

Testimony of Jake Erhard – December 16, 2015

Good morning, Senate President Neville James, and the Honorable Members of the 31<sup>st</sup> Legislature of the United States Virgin Islands. My name is am Jake Erhard, a Partner at ArcLight Capital. On behalf of Limetree Bay Terminals and its owners, I want to thank you for giving us the opportunity to present our vision and plans for the oil refinery, storage terminal and related facilities located at Limetree Bay, St. Croix. We are very excited about doing business in the Virgin Islands and believe we offer a unique value proposition for the government and the people of the Virgin Islands.

I'm joined today by my colleagues, Evan Schwartz, a Principal at ArcLight Capital, and Jerry Ashcroft, a senior operating advisor to Limetree Bay Terminals and the company's current President. ArcLight owns an 80% interest in Limetree Bay Terminals and is the company's controlling shareholder. I am also joined by two representatives of Freepoint Commodities: Vice Chairman Sheldon Pang and General Counsel Daniel Hecht. Freepoint owns a 20% interest in Limetree Bay Terminals.

I'd like to begin by providing a brief overview of ArcLight. ArcLight is one of the largest and oldest private investment firms focused on North American and European energy assets. We are an investment adviser registered with the Securities and Exchange Commission. Since our establishment in 2001, ArcLight has invested over \$13 billion in more than 90 investments. ArcLight is headquartered in Boston, MA, with an additional office in Luxembourg. Our investment team brings extensive energy expertise, industry relationships, and specialized value creation capabilities to the investments that we make. In July 2015, we closed on \$5.6 billion of new capital commitments, out of which the Limetree Bay Terminal acquisition will be funded.

ArcLight focuses exclusively on the energy industry and on energy infrastructure investments in particular. Within energy we have a very broad base of investment experience, including petroleum terminals, natural gas pipelines and storage facilities, liquefied natural gas (or "LNG") infrastructure,

natural gas-fired power generation, and solar and wind farms. We believe that the breadth of our energy expertise allows us to address the many different aspects of the St. Croix facility, which will help us to maximize its usage and contribution to the local economy.

Most relevant to the St Croix facility, ArcLight has extensive experience in the ownership and operation of companies that store, transport and distribute crude oil and refined petroleum products such as gasoline and diesel. In the last decade, ArcLight led the commitment of over \$3 billion of equity capital into such companies, collectively representing over 100 million barrels of storage capacity. Our companies currently own 30 individual truck rack terminals, and we throughput volumes at over 200 different terminals. Of note, ArcLight was formerly a controlling shareholder of Buckeye Partners, an entity you are familiar with, and I personally sat on the board of directors when the company agreed to acquire the Yabacoa terminal in Puerto Rico and the BORCO terminal in the Bahamas. ArcLight also owned 100% of the Houston Fuel Oil Terminal Company, the owner of the largest fuel oil storage facility in North America with many similar attributes to the St. Croix facility. During our ownership we tripled operating cash flow and expanded capacity by 40%. More recently, ArcLight agreed to acquire Gulf Oil, a petroleum terminal business with annual sales of 3.3 billion gallons of gasoline throughout 31 states and Puerto Rico. We will use our extensive commercial and operational expertise from these and other businesses to support the re-development of the St Croix facility. To that end, we've appointed Jerry Ashcroft to help lead the restart of Limetree Bay Terminals. Jerry has worked closely with ArcLight over the last eight years, has deep experience with marine terminal facilities like St. Croix, and is widely regarded as one of the best executives in the business.

In all our areas of investment, we are incredibly proud of not just our business achievements, but our reputation for fair dealing and safe, reliable, environmentally compliant activities. This reputation is the most important asset we have, and we would encourage you to independently verify it.

In addition, we have a long history of successfully growing our businesses both by constructing new capacity and by turning around businesses that were poorly managed by former owners. We expect to execute both of these strategies at the St. Croix facility. As you will hear, we plan to bring to the table a combination of significant investment capital, an innovative strategic vision, and key partners in order to make this happen.

