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

FORM 10-Q

(Mark One)
☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2004

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 1-16417

VALERO L.P.
(Exact name of registrant as specified in its charter)

Delaware	**74-2956831**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

One Valero Place
San Antonio, Texas
(Address of principal executive offices)

78212
(Zip Code)

Telephone number: (210) 370-2000
(Registrant's telephone number, including area code)

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 is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). **Yes** ☒ **No** ☐

The number of common and subordinated units outstanding as of April 30, 2004 was 13,442,072 and 9,599,322, respectively.

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VALERO L.P. AND SUBSIDIARIES
FORM 10-Q
MARCH 31, 2004

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

VALERO L.P. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 2004 (unaudited)	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 13,614	$ 15,745
Receivable from Valero Energy	21,733	15,781
Accounts receivable	3,509	5,333
Other current assets	2,096	1,275
Total current assets	40,952	38,134
Property, plant and equipment	968,470	928,886
Less accumulated depreciation and amortization	(171,741)	(163,884)
Property, plant and equipment, net	796,729	765,002
Goodwill, net	4,715	4,715
Investment in Skelly-Belvieu Pipeline Company	15,568	15,703
Other noncurrent assets, net	5,958	4,003
Total assets	$ 863,922	$ 827,557
Liabilities and Partners' Equity		
Current liabilities:		
Current portion of long-term debt	$ 485	$ 935
Accounts payable and accrued liabilities	13,289	16,145
Payable to Valero Energy	4,805	9,849
Taxes other than income taxes	2,565	4,441
Total current liabilities	21,144	31,370
Long-term debt, less current portion	402,951	353,257
Other long-term liabilities	130	4,767
Commitments and contingencies		
Partners' equity:		
Common units	311,259	310,589
Subordinated units	118,508	118,005
General partner's equity	9,930	9,569
Total partners' equity	439,697	438,163
Total liabilities and partners' equity	$ 863,922	$ 827,557

See Accompanying Condensed Notes to Consolidated Financial Statements.

VALERO L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(unaudited, in thousands, except unit and per unit data)

	Three Months Ended March 31,	
	2004	**2003**
Revenues	$ 52,324	$ 31,816
Costs and expenses:		
Operating expenses	17,908	11,661
Depreciation and amortization	7,874	4,283
General and administrative expenses	1,999	1,844
Total costs and expenses	27,781	17,788
Operating income	24,543	14,028
Equity income from Skelly-Belvieu Pipeline Company	553	731
Interest expense, net	(5,126)	(2,377)
Net income	$ 19,970	$ 12,382
Allocation of net income:		
Net income	$ 19,970	$ 12,382
General partner’s interest in net income	(1,489)	(624)
Limited partners’ interest in net income	$ 18,481	$ 11,758
Basic and diluted net income per unit applicable to limited partners	$ 0.80	$ 0.60
Weighted average number of basic and diluted units outstanding	23,041,394	19,556,486
Cash distributions per unit applicable to limited partners	$ 0.80	$ 0.70

See Accompanying Condensed Notes to Consolidated Financial Statements.

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VALERO L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited, in thousands)

	Three Months Ended March 31,	
	2004	2003
Cash Flows from Operating Activities:		
Net income	$ 19,970	$ 12,382
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,874	4,283
Equity income from Skelly-Belvieu Pipeline Company	(553)	(731)
Distributions of equity income from Skelly-Belvieu Pipeline Company	553	731
Changes in operating assets and liabilities:		
Increase in receivable from Valero Energy	(5,952)	(3,795)
Decrease in accounts receivable	1,824	47
Increase in other current assets	(821)	(1,711)
Increase (decrease) in accounts payable and accrued liabilities	(2,856)	1,630
Increase (decrease) in payable to Valero Energy	(5,044)	6,053
Decrease in taxes other than income taxes	(1,876)	(1,186)
Other, net	57	2,595
Net cash provided by operating activities	13,176	20,298
Cash Flows from Investing Activities:		
Reliability capital expenditures	(1,717)	(1,192)
Expansion capital expenditures	(9,840)	(940)
Acquisitions	(28,085)	(364,807)
Proceeds from sale of property, plant and equipment	58	—
Distributions in excess of equity income from Skelly-Belvieu Pipeline Company	135	17
Net cash used in investing activities	(39,449)	(366,922)
Cash Flows from Financing Activities:		
Proceeds from 6.05% senior note placement, net of discount and issuance costs	—	247,819
Proceeds from other long-term debt borrowings	43,000	25,000
Repayment of long-term debt	(450)	(298)
Distributions to unitholders and general partner	(18,408)	(14,121)
General partner contribution, net of redemption	—	1,456
Proceeds from sale of common units to the public, net of issuance costs	—	200,342
Redemption of common units held by UDS Logistics, LLC	—	(134,065)
Net cash provided by financing activities	24,142	326,133
Net decrease in cash and cash equivalents	(2,131)	(20,491)
Cash and cash equivalents as of the beginning of period	15,745	33,533
Cash and cash equivalents as of the end of period	$ 13,614	$ 13,042
Supplemental cash flow information:		
Cash paid during the period for interest	$ 11,451	$ 3,779

See Accompanying Condensed Notes to Consolidated Financial Statements.

VALERO L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Three Months Ended March 31, 2004 and 2003
(unaudited)

NOTE 1: Organization, Basis of Presentation and Principles of Consolidation

As used in this report, the term Valero L.P. may refer, depending on the context, to Valero L.P., Valero Logistics Operations, L.P. (Valero Logistics), or both of them taken as a whole. Riverwalk Logistics, L.P., a wholly owned subsidiary of Valero Energy Corporation (Valero Energy), is the 2% general partner of Valero L.P. Valero Energy, through various affiliates, is also a limited partner in Valero L.P., resulting in a combined limited partner ownership of 43.6% as of March 31, 2004. The remaining 54.4% limited partnership interest is held by public unitholders.

These unaudited consolidated financial statements include the accounts of Valero L.P. and subsidiaries in which it has a controlling interest. Intercompany balances and transactions have been eliminated in consolidation. Investments in 50% or less owned entities are accounted for using the equity method of accounting. In addition, the operations of certain crude oil and refined product pipelines and refined product terminals, in which Valero L.P. owns an undivided interest, are proportionately consolidated in the accompanying consolidated financial statements.

These unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and notes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

The consolidated balance sheet as of December 31, 2003 has been derived from the audited consolidated financial statements as of that date. For further information, refer to the consolidated financial statements and notes thereto included in Valero L.P.'s Annual Report on Form 10-K for the year ended December 31, 2003.

NOTE 2: Acquisition

On February 20, 2004, Valero L.P. acquired two asphalt terminals, one in Catoosa, Oklahoma near Tulsa and one in Rosario, New Mexico near Santa Fe, from Royal Trading Company (Royal Trading) for $28.1 million. These terminals have an aggregate storage capacity of 500,000 barrels in 32 tanks and six loading stations. In conjunction with the Royal acquisition, Valero L.P. entered into a five-year terminal storage and throughput agreement with Valero Energy.

The agreement provides a base throughput and blending fee schedule with volume incentive discounts once certain thresholds are met. In addition, Valero Energy has agreed to throughput 18.5% of the McKee and Ardmore refineries' asphalt production.

This acquisition was accounted for as a purchase in accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations," and the purchase price was preliminarily allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. The final allocation of the purchase price is pending completion of an independent appraisal.

NOTE 3: Long-term Debt

$175.0 Million Revolving Credit Facility

During the three months ended March 31, 2004, Valero Logistics borrowed $28.0 million under its revolving credit facility to fund the Royal Trading acquisition and borrowed $15.0 million to partially fund the construction of the Nuevo Laredo, Mexico propane terminal and the related pipelines. Borrowings under Valero Logistics' $175.0 million revolving credit facility bear interest based on either an alternative base rate or LIBOR. The effective interest rate related to outstanding borrowings under the revolving credit facility during the three months ended March 31, 2004 and 2003 was 2.1% and 3.4%, respectively.

Interest Rate Swaps

During 2003, Valero Logistics entered into $167.5 million (notional amount) of interest rate swaps, which effectively convert $167.5 million of fixed-rate debt to variable-rate debt. As of March 31, 2004, the weighted average effective interest rate for the interest rate swaps was 3.2% and the aggregate estimated fair value was a receivable of $2.1 million. Valero Logistics accounts for the interest rate swaps as fair value hedges, with changes in the fair value of each swap and the related debt instrument recorded as an adjustment to interest expense in the consolidated statements of income.

NOTE 4: Related Party Transactions

Valero L.P. has related party transactions with Valero Energy for pipeline tariff, terminalling fee and crude oil storage tank rent and fee revenues, certain employee costs, insurance costs, operating expenses, administrative costs and rent expense. The receivable from Valero Energy represents amounts due for pipeline tariff, terminalling fee and tank rent and fee revenues, and the payable to Valero Energy represents amounts due for employee costs, insurance costs, operating expenses, administrative costs and rent expense.

The following table summarizes the results of transactions with Valero Energy:

	Three Months Ended March 31,	
	2004	2003
	(in thousands)	
Revenues	$51,445	$31,766
Operating expenses	6,957	4,068
General and administrative expenses	1,203	1,559

Services Agreement

Valero L.P. receives certain corporate services such as legal, accounting, treasury, engineering, information technology and other corporate functions from Valero Energy under the provisions of a Services Agreement entered into in July of 2000 for an annual fee of $5.2 million. Due to the significant growth of Valero L.P. over the past three years and the increased levels of service provided by Valero Energy for Valero L.P., Valero L.P. and Valero Energy amended the terms of the Services Agreement, effective April 1, 2004, to change the annual services fee.

Under the terms of the amended Services Agreement, the annual services fee will be $1.2 million. Each year over the next four years, the annual services fee will be increased by $1.2 million and by Valero Energy's average percentage increase in salaries. The annual services fee may also be adjusted to account for changed service levels due to Valero L.P.'s acquisition, sale or construction of assets. Additionally, Valero L.P. will reimburse Valero Energy for the cost of corporate employees dedicated to Valero L.P. matters (currently estimated to be approximately $5.6 million per year, excluding employee bonus costs). The conflicts committee of the board of directors of Valero GP, LLC approved the amendment to the Services Agreement in March 2004. This annual fee is in addition to the general and administrative costs to be incurred from third parties for services Valero Energy does not provide under the Services Agreement.

The Services Agreement also requires that Valero L.P. reimburse Valero Energy for various recurring costs of operational employees who work exclusively within the pipeline, terminalling and storage operations and for certain other costs incurred by Valero Energy relating solely to Valero L.P. These employee costs include salary, wage and benefit costs.

Crude Oil Storage Tanks Agreements

Effective January 1, 2004, Valero Energy and Valero L.P. entered into a one-year shell barrel capacity lease agreement whereby Valero Energy agreed to lease the 1.6 million barrels of storage capacity at the Corpus Christi North Beach storage facility for an annual fee of $5.8 million, payable monthly.

NOTE 5: Employee Benefit Expenses

Valero L.P.'s share of allocated Valero Energy employee benefit plan expenses, excluding the compensation expense related to the restricted common units and unit options, was $2.1 million and $0.6 million for the three months ended March 31, 2004 and 2003, respectively. These employee benefit plan expenses are included in operating expenses with the related payroll costs.

NOTE 6: Partners' Equity

Outstanding Equity

As of March 31, 2004, Valero L.P.'s outstanding partners' equity consists of 13,442,072 common units (of which 614,572 are held by UDS Logistics, LLC and 42,192 are held by Valero GP, LLC), 9,599,322 subordinated units held by UDS Logistics, LLC and a 2% general partner interest held by Riverwalk Logistics, L.P.

The computation of net income per unit applicable to limited partners is based on the weighted-average number of common and subordinated units outstanding during the period. Net income per unit applicable to limited partners is computed by dividing net income applicable to limited partners, after deducting the general partner's 2% interest and incentive distributions, by the weighted-average number of limited partnership units outstanding. Basic and diluted net income per unit applicable to limited partners is the same because Valero L.P. has no potentially dilutive securities outstanding.

Effective March 11, 2004, Valero L.P.'s partnership agreement was amended to reduce the percentage of the vote required to remove Valero L.P.'s general partner from 58% to a simple majority of units entitled to vote (excluding the units held by the general partner and its affiliates).

Cash Distributions

Effective March 11, 2004, Valero L.P.'s partnership agreement was amended to lower the general partner's incentive distribution rights with respect to distributions of available cash from 48% to 23% of the amount of any quarterly distribution that exceeds $0.90 per unit. The general partner will continue to receive a 2% distribution with respect to its general partner interest. The general partner's incentive distribution allocation for the three months ended March 31, 2004 and 2003 was $1.1 million and $0.4 million, respectively. Valero L.P. generated sufficient net income such that the amount of net income allocated to common units was equal to the amount allocated to the subordinated units. On April 26, 2004, Valero L.P. declared a quarterly distribution of $0.80 per unit payable on May 14, 2004 to unitholders of record on May 7, 2004, which represents a $0.05 per unit increase from the $0.75 per unit distribution paid in February 2004 relating to the fourth quarter of 2003.

