

UNITED STATES OF AMERICA

DEPARTMENT OF ENERGY

OFFICE OF FOSSIL ENERGY

PANGEA LNG (NORTH AMERICA)
HOLDINGS, LLC

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FE DOCKET NO. 12-174-LNG

ORDER GRANTING LONG-TERM MULTI-CONTRACT AUTHORIZATION
TO EXPORT LIQUEFIED NATURAL GAS BY VESSEL
FROM THE PROPOSED SOUTH TEXAS LNG EXPORT PROJECT
TO FREE TRADE AGREEMENT NATIONS

DOE/FE ORDER NO. 3227

JANUARY 30, 2013

I. DESCRIPTION OF REQUEST

On November 29, 2012, Pangea LNG (North America) Holdings, LLC (Pangea LNG) filed an application (Application), with the Office of Fossil Energy (FE) of the Department of Energy (DOE) under section 3 of the Natural Gas Act (NGA)¹ for long-term, multi-contract authorization, to export domestically produced liquefied natural gas (LNG) in an amount up to the equivalent of 398.5 billion cubic feet (Bcf) per year (Bcf/y) of natural gas (equal to 1.09 Bcf/day of natural gas), the equivalent of 8 million metric tons per annum (mtpa) from its proposed South Texas LNG Export Project (ST LNG Project) located at the Port of Corpus Christi in Ingleside, Texas, for a 25-year term. Pangea LNG seeks to export this LNG by vessel to any country with which the United States currently has, or in the future will have, a Free Trade Agreement (FTA) requiring the national treatment for trade in natural gas, and that currently has, or in the future develops, the capacity to import LNG via ocean-going carriers.² Pangea LNG seeks to export this LNG on its own behalf and also as agent for third parties. Pangea LNG requests that this authorization commence on the earlier of the date of first export or seven years from the date the authorization is issued (January 30, 2020).

II. BACKGROUND

Pangea LNG is a Delaware limited liability company with its principal place of business in The Woodlands, Texas. Pangea LNG is a wholly owned subsidiary of Pangea LNG B.V., a

¹ The authority to regulate the imports and exports of natural gas, including liquefied natural gas, under section 3 of the NGA (15 U.S.C. §717b) has been delegated to the Assistant Secretary for FE in Redelegation Order No. 00-002.04E issued on April 29, 2011.

² The United States currently has free trade agreements requiring national treatment for trade in natural gas with Australia, Bahrain, Canada, Chile, Colombia, Dominican Republic, El Salvador, Guatemala, Honduras, Jordan, Mexico, Morocco, Nicaragua, Oman, Panama, Peru, Republic of Korea, and Singapore. FTAs with Israel and Costa Rica do not require national treatment for trade in natural gas. An FTA with Panama has been ratified by Congress but has not yet taken effect.

Netherlands-based company that is developing floating LNG liquefaction and storage solutions around the globe. Pangea LNG B.V.'s ordinary shares are owned by Daewoo Shipbuilding & Marine Engineering, Co., Ltd. (DSME) (70%), D&H Solutions AS (20%) and NextDecade International Coöperatief U.A. ("NextDecade International") (10%).

DSME is a South Korea-based company whose major shareholders consist of Korea Development Bank (31.27%) and Korea Asset Management Corporation (19.11%), with the remaining shares being widely-held (with no individual entities holding five (5) percent or more of DSME's shares).³ D&H Solutions AS is a Norwegian-based joint venture company that is owned by Hemla II AS (50%) and DSME (50%). NextDecade International is a Netherlands-based cooperative and has six (6) individual investors from the United States, Spain, and The Netherlands.

Pangea LNG states that through an approximately 27-mile-long pipeline (ST Pipeline) to be developed by a Pangea LNG affiliate, the ST LNG Project will interconnect with many of the more than nine (9) interstate and intrastate pipeline systems⁴ crossed by the ST Pipeline allowing natural gas to be supplied through displacement or direct access from a wide variety of supply sources. Pangea LNG states that the ST Pipeline will have a throughput capacity of at least 1.2 Bcf/d, which will be adequate to supply the ST LNG Project with both feed gas for liquefaction and natural gas required to fuel any gas-fired facilities, taking into account any losses or shrinkage.⁵

³ Pangea LNG states that Treasury shares comprise 1.2% of the total shares of DSME.

