assigning the liquid unloading emissions from onshore conventional natural gas to the upstream results for Marcellus Shale natural gas, followed by an expansion of the boundaries to a life cycle context. Simply put, liquids unloading accounts for 11% of the upstream GHG emissions from conventional onshore natural gas.<sup>170</sup> When liquids unloading is added to unconventional natural gas in our LCA model, it is scaled according to the unique production rates and flaring practices of unconventional wells in addition to the subsequent flows of natural gas processing, liquefaction, ocean transport, regasification, power plant operations, and electricity transmission. Thus, while liquids unloading may account for a significant share of *upstream* GHG emissions, none of the LCA GHG Report's conclusions would change with the addition of liquids unloading to unconventional natural gas extraction.

The potential emissions from unconventional well completions are modeled as 9,000 Mcf of natural gas per episode. It is important to remember that this factor does not represent methane emissions directly released to the atmosphere, but the flow of natural gas prior to environmental controls. For unconventional natural gas, NETL's model flares 15% of these potential emissions (flaring converts methane to CO<sub>2</sub>, thus reducing the GWP of the gas) and apportions all completion emissions to a unit of natural gas by dividing them by lifetime well production (completion emissions occur as one-time episode that must be converted to a life cycle basis by amortizing them over total lifetime production of a well). Further, the life cycle GHG contributions from well completions are diluted when scaled to the subsequent flows of natural gas processing, liquefaction, ocean transport, regasification, power plant operations, and

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<sup>170</sup> See NETL, *Life Cycle Analysis of Natural Gas Extraction and Power Generation*.

electricity transmission. However, in NETL's model, life cycle completion emissions are directly affected by the estimated ultimate recovery (EUR) of a well because the total amount of natural gas produced by a well is used as a basis for apportioning completion and other one-time emissions to a unit of natural gas produced. From an engineering perspective, wells with high EURs are more likely to have a high initial reservoir pressure that increases the potential completion emissions. A reasonable uncertainty range around the potential emissions from unconventional completion emissions (9,000 Mcf/episode) is -30% to +50% (6,100 to 13,600 Mcf/episode). This uncertainty range matches the scale of uncertainty around the Marcellus Shale EUR used in the LCA GHG Report (see Table 5-4 of the LCA GHG Report). This -30% to +50% uncertainty around potential emissions from unconventional completions causes a -2% to 3% uncertainty around life cycle GHG emissions for the export scenarios of this analysis.

The recently revised New Source Performance Standards (NSPS) rules for the oil and natural gas sector, which will be in full effect by January 2015, will achieve significant methane emission reductions primarily by requiring all new or modified wells to capture and control potential emissions of VOCs during natural gas well completion. In addition to well completion emissions, the NSPS rules target other point sources of VOC emissions from new and modified sources at natural gas extraction and processing sites, but they do not address liquids unloading.<sup>171</sup> The LCA GHG Report does not account for the potential effects of the NSPS rules on natural gas emissions because the scope of the LCA accounts for GHG emissions from natural gas being produced today. EPA's Regulatory Impact Analysis estimated that the final NSPS rule would reduce annual methane emissions in 2015 by 18 million metric tons, meaning

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<sup>171</sup> U.S. Env'tl. Prot. Agency, Oil and Natural Gas Sector: New Source Performance Standards and National Emission Standards for Hazardous Air Pollutants Reviews (40 C.F.R. Part 63) (Apr. 17, 2012); *available at*: <http://www.epa.gov/airquality/oilandgas/pdfs/20120417finalrule.pdf>.

that this rule will have the effect of reducing life cycle emissions from natural gas systems as new wells are developed and existing wells are modified. The likely effects of the NSPS rule therefore suggest that the conclusions of the LCA GHG Report are conservative with respect to the life cycle GHG emissions of natural gas produced in the United States.

Sierra Club contends that NETL's documentation, including the 200-page supporting LCA document, does not clearly cite EPA's Subpart W document. NETL's Report has three references to Subpart W, cited as EPA 2011a, 2011b, and 2011c. These three references should refer to the same document.<sup>172</sup> Future versions of the Report will correct these duplicate citations. Sierra Club also calls out the citation for EPA, 2012c, although this is a correct reference that points to EPA's documentation of New Source Performance Standards.

### **(3) Coal Methane Data**

API and Concerned Citizens criticize the quality of data that DOE/NETL uses for coal extraction. In particular, API claims that coal mine methane emissions may be higher than the factors used by NETL. Concerned Citizens simply claim that NETL used a limited set of references to characterize coal mine emissions.

Methane emissions from coal mines are based on data collected by EPA's Coalbed Methane Outreach Program and have been organized by coal type and geography. Due to data limitations, the LCA GHG Report used this data as a proxy for emissions from foreign coal. This limitation is noted in the LCA GHG Report and is accounted for by uncertainty.<sup>173</sup> The bounds on coal methane uncertainty were informed by the variability in coal mine methane emissions between surface mines (subbituminous coal) and underground mines (bituminous

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<sup>172</sup> U.S. Env'tl. Prot. Agency, Greenhouse Gas Emissions Reporting from the Petroleum and Natural Gas Industry: Background Technical Support Document (2011), *available at*: [http://www.epa.gov/ghgreporting/documents/pdf/2010/Subpart-W\\_TSD.pdf](http://www.epa.gov/ghgreporting/documents/pdf/2010/Subpart-W_TSD.pdf).

<sup>173</sup> See, e.g., NETL, *Life Cycle Analysis of Natural Gas Extraction and Power Generation*.

coal) in the United States. The default parameters in NETL's model represent subbituminous coal, which has lower coal mine methane emissions than bituminous coal (these parameters are specified in Table 5-3 of the LCA GHG Report). If coal mines in Europe and Asia emit methane at rates similar to the underground, bituminous coal mines in the United States, then the life cycle GHG emissions from coal power would increase. This increase in coal mine methane emissions would increase the life cycle GHG emissions of coal power by 8 percent (from 1,089 to 1,180 kg CO<sub>2</sub>e/MWh, using 100-year GWPs as stated in the IPCC Fifth Assessment Report). This uncertainty is illustrated by Figure 6-16 in the LCA GHG Report. Again, even though changes to coal mine methane emissions change the GHG results of the LCA, they do not change the conclusions of the LCA.

## **5. Methane Leakage Rate Used in the LCA GHG Report**

### **a. Comments**

A number of commenters, including Sierra Club, Food & Water Watch, Americans Against Fracking et al., and Zimmerman and Associates, claim that the methane leakage rate used by NETL is too low. They assert that it does not match top-down (or aerial) measurements recently conducted in regions with natural gas activity, nor does it match the leakage rate in a recent analysis of wellhead casings in Pennsylvania.

### **b. DOE/FE Analysis**

Recent studies lack consensus concerning the extent and rates of leakage from the upstream natural gas supply chain, with the leakage rates reported by these studies ranging from less than 1% to as high as 10%.<sup>174</sup> One reason for this broad range of leakage rates is the fact

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<sup>174</sup> See NETL, *Life Cycle Analysis of Natural Gas Extraction and Power Generation* (Section 6.2.1) (identifying reports that include various leakage rates).

that different analysts use different boundaries (*e.g.*, extraction only, extraction through processing, extraction through transmission, and extraction through distribution). Further, top-down measurements are taken over narrow time frames and limited geographic scopes that represent only a snapshot of operations. They do not necessarily represent long-term operations over a broad area.

Another reason for this range of leakage rates is confusion between leaks and losses. Natural gas leaks include emissions from pneumatically controlled devices, valves, compressor seals, acid gas removal units, dehydrators, and flanges. These leaks are a mix of methane and other hydrocarbons, and are a subset of total natural gas losses. Another type of loss includes flaring, which converts methane to CO<sub>2</sub> and thus reduces methane venting to the atmosphere. Similarly, the combustion of natural gas by reboilers in a natural gas processing plant or by compressors on a pipeline represents the loss of natural gas that is used to improve the purity of the gas itself and move it along the transmission network.

NETL's expected cradle-through-transmission leakage rate is 1.2%. In other words, the extraction, processing, and transmission of 1 kg of natural gas releases 0.012 kg of CH<sub>4</sub> to the atmosphere. In contrast, NETL's expected loss rate from the same boundary is approximately 8%: for the delivery of 1 kg of natural gas via a transmission pipeline, 0.012 kg of CH<sub>4</sub> is released to the atmosphere, and 0.068 kg is flared by environmental controls or combusted for processing and transmission energy.

