

The Virgin Islands Consortium

Company Says It Offers Better HOVENSA Deal But Was Shut Out Of Bidding Process (Part 1)

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In an exclusive telephone interview with *VI Consortium* on Wednesday, the five principals of Monarch Energy Partners, whose parent company is Woodstown, New Jersey-based Monarch Environmental, Inc., revealed the uphill battle they have faced in their quest to be considered as a viable buyer of the HOVENSA refinery, and say the deal they offer is far better than what Atlantic Basin Refinery (ABR VI) has on the table.

According to Monarch Energy, which has more than 100 years of combined experience in the oil refining industry among its partners, the group was formed to address the array of problems brought on by HOVENSA's closing, but also to "enhance the lives of inhabitants of the island." To accomplish this, the company said it planned to bring the

refinery back to "full operating capacity in a clean, efficient manner" and to address and correct the environmental issues that were left behind when the refinery closed in February 2012.

However, Monarch said it was never given a fair shot at the bidding process. The challenge began three months ago when the group first met with Lazard Asset Management, the brokerage firm hired by HOVENSA to facilitate the sale of the refinery, and presented a plan, they say, that would "return HOVENSA back to its former glory."

According to the team, they complied with all the requirements requested by Lazard in order to qualify for the bid, including providing evidence that they had the financial wherewithal to sustain the purchase, but continued to be undermined in the process.

"When you look at the history that happened, all I can say is what happened to us, they asked us for money, and we sent them a secured bank instrument showing that we had \$350 million," said Robert Shrader, CEO of Monarch Environmental Services, Inc. and related companies. "They came back and said, 'Well, that's not enough'."



Soon, Shrader said he and the other partners, including Jack Galloway, Daniel Dempster, Albert Armstrong and Darryl Hardy, began questioning Lazard's intentions.

"When you said it's not enough, and you look at the deal on the table, then you have to wonder, 'Well, how is that not enough if [ABR VI] doesn't really have anything and we showed \$350 million just to put the key in the door. So, you look at that and have to wonder if something is afoul,'" Shrader said.

But, the group would not be deterred from trying to secure a seat at the bargaining table, Hardy noted. He said after "jumping through hoops" for Lazard since September, and presenting "different levels of money to them," they approached the Virgin Islands Government directly to share its plan, letting the government know their company could fix the problem of HOVENSA because "we know what the process should be, and things aren't going the way they should."

And part of the problem with HOVENSA is the need for the facility to be cleaned up in order to again meet stringent EPA standards. Monarch Energy Partners said their organization includes an "environmental service firm, who, for the past 25 years has engaged with the world's largest oil companies to find solutions and meet the highest standards of environmental compliance." The company noted that its environmental policies will "begin day one of operation."

Hardy continued, "The current Governor has not said no to our plans, that is not where we received our no from. There's a process that goes into the bidding, in which the government is involved, that has only allowed this one group to pass through."

Shrader said Monarch Energy has ties to St. Croix and HOVENSA, noting that some of its people were involved with the shut down of the refinery and are "already well versed in



Robert Shrader CEO of Monarch

Enviromental Inc.

Going even further back before HOVENSA's closing, Armstrong, owner of a number of training companies, said he first established a relationship with the refinery when it hired one of his companies some years ago "to come in and train the local employees in operations and line production." Furthermore, Armstrong said his company was also contracted by HOVENSA to conduct specialized training in its financial department.

But, his connection to St. Croix did not end when his work with HOVENSA did.

"When I left HOVENSA, I lived in St. Croix for a year, went to church there and [still] got a lot of friends there today," he explained. "So, I'm passionate about St. Croix, the people and their families."

Armstrong went on to say that when talk of shutting down the refinery began to surface two years ago, some HOVENSA workers reached out to him because of his business connections.

"I was contacted by people that work for the refinery before it was shut down, and they said, 'Albert, they're going to shut the plant down can't you find someone to buy it?'"

With that, Armstrong said he set out to find a buyer for the refinery.

"So, I began calling all over the world, really," he said, "trying to find a real group that could come in and take over the facility, and meet the needs of the Legislature and the people, and get the plant up and running" again.

However, Armstrong said his lengthy search proved to be an overwhelming unsuccessful exercise.

