Initiating Coverage

10 September 2014

Dominion Midstream Partners

AVOID

Liquefied natural gas holding company

Stock code: DM.

U.S. liquefied natural gas ("LNG") holding company Dominion Midstream Partners (DM.), which owns Dominion Cove Point LNG in Maryland, a company owning LNG import, storage, regasification and transportation assets, is planning to make an Initial Public Offering (IPO) on the New York Stock Exchange. Barclays, Citigroup and JP Morgan Chase are managing and underwriting the issuance.[1]

Serious Governance and Sustainability Risks

Investors buying the common units of DM. are exposed to serious governance and sustainability risks, mainly related to the newly announced Liquefaction Project by Dominion Cove Point in Maryland, for which the proceeds of the IPO will be used. These risks are likely to affect the performance of DM.'s units and the position of the common unitholders of DM.:

- The Liquefaction Project causes **environmental damages**: wetland and wildlife impact, deforestation, air and water pollution, climate change pollution and fracking incentives;
- **Dominion Midstream is undiversified**: Cove Point is its sole cash generating asset;
- Cove Point's largest customer represents approximately 72% of the total transportation and storage revenues, and for the Liquefaction Project there are contracts with **only two customers**;
- The trend in federal environmental regulations could have a material adverse effect on Cove Point's operations and financial position;
- The **location** of Cove Point is **vulnerable to climate threats**;
- Unless the Liquefaction Project is completed, Cove Point is not expected to generate sufficient cash flows to pay distributions to Dominion Midstream in full, which makes it unlikely for Dominion Midstream to make payments to its unitholders;
- **Unitholders** have **limited voting power and** are **last in line** to receive cash distributions;
- There are **no obligations to make cash distributions** to unitholders;
- Also **without cash distribution, tax payment by unitholders** on their share of Dominion Midstream's taxable income **is required**;
- Dominion Resources will be the ultimate owner of the general partner of Dominion Midstream and will provide all of the necessary funding. No agreement requires Dominion Resources to pursue a business strategy that favours Dominion Midstream and its common unitholders. This constitutes a clear **conflict of interest**;
- Barclays, Citigroup and JP Morgan Chase are exposed as a lender to Dominion Resources and at the same time are involved in underwriting the IPO. This constitutes a clear **conflict of interest**.
- Final permits and governmental approval for the Liquefaction Project have not been received and there is a lot of resistance from multiple angles, making **further project delay** likely;

More details on the risks listed above are provided in this report.

IPO

Stock exchange	NYSE
Listing date	Unknown
Shares for sale	Unknown
Proposed price	Unknown
Net proceeds	± $ 400 million
Issuing syndicate	Barclays Citigroup JP Morgan Chase

Key data Cove Point

New project cost	$ 3.4 - 3.8 billion
Annual turnover	$ 344 mln
Total assets	$ 1,498 mln
Leverage	18%

Governance risks

Voting power unitholders	Low
Dominion Resources	Conflict of interest
Barclays	Conflict of interest
Citigroup	Conflict of interest
JP Morgan Chase	Conflict of interest
Disclosure in prospectus	Incomplete

Environmental risks

Wetland and wildlife impact
Deforestation
Air and water pollution
Fracking incentives

Financial risks

Dependency on 2 customers	100%
Delay possibility	High
Dependency on 1 lender	100%
No cash distribution likelihood	High

Key facts on the IPO of Dominion Midstream Partners

The Delaware (U.S.) based master limited partnership Dominion Midstream Partners ("Dominion Midstream") is planning to make an Initial Public Offering ("IPO") on the New York Stock Exchange under the symbol "DM.".[2] Dominion Midstream has filed a Registration Statement on Form S-1 with the U.S. Securities and Exchange Commission ("SEC") relating to its proposed IPO of common units representing limited partner interests on March 28, 2014. On May 21, 2014, Dominion Midstream filed an amendment to the initial filing.[3]