VALERO L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table reflects the allocation of total cash distributions to the general and limited partners applicable to the period in which the distributions are earned:

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
	(in thousands, except per unit data)	
General partner interest	$ 399	$ 319
General partner incentive distribution	1,112	384
Total general partner distribution	1,511	703
Limited partners' distribution	18,433	15,264
Total cash distributions	$ 19,944	$ 15,967
Cash distributions per unit applicable to limited partners	$ 0.80	$ 0.70

NOTE 7: Segment Information

Segment information for Valero L.P.'s four reportable segments was as follows:

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
	(in thousands)	
Revenues:		
Crude oil pipelines	$ 12,792	$ 11,443
Refined product pipelines	20,526	13,016
Refined product terminals	8,810	5,980
Crude oil storage tanks	10,196	1,377
Total revenues	$ 52,324	$ 31,816
Operating expenses:		
Crude oil pipelines	$ 3,234	$ 3,616
Refined product pipelines	8,538	5,132
Refined product terminals	4,333	2,745
Crude oil storage tanks	1,803	168
Total operating expenses	$ 17,908	$ 11,661
Operating income:		
Crude oil pipelines	$ 8,460	$ 6,403
Refined product pipelines	8,210	5,814
Refined product terminals	3,345	2,446
Crude oil storage tanks	6,527	1,209
Total segment operating income	26,542	15,872
General and administrative expenses	1,999	1,844
Total operating income	$ 24,543	$ 14,028

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Total assets by reportable segment were as follows:

	March 31, 2004	December 31, 2003
	(in thousands)	
Refined product pipelines	$ 354,630	$ 358,257
Crude oil pipelines	128,852	146,338
Refined product terminals	143,642	102,854
Crude oil storage tanks	216,801	198,191
Total segment assets	843,925	805,640
General partnership assets (including current assets and other noncurrent assets)	19,997	21,917
Total consolidated assets	$ 863,922	$ 827,557

Effective January 1, 2004, the Corpus Christi North Beach storage facility was transferred from the crude oil pipelines segment to the crude oil storage tanks segment. As of December 31, 2003, the assets related to the Corpus Christi North Beach storage facility totaled $18.0 million and are included in the crude oil pipelines segment.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Cautionary Statement Regarding Forward-Looking Information

This report contains certain estimates, predictions, projections, assumptions and other forward-looking statements that involve risks and uncertainties. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect Valero L.P.'s current judgment regarding the direction of its business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested in this report. These forward-looking statements can generally be identified by the words "anticipates," "believes," "expects," "intends," "estimates," "plans," "forecasts," "projects," "will," "could," "should," "may" and similar expressions. These statements reflect Valero L.P.'s current views with respect to future events and are subject to various risks, uncertainties and assumptions including:

- *Any reduction in the quantities of crude oil and refined products transported in Valero L.P.'s pipelines or handled at Valero L.P.'s terminals and storage tanks;*
- *Any significant decrease in the demand for refined products in the markets served by Valero L.P.'s pipelines and terminals;*
- *Any material decline in production by any of Valero Energy's McKee, Three Rivers, Corpus Christi East, Corpus Christi West, Texas City, Benicia, Paulsboro or Ardmore refineries;*
- *Any downward pressure on market prices caused by new competing refined product pipelines that could cause Valero Energy to decrease the volumes transported in Valero L.P.'s pipelines;*
- *Any challenges to Valero L.P.'s tariffs or changes in the FERC's ratemaking methodology;*
- *Any changes in laws and regulations to which Valero L.P. is subject, including federal, state and local tax laws, safety, environmental and employment laws;*
- *Overall economic conditions;*
- *Any material decrease in the supply of or material increase in the price of crude oil available for transport through Valero L.P.'s pipelines and storage tanks;*
- *Inability to expand Valero L.P.'s business, to acquire new assets or to attract third party shippers;*
- *Conflicts of interest with Valero Energy;*
- *The loss of Valero Energy as a customer or a significant reduction in its current level of throughput and storage with Valero L.P.;*
- *Any inability to borrow additional funds;*
- *Any substantial costs related to environmental risks, including increased costs of compliance;*
- *Any change in the credit ratings assigned to Valero Logistics' indebtedness;*
- *Any change in the credit rating assigned to Valero Energy's indebtedness;*
- *Any reductions in space allocated to Valero L.P. in interconnecting third party pipelines;*
- *Any material increase in the price of natural gas;*
- *Terrorist attacks, threats of war or terrorist attacks or political or other disruptions that limit crude oil production; and*
- *Accidents or unscheduled shutdowns affecting Valero L.P.'s pipelines, terminals, machinery, or equipment, or those of Valero Energy.*

If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, Valero L.P.'s actual results may vary materially from those described in any forward-looking statement. Readers are cautioned not to place undue reliance on this forward-looking information, which is as of the date of this Form 10-Q. Valero L.P. does not intend to update these statements unless it is required by the securities laws to do so, and it undertakes no obligation to publicly release the results of any revisions to any such forward-looking statements that may be made to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

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Results of Operations

Overview

Valero L.P.'s operations provide transportation and storage services to Valero Energy and other unrelated customers. Valero L.P. provides these services with its crude oil and refined product pipelines, refined product terminals and crude oil storage tanks located near or connected to eight of Valero Energy's refineries. As a result of the significant relationship with Valero Energy, the operating results of Valero L.P. are affected by factors affecting the business of Valero Energy, including refinery utilization rates, refinery maintenance turnarounds, crude oil prices, the demand for refined products and industry refining capacity.

In the first quarter of 2003, Valero L.P. completed the following acquisitions, which significantly increased the size and scope of its operations:

- Effective January 7, 2003, Valero L.P. acquired an asphalt terminal located in Pittsburg, California from Telfer Oil Company (Telfer) for $15.3 million.
- On March 18, 2003, Valero L.P. acquired Valero Energy's South Texas pipeline system (South Texas Pipelines and Terminals), which is composed of the Corpus Christi to Houston refined product pipeline and four refined product terminals (one of which is idle), the Corpus Christi to Edinburg refined product pipeline and one refined product terminal, the Pettus to San Antonio refined product pipeline and one refined product terminal and the Pettus to Corpus Christi refined product pipeline, for $150.1 million.
- On March 18, 2003, Valero L.P. acquired 58 crude oil and intermediate feedstock storage tanks and related assets with an aggregate storage capacity of 11.0 million barrels (Crude Oil Storage Tanks) from Valero Energy for $200.2 million.

To fund these acquisitions as well as the redemption from UDS Logistics, LLC of $134.1 million of common units (3,809,750 common units) in March 2003, Valero L.P. completed the following debt and equity offerings:

- Valero Logistics issued $250.0 million of 6.05% senior notes on March 18, 2003; and
- Also on March 18, 2003, Valero L.P. issued 5,750,000 common units for net proceeds of $204.6 million, including the general partner contribution.

On February 20, 2004, Valero L.P. acquired two asphalt terminals, one in Catoosa, Oklahoma near Tulsa and one in Rosario, New Mexico near Santa Fe, from Royal Trading for $28.1 million. Valero L.P. funded this acquisition with proceeds from borrowings under Valero Logistics' revolving credit facility. Because asphalt is a seasonal product with higher demand in the spring and summer months, operating income for the period from February 20, 2004 to March 31, 2004 related to these terminals was minimal.

Three Months Ended March 31, 2004 Compared to Three Months Ended March 31, 2003

The results of operations for the three months ended March 31, 2004 presented in the following table are derived from the consolidated statement of income for Valero L.P. and subsidiaries for the three months ended March 31, 2004, which includes the results of operations of the Catoosa and Rosario asphalt terminals for the period February 20, 2004 to March 31, 2004 and the results of operations for the various acquisitions completed during the year ended December 31, 2003. The results of operations for the three months ended March 31, 2003 presented in the following table are derived from the consolidated statement of income for Valero L.P. and subsidiaries for the three months ended March 31, 2003, which includes the results of operations of the South Texas Pipelines and Terminals and the Crude Oil Storage Tanks for the period from March 19, 2003 through March 31, 2003 and the Pittsburg asphalt terminal from January 7, 2003 to March 31, 2003.

	Three Months Ended March 31,	
	2004	2003
	(in thousands)	
Statement of Income Data:		
Revenues	$ 52,324	$ 31,816
Costs and expenses:		
Operating expenses	17,908	11,661
Depreciation and amortization	7,874	4,283
General and administrative expenses	1,999	1,844
Total costs and expenses	27,781	17,788
Operating income	24,543	14,028
Equity income from Skelly-Belvieu Pipeline Company	553	731
Interest expense, net	(5,126)	(2,377)
Net income	19,970	12,382
Less net income applicable to general partner	(1,489)	(624)
Net income applicable to the limited partners’ interest	$ 18,481	$ 11,758
Net income per unit applicable to limited partners	$ 0.80	$ 0.60
Weighted average number of limited partnership units outstanding	23,041,394	19,556,486
Earnings before interest, taxes and depreciation and amortization (EBITDA) (a)	$ 32,970	$ 19,042
Distributable cash flow applicable to limited partners	$ 23,171	$ 14,906
Distributable cash flow applicable to general partner	3,091	584
Distributable cash flow (a)	$ 26,262	$ 15,490

	March 31, 2004	December 31, 2003
Balance Sheet Data:		
Long-term debt, including current portion (1)	$ 403,436	$ 354,192
Partners’ equity (2)	439,697	438,163
Debt-to-capitalization ratio (1) / ((1)+(2))	47.8%	44.7%

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Segment Operating Data for the Three Months Ended March 31, 2004 and 2003

The following table reflects the results of operations for each of Valero L.P.'s operating segments and a reconciliation of the combined segments to the consolidated statements of income.

	Three Months Ended March 31, 2004	Three Months Ended March 31, 2003
	(in thousands, except barrel/day information)	
Crude Oil Pipelines:		
Throughput (barrels/day)	381,832	332,760
Revenues	$ 12,792	$ 11,443
Operating expenses	3,234	3,616
Depreciation and amortization	1,098	1,424
Segment operating income	$ 8,460	$ 6,403
Refined Product Pipelines:		
Throughput (barrels/day)(b)	437,207	296,816
Revenues	$ 20,526	$ 13,016
Operating expenses	8,538	5,132
Depreciation and amortization	3,778	2,070
Segment operating income	$ 8,210	$ 5,814
Refined Product Terminals:		
Throughput (barrels/day)(b)	254,950	176,797
Revenues	$ 8,810	$ 5,980
Operating expenses	4,333	2,745
Depreciation and amortization	1,132	789
Segment operating income	$ 3,345	$ 2,446
Crude Oil Storage Tanks:		
Throughput (barrels/day)(b)	461,102	77,458
Revenues	$ 10,196	$ 1,377
Operating expenses	1,803	168
Depreciation and amortization	1,866	—
Segment operating income	$ 6,527	$ 1,209
Consolidated Information:		
Revenues	$ 52,324	$ 31,816
Operating expenses	17,908	11,661
Depreciation and amortization	7,874	4,283
Segment operating income	26,542	15,872
General and administrative expenses	1,999	1,844
Consolidated operating income	$ 24,543	$ 14,028

(a) The following is a reconciliation of net income to EBITDA and distributable cash flow.

	Three Months Ended March 31,	
	2004	2003
	(in thousands)	
Net income	$19,970	$12,382
Plus interest expense, net	5,126	2,377
Plus depreciation and amortization	7,874	4,283
EBITDA	32,970	19,042
Less equity income from Skelly-Belvieu Pipeline Company	(553)	(731)
Less interest expense, net	(5,126)	(2,377)
Less reliability capital expenditures	(1,717)	(1,192)
Plus distributions from Skelly-Belvieu Pipeline Company	688	748
Distributable cash flow	$26,262	$15,490

The amount of distributable cash flow allocated to the general partner includes the general partner's 2% interest in distributions plus the amount of incentive distributions that would be allocated to the general partner assuming 100% of the distributable cash flow is actually distributed.

Valero L.P. utilizes two financial measures, EBITDA and distributable cash flow, which are not defined in GAAP. Management uses these financial measures because they are widely accepted financial indicators used by investors to compare partnership performance. In addition, management believes that these measures provide investors an enhanced perspective of the operating performance of Valero L.P.'s assets and the cash flow the business is generating. Neither EBITDA nor distributable cash flow is intended to represent cash flows for the period, nor are they intended as an alternative to net income. They should not be considered in isolation or as substitutes for a measure of performance prepared in accordance with GAAP.

(b) During the three months ended March 31, 2004 and 2003, Valero L.P. completed several acquisitions as discussed above. The throughput related to these newly acquired assets included in the table above is calculated based on throughput for the period from the date of acquisition through March 31st, divided by 91 days in 2004 and 90 days in 2003.

Crude Oil Pipelines

Revenues for the crude oil pipelines segment increased $1.3 million for the first quarter of 2004 as compared to the first quarter of 2003 due primarily to increased revenues for the Wichita Falls to McKee crude oil pipeline as a result of an 18% increase in throughput barrels. During the first quarter of 2003, Valero Energy had initiated economic-based refinery production cuts at its McKee refinery, which reduced throughput in the Wichita Falls pipeline.