"We've been looking and it got to the point that you got a lot of people just lying--they just couldn't produce, couldn't come up with the money, one thing or another," he explained.

Soon, he, too, faced a number of challenges in dealing with Lazard, calling the firm's restrictions of talking to employees at the plant and other barriers set in place "ridiculous." He would later join forces with Monarch Energy Partners, where the group is still fighting for a fair shot at the HOVENSA opportunity.

"There are other groups I know, just like this group, that have worked and worked and proved they have the funding, they have the ability," Armstrong said, adding that he believes "the plan by design was for this plant never to come back up."

To that, he added, "If you look at the document the governor has approved, if [ABR VI] don't do the refinery, then they have to clean it up and make it look real pretty."

In fact, Armstrong suggested there may be an alternative plan at play in allowing ABR VI to be the sole entity to make it through the bidding process, noting a connection between ABR VI and local real estate investors, Renaissance.

"The people at Renaissance, I think, they're looking at tearing [HOVENSA] down, selling it off, and trying to develop that land for some type of resort," he said. "I don't think those guys will ever bring that plant up. Ever."

Us vs. Them

According to Hardy, one of the main distinctions between Monarch Energy's plan and that which was presented by ABR VI--recently formed specifically to acquire HOVENSA--is that Monarch intends to open the refinery within six to nine months and hire local workers while the company works to make the plant fully operational, a task projected to take at least 24 months to complete.

"Our priority is to open that refinery," Shrader emphatically said. "If it could be day one, it would be. However, knowing how it was shut down, and know[ing] that there are a few obstacles that have to be overcome, our time frame to reopen the refinery is six to nine months. So, we're going to need that little three-month window [to address] things that could come up because it has been idle for two years."

Hardy said while it would be much easier and less expensive to close its doors for two years and reopen when the plant has been refurbished and fully converted to produce natural gas, Monarch is willing to make the additional investment of \$300-\$400 million in order to employ workers to perform a variety of tasks to help kick-start the economy and get people working again.

And, when it comes to providing an engineering assessment to gauge the restart of the refinery, Hardy pointed out that Monarch has its own in-house assessment team, whose "engineers would be here tomorrow."

On the other hand, the ABR VI plan states that the company will hire an outside team from Samsung to perform a six- to nine-month engineering assessment, after which Samsung would make the determination of whether or not it was even feasible to restart the refinery. And, if it were given the green light to reopen, according to the Operating Agreement, which is now before the Senate for ratification, it would still be another two years before ABR VI could start hiring workers. The first two years will see the refinery still operating as a storage facility, as it is today.

Monarch also says it has the upfront financing to restart the refinery almost immediately, as opposed to the arrangement proposed by ABR VI in its Operating Agreement, which states, in Section 4.2 (A) (2) — "not later than 15 months after the closing date, ABR VI shall demonstrate to the reasonable satisfaction of the Government, and provide written certification to the Government, that it has obtained binding commitments to provide funding for the aggregate amount of Restart Cost Estimate, (such funding being "financing," such certification being "Financing Certification," and the date of such financing certification being the "Financing Certification Date")."

"We're gong to focus on opening the refinery, day one," Shrader said. "We're not going to bang the pipes, hire engineers, we're not going to call people in over a three-year period. We have the money right now to be able to open that refinery."

In its business plan, Monarch Energy states: "We have \$1.5 billion dollar cash-credit facility for acquisition, operation and clean up. We have had preliminary discussions with multiple banking institutions that we have relationships with to establish additional lines of credit for crude oil supply. We have secured a commitment for 10 million barrels of crude per month (non US). We have other substantial assets available to acquire and operate the facility if deemed necessary after our due diligence phase."

Shrader added, "So, we're looking at purchasing the refinery and what it takes for remediation immediately. People we have on our team were part of, not only the operation, but the entire shut down of HOVENSA when it happened in 2012. Based on that, we have an intimate knowledge of that refinery and know, right now, before we get in there, which hopefully will be soon, we know the task at hand and we can get to it immediately."

Monarch Energy Partners gave the *VI Consortium* permission to reprint its business plan. To view its full contents, go [here](#). To view the Operation Agreement between the Virgin Islands Government and ABR VI, go [here](#).