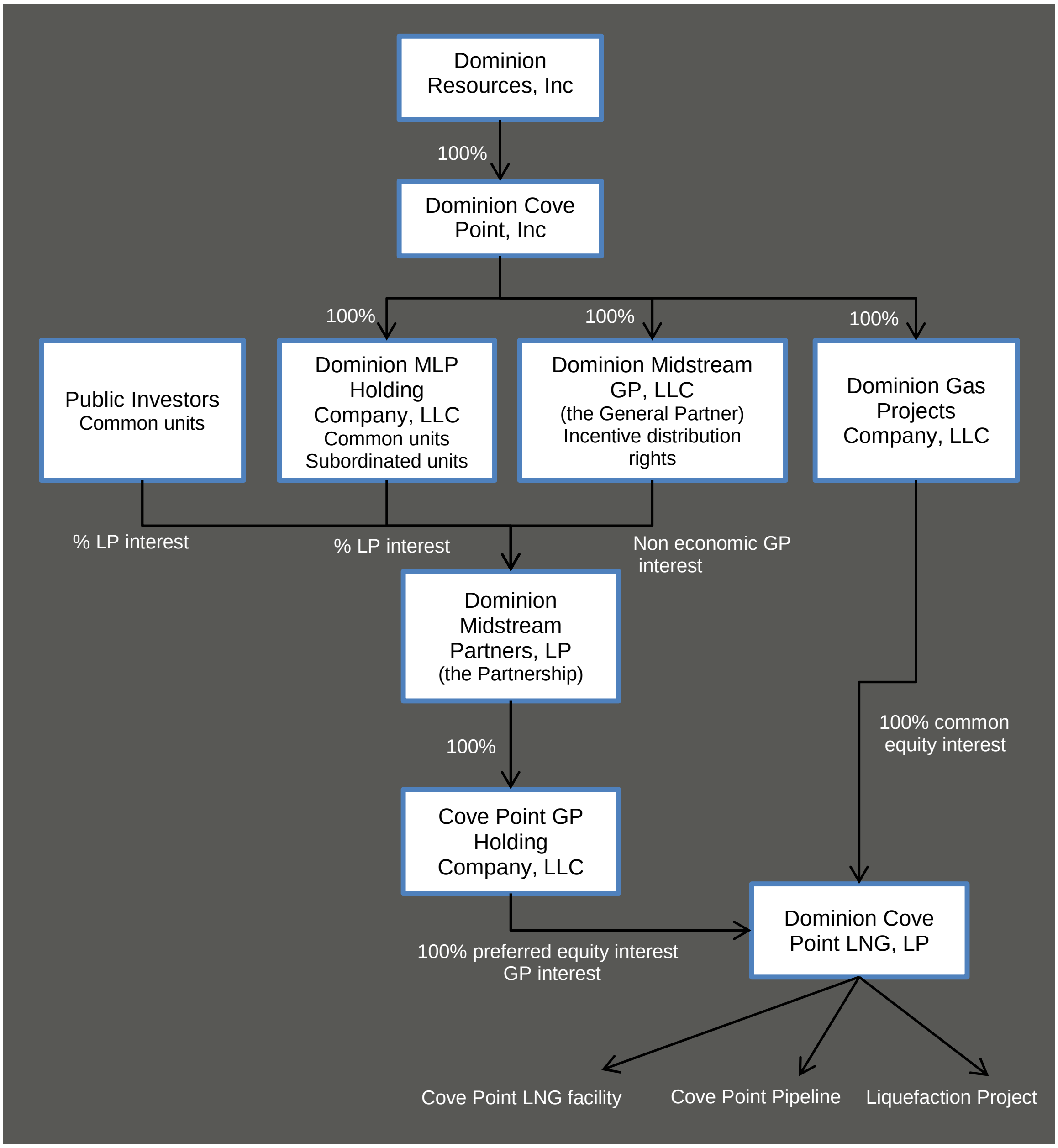
The date of the issuance, the number of common units to be offered and the price range for the offering have not been determined, but Dominion Midstream aims to raise approximately US$ 400 million with the IPO.[4] Barclays Capital (United Kingdom) and the American investment banks Citigroup Global Markets and J.P. Morgan Securities are acting as the underwriters and the joint book-running managers of this offering.[5]

Dominion Midstream is a growth-oriented limited partnership formed on March 11, 2014 by Dominion Resources to initially own all of the outstanding preferred equity interests in Dominion Cove Point LNG ("Cove Point"), a Delaware limited partnership, which owns liquefied natural gas ("LNG") import, storage, regasification and transportation assets. Cove Point is located on the Chesapeake Bay in Lusby, Maryland.[6]

Dominion Midstream intends to use the estimated net proceeds of the IPO to make a contribution to Cove Point in exchange for a portion of the preferred equity interest. Dominion Midstream intends to cause Cove Point to use the net proceeds contributed to it in connection with this offering to fund a portion of the development and construction costs associated with its planned new project called "Dominion Cove Point LNG liquefaction project" ("**Liquefaction Project**"). This project will enable the facility to liquefy domestically-produced natural gas delivered by customers from virtually anywhere in the United States (although most of it will likely come from the Marcellus shale play) and export it as LNG to foreign countries (in this case Japan and India). The projects will cost between approximately US$ 3.4 billion and US$ 3.8 billion, exclusive of financing costs. The permitting and other legal preparations for this project started in October 2011 and are still ongoing.[7]

Figure 1 depicts Dominion Midstream's simplified organizational and ownership structure immediately after giving effect to the planned IPO.

Figure 1. Ownership structure of Dominion Midstream Partners



Source: Dominion Midstream Partners, “Amendment No. 1 to Form S-1 Registration Statement Under The Securities Act Of 1933”, *Dominion Midstream Partners*, 21 May 2014.

The IPO of Dominion Midstream raises a number of governance, sustainability and financial concerns, which are discussed in the sections below.

Environmental risk - Cove Point

There are a lot of environmental risks related to the Liquefaction Project of Cove Point. Some of the more severe environmental risks are:

Impact on wetland and wildlife and deforestation

- In its prospectus, Dominion Midstream states that Cove Point’s projects and operations may potentially impact tidal and non-tidal wetlands. In these instances, Cove Point must obtain authorization from the appropriate federal and state agencies prior to impacting a subject wetland.

