

**UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION**

AES Sparrows Point LNG, LLC

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Docket No. CP07-____ - 000

**APPLICATION UNDER SECTION 3 OF THE NATURAL GAS ACT FOR
AUTHORIZATION TO SITE, CONSTRUCT, AND OPERATE LIQUEFIED NATURAL
GAS IMPORT FACILITIES**

AES Sparrows Point LNG, LLC (“AES Sparrows Point”), pursuant to Section 3 of the Natural Gas Act (“NGA”), 15 U.S.C. § 717b(a), and Parts 153 and 380 of the Regulations of the Federal Energy Regulatory Commission (“Commission” or “FERC”), 18 C.F.R. §§ 153.1 *et seq.* and 380.1 *et seq.*, hereby requests all of the authorizations necessary to site, construct, and operate a proposed new liquefied natural gas (“LNG”) import terminal (“LNG Terminal” or “Terminal”), with an initial delivery capacity of 1.5 billion standard cubic feet per day (“bscfd”) of natural gas, to be located at the Sparrows Point industrial complex in Baltimore County, Maryland.¹ The proposed new LNG Terminal will benefit the public by increasing the natural gas supplies available to meet the growing demand of the Mid-Atlantic Region of the United States and surrounding markets. In addition to providing a new source of reliable and secure

¹ Concurrently with the filing of this application, Mid-Atlantic Express, L.L.C. (“Mid-Atlantic Express”) is filing an application under Section 7(c) of the NGA, 15 USC § 717f(c), and Parts 157 and 284 of the Commission’s Regulations, 18 CFR §§ 157.1 *et seq.* and 284.1 *et seq.*, for certificates of public convenience and necessity authorizing Mid-Atlantic Express to site, construct and operate a natural gas pipeline connecting AES Sparrow Point’s LNG Terminal to interconnections with existing natural gas pipeline systems near Eagle, Pennsylvania, and, possibly, to interconnections with intermediate local distribution company systems and/or other entities. AES Sparrows Point does not oppose consolidation of these applications for regulatory review.

LNG imports, the LNG Terminal is designed to eliminate or minimize impacts on the local community and the environment.

AES Sparrows Point proposes to commence service in late 2010. Therefore, AES Sparrows Point respectfully requests that the Commission issue a final order by November 1, 2007. This will enable AES Sparrows Point to begin construction in a timely manner to achieve its proposed in-service date.

AES Sparrows Point sets forth below and in its accompanying exhibits the documentation required to support an application to site, construct and operate LNG import facilities in accordance with Section 153.7 of the Commission's Regulations.

I. EXECUTIVE SUMMARY

AES Sparrows Point's proposed LNG Terminal will receive imported LNG delivered by LNG tankers from international supply sources and thereby introduce an incremental supply of natural gas from world production centers into the Mid-Atlantic Region. LNG received at the Terminal will be re-vaporized and delivered to the proposed 88-mile natural gas pipeline to be constructed, owned and operated by Mid-Atlantic Express, which will interconnect with three existing interstate pipelines in the vicinity of Eagle, Pennsylvania. Mid-Atlantic Express will also be capable of delivering natural gas at potential intermediate interconnect points with local distribution companies.

Under Section 3 of the NGA, the Commission "shall issue an order" approving AES Sparrows Point's proposal unless the Commission determines that it "will not be consistent with the public interest." 15 U.S.C. § 717b(a). This statutory standard is satisfied here. The proposed LNG Terminal will be centrally located on the eastern seaboard and therefore would

provide for the secure, efficient, and reliable delivery of an initial 1.5 bscf of natural gas to customers in the Mid-Atlantic Region and in sections of the South Atlantic Region. Because demand for natural gas, both nationally and regionally, is projected to rise through (and beyond) 2020,² increasing the importation of LNG is an important means of both meeting growing customer demand and also diversifying the sources of incremental supply. Increasing the supply of LNG has been identified as a way to moderate natural gas price increase as well as natural gas price volatility.

The importance of new supplies of LNG has been emphasized many times in recent years by national policymakers, such as the Commission, and by other energy industry observers and analysts. For example, in its strategic plan, the Commission has stated that “LNG is seen as key to offsetting declining domestic natural gas production and reducing energy price volatility during peak demand periods.” FERC, *Strategic Plan for Fiscal Years 2006-2011*, at 8 (Sept. 2006). Likewise, the Energy Information Agency (“EIA”) within the Department of Energy (“DOE”) has forecasted that increased LNG imports can lower natural gas prices and further noted that this would enhance the attractiveness of clean burning natural gas to electricity generators over the long term. Dep’t of Energy, Energy Information Agency, *Annual Energy Outlook 2006*, at 90 (Feb. 2006)(“*AEO 2006*”). Federal Reserve Chairman Bernanke and former Chairman Greenspan also have stressed the importance of increasing the importation of LNG. See Ben Bernanke, Chairman, Federal Reserve Board, Remarks Before the Economic Club of Chicago (Jun. 15, 2006)(“Bernanke Remarks”). See also remarks of Chairman

² Dep’t of Energy, Energy Information Agency, *Annual Energy Outlook 2007 (Early Release)*, at 7 (Dec. 2006)(“*AEO2007*”). See also Resource Report No. 1 at 1-5, (describing the need for incremental natural gas supplies in these regions); Concentric Energy Advisors Demand and Supply Analysis of the Mid-Atlantic Natural Gas Markets 2005-2030, Resource Report 10, Appendix 10A.