Operating expenses for the crude oil pipelines segment decreased $0.4 million or 11% for the first quarter of 2004 as compared to the first quarter of 2003 as a result of the operating expenses associated with the Corpus Christi North Beach storage facility now being included in the crude oil storage tank segment.

Depreciation and amortization expense for the crude oil pipelines segment decreased for the first quarter of 2004 as compared to the first quarter of 2003 due to the transfer of the Corpus Christi North Beach storage facility to the crude oil storage tanks segment effective January 1, 2004.

Refined Product Pipelines

Revenues for the refined product pipelines segment increased $7.5 million or 58% and throughput increased 47% for the first quarter of 2004 as compared to the first quarter of 2003 due primarily to the acquisitions of the South Texas Pipelines on March 18, 2003 and the Southlake refined product pipeline on August 1, 2003. Revenues for the acquired pipelines were $8.3 million for the first quarter of 2004 as compared to $1.1 million for the first quarter of 2003.

Operating expenses for the refined product pipelines segment increased $3.4 million or 66% for the first quarter of 2004 as compared to the first quarter of 2003 due primarily to the expenses associated with the operations of the South Texas Pipelines and the Southlake refined product pipeline. Operating expenses for the South Texas Pipelines and the Southlake refined product pipeline were $3.9 million for the first quarter of 2004 as compared to $0.5 million for the first quarter of 2003.

Depreciation and amortization expense for the refined product pipelines segment increased $1.7 million or 83% for the first quarter of 2004 as compared to the first quarter of 2003 due to the acquisitions completed during 2003.

Refined Product Terminals

Revenues for the refined product terminals segment increased $2.8 million and throughput increased 44% for the first quarter of 2004 as compared to the first quarter of 2003 due primarily to the acquisitions of the South Texas Terminals on March 18, 2003, the Paulsboro refined product terminal on September 3, 2003 and the Royal Trading asphalt terminals on February 20, 2004. Revenues for the acquired terminals were $2.7 million for the first quarter of 2004 as compared to $0.2 million for the first quarter of 2003.

Operating expenses for the refined product terminals segment increased $1.6 million or 58% for the first quarter of 2004 as compared to the first quarter of 2003 due primarily to the expenses associated with the operations of the South Texas Terminals, the Paulsboro refined product terminal and the Royal Trading asphalt terminals. Operating expenses for the acquired terminals were $1.2 million for the first quarter of 2004 as compared to $0.1 million for the first quarter of 2003. In addition, maintenance expenses were $0.4 million higher in the first quarter of 2004 as compared to the first quarter of 2003 as Valero L.P. performed several tank inspections during the 2004 period.

Depreciation and amortization expense for the refined product terminals segment increased $0.3 million for the first quarter of 2004 as compared to the first quarter of 2003 due to the acquisitions completed in 2003.

Crude Oil Storage Tanks

Revenues for the crude oil storage tanks segment increased $8.8 million and throughput increased 383,644 barrels per day for the first quarter of 2004 as compared to the first quarter of 2003 due primarily to the crude oil storage tanks being owned by Valero L.P. for only 13 days in the first quarter of 2003 as compared to 91 days in the first quarter of 2004.

In addition, effective January 1, 2004, Valero L.P. transferred the operations of the Corpus Christi North Beach storage facility to the crude oil storage tanks segment from the crude oil pipelines segment. Valero L.P. and Valero Energy entered into a one-year shell barrel capacity lease agreement for the l.6 million barrels of capacity at the facility. Revenues for the first quarter of 2004 for the Corpus Christi North Beach storage facility totaled $1.9 million, which included $1.4 million of rental income and $0.5 million of dockage and wharfage fees. The use of this storage facility was previously included as a part of the crude oil pipeline tariff for the Corpus Christi to Three Rivers crude oil pipeline.

Operating expenses for the crude oil storage tanks segment consist primarily of the fees charged by Valero Energy for the personnel providing operating and routine maintenance services, rent expense and $0.4 million of operating expenses related to the Corpus Christi North Beach storage facility for the first quarter of 2004.

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General Partnership and Other

General and administrative expenses were as follows:

	Three Months Ended March 31, 2004	2003
	(in thousands)	
Services Agreement	$1,300	$1,300
Third party expenses	806	447
Compensation expense related to restricted common units and unit options	23	259
Reimbursement from partners on jointly owned pipelines	(130)	(162)
General and administrative expenses	$1,999	$1,844

General and administrative expenses increased 8% for the first quarter of 2004 as compared to the first quarter of 2003 due primarily to higher third party expenses related to unitholder reporting costs due to the overall increase in the number of unitholders and the additional costs related to compliance with the new Sarbanes-Oxley internal control reporting requirements. Partially offsetting the higher third party expenses was lower compensation expense related to the amortization of the fair value of restricted common units and unit options.

Equity income from Skelly-Belvieu Pipeline Company for the first quarter of 2004 decreased 24% as compared to the first quarter of 2003 due to a 9% decline in throughput barrels in the Skellytown to Mont Belvieu refined product pipeline and higher maintenance expenses associated with pipeline integrity inspection costs.

Interest expense for the first quarter of 2004 was $5.1 million, net of interest income and capitalized interest of $0.1 million and interest income related to the interest rate swaps of $0.9 million. Interest expense for the first quarter of 2003 was $2.4 million, net of interest income and capitalized interest of $0.1 million and interest income related to the interest rate swaps of $0.2 million. Interest expense was higher in 2004 due primarily to interest expense related to the $250.0 million of 6.05% senior notes issued on March 18, 2003 and $43.0 million of borrowings under the revolving credit facility to fund the acquisition of the Royal Trading asphalt terminals and to fund a portion of the construction costs related to the Nuevo Laredo, Mexico propane terminal and the related pipelines.

Net income applicable to limited partners increased $6.7 million for the first quarter of 2004 as compared to the first quarter of 2003 due primarily to the acquisitions completed during 2003. Net income applicable to the general partner for the first quarter of 2004 includes the effect of $1.1 million of incentive distributions as compared to $0.4 million of incentive distributions for the first quarter of 2003.

Liquidity and Capital Resources

Valero L.P.’s primary cash requirements, in addition to normal operating expenses, are for capital expenditures (both reliability and expansion), business and asset acquisitions, distributions to partners and debt service. Valero L.P. expects to fund its short-term needs for such items as reliability capital expenditures and quarterly distributions to the partners from operating cash flows. Capital expenditures for long-term needs resulting from future expansion projects and acquisitions are expected to be funded by a variety of sources including cash flows from operating activities, borrowings under the revolving credit facility and the issuance of additional common units, debt securities and other capital market transactions.

Revolving Credit Facility

As of March 31, 2004, Valero Logistics has $132.0 million of available borrowing capacity under its $175.0 million revolving credit facility. During the first quarter of 2004, Valero Logistics borrowed $28.0 million under the revolving credit facility to fund the purchase of the Royal Trading asphalt terminals and borrowed an additional $15.0 million to partially fund construction of a propane terminal in Nuevo Laredo, Mexico and the related pipelines. The revolving credit facility expires on January 15, 2006. At Valero Logistics’ option, borrowings under the revolving credit facility bear interest based on either an alternative base rate or LIBOR, which was 2.1% as of March 31, 2004. Valero Logistics also incurs a facility fee on the aggregate commitments of lenders under the revolving credit facility, whether used or unused. The amended revolving credit facility requires that Valero Logistics maintain certain financial ratios and includes other restrictive covenants, including a prohibition on distributions by Valero Logistics to Valero L.P. if any default, as defined in the revolving credit facility, exists or would result from the distribution.

Senior Notes

The $250.0 million of 6.05% senior notes are due March 15, 2013 with interest payable on March 15 and September 15 of each year. The $100.0 million of 6.875% senior notes are due July 15, 2012 with interest payable on January 15 and July 15 of each year. The senior notes are redeemable and do not have sinking fund requirements and rank equally with all other existing senior unsecured indebtedness of Valero Logistics, including indebtedness under the revolving credit facility.

Shelf Registration Statement

As of March 31, 2004, Valero L.P. and Valero Logistics have outstanding a $750.0 million universal shelf registration statement that has been declared effective by the Securities and Exchange Commission covering the issuance of an unspecified amount of common units or debt securities or a combination thereof. Valero L.P. may, in one or more offerings, offer and sell common units representing limited partner interests in Valero L.P. Valero Logistics may, in one or more offerings, offer and sell its debt securities, which will be fully and unconditionally guaranteed by Valero L.P.

Distributions

Valero L.P.'s partnership agreement, as amended, sets forth the calculation to be used to determine the amount and priority of cash distributions that the common unitholders, subordinated unitholders and the general partner will receive. During the subordination period, if there is sufficient available cash, the holders of Valero L.P.'s common units are entitled to receive each quarter a minimum quarterly distribution of $0.60 per unit ($2.40 annualized) prior to any distribution of available cash to holders of Valero L.P.'s subordinated units. In addition, the general partner is entitled to incentive distributions, as defined in the amended partnership agreement, if the amount Valero L.P. distributes with respect to any quarter exceeds $0.60 per unit. Effective March 11, 2004, the partnership agreement was amended to lower the general partner's incentive distribution rights with respect to distributions of available cash from 48% to 23% of the amount of any quarterly distribution that exceeds $0.90 per unit. The general partner will continue to receive a 2% distribution with respect to its general partner interest.

Total cash distributions applicable to the first quarter of 2004 were $19.9 million or $0.80 per unit, of which $1.5 million related to the general partner. Total cash distributions applicable to the first quarter of 2003 were $16.0 million or $0.70 per unit, of which $0.7 million related to the general partner. In February 2004, Valero L.P. paid the quarterly cash distribution applicable to the fourth quarter of 2003 of $18.4 million or $0.75 per unit, of which $1.1 million related to the general partner.

Capital Requirements

The petroleum pipeline and terminalling industry is capital-intensive, requiring significant investments to maintain, upgrade or enhance existing operations and to comply with environmental and safety laws and regulations. Valero L.P.'s capital expenditures consist primarily of:

- reliability capital expenditures, such as those required to maintain equipment reliability and safety and to address environmental and safety regulations; and
- expansion capital expenditures, such as those to expand and upgrade pipeline capacity and to construct new pipelines, terminals and storage tanks. In addition, expansion capital expenditures may include acquisitions of pipelines, terminals or storage tank assets.

During the first quarter of 2004, Valero L.P. incurred reliability capital expenditures of $1.7 million primarily related to tank and pipeline pump station upgrades at numerous locations. Expansion capital expenditures of $9.8 million during the first quarter of 2004 were primarily related to the construction of the Nuevo Laredo, Mexico propane terminal and the related pipelines and the expansion of the Corpus Christi to Edinburg refined product pipeline. Also during the first quarter of 2004, Valero L.P. acquired two asphalt terminals, one in Catoosa, Oklahoma near Tulsa and one in Rosario, New Mexico near Santa Fe, from Royal Trading for $28.1 million.

For the remainder of 2004, Valero L.P. expects to incur approximately $19.3 million of capital expenditures including approximately $9.9 million for reliability capital expenditures and approximately $9.4 million for expansion capital expenditures, including $6.8 million to complete the pipeline from Laredo, Texas to Nuevo Laredo, Mexico and the propane terminal in Nuevo Laredo. Valero L.P. expects to fund its expansion capital expenditures with borrowings under its revolving credit facility and its reliability capital expenditures from cash provided by operations.

Valero L.P. believes it generates sufficient cash from its current operations to fund day-to-day operating and general and administrative expenses and reliability capital expenditures. Valero L.P. also has available, borrowing capacity under Valero Logistics' revolving credit facility and, to the extent necessary, it can raise additional funds from time to time through equity or debt offerings under the $750.0 million universal shelf registration statement. However, there can be no assurance regarding the availability of any future financings or whether such financings can be made available on terms acceptable to Valero L.P.

Environmental, Health and Safety

Valero L.P. is subject to extensive federal, state and local environmental and safety laws and regulations, including those relating to the discharge of materials into the environment, waste management, pollution prevention measures, pipeline integrity and operator qualifications. Because environmental and safety laws and regulations are becoming more complex and stringent and new environmental and safety laws and regulations are continuously being enacted or proposed, the level of future expenditures required for environmental, health and safety matters is expected to increase. As of March 31, 2004, Valero L.P. has accrued $0.1 million for environmental matters, which is expected to be spent over the next two years.

Critical Accounting Policies

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Valero L.P.'s critical accounting policies were disclosed in its Annual Report on Form 10-K for the year ended December 31, 2004 and such policies have not changed during the first quarter of 2004.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The principal market risk (*i.e.*, the risk of loss arising from adverse changes in market rates and prices) to which Valero L.P. is exposed is interest rate risk on Valero Logistics' debt. Valero Logistics manages its debt considering various financing alternatives available in the market and manages its exposure to changing interest rates principally through the use of a combination of fixed-rate and variable-rate debt. In addition, Valero L.P. utilizes interest rate swap agreements to manage a portion of the exposure to changing interest rates by converting certain fixed-rate debt to variable-rate debt.

