

Dominion Midstream Partners, LP  
Form 10-K  
February 27, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

I.R.S. Employer

Commission File Number

001-36684

Exact name of registrants as specified in their charters

DOMINION MIDSTREAM PARTNERS, LP

Identification Number

46-5135781

DELAWARE

*(State or other jurisdiction of incorporation or organization)*

120 TREDEGAR STREET

RICHMOND, VIRGINIA

23219

*(Address of principal executive offices)*

*(Zip Code)*

(804) 819-2000

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(Registrants telephone number)

## Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Units Representing Limited Partner Interests	New York Stock Exchange

## Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act). Yes  No

The registrant cannot calculate the aggregate market value of its common units held by non-affiliates as of the last business day of its most recently completed second fiscal quarter because there was no established public trading market for its common units as of such date. As of January 31, 2015, Dominion Midstream Partners, LP had 31,980,166 common units and 31,972,789 subordinated units outstanding.

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Unless the context otherwise requires, references in this Annual Report on Form 10-K to Cove Point, the Predecessor, our predecessor, and we, our, us, our partnership or like terms when used in a historical context (periods prior to October 20, 2014), refer to Dominion Cove Point LNG, LP as our predecessor for accounting purposes, and when used in the present tense or prospectively (periods beginning October 20, 2014), Dominion Midstream, we, our, us or like terms refer to Dominion Midstream Partners, LP and its wholly-owned subsidiary, Cove Point GP Holding Company, LLC.

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The following abbreviations or acronyms used in this Form 10-K are defined below:

<b>Abbreviation or Acronym</b>	<b>Definition</b>
2005 Agreement	An agreement effective March 1, 2005, which Cove Point entered into with the Sierra Club and the Maryland Conservation Council, Inc.
Additional Return Distributions	The additional cash distribution equal to 3.0% of Cove Point's Modified Net Operating Income in excess of \$600 million distributed each year
Adjusted EBITDA	EBITDA after adjustment for a noncontrolling interest in Cove Point held by Dominion subsequent to the Offering
AFUDC	Allowance for funds used during construction
ARO	Asset retirement obligation
Atlantic Coast Pipeline	Atlantic Coast Pipeline, LLC, a limited liability company owned by Dominion, Duke Energy Corporation, Piedmont Natural Gas Company, Inc. and AGL Resources Inc.
BACT	Best available control technology
Bcfe	Billion cubic feet equivalent
Blue Racer	Blue Racer Midstream, LLC, a joint venture between Dominion and Caiman
CAA	Clean Air Act
Caiman	Caiman Energy II, LLC
CAP	IRS Compliance Assurance Process
CEO	Chief Executive Officer
CERCLA	Comprehensive Environmental Response, Compensation and Liability Act of 1980
CFO	Chief Financial Officer
CGN Committee	Compensation, Governance and Nominating Committee of Dominion's Board of Directors
CGT	Carolina Gas Transmission Corporation
CO <sub>2</sub>	Carbon dioxide
COO	Chief Operating Officer
Cove Point	Dominion Cove Point LNG, LP
Cove Point Facilities	Collectively the Liquefaction Project, Cove Point LNG Facility and Cove Point Pipeline
Cove Point Holdings	Cove Point GP Holding Company, LLC
Cove Point LNG Facility	An LNG import/regasification and storage facility located on the Chesapeake Bay in Lusby, Maryland owned by Cove Point
Cove Point Pipeline	An approximately 136-mile natural gas pipeline owned by Cove Point that connects the Cove Point LNG Facility to interstate natural gas pipelines
CPCN	Certificate of Public Convenience and Necessity
CWA	Clean Water Act
D.C.	District of Columbia
DCPI	Dominion Cove Point, Inc.
DOE	Department of Energy
Dominion	The legal entity, Dominion Resources, Inc., one or more of its consolidated subsidiaries (other than Dominion Midstream GP, LLC and its subsidiaries) or operating segments or the entirety of Dominion Resources, Inc. and its consolidated subsidiaries
Dominion Gas	Dominion Gas Holdings, LLC
Dominion Midstream	The legal entity, Dominion Midstream Partners, LP, its consolidated subsidiary Cove Point Holdings, or the entirety of Dominion Midstream Partners, LP, and its consolidated subsidiaries
Dominion Midstream LTIP	Dominion Midstream 2014 Long-Term Incentive Plan
DOT	U.S. Department of Transportation
DRS	Dominion Resources Services, Inc.
Dth	Dekatherm
DTI	Dominion Transmission, Inc.
EA	Environmental assessment
EBITDA	Earnings before interest and associated charges, income tax expense, depreciation and amortization