Sierra Club compares NETL's leakage rate to a 1.54% leakage rate derived from EPA's 2013 GHG inventory. The two types of leakage rates (the 1.2% calculated by NETL's life cycle model and the 1.54% implied by EPA's 2013 inventory) are not directly comparable. LCAs and national inventories have different temporal boundaries. NETL's leakage rate is a life cycle

number based on a 30-year time frame; it levelizes the emissions from one-time well completion activities over a 30-year time frame of steady-state production. The leakage rate implied by EPA's inventory represents 2011 industry activity; it captures the spike in completion emissions due to the atypically high number of wells that were completed that year. In other words, national inventories calculate all emissions that occur in a given year, while LCAs apportion all emissions that occur during a study period (*e.g.*, 30 years) to a unit of production (*e.g.*, 1 MWh of electricity generated). Both approaches are legitimate with respect to the unique goals of each type of analysis.

Sierra Club also compares NETL's 1.2% leakage rate to the 2.01% leakage rate calculated by Burnham et al.<sup>175</sup> Again, a boundary difference explains why the two leakage rates are not directly comparable. Burnham et al.'s leakage rate includes natural gas distribution, which is an additional transport step beyond transmission. Natural gas distribution moves natural gas from the "city gate" to small scale end users (commercial and residential consumers). NETL's leakage rate ends after natural gas transmission, the point at which natural gas is available for large scale end users such as power plants. The natural gas distribution system is a highly-branched network that uses vent-controlled devices to regulate pressure. This boundary difference explains why Burnham et al.'s leakage rate is higher than NETL's rate. Sierra Club also compares NETL's leakage rate to a shale gas analysis conducted by Weber et al.<sup>176</sup> We have reviewed Weber et al.'s work and do not see any mention of leakage rate.

It is also important to note that leakage rate is not an input to NETL's life cycle model. Rather, it is calculated from the outputs of NETL's life cycle model. NETL uses an approach

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<sup>175</sup> Burnham, Andrew, et al. Life-cycle greenhouse gas emissions of shale gas, natural gas, coal, and petroleum. *Environmental Science & Technology* 46.2 (2011): 619-627.

<sup>176</sup> Weber, Christopher L., and Christopher Clavin. Life cycle carbon footprint of shale gas: Review of evidence and implications. *Environmental science & technology* 46.11 (2012): 5688-5695.

that assembles all activities in the natural gas supply chain into a network of interconnected processes. The emissions from each process in this model are based on engineering relationships and emission factors from the EPA and other sources. This method is known as a “bottom-up” approach. Researchers are trying to discern why “top-down” studies such as Pétron’s measurements in northeast Colorado<sup>177</sup> do not match the bottom-up calculations by NETL and other analysts. We believe that inconsistent boundaries (*i.e.*, bottom-up models that account for long term emissions at the equipment level in comparison to top-down measurements that encompass an entire region with more than one type of industrial activity over a narrow time frame) partly explain the differences between bottom-up and top-down results. As research continues, however, we expect to learn more about the differences between bottom-up and top-down methods.

Zimmerman and Associates references a recent study by Ingraffea et al. that assessed failure rates of well casings for oil and gas wells in Pennsylvania.<sup>178</sup> However, Ingraffea et al. do not calculate a methane leakage rate in their analysis; rather, they calculate the rate at which wells develop leaks. The rate at which leaks develop in well casings is a different phenomenon than the rate at which methane leaks from the natural gas supply chain. The former is a measurement of failure rates (the number of wells in a group that have leaks) and the latter is a measurement of the magnitude of total leakage (the amount of methane in extracted natural gas that is released to the atmosphere).

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<sup>177</sup> Pétron, G., Frost, *et al.* (2012). Hydrocarbon emissions characterization in the Colorado Front Range: A pilot study. *Journal of Geophysical Research: Atmospheres* (1984–2012), 117(D4).

<sup>178</sup> Ingraffea, A. R., Wells, M. T., Santoro, R. L., & Shonkoff, S. B. (2014). Assessment and risk analysis of casing and cement impairment in oil and gas wells in Pennsylvania, 2000–2012. *Proceedings of the National Academy of Sciences*, 111(30), 10955-10960.

The breakeven analysis shown in Section 6 of the LCA GHG Report models hypothetical scenarios that increase the natural gas leakage rate to the point where the life cycle emissions from natural gas power are the same as those from coal power. The breakeven points between natural gas and coal systems are illustrated in Figures 6-8 and 6-9 of the Report. These results are based on the most conservative breakeven point, which occurs between the high natural gas cases (*i.e.*, lowest power plant efficiency, longest transport distance, and highest methane leakage) with the low coal case (*i.e.*, highest power plant efficiency and shortest transport distance). These graphs show that on a 100-year GWP basis, methane leakage would have to increase by a factor of 1.7 to 3.6, depending on the scenario, before the breakeven occurs. The breakeven methane leakage is lower for the 20-year GWP basis and, for some scenarios, is lower than the modeled leakage rate.

## **6. The Uncertainty Bounds of the LCA GHG Report**

### **a. Comments**

Concerned Citizens claim that the LCA GHG Report has significant uncertainty, and contend that “poor modeling is not a reason to dismiss impacts.”

### **b. DOE/FE Analysis**

The results of the LCA GHG Report are based on a flexible model with parameters for natural gas extraction, processing, and transport. Uncertainty bounds are assigned to three key parameters: well production rates, flaring rates, and transport distances. These uncertainty bars are not an indication of poor modeling. To the contrary, they are used to account for variability in natural gas systems. If the analysis did *not* account for uncertainty, the results would imply that the GHG emissions from natural gas systems are consistently a single, point value, which

would be inaccurate. We therefore believe the chosen uncertainty bounds strengthen the LCA model, as opposed to indicating any weakness in modeling.

## **7. The LCA GHG Report and the NEPA Approval Process**

### **a. Comments**

Several commenters, including Citizens Against LNG, Dominion Cove Point LNG, Susan Sakmar, and Americans Against Fracking et al., note that the LCA GHG Report does not fulfill the requirements of an EIS as defined by NEPA. These commenters maintain that the LCA GHG Report should not be used as a basis for approving proposed LNG export terminals.

### **b. DOE/FE Analysis**

We agree that the LCA GHG Report does not fulfill any NEPA requirements in this proceeding, nor has DOE/FE made any suggestion to that effect. The LCA GHG Report addresses foreign GHG emissions and thus goes beyond the scope of what must be reviewed under NEPA.

## **X. DISCUSSION AND CONCLUSIONS**

In reviewing the potential environmental impacts of FLEX's proposal to export LNG, DOE/FE has considered both its obligations under NEPA and its obligation under NGA section 3(a) to ensure that the proposal is not inconsistent with the public interest. To accomplish these purposes, DOE/FE has reviewed a wide range of information, including:

- FLEX's Application and the submissions of protestor APGA, other intervenors, and commenters to the Application;
- FERC's final EIS and July 30 Order, including the 83 environmental conditions recommended in the final EIS and adopted by FERC in that Order;
- Comments regarding potential environmental impacts submitted in response to the 2012 LNG Export Study;

- The Draft Addendum, comments received in response to the Draft Addendum, and the final Addendum; and
- The LCA GHG Report (and the supporting NETL document), including comments submitted in response to those documents.

## **A. Compliance with NEPA**

### **1. Adoption of FERC's Final EIS**

DOE/FE participated in FERC's environmental review of the proposed Liquefaction Project as a cooperating agency and has examined the arguments submitted by the intervenors who challenged FERC's reasoning and conclusions. Because DOE was a cooperating agency, DOE/FE is permitted to adopt FERC's final EIS, provided that DOE/FE has conducted an independent review of the EIS and determines that its comments and suggestions have been satisfied.<sup>179</sup> For the reasons set forth below, DOE/FE has not found that the arguments raised in the FERC proceeding, the current proceeding, or the LNG Export Study proceeding detract from the reasoning and conclusions contained in the final EIS. Accordingly, DOE has adopted the EIS (DOE/EIS-0487),<sup>180</sup> and hereby incorporates the reasoning contained in the EIS in this Order.

### **2. Scope of NEPA Review**

Sierra Club intervened in FLEX's proceeding before FERC, challenging the adequacy of the draft EIS. Sierra Club asserted that the draft EIS did not have a sufficiently broad scope because it failed to consider the indirect effects of induced natural gas production associated with the Liquefaction Project.<sup>181</sup> FERC rejected Sierra Club's argument. As discussed above, FERC found that Sierra Club had not demonstrated that the Liquefaction Project would induce additional upstream gas production. Even assuming that the Liquefaction Project would induce additional

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<sup>179</sup> See 40 C.F.R. § 1506.3(c).

<sup>180</sup> See *supra* Section I (citing 79 Fed. Reg. 61,304).

<sup>181</sup> FERC Order at 21-22. Sierra Club made similar arguments on induced production when it filed comments in response to DOE/FE's LNG Export Study.

gas production, FERC found that such production is not “reasonably foreseeable” within the meaning of NEPA. We find that FERC’s environmental review covered all reasonably foreseeable environmental impacts of the Liquefaction Project,<sup>182</sup> and that NEPA does not require the review to include induced upstream natural gas production.