Borrowings under the revolving credit facility expose Valero Logistics to increases in the benchmark interest rate underlying its variable-rate revolving credit facility. As of March 31, 2004 and December 31, 2003, Valero Logistics' fixed-rate debt consisted of the $250.0 million of 6.05% senior notes, the $100.0 million of 6.875% senior notes and the 8.0% Port of Corpus Christi Authority note payable.

The following table provides information about Valero Logistics' long-term debt and interest rate derivative instruments, all of which are sensitive to changes in interest rates. For long-term debt, principal cash flows and related weighted-average interest rates by expected maturity dates are presented. For interest rate swaps, the table presents notional amounts and weighted-average interest rates by expected (contractual) maturity dates. Weighted-average variable rates are based on implied forward interest rates in the yield curve at the reporting date.

	March 31, 2004							
	Expected Maturity Dates							
	2004	2005	2006	2007	2008	There-after	Total	Fair Value
	(in thousands, except interest rates)							
Long-term Debt:								
Fixed rate	$485	$524	$ 566	$611	$660	$356,365	$359,211	$395,438
Average interest rate	8.0%	8.0%	8.0%	8.0%	8.0%	6.3%	6.3%	
Variable rate	$—	$—	$43,000	$—	$—	$ —	$ 43,000	$ 43,000
Average interest rate	—	—	2.1%	—	—	—	2.1%	
Interest Rate Swaps Fixed to Variable:								
Notional amount	$—	$—	$ —	$—	$—	$167,500	$167,500	$ 2,115
Average pay rate	3.2%	4.2%	5.2%	5.9%	6.5%	7.2%	6.2%	
Average receive rate	6.3%	6.3%	6.3%	6.3%	6.3%	6.5%	6.4%	

	December 31, 2003							
	Expected Maturity Dates							
	2004	2005	2006	2007	2008	There-after	Total	Fair Value
	(in thousands, except interest rates)							
Long-term Debt:								
Fixed rate	$935	$524	$566	$611	$660	$356,364	$359,660	$377,217
Average interest rate	8.0%	8.0%	8.0%	8.0%	8.0%	6.3%	6.3%	
Variable rate	$—	$—	$—	$—	$—	$ —	$ —	$ —
Average interest rate	—	—	—	—	—	—	—	
Interest Rate Swaps Fixed to Variable:								
Notional amount	$—	$—	$—	$—	$—	$167,500	$167,500	$ (4,553)
Average pay rate	3.5%	5.0%	6.0%	6.8%	7.1%	7.7%	6.7%	
Average receive rate	6.3%	6.3%	6.3%	6.3%	6.3%	6.5%	6.4%	

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The principal executive officer and principal financial officer of Valero GP, LLC have evaluated the effectiveness of Valero L.P.’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report, and have concluded that Valero L.P.’s disclosure controls and procedures are effective in ensuring that information required to be disclosed by Valero L.P. in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s rules and forms.

(b) Changes in internal control over financial reporting.

There has been no change in Valero L.P.’s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that occurred during Valero L.P.’s last fiscal quarter that has materially affected, or is reasonably likely to materially affect, Valero L.P.’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 2. Changes in Securities and Use of Proceeds

(a) Amendment to Partnership Agreement.

On March 11, 2004, Valero L.P. amended its partnership agreement to reduce the percentage of the vote required to remove Valero L.P.’s general partner from 58% to a simple majority of units entitled to vote (excluding any units held by the general partner and its affiliates). In addition, the partnership agreement was amended to lower the general partner’s incentive distribution rights with respect to distributions of available cash from 48% to 23% of the amount of any quarterly distribution that exceeds $0.90 per unit. The general partner will continue to receive a 2% distribution with respect to its general partner interest.

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Item 6. Exhibits and Reports on Form 8-K

(a) *Exhibits*

Exhibit 10.1	Amended and Restated Services Agreement Among Diamond Shamrock Refining and Marketing Company, Valero L.P., Valero Logistics Operations, L.P., Riverwalk Logistics, L.P. and Valero GP, LLC dated as of April 1, 2004
Exhibit 10.2	Terminal Storage and Throughput Agreement between Valero Marketing and Supply Company and Valero Logistics Operation, L.P. effective as of January 15, 2004
Exhibit 10.3	Amendment Number One to the Handling and Throughput Agreement between Valero Marketing and Supply Company and Valero Logistics Operation, L.P. effective as of April 27, 2004
Exhibit 10.4	Terminal Agreement (Corpus Christi Crude Terminal) between Valero Marketing and Supply Company and Valero Logistics Operation, L.P. effective as of January 1, 2004
Exhibit 12.1	Statement of Computation of Ratio of Earnings to Fixed Charges
Exhibit 31.1	Rule 13a-14(a) Certifications (under Section 302 of the Sarbanes-Oxley Act of 2002)
Exhibit 32.1	Section 1350 Certifications (under Section 906 of the Sarbanes-Oxley Act of 2002)

(b) *Reports on Form 8-K*

(i) On January 26, 2004, Valero L.P. furnished a Current Report on Form 8-K dated January 26, 2004 reporting Item 12 (Results of Operations and Financial Condition) and furnishing a copy of Valero L.P.'s press release relating to its earnings announcement for the fourth quarter of 2003. Financial statements were not filed with this report. The information in this report is not incorporated by reference into any registration statement filed by Valero L.P. under the Securities Act of 1933 unless specifically identified in the registration statement as being incorporated by reference.

(ii) On March 2, 2004, Valero L.P. furnished a Current Report on Form 8-K dated March 2, 2004 reporting Item 9 (Regulation FD Disclosure) and furnishing a copy of the slide presentation made by executives of Valero L.P. to analysts and investors at the RBC Capital Markets 2004 Master Limited Partnership Investor Conference. Financial statements were not filed with this report.

(iii) On March 12, 2004, Valero L.P. filed a Current Report on Form 8-K dated March 11, 2004 reporting Item 4 (Changes in Registrant's Certifying Accountant) in connection with Valero L.P.'s dismissal on March 11, 2004 of Ernst & Young LLP and retention of KPMG LLP as Valero L.P.'s independent auditors for the fiscal year ending December 31, 2004. Financial statements were not filed with this report.

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SIGNATURES

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

VALERO L.P.
(Registrant)

By: Riverwalk Logistics, L.P., its general partner
By: Valero GP, LLC, its general partner

By: /s/ CURTIS V. ANASTASIO

(Curtis V. Anastasio)
President and Chief Executive Officer

May 7, 2004

By: /s/ STEVEN A. BLANK

(Steven A. Blank)
Senior Vice President and Chief Financial Officer

May 7, 2004

By: /s/ CLAYTON E. KILLINGER

(Clayton E. Killinger)
Vice President and Controller

May 7, 2004

Exhibit 10.1

AMENDED AND RESTATED

SERVICES AGREEMENT

AMONG

DIAMOND SHAMROCK REFINING AND MARKETING COMPANY

VALERO L.P.

VALERO LOGISTICS OPERATIONS, L.P.

RIVERWALK LOGISTICS, L.P.

AND

VALERO GP, L.L.C.

DATED AS OF APRIL 1, 2004

AMENDED AND RESTATED SERVICES AGREEMENT

This AMENDED AND RESTATED SERVICES AGREEMENT (this "Agreement") is entered into effective as of April 1, 2004 (the "Effective Date") by and among DIAMOND SHAMROCK REFINING AND MARKETING COMPANY, a Delaware corporation ("DSRMC") and an indirect wholly owned subsidiary of Valero Energy Corporation ("Valero Energy"), VALERO L.P. (f/k/a Shamrock Logistics, L.P.), a publicly traded Delaware limited partnership (the "Partnership"), VALERO LOGISTICS OPERATIONS, L.P. (f/k/a Shamrock Logistics Operations) (the "Operating Partnership"), a Delaware limited partnership and an indirect wholly owned subsidiary of the Partnership, RIVERWALK LOGISTICS, L.P., the general partner (the "General Partner") of the Partnership, and its general partner, VALERO GP, LLC ("Valero GP") (f/k/a Shamrock Logistics GP, LLC).

RECITALS

WHEREAS, Valero GP, a wholly owned subsidiary of DSRMC and an indirect wholly owned subsidiary of Valero Energy, is the general partner of the General Partner; and

WHEREAS, the General Partner is the general partner of the Partnership; and

WHEREAS, all management powers over the business and affairs of the Partnership are exclusively vested in the General Partner and the General Partner is required to conduct, direct and exercise full control over all activities of the Partnership, including, among other things, providing various general and administrative resources and services; and

WHEREAS, the parties entered into a Services Agreement effective July 1, 2000 pursuant to which DSRMC agreed to provide (i) specified corporate, general and administrative services to the General Partner for an annual administrative fee of $5.2 million, subject to adjustment as provided in the Services Agreement and (ii) other specified services necessary to operate and maintain the assets and operations of the Partnership, with such other services being reimbursable to DSRMC; and

WHEREAS, the Services Agreement provides that the General Partner, with the approval and consent of the conflicts committee (the "Conflicts Committee") of Valero GP, may (i) agree on behalf of the Partnership to increases in the Administrative Services Fee (as such term is defined in the Services Agreement) in connection with expansions of the Partnership's operations through acquisition or construction of new assets or businesses, and (ii) amend or modify the Services Agreement; and

WHEREAS, on March 4, 2004, the Conflicts Committee approved a new Administrative Services Fee and the terms of this Agreement;

WHEREAS, the parties desire to amend and restate the Services Agreement as set forth herein to reflect the significant changes that have occurred in the business and operations of the Partnership since the effective date of the Services Agreement and the initial public offering of the Partnership on April 16, 2001; and

WHEREAS, DSRMC, for itself and its Affiliates, has agreed to continue to provide certain administrative services under this Agreement to Valero GP, General Partner, the Partnership and the Operating Partnership (individually, a "Partnership Party," and collectively, the "Partnership Parties.")

NOW, THEREFORE, for and in consideration of the mutual covenants contained in this Agreement, the parties hereto hereby agree to amend and restate the Services Agreement as follows:

ARTICLE I
PROVISION OF SERVICES

Section 1.1 Provision of Services.

(a) General and Administrative Services. DSRMC or any Affiliate or designee of DSRMC shall provide non-exclusive management, employee-related and other related services to the Partnership Parties through Valero GP or any Affiliate, which shall include, but shall not be limited to, services related to acquisitions to be made by the Partnership Parties, cash management, review of significant financial opportunities and operating, accounting, legal, engineering, commercial, human resources, information technology and such other management, employee-related and other general and administrative services as set forth on Exhibit A hereto and as DSRMC and Valero GP may from time to time agree (the "Administrative Services").

For purposes of this Agreement, "Affiliates" means entities that directly or indirectly through one or more intermediaries control, or are controlled by, or are under common control with, such party, and the term "control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of management and policies of an entity, whether through the ownership of voting securities, by contract or otherwise, provided, however, that with respect to DSRMC, the term "Affiliate" shall exclude Valero GP, the General Partner, the Partnership and the Operating Partnership.

(b) Additional Services. DSRMC or any Affiliate shall provide the Partnership Parties with such other services as Valero GP may request from time to time during the term of this Agreement and for such additional compensation as the parties may agree.

(c) Direct Charges. Notwithstanding Section 1.1 (a) above, the following items will be directly charged to the Partnership ("Direct Charges"):

(i) all salaries, wages and benefits costs related to personnel dedicated to the Partnership Parties, including, but not limited to, variable and incentive compensation, FICA, vacation pay, sick pay, life insurance, disability insurance, workers compensation, 401(k) matching contribution costs, defined benefit pension costs and post retirement health and medical costs. For purposes of this subsection (c)(i), personnel shall be considered "dedicated to the Partnership Parties" if such person dedicates 75% or more of his or her time to the Partnership Parties; and

(ii) all third party expenses directly related to the Partnership Parties, including, but not limited to, public company costs, outside legal fees, outside accounting fees, fees and expenses of external advisors and consultants, and insurance costs, including but not limited to, general liability, automobile liability, comprehensive liability, excess liability, property and directors and officers.

(d) Nature and Quality of Services. The quality of the Administrative Services shall be substantially identical to those provided to other subsidiaries and Affiliates of DSRMC.

Section 1.2 Fees.

(a) Commencing on the Effective Date of this Agreement and ending on December 31, 2004, and for each fiscal year of the Partnership thereafter, the Partnership shall pay to DSRMC an annual fee (the "Administrative Services Fee"). The Administrative Services Fee for the fiscal year ended December 31, 2004 shall be $900,000, for the fiscal year ended December 31, 2005 shall be $2,400,000, and thereafter such fee shall increase by $1.2 million in each of the three next following fiscal years, resulting in an Administrative Services Fee of $6.0 million for the fiscal year ended December 31, 2008 and the fiscal years following, subject to adjustment as provided in paragraph (b) below.

(b) On the last day of each fiscal year starting with the fiscal year ending December 31, 2004, and prior to the beginning of the next fiscal year, the Administrative Services Fee shall be increased by an amount equal to Valero Energy's general annual merit increase percentage for the just completed fiscal year.