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EPA	Environmental Protection Agency
EPACT	Energy Policy Act of 2005
EPCRA	Emergency Planning and Community Right-to-Know Act
ERISA	The Employee Retirement Income Security Act of 1974
Export Customers	ST Cove Point, LLC, a joint venture of Sumitomo Corporation and Tokyo Gas Co., Ltd., and GAIL Global (USA) LNG LLC
FERC	Federal Energy Regulatory Commission
FERC Order	FERC order issued on September 29, 2014 that granted authorization for Cove Point to construct, modify and operate the Liquefaction Project, subject to conditions, and also granted authorization to enhance the Cove Point Pipeline
FTA	Free Trade Agreement
FTA Authorization	Authorization from the DOE for the export of up to 1.0 Bcfe/day of natural gas to countries that have or will enter into an FTA for trade in natural gas

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<b>Abbreviation or Acronym</b>	<b>Definition</b>
GAAP	U.S. generally accepted accounting principles
GHGRP	Greenhouse Gas Reporting Program
GHG	Greenhouse gas
IDR	Incentive distribution right
Import Shippers	The three LNG import shippers consisting of BP Energy Company, Shell NA LNG, Inc. and Statoil
IRS	Internal Revenue Service
Liquefaction Project	A natural gas export/liquefaction facility currently under construction by Cove Point
LNG	Liquefied natural gas
Maryland Commission	Public Service Commission of Maryland
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MLP	Master limited partnership, equivalent to publicly traded partnership
Modified Net Operating Income	Cove Point's Net Operating Income plus any interest expense included in the computation of Net Operating Income
Mtpa	Million metric tons per annum
NAAQS	National Ambient Air Quality Standards
Net Operating Income	Cove Point's gross revenues from operations minus its interest expense and operating expenses, but excluding depreciation and amortization, as determined for U.S. federal income tax purposes
NGA	Natural Gas Act of 1938, as amended
NGPSA	Natural Gas Pipeline Safety Act of 1968, as amended
NO <sub>2</sub>	Nitrogen dioxide
Non-FTA Authorization	Authorization from the DOE for the export of up to 0.77 Bcfe/day of natural gas to countries that do not have an FTA for trade in natural gas
Non-Open Access Services	Non-open access, proprietary non-jurisdictional services with rates, terms and conditions that are determined by arm's length negotiations with customers
NO <sub>x</sub>	Nitrogen oxide
NYSE	New York Stock Exchange
Offering	The initial public offering of common units of Dominion Midstream
Open Access Services	Open access jurisdictional services with cost-based rates and terms and conditions that are part of a tariff approved by the FERC
OSHA	Federal Occupational Safety and Health Act, as amended
PHI	Pepco Holdings, Inc.
PHMSA	Pipeline and Hazardous Materials Safety Administration
Preferred Equity Interest	A perpetual, non-convertible preferred equity interest in Cove Point entitled to the Preferred Return Distributions and the Additional Return Distributions
Preferred Return Distributions	The first \$50.0 million of annual cash distributions made by Cove Point
PSD	Prevention of Significant Deterioration
PSIA	Pipeline Safety Improvement Act of 2002
RCRA	Resource Conservation and Recovery Act as amended
RGGI	Regional Greenhouse Gas Initiative
ROFO Assets	Any of the common equity interests in Cove Point or the indirect ownership interests in Blue Racer or Atlantic Coast Pipeline subject to the right of first offer agreement with Dominion entered into in connection with the Offering
SEC	Securities and Exchange Commission
SEIF	Maryland Strategic Energy Investments Fund
SO <sub>2</sub>	Sulfur dioxide
Statoil	Statoil Natural Gas, LLC
Storage Customers	The four local distribution companies that receive firm peaking services from Cove Point, consisting of Atlanta Gas Light Company; Public Service Company of North Carolina, Incorporated; Virginia Natural Gas, Inc. and Washington Gas Light Company
Transco	Transcontinental Gas Pipe Line, LLC
U.S.	United States of America
Virginia Power	Virginia Electric and Power Company



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**Part I**

**Item 1. Business**

**OVERVIEW**

Dominion Midstream is a growth-oriented Delaware limited partnership formed on March 11, 2014 by Dominion to acquire the Preferred Equity Interest and the general partner interest in Cove Point from Dominion. We expect that our relationship with Dominion, which has substantial additional midstream assets, should provide us the opportunity over time to grow a portfolio of natural gas terminaling, processing, storage, transportation and related assets.