Fundamental uncertainties constrain our ability to foresee and analyze with any particularity the incremental natural gas production that may be induced by permitting exports of LNG to non-FTA countries. EIA’s 2012 Study projected that incremental natural gas production in the United States would account for 63% of LNG export volumes and, of that amount, 93% would come from unconventional production.<sup>183</sup> For this reason, and because DOE/FE had received comments regarding the potential environmental impacts associated with unconventional production, DOE/FE produced the Addendum and made it available for public comment. The Addendum takes a broad look at unconventional natural gas production in the United States, with chapters covering water resources (including water quantity and quality), air quality, GHG emissions, induced seismicity, and land use.

The Addendum addresses unconventional natural gas production in the nation as a whole. It does not attempt to identify or characterize the incremental environmental impacts that would result from LNG exports to non-FTA nations. Such impacts are not reasonably foreseeable and cannot be analyzed with any particularity. To begin, there is uncertainty as to the aggregate quantity of natural gas that ultimately may be exported to non-FTA countries. Receiving a non-FTA authorization from DOE/FE does not guarantee that a particular facility would be financed and built; nor does it guarantee that, if built, market conditions would continue to favor export

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<sup>182</sup> Under CEQ’s regulations, “indirect effects” of a proposed action are “caused by the action and are later in time or farther removed in distance, but are still reasonably foreseeable.” 40 C.F.R. § 1508.8(b).

<sup>183</sup> See LNG Export Study – Related Documents, available at <http://energy.gov/fe/services/natural-gas-regulation/lng-export-study> (EIA 2012 Study), at 11.

once the facility is operational. To illustrate the point, of the more than 40 applications to build new LNG import facilities that were submitted to federal agencies between 2000 and 2010, only eight new facilities were built and those facilities have seen declining use in the past decade.<sup>184</sup>

There is also fundamental uncertainty as to where any additional production would occur and in what quantity. As the Addendum illustrates, nearly all of the environmental issues presented by unconventional natural gas production are local in nature, affecting local water resources, local air quality, and local land use patterns, all under the auspices of state and local regulatory authority. As DOE explained in *Sabine Pass*, Order No. 2961-A, without knowing where, in what quantity, and under what circumstances additional gas production will arise, the environmental impacts resulting from production activity induced by LNG exports to non-FTA countries are not “reasonably foreseeable” within the meaning of CEQ’s NEPA regulations.<sup>185</sup>

### **3. Cumulative Environmental Impacts**

Sierra Club asserted in comments to FERC that the draft EIS was deficient because it failed to consider the cumulative environmental impacts from all proposed export terminals, including export applications pending or approved by DOE. FERC found no merit to Sierra Club’s argument for a cumulative environmental impact analysis that looked at *all* LNG export applications pending before or approved by DOE. As noted above, FERC found that Sierra Club was, in effect, seeking a programmatic EIS when there was no “program” before FERC that met the definition under CEQ guidelines.<sup>186</sup> In rejecting this argument, FERC observed that the EIS considered the cumulative effects on, among other things, reasonably foreseeable future shale

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<sup>184</sup> See FLEX I Conditional Order at 64 n.79.

<sup>185</sup> *Sabine Pass*, DOE/FE Order No. 2961-A, at 11 (quoting 40 C.F.R. § 1508.7).

<sup>186</sup> 40 C.F.R. §§ 1508.7, 1508.8.

production within the project area,<sup>187</sup> and FERC determined that the EIS properly fulfilled its purpose of disclosing the environmental impacts of the Freeport LNG Project while also setting forth measures that would mitigate, minimize, or eliminate any potential impacts.<sup>188</sup> We agree with FERC's reasoning and adopt its analysis concerning cumulative environmental impacts.

### **B. Environmental Impacts Associated with Induced Production of Natural Gas**

The current rapid development of natural gas resources in the United States likely will continue, with or without the export of natural gas to non-FTA nations.<sup>189</sup> Nevertheless, a decision by DOE/FE to authorize exports to non-FTA nations could accelerate that development by some increment. For this reason, and because the environmental impacts associated with shale gas development have been raised by Sierra Club and other commenters, DOE/FE prepared and received public comment on the Addendum. As discussed above, the Addendum reviewed the academic and technical literature covering the most significant issues associated with unconventional gas production, including impacts to water resources, air quality, greenhouse gas emissions, induced seismicity, and land use.

The Addendum shows that there are potential environmental issues associated with unconventional natural gas production that need to be carefully managed, especially with respect to emissions of VOCs and methane, and the potential for groundwater contamination. These environmental concerns do not lead us to conclude, however, that exports of natural gas to non-FTA nations should be prohibited. Rather, we believe the public interest is better served by addressing these environmental concerns directly—through federal, state, or local regulation, or through self-imposed industry guidelines where appropriate—rather than by

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<sup>187</sup> See FERC Order at 10.

<sup>188</sup> See *id.* at 21.

<sup>189</sup> Addendum at 2.

prohibiting exports of natural gas. Unlike DOE, environmental regulators have the legal authority to impose requirements on natural gas production that appropriately balance benefits and burdens, and to update these regulations from time to time as technological practices and scientific understanding evolve. For example, in 2012, using its authority under the Clean Air Act, EPA promulgated regulations for hydraulically fractured wells that are expected to yield significant emissions reductions.<sup>190</sup> In 2013, EPA updated those regulations to include storage tanks,<sup>191</sup> and in 2014 EPA issued a series of technical white papers exploring the potential need for additional measures to address methane emissions from the oil and gas sector.<sup>192</sup>

Section 3(a) of the NGA is too blunt an instrument to address these environmental concerns efficiently. A decision to prohibit exports of natural gas would cause the United States to forego entirely the economic and international benefits identified in the Conditional Order and discussed below, but would have little more than a modest, incremental impact on the environmental issues identified by Sierra Club and others. For these reasons, we conclude that the environmental concerns associated with natural gas production do not establish that exports of natural gas to non-FTA nations are inconsistent with the public interest.

### **C. Greenhouse Gas Impacts Associated with U.S. LNG Exports**

Commenters have expressed concern that exports of domestic natural gas to non-FTA nations may impact the balance of global GHG emissions in two principal ways: domestically, through their impact on the price and availability of natural gas for electric generation and other

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<sup>190</sup> U.S. Env'tl. Prot. Agency, Oil and Natural Gas Sector: New Source Performance Standards and National Emission Standards for Hazardous Air Pollutants Reviews; Final Rule, 77 Fed. Reg. 49,490 (Aug. 16, 2012).

<sup>191</sup> U.S. Env'tl. Prot. Agency, Oil and Natural Gas Sector: Reconsideration of Certain Provisions of New Source Performance Standards; Final Rule, 77 Fed. Reg. 58,416 (Sept. 23, 2013).

<sup>192</sup> U.S. Env'tl. Prot. Agency, Office of Air Quality Planning & Standards, *White Papers on Methane and VOC Emissions*, available at: <http://www.epa.gov/airquality/oilandgas/whitepapers.html> (released April 15, 2014), discussed *supra* Section VIII.C.

uses; and, internationally, through their effect on the GHG intensity and total amount of energy consumed in foreign nations.

### **1. Domestic Impacts Associated with Increased Natural Gas Prices**

To the extent exports of natural gas to non-FTA nations increase domestic natural gas prices, those higher prices would be expected, all else equal, to reduce the use of natural gas in the United States as compared to a future case in which exports to non-FTA exports were prohibited. Within the U.S. electric generation sector, reduced demand for natural gas caused by higher prices would be balanced by some combination of reduced electric generation overall (aided by conservation and efficiency measures), increased generation from other resources (such as coal, renewables, and nuclear), and more efficient use of natural gas (*i.e.*, shifting of generation to natural gas-fired generators with superior heat rates).

Although EIA's 2012 Study found that additional natural gas production would supply most of the natural gas needed to support added LNG exports, EIA modeled the effects of higher natural gas prices on energy consumption in the United States in the years 2015 through 2035, and found several additional results. In particular, EIA found that "under Reference case conditions, decreased natural gas consumption as a result of added exports are countered proportionately by increased coal consumption (72 percent), increased liquid fuel consumption (8 percent), other increased consumption, such as from renewable generation sources (9 percent), and decreases in total consumption (11 percent)."<sup>193</sup> Further, EIA determined that, in the earlier years of the 2015 to 2035 period, "the amount of natural gas to coal switching is greater," with "coal play[ing] a more dominant role in replacing the decreased levels of natural gas

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<sup>193</sup> 2012 EIA Study at 18.

consumption, which also tend to be greater in the earlier years.”<sup>194</sup> Likewise, “[s]witching from natural gas to coal is less significant in later years, partially as a result of a greater proportion of switching into renewable generation.”<sup>195</sup> EIA ultimately projected that, for LNG export levels from 6 to 12 Bcf/d of natural gas and under Reference Case conditions, aggregate carbon dioxide emissions would increase above a base case with no exports by between 643 and 1,227 million metric tons (0.5 to 1.0 percent) over the period from 2015 to 2035.<sup>196</sup> It is worth noting, however, that a substantial portion of these projected emissions came from consumption of natural gas in the liquefaction process, rather than from increased use of coal. The liquefaction of natural gas is captured in the LCA GHG Report’s estimate of the life cycle GHG emissions of U.S.-exported LNG, discussed below (Section IX).