Greenspan, discussed *infra* at Section IV. B. In a speech before Economic Club of Chicago on June 15, 2006, Chairman Bernanke noted that “natural gas prices are likely to remain elevated for at least the coming few years,” but that new LNG imports could moderate gas price increases.

Id.

AES Sparrows Point’s proposal is fully consistent with applicable federal statutes and the Commission’s Regulations. The economic risk of constructing and operating the proposed LNG Terminal will be borne entirely by AES Sparrows Point and the project will require no subsidization from existing pipelines or their customers (as a new entrant to the market, AES has no existing customers). The proposed LNG Terminal also will not result in any unsubscribed capacity on any existing pipelines. To the contrary, existing pipelines and their customers will benefit from having access to a new, competitively priced, incremental supply of natural gas.

Safety and security is a priority consideration for AES Sparrows Point. AES has carefully selected the Terminal site and LNG ship transit routes to assure that both the Terminal and the LNG vessels will be at least one mile from any residences at all times. This exceeds established siting criteria as well as distances from residential areas in some Commission approved proposals. The Terminal will also be designed and constructed using the latest technologies and advanced materials to further enhance the safety and security of the general public, the Terminal’s employees, neighboring facilities, and the surrounding community. The design, construction, and operation of the LNG Terminal will comply with or exceed all applicable standards specified by statute, regulations, and industry associations. Moreover, AES Sparrows Point, in consultation with federal and state agencies, will implement comprehensive security and emergency plans, together with its installation of all necessary safety equipment.

AES Sparrows Point is continuing to consult with the U.S. Coast Guard (“USCG”) to ensure that its proposed project is in full compliance with all safety and security regulations applicable to marine transits by LNG tankers to and from the LNG Terminal, as evidenced by its October 25, 2006, submittal of a Follow-On Waterway Suitability Assessment for USCG review.³

In addition to its extensive efforts at community outreach to date, as described more fully in its Resource Report Nos. 1 and 5, AES Sparrows Point is also continuing to work to address concerns of the community. In that regard, AES Sparrows Point will minimize or mitigate environmental impacts resulting from the construction and operation of its Terminal to the maximum possible extent. For example, the use of an existing industrial site, with a long history of commercial marine usage, assures that the LNG Terminal will have *de minimus* impact on the surrounding environment and community, both during construction and in its operation. AES Sparrows Point also proposes to undertake substantial mitigation measures, including the recycling of dredged materials, to further reduce environmental impacts.

In summary, the AES Sparrows Point LNG Terminal proposal satisfies the requirements of Section 3 of the NGA and the Commission’s implementing Regulations, and is fully consistent with the Commission’s policies applicable to the construction of new LNG importation facilities.⁴ AES Sparrows Point, therefore, requests that the Commission find that the proposed LNG Terminal is not inconsistent with the public interest and grant AES Sparrows

³ AES Sparrows Point commenced consultation with the USCG even prior to initiating the Commission’s pre-filing process and submitted its Preliminary Water Suitability Assessment in March, 2006.

⁴ See 15 U.S.C. § 717b(a); 18 C.F.R. § 153.7(c)(1); *Hackberry LNG Terminal, LLC*, 101 FERC ¶ 61,294 (2002)(“*Hackberry*”); Certification of New Interstate Natural Gas Pipeline Facilities, 88 FERC ¶ 61,227 (1999)(“Construction Policy Statement”), *order clarifying*, 90 FERC ¶ 61,128 (2000), *order further clarifying*, 91 FERC ¶ 61,094 (2000).

Point all authorizations required to site, construct, and operate the LNG Terminal as herein proposed.

II. INFORMATION REGARDING THE APPLICANT

The exact legal name of AES Sparrows Point is AES Sparrows Point LNG, LLC. AES Sparrows Point is a limited liability company established under the laws of the state of Delaware, and is authorized to do business in the state of Maryland. AES Sparrows Point's principal place of business is located at 140 Professional Parkway, Suite A, Lockport, NY 14094.

