

UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION

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In the Matter of )  
 )  
**Valero L.P.**, )  
 a limited partnership, )  
**Valero Energy Corporation**, )  
 a corporation, )  
 )  
**And** )  
 )  
**Kaneb Services LLC**, )  
 a limited liability company, )  
**Kaneb Pipe Line Partners, L.P.**, )  
 a limited partnership. )  
 )

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Docket No. C-4141  
File No. 051-0022

**PETITION OF RESPONDENTS FOR APPROVAL OF PROPOSED  
DIVESTITURE OF THE WEST PIPELINE SYSTEM, THE PHILADELPHIA  
AREA TERMINALS, AND THE SAN FRANCISCO BAY TERMINALS**

Pursuant to Section 2.41(f) of the Federal Trade Commission (“Commission”) Rules of Practice and Procedure, 16 C.F.R. § 2.41(f) (2005), and Paragraphs II.B., III.B., and IV.B. of the Decision and Order contained in the Agreement containing Consent Orders accepted for public comment in this matter (“Decision and Order”), the Respondents hereby petition the Commission to approve the divestiture of the West Pipeline System, the Philadelphia Area Terminals, and the San Francisco Bay Terminals (as such terms are defined in the Decision and Order, and hereinafter collectively referred to as the “Divestiture Assets”) to Pacific Energy Group LLC (“Pacific Energy”) or one of its wholly owned subsidiaries pursuant to the Sale and Purchase

Agreement dated July 1, 2005, by and among Support Terminals Operating Partnership, L.P.; Kaneb Pipe Line Operating Partnership, L.P.; Shore Terminals LLC; and Pacific Energy.

### Background

On May 27, 2005, Valero L.P. (“Valero”), Valero Energy Corporation (“VEC”), Kaneb Services LLC (“KSL”), and Kaneb Pipe Line Partners, L.P. (“KPP”) (individually and collectively, the “Respondents”) executed an Agreement containing Consent Orders that included the Decision and Order and an Order to Hold Separate and Maintain Assets (collectively, the “Consent Agreement”) to settle the Commission’s charges that the proposed mergers of Valero with KSL and KPP, if consummated, would violate Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45, and Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18. On June 14, 2005, the Commission accepted the Consent Agreement for public comment, and on July 1, 2005, Valero, KPP, and KSL consummated their mergers. KPP and KSL are now wholly owned subsidiaries of Valero. The Consent Agreement is presently before the Commission for final approval and issuance of the orders contained therein.

Because this petition and its attachments contain confidential and competitively sensitive business information relating to the divestiture of the Divestiture Assets — the disclosure of which may prejudice the Respondents and Pacific Energy, cause harm to the ongoing competitiveness of the Divestiture Assets, and impair the Respondents’ ability to comply with their obligations under the Consent Agreement — the Respondents have redacted such confidential information from the public version of this petition and its attachments. Pursuant to Sections 2.41(f)(4) and 4.9(c) of the

Commission's Rules of Practice and Procedure, 16 C.F.R. § 2.41(f)(4) & 4.9(c) (2005), the Respondents request that the confidential version of this petition and its attachments and the information contained herein be accorded confidential treatment. The confidential version of this petition should be accorded such confidential treatment under 5 U.S.C. § 552 and Section 4.10(a)(2) of the Commission's Rules of Practice and Procedure, 16 C.F.R. § 4.10(a)(2) (2005). The confidential version of this petition is also exempt from disclosure under Exemptions 4, 7(A), 7(B), and 7(C) of the Freedom of Information Act, 5 U.S.C. §§ 552(b)(4), 552(b)(7)(A), 552(b)(7)(B), & 552(b)(7)(C), and the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, 15 U.S.C. § 18a(h).