⁴ Pangea LNG states that among the pipelines crossed by the ST Pipeline are Tennessee, Transco, NGPL, Gulf South, Texas Eastern, KM Tejas, Cross Tex, GulfTerra and Channel. The total estimated combined throughput of these nine (9) pipelines is approximately 4.4 Bcf/d. The specific interconnections with the ST Pipeline will be driven by customer demand for delivery/receipt points.

⁵ Pangea LNG states that should there be demand for additional capacity on the ST Pipeline for uses not associated with the ST Project, Pangea LNG's affiliate will expand the total pipeline capacity to the extent required by the Federal Energy Regulatory Commission's rules for open-access interstate pipelines. This would ensure adequate

Pangea LNG states that it is working closely with Statoil North America, Inc. (Statoil) on the development of the ST LNG Project. Pangea LNG states that it and Statoil are in active negotiations with respect to Statoil procuring up to a 50% equity stake in the ST LNG Project and utilizing up to 50% of the liquefaction and export capacity of the ST LNG Project.

Pangea LNG states that it will file long-term export contracts that are the subject of their requested authorization herein following execution of such agreements, which has yet to occur. Pangea LNG states that the gas supply underlying these long-term contracts will come from various sources in the United States through the ST LNG Project's connection to the interstate and intrastate pipeline grid. Pangea LNG states that this supply can be sourced in large volumes in the spot market or pursuant to long-term arrangements, for the account of Pangea LNG or third-party customers. Pangea LNG states that through the planned ST Pipeline interconnections, natural gas can be obtained from vast reserves spread over a large portion of North America. Pangea LNG further states that compression will be used as necessary to ensure that adequate gas flows can be achieved from the interconnected pipelines into the ST Pipeline and to the ST LNG Project at the delivery pressure required by the liquefaction process.

Pangea LNG states that in addition to the Eagle Ford and conventional South Texas production, which are in close proximity to the ST LNG Project, the planned ST Pipeline interconnects offer indirect access to the Marcellus, Haynesville, Woodford basins and other conventional Gulf Coast and North American production through displacement. Pangea LNG states that in 2011, total annual domestic natural gas production was 23 trillion cubic feet and on the rise.⁶ Pangea LNG states that in view of these production levels, the demonstrated ability of

capacity is available on the ST Pipeline for the ST LNG Project supply, as well as accommodate other unrelated uses.

⁶ U.S. Energy Information Administration, Annual Energy Outlook 2012 Early Release (Jan. 2012), *available at* <http://www.eia.gov/forecasts.aeo/er/excel/overview.fig02.data.xls>.

the domestic gas industry to increase production,⁷ and the vast size of the total gas reserves available in the United States⁸ and Canada, all of which dwarf the ST LNG Project's natural gas needs, there is a great deal of certainty with respect to the adequacy of supply for the ST LNG Project.

III. FINDINGS

(1) Section 3(c) of the NGA was amended by section 201 of the Energy Policy Act of 1992 (Pub. L. 102-486) to require that applications to authorize (a) the import and export of natural gas, including LNG, from and to a nation with which there is in effect a FTA requiring national treatment for trade in natural gas, and (b) the import of LNG from other international sources, be deemed consistent with the public interest and granted without modification or delay. The instant Application falls within section 3(c), as amended, and therefore, DOE/FE is charged with granting the Application without modification or delay.⁹

(2) In light of DOE's statutory obligation to grant the Application without modification or delay, there is no need for DOE/FE to review the other arguments posed by Pangea LNG in support of the Application. The instant grant of authority should not be read to indicate DOE's views on those arguments.

(3) The countries with which the United States has an FTA requiring national treatment for trade in natural gas currently are: Australia, Bahrain, Canada, Chile, Colombia, Dominican Republic, El Salvador, Guatemala, Honduras, Jordan, Mexico, Morocco, Nicaragua, Oman, Panama, Peru, Republic of Korea, and Singapore.