The names, titles, post office addresses, telephone numbers, facsimile numbers, and e-mail addresses of the persons to whom correspondence in regard to this application should be addressed are as follows:

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III. SUMMARY OF THE PROPOSAL

A. Facilities

AES Sparrows Point is proposing to site, construct, and operate an LNG Terminal on a heavy industrial site in Baltimore County, Maryland. Specifically, the Terminal will be located on an approximately 80 acre parcel located at the Sparrows Point industrial complex, which is situated on the Sparrows Point peninsula extending into the Chesapeake Bay east of the Port of Baltimore. AES Sparrows Point has entered into an option agreement for a lease of approximately 45 acres of upland area, with the remainder a near shore riparian rights area, all within the Sparrows Point shipyard. The LNG Terminal will receive LNG from ocean-going LNG ships, store the LNG onshore in full-containment tanks, re-vaporize the LNG, and deliver pipeline quality natural gas to the Mid-Atlantic Express pipeline. The terminal design regasification/sendout capacity will be 1.5 bscfd (expandable to 2.25 bscfd) at a maximum sendout pressure of 2,080 psig.⁵

The proposed AES Sparrows Point Terminal will be designed, constructed, and operated to meet or exceed all applicable regulations for LNG terminals and marine facilities in the United States, including requirements established by the Commission, the U.S. Department of Transportation (“DOT”), and the USCG. Terminal design, construction, and operation will also adhere to the relevant standards promulgated by the American Petroleum Institute (“API”) and the National Fire Prevention Association (“NFPA”), as well as other applicable regulations and codes.

⁵ The AES Corporation, the parent company of AES Sparrows Point, also has under consideration the construction and operation of a 300 MW combined cycle co-generation electric generation facility adjacent to the LNG Terminal. The power plant would operate using only natural gas and would provide electric power within an area of high energy demand. Although not part of this application, the environmental benefits and impacts of the power plant are fully considered in the Environmental Report attached at Exhibit F.

A description of the proposed facilities is as follows:

Marine Terminal Facilities: AES Sparrows Point estimates that the marine terminal will unload on average approximately 120 to 150 LNG ships per year (two to three per week). The proposed LNG Terminal will feature two marine berths, each designed to accommodate deliveries from the majority of the vessels in the world's existing LNG ship fleet – those with capacities ranging from 125,000m³ to 217,000m³. An existing pier will be modified and reconstructed to provide for the berths and will be equipped with mooring gear, an elevated 32-inch transfer pipeline and spill containment system running from the pier to the shore, and an unloading platform. The LNG will be transferred to the LNG storage tank(s) using the LNG ship's cargo pump. Although the Terminal will accommodate the mooring of two LNG ships, only one ship will offload at a time. The unloading system will be designed to achieve a nominal unloading rate of 55,000 gallons per minute (12,500m³ per hour). The mechanical components of the LNG unloading system will include eight unloading arms (three 16-inch arms for LNG unloading and one 16-inch arm for vapor return per berth), two vapor return blowers, a vapor desuperheater system and LNG monitoring and sampling systems. A separate boiloff gas compressor system will be utilized during LNG offloading. The system will consist of three boiloff gas compressors, one of which will service the storage tanks when no delivery is taking place.

LNG Storage Tanks: The proposed LNG Terminal will store delivered LNG in three one million bbl (160,000m³ - net capacity) full containment tanks, each consisting of independent inner and outer layers separated by an insulation system. The Terminal site has been laid out to accommodate the addition of a fourth storage tank should need and market conditions warrant such an expansion. The primary inner storage tank will be constructed from a

nine percent nickel steel alloy to withstand the low temperature of the cryogenic liquid. The outer storage tank will be constructed of concrete with a carbon steel liner and will be able to contain at least 110 percent of the contents of the inner tank in the extremely unlikely event of a leak from or failure of the primary inner tank. The boiloff gas compressor system will control the boiloff gas pressure in the tanks. The compressor system will be backed up by an emergency heated vent stack and atmospheric relief vents, providing additional overpressure protection. The tanks will also be outfitted with appropriate monitoring systems.

LNG Regasification and Sendout: The proposed regasification system will include seven high pressure vaporizers for regasified LNG sendout. LNG will be re-vaporized using a vertical shell and tube heat exchanger system. The heat transfer system will use a glycol-water solution as its heat transfer fluid, and the heaters will be powered by sendout natural gas. The vaporization system will be designed to achieve a nominal send out rate of 1.5 bscfd of natural gas. LNG will be delivered to the vaporization system from the storage tanks by ten submerged high-pressure sendout pumps. Other equipment related to regasification and sendout will include an intermediate pressure fuel gas system, vapor handling system (comprised of the vapor return blowers and the boiloff gas compressor system), a boiloff gas recondenser, and a natural gas metering station at the interconnection between the Terminal and the Mid-Atlantic Express pipeline.

Additional facilities at the Terminal, including controls and those for safety, security and the provision of utility services, are fully described in Resource Reports 1, 11 and 13. Those Resource Reports also provide additional details regarding the Terminal facilities described above.

All contractors and vendors engaged to construct and supply materials and equipment for the LNG Terminal and all ancillary facilities will comply with applicable federal and state regulations and relevant industry quality standards.

B. Dredging

The LNG Terminal site is at a location served by an existing access channel (“Marine Channel”) in the Chesapeake Bay, near the Fort McHenry Channel and near the confluence of the Fort McHenry Channel and the Brewerton Angle. To allow LNG ships to deliver LNG to the proposed Terminal, an approach channel and a turning basin will be created by expanding the Marine Channel through dredging. Based on preliminary estimates, the approach channel will be approximately 440 feet wide, and the turning basin will have an approximate radius of 820 feet. As reflected in Exhibit H, AES Sparrows Point has applied to the U.S. Army Corps of Engineers (“USACE”) and the State of Maryland, through the Coastal Facilities Review Act process, for the necessary authorizations to dredge the approach channel and the turning basin to a depth of forty-five feet. The area subject to the dredging proposal currently maintains federal and state permits for dredging up to thirty-nine feet deep.