The Respondents desire to complete the proposed divestiture of the Divestiture Assets as soon as possible, following Commission approval thereof, and in any event no later than the end of the third quarter. Prompt consummation will further the purposes of the Decision and Order and is in the interests of the public, Pacific Energy, and the Respondents, because it will allow Pacific Energy to move forward with its business plans for the competitive operation of the Divestiture Assets. The Respondents accordingly request that the Commission promptly commence the period of public comment pursuant to Section 2.41(f)(2) of the Commission's Rules of Practice and Procedure, 16 C.F.R. § 2.41(f)(2) (2005), limit the public comment period to the customary 30-day period, and grant this petition by approving the divestiture of the Divestiture Assets to Pacific Energy pursuant to the above-referenced Sale and Purchase Agreement as soon as practicable after the close of the public comment period.

**I. The Sale and Purchase Agreement Is Final and Consistent with the Decision and Order's Terms**

Paragraphs II., III., and IV. of the Decision and Order require the Respondents to divest the West Pipeline System, the Philadelphia Area Terminals, and the San Francisco Bay Terminals, respectively, within six months of the date on which the mergers are consummated (i.e., January 1, 2006). Pursuant to this requirement, the Respondents have diligently sought a buyer that would be acceptable to the Commission and negotiated all appropriate agreements. On July 1, 2005, Support Terminals Operating Partnership, L.P. ("STOP"); Kaneb Pipe Line Operating Partnership, L.P. ("KPOP"); and Shore Terminals LLC ("Shore") (each of which is a wholly owned subsidiary of Valero) entered into a Sale and Purchase Agreement (the "Sale Agreement") with Pacific Energy, which requires STOP, KPOP, and Shore to sell the Divestiture Assets to Pacific Energy or one of its wholly owned subsidiaries. The executed Sale Agreement is attached hereto as Confidential Exhibit A.

The Sale Agreement with Pacific Energy complies with the requirements of Paragraphs II., III., and IV. of the Decision and Order:

A. Paragraphs II.A. and II.B. require that Respondents divest the West Pipeline System, absolutely and in good faith, to a single acquirer. Pursuant to the Sale Agreement, Pacific Energy or one of its wholly owned subsidiaries will acquire the West Pipeline System. See Sale Agreement § .

B. Paragraphs III.A. and III.B. require that Respondents divest the Philadelphia Area Terminals, absolutely and in good faith, to a single acquirer. Pursuant to the Sale Agreement, Pacific Energy or one of its wholly owned subsidiaries will acquire the Philadelphia Area Terminals. See Sale Agreement § .

C. Paragraphs III.A. and III.B. require that Respondents divest the San Francisco Bay Terminals, absolutely and in good faith, to a single acquirer. Pursuant to the Sale Agreement, Pacific Energy or one of its wholly owned subsidiaries will acquire the San Francisco Bay Terminals. See Sale Agreement § .

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As demonstrated above and in the accompanying Agreements, STOP, KPOP, Shore, and Pacific Energy have entered into an agreement relating to the divestiture of the Divestiture Assets that fully complies with the Commission's Decision and Order. Accordingly, the Respondents hereby seek Commission approval of the proposed divestitures pursuant to Paragraphs II.B., III.B., and IV.B. of the Decision and Order.

## **II. The Proposed Acquirer Will Be a Strong and Effective Pipeline and Terminating Competitor**

### Background

Pacific Energy, which is a Delaware limited liability company, is wholly owned by Pacific Energy Partners, L.P. ("PE Partners"), a Delaware limited partnership that is publicly traded on the New York Stock Exchange. Pacific Energy owns 100% of the ownership interest in the operating subsidiaries that conduct PE Partners' U.S. business operations. PE Partners has guaranteed Pacific Energy's obligations under the Sale Agreement and all of the transaction documents required to be executed and delivered pursuant to the Sale Agreement. For the Commission's review, PE Partners' 2004 annual report and its most recent quarterly report are both available on PE Partners' website.<sup>1</sup>

