



Summary of the Hawaii Refinery Task Force Meeting of April 10, 2013

The first meeting of the Hawaii Refinery Task Force (HRTF) convened at 9 am on April 10, 2013 in Conference Room 423 of the State Capitol Building. The meeting agenda, a list of HRTF members and a sign-in list from the meeting are attached to this document. The HRTF meeting was open to the public and several non-HRTF members attended.

Mr. Richard Lim, Director, DBEDT opened the meeting with a statement of objectives and general remarks on the conduct of the meeting. Mr. Greg Kinkley, Assistant Attorney General, reviewed the roles and responsibilities of Task Force members and their obligations under State laws and regulations.

ICF

ICF International, a contractor to DBEDT, led 2 presentations:

- Summary of concerns submitted by HRTF members, segmented between concerns that might be addressable in Phase 1 of the ICF study vs. Phase 2.
- Review of ICF's workplan.

Tesoro

A representative from Tesoro was invited to remark on their operational plan and the status of the refinery. The key points included:

January 2012 – Tesoro announced intent to sell Hawaii assets – refining, retail, terminal, but Tesoro had not yet received acceptable offers for its assets.

January 2013 – Tesoro announced that they would close the refinery while continuing to attempt to sell it. Tesoro had nothing definitive to report with respect to progress in selling the refinery. Tesoro planned to close the refinery in late April and convert it to import/storage/distribution terminal. Tesoro's logistics assets are part of the sale.

Tesoro then reviewed their key infrastructure, including the single point mooring (SPM) and its three pipelines to shore:

- 30" pipe convert to LSFO / HSFO
- 20" for jet/gas
- 16" for LSD / HS diesel.



Multiple products on a tanker can be unloaded at the same time at the SPM.

In the past, Tesoro took receipt of 2-3 cargos/month for crude. In the future, they expect to take receipt of 4-5 cargos of refined product / month in smaller ships.

At present, Tesoro stores 20 days' of supply in their product tanks. In the future, they expect to store 30 day supply in product tanks plus the product in transit. Their tankage has 5 mbbbl of capacity, of which 60% is used for product storage. The remainder is crude storage, which can be converted to product storage after cleaning.

The working capital savings post-closure equates to \$400 - \$500 million (4-5.5 million bbl of oil @~\$100/bbl) + cost of land + facilities.

There are 4 pipelines at the barge harbor

- Black oil
- Diesel
- Jet
- Gasoline

Tesoro expects to continue to distribute product as they do today. They charter 2 barges, which are highly utilized.

Tesoro has begun to mothball the refinery:

- purge light materials
- disassemble equipment with hazardous waste disposal
- preserve other equipment for 1-2 years with inert gas

Terminal

- adding infrastructure for Hawaii Gas – change in piping + tankage.
- other piping
- make it more convenient to bring in LSFO.

The refinery has operated for 41 years.

Following Tesoro's presentation, HRTF members were invited to offer their comments:

PACOM sees no impact based on fuel availability and expect DLA contracts to be honored. There may be some issue with asphalt availability for construction, which is ramping up as Marines redeploy from Okinawa. In addition, the refinery has supported the Navy's biofuels program.



Blue Planet recommended that the HRTF frame the issues in broad fashion. The Executive Order was too narrowly framed. The process needs to focus on alternatives to gasoline and diesel. ICF needs to consider benefits 10, 20, 30 years out. ICF should search out the benefits, such as making the supply chain more efficient. The process should focus on how to support Hawaii's clean energy future.

Hawaiian Airlines – No comments.

HFFC takes receipt, manages storage, and tests jet fuel for its members. HFFC had 2 choices of supply in the past (Tesoro refinery and imports) but will only be importing in the future. Chevron is not a significant producer of jet fuel. Costs are already increasing. Tesoro holds a monopoly on infrastructure on the outer islands. Pier 51 is only alternative to Barbers Pt. But HFFC has secondary priority at Pier 51 after containership needs. They need to find other ways to import. The piping and infrastructure at Pier 51 is getting old.

At Maui/Lihue - Tesoro has the only significant jet storage. If facilities were open to multiple importers the cost of jet fuel may be less. HFFC would like to see infrastructure open to equal access. New owners of the Tesoro assets won't be obligated to supply jet to outer islands. There needs to be environment that encourages new investment.

U.S. Department of Energy – no comment

Hawaiian Electric Company - Tesoro has assured HECO that they will fulfill their contractual commitment with no change in price in the near term. Power generation is 1/3 of fuel pie. The Renewable Portfolio Standard creates uncertainty for petroleum demand. Makes HECO more reliant on Chevron. Everyone needs to consider long-term implications.