We further note that EIA’s 2012 Study assumed the continuation of regulations in effect at the time the AEO 2011 was prepared.<sup>197</sup> Therefore, EIA’s analysis did not include the impacts that EPA’s Mercury and Air Toxics Standard<sup>198</sup> and its Transport Rule<sup>199</sup> may have on the extent to which the U.S. coal fleet would compensate for reduced use of natural gas. Nor did EIA’s analysis capture the potential for broad regulation of carbon dioxide emissions from the electric power sector. After publication of the EIA Study in early 2012, EPA proposed two rules that, if finalized, would likely reduce the extent to which increased use of coal would compensate for

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<sup>194</sup> *Id.*

<sup>195</sup> *Id.*

<sup>196</sup> *Id.* at 19.

<sup>197</sup> 2012 EIA Study at 12 n.7 (“The degree to which coal might be used in lieu of natural gas depends on what regulations are in-place that might restrict coal use. These scenarios reflect current laws and regulations in place at the time [AEO 2011] was produced.”).

<sup>198</sup> U.S. Env’tl. Prot. Agency, National Emission Standards for Hazardous Air Pollutants From Coal- and Oil-Fired Electric Utility Steam Generating Units and Standards of Performance for Fossil-Fuel-Fired Electric Utility, Industrial-Commercial- Institutional, and Small Industrial-Commercial-Institutional Steam Generating Units; Final Rule, 77 Fed. Reg. 9,304 (Feb. 16, 2012).

<sup>199</sup> U.S. Env’tl. Prot. Agency, Federal Implementation Plans: Interstate Transport of Fine Particulate Matter and Ozone and Correction of SIP Approvals; Final Rule, 76 Fed. Reg. 48,208 (Aug. 8, 2011).

reduced use of natural gas. In September 2013, EPA proposed a rule that would limit carbon dioxide emissions from new coal-fired electric-generating units.<sup>200</sup> And, in June 2014, EPA proposed a rule that would limit carbon dioxide emissions from existing coal-fired electric generating units.<sup>201</sup>

If finalized, these proposed rules appear to have the potential to mitigate significantly any increased emissions from the U.S. electric power sector that would otherwise result from increased use of coal, and perhaps to negate those increased emissions entirely. Therefore, on the record before us, we cannot conclude that exports of natural gas would be likely to cause a significant increase in U.S. GHG emissions through their effect on natural gas prices and the use of coal for electric generation.

## **2. International Impacts Associated with Energy Consumption in Foreign Nations**

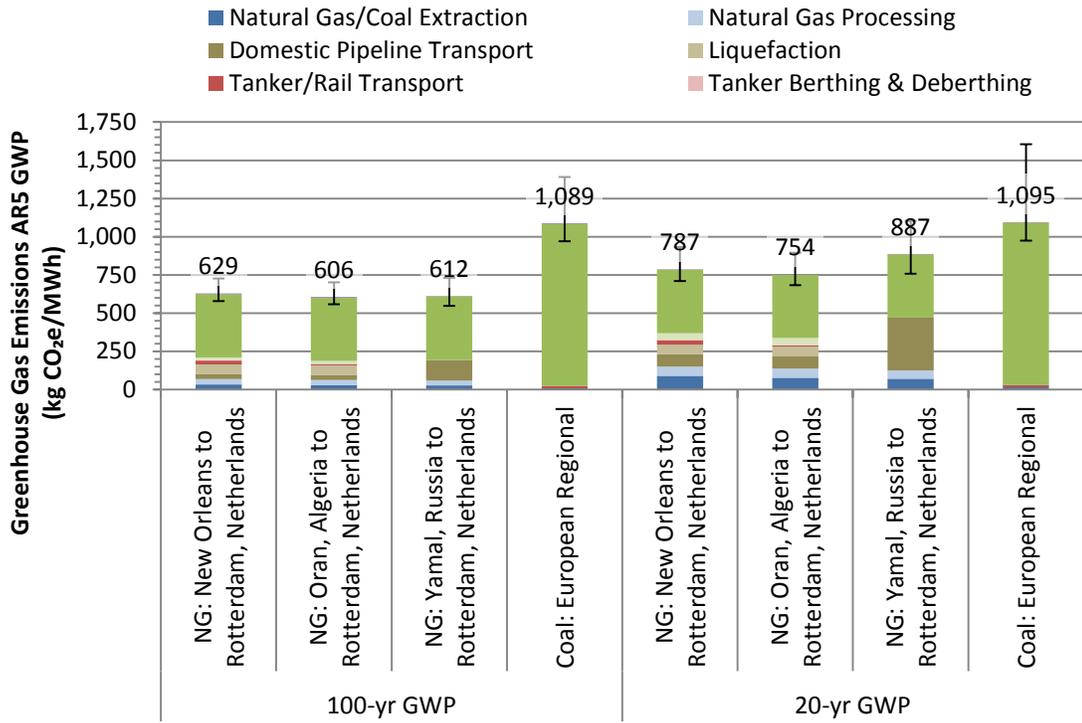
The LCA GHG Report estimated the life cycle GHG emissions of U.S. LNG exports to Europe and Asia, compared with certain other fuels used to produce electric power in those importing countries. The key findings for U.S. LNG exports to Europe and Asia are summarized in the following two figures (also presented above):

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<sup>200</sup> U.S. Env'tl. Prot. Agency, Standards of Performance for Greenhouse Gas Emissions From New Stationary Sources: Electric Utility Generating Units; Proposed Rule, 79 Fed. Reg. 1,430 (Jan. 8, 2014).

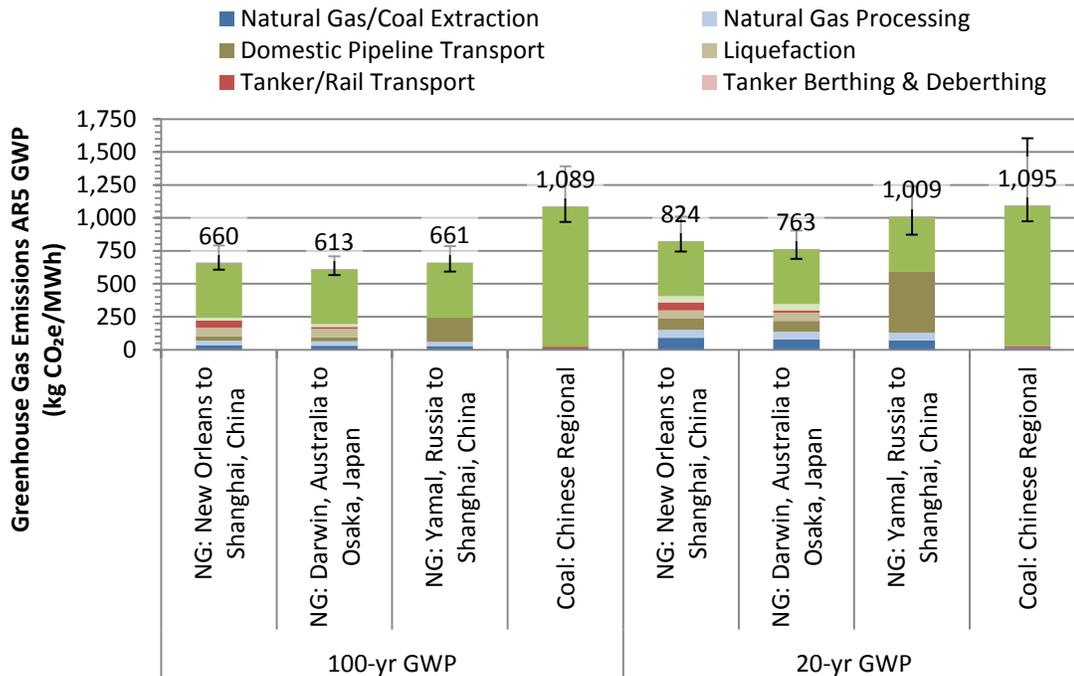
<sup>201</sup> U.S. Env'tl. Prot. Agency, Carbon Pollution Emission Guidelines for Existing Stationary Sources: Electric Utility Generating Units; Proposed Rule, 79 Fed. Reg. 34,830 (June 18, 2014).

**Table 8: Life Cycle GHG Emissions for Natural Gas and Coal Power in Europe<sup>202</sup>**



<sup>202</sup> LCA GHG Report at 9 (Figure 6-1).

