

GENESIS ENERGY LP
Form 10-K
March 17, 2008

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2007

OR

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

Commission file number 1-12295

GENESIS ENERGY, L.P.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

76-0513049
(I.R.S. Employer Identification No.)

500 Dallas, Suite 2500, Houston, TX
(Address of principal executive offices)

77002
(Zip code)

Registrant's telephone number, including area code:

(713) 860-2500

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

Title of Each Class
Common Units

Name of Each Exchange on Which Registered
American 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 Exchange 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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Act 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 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 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, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2) of the Act).

Yes No

The aggregate market value of the common units held by non-affiliates of the Registrant on June 29, 2007 (the last business day of Registrant's most recently completed second fiscal quarter) was approximately \$444,166,000 based on \$34.88 per unit, the closing price of the common units as reported on the American Stock Exchange. On February 29, 2008, the Registrant had 38,253,264 common units outstanding.

GENESIS ENERGY, L.P.
2007 FORM 10-K ANNUAL REPORT
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FORWARD-LOOKING INFORMATION

The statements in this Annual Report on Form 10-K that are not historical information may be “forward looking statements” within the meaning of the various provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. All statements, other than historical facts, included in this document that address activities, events or developments that we expect or anticipate will or may occur in the future, including things such as plans for growth of the business, future capital expenditures, competitive strengths, goals, references to future goals or intentions and other such references are forward-looking statements. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts. They use words such as “anticipate,” “believe,” “continue,” “estimate,” “expect,” “forecast,” “intend,” “may,” “plan,” “position,” “projection,” “strategy” or “will” or the negative terms or other variations of them or by comparable terminology. In particular, statements, expressed or implied, concerning future actions, conditions or events or future operating results or the ability to generate sales, income or cash flow are forward-looking statements. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Future actions, conditions or events and future results of operations may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results are beyond our ability or the ability of our affiliates to control or predict. Specific factors that could cause actual results to differ from those in the forward-looking statements include:

- demand for, the supply of, changes in forecast data for, and price trends related to crude oil, liquid petroleum, natural gas and natural gas liquids or “NGLs”, sodium hydrosulfide and caustic soda in the United States, all of which may be affected by economic activity, capital expenditures by energy producers, weather, alternative energy sources, international events, conservation and technological advances;
- throughput levels and rates;
- changes in, or challenges to, our tariff rates;
- our ability to successfully identify and consummate strategic acquisitions, make cost saving changes in operations and integrate acquired assets or businesses into our existing operations;
- service interruptions in our liquids transportation systems, natural gas transportation systems or natural gas gathering and processing operations;
- shut-downs or cutbacks at refineries, petrochemical plants, utilities or other businesses for which we transport crude oil, natural gas or other products or to whom we sell such products;
 - changes in laws or regulations to which we are subject;
- our inability to borrow or otherwise access funds needed for operations, expansions or capital expenditures as a result of existing debt agreements that contain restrictive financial covenants;
 - loss of key personnel;
 - the effects of competition, in particular, by other pipeline systems;
 - hazards and operating risks that may not be covered fully by insurance;
 - the condition of the capital markets in the United States;

- loss of key customers;
- the political and economic stability of the oil producing nations of the world; and
- general economic conditions, including rates of inflation and interest rates.

You should not put undue reliance on any forward-looking statements. When considering forward-looking statements, please review the risk factors described under “Risk Factors” discussed in Item 1A. Except as required by applicable securities laws, we do not intend to update these forward-looking statements and information.

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PART I

Item 1. Business

Unless the context otherwise requires, references in this annual report to “Genesis Energy, L.P.,” “Genesis,” “we,” “our,” “us” like terms refer to Genesis Energy, L.P. and its operating subsidiaries; “Denbury” means Denbury Resources Inc. and its subsidiaries; “CO2” means carbon dioxide; and “NaHS”, which is commonly pronounced as “nash”, means sodium hydrosulfide. Except to the extent otherwise provided, the information contained in this form is as of December 31, 2007.

General

We are a growth-oriented limited partnership focused on the midstream segment of the oil and gas industry in the Gulf Coast region of the United States, primarily Texas, Louisiana, Arkansas, Mississippi, Alabama and Florida. We were formed in 1996 as a master limited partnership, or MLP. We have a diverse portfolio of customers, operations and assets, including refinery-related plants, pipelines, storage tanks and terminals, and trucks and truck terminals. We provide services to refinery owners; oil, natural gas and CO2 producers; industrial and commercial enterprises that use CO2 and other industrial gases; and individuals and companies that use our dry-goods trucking services. Substantially all of our revenues are derived from providing services to integrated oil companies, large independent oil and gas or refinery companies, and large industrial and commercial enterprises.