The authorizing agency may impose significant direct or indirect mitigation costs to compensate for regulated impacts to wetlands. The approval timeframe may also be extended and potentially affect project schedules resulting in a material adverse effect on Cove Point's business and contracts.[8]

- According to the EA of the FERC, the greatest impact on vegetation would be the clearing of forested areas because of the length of time required for woody vegetation to revert to its preconstruction condition. Clearing and grading and other activities associated with the Liquefaction Project would result in the removal of vegetation, alteration of wildlife habitat, displacement of wildlife and other potential secondary effects such as increased population stress, predation, and the establishment of invasive plant species.[9]

Air, climate change and water pollution
According to the EA of the FERC, in general the Liquefaction Project would emit air pollutants from both construction and operation.[10] More specifically:

- Cove Point's proposed new onsite liquefaction facility would require a utility-scale power plant (130 MW), compressors, and storage tanks that would emit air pollutants like carbon dioxide, nitrogen oxides and volatile organic compounds, and will utilize other hazardous materials. Some of these air pollutants will emit compounds that lead to ozone pollution in an area of Maryland already struggling to meet health-protective federal air pollution standards;[11]
- According to the EA of the FERC, estimated emissions associated with the Liquefaction Project would incrementally increase the atmospheric concentrations of greenhouse gases, in combination with greenhouse gas emissions from other sources identified in the cumulative impacts analysis.[12] According to CCAN, given the energy-intensive process of extracting, transporting, and processing gas for export, Cove Point could trigger more greenhouse gas emissions than any other single source of climate pollution in Maryland. Based on a lifecycle greenhouse gas analysis conducted by CCAN, 22 million additional tons of heat-trapping greenhouse gases could be released if Cove Point moves forward as proposed.[13]
- LNG exports would draw a surge of approximately 85 additional 1,000-foot-long tankers into the Chesapeake Bay each year. In addition to carrying volatile, potentially explosive liquid fuel, these tankers would, according to CCAN, worsen local air quality and dump billions of gallons of dirty ballast wastewater into the nearby Atlantic waters and fragile Chesapeake Bay each year.[14]

Incidents
According to Dominion Midstream, there are many risks associated with the transportation, storage and processing of natural gas and LNG, including fires, releases of natural gas or other substances, the collision of third-party equipment with pipelines and other environmental incidents.[15]

Fracking incentive
There is a broad belief that the Cove Point export facility would provide a strong economic incentive for companies to expand fracking across the region, including in Maryland, where no drilling has yet occurred. In other states, the expansion of fracking has caused drinking water contamination, air pollution and even earthquakes. Both the FERC and the Maryland Public Service Commission decided that this fracking incentive was outside the scope of their assessments and therefore did not analyze potential impacts from gas development.[16]

Cove Point itself states that the customers that will use the Cove Point export facility will be responsible for procuring their supplies and transporting such supplies to Cove Point. Cove Point will provide transmission services through the Cove Point pipeline, the liquefaction service and the export service, but does not own the natural gas and will not control from where the natural gas will come.[17]

Recent developments have already indicated where much of the natural gas to be exported from Cove Point will originate. In December 2013, Cabot Oil and Gas reported that it had executed a definitive gas sale and purchase agreement with one the future customers of the Liquefaction Project, Pacific Summit Energy, a subsidiary of the Japanese company Sumitomo Corporation. Under the contract, Cabot reportedly has agreed to sell Pacific Summit Energy 350,000 million British thermal units per day of natural gas from its Marcellus shale position for a term of 20 years, commencing on the in-service date of Cove Point's export terminal. Cabot's drilled wells and permitted but not yet drilled wells are clustered in and near Susquehanna County, Pennsylvania. It is virtually certain that Cabot's gas related to the Liquefaction Project will come from its holdings in this area. When factoring in other existing customer commitments of Cabot, it is reasonably foreseeable that Cabot will need to drill additional wells to fulfill its commitment to Pacific Summit Energy.[18]

Financial risk - Cove Point

The financial risks listed in this section relate to the planned Liquefaction Project of Cove Point itself. These risks are sometimes linked to the aforementioned environmental risks and to the permitting and litigation delay risks mentioned in the final section of this report.

Sole dependency on Cove Point
Dominion Midstream's sole cash generating asset will be its preferred equity interest in Cove Point, the distributions on which may not be sufficient following the establishment of cash reserves and payment of costs and expenses, including cost reimbursements to Dominion Midstream's general partner and its affiliates, to enable Dominion Midstream to pay the minimum quarterly distribution to its common and subordinated unitholders. Due to Dominion Midstream's lack of asset diversification, an adverse development at Cove Point would have a significantly greater impact on its financial condition and results of operations than if Dominion Midstream maintained a more diverse portfolio of assets.[19]

