



COLLEGE OF SOCIAL SCIENCES

HAWAII ENERGY POLICY FORUM

UNIVERSITY OF HAWAI'I AT MĀNOA

**HEPF Energy Informational Briefing:
REPORT FROM THE HAWAII PETROLEUM
INDUSTRY**

Lance Tanaka
Tesoro Hawaii Corporation
Co-Chair, Hydrocarbon Future
Working Group
January 22, 2009

New Leadership Opens Doors

Tuesday, Jan. 20, 2009 – In a message to employees:

“At noon Eastern Time today our nation will inaugurate a new leader. The inauguration is a momentous occasion for our country, for the world, and for every individual whether or not they voted for President-elect Obama. I encourage you to watch or listen to his inaugural address.

“We live in a nation that values and cherishes change as a driving force for success. Today, more than ever, we need new leadership. I hope this change brings new opportunities and improved economic conditions.”

Bruce Smith
Chairman & CEO
Tesoro Corporation

Key Messages to Policy Makers

- The petroleum industry wants to have a valued role for years to come
- Hawaii needs all the abundant, reliable and affordable energy sources it can harness
- Policies should balance renewable energy initiatives with established energy sources
- A balanced energy mix mitigates Hawaii's unique supply risks

Industry is Engaged

Many petroleum companies are voluntarily reducing emissions and developing new technologies

- Renewables
- Conservation and energy efficiency
- Improving efficiency of existing technology
- Hydrogen
- Promising new technologies
- Research projects

Hydrocarbon Future Working Group

#10 of HEPF Ten-Point Plan:

Ensure the security and reliability of energy supply and distribution

- Cannot be achieved by swapping renewable fuels for fossil fuels
- Coordinated transition is needed
- Policies promoting efficiency, renewables and conservation should not be tied to serving electricity needs only

What Price Policy?

“The current profits of these refineries are poor, and in light of the regulatory issues noted, the question of whether or not one or both refiners will close may be a question of when, not if.”

ICF International
Consultant to the
Public Utilities Commission

(The Honolulu Advertiser, Jan. 16, 2009)

What Price Policy? (continued)

“If there’s no local market [for petroleum products], the refineries won’t survive.”

Kang Wu
Senior Fellow
East-West Center

(*OPISNET.com*, Jan. 13, 2009)

What Price Policy? (continued)

A plan to develop alternative energy sources reduces oil imports... [but] there are relevant energy economics issues which may not have been taken into account. Even with oil at \$50 - \$100/bbl it's not clear that petroleum isn't a compelling energy choice.

The most likely energy outcome for Hawaii is that petroleum will provide a base source of power for a large portion of the economy, Brewbaker said, but alternatives will supplement that...

Paul Brewbaker
SVP & Chief Economist
Bank of Hawaii
OPISNET.com, Jan. 13, 2009)

Strategic Value of Petroleum Industry

Petroleum powers the air, water and highway transportation systems that drive the state's economy

- Jet fuel
- Gasoline
- Diesel
- Fuel Oil
- Asphalt
- Bunker fuel

Industry Seeks Stable Relationship

Mature, established industry with a lot to offer is looking for a collaborative relationship with the state and other energy producers

- Delivery infrastructure
- Storage facilities
- Sourcing, optimization best-practices
- Globally connected
- Wants to participate in diversifying energy sources

Advantages of Enhanced Relationship

- Allows continuation of strategic fueling facilities
- Provides assets to achieve long-term, comprehensive energy policy
 - ❑ Coordinated transition to renewable fuels relative to Hawaii Clean Energy Initiative
- Energy security vis-à-vis reduced risk of dependency on imported finished products

Future Energy Demand in Perspective

Consumption	2006		2030		% Change
	Quads	% Share	Quads	% Share	
Oil*	39.55	39.7%	41.22	34.9%	4.2%
Natural Gas	22.30	22.4%	23.39	19.8%	4.9%
Coal	22.50	22.6%	29.90	25.3%	32.9%
Ethanol	0.47	0.5%	2.01	1.7%	327.7%
Nuclear Power	8.21	8.2%	9.57	8.1%	16.6%
Hydropower	2.89	2.9%	3.00	2.5%	3.8%
Other Biomass and Renewables**	3.60	3.6%	8.91	7.6%	147.5%
Total	99.52	100.0%	118.01	100.0%	18.6%
Oil and Gas	61.86	62.2%	64.61	54.7%	4.4%
Oil, Gas and Coal	84.36	84.8%	94.51	80.1%	12.0%
All Other Total	15.17	15.2%	23.5	19.9%	54.9%

*Oil equals Liquid Fuels and Other Petroleum excluding Ethanol, Biodiesel and Liquids from Biomass, AEO 2008, Table A17
 **Other Biomass and Renewables includes Biodiesel and Liquids from Biomass, AEO 2008, Table A17
 Source: EIA, AEO 2008

