PREMCOR INC
Form 10-K
March 07, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from __________ to __________.

Commission File Number	Exact Name of Registrant as Specified in its Charter, Principal Office Address and Telephone Number	State of Incorporation	I.R.S. Employer Identification No.
1-16827	Premcor Inc.	Delaware	43-1851087
	1700 East Putnam Avenue, Suite 400		
	Old Greenwich, Connecticut 06870		
	(203) 698-7500		
1-11392	The Premcor Refining Group Inc.	Delaware	43-1491230
	1700 East Putnam Avenue, Suite 400		

Old Greenwich, Connecticut 06870

(203) 698-7500

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Premcor Inc. Common Stock, $0.01 par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Premcor Inc.	Yes þ No ¨
The Premcor Refining Group Inc.	Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark if the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes þ No ¨

The aggregate market value of Premcor Inc. s common stock held by nonaffiliates of the registrant was approximately $1.9 billion based on the last sales price quoted as of June 30, 2004, the last business day of the registrant s most recently completed second fiscal quarter. Number of shares of registrants common stock (only one class for each registrant) outstanding as of March 4, 2005:

Premcor Inc.	89,216,910 shares
The Premcor Refining Group Inc.	100 shares (100% owned by Premcor USA Inc., a direct wholly owned subsidiary of Premcor Inc.)

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this report, to the extent not set forth herein, is incorporated herein by reference from Premcor Inc. s definitive proxy statement for Premcor Inc. s annual meeting of stockholders scheduled for May 17, 2005. The definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

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PREMCOR INC.

THE PREMCOR REFINING GROUP INC.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains both historical and forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements are not historical facts, but only predictions and generally can be identified by use of statements that include phrases such as believe, expect, anticipate, intend, plan, forese other words or phrases of similar import. Similarly, statements that describe our objectives, plans or goals also are forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those currently anticipated. Factors that could materially affect these forward-looking statements include, but are not limited to, changes in:

- Industry-wide refining margins and crude oil price differentials;
- Crude oil and other raw material costs, the cost of transportation of crude oil, embargoes, military conflicts between, or internal instability in, one or more oil-producing countries, governmental actions, and other disruptions of our ability to obtain crude oil;
- The ability of members of the Organization of the Petroleum Exporting Countries (OPEC) to agree on and to maintain crude oil price and production controls;
- Market volatility due to world and regional events;
- Availability and cost of debt and equity financing;
- Labor relations;
- U.S. and world economic conditions;
- Supply and demand for refined petroleum products;
- Reliability and efficiency of our operating facilities which are affected by such potential hazards as equipment malfunctions, plant construction/repair delays, explosions, fires, oil spills and the impact of severe weather and other factors which could result in significant unplanned downtime;
- Actions taken by competitors which may include both pricing and expansion or retirement of refinery capacity;
- Civil, criminal, regulatory or administrative actions, claims or proceedings and regulations dealing with protection of the environment, including refined petroleum product specifications and characteristics;
- Natural gas prices, as our refineries purchase and consume significant amounts of natural gas to fuel their operations;

Other unpredictable or unknown factors not discussed, including acts of nature, war or terrorism; and

Changes in the credit ratings assigned to Premcor Inc. s subsidiaries debt securities or credit facilities.

Readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements included in this report are made only as of the date of this report and we undertake no obligation to publicly update these forward-looking statements to reflect new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events might or might not occur. We cannot assure you that projected results or events will be achieved.

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PART I

This Annual Report on Form 10-K represents information for two registrants, Premcor Inc. and The Premcor Refining Group Inc., or PRG. PRG is an indirect, wholly owned subsidiary of Premcor Inc. and is the principal operating subsidiary of Premcor Inc. PRG owns and operates our four refineries. As used in this Annual Report on Form 10-K, the terms we, our, or us refer to Premcor Inc. and its consolidated subsidiaries, taken as a whole, unless the context otherwise indicates. The information reflected in this Annual Report on Form 10-K is equally applicable to both companies except where indicated otherwise.

ITEMS 1. AND 2. BUSINESS AND PROPERTIES

Overview

We are one of the largest independent petroleum refiners and suppliers of unbranded transportation fuels, heating oil, petrochemical feedstocks, petroleum coke and other petroleum products in the United States. We currently own and operate four refineries, which are located in Port Arthur, Texas; Memphis, Tennessee; Lima, Ohio; and Delaware City, Delaware; with a combined crude oil volume processing capacity, known as throughput capacity, of approximately 800,000 barrels per day, or bpd. We sell petroleum products in the Midwest, the Gulf Coast, Northeastern and Southeastern United States. We sell our products on an unbranded basis to approximately 1,200 distributors and chain retailers through our own product distribution system and an extensive third-party owned product distribution system, as well as in the spot market.