We manage our businesses through four divisions which constitute our reportable segments:

Pipeline Transportation—We transport crude oil and, to a lesser extent, natural gas and CO2 for others for a fee in the Gulf Coast region of the U.S. through approximately 500 miles of pipeline. We own and operate three crude oil common carrier pipelines, a small CO2 pipeline and several small natural gas pipelines. Our 235-mile Mississippi System provides shippers of crude oil in Mississippi indirect access to refineries, pipelines, storage, terminaling and other crude oil infrastructure located in the Midwest. Our 100-mile Jay System originates in southern Alabama and the panhandle of Florida and can deliver crude oil to a terminal near Mobile, Alabama. Our 90-mile Texas System transports crude oil from West Columbia to Webster, Webster to Texas City and Webster to Houston. Our crude oil pipeline systems include a total of approximately 0.7 million barrels of leased and owned tankage.

Refinery Services—We provide services to eight refining operations located predominantly in Texas, Louisiana and Arkansas. These refineries generally are owned and operated by large companies, including ConocoPhillips, CITGO and Ergon. Our refinery services primarily involve processing high sulfur (or “sour”) natural gas streams, which are separated from hydrocarbon streams, to remove the sulfur. Our refinery services contracts, which usually have an initial term of two to ten years, have an average remaining term of five years.

Supply and Logistics—We provide terminaling, blending, storing, marketing, gathering and transporting (by trucks), and other supply and logistics services to third parties, as well as to support our other businesses. Our terminaling, blending, marketing and gathering activities are focused on crude oil and petroleum products, primarily fuel oil. We own or lease approximately 300 trucks, 600 trailers and almost 1.5 million barrels of liquid storage capacity at eleven different locations. We also conduct certain crude oil aggregating operations, including purchasing, gathering and transporting (by trucks and pipelines operated by us and trucks, pipelines and barges operated by others), and reselling that crude oil to help ensure (among other things) a base supply source for our crude oil pipeline systems. Usually, our supply and logistics segment experiences limited commodity price risk because it generally involves back-to-back purchases and sales, matching our sale and purchase volumes on a monthly basis.

Industrial Gases.

- CO2 — We supply CO2 to industrial customers under seven long-term contracts, with an average remaining contract life of 8 years. We acquired those contracts, as well as the CO2 necessary to satisfy substantially all of our expected obligations under those contracts, in three separate transactions with affiliates of our general partner. Our compensation for supplying CO2 to our industrial customers is the effective difference between the price at which we sell our CO2 under each contract and the price at which we acquired our CO2 pursuant to our volumetric production payments (also known as VPPs), minus transportation costs.
- Syngas—Through our 50% interest in a joint venture, we receive a proportionate share of fees under a processing agreement covering a facility that manufactures syngas (a combination of carbon monoxide and hydrogen) and high-pressure steam. Under that processing agreement, Praxair provides the raw materials to be processed and receives the syngas and steam produced by the facility. Praxair has the exclusive right to use that facility through at least 2016, and Praxair has the option to extend that contract term for two additional five year periods. Praxair also is our partner in the joint venture and owns the remaining 50% interest.

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- Sandhill Group LLC – Through our 50% interest in a joint venture, we process raw CO₂ for sale to other customers for uses ranging from completing oil and natural gas producing wells to food processing. The Sandhill facility acquires CO₂ from us under one of the long-term supply contracts described above.

We conduct our operations through subsidiaries and joint ventures. As is common with publicly-traded partnerships, or MLPs, our general partner is responsible for operating our business, including providing all necessary personnel and other resources.

Our General Partner and Our Relationship with Denbury Resources Inc.