<sup>1</sup> The 2004 Annual Report, which includes PE Partners' Form 10-K filing for the fiscal year ended December 31, 2004, is available at [http://library.corporate-ir.net/library/13/135/135112/items/151441/PPX\\_04AR.pdf](http://library.corporate-ir.net/library/13/135/135112/items/151441/PPX_04AR.pdf). PE

Pacific Energy was formed in August 2001 by The Anschutz Corporation, a privately held company headquartered in Denver, Colorado, for the purpose of consolidating its ownership interest in various crude oil pipelines located in California and the U.S. Rocky Mountains. PE Partners was formed in February 2002, and successfully completed its initial public offering in July 2002. Pacific Energy became a subsidiary of PE Partners at the time of the initial public offering.

As Pacific Energy conducts all of its operations through operating subsidiaries, it is anticipated that Pacific Energy will assign its right to purchase the Divestiture Assets under the Sale Agreement to one or more wholly owned operating subsidiaries, either existing or newly formed, which it has the right to do under the terms of the Sale Agreement. See Sale Agreement, Art. XXI.

PE Energy, through its operating subsidiaries in the United States and Canada, now owns varying interests in, and operates, approximately 4,200 miles of crude oil pipeline and more than 13 million barrels of crude oil and other petroleum related storage capacity. Among its various operations, it owns and operates two of the key pipelines carrying crude oil from the San Joaquin Valley, in California, to refineries in the Los Angeles Basin, as well as a crude oil pipeline system that runs from Alberta, Canada to refineries and third party pipeline connection points along the length of the pipeline, from Alberta to various locations in Wyoming and Utah.

Pacific Energy is presently developing a deep water petroleum import terminal at Pier 400 in the Port of Los Angeles, which will handle marine receipts of crude oil and refinery feedstocks. The project is designed to include a deepwater berth, high capacity transfer infrastructure, storage tanks having a total capacity of up to 3.55 million barrels, and a pipeline

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Partners' Form 10-Q for the quarter ended March 31, 2005, is available at [http://library.corporate-ir.net/library/13/135/135112/items/152322/2005Q1\\_10QFinal.pdf](http://library.corporate-ir.net/library/13/135/135112/items/152322/2005Q1_10QFinal.pdf).

distribution system that will connect the terminal's storage tanks to customer facilities in the Los Angeles Basin. Presently in the environmental permitting stage, the project is expected to be complete in 2007.

A Pacific Energy subsidiary also owns and operates the largest independent crude oil and partially refined petroleum products terminal business in the Los Angeles Basin, consisting of approximately 6.7 million barrels of active storage capacity and 70 miles of active distribution lines connecting the storage assets to most of the major refineries in the Los Angeles Basin.

PE Partners has, at its managing general partner level, approximately 320 employees. Its corporate headquarters are in Long Beach, California, and it has other significant corporate offices in Denver, Colorado and Calgary, Alberta, and field offices in California, Wyoming, Texas and Alberta.

PE Partners' California pipeline and terminal operations are regulated by the California Public Utilities Commission, and its Rocky Mountain pipelines are regulated by the Federal Energy Regulatory Commission and the Wyoming Public Utilities Commission, in the United States, and the Alberta Energy and Utilities Board and the Canadian National Energy Board, in Canada. PE Partners has excellent relationships with all of the regulatory agencies having jurisdiction over its operations.

PE Partners does not presently own or operate any refined light products pipeline, transportation, storage or terminal assets, or otherwise conduct any business in light products, at any location. It does not own or operate any facilities of any kind in the San Francisco Bay area of California or on the East Coast. PE Partners is an independent operator of midstream

facilities, in that it does not own or operate any production, refining or other upstream or downstream facilities.

### Financial Capability

Pacific Energy has the financial capability and stability both to fund the \$455 million purchase of the Divestiture Assets and to ensure the continued use of those assets as part of a viable, competitive business. Pacific Energy and PE Partners have received \$700 million of financing commitments from Bank of America, N.A. and Lehman Brothers Inc. These commitments include a new five-year \$400 million secured revolving credit facility, which would partly fund the acquisition as well as repay and replace Pacific Energy's and PE Partners' existing U.S. and Canadian revolving credit facilities, which would have matured in mid-2007. The commitments also include a \$300 million, 364-day secured bridge credit facility, which would be used to fund the acquisition only if permanent financing has not yet been obtained by the closing date.

