

VALERO ENERGY CORP/TX

Form 11-K

June 28, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 11-K  
ANNUAL REPORT PURSUANT TO SECTION 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2006  
Commission File Number 1-13175  
PREMCOR RETIREMENT SAVINGS PLAN  
VALERO ENERGY CORPORATION  
One Valero Way  
San Antonio, Texas 78249**

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**PREMCOR RETIREMENT SAVINGS PLAN**  
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All other supplemental schedules required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 are omitted because they are not applicable or not required.	

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Valero Energy Corporation Benefit Plans Administrative Committee:

We have audited the accompanying statements of net assets available for benefits of Premcor Retirement Savings Plan (the Plan) as of December 31, 2006 and 2005, and the related statement of changes in net assets available for benefits for the year ended December 31, 2006. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2006 and 2005, and the changes in net assets available for benefits for the year ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule H, line 4i schedule of assets (held at end of year) as of December 31, 2006 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ KPMG LLP

San Antonio, Texas

June 28, 2007

**PREMCOR RETIREMENT SAVINGS PLAN  
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS`**

	December 31,	
	2006	2005
<b>Assets:</b>		
Investments:		
Mutual funds	\$ 205,116,974	\$ 240,414,227
Common/collective trust	52,740,808	65,085,537
Valero Energy Corporation common stock	43,891,034	
Participant loans	7,681,447	7,694,968
 Total investments at fair value	 309,430,263	 313,194,732
 Receivables:		
Due from brokers for securities sold	1,983,750	
Employer contributions	232,425	680,998
Employee contributions	663	417,985
Interest		16,954
 Total receivables	 2,216,838	 1,115,937
 Total assets	 311,647,101	 314,310,669
 <b>Liabilities:</b>		
Due to brokers for securities purchased	(1,496,460)	
 Net assets available for benefits at fair value	 310,150,641	 314,310,669
 Adjustment from fair value to contract value for fully benefit-responsive investment contracts	 507,506	 858,324
 <b>Net assets available for benefits</b>	 <b>\$ 310,658,147</b>	 <b>\$ 315,168,993</b>

See Notes to Financial Statements.

**PREMCOR RETIREMENT SAVINGS PLAN**  
**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**  
**Year Ended December 31, 2006**

<b>Investment income:</b>	
Interest income	\$ 483,591
Dividend income	13,270,264
Net appreciation in fair value of investments	12,959,023
 Total investment income	 26,712,878
 <b>Contributions:</b>	
Employee	13,181,187
Employer	8,554,616
 Total contributions	 21,735,803
	48,448,681
 <b>Deductions from net assets:</b>	
Withdrawals by participants	(28,964,521)
Asset transfers out to Valero Energy Corporation Thrift Plan	(23,968,276)
Administrative expenses	(26,730)
 Total deductions	 (52,959,527)
 <b>Net decrease in net assets available for benefits</b>	 (4,510,846)
 <b>Net assets available for benefits:</b>	
Beginning of year	315,168,993
 End of year	 \$ 310,658,147

See Notes to Financial Statements.

**PREMCOR RETIREMENT SAVINGS PLAN  
NOTES TO FINANCIAL STATEMENTS**

**1. Description of the Plan**

As used in this report, the term Valero may refer, depending upon the context, to Valero Energy Corporation, one or more of its consolidated subsidiaries, or all of them taken as a whole.

Valero Energy Corporation is a publicly held independent refining and marketing company with approximately 22,000 employees. As of December 31, 2006, Valero owned and operated 18 refineries in the United States, Canada, and Aruba with a combined total throughput capacity, including processed crude oil, intermediates, and other feedstocks, of approximately 3.3 million barrels per day. Valero markets refined products through an extensive bulk and rack marketing network and a network of approximately 5,800 retail and wholesale branded outlets in the United States, Canada, and Aruba under various brand names including Valero®, Diamond Shamrock®, Shamrock®, Ultramar®, and Beacon®.

Valero's common stock trades on the New York Stock Exchange under the symbol VLO.