For the year ended December 31, 2004, highly refined products, known as light products, such as transportation fuels, petrochemical feedstocks and heating oil, accounted for approximately 93% of our total product volume. For the same period, high-value, premium product grades, such as high octane and reformulated gasoline, low-sulfur diesel and jet fuel, which are the most valuable types of light products, accounted for approximately 47% of our total product volume.

We source our crude oil on a global basis through a combination of long-term crude oil purchase contracts, short-term purchase contracts and spot market purchases. The long-term contracts provide us with a steady supply of crude oil, while the short-term contracts and spot market purchases give us flexibility in obtaining crude oil. Since all of our refineries have access, either directly or through pipeline connections, to deepwater terminals, we have the flexibility to purchase foreign crude oils via waterborne delivery or domestic crude oils via pipeline delivery.

We are subject to the informational requirements of the Securities Exchange Act of 1934 and, in accordance with the Exchange Act, file annual, quarterly, and current reports, proxy statements and other information with the Securities and Exchange Commission, or SEC. You may read and copy any documents filed by us at the SEC s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. Our SEC filings are also available to the public through the SEC s internet site at www.sec.gov.

Our website address is www.premcor.com. We make available on this website under Investor Relations, free of charge, our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, Forms 3, 4 and 5 filed via Edgar by our directors and executive officers and various other SEC filings, including amendments to these reports, as soon as reasonably practicable after we electronically file or furnish such reports to the SEC. We also make available on our website the Board of Directors Guidelines, the Code of Business Conduct and Ethics of Premcor Inc., the Charter of the Nominating and Corporate Governance Committee of Premcor Inc., the Charter of the Audit Committee of Premcor Inc., and the Charter of the Compensation Committee of Premcor Inc. This information is also available by written request to Investor Relations at our executive office address listed below. The information on our website, or on the site of our third-party service provider, is not incorporated by reference into this report.

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Our principal executive offices are located at 1700 East Putnam Avenue, Suite 400, Old Greenwich, Connecticut 06870, and our telephone number is (203) 698-7500.

Recent Developments in 2005

We announced on January 27, 2005 that our Board of Directors had declared a dividend of $.02 per share payable on March 15, 2005 to shareholders of record on March 1, 2005.

Refinery Operations

We currently own and operate four refineries. Our Port Arthur, Texas refinery is located in the Gulf Coast region, our Lima, Ohio and Memphis, Tennessee refineries are located in the Midwest region and our Delaware City, Delaware refinery is located in the Northeast region.

The aggregate throughput capacity at our refineries is approximately 800,000 bpd. The configuration at our Port Arthur, Delaware City and Lima refineries is that of a single-train coking refinery, which means that each of these refineries has a single crude unit and a coker unit. Port Arthur, Lima and Delaware City also have cracking units. The configuration at our Memphis refinery includes two crude units, which can be operated independently, and one cracking unit. The following table provides a summary of throughput and production for our four refineries for the year ended December 31, 2004.

	Port Arthur, Texas	Lima, Ohio	Memphis, Tennessee	Delaware City, Delaware (1)	Combined
	(in thousands of barrels per day)				
Selected Volumetric Data:					
Throughput:					
Crude unit throughput	225.9	131.0	141.2	111.1	609.2
Other throughputs	11.3	0.8	12.0	5.4	29.5
Total throughput	237.2	131.8	153.2	116.5	638.7
Production:					
Conventional gasoline	90.2	56.5	62.1	36.7	245.5
Premium and reformulated gasoline	22.1	19.9	10.6	17.7	70.3
Diesel fuel	62.9	19.0	44.2	24.0	150.1
Jet fuel	22.1	20.5	25.8	16.9	85.3
Other products / blendstocks, net	21.7	12.7	4.9	12.3	51.6
Total light products	219.0	128.6	147.6	107.6	602.8
Solid by-products / residual oil	30.4	4.6	5.3	6.6	46.9
Total production	249.4	133.2	152.9	114.2	649.7

(1) We acquired our Delaware City refinery effective May 1, 2004 and the total throughput for the year ended December 31, 2004 reflects 245 days of operations over that period. Total throughput averaged 174,100 bpd during the 245 days of operations in 2004.