(c) The General Partner, with the approval and consent of the Conflicts Committee, may agree on behalf of the Partnership to further increases in the Administrative Services Fee in connection with increased levels of Administrative Services provided to the Partnership Parties due to expansions of the Partnership's operations through acquisition or construction of new assets or businesses.

(d) At the end of each fiscal year, the scope of the Administrative Services and the related Administrative Services Fee are subject to review either at the request of DSRMC or the Partnership Parties, in either case by providing 10 days written notice to the other party but in no event later than 60 days before the end of the applicable fiscal year, with such review to be completed no later than January 31 of the immediately following fiscal year, with any increase of the Administrative Services Fee other than as provided in paragraph (a) above subject to the consent and approval of the Conflicts Committee.

(e) Any fees payable hereunder for periods less than a full fiscal year shall be prorated for the period services were provided based on the actual number of days elapsed and a year of 365 days. The Administrative Services Fee set forth in Section 1.2 (a) above applicable to the fiscal year ended December 31, 2004 has already been prorated and no further proration for the fiscal year ended December 31, 2004 shall apply.

Section 1.3 Payment of Fees.

(a) The fees to be paid pursuant to Section 1.2 shall be paid by the Partnership in equal monthly installments in arrears within 30 days of the end of the month.

(b) To the extent reasonably practicable, all third party invoices for Direct Charges shall be submitted to the Partnership Parties for payment. For Direct Charges due DSRMC from the Partnership, if any, DSRMC shall present Valero GP with an invoice within 10 days after the end of each calendar month which reflects an amount equal to all Direct Charges reimbursable to DSRMC. The Partnership shall pay such sum within 30 days of the end of the applicable calendar month.

Section 1.4 Cancellation or Reduction of Services. The Partnership Parties may terminate or reduce the level of any Administrative Service on 60 days' prior written notice to DSRMC. Upon such termination or reduction, the Administrative Services Fee shall be reduced accordingly, whether on a temporary or a permanent basis, for such time as such Administrative Service is reduced or terminated.

Section 1.5 Term. The provisions of this Article I will apply in respect of Administrative Services until this Agreement is terminated or amended in accordance with Section 2.1 or Section 2.13, respectively.

ARTICLE II
MISCELLANEOUS

Section 2.1 Termination. This Agreement shall terminate on December 31, 2009 (the "Initial Term"); provided that this Agreement shall automatically continue for successive two year terms after the Initial Term unless or until one year's advance notice is given by DSRMC to terminate this Agreement, in which case this Agreement shall terminate one year after such notice is delivered. Notwithstanding the foregoing, any Partnership Party (a) may terminate the provision of one or more Administrative Services or reduce the level of one or more Administrative Services in accordance with the provisions of Section 1.4 hereof, and (b) shall have the right at any time to terminate this Agreement by giving written notice to DSRMC, and in such event this Agreement shall terminate one hundred and eighty (180) days from the date on which such notice is given.

Section 2.2 No Third Party Beneficiary. The provisions of this Agreement are enforceable solely by the parties to the Agreement and no limited partner, assignee or other person shall have the right, separate and apart from the parties hereto, to enforce any provisions of this Agreement or to compel an party to this Agreement to comply with the terms of this Agreement.

Section 2.3 No Fiduciary Duties. The parties hereto shall not have any fiduciary obligations or duties to the other parties by reason of this Agreement. Subject to the Omnibus Agreement among Valero Energy (as successor to Ultramar Diamond Shamrock Corporation), Valero GP, the General Partner, the Partnership and Valero Logistics Operations, L.P., dated as of April 16, 2001, any party hereto may conduct any activity or business for its own profit whether or not such activity or business is in competition with any activity or business of the other party.

Section 2.4 Limited Warranty; Limitation of Liability DSRMC represents that it will provide or cause the Administrative Services to be provided to the Partnership Parties with reasonable care and in accordance with all applicable laws, rules, and regulations, including without limitation those of the Federal Energy Regulatory Commission. EXCEPT AS SET FORTH IN THE IMMEDIATELY PRECEDING SENTENCE AND IN SECTION 1.1 (d), ALL PRODUCTS OBTAINED FOR THE PARTNERSHIP PARTIES ARE AS IS, WHERE IS, WITH ALL FAULTS AND DSRMC MAKES NO (AND HEREBY DISCLAIMS AND NEGATES ANY AND ALL) REPRESENTATIONS AND WARRANTIES, EXPRESS OR IMPLIED, INCLUDING THE WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE WITH RESPECT TO THE SERVICES RENDERED OR PRODUCTS OBTAINED FOR THE PARTNERSHIP PARTIES. FURTHERMORE, THE PARTNERSHIP PARTIES MAY NOT RELY UPON ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, INCLUDING THE WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE MADE TO DSRMC BY ANY PARTY (INCLUDING, AN AFFILIATE OF DSRMC) PERFORMING SERVICES ON BEHALF OF DSRMC HEREUNDER, UNLESS SUCH PARTY MAKES AN EXPRESS WARRANTY TO VALERO GP OR THE PARTNERSHIP PARTIES. HOWEVER, IN THE CASE OF SERVICES PROVIDED BY A THIRD PARTY FOR THE PARTNERSHIP PARTIES, IF THE THIRD PARTY PROVIDER OF SUCH SERVICES MAKES AN EXPRESS WARRANTY TO ANY OF THE PARTNERSHIP PARTIES, THE PARTNERSHIP PARTIES ARE ENTITLED TO CAUSE DSRMC TO RELY ON AND TO ENFORCE SUCH WARRANTY.

IT IS EXPRESSLY UNDERSTOOD BY THE PARTNERSHIP PARTIES THAT DSRMC AND ITS AFFILIATES SHALL HAVE NO LIABILITY FOR THE FAILURE OF THIRD PARTY PROVIDERS TO PERFORM ANY SERVICES HEREUNDER AND FURTHER THAT DSRMC AND ITS AFFILIATES SHALL HAVE NO LIABILITY WHATSOEVER FOR THE SERVICES PROVIDED BY ANY SUCH THIRD PARTY UNLESS IN EITHER EVENT SUCH SERVICES ARE PROVIDED IN A MANNER WHICH WOULD EVIDENCE GROSS NEGLIGENCE OR INTENTIONAL MISCONDUCT ON THE PART OF DSRMC OR ITS AFFILIATES BUT DSRMC SHALL, ON BEHALF OF THE PARTNERSHIP PARTIES, PURSUE ALL RIGHTS AND REMEDIES UNDER ANY SUCH THIRD PARTY CONTRACT. THE PARTNERSHIP PARTIES AGREE THAT THE REMUNERATION PAID TO DSRMC HEREUNDER FOR THE SERVICES TO BE PERFORMED REFLECT THIS LIMITATION OF LIABILITY AND DISCLAIMER OF WARRANTIES. IN NO EVENT SHALL DSRMC BE LIABLE TO THE PARTNERSHIP PARTIES OR ANY OTHER PERSON FOR ANY INDIRECT, SPECIAL, OR CONSEQUENTIAL DAMAGES RESULTING FROM ANY ERROR IN THE PERFORMANCE OF SERVICES OR FROM THE BREACH OF THIS AGREEMENT, REGARDLESS OF THE FAULT OF DSRMC, ANY DSRMC AFFILIATE, OR ANY THIRD PARTY PROVIDER OR WHETHER DSRMC, ANY DSRMC AFFILIATE, OR THE THIRD PARTY PROVIDER ARE WHOLLY, CONCURRENTLY, PARTIALLY, OR SOLELY NEGLIGENT. TO THE EXTENT ANY THIRD PARTY PROVIDER HAS LIMITED ITS LIABILITY TO DSRMC OR ITS AFFILIATE FOR SERVICES UNDER AN OUTSOURCING

OR OTHER AGREEMENT, THE PARTNERSHIP PARTIES AGREE TO BE BOUND BY SUCH LIMITATION OF LIABILITY FOR ANY PRODUCT OR SERVICE PROVIDED TO THE PARTNERSHIP PARTIES BY SUCH THIRD PARTY PROVIDER UNDER DSRMC'S OR SUCH AFFILIATE'S AGREEMENT.

Section 2.5 Force Majeure. If any party to this Agreement is rendered unable by force majeure to carry out its obligations under this Agreement, other than Valero GP's or the General Partner's obligation to make payments to DSRMC as provided for herein, that party shall give the other parties prompt written notice of the force majeure with reasonably full particulars concerning it. Thereupon, the obligations of the party giving the notice, insofar as they are affected by the force majeure, shall be suspended during, but no longer than the continuance of, the force majeure. The affected party shall use all reasonable diligence to remove or remedy the force majeure situation as quickly as practicable.

The requirement that any force majeure situation be removed or remedied with all reasonable diligence shall not require the settlement of strikes, lockouts or other labour difficulty by the party involved, contrary to its wishes. Rather, all such difficulties, may be handled entirely within the discretion of the party concerned.

The term "force majeure" means any one or more of: (a) an act of God, (b) a strike, lockout, labour difficulty or other industrial disturbance, (c) an act of a public enemy, war, blockade, insurrection or public riot, (d) lightning, fire, storm, flood or explosion, (e) governmental action, delay, restraint or inaction, (f) judicial order or injunction, (g) material shortage or unavailability of equipment, or (h) any other cause or event, whether of the kind specifically enumerated above or otherwise, which is not reasonably within the control of the party claiming suspension.

Section 2.6 Further Assurances. In connection with this Agreement and all transactions contemplated by this Agreement, each signatory party hereto agrees to execute and deliver such additional documents and instruments as may be required for DSRMC or its Affiliates to provide the Administrative Services hereunder and to perform such other additional acts as may be necessary or appropriate to effectuate, carry out, and perform all of the terms and provisions of this Agreement.

Section 2.7 Time of the Essence. Time is of the essence in this Agreement.

Section 2.8 Notices. Any notice, request, demand, direction or other communication required or permitted to be given or made under this Agreement to a party shall be in writing and may be given by hand delivery, postage prepaid first-class mail delivery, delivery by a reputable international courier service guaranteeing next business day delivery or by facsimile (if confirmed by one of the foregoing methods) to such party at its address noted below:

(a) in the case of DSRMC, to:

Diamond Shamrock Refining and Marketing Company
6000 North Loop 1604 West
San Antonio, Texas 78249
Attention: Legal Department
Telecopy: (210) 370-5889

(b) in the case of the General Partner and Valero GP, to:

Valero GP, LLC
6000 North Loop 1604 West
San Antonio, Texas 78249
Attention: President
Telecopy: (210) 370-

or at such other address of which notice may have been given by such party in accordance with the provisions of this Section.

Section 2.9 Counterparts. This Agreement may be executed in several counterparts, no one of which needs to be executed by all of the parties. Such counterpart, including a facsimile transmission of this Agreement, shall be deemed to be an original and shall have the same force and effect as an original. All counterparts together shall constitute but one and the same instrument.

Section 2.10 Applicable Law. The provisions of this Agreement shall be construed in accordance with the laws of the State of Texas, excluding any conflicts of law rule or principle that might refer the construction or interpretation hereof to the laws of another jurisdiction.

Section 2.11 Binding Effect; Assignment.

Except for the ability of DSRMC to cause one or more of the Administrative Services to be performed by a third party provider or an Affiliate, no party shall have the right to assign its rights or obligations under this Agreement without the consent of the other parties.

Section 2.12 Invalidity of Provisions. In the event that one or more of the provisions contained in this Agreement shall be invalid, illegal or unenforceable in any respect under any applicable law, the validity, legality or enforceability of the remaining provisions hereof shall not be affected or impaired thereby.

Section 2.13 Modification; Amendment. This Agreement may be amended or modified from time to time only by a written amendment signed by all parties hereto; provided however, that the Partnership Parties may not, without the prior approval of the Conflicts Committee, agree to any amendment or modification to this Agreement that, in the reasonable discretion of the General Partner, will adversely affect the holders of common units of the Partnership.

Section 2.14 Entire Agreement. This Agreement constitutes the whole and entire agreement between the parties hereto and supersedes any prior agreement, undertaking, declarations, commitments or representations, verbal or oral, in respect of the subject matter hereof.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement with effect as of the date first above written.

DIAMOND SHAMROCK REFINING AND MARKETING COMPANY

By: /s/ MICHAEL S. CISKOWSKI

Name: **Michael S. Ciskowski**
Title: **Senior Vice President**

VALERO L.P.

By: Riverwalk Logistics, L.P.

By: Valero GP, LLC

By: /s/ CURTIS V. ANASTASIO

Name: **Curtis V. Anastasio**
Title: **President**

VALERO LOGISTICS OPERATIONS, L.P.

By: Valero GP, Inc.

By: /s/ CURTIS V. ANASTASIO

Name: **Curtis V. Anastasio**
Title: **President**

VALERO GP, LLC

By: /s/ CURTIS V. ANASTASIO

Name: **Curtis V. Anastasio**
Title: **President**

RIVERWALK LOGISTICS, L.P.