⁷ See, generally, U.S. Energy Information Administration, Annual Energy Outlook 2012, at p. 3 (June 2012), available at <http://www.eia.gov/forecasts/aeo/>.

⁸ Pangea LNG states that the U.S. Energy Information Administration's Annual Energy Outlook 2012 employs as its reference case estimated proved and unproved shale gas resources of 542 trillion cubic feet, out of a total U.S. resource of 2,203 trillion cubic feet. *Id.* at p. 93.

⁹ DOE further finds that the requirement for public notice of applications and other hearing-type procedures in 10 CFR part 590, are applicable only to applications seeking to export natural gas, including LNG, to countries with which the United States does not have a FTA requiring national treatment for trade in natural gas.

(4) DOE/FE addressed the issue of agency rights in *Freeport LNG Expansion, L.P. and FLNG Liquefaction, LLC*, DOE/FE Order No. 2913 (Order 2913), issued February 10, 2011. In Order 2913, DOE/FE approved a proposal by Freeport LNG Expansion, L.P. and FLNG Liquefaction, LLC (collectively, FLEX) to register each LNG title holder for whom FLEX sought to export LNG as agent. This proposal was an acceptable alternative to the non-binding policy adopted by DOE/FE in *Dow Chemical*,¹⁰ which established that the title for all LNG authorized for export must be held by the authorization holder at the point of export.

We find that the same policy considerations that supported DOE/FE's acceptance of the alternative registration proposal in Order 2913 apply here as well. Accordingly, the authorization granted herein shall require that where Pangea LNG proposes to export as agent for others, Pangea LNG will register those companies in accordance with the procedures and requirements described herein.

DOE/FE reiterated its policy on Agency Rights procedures in *Gulf Coast LNG Export, LLC*.¹¹ In *Gulf Coast*, DOE/FE confirmed that in LNG export orders in which Agency Rights have been granted that it shall require registration materials filed for, or by, an LNG title-holder (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.

(5) Section 590.202(b) of DOE's regulations requires applicants to supply transaction specific factual information "to the extent practicable." Additionally, DOE regulations at 10 CFR part 590.202(e) allow confidential treatment of the information supplied in support of or in

¹⁰ *The Dow Chemical Company*, DOE/FE Opinion and Order No. 2859 (FE Docket No. 10-57-LNG), October 5, 2010, at p. 7 and 8.

¹¹ *Gulf Coast LNG Export, LLC (Gulf Coast)*, Order Granting Long-Term Multi-Contract Authorization to Export Liquefied Natural Gas By Vessel from the Proposed Port of Brownsville, Texas, Terminal to Free Trade Agreement Nations, DOE/FE Order No. 3163, FE Docket No. 12-05-LNG, October 16, 2012

opposition to an application if the submitting party requests such treatment, shows why the information should be exempted from public disclosure, and DOE determines it will be afforded confidential treatment in accordance with 10 CFR 1004.11.

(6) DOE/FE will require that Pangea LNG file under seal with DOE/FE any relevant long-term commercial agreements between Pangea LNG and a Registrant once they have been executed. In addition, DOE/FE will require that Pangea LNG will cause to be filed with DOE/FE any subsequent relevant long-term commercial agreements entered into by a Registrant, once they have been executed. DOE/FE finds that the submission of these 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 such as a long-term sales contract involving natural gas or LNG stored or liquefied at the ST LNG Project, an agreement to provide gas processing or liquefaction services at the ST LNG Project, or an agreement to provide export services from the ST LNG Project.

(7) DOE/FE also will require Pangea LNG to file any long-term contracts Pangea LNG enters into providing for the long-term export of LNG on its own behalf from the ST LNG Project. DOE/FE finds that the submission of these 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).

(8) In addition, DOE/FE finds that section 590.202(b) requires that Pangea LNG file, or cause to be filed, all long-term contracts associated with the long-term supply of natural gas to

the ST LNG Project within 30 days of their execution that either Pangea LNG or the Registrant enters into.

(9) DOE/FE recognizes that some information in Pangea LNG's or a Registrant's long-term commercial agreements associated with the export of LNG, and long-term contracts associated with the long-term supply of natural gas to the ST LNG Project may be commercially sensitive. DOE will therefore require that (A) when Pangea LNG files, or causes to be filed, such a long-term contract under seal, that it also 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.