The following description of the Premcor Retirement Savings Plan (the Plan) provides only general information. Participants should refer to the plan document for a complete description of the Plan's provisions.

***General***

The Plan is a qualified profit-sharing plan covering eligible employees of The Premcor Refining Group Inc. (PRG), a wholly owned subsidiary of Valero. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

Valero is the plan sponsor and Valero's Benefit Plans Administrative Committee (the Administrative Committee) is the administrator of the Plan. Vanguard Fiduciary Trust Company (Vanguard) is the trustee and record keeper under the Plan and has custody of the securities and investments of the Plan through a trust.

***Participation***

Participation in the Plan is voluntary. All union employees and certain corporate employees of PRG who have completed six months of service are eligible to participate in the Plan; however, union employees at the Delaware City Refinery are eligible to participate in the Plan after one month of service. Effective January 1, 2007, certain former Premcor union employees became eligible to participate in the Valero Energy Corporation Thrift Plan (Valero Thrift Plan).

***Contributions***

Participants can make pre-tax contributions from 1% to 50% of their annual eligible compensation as defined in the Plan, subject to certain limitations under the Internal Revenue Code of 1986, as amended (the Code). Valero matches 200% of the first 3% of compensation that a participant contributes to the Plan. Employer contributions are made in cash. Participants, other than highly compensated employees, also can elect to make after-tax contributions of 1% to 50% of their compensation; however, Valero does not match these contributions. Total pre-tax and after-tax contributions cannot exceed 50% of compensation. In addition, any participant can make rollover contributions to the Plan. During the year ended December 31, 2006, participants made rollover contributions of \$641,709 which are included in employee contributions in the statement of changes in net assets available for benefits.

**PREMCOR RETIREMENT SAVINGS PLAN**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

In addition to the employer contributions noted above, Valero matches 100% of compensation above 3% up to a maximum of 6% that union participants at the Lima and Port Arthur Refineries contribute to the Plan.

Federal income taxes on pre-tax contributions are deferred until the time a distribution is made to the participant. The Code establishes an annual limitation on the amount of individual pre-tax salary deferral contributions. The limit was \$15,000 for the year ended December 31, 2006. Participants who were eligible to make pre-tax contributions and who attained age 50 before the end of the year were eligible to make an additional catch-up pre-tax contribution of up to \$5,000 for the year ended December 31, 2006.

***Forfeitures***

Forfeited non-vested accounts of terminated participants can be used to pay the Plan's administrative expenses or reduce employer contributions. As of December 31, 2006 and 2005, forfeited non-vested accounts available to reduce future employer contributions were \$88,015 and \$82,661, respectively. For the year ended December 31, 2006, employer contributions received were reduced by \$950 from forfeited non-vested accounts.

***Participant Accounts***

Individual accounts are maintained for each Plan participant. A separate account is maintained for each participant's pre-tax, after-tax, employer matching, and rollover contributions. The accounts for each participant are adjusted to reflect all contributions, withdrawals, income, expenses, gains, and losses attributable to these accounts.

On February 16, 2006, former Premcor employees who were eligible to participate in the Valero Thrift Plan had the opportunity to make a one-time voluntary election to transfer their balances from the Plan into the Valero Thrift Plan, of which the total account balance transferred was \$23,968,276.

***Vesting***

Participants are vested 100% in their employee account at all times. Employer matching contributions for participants not covered under a collective bargaining agreement are fully vested when contributed. Employer matching contributions for participants covered under collective bargaining agreements vest at the rate of 20% per year with 100% vesting after the fifth year of service, except for Delaware City Refinery employees who are immediately fully vested.

The Plan provides that if an employee incurs a break in service prior to becoming vested in any part of his employer account, the employee's prior continuous service will not be disregarded for purposes of the Plan until the break in service equals or exceeds five successive years. Upon a participant's termination of employment for other than death, total and permanent disability, or retirement, the non-vested portion of the participant's employer account is forfeited. In the event the participant is reemployed prior to incurring a break in service of five successive years, any amounts forfeited under this provision will be reinstated.

