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TEXAS BOARD OF LEGAL SPECIALIZATION

JUSTIN DEMERATH

August 13, 2012

Chapter 313 Office
Local Government Assistance & Economic Development
P.O. Box 13528
AUSTIN, Tex 78711-3528

VIA EMAIL: Chapter313@cpa.state.tx.us

RE: Status update on Agreement between Port Arthur ISD and The Premcor Refining Group, Inc. (Premcor III) dated December 18, 2008

Dear Comptroller Combs,

Please accept this letter as a retraction of the letter which I previously sent to the Comptroller's Office on August 16, 2010. The letter purported to be a declaration that the project had been cancelled. The letter was sent in error. The letter was sent by me after my office was informed that construction on the approved project had ceased. I interpreted this to mean that the project had been cancelled. Hence, the August 16 letter to your office. However, the project had not been cancelled, only delayed. I apologize for the error.

At the current time construction at the site is nearing completion on the project labeled "Refinery Expansion Project" in **EXHIBIT 2** of the December 18, 2008 Agreement. To date, as verified by the attached documentation from the Applicant, the following activities have been completed or are near completion at the site:

- Construction of a new 50 MBPD Hydrocracker Unit
- Construction of a new 25 MBPD Saturate Gas Plant
- Revamping of the existing Sulfur Recovery Units SRU-545 and SRU-546 through the installation of oxygen enrichment equipment to increasing processing capacity

- Construction of new piping
- Construction of various finished product rundown systems (pump stations and pipelines)
- Revamping of an existing boiler house through the installation of new burners/controls to increase efficiency and improve safety
- Construction of a new Cooling Tower, Flare, Amine Treatment Unit, Sour Water Handling Unit and Sulfur Handling Unit
- New Steam Production, Electricity Facilities and Hydrogen Supply to support the new assets
- Construction and/or upgrade of various other related units, equipment and refinery infrastructure

It is anticipated that all of the work described above will commence commercial production in or around December 2012. Items no. 2 and 3 on Exhibit 2 of the December 18, 2008 Agreement, labeled "Coke Gasification Project" and "Marine Terminal/Product/Storage Facility Project," have not been undertaken at this time. However, Item no. 1, labeled "New Coker Unit," has been scaled back from the construction of a completely new coker unit to the replacement of various components on the existing coker unit.

In addition, enclosed please find Form Number 50-772 - Annual Eligibility Report, and Form Number 50-773 - Biennial Progress Report and Biennial School District Cost Data Request for the 2009, 2010 and 2011 years. The 2011 Forms have previously been sent, but we are retransmitting them for your convenience.

Please let me know if you have any questions. In the event that the Board of Trustees demands additional changes in the documents, copies of such documents as modified will be forwarded to your office.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin O'Hanlon", written in a cursive style.

Kevin O'Hanlon
Special Counsel to Port Arthur ISD

Cc: The Premcor Refining Group (Premcor III)

EXHIBIT 2

DESCRIPTION OF THE APPLICANT'S QUALIFIED INVESTMENT

This Agreement is applicable to the following project:

Refinery Expansion Project

Estimated Cost \$1.6 Billion

- **New 50 MBPD HCU Biased Toward Diesel Production**
- **New 25 MBPD Sat Gas Plant**
- **SRU Oxygen Enrichment**
- **Expand existing Hydrotreater capacity**
- **Offsites Piping**
- **Finished Product rundown systems (Pump Stations and Pipelines)**
- **Cooling Tower/Flare/Amine Treating/Sour Water Handling/Sulfur Handling**
- **Inter-Refinery Oxygen Pipeline for SRU O2 Enrichment**
- **Steam and Electrical**
- **Crude and Intermediate Tankage/Pump Stations**
- **Estimated start-up 4th Qtr 2010**
- **Estimated Cost \$2.4 Billion**

Upon request by Applicant, such request not to be unreasonably denied by the District's Board, pursuant to the provisions of Tex. Tax Code § 313.027(e) the Board agrees to consider for inclusion in this Agreement as Qualified Property, under the terms and conditions set forth herein, the following additional Qualified Investments, to wit

1. New Coker Unit

Estimated Cost \$800 Million

- **Construction of 45 MBPD Coker**
- **Estimated start-up 2011**

2. Coke Gasification Project

Estimated Cost \$2.5 Billion

- **Petroleum Coke Gasifier**
 - **10,000 ton/day Coke Feed**
 - **450 MMSCFD Hydrogen**
 - **450 MW of Electric Power**
- **Air Separation Unit (ASU)**

- **Sulfur Plant**
- **Gas Turbine**
- **Hydrogen Recovery**
- **CO2 Sequestering System**
- **Power Recovery System**
- **Construction anticipated to begin 2010 or 2011**
- **Estimated start-up 4th Qtr 2012**
- **Estimated cost \$2+ billion (taxable)**

3. Marine Terminal/ Product/Storage Facility Project

Estimated Cost \$275 Million

- **New marine terminal (“Port Arthur Marine Terminal” or “PAMT”)**
- **Receiving dock capable of berthing crude carriers of up to 165,000 DWT,**
- **Storage/surge tank with a minimum capacity of 600,000 barrels**
- **Minimum 30-inch pipeline to transfer crude oil from the Site to the**
- **Associated equipment and infrastructure.**