As discussed in Resource Report No. 1, dredging operations will result in the production of approximately 3.5 to 4 million cubic yards of dredged material, although this amount may slightly decrease due to intervening maintenance dredging under current permits. AES Sparrows Point is proposing to recycle the dredged material at a dredged material recycling facility (“DMRF”) to be constructed at the Terminal site prior to the commencement of dredging operations. *See Dredging Management Plan*, Resource Report 1, Appendix 1C. The DMRF will be located immediately adjacent to the Terminal facility. The dredged material will be barged directly to the DMRF where it will be processed into one or more useful products. Once

processed, it will be stored temporarily onsite and then shipped offsite via trucks or railway utilizing existing roadways and rail lines. Resource Report No. 1, contains additional information regarding dredging operations and the dredged material recycling plan.

C. Safety and Security

Safety and security at the proposed LNG Terminal and with respect to LNG tanker transits, is a high priority for AES Sparrows Point. AES Sparrows Point is taking all the steps necessary to meet and, where appropriate, to exceed safety and security requirements relevant to the design, construction, and operation of an LNG terminal. This will assure that the proposed LNG Terminal and the surrounding areas are protected from the possibility and consequences of any incidents that would otherwise affect the safety and security of employees, neighboring facilities, and the public.

1. Safety

The design of the LNG Terminal will incorporate extensive safety measures to reduce the risk of an accident during operation. These measures include full containment double-layer storage tanks, an LNG spill containment system, a Hazard Detection and Mitigation System to continuously monitor Terminal conditions, a Safety Instrumentation System capable of initiating a sequential shutdown of Terminal equipment, an Emergency Shutdown System, and a fire fighting system composed of water, chemical, and foam systems. The proposed Terminal satisfies the thermal radiation and flammable vapor dispersion exclusion zone distances required under Part 193 of the DOT's regulations, 49 C.F.R. Part 193, as more fully described in Resource Report Nos. 11 and 13, attached at Exhibit F.

In addition, AES Sparrows Point will take into account the potential impact of accidents and natural disasters in designing the LNG Terminal, including severe storms,

hurricanes, spills, project component failure, marine accidents, and employee accidents. AES Sparrows Point will continue to work closely with federal and state authorities and local police and safety officials to develop safety and emergency plans for the LNG Terminal and to assure the safety of the transit of LNG ships.

To date, AES Sparrows Point has conducted several meetings with federal, state, and local agencies to develop its Emergency Response Plan (“ERP”) and Water Suitability Assessment (“WSA”), including meetings with the USCG, the State Fire Marshall, the Maryland Department of Natural Resources, the Maryland Department of the Environment, the Maryland Department of Transportation, state law enforcement authorities and maritime organizations. *See* Resource Report No. 11, at 18-19. AES Sparrows Point will continue working with these agencies, as well as other governmental organizations and stakeholders, in the development and implementation of its safety plans for the LNG Terminal and LNG marine shipping.

2. Security

The threat of terrorism extends to all infrastructure and energy facilities, including LNG terminals and LNG shipping operations. In recognition of this, AES Sparrows Point has considered and will continue to consider the risks that terrorism poses and potential responses to those risks. AES Sparrows Point will implement all appropriate security measures either meeting or exceeding federal and state requirements, to assure the secure operation of the Terminal. AES Sparrows Point is working in conjunction with the U.S. Department of Homeland Security, the Pipeline and Hazardous Materials Safety Administration of the DOT, and the USCG, as well as state and local law enforcement, to develop and implement its security plans for the Terminal.

During the Pre-Filing process (discussed *infra*), AES Sparrows Point has undertaken the preparation of security plans for the Terminal and LNG shipping in conjunction with the USCG. Pursuant to Navigation and Vessel Inspection Circular (“NVIC”) 05-05, AES Sparrows Point filed a Preliminary WSA with the USCG on March 2, 2006, and submitted a complete Follow-On WSA on October 25, 2006. The WSA assesses, among other issues, the potential security risks associated with LNG shipping during transit and when the carriers are docked in port, and it identifies appropriate risk mitigation measures. By complying with all applicable federal and state safety and security standards and, in some cases, by surpassing those standards, AES Sparrows Point will significantly reduce the risks of the occurrence of an adverse event at the LNG Terminal.

Additional detailed information regarding the safety and security planning and precautions that AES Sparrows Point will undertake and implement are discussed in Resource Report Nos. 11 and 13, attached to this application as part of Exhibit F.

D. Environment

On March 24, 2006, AES Sparrows Point submitted a request to the Commission for authorization to commence the National Environmental Policy Act (“NEPA”) pre-filing process required of all parties seeking to site, construct, and operate and LNG terminal and related facilities.⁶ This process is conducted according to regulations promulgated by the Commission pursuant to EAct 2005. 18 CFR §§ 153.12, 157.21. *See also* 18 CFR 380.12.