**Table 9: Life Cycle GHG Emissions for Natural Gas and Coal Power in Asia<sup>203</sup>**



While acknowledging substantial uncertainty, the LCA GHG Report shows that to the extent U.S. LNG exports are preferred over coal in LNG-importing nations, U.S. LNG exports are likely to reduce global GHG emissions. Further, to the extent U.S. LNG exports are preferred over other forms of imported natural gas, they are likely to have only a small impact on global GHG emissions.<sup>204</sup>

As Sierra Club observes, the LCA GHG Report does not answer the ultimate question whether authorizing exports of natural gas to non-FTA nations will increase or decrease global GHG emissions, because regional coal and imported natural gas are not the *only* fuels with which U.S.-exported LNG would compete. U.S. LNG exports may also compete with renewable energy, nuclear energy, petroleum-based liquid fuels, coal imported from outside East Asia or

<sup>203</sup> LCA GHG Report at 10 (Figure 6-2).

<sup>204</sup> *Id.* at 9, 18.

Western Europe, indigenous natural gas, synthetic natural gas derived from coal, and other resources, as well as efficiency and conservation measures. To model the effect that U.S. LNG exports would have on net global GHG emissions would require projections of how each of these fuel sources would be affected in each LNG-importing nation. Such an analysis would not only have to consider market dynamics in each of these countries over the coming decades, but also the interventions of numerous foreign governments in those markets.<sup>205</sup>

The uncertainty associated with estimating each of these factors would likely render such an analysis too speculative to inform the public interest determination in this proceeding.

Accordingly, DOE/FE elected to focus on the discrete question of how U.S. LNG compares on a life cycle basis to regional coal and other sources of imported natural gas in key LNG-importing countries. This is a useful comparison because coal and imported natural gas are prevalent fuel sources for electric generation in non-FTA LNG-importing nations. For example, EIA notes that installed electric generation capacity in China was 66% coal and 3% natural gas in 2012.<sup>206</sup> For India, installed electric generation capacity in 2014 is 59% coal and 9% natural gas.<sup>207</sup> In both China and India, electric generation capacity is expected to increase substantially in coming years. For Japan, the largest importer of LNG in the world, electric generation from fossil fuels was 74% of total generation in 2011 and 89% in 2012 after the Fukushima disaster.<sup>208</sup> In

Europe, use of fossil fuels is slightly less than in the Asian nations noted above but still

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<sup>205</sup> Sierra Club observes that renewable energy has experienced significant growth in key LNG-importing countries such as India and China. Sierra Club does not, however, place the growth of renewable energy in the context of the aggregate use of fossil energy projects in those countries. Nor does Sierra Club explain the extent to which growth in renewable energy has been driven by public policies in those countries and how the availability of U.S. LNG exports would or would not impact the continuation of those policies.

<sup>206</sup> U.S. Energy Information Administration, China Analysis Brief (last updated Feb. 4, 2014), *available at*: <http://www.eia.gov/countries/cab.cfm?fips=CH>.

<sup>207</sup> U.S. Energy Information Administration, India Analysis Brief (last updated June 26, 2014), *available at*: <http://www.eia.gov/countries/cab.cfm?fips=IN>.

<sup>208</sup> U.S. Energy Information Administration, Japan Analysis Brief (last updated July 31, 2014), *available at*: <http://www.eia.gov/countries/cab.cfm?fips=JA>.

significant, comprising 68% and 49% of electric generation in the United Kingdom and Spain for 2012, respectively.<sup>209</sup>

The conclusions of the LCA GHG Report, combined with the observation that many LNG-importing nations rely heavily on fossil fuels for electric generation, suggests that exports of U.S. LNG may decrease global GHG emissions, although there is substantial uncertainty on this point as indicated above. In any event, the record does not support the conclusion that U.S. LNG exports will increase global GHG emissions in a material or predictable way. Therefore, while we share the commenters' strong concern about GHG emissions as a general matter, based on the current record evidence, we do not see a reason to conclude that U.S. LNG exports will significantly exacerbate global GHG emissions.

#### **D. LNG Export Study**

As explained above and detailed in the FLEX I Conditional Order, DOE/FE commissioned the two-part LNG Export Study and invited public comment. DOE/FE analyzed this material and determined that the LNG Export Study provides substantial support for conditionally granting each of FLEX's Applications. The conclusion of the LNG Export Study is that the United States will experience net economic benefits from issuance of authorizations to export domestically produced LNG. We evaluated the initial and reply comments submitted in response to the LNG Export Study. Various commenters criticized the data used as inputs to the LNG Export Study and numerous aspects of the models, assumptions, and design of the Study. As discussed in the Conditional Order, however, we find that the LNG Export Study is

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<sup>209</sup> EIA, International Energy Statistics, *available at*: <http://www.eia.gov/cfapps/ipdbproject/iedindex3.cfm?tid=2&pid=alltypes&aid=12&cid=SP.UK.&syid=2008&eyid=2012&unit=BKWH>. To evaluate the effect that U.S. LNG exports may have on the mix of fuels used for electric generation in Western Europe also requires consideration of the role of the European Trading System (ETS). The ETS places a cap on GHG emissions. Therefore, where the cap is a binding constraint, the ETS ultimately may ensure that the availability of U.S.-exported LNG will not affect aggregate emissions.

fundamentally sound and supports the proposition that the proposed authorization will not be inconsistent with the public interest.

Since issuing the FLEX I Conditional Order in May 2013, we have seen no developments that would disturb these conclusions or alter the central conclusion of the LNG Export Study. To the contrary, we note that EIA's most recent projections, set forth in AEO 2014 (discussed *supra* Section V), continue to show market conditions that will accommodate increased exports of natural gas. When compared to the AEO 2012 final projections and the AEO 2013 Early Release projections discussed in the FLEX I Conditional Order (at 61-64), the AEO 2014 Reference Case projects marked increases in domestic natural gas production—well in excess of what is required to meet projected increases in domestic consumption.

Additionally, we note that a number of commenters on the LNG Export Study raised environmental concerns that were not germane to the economic issues addressed in the Study.<sup>210</sup> The FLEX I Conditional Order did not address those comments, but did encourage those commenters to participate in FERC's environmental review of the Liquefaction Project.<sup>211</sup> We have independently reviewed the environmental comments on the LNG Export Study to ensure that all issues regarding the environmental impact of our decision on the proposed exports have been considered. We find that all such issues have been addressed in the EIS for the Liquefaction Project (which we have adopted) or in this Order.

#### **E. Benefits of International Trade**

We have not limited our review to the contents of the LNG Export Study or the environmental issues discussed herein, but have considered a wide range of other information.

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<sup>210</sup> See, e.g., the comments on the LNG Export Study submitted by the Delaware River Keepers, the Oregon Shores Conservation Coalition, and Citizen Power, among others.

<sup>211</sup> See FLEX I Conditional Order at 97.

For example, the National Export Initiative, established by Executive Order, sets an Administration goal to “improve conditions that directly affect the private sector’s ability to export” and to “enhance and coordinate Federal efforts to facilitate the creation of jobs in the United States through the promotion of exports.”<sup>212</sup>

We have also considered the international consequences of our decision. We review applications to export LNG to non-FTA nations under section 3(a) of the NGA. The United States’ commitment to free trade is one factor bearing on that review. An efficient, transparent international market for natural gas with diverse sources of supply provides both economic and strategic benefits to the United States and our allies. Indeed, increased production of domestic natural gas has significantly reduced the need for the United States to import LNG. In global trade, LNG shipments that would have been destined to U.S. markets have been redirected to Europe and Asia, improving energy security for many of our key trading partners. To the extent U.S. exports can diversify global LNG supplies, and increase the volumes of LNG available globally, it will improve energy security for many U.S. allies and trading partners. As such, authorizing U.S. exports may advance the public interest for reasons that are distinct from and additional to the economic benefits identified in the LNG Export Study and discussed in the FLEX I Conditional Order.

#### **F. Other Considerations**

Our decision is not premised on an uncritical acceptance of the general conclusion of the LNG Export Study of net economic benefits from LNG exports. Both the LNG Export Study and many public comments identify significant uncertainties and even potential negative impacts from LNG exports. The economic impacts of higher natural gas prices and potential increases in

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<sup>212</sup> National Export Initiative, Exec. Order 13,534, 75 Fed. Reg. 12,433 (Mar. 16, 2010).

natural gas price volatility are two of the factors that we view most seriously. Yet we also have taken into account factors that could mitigate such impacts, such as the current oversupply situation and data indicating that the natural gas industry would increase natural gas supply in response to increasing exports. Further, we note that it is far from certain that all or even most of the proposed LNG export projects will ever be realized because of the time, difficulty, and expense of commercializing, financing, and constructing LNG export terminals, as well as the uncertainties inherent in the global market demand for LNG. On balance, we find that the potential negative impacts of FLEX's proposed exports are outweighed by the likely net economic benefits and by other non-economic or indirect benefits.

