

Summary of Presentation on “Energy and Hawaii – The Need for Options, Strategic Integrated Policies, and Change”

BACKGROUND

Hawaii's major energy systems are mainly oil-dependent, and they've developed into an integrated and interdependent system statewide. All that oil is imported so they operate within, and are virtually totally dependent on the world and regional oil market.

PRESENTATION PURPOSE

The presentation attempts to provide the “big picture” of those contexts -- Hawaii's energy situation, and the oil market, upon which it's so dependent. It poses and provides factual information in its attempt to answer these questions:

Hawaii's oil demand is extremely small in relation to World demand. How could increased worldwide competition for oil affect Hawaii?

Traditional, proven oil reserves are declining but are we actually running out of oil?

What are the factual details behind the price drivers mentioned and others?

What issues and implications could these trends hold for Hawaii?

What are some possible options for Hawaii, and how could genuine change be made?

The graphs and charts contain a lot of data, but, what is important to consider are the trends and how they relate to each other and to Hawaii's situation.

PREVIEW

For the past 8 - 9 months, facts and trends in the oil market have emerged that even prominent petroleum experts have said took them by surprise:

Crude oil and refined product prices have been at record highs [In terms of dollars of the day; i.e., not adjusted for inflation -- highest oil prices were experienced in 1979-80, during the Iranian Revolution, which saw approx. \$80/barrel crude oil in constant 2003 dollars.]. Prices are being driven and sustained by a complicated set of interactive factors, like examples listed:

Historically record high demand, especially in Asia, and China, in particular. Very little spare crude oil production capacity worldwide – Russia replaced Saudi Arabia as the big surge producer; A steady downward trend in petroleum stockpiles is adding to the problem; Tight refining capacity worldwide; Tanker availability issues have increased freight rates; Record high differential prices for light “sweet” (low-sulfur) crude oil, because the world’s available crude oil resource is becoming heavier and higher in sulfur; The Iraq War, an unstable Middle East, where most of the world’s oil is, and the terrorist threat add to price pressures. Low-sulfur fuel policies in many countries, require adding more sophisticated refining capacity.

Then, some of the solutions to these problems have price impacts. For example, long lead-times and higher overall costs for oil exploration, and any kind of petroleum infrastructure development or expansion.

Many are long-term factors that are prompting predictions of an unlikely return to historical low oil price trends.

Experts are debating whether crude oil production has finally peaked. But, few are arguing about the end of cheap and abundant conventional oil.

As the country's most oil-dependent state these are critical facts to understanding Hawaii's energy situation and issues. And, because Hawaii's existing energy systems are integrated, and oil-dependent, any State energy policy aimed at an issue in one energy sector, particularly oil, could have serious unintended impacts on another; e.g., the electric utility, or other sector(s). The worldwide oil market trends could aggravate these impacts.

The presentation recommends development of genuinely integrated State energy strategy and policies.