Products

Our principal refined products are gasoline, on and non-road diesel fuel, jet fuel, liquefied petroleum gas, petroleum coke and residual oil. Gasoline, on-road low-sulfur diesel fuel and jet fuel are primarily transportation fuels. Non-road high-sulfur diesel fuel is used mainly in agriculture and as railroad fuel. Liquefied petroleum gas

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is used mostly for home heating and as chemical and refining feedstocks. Petroleum coke, a product of the coking process, can be burned for power generation or used to process metals. Residual oil (slurry oil and vacuum tower bottoms) is used mainly as heavy industrial fuel, such as for power generation, or to manufacture roofing materials or create asphalt for highway paving. We also produce many unfinished petrochemical feedstocks that are sold to neighboring chemical plants at our Port Arthur, Lima and Delaware City refineries.

Gulf Coast Operations

The Gulf Coast, also known as the Petroleum Administration Defense District III, or PADD III, region of the United States, which is the largest PADD in the United States in terms of crude oil throughput capacity, is comprised of Alabama, Arkansas, Louisiana, Mississippi, New Mexico and Texas. The Gulf Coast region accounts for 48% of total domestic refining capacity and is one of the most competitive markets in the United States.

This market has historically had an excess supply of products, with the Department of Energy s Energy Information Administration, or EIA, estimating light product demand, as of December 31, 2004, at approximately 3.3 million bpd and light product production at approximately 7.2 million bpd. Approximately 53%, or 3.8 million bpd, of light product production is exported to other regions in the United States, mainly to the eastern seaboard or Midwest markets.

Explorer, TEPPCO, Seaway, Centennial and Phillips pipelines transport Gulf Coast products to markets located in the Midwest region. The Colonial and Plantation pipelines transport products to markets located in the northeast and southeast United States. In addition to the product pipeline system, product can be shipped by barge and tanker to the eastern seaboard, West Coast markets, the Caribbean basin and other worldwide markets.

Port Arthur Refinery

We acquired the Port Arthur refinery from Chevron U.S.A. Inc. in 1995. This refinery is located in Port Arthur, Texas, approximately 90 miles east of Houston, on a 3,600-acre site, of which fewer than 1,500 acres are occupied by refinery assets. Since acquiring the refinery, we have increased the total throughput capacity from approximately 178,000 bpd to its current 250,000 bpd and expanded the refinery s ability to process heavy high-sulfur crude oil. The refinery has the ability to process 100% heavy high-sulfur crude oil. The refinery includes a crude unit, a reformer, a hydrocracker, a fluid catalytic cracking unit, or FCCU, a delayed coker, and an alkylation unit. It produces conventional gasoline, reformulated gasoline, low-sulfur diesel fuel and jet fuel, petrochemical feedstocks and fuel grade petroleum coke.

We are currently in the process of expanding our Port Arthur refinery. The expansion project includes increasing Port Arthur s total throughput capacity from its current rate of 250,000 bpd to approximately 325,000 bpd, and expanding the coker unit capacity from its current rated capacity of 80,000 bpd to 105,000 bpd, which will further increase our ability to process lower cost, heavy high-sulfur crude oil. The project is estimated to cost between $220 million and $230 million and is expected to be completed in the second quarter of 2006.

Our subsidiary, Port Arthur Coker Company L.P., or PACC, which owns the delayed coker, the hydrocracker, sulfur removal units and related assets and equipment and leases the crude unit and the hydrotreater from PRG, sells the refined products and intermediate products produced by the heavy oil processing facility to PRG pursuant to arm s length pricing formulas based on public market benchmark prices. PRG then sells these products to third parties or processes them further. In June 2002, PRG and Premcor Inc. completed a series of transactions that resulted in

Sabine River Holding Corp. and its subsidiaries, including PACC, becoming wholly owned subsidiaries of PRG. Prior to the transactions, Sabine had been 90% owned by Premcor Inc.

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Throughput and Production at Port Arthur Refinery

	For the Year Ended December 31,					
	2004		2003		2002	
	bpd (thousands)	Percent of Total	bpd (thousands)	Percent of Total	bpd (thousands)	Percent of Total
Selected Volumetric Data:						
Throughput:						
Crude unit throughput	225.9	95.2%	234.7	95.8%	224.7	96.3%
Other throughputs	11.3	4.8	10.2	4.2	8.7	3.7
Total throughput	237.2	100.0%	244.9	100.0%	233.4	100.0%
Production:						
Conventional gasoline	90.2	36.2%	86.0	33.9%	82.4	32.9%
Premium and reformulated gasoline	22.1	8.9	30.4	12.0	23.0	9.2
Diesel fuel	62.9	25.2	77.5	30.5	65.4	26.1
Jet fuel	22.1	8.9	19.3	7.6	26.5	10.5
Other products / blendstocks, net	21.7	8.6	8.6	3.4	17.8	7.1
Total light products	219.0	87.8	221.8	87.4	215.1	85.8
Solid by-products / residual oil	30.4	12.2	32.1	12.6	35.5	14.2
Total production	249.4	100.0%	253.9	100.0%	250.6	100.0%