Chart compiled by Western States Petroleum Association

Future Energy Demand (continued)

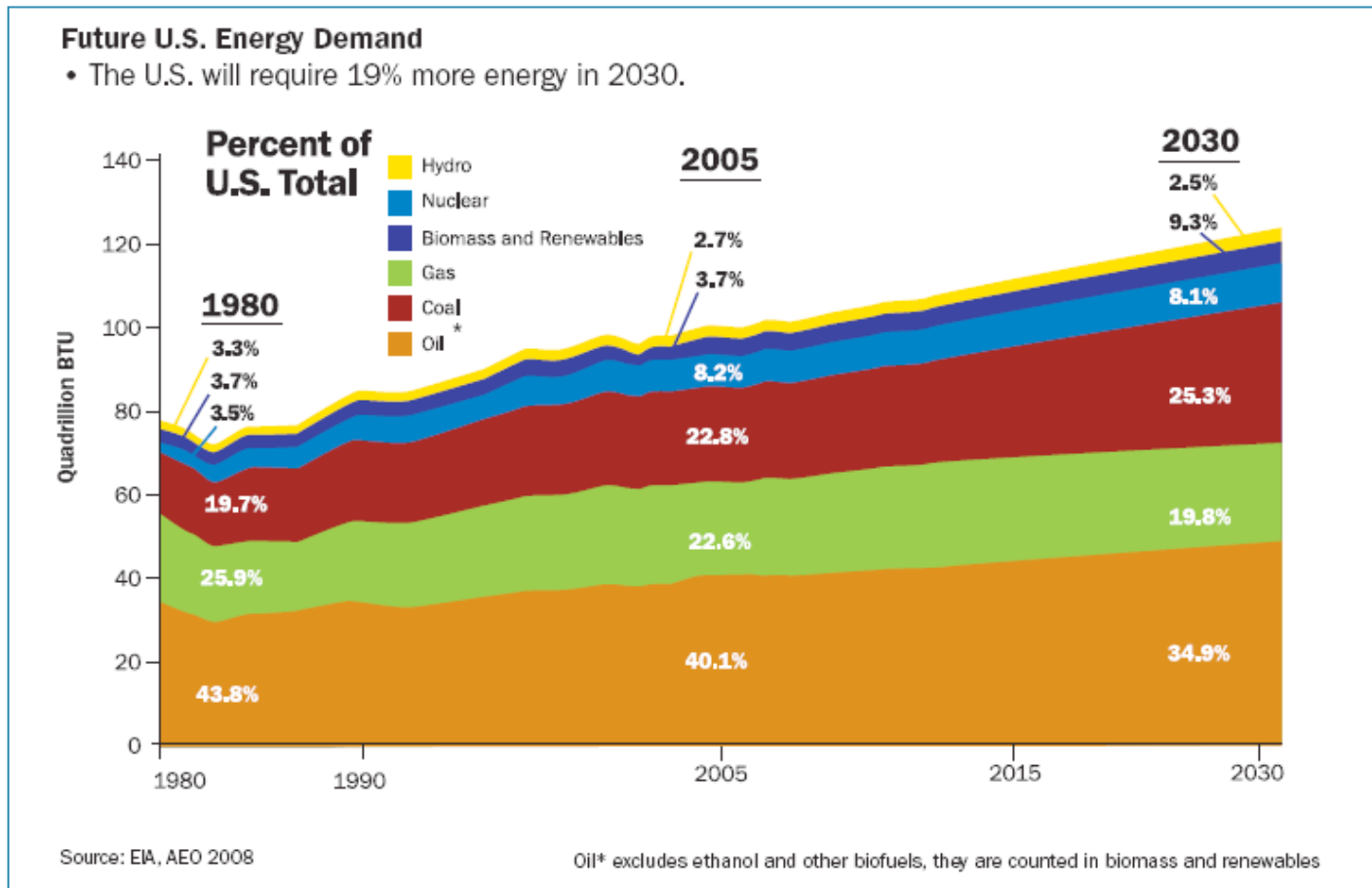


Chart compiled by Western States Petroleum Association

Help or Hinder?

Recent policies directed at the petroleum industry have led to unintended consequences

- Cap on wholesale gasoline prices: Law suspended after prices rose rather than abated
- Ethanol blending mandate: Without in-state production, refiners are forced to continue to import the costly blend stock

Help or Hinder? (continued)

Petroleum Industry Monitoring, Analysis and Reporting (PIMAR) Program:

“The state’s suspension of a gasoline price cap hasn’t resulted in excessive or inexplicable increases at the pump.”

ICF International

[In a report to the PUC analyzing
Hawaii petroleum pricing data]

In Closing

- Petroleum companies are engaged in developing new technologies
- Developing reliable, abundant and affordable energy sources beyond those that apply to electricity is in the public's best interest
- Hawaii needs all the energy sources it can harness – including petroleum
- Balancing existing energy sources with renewable sources is critical