Permitting and litigation delay risk
The sole dependency of Dominion Midstream on Cove Point make the permitting and litigation delay risks of the Liquefaction Project very important financial risk factors. The permitting and litigation delay risk section (the final section of this report) will show that there is a severe chance the Liquefaction Project, which is already delayed, will be delayed even further. Dominion Midstream states that certain of the permits and approvals must be obtained before construction on the Liquefaction Project can begin. Cove Point does not know whether or when any such approvals or permits can be obtained, or whether any existing or potential interventions or other actions by third parties will interfere with its ability to obtain and maintain such permits or approvals. Any delay in completion of the Liquefaction Project may prevent Cove Point from commencing liquefaction operations and could cause a delay in the receipt of revenues. The delay also requires Cove Point to pay damages to its customers, or, in event of significant delays beyond certain time periods, permit either or both of Cove Point's export customers to terminate their contractual obligations to Cove Point.[20] As a result, any significant delay, whatever the cause, could have a material adverse effect on Cove Point's operating results and its ability to make payments on the preferred equity interest hold by Dominion Midstream. If Dominion Midstream doesn't receive enough payments from its sole asset Cove Point, it will be unable to make the required minimum quarterly payments to its unitholders.[21]

Permitting and litigation risks are also likely to cause cost overruns. For instance, Cove Point so far has incurred, and expects to continue to incur, substantial capital expenditures to maintain compliance with the CAA and other air emission regulations that have been promulgated or may be promulgated or revised in the future.[22]

In the EA, the FERC states that the construction of the Liquefaction Project would take approximately four years.[23] This indicates that the revised in service date of late 2017 is also highly unlikely, since the construction has yet to begin.

Environmental regulation costs
The trend in environmental regulation is to increasingly restrict or limit activities that may affect the environment, and thus, any changes in environmental laws and regulations or re-interpretation of enforcement policies are likely to result in more stringent and costly waste handling, storage, transport, disposal or remedial requirements, which collectively, could have a material adverse effect on Cove Point's operations and financial position. Actual future expenditures required for compliance may be significantly more than the amounts Cove Point currently anticipates. Cove Point may be unable to pass on increased compliance costs to its customers.[24]

In the prospectus, Dominion Midstream states that it is unable to estimate Cove Point's compliance costs with certainty due to its inability to predict the requirements and timing of implementation of any future environmental rules or regulations. Other factors that affect Cove Point's ability to predict future environmental expenditures with certainty include the difficulty in estimating any future clean-up costs and quantifying liabilities under environmental laws. However, such expenditures, if material, could result in the impairment of assets or otherwise adversely affect the results of Cove Point's operations, financial performance or liquidity and ability to make payments on Dominion Midstream's preferred equity interest.[25]

There are numerous regulatory approaches currently in effect or being considered to address greenhouse gases, including possible future U.S. treaty commitments, new federal or state legislation that may impose a carbon emissions tax or establish a cap-and-trade program, and regulation by the United States Environmental Protection Agency ("EPA"). Additional regulation of air emissions, including greenhouse gases, under the CAA may be imposed on the natural gas sector, including rules to limit methane gas leakage. Compliance with greenhouse gas emission reduction requirements may require the retrofitting or replacement of equipment or could otherwise increase the cost to operate and maintain Cove Point's facilities.[26]

Dependency on a limited number of customers
Cove Point provides services to 17 customers, including four local distribution companies, 10 marketers or end users and a couple of import shippers. The three largest customers comprised approximately 94% of the total transportation and storage revenues for the year ended December 31, 2013, with Cove Point's largest customer representing approximately 72% of such amounts. Because Cove Point has a small number of customers, its contracts subject it to counterparty risk. The ability of each of Cove Point's customers to perform their obligations to Cove Point will depend on a number of factors that are beyond Dominion Midstream's control. Cove Point's future results and liquidity are substantially dependent upon the performance of these customers under their contracts, and on such customers' continued willingness and ability to perform their contractual obligations.[27] Cove Point is also exposed to the credit risk of any guarantor of these customers' obligations under their respective agreements in the event that Cove Point must seek recourse under a guaranty. Any such credit support may not be sufficient to satisfy the obligations in the event of a counterparty default.[28]

In addition, the fact that its future main customers are foreign companies further increases these risks. If a controversy arises under an agreement resulting in a judgment in Cove Point's favor where the counterparty has limited assets in the U.S. to satisfy such judgment, Cove Point may need to seek to enforce a final U.S. court judgment in a foreign tribunal, which could involve a lengthy process.[29] For the new Liquefaction Project, Cove Point has already executed service contracts with two foreign counterparties, each of which has contracted for 50% of the available capacity. The two future customers are ST Cove Point, a joint venture of Sumitomo Corporation (Japan) and Tokyo Gas Co (Japan), and GAIL Global (USA) LNG, a wholly-owned indirect U.S. subsidiary of GAIL (India). These export customers have each entered into a 20-year agreement for the planned liquefaction and export services. In addition, each of 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.[30] Cove Point's agreements with the export customers, while executed, will not begin generating revenues for Cove Point prior to the completion of the Liquefaction Project. In addition, the export customers may become entitled to damage payments by Cove Point or may become entitled to terminate, or be relieved from, their contractual obligations to Cove Point under certain circumstances. These circumstances include the failure of certain conditions precedent to be met or waived by specified dates, the occurrence and continuance of certain events of force majeure (including the loss of Non-FTA Approval), delays in the commencement of commercial operations of the Liquefaction Project beyond specified time periods, and failure by Cove Point to satisfy its contractual obligations after any applicable cure periods.[31] If such agreements were terminated, there can be no assurance that Cove Point will be able to replace such agreements on comparable terms. The termination of, and failure to replace, the export contracts are likely to have an adverse impact on Cove Point's ability to pay the preferred return distributions. The risks mentioned in the permitting and litigation delay risk section make it likely that the Liquefaction Project will have further delays, and make it more likely that there will be penalties or that the contracts with the two customers will be terminated. Also, Dominion Midstream's existing contract with Statoil, one of Cove Point's import contracts, will expire on May 1, 2017, causing a loss in revenue.[32]

