

VALERO ENERGY CORP/TX

Form 10-K

February 28, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

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 1-13175

VALERO ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 74-1828067

(State or other jurisdiction of (I.R.S. Employer incorporation or organization) Identification No.)

One

Valero

Way

San

Antonio, 78249

Texas

(Address

of

principal executive

offices)

(Zip Code)

Registrant's

telephone

number,

including

area code:

(210)

345-2000

Securities registered pursuant to Section 12(b) of the Act: Common stock, \$0.01 par value per share listed on the New York Stock Exchange.

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for

such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the voting and non-voting common stock held by non-affiliates was approximately \$47.5 billion based on the last sales price quoted as of June 29, 2018 on the New York Stock Exchange, the last business day of the registrant's most recently completed second fiscal quarter.

As of January 31, 2019, 417,614,487 shares of the registrant's common stock were outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

We intend to file with the Securities and Exchange Commission a definitive Proxy Statement for our Annual Meeting of Stockholders scheduled for April 30, 2019, at which directors will be elected. Portions of the 2019 Proxy Statement are incorporated by reference in Part III of this Form 10-K and are deemed to be a part of this report.

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Table of Contents

CROSS-REFERENCE SHEET

The following table indicates the headings in the 2019 Proxy Statement where certain information required in Part III of this Form 10-K may be found.

Form 10-K Item No. and Caption	Heading in 2019 Proxy Statement
10.	Directors, Executive Officers and Corporate Governance Information Regarding the Board of Directors, Independent Directors, Audit Committee, Proposal No. 1 Election of Directors, Information Concerning Nominees and Other Directors, Identification of Executive Officers, Section 16(a) Beneficial Ownership Reporting Compliance, and Governance Documents and Codes of Ethics
11.	Executive Compensation Compensation Committee, Compensation Discussion and Analysis, Executive Compensation, Director Compensation, Pay Ratio Disclosure, and Certain Relationships and Related Transactions
12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters Beneficial Ownership of Valero Securities and Equity Compensation Plan Information
13.	Certain Relationships and Related Transactions, and Director Independence Certain Relationships and Related Transactions and Independent Directors
14.	Principal Accountant Fees and Services KPMG LLP Fees and Audit Committee Pre-Approval Policy

Copies of all documents incorporated by reference, other than exhibits to such documents, will be provided without charge to each person who receives a copy of this Form 10-K upon written request to Valero Energy Corporation, Attn: Secretary, P.O. Box 696000, San Antonio, Texas 78269-6000.

## CONTENTS

	PAGE
<u>PART I</u>	<u>1</u>
<u>Items 1. &amp; 2. Business and Properties</u>	<u>1</u>
<u>Overview</u>	<u>1</u>
<u>Available Information</u>	<u>1</u>
<u>Valero's Operations</u>	<u>2</u>
<u>Environmental Matters</u>	<u>13</u>
<u>Properties</u>	<u>13</u>
<u>Item 1A. Risk Factors</u>	<u>14</u>
<u>Item 1B. Unresolved Staff Comments</u>	<u>21</u>
<u>Item 3. Legal Proceedings</u>	<u>21</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>22</u>
 <u>PART II</u>	 <u>22</u>
<u>Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>22</u>
<u>Item 6. Selected Financial Data</u>	<u>24</u>
<u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
<u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>60</u>
<u>Item 8. Financial Statements and Supplementary Data</u>	<u>62</u>
<u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>139</u>
<u>Item 9A. Controls and Procedures</u>	<u>139</u>
<u>Item 9B. Other Information</u>	<u>139</u>
 <u>PART III</u>	 <u>139</u>
<u>Item 10. Directors, Executive Officers and Corporate Governance</u>	<u>139</u>
<u>Item 11. Executive Compensation</u>	<u>139</u>
<u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>139</u>
<u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u>	<u>139</u>
<u>Item 14. Principal Accountant Fees and Services</u>	<u>139</u>
 <u>PART IV</u>	 <u>140</u>
<u>Item 15. Exhibits and Financial Statement Schedules</u>	<u>140</u>
 <u>Signature</u>	 <u>144</u>

## Table of Contents

The terms “Valero,” “we,” “our,” and “us,” as used in this report, may refer to Valero Energy Corporation, to one or more of its consolidated subsidiaries, or to all of them taken as a whole. In this Form 10-K, we make certain forward-looking statements, including statements regarding our plans, strategies, objectives, expectations, intentions, and resources under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. You should read our forward-looking statements together with our disclosures beginning on page 25 of this report under the heading: “CAUTIONARY STATEMENT FOR THE PURPOSE OF SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.”

## PART I

### ITEMS 1. and 2. BUSINESS AND PROPERTIES

#### OVERVIEW

We are a Fortune 500 company based in San Antonio, Texas. Our corporate offices are at One Valero Way, San Antonio, Texas, 78249, and our telephone number is (210) 345-2000. We were incorporated in Delaware in 1981 under the name Valero Refining and Marketing Company. We changed our name to Valero Energy Corporation on August 1, 1997. Our common stock trades on the New York Stock Exchange (NYSE) under the trading symbol “VLO.” On January 31, 2019, we had 10,261 employees.