ORDER

Pursuant to section 3 of the NGA, it is ordered that:

A. Pangea LNG is authorized to export domestically produced LNG by vessel from the proposed ST LNG Project located at the Port of Corpus Christi in Ingleside, Texas, up to the equivalent of 398.5 Bcf/y of natural gas for a 25-year term, beginning on the earlier of the date of first export or 7 years from the date the authorization is issued (January 30, 2020), pursuant to one or more long-term contracts with third parties that do not exceed the term of this authorization.

B. This LNG may be exported to Australia, Bahrain, Canada, Chile, Colombia, Dominican Republic, El Salvador, Guatemala, Honduras, Jordan, Mexico, Morocco, Nicaragua, Oman, Panama, Peru, Republic of Korea, and Singapore, and to any nation that the United States

subsequently enters into a FTA requiring national treatment for trade in natural gas, provided that the destination nation has the capacity to import ocean going vessels. FTA countries are currently identified by DOE/FE at:

<http://www.fossil.energy.gov/programs/gasregulation/index.html>.

C. Pangea LNG shall ensure that all transactions authorized by this order are permitted and lawful under U.S. 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. Failure to comply with this requirement could result in rescission of this authorization and/or other civil or criminal remedies.

D. Pangea LNG shall file, or cause to be filed, with the Office of Natural Gas Regulatory Activities all executed long-term contracts associated with the long-term export of LNG on its own behalf or as agent for or on behalf of others, from the proposed ST LNG Project located at the Port of Corpus Christi In Ingleside, Texas, including both a non-redacted copy filed under seal and either: i) a redacted version of the contract, or ii) major provisions of the contract, for public posting, within 30 days of their execution. Applying the same procedures, Pangea LNG shall file, or cause to be filed, with the Office of Natural Gas Regulatory Activities all executed long-term contracts associated with the long-term supply of natural gas to the proposed ST LNG Project located at the Port of Corpus Christi In Ingleside, Texas, both un-redacted under seal, and either: i) a redacted version of the contract, or ii) major provisions of the contract, for public posting within 30 days of their execution. In these filings, Pangea LNG shall show why the redacted or non-disclosed information should be exempted from public disclosure.

E. Pangea LNG shall include the following provision in any 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 B of DOE/FE Order No. 3227, issued January 30, 2013 in FE Docket No. 12-174-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 Pangea LNG (North America) Holdings, 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 ensure that Pangea LNG is made aware of all such actual destination countries."

F. Pangea LNG is permitted to use its authorization in order to export LNG on behalf of or as agent for others, after registering the other party with DOE/FE. Registration materials shall include an acknowledgement and agreement by the registrant to supply Pangea LNG with all information necessary to permit Pangea LNG 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's regulations at 10 CFR 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; (4) within 30 days of execution, a copy, of any long-term contracts, not previously filed with DOE/FE, described in Ordering paragraph (D) of this Order, including both a non-redacted copy for filing under seal and either: i) a redacted version of the contract, or ii) major provisions of the contract, for public posting.

G. 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).

H. Within two weeks after the first export of domestically produced LNG occurs from the proposed ST LNG Project located at the Port of Corpus Christi in Ingleside, Texas, Pangea LNG shall provide written notification of the date that the first export of LNG authorized in Order Paragraph A above occurred.

I. Pangea LNG shall file with the Office of Natural Gas Regulatory Activities, on a semi-annual basis, written reports describing the progress of the proposed liquefaction facility 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 proposed ST LNG Project located at the Port of Corpus Christi in Ingleside, Texas, the date the 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.

J. Monthly Reports: With respect to the LNG exports authorized by this Order, Pangea LNG shall file with the Office of Natural Gas Regulatory Activities, 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 30th 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 of destination; (6) the name of the 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 (indicate spot sales); and (10) the name(s) of the purchaser (s).

(Approved by the Office of Management and Budget under OMB Control No. 1901-0294)

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

Issued in Washington, D.C., on January 30, 2013.



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