

December 17, 2014

Mr. Richard Kahn

Little St. James Island

Subject: TSG Proposal for Operation and Maintenance of 90,000 US gpd Desalination Plant

Dear Richard:

Per your request, we are in this letter providing a proposal for the operation and maintenance of the desalination plant on Little St. James Island that TSG designed and built about 4 years ago.

TSG AND ITS SERVICES

TSG is a water and wastewater utility service provider primarily for large high-end resorts and private communities and estates in the Caribbean and Latin America. Our goal is to assure reliable, cost-effective utility service to our clients, protection of their investment, and assurance that the plants will be maintained in good operating condition indefinitely. To that end, TSG designs, builds, expands and upgrades treatment plants and provides long-term operation and maintenance services for these facilities.

Because of our particular focus on resorts and private communities and estates in islands and coastal locations, we are unique in our knowledge of their specific requirements, including not only the quality and reliability of service but also other factors such as noise abatement and odor control. Further, because we have been doing this for more than 16 years and operate 30 plants in 6 countries, we have a deep knowledge and understanding of the logistical and legal requirements of doing business in these small, remote countries.

By retaining TSG, you also gain key benefits that cannot be obtained by a single resort operating its own plants. When you hire TSG, you are hiring not just the local staff but the entire company and all of its expertise. TSG's plants are typically accessible to others in the company over the internet so that troubleshooting and some corrections (especially to the control systems) can be completed remotely. No stand-alone operations staff can effectively replicate this level of expertise.

TSG maintains a high quality and experienced staff in every location. One of the challenges in the Caribbean is hiring and retaining staff that have both the qualifications to properly operate and maintain the plants and are willing to live in these remote locations. Finding the right people is difficult, but keeping them for the long term can be even more challenging.

TSG has tailored its staff and services for those resorts and private communities and residences that want to ensure that they obtain the maximum return on the investment they have made in these critical elements of their infrastructure and who cannot afford a failure to provide reliable water and wastewater treatment services to their guests and owners.

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OPERATION AND MAINTENANCE SERVICES

Toward the goal of ensuring reliable, cost-effective utility service to its clients, TSG can provide a level of service that is tailored to each client's particular circumstances, with the opportunity to change the level of service over time. For Little St. James Island, TSG proposes to accept full responsibility for the operation and maintenance of the plants for the long term, including all consumables, replacements and repairs, and including membranes. We typically do not assume responsibility for structures such as buildings and tanks, or underground pipelines. As a result, subject to CPI increases, changes in the cost of power (paid directly by the owner), and the amount of water the owner actually uses, your cost for this service will be fixed for the long term, typically 5 or 10 years. This is a more secure and predictable arrangement than is available with a municipal utility.

Given the corrosive nature of the coastal and island environments in which these plants are located, preventive maintenance is critical if plant life and reliability are to be maximized. TSG has a stringent routine and preventive maintenance schedule that ensures reliability and extends the service life of equipment. We guaranty a 90% water production factor for desalination plants. We also guarantee water quality during the term of the agreement.

TSG's contracts typically provide for a monthly fixed fee and a production fee. The fixed fee is paid to cover all TSG's fixed costs, such as labor, general and administrative expenses, insurance, tools, testing equipment and vehicles. The production fee compensates TSG for those items whose costs vary with the operation of the plant, primarily consumables and parts. Under this arrangement, TSG maintains on site and at its cost a complement of spare parts that are necessary to keep the plants on line.

To maximize the benefit and cost-effectiveness of TSG's service, we are also typically responsible for the water treatment facility and its related mechanical facilities such as feedwater pumping systems, intake or well pumping systems, and high service distribution pumping systems. Once TSG is in place and on site, the additional cost of operating and maintaining these facilities is minimized.

PROPOSAL FOR O&M SERVICES

The basis for the costs provided in this proposal is that all equipment is in good operating condition and currently has a reasonable remaining useful life. In this case, this means that the repairs and replacements that TSG has recommended in its inspection report dated December 4, 2014 would have to be completed before TSG would accept full responsibility.

It is also important to note that the plant appears to have an average on line factor of less than 50%. Most plants TSG operates have an average production factor of 80% or higher. Because some of the wear and tear on a system is not entirely dependent on the amount the system is run, particularly in these corrosive

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environments, when a system averages less than 80% production, the variable fees are of necessity somewhat higher.

O&M Component	Fixed Cost	Water Variable Cost - \$US/Kgal
Labor	\$9,143	
Consumables-Water		\$0.52
Cartridge Filters		\$0.06
Preventive Maintenance/Repair and Replacement-Water		\$1.87
General Expenses and Outside Support	\$3,720	
Totals	\$12,227	\$2.45
Unit cost at 50% production factor- US\$/Kgals	\$11.39	
Unit cost at 90% production factor- S\$/Kgals	\$7.42	

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NOTES:

1. Shipping for all parts, equipment, chemicals and consumables is FOB to a port of Owner's choice in FL.
2. RO membranes are not included.
3. Underwater or underground piping is not included.
4. Distribution Pumping Station is not included.
5. Costs do not include power.

For example, a typical monthly invoice at 50 % on line factor would be \$12,227 for fixed cost and \$3,307.50 variable cost ((45,000 gpd X 30 days/1,000 X \$2.45) for a total cost of \$ 15,534.50.

As outlined in this letter, we believe that there are potentially a number of ways that TSG can be helpful to your property and improve the condition and reliability of your water plant. We look forward to talking further with you about this.

Please let me know if you have any questions and I look forward to hearing from you.

Best Regards,

[Robert Petersen](#)

Robert Petersen

General Manager, USVI

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