By: Valero GP, LLC

By: /s/ CURTIS V. ANASTASIO

Name: **Curtis V. Anastasio**
Title: **President**

SIGNATURE PAGE TO AMENDED AND RESTATED ADMINISTRATIVE SERVICES AGREEMENT

EXHIBIT A

Administrative Services provided to the Partnership Parties:

Ad Valorem Tax Services (note: ad valorem taxes are Direct Charges)
Controller
- External Reporting
- Corporate Tax
- Accounting Governance
- Non-Hydrocarbons Operations Accounting

Corporate Aviation and Travel Services
Corporate Communications and Public Relations
Corporate Development
Data Processing and Information Technology Services
Executive Oversight
Financial Accounting and Reporting
Foreign Trade Zone Reporting and Accounting
Governmental Affairs
Group Accounting
Health, Safety & Environmental Services
Human Resources Services
- Benefit Accounting
- Benefit Plan Administration

Retirement Plan Administration
401(k) Savings Plan Administration
Payroll Services
Training Services
Internal Audit
Legal
- General Litigation Support
- General Corporate
- General Commercial
- Labor & Employment
- Tariff Maintenance
- Environmental and Regulatory

Office Services
- Mail Center/Mail Services
- Health Club
- Office Space including building maintenance

Purchasing/Fleet Management
Records Management
Real Estate Management
Risk and Claims Management Services (note: insurance premiums are Direct Charges)
Security Services
Shareholder and Investor Relations
Treasury & Banking
- Finance Services
- Cash Management
- Credit Services

Exhibit A (continued)

Note: Salaries, wages and benefits for some personnel providing some of the Administrative Services listed above will be charged directly to the Partnership Parties in accordance with Section 1.1(c) of the Agreement.

In providing the foregoing services, DSRMC shall be acting on behalf of and as agent for the Valero Parties.

Exhibit 10.2

TERMINAL STORAGE AND THROUGHPUT AGREEMENT

This TERMINAL STORAGE AND THROUGHPUT AGREEMENT (the "Agreement") is made, entered into and effective as of January 15, 2004, by and between **VALERO LOGISTICS OPERATIONS, L.P.,** a Delaware limited partnership ("VLI"), and **VALERO MARKETING AND SUPPLY COMPANY**, a Delaware corporation ("VMSC").

INTRODUCTION

WHEREAS, VLI has entered into an agreement to purchase asphalt terminals and asphalt blending and related facilities in Rosario, New Mexico (near Santa Fe) and Catoosa, Oklahoma (near Tulsa) (each a "Terminal" and collectively, the "Terminals");

WHEREAS, VMSC is engaged in the asphalt marketing business in New Mexico and Oklahoma; and

WHEREAS, upon the purchase of the Terminals, VLI desires to make available the Terminals to VMSC and perform the services set forth herein as reasonably requested by VMSC and VMSC desires to utilize the Terminals for the storage, blending and throughput of asphalt and asphalt related products.

AGREEMENT

NOW, THEREFORE, in and for consideration of the premises and mutual covenants contained herein, VLI and VMSC hereby agree as follows:

ARTICLE ONE

DEFINITIONS

For the purposes of this Agreement, the following definitions shall apply:

"*Adjustment Year Index*" means the Index published the month before the first day of the Contract Year in which an annual adjustment is to be made to the Throughput Fee.

"*Agreement*" means this Terminal Storage and Throughput Agreement, including all exhibits, schedules, and other attachments hereto, as each may be amended, supplemented or modified from time to time.

"*Applicable Law*" shall mean any applicable statute, law, regulation, ordinance, rule, judgment, rule of law, order, decree, permit, approval, concession, grant, franchise, license, agreement, requirement, or other governmental restriction or any similar form of decision of, or any provision or condition of any permit, license or other operating authorization issued under any of the foregoing by, or any determination by any Governmental Authority having or asserting jurisdiction over the matter or matters in question, whether now or hereafter in effect and in each case as amended (including without limitation, all of the terms and provisions of the common law of such Governmental Authority), as interpreted and enforced at the time in question.

"*Arbitrable Dispute*" means any and all disputes, Claims, counterclaims, demands, causes of action, controversies and other matters in question between VLI, and VMSC, arising out of or relating to this Agreement, the alleged breach hereof, the subject matter of this Agreement or the transactions contemplated hereby, and/or the relationship between VLI and VMSC created by this Agreement; provided, however, that the term Arbitrable Dispute shall not include any matter that is to be resolved in accordance with the procedures set forth in Section 4.6.

"*Ardmore Refinery*" means the refinery located at Ardmore, Oklahoma, which, as of the date hereof, is owned and operated by an affiliate of VMSC.

"*Asphalt*" means all vacuum tower bottoms produced at the Ardmore Refinery and all Asphalt Products produced at the McKee Refinery.

"*Asphalt Products*" means asphalt, asphalt base stocks, emulsion base stocks, polymer modified asphalt, and other asphalt-related products and materials.

"*Base Year Index*" means the Index published the month before first day of year prior to the Contract Year in which an annual adjustment is to be made to the Throughput Fee.

"*Claim*" means any existing or threatened future claim, demand, suit, action, investigation, proceeding, governmental action or cause of action of any kind or character (in each case, whether civil, criminal, investigative or administrative), known or unknown, under any theory, including those based on theories of contract, tort, statutory liability, strict liability, employer liability, premises liability, products liability, breach of warranty or malpractice.

"*Commencement Date*" means the date upon which VLI takes title to the Terminals.

"*Contract Year*" means the period beginning January 1st, and ending at the following December 31st of each calendar year; provided, however, the first Contract Year shall commence on the Commencement Date and terminate on December 31, 2004.

"*Controlled Affiliates*" means an entity that directly or indirectly through one or more intermediaries is controlled by Valero Energy Corporation (including, without limitation, VMSC), excluding the Partnership Parties and Subsidiaries. For the purposes of this definition, "control" (including with correlative meaning, the term "controlled by"), as used with respect to any such entity, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such entity, whether through the ownership of voting securities, by agreement or otherwise.

"*Day*" means each period of twenty-four consecutive hours, beginning and ending at 7:00am, Central Time.

"*Facilities*" means the Terminals.

"*Governmental Authority*" means any federal, state, local or foreign government or any provincial, departmental or other political subdivision thereof, or any entity, body or authority exercising executive, legislative, judicial, regulatory, administrative or other governmental functions or any court, department, commission, board, bureau, agency, instrumentality or administrative body of any of the foregoing.

"*Index*" means the average Consumer Price Index, All Items Indexes, All Urban Consumers applicable to Dallas, Texas, published by the Bureau of Labor Statistics of the United States Department of Labor, for the most recently completed twelve-month period immediately preceding the most current Contract Year. If a substantial change is made in the Index, then the Index shall be adjusted to reflect the value that would have been obtained if no such change has been made. If the Index is no longer published, then a reliable cost of living indicator from the United States Government or a reputable financial publication shall be substituted, and shall thereafter be deemed to be the Index for the purpose of calculating adjustments to the Throughput Fee or the Adjusted Throughput Fee.

"*McKee Refinery*" means the refinery located near Dumas, Texas, which, as of the date hereof, is owned and operated by an affiliate of VMSC.

"*Partnership Parties*" shall mean VLI, Valero L.P., Riverwalk Logistics, L.P., Valero GP, LLC, and Valero GP, Inc.

"*Refineries*" means, collectively, the Ardmore Refinery and the McKee Refinery.

"*Shortfall*" means, for any Contract Year, the excess of the Minimum Obligation, as such number may be reduced pursuant to Article 3, if any, over the volume of Asphalt Products actually Throughput during the Contract Year.

"*Shortfall Obligation*" means the amount of any Shortfall for a Contract Year expressed in tons, multiplied by the Throughput Fee in effect as of the last day of the Contract Year in question.

"*Subsidiaries*" means all entities in which VLI, directly or indirectly through one or more intermediaries has an ownership interest.

"Terminal" or "Terminals" has the meaning designated in the Introduction to this Agreement.

"*Throughput*" means the delivery into trucks, rail-cars, barges or other means of conveyance from storage at the Terminals of Asphalt Products on behalf of VMSC or VMSC's customers. The quantity of Asphalt Products Throughput at the Terminals shall be measured in accordance with Article Seven.

"*Throughput Fee*" means the Base Throughput Fee, as adjusted by the Volume Incentive Discount, if any, plus any applicable Blending Fee, as adjusted by the Blending Volume Incentive Discount.

Other Definitions. The following terms used in this Agreement have the meaning provided in the article or section noted below:

Adjusted Throughput Fee	Section 4.5
Base Throughput Fee	Section 4.1
Blending Fee and Blending Volume Incentive Discount	Section 4.3
Cure Period	Article 8
Defaulting Notice	Article 8
Defaulting Party	Article 8
Facilities	Section 2.1
Force Majeure and Force Majeure Event	Section 12.2
Initial Term	Article 5
Minimum Obligation	Article 3
Non-Defaulting Party	Article 8
Notice of Dispute	Article 8
Throughput Shortfall	Section 4.6
Total Throughput	Section 4.6
Volume Incentive Discount	Section 4.2

ARTICLE TWO

FACILITIES AND OPERATIONS

2.1 VLI will, on a non-exclusive basis, receive, store, blend, handle and/or redeliver Asphalt Products at its Terminals in accordance with VMSC's reasonable requirements and will tender said Product to VMSC or its or its customers' carriers for shipment as directed by VMSC. VLI shall furnish and perform all labor, supervision and materials necessary for its timely and efficient performance of the receipt, storage handling, redelivery, and/or related operations pursuant to this Agreement and contemplated hereunder, which in all cases shall be conducted in accordance with generally accepted terminalling practices and in compliance with all Applicable Laws.

2.2 Delivery; Access. VMSC may deliver Asphalt Products to the Facilities by truck, railcar or barge delivery, as applicable, during the Terminal's operating hours. VMSC will retain responsibility for all dispatch services associated with delivery of Asphalt Products to and from the Terminal. VMSC and VLI will cooperate with each other in scheduling deliveries and receipts. VLI grants to VMSC and its employees, agents and representatives reasonable access at all times during the term of this Agreement to the Facilities, including ingress and egress to the Facilities through the Terminal premises. VLI grants VMSC's customers access to the Facilities including the loading rack(s), at all reasonable times for the purpose of receiving Asphalt Products.

2.3 Receipts; Loading. Receipts will be issued by VLI to VMSC or VMSC's customers for all Asphalt Products delivered to the Facilities by or for VMSC or its customers. Asphalt Products will be supplied into trucks and/or railcars at loading at a minimum temperature of 325F. During the asphalt season, Facilities are available 24 hours a day every day with the exception of regular holidays observed by VLI. Outside of the asphalt season, the Facilities will be made available at mutually agreed times.

2.4 Blending Services. At VMSC's request, VLI shall perform specified Asphalt Products blending services with components supplied by VMSC. With respect to such blending services:

(a) VMSC shall provide VLI with all necessary blending components;

(b) VMSC shall provide VLI with the desired blending formulations; and

(c) VLI shall perform such blending services in accordance with the blending formulations provided by VMSC.

(d) OTHER THAN THE WARRANTY SET FORTH IN THE PRECEDING SENTENCE, VLI MAKES NO OTHER WARRANTY, EXPRESS OR IMPLIED, INCLUDING AS TO THE FORMULATIONS THEMSELVES OR AS TO THE COMPONENTS PROVIDED BY OR ON BEHALF OF VMSC AND INCLUDING THE IMPLIED WARRANTY OF MERCHANTABILITY AND THAT OF FITNESS FOR A PARTICULAR PURPOSE.

2.5 Remedy. As VMSC’s sole remedy for a breach by VLI of its warranty set forth in Section 2.4, VLI shall reperform the blending services at no additional cost to VMSC, including in its reperformance the cost of any blending components the replacement of which results from VLI's failure to perform the blending service in accordance with the blending formulations provided by VMSC.

ARTICLE 3

MINIMUM OBLIGATION

3.1 Minimum Obligation. Subject to the provisions of this Agreement, VMSC agrees to Throughput an amount of Asphalt Products through the Terminals on an aggregate annual basis equal to a minimum of 18 ½% of all Asphalt produced at the Refineries during each Contract Year (the “Minimum Obligation”).

3.2 Adjusted Minimum Obligation. At all times during the term of this Agreement, VLI shall have the option to solicit and contract third-party throughput agreements to fill unused capacity at the Terminals. If VLI throughputs Asphalt Products on behalf of third parties, then: (i) the Minimum Obligation shall be adjusted such that the combined volume of the Throughput and third-party throughput volume at the Terminals in the aggregate is equal to 18 ½% of all Asphalt produced at the Refineries, and (ii) VLI shall provide VMSC with written notice of the amount of such third-party throughput volumes, which notice shall delivered to VMSC within 15 days of the end of the calendar quarter in which such throughput occurred. Additionally, if a Force Majeure Event at either Terminal prevents VMSC from Throughputing any amount of Asphalt Products, then the Minimum Obligation for the applicable Contract Year shall be reduced by an amount equal to the amount such Asphalt Products that VMSC could not Throughput due to the Force Majeure Event.