On a permanent basis, Pacific Energy and PE Partners intend to fund the acquisition by having PE Partners issue common partnership units for approximately 60% to 65% of the acquisition price, and debt securities (senior unsecured notes) for approximately 35% to 40% of the purchase price. Although the acquisition could be closed using the committed credit facilities, Pacific Energy and PE Partners intend to complete certain of the permanent financing prior to closing so as not to use the bridge credit facility and to minimize usage of the revolving credit facility. They intend to complete a \$130 million public equity offering prior to closing and are considering a private placement of equity for up to \$130 million. The remaining equity would be raised post-closing. PE Partners has engaged Lehman Brothers Inc. as lead underwriter for a public equity offering, and has received assurances that new common units can

be sold at acceptable prices. It has also received an offer from a group of investors for a private placement of equity and is currently evaluating that offer. Pacific Energy and PE Partners also intend to complete a \$150 million bond offering prior to closing, although Pacific Energy could close the acquisition using the bridge credit facility.

At June 30, 2005, PE Partners' ratio of debt to total capitalization is approximately 46%, and on a pro forma basis the ratio will be approximately 43%, assuming 35% of the purchase price is funded with debt.

Pacific Energy and PE Partners has a strong history of success in securing financing. In 2004, PE Partners funded the \$145 million acquisition of the Rangeland and Mid-Alberta pipelines through the issuance of new common units and the establishment of a new Canadian credit facility. PE Partners also refinanced a term loan through a public \$250 million senior notes offering in 2004. In 2003, Pacific Energy funded the \$173 million acquisition of the Pacific Terminals storage and distribution system in part through the public issuance of new common units. In 2002, PE Partners completed its initial public offering, raising \$151 million, together with establishing a \$200 million revolving credit bank facility and a \$225 million term bank loan. Also in 2002, Pacific Energy acquired its Rocky Mountain Pipeline System for \$107 million using interim debt financing.

In addition to having the resources to finance the acquisition, Pacific Energy possesses the necessary financial strength to increase the capacity of the acquired assets through new tank construction and other projects. Pacific Energy intends to spend approximately \$40 million from its revolving credit facility on a number of expansion projects associated with the Divestiture Assets over the next three years.

### Operations Experience

PE Partners is a sophisticated company with extensive knowledge and experience in crude oil (including some partially refined crude oil) storage and terminaling; pipeline gathering, transportation, and distribution; and crude oil blending and marketing, all in California and the Rocky Mountains, including Alberta, Canada. As stated above, PE Partners does not currently operate light refined products terminals or pipeline facilities, but the acquisition and operation of light products midstream facilities have long been part of the announced growth strategy of PE Partners, and its management and many of its other personnel have extensive experience in all facets of operating light products facilities, and are fully qualified to own and operate the Divestiture Assets in a safe, effective, and competitive manner.

PE Partners and all of its senior management have the experience of acquiring, integrating and operating its Pacific Terminals storage and distribution system, which, as discussed above, is the largest independent crude oil and partially refined products terminaling operation in the Los Angeles Basin. This system was purchased by PE Partners in 2003, for approximately \$173 million, was successfully integrated, and is now a profitable subsidiary of PE Partners.