More generally, DOE/FE continues to subscribe to the principle set forth in our 1984 Policy Guidelines<sup>213</sup> that, under most circumstances, the market is the most efficient means of allocating natural gas supplies. However, agency intervention may be necessary to protect the public in the event there is insufficient domestic natural gas for domestic use. There may be other circumstances as well that cannot be foreseen that would require agency action.<sup>214</sup> Given these possibilities, DOE/FE recognizes the need to monitor market developments closely as the impact of successive authorizations of LNG exports unfolds.

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<sup>213</sup> 49 Fed. Reg. at 6684.

<sup>214</sup> As we noted in the Conditional Order, some commenters on the LNG Export Study asked DOE to clarify the circumstances under which the agency would exercise its authority to revoke (in whole or in part) previously issued LNG export authorizations. We cannot precisely identify all the circumstances under which such action would be taken. We reiterate our observation in *Sabine Pass* that: "In the event of any unforeseen developments of such significant consequence as to put the public interest at risk, DOE/FE is fully authorized to take action as necessary to protect the public interest. Specifically, DOE/FE is authorized by section 3(a) of the Natural Gas Act ... to make a supplemental order as necessary or appropriate to protect the public interest. Additionally, DOE is authorized by section 16 of the Natural Gas Act 'to perform any and all acts and to prescribe, issue, make, amend, and rescind such orders, rules, and regulations as it may find necessary or appropriate' to carry out its responsibilities." *Sabine Pass*, DOE/FE Order No. 2961, at 33 n.45 (quoting 15 U.S.C. § 717o).

## G. Conclusion

We have reviewed the evidence in the record and have not found an adequate basis to conclude that FLEX's export of LNG to non-FTA countries will be inconsistent with the public interest. We find that APGA, the only opponent of FLEX's Application, has failed to overcome the statutory presumption that the proposed export authorization is consistent with the public interest. For that reason, we are authorizing FLEX's proposed exports to non-FTA countries subject to the limitations and conditions described in this Order.

In deciding whether to grant a final non-FTA export authorization, we consider in our decisionmaking the cumulative impacts of the total volume of all final non-FTA export authorizations. With the issuance of this Order, DOE/FE has now issued final non-FTA authorizations in a cumulative volume of exports totaling 5.74 Bcf/d of natural gas, or 2.095 Tcf/yr, for the five final authorizations issued to date—Sabine Pass (2.2 Bcf/d), Carib Energy (USA) LLC (0.04 Bcf/d),<sup>215</sup> Cameron LNG, LLC (1.7 Bcf/d),<sup>216</sup> the current order (1.4 Bcf/d), and FLEX II (issued concurrently today) (0.4 Bcf/d). This total export volume is within the range of scenarios analyzed in the EIA and NERA studies, as discussed in the Conditional Order. NERA found that in all such scenarios—assuming either 6 Bcf/d or 12 Bcf/d of export volumes—the United States would experience net economic benefits. As discussed above, the submissions of the intervenors do not undermine the reasonableness of the findings in the LNG Export Study.

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<sup>215</sup> *Carib Energy (USA) LLC*, DOE/FE Order No. 3487, FE Docket No. 11-141-LNG, Final Order Granting Long-Term Multi-Contract Authorization to Export Liquefied Natural Gas in ISO Containers by Vessel to Non-Free Trade Agreement Nations in Central America, South America, or the Caribbean (Sept. 10, 2014).

<sup>216</sup> *Cameron LNG, LLC*, DOE/FE Order No. 3391-A, FE Docket No. 11-162-LNG, Final Opinion and Order Granting Long-Term Multi-Contract Authorization to Export Liquefied Natural Gas by Vessel from the Cameron LNG Terminal in Cameron Parish, Louisiana, to Non-Free Trade Agreement Nations (Sept. 10, 2014).

DOE/FE will continue taking a measured approach in reviewing the other pending applications to export domestically produced LNG. Specifically, DOE/FE will continue to assess the cumulative impacts of each succeeding request for export authorization on the public interest with due regard to the effect on domestic natural gas supply and demand fundamentals. In keeping with the performance of its statutory responsibilities, DOE/FE will attach appropriate and necessary terms and conditions to authorizations to ensure that the authorizations are utilized in a timely manner and that authorizations are not issued except where the applicant can show that there are or will be facilities capable of handling the proposed export volumes and existing and forecast supplies that support that action. Other conditions will be applied as necessary.

The reasons in support of proceeding cautiously are several: (1) the LNG Export Study, like any study based on assumptions and economic projections, is inherently limited in its predictive accuracy; (2) applications to export significant quantities of domestically produced LNG are a new phenomena with uncertain impacts; and (3) the market for natural gas has experienced rapid reversals in the past and is again changing rapidly due to economic, technological, and regulatory developments. The market of the future very likely will not resemble the market of today. In recognition of these factors, DOE/FE intends to monitor developments that could tend to undermine the public interest in grants of successive applications for exports of domestically produced LNG and, as previously stated, to attach terms and conditions to the authorization in this proceeding and to succeeding LNG export authorizations as are necessary for protection of the public interest.

## **XI. TERMS AND CONDITIONS**

To ensure that the authorization issued by this Order is not inconsistent with the public interest, DOE/FE has attached the following terms and conditions to the authorization. The

reasons for each term or condition are explained below. FLEX must abide by each term and condition or face rescission of its authorization or other appropriate sanction.

#### **A. Term of the Authorization**

FLEX has requested a 25-year term for the authorization commencing from the date export operations begin. However, because the NERA study contains projections over a 20-year period beginning from the date of first export,<sup>217</sup> we believe that caution recommends limiting this conditional authorization to no longer than a 20-year term beginning from the date of first commercial export. In imposing this condition, we are mindful that LNG export facilities are capital intensive and that, to obtain financing for such projects, there must be a reasonable expectation that the authorization will continue for a term sufficient to support repayment. We find that a 20-year term is likely sufficient to achieve this result. We base that conclusion on the fact that FLEX has submitted to DOE/FE LTAs with 20-year terms, which is also the length of all LNG export contracts DOE/FE has received to date. We also note that a 20-year term is consistent with our practice in the final and conditional non-FTA export authorizations issued to date, including both of FLEX's Conditional Orders. Accordingly, the 20-year term will begin on the date when FLEX commences commercial export of domestically sourced LNG at the Freeport Terminal, but not before.

#### **B. Commencement of Operations Within Seven Years**

FLEX requested that this authorization commence on the earlier of the date of first export or five years from the date of the issuance of this order. Consistent with our actions in the FLEX I Conditional Order and the FLEX II proceeding, DOE/FE will allow as a condition of the

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<sup>217</sup> NERA study at 5 (“Results are reported in 5-year intervals starting in 2015. These calendar years should not be interpreted literally but represent intervals after exports begin. Thus if the U.S. does not begin LNG exports until 2016 or later, one year should be added to the dates for each year that exports commence after 2015.”).

authorization that FLEX commence LNG export operations using the Liquefaction Project facilities to liquefy natural gas no later than seven years from the date of issuance of this Order.

### **C. Commissioning Volumes**

FLEX will be permitted to apply for short-term export authorizations to export Commissioning Volumes prior to the commencement of the first commercial exports of domestically sourced LNG from the Freeport Terminal. “Commissioning Volumes” are defined as the volume of LNG produced and exported under a short-term authorization during the initial start-up of each LNG train, before each LNG train has reached its full steady-state capacity and begun its commercial exports pursuant to FLEX’s long-term contracts.<sup>218</sup> Commissioning Volumes will not be counted against the maximum level of volumes authorized in any of FLEX’s FTA or non-FTA LNG export orders, including this Order.

### **D. Make-Up Period**

FLEX will be permitted to continue exporting for a total of three years following the end of the 20-year term established in this Order, solely to export any Make-Up Volume that it was unable to export during the original export period. The three-year term during which the Make-Up Volume may be exported shall be known as the “Make-Up Period.”

The Make-Up Period does not affect or modify the total volume of LNG authorized in any of FLEX’s FTA or non-FTA LNG export orders, including this Order. Insofar as FLEX may seek to export additional volumes not previously authorized for export, it will be required to obtain appropriate authorization from DOE/FE.

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<sup>218</sup> For additional discussion of Commissioning Volumes and the Make-Up Period referenced below, see *Freeport LNG Expansion, L.P.*, DOE/FE Order Nos. 3282-B & 3357-A, at 4-9.

### **E. Transfer, Assignment, or Change in Control**

DOE/FE's natural gas import/export regulations prohibit authorization holders from transferring or assigning authorizations to import or export natural gas without specific authorization by the Assistant Secretary for Fossil Energy.<sup>219</sup> As a condition of the similar authorization issued to Sabine Pass in Order No. 2961, DOE/FE found that the requirement for prior approval by the Assistant Secretary under its regulations applies to any change of effective control of the authorization holder either through asset sale or stock transfer or by other means. This condition was deemed necessary to ensure that, prior to any transfer or change in control, DOE/FE will be given an adequate opportunity to assess the public interest impacts of such a transfer or change.