In developing our plan for the future of the St. Croix facility, we believe that Limetree Bay has demonstrated a high degree of creativity and resourcefulness. As I will detail, our team has worked incredibly hard in getting to know all aspects of the facility and in developing an innovative plan to re-make the facility as an environmentally compliant, marquee energy center. We have already begun to deliver on this plan by executing a major crude oil storage lease agreement with Sinopec, one of the world's largest energy companies. The lease has a 10-year term and covers 10 million barrels of storage capacity. A lease of this size and duration is unprecedented in the market for crude oil storage. We believe it underscores the particularly strong value proposition that a partnership with Limetree Bay Terminals represents for the Virgin Islands. We also agreed to an investment partnership with Freepoint Commodities, a globally recognized commodity management firm that will own a 20% interest in Limetree Bay Terminals and has also executed an agreement to lease additional 3 million barrels of capacity at St. Croix. Sheldon Pang, the Vice Chairman of Freepoint who has deep professional and personal ties to Sinopec, will provide brief remarks after I conclude. I think I speak for all of us when I say that what ultimately brought us together as partners was the shared appreciation for the considerable potential of the St. Croix facility. Collectively, our partnership will focus its efforts on maximizing the value of the facility for all constituents, and we fully expect that you will see us execute additional high-value business opportunities over the coming months and years.

In collaboration with Sinopec and Freepoint, our vision for the St. Croix facility is to create a world-class trading hub similar to what currently exists in Singapore. The St. Croix facility is particularly

well-located to serve the global and regional flow of petroleum products. The expansion of the Panama Canal, expected to be complete in 2016, will further increase the strategic location of the terminal. The St. Croix facility also benefits from considerable storage capacity with a high degree of interconnectivity that can support sophisticated merchant operations by its customers. The facility's extensive marine infrastructure also sets it apart, enabling it to handle a broad range of vessels and products in a large, well-protected port, which is a significant advantage in attracting customers. To generate increased customer activity, we have committed to invest up to \$100 million in an offshore buoy system that will enable the facility to receive the world's largest oil tankers, which cannot presently enter the Limetree Bay Channel because it is not deep enough. This critical expansion is not theoretical — both the operating agreement with the government and our contract with Sinopec require us to make this investment. The long-term presence of a major strategic player like Sinopec will undoubtedly attract other customers and trading partners to make use of the world-class infrastructure that we intend to place into operation at the St. Croix facility.

We expect St. Croix to serve as a crossroads for the flow of crude oil from North America, South America, and West Africa on the way to the US mainland and Asia. Sheldon Pang will address Sinopec's specific plans in this regard. The facility will also play a critical role in the trade and distribution of all types of refined petroleum products, such as gasoline, diesel, naphtha, gasoil, fuel oil, bunker fuel, and asphalt. Customer activities will include importing, storing, blending, trading, treating, and ultimately exporting these products. Importantly, the Sinopec contract will ensure that tank utilization remains high regardless of overall demand for storage and will attract global trading partners to the facility.

The large volumes of products moving through the facility will also maximize the opportunity for the potential restart of individual refinery units and other projects. We are actively engaged in discussions with highly credible market participants that have expressed preliminary interest in the restart of portions of the refinery. We intend to fully leverage ArcLight's, Sinopec's and Freeport's

expansive network of relationships across the energy industry to explore every potential use for the refinery. We believe that Limetree Bay's plan to restart the St. Croix facility initially as a terminal operation offers the highest probability of productive restart of the refining units.

Looking forward, we also envision new uses for the St. Croix facility, such as trans-shipment services and the importation of LNG or compressed natural gas. We believe ArLight's deep expertise and relationships in the natural gas segment could facilitate such activity as the market for exported natural gas from the mainland US continues to develop.