Hawaii Gas – No immediate issues but they are preparing contingency plans.

Plumber's Union wants to know how local harbor will be used in the refinery's transition.

Senator Kim's Office - how will Chevron alter or add to gallonage on the street?

Department of Transportation – no comments

Department of Labor and Industrial Relations is concerned for the Tesoro workforce and has organized meetings with employees to mitigate uncertainty and ran a job fair for Tesoro employees – 160 participated. There are also safety considerations – HIOSH + OSHA. The loss of skilled labor may result in the refinery never restarting.

Kauai Island Utility Cooperative sees no short term impact. Longer term concerns include supply options and prices.

Chevron is committed to the Hawaii market. The company has looked at their options and has decided to stay the course, but the future is unknown. The company's priorities are safety, environmental



responsibility, reliability and profitability. Chevron is glad ICF is in this project because of ICF's PIMAR experience. The petroleum business requires lots of capital and long time horizons. Chevron needs an environment for further investment.

Aloha recommends that analysis of gasoline specifications be brought forward to Phase I. The gasoline specification is outdated and hampers imports. This should be resolved in the short term. Reasonable chance that product will be brought into the Barge Harbor and/or Honolulu harbor, where it needs higher priority. The mainland is experiencing an energy boom due to fracking, but Hawaii can't take advantage because of the Jones Act, which limits access due to higher transportation costs. Everyone needs to get used to volatility post Tesoro.

Chamber of Commerce is focused on price impacts and supply availability. The research work needs to look into the future.

Hawaii Energy Policy Forum is more interested in the long term future. The HECO Integrated Resource Plan specified changes in fuel demand + technology. ICF should look at it.

Tesoro – no additional comments

Kalaeloa Energy Partners has a supply commitment from Tesoro for 3 years. After that – all bets are off. Tesoro's plan A is to get LSFO to KEP's specifications. If that doesn't work, Tesoro will supply a higher cost alternative. Outcome is unknown.

MidPac has reasonable comfort with Tesoro's short-term plan. Longer term is unknown. Will next owner continue to carry 30 days of inventory? Or move to just-in-time? Most of Mid-Pac's near-term supply is from Chevron. They are losing an alternative source (Tesoro) which will limit competition. Need to look at changing the Hawaii gasoline spec, which pre-dates ethanol blending. Suppliers can't or won't supply Hawaii specification gasoline.

Aluvion Energy pointed out that the Tesoro facility is strategic, a civilian version of the Navy's Red Hill storage complex. The transition implies that the state is losing 19 days of storage. What will a buyer do if one is found? The buyer may reduce terminal storage. When does the reduction in storage become a concern?

Enterprise Honolulu expressed its appreciation for what Chevron and Tesoro have done.

Hawaii Clean Energy Institute – no comment.

PICHTR noted that it is not clear what "short" and "intermediate" term mean. Also, short term actions will have long term impacts. Hawaii has evolved into a highly complex integrated energy system. Tesoro invested to increase jet fuel production to serve tourism and DOD growth. Need to be cautious about the price and supply impacts of jet imports. We don't know what product margins are. It is a different picture operating a terminal instead of a refinery. Naphtha feedstock was coming from Tesoro – some



customers may be stranded unless Tesoro honors supply contract. Is the price assured? Utilities can pass through cost of fuels.

Hawaii Business Roundtable is focused on the refinery closure's impact of pricing and supply. It is important that there be a competitive market. Regulations should be modified to allow lower costs.

Alpha Capital Research noted that there is a major energy revolution occurring in North America but Hawaii is not currently benefitting. How can Hawaii take advantage of this revolution?

The Consumer Advocate is concerned with higher electricity costs. Price is of concern. In 1998, the Consumer Advocate (at that time in private practice) sued Chevron and BHP (Tesoro's predecessor). He doesn't trust oil companies. Chevron has highest profit margins in country in Hawaii and is getting a huge return on equity. Hawaii is not a competitive market for gasoline but rather an oligopoly. The companies admitted it. It is not rational for them to price compete. In 1998 a Texaco-Aloha JV built an import terminal which was never used. It was used as hammer over Chevron. Unocal used to ship into Hawaii. Where are those facilities now? In 2003 Stillwater estimated that it cost 9 cents per gallon to import to Hawaii. The refinery closure is actually an opportunity to lower prices in Hawaii.

The **Chevron** representative took exception to the Consumer Advocate's remarks.

Following the remarks of the Task Force Member, Mr. Lim invited members of the public attending the meeting to offer their remarks.