DOE/FE construes a change in control to mean a change, directly or indirectly, of the power to direct the management or policies of an entity whether such power is exercised through one or more intermediary companies or pursuant to an agreement, written or oral, and whether such power is established through ownership or voting of securities, or common directors, officers, or stockholders, or voting trusts, holding trusts, or debt holdings, or contract, or any other direct or indirect means. A rebuttable presumption that control exists will arise from the ownership or the power to vote, directly or indirectly, 10 percent or more of the voting securities of such entity.<sup>220</sup>

### **F. Agency Rights**

As described above, FLEX requests authorization to export LNG on its behalf and as agent for other entities who themselves hold title to the LNG. DOE/FE previously addressed the

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<sup>219</sup> 10 C.F.R. § 590.405.

<sup>220</sup> For information on DOE/FE's procedures governing a change in control, see U.S. Dep't of Energy, Procedures for Changes in Control Affecting Applications and Authorizations to Import or Export Natural Gas, 79 Fed. Reg. 65,641 (Nov. 5, 2014) (effective Sept. 26, 2014).

issue of Agency Rights in Order No. 2913,<sup>221</sup> which granted FLEX authority to export LNG to FTA countries. In that order, DOE/FE approved a proposal by FLEX to register each LNG title holder for whom FLEX sought to export LNG as agent. DOE/FE found that this proposal was an acceptable alternative to the non-binding policy adopted by DOE/FE in *Dow Chemical*, which established that the title for all LNG authorized for export must be held by the authorization holder at the point of export.<sup>222</sup> We find that the same policy considerations that supported DOE/FE's acceptance of the alternative registration proposal in Order No. 2913 apply here as well. DOE/FE reiterated its policy on Agency Rights procedures in *Gulf Coast LNG Export, LLC*.<sup>223</sup> In *Gulf Coast*, DOE/FE confirmed that, in LNG export orders in which Agency Rights have been granted, DOE/FE shall require registration materials filed for, or by, an LNG titleholder (Registrant) to include the same company identification information and long-term contract information of the Registrant as if the Registrant had filed an application to export LNG on its own behalf.<sup>224</sup>

To ensure that the public interest is served, the authorization granted herein shall be conditioned to require that where FLEX proposes to export LNG as agent for other entities who hold title to the LNG (Registrants), it must register with DOE/FE those entities on whose behalf it will export LNG in accordance with the procedures and requirements described herein.

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<sup>221</sup> *Freeport LNG Expansion, L.P., et al.*, DOE/FE Order No. 2913.

<sup>222</sup> *Dow Chem. Co.*, DOE/FE Order No. 2859, FE Docket No. 10-57-LNG, Order Granting Blanket Authorization to Export Liquefied Natural Gas, at 7-8 (Oct. 5, 2010), *discussed in Freeport LNG*, DOE/FE Order No. 2913, at 7-8.

<sup>223</sup> *Gulf Coast LNG Export, LLC*, DOE/FE Order No. 3163, FE Docket No. 12-05-LNG, Order Granting Long-Term Multi-Contract Authority to Export LNG by Vessel from the Proposed Brownsville Terminal to Free Trade Agreement Nations (Oct. 16, 2012).

<sup>224</sup> *See id.* at 7-8.

### **G. Contract Provisions for the Sale or Transfer of LNG to be Exported**

DOE/FE's regulations require applicants to supply transaction-specific factual information "to the extent practicable."<sup>225</sup> Additionally, DOE/FE regulations allow confidential treatment of the information supplied in support of or in opposition to an application if the submitting party requests such treatment, shows why the information should be exempted from public disclosure, and DOE/FE determines it will be afforded confidential treatment in accordance with 10 C.F.R. § 1004.11.<sup>226</sup>

DOE/FE will require that FLEX file or cause to be filed with DOE/FE any relevant long-term commercial agreements, including LTAs, pursuant to which FLEX exports LNG as agent for a Registrant. *See supra* Section IV.D.

DOE/FE finds that the submission of all such agreements or contracts within 30 days of their execution using the procedures described below will be consistent with the "to the extent practicable" requirement of section 590.202(b). By way of example and without limitation, a "relevant long-term commercial agreement" would include an agreement with a minimum term of two years, an agreement to provide gas processing or liquefaction services at the Freeport Terminal, a long-term sales contract involving natural gas or LNG stored or liquefied at the Freeport Terminal, or an agreement to provide export services from the Freeport Terminal.

In addition, DOE/FE finds that section 590.202(c) of DOE/FE's regulations<sup>227</sup> requires that FLEX file, or cause to be filed, all long-term contracts associated with the long-term supply of natural gas to the Freeport Terminal, whether signed by FLEX or the Registrant, within 30 days of their execution.

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<sup>225</sup> 10 C.F.R. § 590.202(b).

<sup>226</sup> *Id.* § 590.202(e).

<sup>227</sup> *Id.* § 590.202(c).

DOE/FE recognizes that some information in FLEX's or a Registrant's long-term commercial agreements associated with the export of LNG, and/or long-term contracts associated with the long-term supply of natural gas to the Freeport Terminal, may be commercially sensitive. DOE/FE therefore will provide FLEX the option to file or cause to be filed either unredacted contracts, or in the alternative (A) FLEX may file, or cause to be filed, long-term contracts under seal, but it also will file either: i) a copy of each long-term contract with commercially sensitive information redacted, or ii) a summary of all major provisions of the contract(s) including, but not limited to, the parties to each contract, contract term, quantity, any take or pay or equivalent provisions/conditions, destinations, re-sale provisions, and other relevant provisions; and (B) the filing must demonstrate why the redacted information should be exempted from public disclosure.

To ensure that DOE/FE destination and reporting requirements included in this Order are conveyed to subsequent title holders, DOE/FE will include as a condition of this authorization that future contracts for the sale or transfer of LNG exported pursuant to this Order shall include an acknowledgement of these requirements.

#### **H. Export Quantity**

The Application requests authorization to export up to 9 mtpa of natural gas, which FLEX states is equivalent to 1.4 Bcf/d, or 511 Bcf per year. As set forth herein, this Order authorizes the export of LNG in the full amount requested by FLEX, up to the equivalent of 511 Bcf/yr of natural gas.

#### **I. Combined FTA and Non-FTA Export Authorization Volume**

FLEX is now authorized to export LNG to: (i) FTA countries, in a total volume equivalent to 1022 Bcf/yr (2.8 Bcf/d) of natural gas as authorized in DOE/FE Order Nos. 2913-A

and 3066-A (each authorizing exports of 511 Bcf/yr, or 1.4 Bcf/d), and (ii) non-FTA countries, in a total volume equivalent to 657 Bcf/yr (1.8 Bcf/d) of natural gas as authorized in this final Order and in the final FLEX II Order (DOE/FE Order No. 3357-B) (authorizing exports of 511 Bcf/yr and 146 Bcf/yr, respectively).

As stated above, FLEX has notified FERC that the Liquefaction Project will have a liquefaction capacity of 1.8 Bcf/d of natural gas. DOE/FE's policy is not to authorize exports that exceed the capacity of a LNG export terminal.<sup>228</sup> Because the source of LNG proposed for export for all of FLEX's export authorizations is from the Freeport Terminal, FLEX may not treat the FTA export volumes as additive to the non-FTA volumes.

## **XII. FINDINGS**

On the basis of the findings and conclusions set forth above and in the FLEX I Conditional Order, we find that it has not been shown that a grant of the requested authorization will be inconsistent with the public interest, and we further find that the Application should be granted subject to the terms and conditions set forth herein. The following ordering paragraphs reflect current DOE/FE practice and supersede the ordering paragraphs set forth in the FLEX I Conditional Order.

## **XIII. ORDER**

Pursuant to section 3 of the Natural Gas Act, it is ordered that:

A. FLEX is authorized to export domestically produced LNG by vessel from the Freeport LNG Terminal in Brazoria County, Texas, up to the equivalent of 511 Bcf/yr of natural gas for a term of 20 years to commence on the earlier of the date of first commercial export or seven years from the date that this Order is issued (November 14, 2021). FLEX is authorized to

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<sup>228</sup> See *Freeport LNG Expansion, L.P., et al.*, DOE/FE Order No. 3357, at 162 (“There is no basis for authorizing exports in excess of the maximum liquefaction capacity of a planned facility.”).

export this LNG on its own behalf and as agent for other entities who hold title to the natural gas, pursuant to one or more long-term contracts (a contract greater than two years).