Land subsidence uncertainty
Although the Maryland Public Service Commission finds no evidence that there will be land subsidence due to the water usage of the Liquefaction Project, very little, if any subsidence research has been undertaken in Southern Maryland, as the Commission recognizes. Therefore, the Commission adopted an additional condition requiring Cove Point to establish a trust in the amount of US$ 190,000 to conduct on-going subsistence monitoring.[33] This trust fund will only study the land subsidence risk and does not include the cost of any land remediation that could be needed should the studies uncover evidence of land subsidence events.[34]

Insufficient revenue streams
Cove Point currently has a contract with Statoil for regasification and firm transportation capacity. This contract will expire May 1, 2017, in order to make way for the new export customers of the Liquefaction Project. However, following the expiration of this contract with Statoil and until the Liquefaction Project is completed, Cove Point is not expected to generate annual cash flows sufficient to pay the preferred return distributions to Dominion Midstream in full, which make it unlikely for Dominion Midstream to make payments to its unitholders.[35] The previous sections have shown that a delay of the Liquefaction Project is not unlikely.

Limited financing options
Upon the commencement of the IPO, Dominion Midstream is solely dependent on its US$ 300 million undrawn credit facility with Dominion Resources for any borrowings necessary to meet its working capital and other financial needs related to the Liquefaction Project. The development costs associated with the Liquefaction Project so far were funded by Dominion Resources, and Dominion Resources has indicated that it intends to provide the funding necessary for the remaining development costs, but it has no obligation to do so. If Dominion Resources' funding resources were to become unavailable to Dominion Midstream, or if Dominion Resources was for some reason unwilling to provide the required funding, Dominion Midstream's access to funding would also be in jeopardy. An inability to obtain additional financing from other sources on acceptable terms could negatively affect Dominion Midstream's financial condition, cash flows, anticipated financial results or impair its ability to generate additional cash flows. The ability to obtain bank financing or to access the capital markets for future debt or equity offerings may be limited by Dominion Midstream's financial condition at the time of any such financing or offering, the covenants contained in any other credit facility or other debt agreements in place at the time and adverse market conditions. The failure to obtain the funds necessary to maintain, develop and increase its asset base could adversely impact Dominion Midstream's growth and profitability.[36]

Limited industry experience
There is limited recent industry experience in the U.S. regarding the construction or operation of large-scale liquefaction facilities. The construction of the Liquefaction Project is expected to take several years, will be confined within a limited geographic area and could be subject to delays, cost overruns, labor disputes and other factors that could adversely affect Cove Point's financial performance or impair its ability to execute the business plan for the Liquefaction Project as scheduled.[37]

Asian LNG prices may fall
International LNG prices have recently been falling significantly in several key markets, with the most notable declines in major LNG-consuming nations Japan and Korea. Japan is the home country of one of the two future customers of the Liquefaction Project. It's possible this is just regular seasonal weakness, in which case LNG prices may rebound over the coming months. But the scale of the recent price drop suggests this could be something more. Indeed, power generators in places like Japan have been making a concerted effort to move away from LNG to alternative fuels. If that's the case, Cove Point's LNG exports may be coming at exactly the wrong time. U.S. shipments to key Asian markets won't be low-cost. They instead depend on relatively buoyant global pricing to make them economic. So if the LNG price drops, a lot of money could be lost on LNG exports.[38]

Apart from a possible Asian shift towards alternative fuels, it seems like low natural gas prices will be with us for a while. And, thus, Dominion's merchant power business is likely to be a source of trouble for the coming periods. Alone that shouldn't be too much of an issue, but if another part of the business starts to weaken there could be a compounding effect.[39]

Climate risks
Cove Point's operations could be adversely affected and its physical plant is at risk of damage should changes in global climate produce, among other possible conditions, unusual variations in temperature and weather patterns, resulting in more intense, frequent and extreme weather events, abnormal levels of precipitation or a change in sea level or sea temperatures.[40] The Chesapeake Bay's coast is particularly vulnerable to threats such as hurricanes, shore erosion, coastal flooding, storm surge and inundation. The area also has experienced sea level rise of nearly twice the global average over the last 100 years due to naturally occurring regional land subsidence.[41]

No economic benefit for Maryland citizens
The Maryland Public Service Commission has found that the Liquefaction Project will not provide net economic benefit to Maryland citizens. This is because natural gas prices would be 5.7% higher in 2020 due to the additional demand created by the project's exports. Maryland citizens are deprived of nearly US$ 16 million in revenues associated with compliance costs between the projected in-service date of the Liquefaction Project through the year 2020. The costs to Maryland's ratepayers could be well in excess of $75 million by 2025.[42]

Financial risk - Master Limited Partnership construction

This section describes the financials risks related to the fact that Dominion Midstream is being set up as a master limited partnership, with Dominion Resources as a general partner.