A registration statement on Form S-1, as amended through the time of its effectiveness, was filed by Dominion Midstream with the SEC and was declared effective on October 10, 2014. Dominion Midstream's common units began trading on the NYSE on October 15, 2014, under the ticker symbol DM. On

October 20, 2014, Dominion Midstream completed the Offering of 20,125,000 common units representing limited partner interests.

Cove Point owns and operates the Cove Point LNG Facility and the Cove Point Pipeline. Cove Point is currently generating significant revenue and earnings from annual reservation payments under certain regasification, storage and transportation contracts.

Dominion Midstream manages its daily operations through one operating segment, Dominion Energy, which consists of LNG import, transportation and storage. In addition to the Dominion Energy operating segment, Dominion Midstream also reports a Corporate and Other segment, which primarily includes specific items attributable to its operating segment that are not included in profit measures evaluated by executive management in assessing the operating segment's performance. See Note 17 to the Consolidated Financial Statements for further discussions of Dominion Midstream's operating segment, which information is incorporated herein by reference.

**ORGANIZATIONAL STRUCTURE**

The following diagram depicts Dominion Midstream's organizational and ownership structure at December 31, 2014.



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**ASSETS AND OPERATIONS**

**Preferred Equity Interest**

Our sole cash flow generating asset is the Preferred Equity Interest which is entitled to Preferred Return Distributions so long as Cove Point has sufficient cash and undistributed Net Operating Income (determined on a cumulative basis from the closing of the Offering) from which to make Preferred Return Distributions. Preferred Return Distributions will be made on a quarterly basis and will not be cumulative. The Preferred Equity Interest is also entitled to the Additional Return Distributions and should benefit from the expected increased cash flows and income associated with the Liquefaction Project once it is completed.

We expect that Cove Point will generate cash and cumulative Net Operating Income in excess of that required to make Preferred Return Distributions through the expected completion of the Liquefaction Project in late 2017 and thereafter. We base our expectation on the existing long-term contracts with firm reservation charges for substantially all of the regasification and storage capacity of the Cove Point LNG Facility and all of the transportation capacity of the Cove Point Pipeline and the expectation that the Liquefaction Project will commence operations in late 2017. While we expect Cove Point's cash flows and Net Operating Income from its existing import contracts and associated transportation contracts to decrease as those contracts expire in 2017 and 2023, we expect the cash flows and Net Operating Income from the Liquefaction Project, once completed, to replace and substantially exceed Cove Point's cash flows and Net Operating Income from its existing import contracts and associated transportation contracts. See description of the Liquefaction Project under Assets and Operations - Cove Point. Until the Liquefaction Project is completed, Cove Point will be prohibited from making a distribution on its common equity interests until it has a distribution reserve sufficient to pay two quarters of Preferred Return Distributions (and two quarters of similar distributions with respect to any other preferred equity interest in Cove Point). We intend to cause Cove Point to fully fund such distribution reserve by December 31, 2016, but there can be no assurance that funds will be available or sufficient for such purpose or that Cove Point will have sufficient cash and undistributed Net Operating Income to permit it to continue to make Preferred Return Distributions after the expiration of certain of its contracts in 2017. We do not expect to cause Cove Point to make distributions on its common equity, or the Additional Return Distributions, prior to the Liquefaction Project commencing commercial service. No distribution reserve will be established for the Additional Return Distributions.

**Cove Point**

Cove Point is a Delaware limited partnership, of which Dominion Midstream owns the preferred equity interests and the general partner interest and Dominion owns the common equity interests. Cove Point's operations currently consist of LNG import and storage services at the Cove Point LNG Facility and the transportation of domestic natural gas and regasified LNG to Mid-Atlantic markets via the Cove Point Pipeline. Following binding commitments from counterparties, Cove Point requested regulatory approval to operate the Cove Point LNG Facility as a bi-directional facility, able to import LNG and

vaporize it as natural gas or to liquefy domestic natural gas and export it as LNG.