***Investment Options***

Participants direct the investment of 100% of their employee and employer contributions and may transfer existing account balances to any of the funds offered. The Plan currently offers mutual funds and a common/collective trust through Vanguard Fiduciary Trust Company and the Valero Common Stock



**PREMCOR RETIREMENT SAVINGS PLAN**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

Fund, which invests 100% in Valero Energy Corporation common stock, as investment options for participants.

***Withdrawals and Distributions***

A participant may withdraw any after-tax contributions or pre-tax contributions after submitting a request to Vanguard. Withdrawals of pre-tax contributions before employment ends are limited to hardship withdrawals, under which certain criteria must be met, or attainment of age 59<sup>1/2</sup>.

Upon a participant's death, total and permanent disability, or retirement, the participant or the beneficiary of a deceased participant is entitled to a distribution of the entire value of the participant's employee account and employer account regardless of whether or not the accounts are fully vested. Upon a participant's termination for any other reason, the participant is entitled to a distribution of only the value of the participant's employee account and the vested portion of the participant's employer account. Distributions resulting from any of these occurrences may be received in a single sum. Alternatively, a participant or beneficiary may elect to receive this distribution in the form of equal monthly installments over a period not to exceed fifteen years. In addition, when the value of a distribution to a participant exceeds \$1,000, the distribution to a participant who has terminated employment prior to his death, disability, or normal retirement age may be made only with the participant's consent.

Terminated participants may elect to have the Plan trustee hold their accounts for distribution to them at a date not later than April 1 of the calendar year after which they attain age 70<sup>1/2</sup>. In this event, terminated participants continue to share in the income, expenses, gains, and losses of the Plan until their accounts are distributed.

***Participant Loans***

Participants may borrow, subject to certain limitations, amounts credited to their pre-tax contribution account. The maximum loan amount a participant may have outstanding is restricted to the lesser of:

- (a) \$50,000, reduced by the excess of (i) the highest outstanding balance of the participant's loans during a one-year period over (ii) the participant's then currently outstanding loan balance on the day any new loan is made, or
- (b) one-half of the current value of the participant's vested interest in his Plan accounts.

The term of any loan may not exceed five years unless the loan is for the purchase of a participant's principal residence, in which case the term may be longer than five years. The balance of the participant's employee account and vested portion of his employer account serve as security for the loan. Loans bear interest at a reasonable rate as established by the Administrative Committee. As of December 31, 2006, interest rates on outstanding participant loans ranged from 5.0% to 10.5% and maturity dates ranged from January 2007 to December 2016. Loan repayments of principal and interest are made through payroll deductions or as otherwise determined.

***Plan Expenses***

The Plan pays a portion of its administrative expenses, including trustee fees and administrative fees. Plan expenses not paid by the Plan are paid by Valero. Investment expenses relating to individual participant transactions, such as fund withdrawal fees, are deducted from the respective participant's account. During the year ended December 31, 2006, Valero paid administrative expenses of \$36,101.

**PREMCOR RETIREMENT SAVINGS PLAN**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**2. Summary of Significant Accounting Policies**

***Basis of Accounting***

The financial statements of the Plan are prepared on the accrual basis of accounting in accordance with United States generally accepted accounting principles (GAAP).

***New Accounting Pronouncements***

**FSP Nos. AAG INV-1 and SOP 94-4-1**

In December 2005, the Financial Accounting Standards Board (FASB) issued Staff Position Nos. AAG INV-1 and SOP 94-4-1 (FSP), Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans. This FSP amends the guidance in American Institute of Certified Public Accountants (AICPA) Statement of Position 94-4, Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans, with respect to the definition of fully benefit-responsive investment contracts and the presentation and disclosure of fully benefit-responsive investment contracts in plan financial statements. The FSP requires that investments in common/collective trusts that include benefit-responsive investment contracts be presented at fair value in the statement of net assets available for benefits and that the amount representing the difference between fair value and contract value of these investments also be presented on the face of the statement of net assets available for benefits. The FSP is effective for annual periods ending after December 15, 2006 and must be applied retroactively to all prior periods presented. Accordingly, the Plan has adopted the financial statement presentation and disclosure requirements of the FSP effective December 31, 2006, and has retroactively applied the FSP's guidance to the statement of net assets available for benefits as of December 31, 2005 to present all investments at fair value, with the adjustment to contract value separately disclosed. The effect of adopting the FSP had no impact on the Plan's net assets available for benefits or changes in net assets available for benefits as such investments have historically been presented at contract value.