On April 3, 2006, the Commission approved AES Sparrows Point’s request to commence the Pre-filing process in a letter order and published notice thereof in Docket No.

⁶ Section 311(d) of Energy Policy Act of 2005, Pub. L. No. 109-58, 119 Stat. 594 (2005) (“EAct 2005”), amended the NGA to require applicants seeking authorization from the Commission to site, construct, and operate an LNG terminal to engage in a mandatory NEPA pre-filing process.

PF06-22-000 pursuant to Section 157.21(e) of the Commission's Regulations. On April 13, 2006, the Commission issued a notice in the docket stating that the Commission would serve as the lead agency for the NEPA process for the proposed LNG Terminal, and would be responsible for the preparation of the Environmental Impact Statement ("EIS"). In accordance with the Pre-filing process, AES Sparrows Point subsequently filed draft Resource Reports related to all aspects of the proposed LNG Terminal as required under Section 380.12 of the Commission's Regulations. The Commission staff reviewed the draft Reports and requested additional information, as did a number of cooperating federal agencies and various Maryland state agencies, leading to modifications and supplementation of the draft Resource Reports. Also, as required by Section 157.21(a)(1) of the Pre-filing regulations, AES Sparrows Point submitted its Letter of Intent pursuant to 33 CFR § 127.007, and, as noted above, its Preliminary WSA to the USCG on March 3, 2006, and, on October 25, 2006, the Follow-On WSA.

As set forth more fully in the Resource Reports attached at Exhibit F, AES Sparrows Point does not anticipate that the construction or operation of the LNG Terminal will result in any significant adverse impacts to the environment. To the extent practicable, AES Sparrows Point has and will continue to incorporate measures to prevent or mitigate environmental impacts in its planning and execution of the construction and operation of the LNG Terminal. As described above, the area chosen for the Terminal site is located in a maritime heavy industrial area, is part of an existing shipyard facility, and is adjacent to a steel manufacturing facility. The offshore area of the Terminal site has been subject to historical dredging and ongoing maintenance dredging and, as noted above, is already covered by federal and state dredging permits allowing dredging to a depth of 39 feet. To minimize the impact of the additional dredging operations, AES Sparrows Point will construct and operate a DMRF. To

the extent practicable, AES Sparrows Point will utilize existing transportation infrastructure, including piers, roads, and rail to construct and operate the Terminal. Finally, AES Sparrows Point has and will continue to work with federal and state officials in complying with all applicable environmental regulations.

E. Supply and Market

AES Sparrows Point is including with its application a study entitled “Demand and Supply Analysis of the Mid-Atlantic Natural Gas Markets, 2005-2030” (“Concentric Study”) prepared by Concentric Energy Advisors. *See* Resource Report No. 10, Appendix 10A. The study projects that the Mid-Atlantic markets will continue to experience significant growth in demand for natural gas, particularly in the local distribution company (“LDC”) and gas-fired power generation sectors. At the same time, however, it is expected that the traditional sources of natural gas for the Mid-Atlantic, primarily supply from the Gulf Coast and, by displacement, from Canada, will decline in both absolute and relative terms (i.e., percentage of total U.S. gas demand met from these sources). The study underscores the need for the new, incremental supplies of natural gas that can be imported through the AES Sparrows Point LNG Terminal, concluding that “by the 2020 time period the forecasted incremental design day demand [from LDC and gas-fired generation consumers] and supply-in fill of approximately 4,921 MMcf/day will not only *require* the 1,500 MMcf/day from Sparrows Point but will also require approximately two incremental natural gas supply projects that are larger than the size of Sparrows Point.” Concentric Study, at 25 (emphasis added).

IV. STATEMENT THAT AES SPARROWS POINT PROPOSED LNG TERMINAL IS CONSISTENT WITH THE PUBLIC INTEREST UNDER SECTION 3(a) OF THE NGA MADE IN ACCORDANCE WITH SECTIONS 153.7(c)(1)(i)-(ii)

Section 3(a) of the NGA provides that “[t]he Commission shall issue such order upon application [for a new LNG import terminal], unless . . . it finds that the proposed . . . importation will not be in the public interest.” 15 U.S.C. § 717b(a). In accordance with Sections 153.7(c)(1)(i)-(ii) of the Commission’s Regulations enacted thereunder, AES Sparrows Point submits that its proposal to site, construct, and operate a new LNG import terminal at the Sparrows Point industrial complex satisfies this statutory standard. The proposed state-of-the-art LNG Terminal will provide access for a significant incremental supply of natural gas for the Mid-Atlantic Region at a time when demand in the natural gas market is growing. The siting of the Terminal near the network of a large local distribution company, and approximately 88 miles from three existing interstate pipeline networks in Eagle, Pennsylvania, will allow the Terminal to efficiently deliver natural gas to markets at competitive prices.⁷ Furthermore, locating the Terminal in an industrial use area will minimize impacts on the environment and the surrounding community.