**COVE POINT'S IMPORT/STORAGE/REGASIFICATION FACILITIES**

The Cove Point LNG Facility includes an offshore pier, LNG storage tanks, regasification facilities and associated equipment required to (i) receive imported LNG from tankers, (ii) store LNG in storage tanks, (iii) regasify LNG and (iv) deliver regasified LNG to the Cove Point Pipeline. The Cove Point LNG Facility has an operational peak regasification capacity of approximately 1.8 million Dths/day and an aggregate LNG storage capacity of 695,000 cubic meters of LNG, or approximately 14.6 Bcfe, all of which is currently fully contracted. In addition, the Cove Point LNG Facility has an existing liquefier (unrelated to the Liquefaction Project) capable of liquefying approximately 15,000 Dths/day of natural gas. This liquefaction capacity is primarily used to liquefy natural gas received from domestic customers that store LNG in our tanks for use during peak periods of natural gas demand. Cove Point offers both Open Access Services and Non-Open Access Services. Cove Point's two-berth pier is located approximately 1.1 miles offshore in the Chesapeake Bay. Cove Point operates the Cove Point LNG Facility on an integrated basis with no equipment exclusively used for the benefit of Open Access Services or Non-Open Access Services.

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Cove Point currently provides services under (i) long-term agreements with the Import Shippers for an aggregate of 1.0 million Dths/day of firm and off-peak regasification capacity, and (ii) long-term agreements for an aggregate 204,000 Dths/day of firm capacity with the Storage Customers who receive firm peaking services, whereby the Storage Customers deliver domestic natural gas to the Cove Point LNG Facility to be liquefied and stored during the summer for withdrawal on a limited number of days at peak times during the winter. Cove Point also has an additional 800,000 Dths/day of regasification capacity committed under a separate agreement with Statoil, one of the Import Shippers. In 2014, the Import Shippers comprised approximately 95% of total consolidated revenues for Dominion Midstream. Cove Point's customers are required to pay fixed monthly charges, regardless of whether they use the amount of capacity they have paid to reserve at the Cove Point LNG Facility. Following the expiration of certain Cove Point regasification and transportation contracts with Statoil in 2017, the resulting available storage and transportation capacity will be utilized in connection with the Liquefaction Project.

### **COVE POINT'S PIPELINE FACILITIES**

The Cove Point Pipeline is a 36-inch diameter bi-directional underground, interstate natural gas pipeline that extends approximately 88 miles from the Cove Point LNG Facility to interconnections with pipelines owned by Transco in Fairfax County, Virginia, and with Columbia Gas Transmission LLC and DTI, both in Loudoun County, Virginia. In 2009, the original pipeline was expanded to include a 36-inch diameter loop that extends approximately 48 miles, roughly 75% of which is parallel to the original pipeline. Cove Point has two existing compressor stations at its interconnections with the three upstream interstate pipelines. The Loudoun Compressor Station is located at the western end of the Cove Point Pipeline where it interconnects with the

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pipeline systems of DTI and Columbia Gas Transmission LLC. The Pleasant Valley Compressor Station is located roughly 13 miles to the southeast of the Loudoun Compressor Station, where the Cove Point Pipeline interconnects with Transco's pipeline system.

Cove Point offers open-access transportation services, including firm transportation, off-peak firm transportation and interruptible transportation, with cost-based rates and terms and conditions that are subject to the jurisdiction of the FERC. Firm transportation services are generally provided based on a reservation-based fee that is designed to recover Cove Point's fixed costs and earn a reasonable return. The firm transportation customers are required to pay fixed monthly fees, regardless of whether they use their reserved capacity for the Cove Point Pipeline. Cove Point also provides certain incrementally priced, firm transportation services that are associated with expansion projects. The Export Customers will be responsible for procuring their own natural gas supplies and transporting such supplies to the Cove Point Pipeline, which serves as the primary method of transportation of natural gas supplies to or from the Cove Point LNG Facilities.