**FASB Statement No. 157**

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements. Statement No. 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measures. Statement No. 157 is effective for fiscal years beginning after November 15, 2007, with early adoption encouraged. The provisions of Statement No. 157 are to be applied on a prospective basis, with the exception of certain financial instruments for which retrospective application is required. The adoption of Statement No. 157 is not expected to materially affect the Plan's financial position or results of operations.

***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates that affect the amounts of assets and changes therein reported in the financial statements and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

***Valuation of Investments***

The Plan's investments are stated at fair value. Valero common stock is valued at its quoted market price as of December 31. Shares of mutual funds are valued at quoted market prices, which represent the net asset value of shares held by the Plan as of December 31. Participant loans are valued at cost, which approximates fair value.

**PREMCOR RETIREMENT SAVINGS PLAN**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

Vanguard Retirement Savings Trust, a common/collective trust which primarily holds investments in fully benefit-responsive insurance contracts, is presented in the statement of net assets available for benefits at the fair value of units held by the Plan as of December 31, with separate disclosure of the adjustment to contract value, which is equal to principal balance plus accrued interest. As provided in the FSP, an investment contract is generally valued at contract value, rather than fair value, to the extent it is fully benefit-responsive. The fair value of fully benefit-responsive investment contracts is calculated by the issuer using a discounted cash flow model which considers (i) recent fee bids as determined by recognized dealers, (ii) discount rate, and (iii) the duration of the underlying portfolio securities.

***Income Recognition***

Purchases and sales of investments are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividend income is recorded on the ex-dividend date.

Net appreciation (depreciation) in fair value of investments consists of net realized gains and losses on the sale of investments and net unrealized appreciation (depreciation) of investments.

***Withdrawals by Participants***

Withdrawals by participants are recorded when paid.

***Risks and Uncertainties***

The Plan's investments, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term.

**3. Investments**

Investments that represent 5% or more of the Plan's net assets are as follows:

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
Vanguard Retirement Savings Trust (contract value of \$53,248,314 and \$65,943,861, respectively)	\$ 52,740,808	\$ 65,085,537
Valero Energy Corporation common stock*	43,891,034	
Vanguard Windsor II Fund Investor Shares	41,126,791	45,666,986
Vanguard Wellington Fund Investor Shares	35,661,454	38,035,659
Vanguard PRIMECAP Fund Investor Shares	30,898,584	42,138,962
Vanguard 500 Index Fund Investor Shares	20,696,724	27,142,371
Vanguard Morgan Growth Fund Investor Shares**	15,170,574	19,331,669

\* Valero Energy Corporation common stock became an investment option of the Plan effective January 1, 2006.

\*\* As of December 31, 2006, this investment is less than 5% of

the Plan's net  
assets but is  
shown in the  
above table for  
comparative  
purposes only.

The Plan's investment in shares of Valero common stock represents 14.2% of total investments at fair value as of December 31, 2006.

**PREMCOR RETIREMENT SAVINGS PLAN**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

During the year ended December 31, 2006, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated (depreciated) in value as follows:

Valero Energy Corporation common stock	\$ (4,779,105)
Mutual funds	17,738,128
Net appreciation in fair value of investments	\$ 12,959,023

**4. Party-in-Interest Transactions**

The Plan invests in shares of mutual funds and units of a common/collective trust that are managed by an affiliate of Vanguard Fiduciary Trust Company, the Plan's trustee. Fees paid by the Plan for investment management services were included as a reduction of the return earned on each fund. In addition, the Plan allows for investment in Valero common stock. Valero, the sponsor of the Plan, provides accounting and administrative services at no cost to the Plan. These transactions are covered by an exemption from the prohibited transactions provisions of ERISA and the Code.