Unitholders: limited power and last in line to receive cash distribution
The following facts highlight the main disadvantages for the unitholders of Dominion Midstream:

- In most circumstances Dominion Midstream's general partner - Dominion Resources - has the power and authority to conduct the business of Dominion Midstream without unitholder approval; [43]
- The partnership agreement of Dominion Midstream contains provisions that restrict the remedies available to unitholders for actions taken by Dominion Midstream's general partner that might otherwise constitute breaches of fiduciary duty under state fiduciary duty law;[44]
- Unitholders have limited voting rights and are not entitled to elect the general partner or its directors, which could reduce the price at which the common units will trade. Dominion Midstream's partnership agreement restricts unitholders' voting rights by providing that any units held by a person or group that owns 20% or more of any class of units then outstanding, other than the general partner and its affiliates, cannot vote on any matter;[45]

- If at any time Dominion Midstream's general partner and its affiliates own more than 80% of the outstanding common units, the general partner will have the right to acquire all, but not less than all, of the common units held by unaffiliated persons at the greater of two predetermined rules ("limited call right"). As a result, unitholders may be required to sell their common units at an undesirable time or price and may not receive any return or a negative return on their investment. Unitholders may also incur a tax liability upon a sale of their units. Dominion Midstream's general partner is not obligated to obtain a fairness opinion regarding the value of the common units to be repurchased by it upon exercise of the limited call right. There is no restriction in the partnership agreement that prevents Dominion Midstream's general partner from causing Dominion Midstream to issue additional common units and then exercising its limited call right;[46]
- Dominion Midstream will be required to pay any amounts due and payable under agreements made when attracting additional credit facilities prior to making any distributions to its unitholders, notwithstanding its stated cash distribution policy;[47]
- Dominion Midstream's partnership agreement does not limit the number of additional limited partner interests it may issue at any time without the approval of its unitholders. The issuance of additional common units or other equity interests of equal or senior rank will decrease the existing unitholders' proportionate ownership. It may also decrease the amount of distributable cash flow, the relative voting strength of each previously outstanding unit and the market price of the common units.[48]

No obligations to make cash distributions to unitholders
Dominion Midstream intends to make a minimum quarterly cash distribution to its unitholders, but there is no guarantee. Dominion Midstream does not have a legal or contractual obligation to pay distributions quarterly or on any other basis or at its minimum quarterly distribution rate or at any other rate. The cash distribution policy is subject to certain restrictions and may be changed at any time. Therefore, investors are cautioned not to place undue reliance on the permanence of the cash distribution policy in making an investment decision. Any modification or revocation of the cash distribution policy could substantially reduce or eliminate the amounts of distributions to Dominion Midstream's unitholders.[49]

Dominion Midstream intends to raise the quarterly distributions by letting Cove Point make preferred return distributions on a quarterly basis provided it has sufficient cash and undistributed net operating income. However, in the event Cove Point is unable to fully satisfy preferred return distributions during any quarter, Dominion Midstream will not have a right to recover any missed or deficient payments. Dominion does not expect to cause Cove Point to make distributions on its common equity until the Liquefaction Project commences commercial service.[50]

Tax risk for Dominion Midstream
The tax treatment of Dominion Midstream depends on its status as a master limited partnership for federal income tax purposes and on not being subject to a material amount of entity-level taxation. If the International Revenue Service (U.S. tax government agency) were to treat Dominion Midstream as a corporation for federal income tax purposes, or if Dominion Midstream becomes subject to entity-level taxation for state tax purposes, its cash available for distribution to unitholders would be substantially reduced. The present U.S. federal income tax treatment of publicly traded partnerships like Dominion Midstream or an investment in its common units may be modified by administrative, legislative or judicial changes or differing interpretations at any time.[51]

Tax payment required by unitholders, also without cash distribution
Unitholders will be required to pay U.S. federal income taxes and, in some cases, state and local income taxes, on their share of Dominion Midstream's taxable income, whether or not they receive cash distributions from Dominion Midstream. Unitholders may not receive cash distributions equal to their share of Dominion Midstream's taxable income or even equal to the actual tax due from them with respect to that income.[52]