Feedstock and Other Supply Arrangements. The refinery s Texas Gulf Coast location is close to major heavy high-sulfur crude oil producers and permits access to many cost-effective domestic and international crude oil sources via waterborne and pipeline delivery. Waterborne crude oil is delivered to the refinery docks or via the Sun terminal or the Oil Tanking Beaumont terminal, both of which are connected by pipeline to our Lucas tank farm for redelivery to the refinery. Pipeline crude oil can also be received from Equilon Enterprises LLC dba Shell Oil Products U.S. s, or Shell s, pipeline originating in Clovelly, Louisiana. In 2004, construction was completed on the Cameron Highway pipeline which has a right of way through our refinery property. This pipeline is connected to our Lucas tank farm and provides us with access to other crude oil supplies in the Gulf Coast. We purchase approximately 186,000 bpd of heavy high-sulfur crude oil, or nearly 80% of the refinery s daily crude oil processing capacity, via waterborne delivery from P.M.I. Comercio Internacional, S.A. de C.V., an affiliate of Petroleos Mexicanos, or PEMEX, the Mexican state oil company, under two crude oil supply agreements, one of which is a long-term agreement with PACC. Under this long-term agreement, PEMEX guarantees its affiliate s obligations to us.

The long-term crude oil supply agreement, under which we currently purchase approximately 186,000 bpd of Maya crude oil, with the PEMEX affiliate provides PACC with a stable and secure supply of Maya crude oil. Under the terms of this agreement, PACC is obligated to buy Maya crude oil from the affiliate of PEMEX and the affiliate of PEMEX is obligated to sell Maya crude oil to PACC at market prices. The agreement expires in 2011.

We have marine charter agreements with The Sanko Steamship Co., Ltd. of Tokyo, Japan, for three tankers custom designed for delivery to our docks. The charter agreements have an eight-year term from the date of delivery of each ship and are renewable for two one-year periods. All three ships were delivered in late 2002. We use the ships to transport Maya crude oil from the loading port in Mexico or other Caribbean locations to our refinery dock in Port Arthur. Unlike the daylight-only transit requirement applicable to crude ships approaching all other terminals in the Port Arthur area, our dock is accessible 24 hours a day by the tankers. In addition, the size of the custom-designed tankers allows our crude oil requirements to be satisfied with fewer trips to the docks. In 2004, our charter rate under this agreement was favorable compared to market rates.

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Hydrogen is supplied to the refinery under a 20-year contract with Air Products and Chemicals Inc., or Air Products. Air Products has constructed, on property leased from us, a new steam methane reformer and two hydrogen purification units. Air Products also supplies steam and electricity to our Port Arthur refinery. If our requirements exceed the daily amount provided for under the contract, we may purchase additional hydrogen from Air Products. Certain bonuses and penalties are applicable for various performance targets under the contract which expires June 2021.

Energy. We generate most of the electricity for our Port Arthur refinery in our own cogeneration plants. The remainder of our electricity needs are supplied under a long-term agreement with Air Products, which has a cogeneration plant as part of its on-site hydrogen plant. In addition, we have an agreement under which we buy power from Entergy Gulf States, Inc., or Entergy, under peak load conditions, or if a generator experiences a mechanical failure. During times when we produce excess power, we sell the excess to Entergy. Entergy has exercised its right to terminate the agreement because of impending deregulation. The agreement will stay in effect on a month-to-month basis until deregulation occurs or other arrangements are made. Deregulation has not occurred as of early 2005, and it is possible that it will not occur in the grid in which our refinery is located. We are in the process of making alternative arrangements to replace the Entergy agreement.

Our Port Arthur refinery purchases natural gas at a price based on a monthly index, pursuant to a contract with CenterPoint Energy Gas Resources Corporation, a subsidiary of CenterPoint Energy Inc. that terminates in September 2005. The contract provides for 21.9 million mmbtus of natural gas per year on a firm basis, which is the approximate annual amount of natural gas consumed at the refinery. Of the 21.9 million mmbtus consumed, 16.4 million mmbtus are consumed for energy related use. The contract also allows for wide flexibility in volumes at a specified pricing formula. We will enter into a new contract or seek alternative options upon termination of the agreement.