In December 2014, Cove Point filed two applications to request FERC authorization to construct and operate facilities that will provide firm transportation services for new power generating facilities located in Maryland. The \$30.6 million St. Charles Transportation Project will provide 132,000 Dths/day of firm transportation service from Cove Point's interconnect with Transco in Fairfax County, Virginia to Competitive Power Venture Maryland, LLC's power generating facility in Charles County, Maryland. Service under a 20-year contract is expected to commence in June 2016. The \$36.6 million Keys Energy Project will provide 107,000 Dths/day of firm transportation service from Cove Point's interconnect with Transco in Fairfax County, Virginia to Keys Energy Center, LLC's power generating facility in Prince George's County, Maryland. Service under a 20-year contract is expected to commence in March 2017.

### **COVE POINT'S EXPORT/LIQUEFACTION FACILITIES**

Cove Point is in the process of constructing the Liquefaction Project, which will consist of one LNG train with a design nameplate outlet capacity of 5.25 Mtpa. It is expected to be placed in service in late 2017. Under normal operating conditions and after accounting for maintenance downtime and other losses, the firm contracted capacity for LNG loading onto ships will be approximately 4.6 Mtpa (0.66 Bcfe/day). Cove Point has authorization from the DOE to export up to 0.77 Bcfe/day (approximately 5.75 Mtpa) should the liquefaction facilities perform better than expected. Once completed, the Liquefaction Project will enable the Cove Point LNG Facility to liquefy domestically produced natural gas and export it as LNG. The Liquefaction Project will be constructed on land already owned by Cove Point, which is within the developed area of the existing Cove Point LNG Facility, and will be integrated with a number of the facilities that are currently operational. Domestic natural gas will be delivered to the Cove Point LNG Facility through the Cove Point Pipeline for liquefaction and will be exported as LNG. The total costs of developing the Liquefaction Project are estimated to be \$3.4 billion to \$3.8 billion, excluding financing costs. Through December 31, 2014, Cove Point incurred \$930.4 million of

development and construction costs associated with the Liquefaction Project. Dominion has indicated that it intends to provide the funding necessary for the remaining construction costs for the Liquefaction Project, but it is under no obligation to do so.

The total installed storage capacity of the facility is 695,000 cubic meters of LNG, or approximately 14.6 Bcfe of gas. LNG will be pumped from the tanks to the offshore pier for loading onto LNG vessels for export. Many of the existing facilities at the Cove Point LNG Facility will be used as part of the Liquefaction Project. The Liquefaction Project will utilize existing storage tanks at the Cove Point LNG Facility to store LNG produced by the liquefaction facilities, together with on-site power generation and control systems, and will utilize the existing off-shore two-berth pier and insulated LNG and gas piping from the pier to the on-shore Cove Point LNG Facility. Cove Point also anticipates constructing new facilities to liquefy the natural gas delivered to the Cove Point LNG Facility through the Cove Point Pipeline on land it already owns (which encompasses more than 1,000 acres). No change will be made to the Cove Point LNG Facility's current storage, import, or regasification capabilities and only minor modifications will be made to the Cove Point LNG Facility itself, such as adding piping tie-ins and electrical/control connections to integrate the liquefaction facility with the existing LNG vaporization facilities.

### **COVE POINT'S EXPORT CUSTOMERS**

Cove Point has executed service contracts for the Liquefaction Project with the Export Customers, each of which has contracted for 50% of the available capacity. The Export Customers together will have firm access to 6.8 Bcfe of the existing storage capacity, which will be made available upon the expiration of Cove Point's import contracts with Statoil, with the balance of such capacity available for Cove Point's Import Shippers and Storage Customers. The Export Customers have each entered into a 20-year agreement for the planned liquefaction and export services, which they may annually elect to switch to import services, provided that the other customer also agrees to switch. In addition, each of

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the Export Customers has entered into a pipeline precedent agreement for an accompanying 20-year service agreement for firm transportation on the Cove Point Pipeline.

Cove Point will provide terminal services for the Export Customers as a tolling service, and the Export Customers will be responsible for procuring their own natural gas supplies and transporting such supplies to or from the Cove Point LNG Facilities. Following the completion and initial startup phase of the Liquefaction Project, Cove Point anticipates that total revenues, including reservation charges on the Cove Point Pipeline, will be in excess of \$800 million per year. To deliver the feed gas for liquefaction to the Cove Point LNG Facility, each Export Customer entered into a firm transportation service agreement to utilize the Cove Point Pipeline, with a maximum firm transportation quantity of 430,000 Dths/day for each Export Customer. This amount of firm transportation capacity will enable Export Customers to deliver to the Cove Point LNG Facility the feed gas, including fuel, required on days of peak liquefaction, utilizing both their firm liquefaction rights and an expected level of authorized overrun service. In the event of an election of import/regasification service, each of the Export Customers will have a regasification capacity of 330,000 Dths/day.

