

Minutes of the Hawaii Refinery Task Force Meeting #3
November 12, 2013

The third meeting of the Hawaii Refinery Task Force (HRTF) convened at a 2:00 p.m. on November 12, 2013 in the multi-purpose room 101 of the Hawaii State Art Museum at 250 South Hotel Street.

Director Lim opened the meeting acknowledging that Tom Weber is now representing Hawaii Independent Energy (formerly Tesoro), Sherry Menor-McNamara is replacing Jim Tollefson (recently retired) as the new President and CEO of the Chamber of Commerce of Hawaii and that Aluvion Energies LLC is no longer in business, thanking David Leonard for his service. Sitting in today for Jack Schirmer of Hawaii Fueling Facilities Corporation is Bruno Dos Santos and for Sherry Menor-McNamara of the Chamber of Commerce of Hawaii is Jim Tollefson.

Director Lim stated the objective of the meeting to be to review and approved the Interim Report that is due to the Governor by November 15, 2013. The draft Interim Report was circulated to the members prior to the meeting for review and comment. Those comments were compiled and incorporated into the Final Interim Report.

Tom O'Connor from ICF International provided a summary of the report layout. The report covers three areas. First is the operation of the State fuel infrastructure with the Tesoro refinery closed and the startup of the HIE refinery. Second is the impact of proposed regulations on the two refineries and third is the potential options which may mitigate the State's exposure to the loss of supply in the event both refineries close.

The analysis in this report is primarily based on public information, discussion with stakeholders and DBEDT energy officials familiar with the HECO IRP and renewable project proposals in Hawaii. There is minimal confidential data in this report. Average numbers are presented to blur specific comparisons by stakeholders

During the transition period, Hawaii effectively dealt with outages by refiners importing more product. During this period, crude imports declined and product imports increased. The refinery restarted on September 25th and is currently working on contractual revisions. Key findings were: the use of refinery SPM and storage worked well; the barge harbor was ok; there was sound planning; there were some issues with propane supply and jet scheduling in Honolulu; and there was no evidence of price anomalies. Although the limited time period may not be indicative of long term issues which may arise

The refineries face the following challenges: regulatory requirements will likely reduce refinery profit margins substantially leading to the likely closure of one or both refineries by 2020; the main threats to refinery profitability examined are 1) Federal and State Regulatory Requirements, including, Federal Mercury and Air Toxics Standard (MATS), Federal EPA Tier 3 Gasoline Standard, and State GHG Reduction Initiatives; and Reductions in demand for fossil fuels, resulting from HCEI initiatives related to power generation, CAFE standards; EV penetration; biofuels; and the development of LNG.

An objective analysis of options to promote Hawaii energy security was performed with the goal of estimating the potential of several options to address the potential closure of the refineries, thereby mitigating the impact of refinery closures and helping to ensure energy security. The base case is 2012 petroleum supply and consumption.

The main options assessed during Phase 2 were:

- Develop a fuel importing infrastructure plan to accommodate the shutdown of refineries
- Explore strategies to mitigate the potential impacts of specific regulatory requirements (Tier 3, MATS, GHG)
- Reduce fossil fuel demand in the power sector via HCEI activities
- Reduce fossil fuel demand in the transportation sector
- Explore the potential for LNG to displace a portion of refinery supply

Findings are:

- One or both refineries are likely to close
- Critical assets during a transition must be operational and infrastructure projects and policy issues implemented
- There is a need to resolve regulatory issues to address near term impacts on refineries: MATS options and GHG relief may be within State control to mitigate
- HCEI Initiatives could cut fossil fuel use for power generation by 50% by 2020
- Grid reliability and integration issues are complex and more critical if HCEI initiatives by 2020 are realized, therefore it is critical to map out a transition to a new fuels ecosystem

The next steps to prepare the final report are to incorporate feedback from the Task Force, DBEDT, and other stakeholders; continue to monitor operations with HIE refinery operating; update data and assumptions used throughout the analysis; investigate the adequacy of energy assurance plans from both refiners; develop actionable strategies to address critical infrastructure, near term impacts and new fuels ecosystem alternatives. The Final Report due to Governor by May 1.

Director Lim reiterated that the State is being active on these regulatory issues and that industry needs to take the lead on the gasoline specification issue. He then encouraged the task force members to share their concerns and opened floor to discussion from the members. The following comments were offered:

- Richard Wallsgrove sitting in for Jeff Mikulina (Blue Planet):
Thanked ICF and DBEDT for listening and being responsive to Blue Planet's comments. Wants to state for the record that there are a few areas for clarification in the Final Report: 1) key in on transition period; reframing to near-term transition vs. medium term (2020) and long-term transition period, and 2) key in on refineries as part of the solution. Director Lim acknowledged these concerns and offered to see how it would fit in with the current scope and budget constraints for this task force. Mr. Wallsgrove acknowledged potential scope and budget limitations and suggested prioritizing the issues in report scope: e.g., report doesn't need to quantify the emissions reductions (leave that to industry).

- Joelle Simonepietri (DOD) sitting in for General McLeod (DOD):
Thanked ICF for conveying how refineries could be part of clean energy initiatives. Announced the Navy Great Green Fleet Initiative starting in 2016, which is looking to buy drop-in marine biofuels. Hawaii will be the start of that initiative. DOD would like to build on that by getting domestically/locally produced green biodiesel. The Navy has already explored a biodiesel blend requirement and DOD would not support a requirement for biodiesel blend on tactical equipment. DOD would support a drop-in green diesel, that would not impact product pipelines/infrastructure. Do not want to go about 100 ppm of contamination which is in line with airline position.
- Michael Victorino (Maui County Council):
Thanked ICF for a very comprehensive report. Made the comment that the neighbor island perspective is that they are the “end of the pipe” stakeholder and acknowledged that neighbor islands pay high energy prices.

Director Lim opened the floor to public comment. There were none.

Director Lim called for vote adopting the Interim report. Motion to approve the report was made by Robin Campaniano and seconded by Michael Victorino. All members voted Aye to approve. The report was unanimously accepted and approved.

Vice Chair Mark Glick reviewed the following timeline for the remainder of the task force. ICF will take further comments to craft final report which will be due to DBEDT in January. The members will be given 30 days to review and provide comment. Mark invited folks to submit recommendations for inclusion into legislative session.

Director Lim welcomed any recommendations to expand the scope of the report and DBEDT and will try and/or commission another report.

The meeting was adjourned at 2:50 p.m.