3.3 If this Agreement is terminated pursuant to Article 8 other than at the end of a Contract Year, the Minimum Obligation shall be prorated accordingly.

ARTICLE 4

FEES

4.1 Base Throughput Fee. Subject to terms of this Agreement, VMSC will pay VLI a throughput fee equal to $20.00 (as adjusted pursuant to Section 4.5, the "Base Throughput Fee") per ton of Asphalt Products Throughput through the Terminals; provided, however, the Base Throughput Fee applicable to each Terminal shall not exceed the lowest terminal throughput fee then being paid by an unaffiliated third party at the applicable Terminal; provided further that if the third party throughput fee that is the basis for the Base Throughput Fee reduction is no longer in effect or is no longer less than the Base Throughput Fee, then the Base Throughput Fee shall immediately revert to the Base Throughput Fee prior to the reduction.

4.2 Volume Incentive Discount. For volumes of Asphalt Products that exceed 248,200 tons during any Contract Year, VMSC will receive a discount off the Base Throughput Fee of $10.00 per ton for each ton in excess of 248,200 tons (the "Volume Incentive Discount").

4.3 Blending Fee. (a) In addition to the Base Throughput Fee, VMSC will pay to VLI a blending fee of $7.50 per ton for all polymer modified asphalt blending services performed under Section 2.4 of this Agreement (as adjusted pursuant to Section 4.5, the "Blending Fee") provided, however, the Blending Fee applicable to each Terminal shall not exceed the lowest blending fee then being paid by an unaffiliated third party at the applicable Terminal; provided further that if the third party blending fee that is the basis for the Blending Fee reduction is no longer in effect or is no longer less than the Blending

Fee, then the Blending Fee shall immediately revert to the Blending Fee prior to the reduction .

(b) For polymer modified asphalt blending services performed under Section 2.4 of this Agreement, VMSC will receive a discount off the Blending Fee of $2.50 per ton for each ton that VMSC is entitled to receive the Volume Incentive Discount pursuant to Section 4.2 of this Agreement (the “Blending Volume Incentive Discount”).

4.4 Payment of Throughput Fees. VLI shall invoice VMSC for Throughput Fees monthly within ten business days after the end of each calendar month for throughput and blending that occurred during the preceding calendar month. VMSC agrees to pay VLI within ten business days of receipt of VLI’s invoice.

4.5 Adjustments to Throughput Fees. At the beginning of each Contract Year, starting January 1, 2005, the Throughput Fee shall be recalculated using a factor that is 80% of the year-over-year percentage change in the Index (the “Adjusted Throughput Fee”). The year-over-year percentage change in the Index shall be calculated by taking the quotient of the Adjustment Year Index over the Base Year Index minus one. Under no circumstances will the Adjusted Throughput Fee for any given Contract Year ever be reduced to an amount that is less than the initial Throughput Fee, as applicable. Within 35 days after the beginning of each Contract Year, VLI shall send VMSC a statement setting forth its calculation of the fee adjustment and indicating what the Adjusted Throughput Fee will be for then-current Contract Year.

4.6 Certification and Shortfall Payment.

(a) *Certification.* Not later than 45 days after the end of each Contract Year, the chief financial officer of VMSC shall deliver a certificate (the “*Certificate*”) certifying whether or not there has been a Shortfall with respect to such Contract Year and if so, the amount of any Shortfall Obligation that VMSC is obligated to pay with respect to such Contract Year pursuant to Section 4.6(e). The Certificate shall further set forth calculations and other information evidencing compliance with Article 3.

(b) Review of Information. During the 45-day period following receipt of the Certificate, VLI and its independent public accountants will be permitted to review the accounting records of VMSC and any applicable Controlled Affiliates, any working papers of independent public accountants of VMSC and its Controlled Affiliates prepared in connection with the Certificate and such additional information as VLI or its independent public accountants shall reasonably request for the purpose of determining whether VMSC has correctly calculated whether there is a Shortfall with respect to the Contract Year covered by the Certificate and, if so, the amount of any Shortfall Obligation for such Contract Year. In this connection, VMSC and VLI and their respective independent public accountants shall, and VMSC shall cause its Controlled Affiliates to, cooperate with each other.

(c) Notice of Disagreement. If, in connection with the period of review and consultation provided for in Section 4.6(b), VLI has reason to believe that VMSC has not correctly calculated the amount of any Shortfall or Shortfall Obligation with respect to such Contract Year in accordance with this Agreement, then within 45 days following receipt of the Compliance Certificate, VLI may give VMSC a written notice of its disagreement (a "Notice of Disagreement"). Any Notice of Disagreement shall specify in reasonable detail VLI's calculation of the Shortfall and Shortfall Obligation. If a Notice of Disagreement is received by VMSC in a timely manner, then the determination of whether VMSC has correctly calculated the amount of any Shortfall or Shortfall Obligation with respect to such Contract Year in accordance with this Agreement, and, if it has not, the amount of the Shortfall or Shortfall Obligation, shall become final and binding upon all parties hereto on either (i) the date the chief financial officers of VMSC and the general partner of VLI (on behalf of VLI) resolve in writing any differences they have with respect to the matters specified in the Notice of Disagreement or (ii) the date any disputed matters are finally resolved in writing by the Accounting Firm pursuant to Section 4.6(d), as applicable. In the event a Notice of Disagreement is not delivered by VLI or timely received by VMSC, then the Compliance Certificate will automatically be deemed accepted by VLI and accurate and shall become final and binding upon all parties hereto at 11:59 p.m. on the 45th day after delivery of the Compliance Certificate from VMSC to VLI.

(d) Settling of Disagreements. If a Notice of Disagreement is timely delivered to VMSC, within 15 days thereafter, the chief financial officers of VMSC and the general partner of VLI (on behalf of VLI) shall meet or communicate by telephone at a mutually acceptable time and place, and thereafter as often as they reasonably deem necessary and shall negotiate in good faith to attempt to resolve any differences which they may have with respect to matters specified in the Notice of Disagreement. During the 30-day period following delivery of the Notice of Disagreement, VMSC and its independent public accountants shall have access to the working papers of VLI, the Partnership Parties and Subsidiaries relating to the Notice of Disagreement and the working papers of their independent public accountants prepared in connection with or relating to the Notice of Disagreement. If such differences are not resolved within 30 days following delivery of the Notice of Disagreement, either VMSC or VLI may, submit to a dispute resolution group of an independent public accounting firm (the "Accounting Firm") for review and resolution any and all matters which remain in dispute and which were properly included in the Notice of Disagreement, in the form of a written brief. The scope of the Accounting Firm's review shall include determining whether there has been a Shortfall with respect to such Contract Year and, if so, the amount of the Shortfall Obligation with respect to such Contract Year. The Accounting Firm shall be a nationally recognized independent public accounting firm as shall be agreed upon by VMSC and VLI in writing. The Accounting Firm's decision shall be accompanied by a certificate of the Accounting Firm that it reached its decision in accordance with the provisions of this Section 4.6(d). The parties agree to use commercially reasonable efforts to cause the Accounting Firm to render a decision resolving the matters submitted to the Accounting Firm within 30 days following submission. The parties agree that judgment may be entered upon the determination of the Accounting Firm in any District Court in Bexar County, Texas. The fees and expenses of the Accounting Firm shall be borne by VMSC and VLI in inverse proportion as they may prevail on matters resolved by the Accounting Firm, which proportionate allocations shall also be determined by the Accounting Firm at the time the determination of the Accounting Firm is rendered on the merits of the matters submitted. Any fees and disbursements of independent public accountants of VMSC or VLI incurred in connection with their preparation or review of the Compliance Certificate or the Notice of Disagreement shall be borne by the party retaining such independent public accountants.

(e) If it is finally determined pursuant to this Section 4.6 that there is a Shortfall Obligation with respect to any Contract Year VMSC shall promptly pay such Shortfall Obligation to VLI.

4.7 Utility Reimbursement. In addition to the Throughput Fees, VMSC shall reimburse VLI monthly VMSC's proportionate share (based on the volume of Asphalt Products stored at the Terminal for the month in question) of the cost of utilities (including electricity, natural gas and water) actually incurred by VLI for the month preceding the month of invoice to the extent that the use of the utilities relates to the services provided to VMSC pursuant to this Agreement.

4.8 Late Charge. VLI reserves the right to assess a late charge on any payment hereunder (or undisputed portion thereof) which is more than 30 days past due. Such late charge shall not exceed the lesser of (a) ten percent (10%) per annum or (b) the maximum interest rate permitted by applicable law for agreements of this nature.

ARTICLE 5

TERM

Subject to early termination pursuant to Article 8, the initial term of this Agreement (the "Initial Term") shall commence on the Commencement Date and shall continue through December 31, 2008; provided, however, if VLI has not taken title to the Terminals on or before March 1, 2004, this Agreement shall automatically terminate. Following the Initial Term, this Agreement shall automatically renew for consecutive 12-month terms unless either party provides the other with at least 365 days' prior written notice of its election to terminate this Agreement such termination to take effect at the end of the Initial Term or any renewal term, as applicable.

ARTICLE SIX

TITLE AND RISK OF LOSS

6.1 Title. VMSC shall retain title to all Asphalt Products delivered by it to the Terminal. Care, custody and control of Asphalt Products shall pass to VLI at the inlet to the storage tanks and shall remain with VLI until such Asphalt Products are delivered to VMSC or its customers (or their carriers) by VLI.

6.2 No Security Interest. VLI shall not create, incur or suffer to exist any pledge, security interest, lien, levy or other encumbrance of or upon any of the Asphalt Products delivered by VMSC to the Terminal. VMSC shall not create, incur or suffer to exist any pledge, security interest, lien, levy or other encumbrance of or upon any of the Facilities.

ARTICLE SEVEN

MEASUREMENT

7.1 Measurement Procedures; Loss Allowance. Measurement shall be in accordance with VLI's standard measurement procedures, which shall be in accordance with applicable API standards. For receipt acknowledgment, the tank upgauge at the storage tanks and/or certified weight scale, mutually agreed between the parties shall be used. For delivery acknowledgment and measurement of Throughput, a certified weight scale mutually agreed between the parties shall be used. A loss allowance of 0.5% on all volumes Throughput through the Terminals shall be permitted. Throughput Fees charged for Asphalt Products where there are losses in excess of 0.5% (measured as the difference between volumes delivered into the storage tanks and volumes delivered to VMSC, its customer or its carriers) will be adjusted accordingly.

7.2 Measurement Records. VLI shall keep accurate records of the receipt, storage and delivery of Asphalt Products hereunder and, subject to the loss allowance provided in Section 7.1, shall account for Asphalt Products at such time and in such manner as shall be reasonably requested by VMSC.

ARTICLE EIGHT

DEFAULT PROVISIONS

Except as otherwise specifically provided for under the terms of this Agreement, if either party fails to perform any of the covenants or obligations imposed on it by this Agreement (the "Defaulting Party"), then the party to whom the covenant or obligation was due (the "Non-Defaulting Party") may (without waiving any other remedy for breach hereof), notify in writing the Defaulting Party, stating specifically the nature of the default (the "Default Notice"). The Defaulting Party will have 30 days after receipt of the Default Notice (the "Cure Period") in which to remedy the cause or causes stated in the Default Notice, or provide adequate security to fully indemnify the Non-Defaulting Party for any and all consequences of the breach, or to dispute the claim of breach. If the Defaulting Party disputes the claim of breach ("Notice of Dispute"), then the Defaulting Party shall notify the Non-Defaulting Party in writing of its dispute within ten days after receipt of the Default Notice. If the Defaulting Party either cures the default or provides adequate security within the Cure Period or delivers a Notice of Dispute in a timely manner, then this Agreement shall remain in full force and effect pending resolution of such dispute with respect to a default addressed by the Defaulting Party. If the Defaulting Party fails to cure the default, to provide adequate security, or timely deliver a Notice of Dispute, or the parties are unable to resolve a dispute addressed in a Notice of Dispute within 60 days after receipt of the Notice of Dispute, then the Non-Defaulting Party may terminate this Agreement immediately upon giving written notice of termination to the Defaulting Party.

ARTICLE NINE

INDEMNIFICATION

9.1 Indemnity. To the fullest extent permitted by law and except as specified otherwise elsewhere in the Agreement:

a) VMSC shall defend, indemnify and hold harmless VLI, its partners and its and their directors, officers, employees and agents from and against any loss, damage, claim, suit liability, judgment and expense (including attorneys fees and other costs of litigation) arising out of injury, disease or death of any persons, damage to or loss of any property, or fines or penalties to the extent caused by or resulting from negligence of VMSC, its employees or agents, in the exercise of any of the rights granted hereunder or in the operations, loading or unloading of any motor vehicle, barge, railcar or other conveyance owned or hired by VMSC, its employees or agents except to the extent that such injury, death, damage to or loss of property or fine or penalty may be caused by or resulting from negligence on the part of VLI, its employees or agents.

b) VLI shall defend, indemnify and hold harmless VMSC, its directors, officers, employees and agents from and against any loss, damage, claim, suit, liability, judgment and expense (including attorneys fees and other costs of litigation) arising out of injury, disease or death of any persons, damage to or loss of any property or fines or penalties to the extent caused by or resulting from negligence of VLI, its partners and its and their directors, employees or agents, in the performance of this Agreement, except to the extent that such injury, death, damage to or loss of property may be caused by or resulting from negligence on the part of VMSC, its employees or agents.