Conflict of interest - Dominion Resources
Following the IPO, Dominion Resources will own and control Dominion Midstream's general partner and will appoint all of the directors of this general partner. Although the general partner has a duty to manage Dominion Midstream in a manner that it believes is not adverse to Midstream's interest, the executive officers and directors of the general partner have a fiduciary duty to manage the general

partner in a manner beneficial to Dominion Resources. Therefore, conflicts of interest may arise between Dominion Resources or any of its affiliates, including the general partner of Dominion Midstream, on the one hand, and Dominion Midstream or any of its unitholders, on the other hand. In resolving these conflicts of interest, the general partner of Dominion Midstream may favor its own interests and the interests of its affiliates over the interests of Dominion Midstream's common unitholders. Neither Dominion Midstream's partnership agreement nor any other agreement requires Dominion Resources to pursue a business strategy that favors Dominion Midstream. The amount of distributions Dominion Midstream pays to its unitholders under its cash distribution policy and the decision to make any distribution is determined by its general partner, and thus determined by Dominion Resources.[53]

One potential risk of this conflict of interest arises from the fact that Dominion Midstream is almost solely dependent on the loans provided by Dominion Resources. This creates a conflict of interest, because Dominion Resources may prioritize repayment of its loans over the broader interests of the Dominion Midstream, such as those of the common unitholders as well as sustainability interests.[54] Secondly, Dominion Midstream's general partner intends to limit its liability under contractual arrangements between Dominion Midstream and third parties so that the counterparties to such arrangements have recourse only against Dominion Midstream's assets, and not against the general partner or its assets. The general partner may therefore cause Dominion Midstream to incur indebtedness or other obligations that are nonrecourse to the general partner. [55]

Conflict of Interest - Barclays, Citigroup and JP Morgan Chase
The underwriters Barclays Capital, Citigroup Global Markets and J.P. Morgan Securities are subsidiaries of respectively Barclays (United Kingdom), Citigroup (United States) and JP Morgan Chase (United States). These banks or their affiliates are lenders under a joint revolving credit facility provided to Dominion Resources and its subsidiaries Virginia Electric and Power Company and Dominion Gas Holdings.[56] Also, JP Morgan Chase and its affiliates are current relatively large bondholders of Dominion Resources.[57]

These facts create a clear conflict of interest: as underwriters, Barclays Capital, Citigroup Global Markets and J.P. Morgan Securities have a duty to make an independent assessment of the value of the company's units in order to recommend to investors whether or not to buy the units of Dominion Midstream. But at the same time, the three banks have a clear interest in the financial wellbeing of Dominion Resources and its affiliates, and if the underwriters exercise their option to purchase additional common units in full, they know Dominion Midstream intends to use the additional net proceeds to make a distribution to Dominion Resources.[58]

No existing market for common units
Prior to this offering, there has been no public market for the common units of Dominion Midstream. The company does not know the extent to which investor interest will lead to the development of a trading market or how liquid that market might be. Unitholders may not be able to resell their common units at or above the initial public offering price. Additionally, the lack of liquidity may result in wide bid-ask spreads, contribute to significant fluctuations in the market price of the common units and limit the number of investors who are able to buy the common units.[59]

Permitting and litigation delay risk - Cove Point

A large part of the risk related to Dominion Midstream is related to Dominion Midstream's planned holding of Cove Point, and specifically to the new Liquefaction Project. The permitting and other legal preparations for this project started in October 2011 and are still ongoing.[60] The Liquefaction Project is already delayed a couple of months. According to the original planning, Cove Point proposed to begin construction of the Liquefaction Project in the first half of 2014, and would place the facilities in service in June 2017.[61] However, recently Cove Point changed the plans and stated that the Liquefaction Project is expected to be completed and placed into service in late 2017.[62]

The permitting and litigation delay risks related to the Liquefaction Project remain subject to:[63]

The receipt of approval by the Federal Energy Regulatory Commission ("FERC") to construct and operate the facilities:
In June 2012, the FERC approved Cove Point's request to initiate the pre-filing process to site, construct, modify, and operate facilities to be used for the liquefaction of natural gas for export at Cove Point's existing Cove Point LNG Terminal in Calvert County, Maryland. On April 1, 2013, Cove Point filed the application.[64] Recently, on May 15, 2014, Cove Point received a favourable FERC Environmental Assessment ("EA") of the Liquefaction Project. Any person that wished to comment on the EA was required to submit their comments to the FERC on or before June 16, 2014.[65]

Because there's strong opposition to the FERC's EA of the project, it is likely that the scheduled final decision will be postponed. Community members, environmental groups, and Maryland politicians continue to call on the FERC to conduct a more in-depth and customary Environmental Impact Statement (EIS) for the project instead of an EA. An EA does not customarily provide a thorough, scientific analysis of direct, indirect, or cumulative impacts of a project. According to several environmental groups, this project will have significant adverse effects on Southern Maryland and on communities and ecosystems throughout parts of the mid-Atlantic region. According to these groups the impacts are significant when considered in both context and intensity, and could likely subsequently trigger FERC's statutory obligation to conduct a comprehensive EIS. Furthermore, there is a significant likelihood that interested stakeholders, including Maryland community members and environmental groups, will legally contest FERC's decision making as it concerns completion of a comprehensive EIS for the project.[66] This could severely delay the project.