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**RELATIONSHIP WITH DOMINION**

We view our relationship with Dominion as a significant competitive strength. We believe this relationship will provide us with potential acquisition opportunities from a broad portfolio of existing midstream assets that meet our strategic objectives, as well as access to personnel with extensive technical expertise and industry relationships. Dominion has granted us a right of first offer with respect to any future sale of its common equity interests in Cove Point. We may also acquire newly issued common equity or additional preferred equity interests in Cove Point in the future, provided that any issuances of additional equity interests in Cove Point would require both our and Dominion's approval. Any additional equity interests that we acquire in Cove Point would allow us to participate in the significant growth in cash flows and income expected following the completion of the Liquefaction Project. In addition, acquisition opportunities may arise from future midstream pipeline, terminaling, processing, transportation and storage assets acquired or constructed by Dominion.

Dominion, headquartered in Richmond, Virginia, is one of the nation's largest producers and transporters of energy. Dominion's strategy is to be a leading provider of electricity, natural gas and related services to customers primarily in the eastern region of the U.S. At December 31, 2014, Dominion served over 5 million utility and retail energy customers in 10 states and operated one of the nation's largest underground natural gas storage systems, with approximately 947 Bcfe of storage capacity. Dominion's portfolio of midstream pipeline, terminaling, processing, transportation and storage assets includes its indirect ownership interests in Blue Racer and Atlantic Coast Pipeline, both of which are described in more detail below, and the assets and operations of Dominion Gas. Dominion Gas consists of (i) The East Ohio Gas Company d/b/a Dominion East Ohio, a regulated natural gas distribution operation, (ii) DTI, an interstate natural gas transmission pipeline company, and (iii) Dominion Iroquois, Inc., which holds a 24.72% general partner interest in Iroquois Gas Transmission System L.P.

Blue Racer is a midstream energy company focused on the design, construction, operation and acquisition of midstream assets. Blue Racer was formed to provide midstream services to natural gas producers operating in the Utica Shale formation in Ohio and portions of Pennsylvania, and is an equal partnership between Dominion and Caiman, with Dominion contributing midstream assets, including both gathering and processing assets, and Caiman contributing private equity capital. Midstream services offered by Blue Racer include gathering, processing, fractionation, and natural gas liquids transportation and marketing. Blue Racer is expected to leverage Dominion's existing presence in the Utica region with significant additional new capacity designed to meet producer needs as the development of the Utica Shale formation increases.

Atlantic Coast Pipeline is a limited liability company among Dominion (which owns 45% of the company), Duke Energy Corporation (which owns 40%), Piedmont Natural Gas Company, Inc. (which owns 10%) and AGL Resources Inc. (which

owns 5%). Atlantic Coast Pipeline is focused on constructing an approximately 550-mile natural gas pipeline running from West Virginia through Virginia to North Carolina to increase natural gas supplies in the region. Construction of the pipeline is subject to receiving all necessary regulatory and other approvals, including without limitation CPCNs from the FERC and all required environmental permits. DTI will provide the services necessary to oversee the construction of, and to subsequently operate and maintain, the facilities and projects undertaken by, and subject to the approval of, Atlantic Coast Pipeline. The pipeline is expected to serve as a new, independent route for shale and conventional interstate gas supplies for markets in the mid-Atlantic region of the U.S.

Dominion is our largest unitholder, holding 11,847,789 common units (approximately 37% of all outstanding) and 31,972,789 subordinated units (100% of all outstanding), owns our general partner and owns 100% of our IDRs. As a result of its significant ownership interests in us, we believe Dominion will be motivated to support the successful execution of our business strategies and will provide us with acquisition opportunities, although it is under no obligation to do so. Dominion views us as a significant part of its growth strategy, and we believe that Dominion will be incentivized to contribute or sell additional assets to us and to pursue acquisitions jointly with us in the future. However, Dominion will regularly evaluate acquisitions and dispositions and may, subject to compliance with our right of first offer with respect to Cove Point, Blue Racer and Atlantic Coast Pipeline elect to acquire or dispose of assets in the future without offering us the opportunity to participate in those transactions. Moreover, Dominion will continue to be free to act in a manner that is beneficial to its interests without regard to ours, which may include electing not to present us with future acquisition opportunities.