Pacific has a number of executives and senior management personnel with extensive experience in the operation and marketing of light products terminals and pipelines, including most of its most senior executives. Irvin Toole, Jr., the Chief Executive Officer of PE Partners and its predecessor companies for the last seven years, was involved in the light products side of the business for 30 of his 40 years in the petroleum pipeline and terminal business. He was involved in the engineering, design, operation and executive oversight of a number of refined products pipelines and terminals for Conoco Pipe Line Company (“Conoco”)

in different parts of the United States, and managed two different Conoco systems in the Rocky Mountain area that were directly related to the West Pipeline System. During his seven years as Chief Executive Officer of Santa Fe Pacific Pipeline Partners, L.P., Mr. Toole was responsible for the operation of light refined products pipelines, distribution terminals, and truck loading terminals on the West Coast, including the specific areas of the San Francisco Bay where a portion of the Divestiture Assets are located.

David Wright, PE Partners' Executive Vice President – Business Development, has more than 30 years experience in various engineering, operations, marketing and management roles relating to the transportation and terminaling of light products, including significant experience relating to marine terminal operations. While at Conoco, Mr. Wright was involved in management positions in several of Conoco's regional products pipeline and terminal operations, including a Conoco light products system in the Rocky Mountains that served Casper and Salt Lake City and which was connected to the West Pipeline System in Casper. Mr. Wright also worked on a number of Conoco product terminal related projects on the East Coast, including projects in Paulsboro and Newark, New Jersey and Baltimore, Maryland. During 14 years with GATX Terminals and four years with Tosco, he was involved in marketing, operations and executive management of a number of terminal and pipeline systems on the West Coast, including management of the Tosco (Unocal Products) West Coast light products pipelines and terminals that included a light products pipeline and terminal in the Richmond, California area, as well as a marine terminal and light products pipeline in Florida.

Gary Zollinger and Art Diefenbach, both senior vice presidents in charge of the Rocky Mountain and West Coast business units, respectively, have a combined 28 years of experience in the operation and management of light products pipelines and product terminals

for major oil companies. Mr. Diefenbach's 24 years of pipeline and terminals related experience, which has all been in California, includes the management and oversight of the ARCO deep water crude Berth 121 in the Port of Long Beach, which moves over 350,000 barrels per day of crude oil. Mr. Zollinger has 25 years of experience in the pipeline and terminals business in the Rocky Mountains, 15 of it in the operation and management of light products pipelines and terminals.

PE Partners also has a number of individuals at various levels of the organization who have extensive experience in all aspects of light products terminal and pipeline management, including SCADA operations, scheduling, measurement, truck rack operations, products pipeline operations, marketing, business development, accounting and financial reporting.

Moreover, Pacific Energy has agreed, pursuant to the Sale Agreement, to offer employment to all of the STOP, KPOP and Shore employees engaged in the operation of the Divestiture Assets, including the top field level managers for the West Pipeline System, the Philadelphia Area Terminals and the San Francisco Bay Terminals. See Sale Agreement, Art. XVI. The Sale Agreement also requires Pacific Energy to guarantee 12 months employment to the STOP, KPOP and Shore employees who accept employment with Pacific Energy, at compensation levels comparable to those being paid by STOP, KPOP and Shore. See id.

PE Partners has sufficient operating expertise to not only ensure the continued competitiveness of the Divestiture Assets, but to enhance it. First, PE Partners has the management and operational experience that will complement and direct the operational experience it is acquiring. Second, PE Partners has a proven track record of operating successful crude oil and partially refined petroleum pipelines and storage and terminal facilities. Third, PE

Partners and its management have a long history of working with many of the customers served by the Divestiture Assets. Thus, PE Partners is well experienced in all aspects of operating a light products midstream facility. Fourth, PE Partners and its predecessor companies have a history of successfully integrating new acquisitions into its business. In March 2002, Pacific Energy, through one of its operating subsidiaries, acquired its Rocky Mountain Pipeline System from BP for approximately \$107 million. In July 2003, as discussed above, Pacific Energy, through its Pacific Terminals operating subsidiary, purchased the Edison Pipeline crude oil storage and distribution system in the Los Angeles Basin for approximately \$173 million. And in 2004, PE Partners, through its Canadian subsidiaries, purchased the Rangeland and Mid-Alberta pipeline systems from BP and Imperial Oil, for a total of \$145 million. All of these acquisitions were successfully financed, closed and integrated into PE Partners and, equally important, PE Partners has invested additional capital in each system and expanded each to make it more competitive than before its purchase.