Final approval from the Public Service Commission of Maryland to construct the power generation facilities at the Cove Point LNG Facility:
On May 30, 2014, the Public Service Commission of Maryland, a commission that amongst others regulates gas companies and the construction of generating stations in Maryland,[67] conditionally granted the Certificate of Public Convenience and Necessity ("CPCN"). The CPCN is conditional upon FERC approval of the Liquefaction Project, and all FERC conditions associated with that approval. This means the final approval is still pending, because the final FERC decision has not been made. Another important condition is that Cove Point is required to contribute US$ 8 million per year for five years (US$ 40 million total) to the State's Strategic Energy Investment Fund, to be used for the development of renewable and clean energy resources in Maryland, greenhouse gas mitigation, energy efficiency programs, or demand response programs. Also, because the Maryland Public Service Commission has found that the Liquefaction Project will not provide net economic benefit to Maryland citizens, Cove Point has to contribute US$ 400,000 per year for each of the 20 years the terminal is under contract to operate, for a total of US$ 8 million to the Maryland Energy Assistance Program.[68]

A number of other governmental and regulatory approvals and permits, including several under the Clean Air Act ("CAA") and the Clean Water Act ("CWA"):

- **CAA:** The regulation of air emissions under the Clean Air Act (CAA) and comparable state laws and regulations restrict the emission of air pollutants from many sources and also impose various monitoring and reporting requirements. The CAA New Source Review regulations require Cove Point to obtain pre-approval for the construction or modification of certain projects or facilities expected to produce or significantly increase air emissions, obtain and strictly comply with stringent air permit requirements or install and operate specific equipment or technologies to control emissions. Obtaining the necessary air permits has the potential to delay the development of the Liquefaction Project.[69]
- **CWA:** The Clean Water Act (CWA) and analogous state laws impose restrictions and strict controls regarding the discharge of effluent into navigable waters. Pursuant to these laws, permits must be obtained to discharge into state waters or waters of the U.S. Any such discharge into regulated waters must be performed in accordance with the terms of the permit issued by the United States Environmental Protection Agency ("EPA") or the analogous state agency. Spill prevention, control and countermeasure requirements under federal and state law require appropriate containment berms and similar structures to help prevent the accidental release of petroleum into the environment. In addition, the CWA and analogous state laws require individual permits or coverage under general permits for discharges of storm water runoff from certain types of activities. Obtaining the necessary water permits has the potential to delay the development of the Liquefaction Project.[70]

Future requirements or revoking of authorization by the U.S. Department of Energy ("DOE"):
While Cove Point has received authorization from the DOE to export LNG to non-Free Trade Agreement ("FTA") countries, the Non-FTA Authorization is subject to review, and the DOE may impose additional approval and permit requirements in the future or revoke the Non-FTA Authorization should the DOE conclude that such export authorization is inconsistent with the public interest or that Cove Point has not complied with the terms and conditions of the authorization.[71]

The reaction of the SEC to the S-1 complaint filed by the Chesapeake Climate Action Network ("CCAN") and Ms. Amundsen:
CCAN and Ms. Amundsen, an existing shareholder of Dominion Resources, believe that Dominion Midstream may have omitted or inadequately disclosed material information in its registration statement related to the planned IPO.[72] If the SEC validates this complaint, this means the IPO would have to be postponed, because Dominion Midstream would have to adjust their S-1 registration statement. This would cause a delay in the Liquefaction Project of Cove Point.

The requirements of the state of Maryland concerning greenhouse gas emissions:
Maryland, along with eight other Northeast states, has implemented regulations requiring reductions in carbon dioxide emissions through the Regional Greenhouse Gas Initiative ("RGGI"), a cap and trade program covering carbon dioxide emissions from electric generating units in the Northeast. The Cove Point LNG Facility is not currently subject to RGGI because all electric power generation units are less than 25 MW. The facility will become subject to RGGI after equipment associated with the Liquefaction Project is installed. However, facilities that do not sell more than 10% of their gross annual output to the electric grid are not required to purchase emission allowances, but are required to submit a climate action plan. Because this plan has not yet been submitted, it is not known what the requirements may be.[73]

The effect of the Calvert County Circuit Court decision to not exempt the Liquefaction Project from local zoning regulations:
In 2013, the Calvert County Board of Commissioners voted to exempt the Cove Point facility from zoning ordinances. But recently, in August 2014, the Calvert County Circuit Court overruled that decision. Calvert County acted illegally in freeing Cove Point from having to comply with the county's zoning ordinance. In doing so, the judge said, county officials violated Maryland's constitution by treating Dominion differently from other property owners. The impact of this court decision remains unclear, but it is possible that this will delay the construction of the Cove Point Liquefaction Project.[74]

In general, Dominion Midstream itself also does not know when it can start the construction of the Liquefaction Project. It states that Cove Point does not know whether or when any approvals or permits can be obtained, or whether any existing or potential interventions or other actions by third parties will interfere with its ability to obtain and maintain the necessary permits or approvals.[75] According to the recent EA from the FERC, at least six permits (mainly building related permits) are not anticipated to receive final approval until December 2015.[76]

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