We anticipate that Limetree Bay's strategy will have the effect of generating significant revenues for the St. Croix facility, and therefore tax receipts for the government. A substantial portion of the terminal's revenue will come from the leasing of tanks. In the typical lease arrangement, customers pay a fixed monthly amount for the right to use a stipulated amount of storage capacity. Increased tank capacity utilization is therefore critical to capturing the most amount of revenue and taxes. Limetree Bay has already leased 13 million barrels of capacity over the long-term to Sinopec and Freeport. As a follow-on effect and in light of the important role we will position the facility to play in the marketplace, we are already experiencing strong demand for the lease of substantially all of the remaining tank capacity. We also expect that the St. Croix facility will generate a significant percentage of its revenue – approximately 20 to 30 percent – based on the extent to which customers utilize the storage they lease, since Limetree Bay will charge customers for marine services and other usage fees. As a hub location, we expect there to be significant customer activity at the site, resulting in a steady stream of service revenues and resulting taxes. This is an important concept, as some terminal locations end up being a place where customers simply "park" product instead of actively "turning" their capacity.

As you know, tax payments are set at 9 to 10 percent of terminal revenue, with a minimum annual payment starting at \$4 million and increasing to \$7 million by the fourth year of operations. Our

current expectation, based on a reasonable projection of market demand and rates for the existing terminal capacity, is to generate taxes on the order of \$15 million per year, though this number will certainly vary based on actual market conditions. These terminal tax payments are calculated as a percentage of revenue, which means Limetree Bay will make payments to the government even in years when it loses money because of high operating expenses or due to investing in capital projects. We believe this streamlined tax structure aligns our collective interests of maximizing facility utilization, while enabling the St. Croix facility to remain competitive with other terminals in the Caribbean, which is an important consideration.

As and if the facility is expanded or used for other services, the revenue and tax base will expand commensurately. We appreciate the fact that the government will be motivated to work with us to pursue these additional business opportunities. In addition, if we are successful in starting up portions of the refinery, the government will receive potentially significant incremental tax revenues via the tax set forth in the operating agreement equal to 17.5% of operating cash flows generated from refining operations.

During the past twelve months, Limetree Bay has worked to develop a comprehensive plan to address the wide range of important aspects involved in a restart of the St. Croix facility. Commissioner Collens has already outlined a number of important components of our proposal, including the direct economic consideration. I will touch briefly on certain other aspects of our plan.

First is the role of our proposal in preserving and creating jobs. One of the reasons we are excited to partner with the U.S. Virgin Islands is the strength of its workforce. We've visited the facility several times and continue to be impressed by the capabilities and knowledge of the existing and former employees. These individuals have faced years of uncertainty regarding the future operation of the facility. We look forward to giving them greater stability. We are committing to employ at least 80

people; Virgin Islanders must constitute 80% of the total employee base and 50% of senior management. At closing, we expect to continue employment for the people who work at the site under existing arrangements. Within 45 days, we will work with this team on the restart of the first 3 million barrels of storage. Within three to four months, we will transition the significant majority of the approximately 100 people that are currently engaged by Pinnacle onto Limetree Bay's payroll. During this period, we expect to bring additional tankage online to reach a total of 13 million barrels of operating storage. As we increase the level of terminal operations and complete projects to restart the remaining tanks, we will hire additional employees and contractors. We expect this to raise the total number of workers on site to at least 200 people for the duration of these efforts. By the end of the first year of operations, we anticipate that we will have a total of 26 million barrels of in service. In addition to the restart projects, we have developed plans for several growth projects that represent long-term investments in the future of the facility. As mentioned previously, we plan to move quickly to construct an offshore buoy system to accommodate very large oil tankers. In addition, our discussions with storage customers have identified several other potential projects that we may undertake, including the expansion of storage capacity, the installation of specialized tank heating and jet circulation equipment, and the construction of a new power plant. In doing so, we expect to make the most of the highly-qualified people already in the Virgin Islands that have experience working at the St. Croix facility. Their expertise and familiarity with the infrastructure will allow us to quickly and safely execute these projects. We will also spend the next eighteen months evaluating the potential restart of certain process units at the refinery. Our assessment will involve continued collaboration with engineering experts and permitting authorities, including the DPNR and EPA, as well as a thorough analysis of existing market conditions. Although we have received indications of interest in a restart of select process units, they remain preliminary. We plan to work with the interested parties, and others, to evaluate a restart for the mutual benefit of Limetree Bay Terminals and the US Virgin Islands.