We own 15 petroleum refineries located in the United States (U.S.), Canada, and the United Kingdom (U.K.) with a combined throughput capacity of approximately 3.1 million barrels per day (BPD). Our refineries produce conventional gasolines, premium gasolines, gasoline meeting the specifications of the California Air Resources Board (CARB), diesel, low-sulfur diesel, ultra-low-sulfur diesel, CARB diesel, other distillates, jet fuel, asphalt, petrochemicals, lubricants, and other refined petroleum products. We sell our refined petroleum products in both the wholesale rack and bulk markets, and approximately 7,000 outlets carry our brand names in the U.S., Canada, the U.K., and Ireland. We also own 14 ethanol plants in the Mid-Continent region of the U.S. with a combined production capacity of approximately 1.73 billion gallons per year. We sell our ethanol in the wholesale bulk market.

On January 10, 2019, we completed our acquisition of all of the outstanding publicly held common units of Valero Energy Partners LP (VLP) as described in Note 2 of Notes to Consolidated Financial Statements, which is incorporated herein by reference.

#### AVAILABLE INFORMATION

Our website address is [www.valero.com](http://www.valero.com). Information on our website is not part of this report. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other reports, as well as any amendments to those reports, filed with (or furnished to) the U.S. Securities and Exchange Commission (SEC) are available on our website (under “Investors”) free of charge, soon after we file or furnish such material. In this same location, we also post our corporate governance guidelines and other governance policies, codes of ethics, and the charters of the committees of our board of directors. These documents are available in print to any stockholder that makes a written request to Valero Energy Corporation, Attn: Secretary, P.O. Box 696000, San Antonio, Texas 78269-6000.

Table of Contents

VALERO'S OPERATIONS

As of December 31, 2018, we had three reportable segments as follows:

• Refining segment includes our refining operations, the associated marketing activities, and certain logistics assets, which are not owned by VLP, that support our refining operations;

• Ethanol segment includes our ethanol operations, the associated marketing activities, and logistics assets that support our ethanol operations; and

• VLP segment includes the operations of VLP, which is a limited partnership that owns logistics assets that provide transportation and terminaling services to our refining segment.

Financial information about these segments is presented in Note 17 of Notes to Consolidated Financial Statements, which is incorporated herein by reference.

Effective January 1, 2019, we revised our reportable segments to align with certain changes in how our chief operating decision maker manages and allocates resources to our business. Accordingly, we created a new reportable segment — renewable diesel — because of the growing importance of renewable fuels in the market and the growth of our investments in renewable fuels production. The renewable diesel segment includes the operations of Diamond Green Diesel Holdings LLC (DGD), our consolidated joint venture as discussed in Note 12 of Notes to Consolidated Financial Statements. The operations of DGD have been included in the refining segment through December 31, 2018, but were transferred from that segment on January 1, 2019. Also effective January 1, 2019, we no longer have a VLP segment, and we include the operations of VLP in our refining segment. This change was made because of the Merger Transaction with VLP, as defined and discussed in Note 2 of Notes to Consolidated Financial Statements, and the resulting change in how we manage VLP's operations. We no longer manage VLP as a business but as logistics assets that support the operations of our refining segment.

Table of Contents

## REFINING

## Refining Operations

As of December 31, 2018, our refining operations included 15 petroleum refineries in the U.S., Canada, and the U.K., with a combined total throughput capacity of approximately 3.1 million BPD. The following table presents the locations of these refineries and their approximate feedstock throughput capacities as of December 31, 2018.

Refinery	Location	Throughput Capacity (a) (BPD)
U.S. Gulf Coast:		
Port Arthur	Texas	395,000
Corpus Christi (b)	Texas	370,000
St. Charles	Louisiana	340,000
Texas City	Texas	260,000
Houston	Texas	250,000
Meraux	Louisiana	135,000
Three Rivers	Texas	100,000
		1,850,000
U.S. Mid-Continent:		
McKee	Texas	200,000
Memphis	Tennessee	195,000
Ardmore	Oklahoma	90,000
		485,000
North Atlantic:		
Pembroke	Wales, U.K.	270,000
Quebec City	Quebec, Canada	235,000
		505,000
U.S. West Coast:		
Benicia	California	170,000
Wilmington	California	135,000
		305,000
Total		3,145,000

“Throughput capacity” represents estimated capacity for processing crude oil, inter-mediate, and other feedstocks.

(a) Total estimated crude oil capacity is approximately 2.6 million BPD.

(b) Represents the combined capacities of two refineries – the Corpus Christi East and Corpus Christi West Refineries.

Table of Contents

Total Refining System

The following table presents the percentages of principal charges and yields (on a combined basis) for all of our refineries for 2018, during which period our total combined throughput volumes averaged approximately 3.0 million BPD.

Combined Total Refining System

Charges and Yields

Charges:

sour crude oil	30 %
sweet crude oil	47 %
residual fuel oil	8 %
other feedstocks	4 %
blendstocks	11 %

Yields:

gasolines and blendstocks