Alan Nakamura runs a service station that is not affiliated with petroleum companies. He buys direct from Tesoro. Tesoro has been a good supplier. He's invested heavily in his business for very low profit margins. He has large fixed investments and uncertainty about supply. His supply contracts ended 3/31 but were extended to 12/31. He doesn't want independent service station owners to be overlooked. Some alternatives are not viable yet (e.g. electric vehicles). Where there once were 500 independents there are now 30. The independents want to stay in business. They want longer-term contracts like Tesoro's larger customers.

Bob Sturtz introduced himself as a past president of HFFC. He noted that limited logistics to Lihue is squashing demand. Airlines won't fly there for the past 6 years from mainland.

Mr. Lim then adjourned the meeting.



Members of the Hawaii Refinery Task Force

SAL	NAME	LAST	COMPANY/ DEPARTMENT	TITLE
Ms.	Cecily	Barnes	Hawaiian Electric Company	Biofuels Manager
Mr.	David	Bissell	Kauai Island Utility Cooperative	President & CEO
Mr.	Robin	Campaniano	Hawaii Clean Energy Initiative c/o CGI Technologies	Chair
Mr.	Reggie	Castanares	Plumbers & Fitters UA Local Union 675	Business Manager, Financial Secretary-Treasurer
Mr.	Albert	Chee Jr.	Chevron U.S.A. Inc.	Hawaii Manager - Policy, Government & Public Affairs
Mr.	Mark	Glick	Department of Business, Economic Development and Tourism	Administrator State Energy Office
Mr.	Mike	Hamnett	RCUH - Hawaii Energy Policy Forum	Director, Social Science Research Institute
Mr.	Maurice	Kaya	PICHTR	Project Director
Mr.	Jeff	Kissel	Hawaii Gas	CEO
Representative	The Honorable Chris	Lee	State House of Representatives	Chair, Committee on Energy and Environmental Protection
Mr.	David	Leonard	Aluvion Energies, LLC	President
Mr.	Richard	Lim	Department of Business, Economic Development and Tourism	Director
Brigadier General	Mark	McLeod	Headquarters, US Pacific Command, J4	Brigadier General
Mr.	Jeff	Mikulina	Blue Planet	Executive Director



			Foundation	
Mr.	Blaine	Miyasato	Hawaiian Airlines	Vice President, Product Development
Mr.	James	Moonier	Alpha Capital Research	Partner
Mr.	Glenn	Okimoto	Department of Transportation	Director
Mr.	Jeffrey	Ono	DCCA - Division of Consumer Advocacy	Consumer Advocate
Mr.	Richard	Parry	Aloha Petroleum	CEO
Mr.	Ralph K.	Saito	Leeward Petroleum	President
Mr.	Jack	Schirmer	Hawaii Fueling Facilities Corp	President
Mr.	Pono	Shim	Enterprise Honolulu	President & CEO
Mr.	James	Spaeth	US Department of Energy	Senior Advisor
Mr.	Dwight	Takamine	Department of Labor and Industrial Relations	Director
Mr.	Hans	Tobler	Kalaeloa Partners	President
Mr.	Jim	Tollefson	Chamber of Commerce	President & CEO
Mr.	Allen	Uyeda	Hawaii Business Roundtable	Chairman
Councilmember	Micheal	Victorino	Maui County Council	Member - Economic Development, Energy, Agriculture, & Recreation Committee
Mr.	Tom	Weber	Tesoro	Vice President, Kapolei Refinery
Mr.	Jim	Yates	Mid-Pac Petroleum	President



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AGENDA HAWAII REFINERY TASK FORCE Wednesday, April 10, 2013 9:00am – 11:30am Hawaii State Capitol Conference Room 423

- I. Call to Order – Introductions
- II. Task Force Objectives
 - a. Address immediate and short term supply and price issues
 - b. Protect strategic fuel infrastructure that supplies petroleum to key distributors
- III. Remaining Task Force Meeting Schedule
 - a. Phase 1: Second Meeting: May 8, 2013, 9:00am
 - b. Phase 2: (To be determined, subject to funding)
- IV. Summary of Concerns and Issues Submitted by Task Force Members in Advance of Meeting in Regards to the Closing of a Refinery in Hawaii
- V. Tesoro Updated Operational Plan Report
- VI. Description of the Proposed Scope of the Refinery Task Force Study
- VII. Comments by Task Force Members (limited to 3 minutes per person)
- VIII. Wrap-Up: Identifying Suggested Modifications to the Proposed Study
- IX. Adjournment

State of Hawaii
Department of Business, Economic Development Tourism

HAWAII REFINERY TASK FORCE

APRIL 10, 2013

SIGN IN SHEET			
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