If we determine, at the end of a thorough evaluation, not to restart the refinery, we will be responsible for dismantling the infrastructure. Limetree Bay Terminals will assume all of the costs associated with the safe and environmentally-sound deconstruction of the facility. If, during the deconstruction process, Limetree Bay is able to recoup any value in excess of its costs, the net proceeds above \$5 million will be shared fifty-fifty with the Government of the Virgin Islands.

The environmental plan for the site is also critical, and we have completed considerable work with other stakeholders to provide for ongoing remediation and stewardship. Over the course of several months, Limetree Bay Terminals, along with its external and internal environmental specialists, performed an in-depth evaluation of the facility's condition, including multiple site visits, interviews with the on-site environmental team, detailed site reconnaissance, and a review of records. We completed a detailed environmental site assessment report and permitting roadmap, which we have shared with the Governor's team. I know many of you in this room have expressed substantial concerns about existing environmental issues at the facility. ArcLight would not be prepared to take financial or reputational risk if it did not have a plan that addresses these environmental conditions, nor would we want to come before you with an operating plan that we had not fully and independently verified. Our analysis concluded that while the recognized environmental conditions are manageable, we need to incorporate certain remediation, corrective action, and containment programs into our operational plan and budget. In response, we developed a plan and an operating agreement that ensures this activity will continue until complete. In addition, we possess the requisite site knowledge to make sure that resumed operations are fully compliant with all permitting and environmental requirements. Going forward, environmental stewardship will remain a top priority for ArcLight and Limetree Bay.

To this end, we have committed to provide services and funding to HOVENSA so that it can manage the final remediation of the site. Specifically, we will provide up to \$30 million of funding, \$15 million of free electricity and all available excess power. Together with the funds in the RCRA trusts and

the insurance policy that we understand will be purchased by HOVIC, this will bring the total available funds for final remediation and wind-down of HOVENSA to over \$80 million. We believe this completes a long-term solution for the legacy HOVENSA assets.

Finally, we have spent considerable effort assessing the condition of the existing infrastructure in St. Croix, which was a particular concern because the facility has been largely idled for several years. Our team engaged a number of third-party experts and worked closely with local professionals to conduct a thorough on-site review of the maintenance history and operational integrity of the existing assets. As part of this process, we airlifted a specialized tank floor scanner to St. Croix and performed a number of other specialized inspections and measurements. Many of these tests are identical to the tests that will be required by the American Petroleum Institute to return these tanks to operational service. Our due diligence confirmed that facility was in relatively good working condition and could support the large scale operations we envisioned. Based on this work, we have developed a detailed repair and restart plan for the facility which includes significant investment in new equipment that will enhance the functionality and potential of the facility. These plans are substantially advanced, and we've already begun working with the existing operating team at HOVENSA so that we are prepared to execute them immediately after the transaction is consummated.

In closing, we sincerely hope that you will share in and support Limetree Bay's plan to re-develop the St. Croix facility. We have worked hard to produce tangible results to give you confidence in our ability to deliver on this vision and have made significant future commitments in the operating agreement. Importantly, this innovative agreement directly aligns Limetree Bay with the government and the people of the Virgin Islands in maximizing the value of the St. Croix facility. It has been a pleasure to work with the many Virgin Islanders and governmental representatives that we have met over the course of the last several months. Notwithstanding the hardships that you have endured since the refinery was shut down, we have been profoundly impressed by the optimistic business climate here

in the Virgin Islands, which has helped fuel our own optimism for doing business at the St. Croix facility. We intend to work with the government as a true partner. We won't be immune to making mistakes from time to time, but I believe our existing shared commitment to transparency and communication will translate to a bright and mutually beneficial future together.

Mr. President, on behalf of the owners and officers of Limetree Bay Terminals, I thank you for this opportunity to share our vision for the St. Croix facility with you and your colleagues. We look forward to responding to your questions about the proposed operating agreement and our plans.