### **III. The Proposed Divestiture and Related Agreements Will Achieve the Purposes of the Decision and Order and Result in No Harm to Competition**

The proposed divestiture of the West Pipeline System, the Philadelphia Area Terminals, and the San Francisco Bay Terminals, as embodied in the Sale Agreement, will achieve the purposes of the Decision and Order. PE Partners is an experienced operator of crude oil transportation and terminal facilities, with an intimate knowledge of the midstream energy business and a strong reputation in two of the three regions served by the Divestiture Assets and among customers in all three regions. As described above, PE Partners possesses extensive facility-specific experience. The proposed divestiture marries PE Partners' strong financial position and existing sophisticated midstream operating and marketing capabilities with a

combination of supply, storage, pipeline, and terminal assets. Thus, PE Partners will obtain the flexibility to offer refined products and crude oil midstream services in the same manner as other participants in the midstream pipeline and terminal market. The resulting combination of skill, experience, and assets will ensure that the objectives of the Commission's Decision and Order will be realized.

Moreover, the proposed divestiture will result in no harm to competition. Neither Pacific Energy nor its parent, PE Partners, currently competes in any of the pipeline transportation or terminaling markets defined in the Commission's Complaint. Consequently, there is no overlap between the operations of Pacific Energy (or PE Partners) and the Divestiture Assets, and the proposed divestiture does not raise any competitive issue.

In sum, the proposed divestiture will remedy any anticompetitive effects that could result from the mergers in the pipeline transportation and terminaling of light petroleum products, refining components, and/or blending components in the Commission's alleged geographic markets. The Sale Agreement will achieve the Commission's stated purposes of ensuring the continued use of the Divestiture Assets in the same business in which they were engaged at the time of the announcement of the proposed Merger and remedying the lessening of competition in the pipeline transportation and terminaling of light petroleum products, refining components, and/or blending components in the Commission's alleged geographic markets resulting from the proposed Merger, as alleged in the Commission's Complaint.

#### Conclusion

For the foregoing reasons, the Respondents respectfully request that the Commission approve the proposed divestiture of the West Pipeline System, the

Philadelphia Area Terminals, and the San Francisco Bay Terminals to Pacific Energy or its wholly owned subsidiaries, as embodied in the Sale Agreement, as soon as practicable after expiration of the public comment period.

Respectfully submitted,



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Counsel for Respondents

Dated: July 11, 2005

CERTIFICATION OF VALERO L.P.

The facts and information related in the foregoing Petition, insofar as they pertain to Valero L.P., its subsidiaries, and its assets, are, to the best of my knowledge, true, correct, and complete.

Pursuant to 28 U.S.C. § 1746, I certify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

/s/ Steven A. Blank

Steven A. Blank

Senior Vice President and Chief Financial Officer

Valero GP LLC, which is general partner of

Riverwalk Logistics, L.P., which is general partner of Valero L.P.

CERTIFICATION OF PACIFIC ENERGY GROUP LLC

The facts and information related in the foregoing Petition, insofar as they pertain to Pacific Energy Group LLC, Pacific Energy Partners, L.P., their subsidiaries, and their assets, are, to the best of my knowledge, true, correct, and complete.

Pursuant to 28 U.S.C. § 1746, I certify under penalty of perjury under the laws of the United States of America that the foregoing is true and correct.

/s/ Irvin Toole, Jr.  
Irvin Toole, Jr.  
President and Chief Executive Officer  
Pacific Energy Group LLC

Confidential Exhibit A

Sale and Purchase Agreement, dated July 1, 2005, by and among Support Terminals Operating Partnership, L.P.; Kaneb Pipe Line Operating Partnership, L.P.; Shore Terminals LLC; and Pacific Energy Group LLC