See Note 14 to the Consolidated Financial Statements for a discussion of the significant contracts entered into in connection with the closing of the Offering.

## **COMPETITION**

Substantially all of the regasification and storage capacity of the Cove Point LNG Facility, and all of the transportation capacity of the Cove Point Pipeline is currently under contract, and the proposed Liquefaction Project's capacity is also fully contracted under long-term fixed reservation fee agreements. However, in the future Cove Point may compete with other independent terminal operators as well as major oil and gas companies on the basis of terminal location, services provided and price. Competition from terminal operators primarily comes from refiners and distribution companies with marketing and trading arms.

## **REGULATION**

Dominion Midstream is subject to regulation by various federal, state and local authorities, including the SEC, FERC, EPA, DOE, DOT and Maryland Commission.

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### **FERC Regulation**

The design, construction and operation of interstate natural gas pipelines, LNG terminals (including the Liquefaction Project) and other facilities, the import and export of LNG, and the transportation of natural gas are all subject to various regulations, including the approval of the FERC under Section 3 (for LNG terminals) and Section 7 (for interstate transportation facilities) of the NGA to construct and operate the facilities. For the Cove Point LNG Facility, Cove Point is required to maintain authorization from the FERC under Section 3 and Section 7 of the NGA. The design, construction and operation of the Cove Point LNG Facility and its proposed Liquefaction Project, and the import and export of LNG, are highly regulated activities. The FERC's approval under Section 3 and Section 7 of the NGA, as well as several other material governmental and regulatory approvals and permits, are required for the proposed Liquefaction Project.

Under the NGA, the FERC is granted authority to approve, and if necessary, set just and reasonable rates for the transportation, including storage, or sale of natural gas in interstate commerce. In addition, under the NGA, with respect to the jurisdictional services, we are not permitted to unduly discriminate or grant undue preference as to our rates or the terms and conditions of service. The FERC has the authority to grant certificates allowing construction and operation of facilities used in interstate gas transportation and authorizing the provision of services. Under the NGA, the FERC's jurisdiction generally extends to the transportation of natural gas in interstate commerce, to the sale in interstate commerce of natural gas for resale for ultimate consumption for domestic, commercial, industrial, or any other use, and to natural gas companies engaged in such transportation or sale. However, the FERC's jurisdiction does not extend to the production or local distribution of natural gas.

In general, the FERC's authority to regulate interstate natural gas pipelines and the services that they provide includes:

- Rates and charges for natural gas transportation and related services;
- The certification and construction of new facilities;
- The extension and abandonment of services and facilities;
- The maintenance of accounts and records;
- The acquisition and disposition of facilities;
- The initiation and discontinuation of services; and
- Various other matters.

In May 2011, Cove Point filed a general rate case for its FERC-jurisdictional services, with proposed rates to be effective July 2011. In July 2012, the FERC issued an order approving a stipulation and agreement among Cove Point, the FERC trial staff and the other active parties in the rate case resolving all issues set for hearing by the FERC and establishing the mechanism for operational purchases of LNG, with settlement rates effective April 2012. Pursuant to the terms of the settlement, future operational purchases of LNG are not expected to affect Cove Point's net results of operations. Cove Point and settling customers are subject to a rate moratorium through December 31, 2016. Cove Point is required to file its next rate case in 2016 with rates to be effective January 1, 2017.

### **LIQUEFACTION PROJECT**

In April 2013, Cove Point filed its application with the FERC requesting authorization to construct, modify and operate the Liquefaction Project, as well as enhance the Cove Point Pipeline. In May 2014, the FERC staff issued its EA for the Liquefaction Project. In the EA, the FERC staff addressed a variety of topics related to the proposed construction and development of the Liquefaction Project and its potential impact to the environment, including in the areas of geology, soils, groundwater, surface waters, wetlands, vegetation, wildlife and aquatic resources, special status species, land use, recreation, socioeconomics, air quality and noise, reliability and safety, and cumulative impacts. In September 2014, Cove Point received the FERC Order, which authorized the construction and operation of the Liquefaction Project. In the FERC Order, the FERC concluded that if constructed and operated in accordance with Cove Point's application and supplements, and in compliance with the environmental conditions set forth in the FERC Order, the Liquefaction Project would not constitute a major federal action significantly affecting the quality of the human environment. In October 2014, Cove Point commenced construction of the Liquefaction Project.