We continue to benefit from our strategic affiliation with Denbury Resources Inc. (NYSE:DNR), which indirectly owns 100% of our general partner interest, all of our incentive distribution rights and 7.4% of our outstanding common units. Denbury, which had an equity market capitalization of approximately \$7.7 billion as of February 29, 2008, operates primarily in Mississippi, Louisiana and Texas, emphasizing the tertiary recovery of oil using CO₂ flooding. Denbury is the largest producer (based on average barrels produced per day) of oil in Mississippi, and it is one of only a handful of producers in the U.S. that possesses CO₂ tertiary recovery expertise along with large deposits of CO₂ reserves, approximately 5.6 trillion cubic feet of estimated proved CO₂ reserves as of December 31, 2007. Other than the CO₂ reserves owned by Denbury, we are not aware of any significant natural sources of CO₂ from East Texas to Florida. Denbury is conducting its CO₂ tertiary recovery operations in the Eastern Gulf Coast of the U.S., an area with many mature oil reservoirs that potentially contain substantial volumes of recoverable oil. In addition to the amounts it has already expended on the Free State and North East Jackson Dome, or NEJD, CO₂ pipelines, Denbury has announced that it expects to spend approximately \$775 million between December 31, 2007 and the end of 2009 to build CO₂ pipelines to support its tertiary oil recovery expansions.

We believe Denbury's equity ownership interests in us provide Denbury with economic and strategic incentives to furnish business opportunities to us in the form of acquisitions, leases, transportation agreements and other transactions. In fact, Denbury has indicated that it may use us as a vehicle to provide its midstream infrastructure needs, particularly with respect to CO₂ pipelines. We believe Denbury may provide us with future growth opportunities due to the following additional factors, among others:

- Denbury's continued need to construct pipelines and gathering systems necessary to support its operations, which we may have an opportunity to provide for them;
 - Denbury's significant economic and strategic interests in us;
 - the close proximity of certain of Denbury's assets and operations to certain of our assets and operations; and
 - the extent of Denbury's growth capital requirements.

Denbury has announced its intention, which it may change at any time, to drop down certain midstream assets. We expect to complete a drop down transaction involving the Free State and NEJD CO₂ pipelines in the first quarter of 2008.

Although our relationship with Denbury may provide us with a source of acquisition and other growth opportunities, Denbury is not obligated to enter into any transactions with (or to offer any opportunities to) us or to promote our interest, and none of Denbury or any of its affiliates (including our general partner) has any obligation or commitment to contribute or sell any assets to us or enter into any type of transaction with us, and each of them, other than our general partner, has the right to act in a manner that could be beneficial to its interests and detrimental to ours. Further, Denbury may, at any time, and without notice, alter its business strategy, including determining that it no longer desires to use us as a provider of its midstream infrastructure. Additionally, if Denbury were to make one or more offers to us, we cannot say that we would elect to pursue or consummate any such opportunity. In addition, though our relationship with Denbury is a significant strength, it also is a source of potential conflicts.

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Our Objective and Strategies

Our primary business objectives are to generate stable cash flows to allow us to make quarterly cash distributions to our unitholders and to increase those distributions over time. We plan to achieve those objectives by executing the following strategies:

- Expanding our asset base through strategic and accretive acquisitions with third parties and Denbury. We intend to expand our asset base through strategic and accretive acquisitions from Denbury and third parties in new and existing markets. Such acquisitions could be structured as, among other things, purchases, leases, tolling or similar agreements or joint ventures.
- Expanding our asset base through strategic construction and development projects with third parties and Denbury. We intend to expand our asset base through strategic and accretive construction and developments projects, or joint ventures, in new and existing markets.
- Optimizing our CO₂ and other industrial gases expertise and infrastructure. We intend to optimize our expertise regarding CO₂ and other industrial gases to create growth opportunities.
- Leveraging our oil handling capabilities with Denbury's tertiary recovery projects. Because we have facilities in close proximity to certain properties on which Denbury is conducting tertiary recovery operations, we believe we are likely to have the opportunity to provide oil transportation, gathering, blending and marketing services to them and other producers as production from those properties increases.
- Attracting new refinery customers and expanding the services we provide those customers. We expect to attract new refinery customers as more sour crude is imported (or produced) and refined in the U.S., and we plan to expand the services we provide to our refinery customers by offering a broad array of services, leveraging our strong relationships with refinery owners and producers, and deploying our proprietary knowledge.
- Increasing the utilization rates and enhancing the profitability of our existing assets. We intend to increase the utilization rates and, thereby, enhance the profitability of our existing assets. We own some pipelines and terminals that have available capacity and others for which we can increase the capacity for a relatively nominal amount.
- Increasing stable cash flows generated through fee based services, longer-term contractual arrangements and managing commodity price risks. We intend to generate more stable cash flows, when practical, by (i) emphasizing fee-based compensation under longer term contracts, and (ii) using contractual arrangements, including back-to-back contracts and derivatives. We charge fee-based arrangements for substantially all of our services. We are able to enter into longer term contracts with most of our customers in our refinery services and industrial gases divisions. Our marketing activities do not include speculative transactions. While our refinery services division has some exposure to monthly changes in the prices of caustic soda and sodium hydrosulfide, also referred to as NaHS (pronounced "nash"), a natural by-product of those operations, prices for those commodities are not as volatile as prices for oil, natural gas and their derivatives.
- Maintaining a balanced and diversified portfolio of midstream energy and industrial gases assets, operations and customers. We intend to maintain a balanced and diversified portfolio of midstream energy and industrial gases assets, operations and customers. While we have the capability to provide an ever increasing array of integrated services to both producers and refineries, we believe our cash flows will continue to be relatively stable due to the diversity of our customer base, the nature of our services and the geographic location of our operations.
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Creating strategic arrangements and sharing capital costs and risks through joint ventures and strategic alliances. We intend to continue to create strategic arrangements with customers and other industry participants and to share capital costs and risks through the formation and operation of joint ventures and strategic alliances.

