



THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE GOVERNOR
GOVERNMENT HOUSE

**Charlotte Amalie, V.I. 00802
340-774-0001**

April 4, 2013

Judith Enck
Regional Administrator
U.S. Environmental Protection Agency
Region 2
290 Broadway, Suite 426
New York, New York 10007

Dear Administrator Enck:

I am following up on our previous discussion and correspondence to request your assistance in facilitating the issuance of required permits that will enable the Virgin Islands Water and Power Authority (“the Authority” or “WAPA”) to convert its power and water generating facilities to the use of LPG and LNG, displacing its historic dependence on fuel oil. This is a major environmental and economic initiative for WAPA and our community. This is a path that your agency has strongly encouraged and I am seeking the help and guidance of you and your staff in expediting this effort.

Over the course of the last few years, the Authority has invested considerable resources in evaluating the technical and economic feasibility of a number of alternatives to continued reliance on fuel oil for its power generation. These evaluations have included wind, waste-to-energy, hydro-current, LNG and solar alternatives. It has also included detailed evaluations of the feasibility of undersea cable connections between WAPA and PREPA’s power grid in Puerto Rico. As a result of these initiatives, within the next twelve months the Authority will have approximately 18 MW of solar generation available on St. Thomas and St. Croix combined, and drafted and issued a request for proposals for utility-scale wind power, and will continue to work with third parties on the potential for independent waste-to-energy power generation. More importantly, its assessment of the feasibility of an LNG conversion indicated that recent and substantial changes in the LNG market (particularly the significant reduction in natural gas prices due to fracking in the U.S.) has greatly increased the potential feasibility of a long-term LNG conversion for relatively low volume users, such as the Authority. In exploring that option,

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WAPA also determined that LPG is a viable, quickly implementable, option as well for both the longer time period required for an LNG conversion, and for potential permanent use.

Based on these factors, the Authority is moving forward aggressively to the use of LPG, as the first and initial step, and then to LNG for its energy needs. As you know, this conversion will significantly improve air quality, facilitate and greatly simplify compliance with EPA's air permitting requirements, and holds promise to substantially reduce the cost of power for all classes of ratepayers in the U.S. Virgin Islands.

In order to implement this critically important conversion, we will need the guidance and help of EPA Region 2 in expediting environmental permitting over the course of the next few weeks.

Based on the discussions we had early last year and our meeting in your office, the Government and WAPA have devoted tremendous time, energy and financial resources in evaluating the feasibility and implementation of a conversion to the uses of LPG and LNG. I would like to highlight that this action was executed as the Authority's staff simultaneously drafted fuel requirements for a new fuel supplier, issued a request for proposal, evaluated the responders and negotiated a new agreement, well before year-end 2012 when the interim agreement between HOVENSA, LLC and the Government expired.

The Authority is slated to complete negotiations with an LPG provider within the next few weeks, and to secure a rapid conversion to LPG, once environmental air permitting requirements are clarified and resolved. It will not be possible to finalize the necessary contracts until that is done, so an expedited review by EPA is critically important. To this end, the Authority will be submitting its assessment of the applicable air permitting requirements to Mr. Steven Riven, Chief of Air Permitting, within the next two days, and would like to meet with him in New York as soon as possible to discuss and resolve any issues that remain.

We are requesting expedited confirmation that new source review will not be required, as it would substantially delay the conversion. It is the guidance of WAPA's environmental advisors that no federal air permitting is required due to the fact that the fuel conversion will lower emissions whenever fuel oil burning is displaced and that limitations on future facility operations will further ensure that no significant net increase in emissions will result from the conversion. Consequently WAPA is confident that it can quickly satisfy any concerns that EPA might have in this regard during the expedited review of the Authority's submissions.

Due to the greater technical complexities and long-term costs in converting to LNG, the Authority plans to proceed on a parallel, and somewhat slower, path in arranging for a future conversion to LNG. However, because emissions from LNG are even lower than for LPG, it anticipates that the resolution of air permitting issues for LPG will also resolve all issues related to LNG.

For the last two years, the Authority has been engaged in serious and very productive discussions with Region 2 directed at the resolution of long-term air violations at its St. Thomas and St. Croix facilities related primarily to continuous emission monitoring, stack testing, and the operation of emission controls for oxides of nitrogen. WAPA has devoted substantial manpower and financial resources to addressing these matters, and significant progress has been made toward resolving all outstanding matters.

The Authority's planned conversion to LPG, and at a later stage to LNG, will not only substantially improve air quality in the Territory, but will essentially eliminate the permitting and operational requirements that have been at the heart of WAPA's long-standing air compliance problems - problems which have been largely due to WAPA's geographic isolation, its limited resources, and the absence of any electric power grid from which it can draw power when its generating units, emission controls or continuous monitors experience unanticipated failures. WAPA would very much like to meet with your staff to brief them on the status of its LPG/LNG conversion efforts, and to discuss the significant benefits of that conversion in resolving the chronic issues that have plagued compliance with the burning of fuel oil over the last few years. Your assistance in facilitating that meeting would also be much appreciated.

The conversion to LPG, and LNG, will be costly and hence will add to the already severe financial strain on the ratepayers. Because WAPA is a non-profit semi-autonomous governmental agency, every dollar that is spent by the Authority is passed directly through to the ratepayers. The geographic isolation of the USVI, compounded by the inability to achieve an interconnected grid within the Territory, and therefore the operation of two isolated electric systems, has resulted in power generating costs from fuel oil combustion that currently exceed 51 cents per kilowatt hour, and based on current market factors are threatening to go even higher. That is 5x the stateside average, for an economy with a per capita income well below that of the poorest state, even before the closing last year of our largest employer and taxpayer, the HOVENSA refinery on St. Croix. The cost of just converting eight combustion turbines so they can burn LPG/LNG is projected to cost approximately \$21 million, and that does not include any of the enormous costs for the infrastructure that is necessary for the transportation, delivery, storage, and conversion of the liquefied fuels so that they can be burned for power generation. Those costs are estimated to be in excess of \$300 million, and possibly as high as \$500 million.

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Nor does it include the substantial and ongoing costs the Authority has incurred and will have to incur, both internally and for technical and legal advice, in designing and implementing the conversion process (including all related contracting matters).

Because of the extremely limited resources of our citizens (and, therefore, the Authority), the severe economic strains of the recent economic downturn, and the even more devastating impact of the closure of the HOVENSA refinery, I would strongly urge the EPA to exercise its significant discretion to not impose large penalties on the Authority for its past air violations, but to permit it to devote their limited resources, essentially local taxpayers monies, to the fuel conversion that will serve to remedy its past air emission compliance problems and substantially improve air quality in the Territory.

Sincerely,

A handwritten signature in blue ink, appearing to read "John P. de Jongh, Jr.", is written over a circular stamp or seal.

John P. de Jongh, Jr.
Governor

pc: Hugo Hodge, Jr., Executive Director, Virgin Islands Water and Power Authority
Gerald T. Groner, Chair, Board of Directors, Virgin Islands Water and Power Authority