

State of Hawaii
Department of the Attorney General



**REPORT ON ANY SHORTAGE OR
CONDITION AFFECTING THE SUPPLY OF
PETROLEUM PRODUCTS**

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REPORT ON ANY SHORTAGE OR CONDITION AFFECTING THE SUPPLY OF PETROLEUM PRODUCTS

Section 486H-17, Hawaii Revised Statutes, enacted pursuant to Act 242, Session Laws of Hawaii 2004, provides in full as follows:

The attorney general shall immediately investigate any shortage or condition affecting the supply of any petroleum products or other matters relating to the requirements of this chapter and shall institute all appropriate criminal and civil actions and pursue all legal and equitable remedies that may be available to the State. The attorney general shall submit a report to the legislature regarding any shortage or condition affecting the supply of petroleum products.

Since the last report submitted, the Attorney General did not receive any complaint concerning a shortage of, nor a complaint regarding a condition affecting the supply of, petroleum products or other matters relating to the requirements of chapter 486H. Accordingly, the Attorney General did not commence any investigation.

Other state agencies were monitoring events relating to petroleum products. In addition, through various news sources, the Attorney General was aware of conditions relating to the supply of asphalt and gasoline. The following is a summary of such events and conditions:

Propane.

On February 21, 2006, a lightning strike triggered a power outage that caused the shutdown of the Chevron refinery. Chevron was able to bring the crude oil unit of the refinery back online. However, repeated attempts to restart the fluid catalytic cracking (FCC) unit failed; the FCC unit is the refinery's production unit for gasoline and propane. As a result, on March 1, 2006, Chevron reported that it had to completely shut down the

FCC unit to enable maintenance crews to enter, diagnose, and repair the unit, thereby affecting its ability to produce propane.¹

Propane supply issues associated with the shut down of the FCC unit were also affected by issues associated with imported propane. To meet the demand for propane in the State of Hawaii, propane is imported by The Gas Company (TGC). Prior to the FCC outage, TGC had ordered a major shipment of propane that was expected to arrive in Hawaii on March 20, 2006. In preparation for the anticipated delivery, TGC had drawn down its propane supply inventory to create sufficient storage capacity to accommodate the large shipment. This preparation constrained the supply of propane and heightened concerns over the impact of the coincidental loss of Chevron's FCC unit.

On March 2, 2006, TGC, Chevron, and the Governor's Office (with DBEDT support) issued coordinated media releases describing the propane supply situation and calling for conservation by the public. DBEDT and the companies continued to coordinate throughout the duration of the supply disruption via procedures established under the State's energy emergency preparedness program. In addition, propane distributors were able to notify their customers to initiate conservation measures, including supply allocation measures.

There were reports of occasional "spot" outages of propane by both residential and commercial customers. However, based on the best available information obtained by DBEDT, all critical customers continued to be supplied, though at a reduced level, throughout the propane supply disruption. Critical customers were supplied according to the propane distributors' allocation systems, which systems were coordinated with priorities established for the State's emergency fuel set-aside program. There were reports of a few high visibility spot outages affecting a bakery, certain fast food outlets, and a few hotels and resorts. However, according to industry reports received by

¹ Despite the role of the FCC unit in the production of gasoline, gasoline supplies were handled by in-state inventories and Chevron's ability to secure an alternate supply arrangement with Tesoro Hawaii.

DBEDT, all instances of temporary spot shortages were quickly addressed by supply arrangements.

On March 19, 2006, TGCs import shipment made its first delivery, and on March 18, 2006, the FCC unit returned to operation.

Asphalt.

In the spring of 2006, it was reported that Tesoro Hawaii, the only supplier of liquid asphalt in the State of Hawaii, had closed down its production of asphalt for a one month period. Shortly after production resumed, a storage tank fire caused asphalt production to cease until early July 2006. The asphalt supply disruption affected road paving projects.

News reports published during the time of the shutdown of Tesoro's asphalt production indicated that Tesoro became the sole supplier of asphalt after Chevron discontinued its production of asphalt. Chevron's decision to discontinue asphalt production was reportedly based on a need to meet federal regulations which necessitated the use of a lighter crude oil not suitable for producing asphalt.

Gasoline.

In July 2006, there were rumors of a possible gasoline shortage on Molokai. The rumors were fueled by reports of a delayed arrival of a refueling barge.

Also during July 2006, there was concern over the quality of a foreign ethanol shipment as a result of preliminary tests suggesting that the shipment might be contaminated. If so contaminated, a rejection of the ethanol shipment could have affected the supply of gasoline since section 486J-10, Hawaii Revised Statutes, requires that all gasoline sold in the State for use in motor vehicles must contain ten percent ethanol by volume. A subsequent round of testing showed that the ethanol was safe for use.

Finally, in mid October 2006, a strong earthquake off the Island of Hawaii and attendant power outage on Oahu caused the two Oahu refineries to shut down, thereby requiring the two refineries to do "cold" restarts. These restarts took an approximate average of five days to ramp up to normal production levels. The refineries also implemented post-seismic event safety protocols, which added certain safety inspections and checks to the "normal" restart process.

Except for retail fuel stations equipped with backup generators, there was a general transient closure of retail gasoline outlets on Oahu, Maui, and Hawaii until electric power was restored within not more than 24 hours. As a result, motorists on these islands seeking to purchase gasoline were affected, though the impact may have been ameliorated by factors such as the incremental restoration of power, and less non-essential driving. Kauai, Lanai, and Molokai did not experience power outages.