B. The 20-year authorization period will commence when FLEX commences commercial export of domestically sourced LNG from the Freeport Terminal, but not before. FLEX may export Commissioning Volumes prior to the commencement of the terms of this Order, pursuant to a separate short-term export authorization. The Commissioning Volumes will not be counted against the maximum level of volumes authorized in any of FLEX's FTA or non-FTA LNG export orders, including this Order.

C. FLEX may continue exporting for a total of three years following the end of the 20-year export term, solely to export any Make-Up Volume that it was unable to export during the original export period. The three-year Make-Up Period allowing the export of Make-Up Volumes does not affect or modify the total volume of LNG authorized in any of FLEX's FTA or non-FTA LNG export orders, including this Order. Insofar as FLEX may seek to export additional volumes not previously authorized for export, it will be required to obtain appropriate authorization from DOE/FE.

D. FLEX must commence export operations using the planned liquefaction facilities no later than seven years from the date of issuance of this Order.

E. The LNG export quantity authorized in this Order is equivalent to 511 Bcf/yr of natural gas. This quantity is not additive to the export volumes in FLEX's FTA authorizations, set forth in DOE/FE Order Nos. 2913-A and 3066-A, but it is additive to the export volume in FLEX's second non-FTA authorization, set forth in DOE/FE Order No. 3357-B.

F. This LNG may be exported to any country with which the United States does not have a FTA requiring the national treatment for trade in natural gas, which currently has or in the

future develops the capacity to import LNG, and with which trade is not prohibited by United States law or policy.

G. FLEX shall ensure that all transactions authorized by this Order are permitted and lawful under United States laws and policies, including the rules, regulations, orders, policies, and other determinations of the Office of Foreign Assets Control of the United States Department of the Treasury and FERC. Failure to comply with this requirement could result in rescission of this authorization and/or other civil or criminal remedies.

H. FLEX shall ensure compliance with all terms and conditions established by FERC in the final EIS, including the 83 environmental conditions recommended in the EIS and adopted in the FERC Order at Appendix A. Additionally, this authorization is conditioned on FLEX's on-going compliance with any other preventative and mitigative measures at the Freeport Terminal imposed by federal or state agencies.

I. (i) FLEX shall file, or cause others to file, with the Office of Oil and Gas Global Security and Supply a non-redacted copy of all executed long-term contracts associated with the long-term export of LNG on its own behalf or as agent for other entities from the Freeport Terminal. The non-redacted copies may be filed under seal and must be filed within 30 days of their execution. Additionally, if FLEX has filed the contracts described in the preceding sentence under seal or subject to a claim of confidentiality or privilege, within 30 days of their execution, FLEX shall also file, or cause others to file, for public posting either: i) a redacted version of the contracts described in the preceding sentence, or ii) major provisions of the contracts. In these filings, FLEX shall state why the redacted or non-disclosed information should be exempted from public disclosure.

(ii) FLEX shall file, or cause others to file, with the Office of Oil and Gas Global Security and Supply a non-redacted copy of all executed long-term contracts associated with the long-term supply of natural gas to the Freeport Terminal. The non-redacted copies may be filed under seal and must be filed within 30 days of their execution. Additionally, if FLEX has filed the contracts described in the preceding sentence under seal or subject to a claim of confidentiality or privilege, within 30 days of their execution, FLEX shall also file, or cause others to file, for public posting either: i) a redacted version of the contracts described in the preceding sentence, or ii) major provisions of the contracts. In these filings, FLEX shall state why the redacted or non-disclosed information should be exempted from public disclosure.

J. FLEX, or others for whom FLEX acts as agent, shall include the following provision in any agreement or other contract for the sale or transfer of LNG exported pursuant to this Order:

Customer or purchaser acknowledges and agrees that it will resell or transfer LNG purchased hereunder for delivery only to countries identified in Ordering Paragraph D of DOE/FE Order No. 3282, issued May 17, 2013, or Ordering Paragraph F of DOE/FE Order No. 3282-C, issued November 14, 2014, in FE Docket No. 10-161-LNG, and/or to purchasers that have agreed in writing to limit their direct or indirect resale or transfer of such LNG to such countries. Customer or purchaser further commits to cause a report to be provided to Freeport LNG Expansion, L.P., FLNG Liquefaction, LLC, FLNG Liquefaction 2, LLC, and FLNG Liquefaction 3, LLC that identifies the country of destination, upon delivery, into which the exported LNG was actually delivered, and to include in any resale contract for such LNG the necessary conditions to insure that Freeport LNG Expansion, L.P., FLNG Liquefaction, LLC, FLNG Liquefaction 2, LLC, and FLNG Liquefaction 3, LLC are made aware of all such actual destination countries.

K. FLEX is permitted to use its authorization in order to export LNG as agent for other entities, after registering the other parties with DOE/FE. Registration materials shall include an acknowledgement and agreement by the Registrant to supply FLEX with all information

necessary to permit FLEX to register that person or entity with DOE/FE, including: (1) the Registrant's agreement to comply with this Order and all applicable requirements of DOE/FE's regulations at 10 C.F.R. Part 590, including but not limited to destination restrictions; (2) the exact legal name of the Registrant, state/location of incorporation/registration, primary place of doing business, and the Registrant's ownership structure, including the ultimate parent entity if the Registrant is a subsidiary or affiliate of another entity; (3) the name, title, mailing address, e-mail address, and telephone number of a corporate officer or employee of the registrant to whom inquiries may be directed; and (4) within 30 days of execution, a copy of any long-term contracts not previously filed with DOE/FE, described in Ordering Paragraph I of this Order.

L. Each registration submitted pursuant to this Order shall have current information on file with DOE/FE. Any changes in company name, contact information, change in term of the long-term contract, termination of the long-term contract, or other relevant modification, shall be filed with DOE/FE within 30 days of such change(s).

M. As a condition of this authorization, FLEX shall ensure that all persons required by this Order to register with DOE/FE have done so. Any failure by FLEX to ensure that all such persons or entities are registered with DOE/FE shall be grounds for rescinding in whole or in part the authorization.

N. Within two weeks after the first export of domestically produced LNG occurs from the Freeport Terminal, FLEX shall provide written notification of the date that the first export of LNG authorized in Ordering Paragraph A above occurred.

O. FLEX shall file with the Office of Oil and Gas Global Security and Supply, on a semi-annual basis, written reports describing the progress of the proposed Liquefaction Project. The reports shall be filed on or by April 1 and October 1 of each year, and shall include

information on the progress of the Liquefaction Project, the date the liquefaction facility is expected to be operational, and the status of the long-term contracts associated with the long-term export of LNG and any long-term supply contracts.

P. Prior to any change in control of the authorization holder, FLEX must obtain the approval of the Assistant Secretary for Fossil Energy. For purposes of this Ordering Paragraph, a “change in control” shall include any change, directly or indirectly, of the power to direct the management or policies of FLEX, whether such power is exercised through one or more intermediary companies or pursuant to an agreement, written or oral, and whether such power is established through ownership or voting of securities, or common directors, officers, or stockholders, or voting trusts, holding trusts, or debt holdings, or contract, or any other direct or indirect means.<sup>229</sup>

Q. Monthly Reports: With respect to the LNG exports authorized by this Order, FLEX shall file with the Office of Oil and Gas Global Security and Supply, within 30 days following the last day of each calendar month, a report indicating whether exports of LNG have been made. The first monthly report required by this Order is due not later than the 30<sup>th</sup> day of the month following the month of first export. In subsequent months, if exports have not occurred, a report of “no activity” for that month must be filed. If exports of LNG have occurred, the report must give the following details of each LNG cargo: (1) the name(s) of the authorized exporter registered with DOE/FE; (2) the name of the U.S. export terminal; (3) the name of the LNG tanker; (4) the date of departure from the U.S. export terminal; (5) the country (or countries) of destination into which the exported LNG was actually delivered; (6) the name of the

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<sup>229</sup> See U.S. Dep’t of Energy, Procedures for Changes in Control Affecting Applications and Authorizations to Import or Export Natural Gas, 79 Fed. Reg. 65,641 (Nov. 5, 2014).

supplier/seller; (7) the volume in Mcf; (8) the price at point of export per million British thermal units (MMBtu); (9) the duration of the supply agreement; and (10) the name(s) of the purchaser(s). (Approved by the Office of Management and Budget under OMB Control No. 1901-0294)

R. All monthly report filings shall be made to U.S. Department of Energy (FE-34), Office of Fossil Energy, Office of Oil and Gas Global Security and Supply, P.O. Box 44375, Washington, D.C. 20026-4375, Attention: Natural Gas Reports. Alternatively, reports may be e-mailed to [ngreports@hq.doe.gov](mailto:ngreports@hq.doe.gov) or may be faxed to Natural Gas Reports at (202) 586-6050.

Issued in Washington, D.C., on November 14, 2014.



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Christopher A. Smith  
Principal Deputy Assistant Secretary  
Office of Fossil Energy