A. The Proposed LNG Terminal Will Improve Access To Supplies Of Natural Gas And Serve New Market Demand

The overarching benefit of AES Sparrows Point’s proposal to the public is the introduction of a new, substantial source of LNG to the growing domestic market, particularly the Mid-Atlantic market. In the recently released overview section of EIA’s, *Annual Energy Outlook 2007* (“*AEO 2007*”), the EIA concludes, as it did in its 2006 report discussed in Resource Report 1 (see Environmental Report Exhibit F), that the U.S. demand for natural gas

⁷ The Mid-Atlantic Express pipeline will connect to interstate natural gas pipelines owned by Columbia Gas Transmission Corporation, Transcontinental Gas Pipe Line Corporation, and Texas Eastern Transmission Corporation. As noted above, additional interconnections may be made available to LDCs or other entities.

will grow steadily through 2020. *AEO 2007*, at 7. By 2030, natural gas consumption is expected to be 26.1 trillion cubic feet (Tcf), up from 22.0 Tcf in 2005. *Id.* The EIA also notes that “electricity generation from natural-gas-fired-power plants is projected to increase from 2005 to 2020, as recently built plants are used more intensively to meet growing demand.” *Id.* at 9. By 2030, the EIA expects that 937 billion kilowatt-hours of electricity will be generated by natural-gas-fired-power plants, up from 752 billion kilowatt-hours in 2005. *Id.* at Table A8.

With respect to the Mid-Atlantic Region, the EIA predicts in *AEO 2006* growth in natural gas demand from 2.4 Tcf in 2005 to 2.9 Tcf in 2020, with significant growth in the electric power generation and industrial segments. This represents 0.7 percent of growth per year. *AEO 2006* at 85. The Mid-Atlantic Region is not only facing growing demand, but also the problem of decreasing availability of domestic and Canadian gas supplies. These projections are reinforced by the Concentric Study, which also shows that while demand is increasing, traditional supplies of natural gas for the Mid-Atlantic Region cannot be counted on to meet future market requirements.

To meet this growth in demand for natural gas, the EIA recognizes the importance of LNG importation. The EIA states that a substantial percentage of total U.S. demand is projected to be met by LNG import terminals:

The AEO2007 reference case projects that LNG imports will meet much of the increased U.S. demand for natural gas, as was the case in the AEO2006 reference case . . . Total net imports of LNG to the United States in the AEO2007 reference case are projected to increase from 0.6 trillion cubic feet in 2005 to 4.5 trillion cubic feet in 2030 (0.2 trillion cubic feet higher than in the AEO2006 reference case). *AEO 2007* at 12.

This projection not only relies on terminals already constructed or under construction to determine net imports, but also the capacity expected to be provided by new terminals. *See id.*

Further, in *AEO 2006*, the EIA demonstrates that, aside from simply meeting new demand, increasing imports of LNG will have a direct effect on domestic natural gas prices. *AEO 2006* at 90. A thirty-percent increase in LNG imports over the EIA's reference case is projected to result in a ten-percent reduction in wellhead prices, from \$5.92 per thousand cubic feet in the reference case to \$5.35 per thousand cubic feet in the high LNG supply case. *Id.* Further, EIA expects that an increase in LNG imports will not only reduce prices, but will affect the fuel-usage of the electricity generation industry. According to the EIA, a thirty-percent increase in imports over the reference case will result in a forty-four percent increase in the consumption of natural gas for power generation. *Id.*

Key decisionmakers have also recognized the importance of LNG. In remarks before the National Petrochemical and Refiners Association Conference in April 2005, then Federal Reserve Board Chairman Alan Greenspan noted that "domestic dry gas production plus net imports has not expanded sufficiently over the past few years to prevent a marked rise in price" and that "notwithstanding markedly higher drilling activity, the U.S. natural gas industry has been unable to noticeably expand production, or to increase imports from Canada." Remarks Before the National Petrochemical and Refiners Association (Apr. 5, 2005). Mr. Greenspan observed that the global supply of natural gas was significant, but that "North America's limited capacity to import LNG has effectively restricted our access to the world's most abundant gas supplies." *Id.* He concluded that if the U.S. can increase its importation of LNG and thereby take advantage of the emerging global natural gas market, "competitive pressures will arbitrage the U.S. natural gas prices down, possibly significantly, through increased imports." *Id.*

B. The Proposed LNG Terminal Will Enhance Competition Within the United States For Natural Gas Supply And Will Not Adversely Affect Existing Market Participants

The proposed LNG Terminal will serve “[t]he public interest . . . through encouraging gas-on-gas competition by introducing new imported supplies of natural gas which will be accessible to all willing purchasers.” *See Hackberry* at P 26. It will provide up to 1.5 bscfd (expandable up to 2.25 bscfd) of new, competitively-priced natural gas supplies to customers in the Mid-Atlantic market. The AES Sparrows Point LNG Terminal will also provide a source of natural gas within the Mid-Atlantic Region, far closer to this market than terminals located in the Gulf of Mexico along the Gulf Coast. Comparatively, gas provided by the AES Sparrows Point Terminal is expected to have a favorable basis differential over more distant supplies, making it a competitive source for the Mid-Atlantic Region.