**5. Plan Termination**

Although it has not expressed any intent to do so, Valero has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of any termination of the Plan or complete discontinuance of employer contributions, participants would become 100% vested in their employer accounts. If the Plan were terminated, the Administrative Committee would direct the trustee to distribute the remaining assets, after payment of all Plan expenses, to participants and beneficiaries in proportion to their respective balances.

**6. Tax Status**

The Internal Revenue Service has determined and informed the Plan sponsor by a letter dated December 3, 2002 that the Plan is designed in accordance with applicable sections of the Code. The Plan has been amended since receiving the determination letter. However, the Administrative Committee believes that the Plan is designed and is currently being operated in compliance with the applicable requirements of the Code.

**7. Reconciliation of Financial Statements to Form 5500**

The following is a reconciliation of net assets available for benefits per the financial statements to the Form 5500 Annual Return/Report of Employee Benefit Plan as of December 31, 2006:

Net assets available for benefits per the financial statements	\$ 310,658,147
Less: Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(507,506)
Net assets available for benefits per the Form 5500	\$ 310,150,641

**PREMCOR RETIREMENT SAVINGS PLAN**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

The following is a reconciliation of investment income per the financial statements to the Form 5500 Annual Return/Report of Employee Benefit Plan for the year ended December 31, 2006:

Investment income per the financial statements	\$ 26,712,878
Less: Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(507,506)
Investment income per the Form 5500	\$ 26,205,372

**8. Subsequent Event**

On May 2, 2007, Valero entered into an agreement to sell its refinery in Lima, Ohio to Husky Refining Company (Husky), a wholly owned subsidiary of Husky Energy Inc. The sale is expected to close on July 1, 2007. As a result of the sale, employees at the Lima Refinery will become employees of Husky. Those employees who were participants in the Plan will become fully vested in their employer accounts and will have various options related to their account balances, including a rollover to a Husky defined contribution plan.

**PREMCOR RETIREMENT SAVINGS PLAN**

**EIN: 74-1828067**

**Plan No. 010**

**Schedule H, line 4i Schedule of Assets (Held at End of Year)**

**As of December 31, 2006**

<b>Identity of Issue/Description of Investment</b>	<b>Current Value</b>
Mutual funds:	
*Vanguard Windsor II Fund Investor Shares	\$ 41,126,791
*Vanguard Wellington Fund Investor Shares	35,661,454
*Vanguard PRIMECAP Fund Investor Shares	30,898,584
*Vanguard 500 Index Fund Investor Shares	20,696,724
*Vanguard Morgan Growth Fund Investor Shares	15,170,574
*Vanguard International Growth Fund Investor Shares	13,721,349
*Vanguard Asset Allocation Fund Investor Shares	11,914,024
*Vanguard Mid-Cap Index Fund Investor Shares	9,900,419
*Vanguard Total Bond Market Index Fund Investor Shares	9,078,469
*Vanguard Small-Cap Index Fund Investor Shares	8,686,560
*Vanguard Explorer Fund Investor Shares	8,262,026
 Total mutual funds	 205,116,974
 Common/collective trust:	
*Vanguard Retirement Savings Trust	52,740,808
 Common stock:	
*Valero Energy Corporation	43,891,034
 *Participant loans (interest rates range from 5.0% to 10.5%; maturity dates range from January 2007 to December 2016)	 7,681,447
 Total investments at fair value	 \$ 309,430,263

\* Party-in-interest  
to the Plan.

See accompanying report of independent registered public accounting firm.

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Administrative Committee has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

**PREMCOR RETIREMENT SAVINGS PLAN**

By: /s/ Donna M. Titzman  
Donna M. Titzman  
Chairman of the Administrative Committee  
Vice President and Treasurer, Valero Energy  
Corporation

Date: June 28, 2007