- Maintaining, on average, a conservative capital structure that will allow us to execute our growth strategy while, over the longer term, enhancing our credit ratings. We intend to maintain, on average, a conservative capital structure that will allow us to execute our growth strategy while, over the longer term, enhancing our credit ratings.

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Our Key Strengths

We believe we are well positioned to execute our strategies and ultimately achieve our objectives due primarily to the following competitive strengths:

Ø **Experienced, Knowledgeable and Motivated Senior Management Team with Proven Track Record.** Our senior management team has over 40 years of combined experience in the midstream sector. They have worked together and separately in leadership roles at a number of large, successful public companies, including other publicly-traded partnerships. To help ensure that our senior management team is incentivized to execute our growth strategy in a manner that is accretive on a “distribution per unit” basis, our general partner has undertaken to negotiate agreements relating to an equity-based incentive compensation arrangement to provide the members of our senior management team with the opportunity to earn an interest in our general partner if performance criteria are met. Those performance criteria are expected to include a correlation between earning the general partner interest with the successful completion of non-Denbury acquisitions and/or other organic growth that earn a reasonable rate of return.

Ø **Unique Platform, Limited Competition and Anticipated Growing Demand in Refinery Services Operations.** We provide services to eight refining operations located predominantly in Texas, Louisiana and Arkansas. Our refinery services primarily involve processing sour natural gas streams, which are separated from hydrocarbon streams, to remove the sulfur. Refineries contract with us for a number of reasons, including the following:

- sulfur handling and removal is typically not a core business of our refinery customers, especially when employing our proprietary processes and expertise that result in the by-product of NaHS;
- over a long period of time, we have developed and maintained strong relationships with our refinery services customers, which relationships are based on our reputation for high standards of performance, reliability and safety;
 - the sulfur removal process we use, -- the NaHS sulfur removal process, -- is generally more reliable and less capital and labor intensive than the conventional “Claus” process employed at most refineries;
- we have the scale of operations and supply and logistics capabilities to make the NaHS sulfur removal process extremely reliable as a means to remove sulfur efficiently while working in concert with the refineries to ensure uninterrupted refinery operations;
- other than the possibility of each individual refinery employing its own sulfur removal operations, we do not have many competitors in the sulfur removal business; and
- we believe that the demand for sulfur removal at U.S. refineries will increase in the years ahead as the quality of the oil supply used by refineries in the U.S. continues to drop (or become more “sour”). As that occurs, we believe more refineries will seek economic and proven sulfur removal processes from reputable service providers that have the scale and logistical capabilities to efficiently perform such services. In addition, we have an increasing array of services we can offer to our refinery customers.

Ø **Supply and Logistics Division Supports Full Suite of Services.** In addition to its established customers, our supply and logistics division can, from time to time, attract customers to our other divisions and/or create synergies that may not be available to our competitors. Several examples include:

- our refinery services division can effectively compete with refineries, on a stand alone basis, to remove sulfur partially due to the synergies created from our ability to economically source, transport and store large supplies of caustic soda (the main input into the NaHS sulfur removal process), as well as our ability to store, transport and

market NaHS;

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