Three parties submitted timely requests for rehearing on the FERC Order. There is no prescribed timeframe for the FERC to issue its order on rehearing. A party may appeal a rehearing order issued by the FERC to an applicable court of appeals within 60 days of the date the rehearing order is issued. A request for rehearing does not stay the FERC Order. In order to stay the FERC Order, a party would need to file a request for a stay and neither the FERC nor a court would typically stay the FERC Order pending rehearing or on appeal absent a showing of irreparable harm and a likelihood of success on the merits by the party requesting the stay. However, the FERC Order could be stayed, modified, vacated, or rescinded, in whole or in part, temporarily or otherwise, in the future as result of any stay request, rehearing request or court appeal. One party

requested a stay, to which Cove Point filed a response asking that the FERC deny the motion for stay.

**Energy Policy Act of 2005**

The EPACT and the FERC's policies promulgated thereunder contain numerous provisions relevant to the natural gas industry and to interstate pipelines. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties. Additionally, the EPACT amended Section 3 of the NGA to establish or clarify the FERC's exclusive authority to approve or deny an application for the siting, construction, expansion or operation of LNG terminals, although except as specifically provided in the EPACT, nothing in the EPACT is intended to affect otherwise applicable law related to any other federal agency's authorities or responsibilities related to LNG terminals. The EPACT amended the NGA to, among other things, prohibit market manipulation. In accordance with the EPACT, the FERC issued a final rule making it unlawful for any entity, in connection with the purchase or sale of natural gas or transportation service subject to the FERC's jurisdiction, to defraud, make an untrue statement or omit a material fact or engage in any practice, act or course of business that operates or would operate as a fraud.



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### **DOE Regulation**

Prior to importing or exporting LNG, Cove Point must receive approvals from the DOE. Cove Point previously received import authority in connection with the construction and operation of the Cove Point LNG Facility and more recently also received authority to export the commodity.

In October 2011, the DOE granted FTA Authorization for the export of up to 1.0 Bcfe/day of natural gas to countries that have or will enter into an FTA for trade in natural gas. In September 2013, the DOE also granted Non-FTA Authorization approval for the export of up to 0.77 Bcfe/day of natural gas to countries that do not have an FTA for trade in natural gas. The FTA Authorization and Non-FTA Authorization have 25- and 20-year terms, respectively.

### **DOT Regulation**

The Cove Point Pipeline is subject to regulation by the DOT, under the PHMSA, pursuant to which PHMSA has established requirements relating to the design, installation, testing, construction, operation, replacement and management of pipeline facilities. The NGPSA requires certain pipelines to comply with safety standards in constructing and operating the pipelines and subjects the pipelines to regular inspections.

The PSIA, which is administered by the DOT Office of Pipeline Safety, governs the areas of testing, education, training and communication. The PSIA requires pipeline companies to perform extensive integrity tests on natural gas transportation pipelines that exist in high population density areas designated as high consequence areas. Pipeline companies are required to perform the integrity tests on a seven-year cycle. The risk ratings are based on numerous factors, including the population density in the geographic regions served by a particular pipeline, as well as the age and condition of the pipeline and its protective coating. Testing consists of hydrostatic testing, internal electronic testing, or direct assessment of the piping. In addition to the pipeline integrity tests, pipeline companies must implement a qualification program to make certain that employees are properly trained. Pipeline operators also must develop integrity management programs for gas transportation pipelines, which requires pipeline operators to perform ongoing assessments of pipeline integrity; identify and characterize applicable threats to pipeline segments that could impact a high consequence area; improve data collection, integration and analysis; repair and remediate the pipeline, as necessary; and implement preventive and mitigation actions. The Cove Point Pipeline is also subject to the Pipeline Safety, Regulatory Certainty, and Jobs Creation Act of 2011, which regulates safety requirements in the design, construction, operation and maintenance of interstate natural gas transmission facilities.