The proposed LNG Terminal will also enhance competition by making the new incremental supplies available with no subsidization by any existing market participant. AES will assume the financial risk for the development of the proposed LNG Terminal. The Terminal will impose no financial burden on any existing suppliers. AES Sparrows Point itself is a new entrant to the LNG market with no existing customers.

Further, operation of the Terminal will not result in any unsubscribed capacity on existing pipelines. In concert with the pipeline construction proposal set forth by Mid-Atlantic Express in its companion application under Section 7 of the NGA, the proposed Terminal will make new supplies of natural gas available to shippers on a number of interstate pipelines at interconnections near Eagle, Pennsylvania, who can also access extensive storage facilities located in the vicinity of Eagle. *See Application of Mid-Atlantic Express LLC Under Section 7 of the Natural Gas Act for Certificates of Public Convenience and Necessity*, filed concurrently. This will benefit these existing pipelines and their customers, by both potentially reducing

unused capacity through the introduction of new natural gas supplies and by contributing to the efficient, competitive function of the market by diversifying supply sources.

C. The Proposed LNG Terminal Will Not Have Significant Adverse Effects On Local Landowners, Surrounding Communities, Or The Environment

The proposed LNG Terminal is also consistent with the public interest because it will not have a significant adverse effect on landowners and communities affected by the new construction. The proposed Terminal site is in an area already used extensively for industrial purposes and commercial marine operations and is zoned and planned for continued heavy industrial use. As discussed, *supra*, and in more detail in the Environmental Report, AES Sparrows Point will implement a number of measures to mitigate to the maximum extent possible any residual impacts on the environment and the local community.

As detailed in Resource Report Nos. 1 and 5, AES Sparrows Point and Mid-Atlantic Express have performed extensive outreach to residential communities near the Terminal site and along the proposed pipeline route, and have specifically included recreational and commercial users of the waterways and the environmental community in such outreach efforts. This outreach has included, among other things, numerous publicly announced meetings (both as required by the Commission's regulations and in addition to such required meetings), delivery of updates on the project, invitations to tours and learning opportunities about LNG terminal and shipping issues, and issuance of over 2,200 letters to landowners and stakeholders. One objective of this broad outreach has been the generation of meaningful public comment at an early stage so AES Sparrows Point can address and resolve stakeholder concerns and issues to the maximum practical extent in this application, and provide information on issues of concern to stakeholders. To the extent that any impacts cannot be entirely mitigated, any marginal adverse impacts will be outweighed by the substantial benefits of this proposal.

D. The Hackberry Policy

EPAct 2005 mandates that the Commission apply the less intrusive regulatory approach approved in *Hackberry* in all orders approving LNG terminal proposals through January 1, 2015.⁸ While the Hackberry analysis is no longer necessary to reach the conclusion that a LNG terminal proposal should not be required to provide open access service or submit a tariff, AES Sparrows Point submits that the factors the Commission relied on in approving the Hackberry Policy remain relevant as part of the public interest discussion, to the extent they show that the proposed Terminal furthers the Commission's goal of addressing the "need to develop additional energy infrastructure to increase much-needed supply in the United States, while at the same time ensuring competitive commodity prices and an open-access pipeline grid." *Hackberry* at P 23. Therefore, the Hackberry Policy factors are discussed below.

AES Sparrows Point's proposed LNG Terminal satisfies the Hackberry factors, demonstrating that the proposed terminal is not inconsistent with the public interest. The proposed Terminal will have no adverse effects on any existing customers because AES Sparrows Point is a new entrant to the LNG market with no existing customers. *See Hackberry* at P 21. Moreover, the proposed LNG Terminal will serve "[t]he public interest . . . through encouraging gas-on-gas competition by introducing new imported supplies of natural gas which

⁸ The Hackberry Policy is now codified by Section 311(c) of EPAct 2005, which states that:

Before January 1, 2015, the Commission shall not (i) deny an application solely on the basis that the applicant proposes to use the LNG terminal exclusively or partially for gas that the applicant or an affiliate of the applicant will supply to the facility; or (ii) condition an order on (I) a requirement that the LNG terminal offer service to customers other than the applicant, or any affiliate of the applicant, securing the order; (II) any regulation of the rates, charges, terms, or conditions of service of the LNG terminal; or (III) a requirement to file with the Commission schedules or contracts related to the rates, charges, terms, or conditions of service of the LNG terminal.

will be accessible to all willing purchasers.” *Id.* at P 26. It will provide up to 1.5 bscfd (expandable to 2.25 bscfd) of new, competitively-priced natural gas supplies to customers served by the critical Mid-Atlantic market. At the same time, AES Sparrows Point is assuming the entire economic risk of the project.