Product Offtake. The gasoline, low-sulfur diesel and jet fuel produced at our Port Arthur refinery are distributed into the Colonial pipeline, Explorer pipeline, TEPPCO pipeline or through the refinery dock into ships or barges. The TEPPCO pipeline also provides access to the Centennial pipeline. The advantage of a variety of distribution channels is that it gives us the flexibility to direct our product into the most profitable market. The TEPPCO pipeline is fed directly out of the refinery tankage, through pipelines we own and operate. The Colonial and Explorer pipelines are fed from the Port Arthur Products Station tank farm, which we partly own through a joint venture with Shell Pipeline Company, operated by Shell. We also own the pipelines that distribute products from the refinery to the Port Arthur Products Station tank farm. Products loaded at the refinery docks come directly out of our Port Arthur refinery tankage. A pipeline also runs from our refinery to Motiva s Beaumont light products terminal. The petroleum coke produced is moved across the refinery dock by third-party shiploaders. All of our petroleum coke is sold to multiple customers generally under 12-month term agreements.

Other Arrangements. Within our Port Arthur refinery, Chevron Phillips Chemical Company, L.P. operates a 164-acre petrochemical facility to manufacture olefins and cyclohexane. This facility is well integrated with the refinery and relies heavily on the refinery infrastructure for utility, operating and support services. We provide these services at cost. In addition to these services, Chevron Phillips Chemical Company L.P. purchases feedstock from the refinery for use in its olefin cracker and propylene fractionator. By-products from the petrochemical facility are sold to the refinery for use primarily as fuel gas. Chevron Products Company also operates a distribution facility on 102 acres within our Port Arthur refinery. The distribution center is operated by Chevron Products Company to blend, package, and distribute lubricants and grease. This facility also relies heavily on the refinery infrastructure for utility, operating and support services, which are provided by us at cost.

Other Gulf Coast Assets

We own other assets associated with our Port Arthur refinery, including:

a crude oil terminal and a liquefied petroleum gas terminal, with a combined capacity of approximately 5.0 million barrels;

- proprietary refined product pipelines that connect our Port Arthur refinery to our liquefied petroleum gas terminal;

- refined product common carrier pipelines that connect our Port Arthur refinery to several other terminals; and

- crude oil common carrier pipelines that connect our Port Arthur refinery to several other terminals and third party pipeline systems.

Midwest Operations

The Midwest, or PADD II, region of the United States, which is the second largest PADD in the United States in terms of crude oil throughput capacity, is comprised of North Dakota, South Dakota, Minnesota, Iowa, Nebraska, Kansas, Missouri, Oklahoma, Wisconsin, Illinois, Michigan, Indiana, Ohio, Kentucky and Tennessee.

Production of light, or premium, petroleum products by refiners located in PADD II has historically been less than the demand for such products within that region, resulting in products being supplied from surrounding regions. According to the EIA, total light product demand in PADD II, as of December 31, 2004, is approximately 4.4 million bpd, with refinery production of light products in PADD II estimated at approximately 3.0 million bpd. Imports have supplemented PADD II refining in satisfying product demand and are currently estimated by the EIA at approximately 1.4 million bpd.

The Explorer, TEPPCO, Seaway, Orion, Colonial, Plantation and Centennial product pipelines are the primary pipeline systems for transporting Gulf Coast refinery output to PADD II. Supply is also available via barge transport up the Mississippi River with significant deliveries into markets along the Ohio River. Barge transport serves a role in supplying inland markets that are remote from product pipeline access and in supplementing pipeline supply when they are bottlenecked or markets are short of product.

Lima Refinery

Our Lima refinery, which we acquired from BP Exploration and Oil Inc. and its affiliates, or BP, in August 1998, is located on a 650-acre site in Lima, Ohio. The refinery, with total throughput capacity of approximately 170,000 bpd, processes primarily light, sweet crude oil, although 22,500 bpd of coking capability allows the refinery to upgrade lower-valued products. Our Lima refinery includes a crude unit, a hydrocracker unit, a reformer unit, a fluid catalytic cracking unit, a delayed coker unit, and an aromatic extraction unit. The refinery can produce conventional gasoline, reformulated gasoline, jet fuel, high-sulfur diesel fuel, petrochemical feedstock and anode grade petroleum coke.

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Throughput and Production at Lima Refinery

	For the Year Ended December 31,					
	2004		2003		2002	
	bpd (thousands)	Percent of Total	bpd (thousands)	Percent of Total	bpd (thousands)	Percent of Total
Selected Volumetric Data:						
Throughput:						
Crude unit throughput	131.0	99.4%	139.5	99.9%	141.5	103.6%
Other throughputs	0.8	0.6	0.2	0.1	(4.9)	(3.6)
Total throughput	131.8	100.0%	139.7	100.0%	136.6	100.0%
Production:						