DUDLEY, TOPPER AND FEUERZEIG, LLP

ATTORNEYS AT LAW

LAW HOUSE
1000 FREDERIKSBERG GADE
CHARLOTTE AMALIE, ST. THOMAS
U.S. VIRGIN ISLANDS 00802-6736
WEB: www.DTFLaw.com

MAILING ADDRESS:
P.O. BOX 756
ST. THOMAS, VI 00804-0756
TELEPHONE: (340) 774-4422
TELEFAX: (340) 715-4400

GEORGE H.T. DUDLEY
DIRECT DIAL: (340) 715-4444
EMAIL: GDUDLEY@DTFLAW.COM

November 11, 2014

The Honorable John P. de Jongh, Jr.
Governor of the U.S. Virgin Islands
18 Kongens Gade
Government House
St. Thomas, U.S. Virgin Islands 00802

The Honorable Shawn-Michael Malone
President
Thirtieth Legislature of the U.S. Virgin Islands
Capital Building
St. Thomas, U.S. Virgin Islands 00802

Re: Potential Cessation of Operations at HOVENSA L.L.C.
<u>DTF File No. 3471-52(c)</u>

Gentlemen:

Based on last night's meeting of the Committee of the Whole, HOVENSA's owners, PDVSA V.I. Inc. and Hess Oil Virgin Islands Corp., have requested that I write to you about HOVENSA's deteriorating financial condition. Since the suspension of refining operations, HOVENSA has been operating using the net cash generated from its fuel storage contracts and local fuel sales. As we have stated before to the Governor and his negotiating team numerous times throughout the last 18 months, the revenues generated from these storage contracts and local fuel sales have not been sufficient to cover the full cost of operating and maintaining the facility. To cover the deficit, the operating revenues have been supplemented by the cash HOVENSA had on hand in 2012 and by the additional cash generated from the sale on the spot market of the petroleum products HOVENSA had in inventory.

The owners expect HOVENSA's cash to be depleted by the middle of December and, as we have also mentioned to the Governor and his negotiating team numerous times throughout the last 18 months, **no funding will be provided by the owners to subsidize continued operations when this occurs.** At that point HOVENSA will begin the process of shutting down all operations, there will be no sale of the refinery to Atlantic Basin Refining, Inc. ("ABR") or anyone else, and, consequently, there will be no ability to restart the refinery or provide jobs and revenue to the Virgin Islands.

One final point on a related matter. As the Governor is aware, since the approval of the Fourth Amendment Agreement (the "Fourth Amendment") by the Legislature, the owners of HOVENSA have made a concerted effort in good faith to sell the refinery with the assistance of

Lazard Freres and Co. ("Lazard") in accordance with the sales process specified in the Fourth Amendment. Lazard was in contact with 142 parties worldwide but, ultimately, only ABR made a binding offer within the timetable established by the dictates of the Fourth Amendment. The first time Lazard was contacted by representatives of Monarch Energy Partners was in late September of this year, long after the sale process period specified in the Fourth Amendment had expired and an agreement in principle had been reached with ABR.

Sincerely,

George H.T. Dudley

cc: All Members of the Thirtieth Legislature

M:\3471\520003\Ltr J.Dejongh S.Malone 11-11-14..Docx