E. The 1999 Construction Policy Statement

In 1999, the Commission revised its policy for certificating new pipeline construction by providing guidance about the analytic framework the Commission follows in evaluating construction proposals.⁹ Construction Policy Statement at 61,745-46. In several proceedings, the analysis required by the Construction Policy Statement has been applied to applications to site, construct, and operate LNG terminals. *See Hackberry* at P 36; *Cove Point LNG Limited Partnership*, 97 FERC ¶ 61,043 (2001); *Southern LNG, Inc.*, 101 FERC ¶ 61,187 at P 18 (2002). These proceedings, however, involved joint applications for Section 3 and Section 7 authorizations submitted by the *same* applicant. Here, this application is being submitted concurrently with the Section 7 application of Mid-Atlantic Express, an affiliate of AES Sparrows Point. To the extent the Construction Policy Statement may apply under these circumstances to AES Sparrows Point’s application for Section 3 authorization, AES Sparrows

⁹ The Construction Policy Statement sets forth a three-step analysis used by the Commission to conclude “whether there is a need for a proposed [LNG terminal] project and whether the proposed project is in the public interest.” *Hackberry* at P 36. The first step in evaluating a new proposal is for the Commission to determine whether the applicant will financially support the project without requiring subsidies from its existing customers. If this inquiry is answered in the affirmative, the Commission will then determine whether the applicant has eliminated or minimized any potential adverse effects resulting from the project on existing customers, existing pipelines and their customers, or landowners and communities affected by the new construction. The third step is an economic balancing test, weighing the benefits of the new proposal against any adverse economic effects that can not be fully mitigated. If the benefits outweigh the adverse effects, the Commission will issue a preliminary finding that the proposal is in the public interest, and then proceed with the environmental analysis required by NEPA.

Point respectfully asserts that the Terminal proposal satisfies the three-step analysis of the Construction Policy Statement for the reasons set forth above.

V. ADDITIONAL REQUIRED STATEMENTS UNDER SECTION 153.7(c)

A. AES Sparrows Point proposed LNG Terminal does not involve any existing contracts with foreign governments

In accordance with Section 153.7(c)(iii), AES Sparrows Point states that its proposed LNG Terminal does not involve any existing contracts with foreign governments or persons concerning the control of operations or rates for the delivery or receipt of natural gas that may restrict or prevent other United States companies from extending their activities in the same general area.

B. AES Sparrows Point proposed LNG Terminal and Open Access Service

In reference to Section 153.7(c)(2), AES Sparrows Point states that it is not required to provide open access LNG terminaling and transportation services under Part 284 of the Commission's Regulations. *See n. 7, supra.*

VI. DEPARTMENT OF ENERGY/OFFICE OF FOSSIL ENERGY IMPORT AUTHORIZATIONS

In accordance with Section 153.6 of the Commission's Regulations, AES Sparrows Point hereby states that authorization for the import of natural gas has not yet been obtained from the Department of Energy/Office of Fossil Energy ("DOE/FE") by its current customer. AES Sparrows Point agrees, as a condition of its authorization, to file a statement that all required DOE/FE authorizations have been obtained by AES Sparrows Point's customer(s) prior to construction of the proposed facilities.

VII. PRESIDENTIAL PERMIT

Section 153.15(a) of the Commission's Regulations and Executive Order 10485 do not apply to the AES Sparrows Point proposed LNG Terminal. The Terminal will not involve any facilities that will connect at the borders of the United States and Canada or Mexico.

VIII. EXHIBITS

In accordance with Section 153.8 of the Commission's Regulations, AES Sparrows Point submits the following attached exhibits:

- Exhibit A (Section 153.8(a)(1)): Copies of the Certificate of Formation and Limited Liability Company Agreement for AES Sparrows Point.
- Exhibit B (Section 153.8(a)(2)): Detailed statement of the financial and corporate relationship existing between AES Sparrows Point and any other person or corporation.
- Exhibit C (Section 153.8(a)(3)): Signed opinion of counsel showing that the construction and operation of facilities for the import of natural gas is within the authorized powers of AES Sparrows Point, and that AES Sparrows Point has complied with the laws and regulations of the state Maryland, where it will operate.
- Exhibit D (Section 153.8(a)(4)): Omitted - not applicable.
- Exhibit E (Section 153.8(a)(5)): Exhibit F contains evidence that AES Sparrows Point will properly and safely receive LNG, including detailed engineering and design information.

- Exhibit E-1 (Section 153.8(a)(6)): Exhibit F contains an earthquake hazards and engineering report.
- Exhibit F (Section 153.8(a)(7)): Environmental report prepared pursuant to Section 380 of the Commission's Regulations.
- Exhibit G (Section 153.8(a)(8)): Geographic Map.
- Exhibit H (Section 153.8(a)(9)): Statement identifying each Federal Authorization the proposal will require.

IX. CONCLUSION

For all the reasons described in this application and its supporting exhibits, AES Sparrows Point requests that the Commission grant AES Sparrows Point all of the authorizations required under Section 3 of the NGA to site, construct, and operate its proposed LNG Terminal facilities at the Sparrows Point Industrial Complex in Baltimore County, Maryland. AES Sparrows Point also requests any waivers and other relief deemed necessary by the Commission to implement this LNG Terminal proposal. AES Sparrows Point submits that prompt approval of the application is in the public interest. Therefore, AES Sparrows Point respectfully requests issuance of a final order on this application by November 1, 2007.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'R. McManus', written over a horizontal line.

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