9.2 Term of Indemnity. The indemnification set forth in this Article Nine shall survive the termination of this Agreement for a period of two (2) years.

9.3 Notice. VMSC or VLI, as soon as practicable after receiving notice of any suit brought against it within this indemnity, will furnish to the other party full particulars and shall render all reasonable assistance requested by the other party in the defense.

9.4 No Consequential Damages. In no event, however, shall either party be liable to, and each hereby waives all rights to recover from, the other for any special, incidental, consequential, indirect, punitive, or exemplary damages of any type or character, including loss of use, feedstock, or raw materials, loss of contract, loss of profits or revenue (whether known or speculative) or business interruption loss, however caused, or for Claims caused by, resulting from, or arising out of negligence, breach of contract, breach of warranty, strict liability in tort, or any other cause of action that either party may have against the other.

ARTICLE TEN

AUDIT

Each party’s authorized representatives shall have access, during regular business hours and upon reasonable notice, to such of the other party’s records regarding deliveries and shipments made pursuant to this Agreement and Asphalt produced by the Refineries, including data stored in computers and other memoranda, as may pertain to volumes, measuring devices, and other similar records which would verify Asphalt production, transactions, deliveries, product movements, and meter calibrations and adjustments made pursuant hereto. Additionally, VMSC and its authorized representatives shall have access, during regular business hours and upon reasonable notice, to VLI's (including the Partnership Parties and Subsidiaries) records regarding third-party throughput fees and charges to confirm VLI's compliance with pricing provisions of Section 4.1. The aforementioned audit rights shall be exercisable during the initial term of the Agreement and any renewal terms, and for a period of two (2) years after the termination of this Agreement.

ARTICLE ELEVEN

<u>TAXES; INDEMNITY</u>

11.1 <u>VMSC's Obligations</u>. VMSC will pay, or cause to be paid, and shall indemnify and defend VLI and VLI's affiliates and partners from and against, all taxes and assessments lawfully levied and imposed with respect to the Asphalt Products throughput and/or stored hereunder.

11.2 <u>VLI's Obligations</u>. VLI will pay, or cause to be paid, and shall indemnify and defend VMSC and VMSC's affiliates from and against, all taxes and assessments lawfully levied and imposed with respect to its ownership and/or operation of the Terminals.

ARTICLE TWELVE

<u>FORCE MAJEURE</u>

12.1 <u>Declaration of Force Majeure Event.</u> Except for VMSC's obligation to pay VLI the monetary amounts provided for in this Agreement, neither party shall be liable to the other for any failure, delay, or omission in the performance of its obligations under this Agreement, or be liable for damages, for so long as and to the extent such failure, delay, omission, or damage arises directly or indirectly from a Force Majeure occurrence and this Agreement shall not be extended by such period of Force Majeure delay.

12.2 <u>Force Majeure Defined.</u> A "Force Majeure Event" includes, but is not limited to, the following events to the extent beyond the reasonable control of the party affected by such event: an act of God; fire; flood; hurricane; explosion; accident; act of the public enemy; riot; sabotage; epidemic; quarantine restriction; strike, lockout, or other industrial disturbance or dispute or difference with workers; labor shortage; civil disturbance; compliance with a request, recommendation, act, rule, regulation or order of a federal, state or local government, and agency thereof or other authority having or purporting to have jurisdiction; operational restriction of facilities; unanticipated or emergency shutdowns or turnaround for maintenance and repair; the freezing or plugging of lines of pipe; failure, destruction, or breakdown of facilities or equipment; the necessity for making repairs to or alterations of machinery or pipelines; the unavailability, interruption, or curtailment of firm gas transportation services provided by third-party transporters; or, any other cause or causes beyond the reasonable control of the party experiencing the occurrence, whether similar or not to those listed. The settlement of strikes or differences with workers shall be entirely within the discretion of the party experiencing the occurrence.

12.3 Notice of Force Majeure Event. If either party finds it necessary to declare Force Majeure, then as soon as reasonably possible after the occurrence of Force Majeure, such party shall immediately notify the other party, first by telephone or facsimile, and then promptly by mail or overnight express courier, giving reasonably full details of such occurrence and its estimated duration. The cause of such Force Majeure occurrence shall, only if the affected party deems it reasonable and economic, be remedied with all reasonable dispatch and the other party shall be notified either of the date so remedied or the decision not to remedy as soon as practicable.

ARTICLE THIRTEEN

GENERAL PROVISIONS

13.1 VMSC Intention as to Refineries. VMSC represents to the VLI that, as of the date of this Agreement, it does not intend to close or dispose of either of the Refineries or to cause any changes that would have a material adverse effect on the operation of either of the Refineries. Furthermore, any such sale of one or more of the Refineries shall not eliminate or diminish VMSC’s obligations under Article 3.

13.2 Notice. All notices provided for or required to be given under this Agreement shall be in writing and delivered, with postage or delivery charges prepaid, by U.S. certified or registered mail, hand-delivery, facsimile, nationally recognized overnight express courier, or electronic transmission, addressed to the party at the respective addresses or numbers stated below, or such other addresses or numbers as each shall designate in writing to the other party:

If to VLI by U.S. Mail or Fax:

VALERO LOGISTICS OPERATIONS, L.P.
P.O. Box 696000
San Antonio, Texas 78269-6000
Attention: President
Fax: (210) 370-2943

If to VLI by Hand Delivery or Express Courier:

VALERO LOGISTICS OPERATIONS, L.P.
One Valero Place
San Antonio, Texas 78212
Attention: President

If to VMSC by U.S. Mail or Fax:

Valero Marketing and Supply Company
P.O. Box 500
San Antonio, Texas 78292
210-370-2646
Attention: Vice President-Asphalt Marketing

If to VMSC for Hand Delivery or Express Courier:

One Valero Way
San Antonio, Texas 78249
Attention: Vice President-Asphalt Marketing

13.3 Applicable Laws. This Agreement is subject to and each party shall comply with all Applicable Laws. If this Agreement or any provision of it is found contrary to or in conflict with any such Applicable Laws, this Agreement shall be deemed modified to the extent necessary to comply with same.

13.4 Governing Law. The interpretation of this Agreement shall be governed by and construed in accordance with the laws of the State of Texas without regard to the choice of law doctrine of the State of Texas.

13.5 Successors; Assignability. The provisions of this entire Agreement shall be binding upon the respective successors and assigns and successive assigns of each of the parties hereto. Neither party may assign this Agreement to a third party without the prior consent of the other party, which consent may not be unreasonably withheld, delayed, or conditioned; provided, however, that without the consent of the other party, either party may assign its rights and obligations under this Agreement to its parent entity, subsidiary, or affiliate.

13.6 Headings; Reference. The headings appearing at the beginning of each article are inserted solely for convenience and shall never be considered or given any effect in construing any provision of this Agreement, or in determining the duties, obligations or liabilities of the respective parties or in ascertaining the intent, if any questions of intent should arise.

13.7 Waivers. No waiver of any provision of this Agreement shall be valid unless it is in writing and signed by the party against whom the waiver is sought to be enforced. No failure or delay in exercising any right hereunder, and no course of conduct, shall operate as a waiver of any provision of this Agreement. No single or partial exercise of a right hereunder shall preclude further or complete exercise of that right or any other right hereunder.

13.8 Severability. If any provision of this Agreement shall be held invalid or unenforceable by a court or regulatory body of competent jurisdiction, the remainder of this Agreement shall remain in full force and effect.

13.9 Arbitration Provision. Any and all Arbitrable Disputes must be resolved through the use of binding arbitration using three arbitrators, in accordance with the Commercial Arbitration Rules of the American Arbitration Association, as supplemented to the extent necessary to determine any procedural appeal questions by the Federal Arbitration Act (Title 9 of the United States Code). If there is any inconsistency between this Section and the Commercial Arbitration Rules or the Federal Arbitration Act, the terms of this Section will control the rights and obligations of the parties. Arbitration must be initiated within the applicable time limits set forth in this Agreement and not thereafter or if no time limit is given, within the time period allowed by the applicable statute of limitations. Arbitration may be initiated by a party ("Claimant") serving written notice on the other party ("Respondent") that the Claimant elects to refer the Arbitrable Dispute to binding arbitration. Claimant's notice initiating binding arbitration must identify the arbitrator Claimant has appointed. The Respondent shall respond to Claimant within 30 days after receipt of Claimant's notice, identifying the arbitrator Respondent has appointed. If the Respondent fails for any reason to name an arbitrator within the 30 day period, Claimant shall petition to the American Arbitration Association for appointment of an arbitrator for Respondent's account. The two arbitrators so chosen shall select a third arbitrator within 30 days after the second arbitrator has been appointed. The Claimant will pay the compensation and expenses of the arbitrator named by or for it, and the Respondent will pay the compensation and expenses of the arbitrator named by or for it. The costs of petitioning for the appointment of an arbitrator, if any, shall be paid by Respondent. The Claimant and Respondent will each pay one-half of the compensation and expenses of the third arbitrator. All arbitrators must (a) be neutral parties who have never been officers, directors or employees of VMSC, VLI or any of their affiliates and (b) have not less than seven years experience in the energy industry. The hearing will be conducted in San Antonio, Texas and commence within 30 days after the selection of the third arbitrator. VMSC, VLI and the arbitrators should proceed diligently and in good faith in order that the award may be made as promptly as possible. Except as provided in the Federal Arbitration Act, the decision of the arbitrators will be binding on and non-appealable by the parties hereto. The arbitrators shall have no right to grant or award indirect, consequential, punitive or exemplary damages of any kind.

13.10 Entire Agreement. This Agreement constitutes the entire agreement between the parties regarding these matters. No variation, modification or change of the Agreement shall be binding upon either party unless contained in a written instrument executed by a duly authorized representative of each of the parties.

Effective as of the date first written above.

VALERO LOGISTICS OPERATIONS, L.P.
By: Valero GP, Inc., its General Partner

By: /s/ CURTIS V. ANASTASIO

Curtis V. Anastasio, President and CEO

VALERO MARKETING AND SUPPLY COMPANY

By: /s/ MICHAEL T. STONE

Michael T. Stone, Vice President

Exhibit 10.3

AMENDMENT NUMBER ONE TO
HANDLING AND THROUGHPUT AGREEMENT

This Amendment Number One (this "Amendment") to the Handling and Throughput Agreement dated as of March 18, 2003 is made and entered into effective as of the 27th day of April, 2004 (the "Effective Date") by and between Valero Logistics Operations, L.P., a Delaware limited partnership ("Valero Logistics") and Valero Marketing and Supply Company, a Delaware corporation ("Valero Marketing").

RECITALS

A. WHEREAS, Valero Logistics and Valero Marketing are parties to that certain Handling and Throughput Agreement dated March 18, 2003 (the "Agreement"); and

B. WHEREAS, Valero Logistics and Valero Marketing desire to amend the Agreement to clarify the equation used to determine the annual adjustment to the Throughput Fee per Barrel; and

AGREEMENTS

NOW, THEREFORE, for and in consideration of the covenants and agreements of the parties contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Defined Terms. Capitalized terms used but not defined in this Amendment shall have the meanings given them in the Agreement.

2. Amendment. The Agreement is hereby amended as follows:

Section 1(b) entitled "Throughput Fee per Barrel" of the Agreement is hereby deleted in its entirety and replaced with the following:

"(b) Throughput Fee per Barrel. The Throughput Fee per Barrel for 100% of the Specified Feedstocks Delivered to a Refinery during any Measurement Period occurring during 2003 shall be the fee specified in the table below for each barrel (with any volume of less than one-half barrel being rounded down to the nearest whole number of barrels and any volume of one-half barrel or more being rounded up to the next highest whole number) of such Specified Feedstocks:

For Specified Feedstocks	Throughput Fee Per Barrel During 2003
Delivered to:	
Benicia Refinery	$ 0.296
Texas City Refinery	$ 0.121
Corpus Christi Refinery	$ 0.203

For 100% of the Specified Feedstocks Delivered to the Refineries during any Measurement Period occurring after 2003, the Throughput Fee per Barrel for Specified Products Delivered to each of the Refineries shall be adjusted as of each anniversary of the effective date of this Agreement by a factor which is 75% of the year-to-year percentage change in the CPI applicable to each Refinery.

3. Ratification. Except as hereby amended, the Agreement is hereby ratified and affirmed and shall continue in full force and effect in accordance with its terms. All references to the Agreement hereafter shall mean and refer to the Agreement as hereby amended

4. Counterparts. This Amendment may be executed in multiple counterparts, each of which shall be deemed an original, and all of which together shall constitute but one and the same instrument.

IN WITNESS WHEREOF, this Amendment has been duly executed by authorized representatives of the parties, to be effective as of the Effective Date.

VALERO LOGISTICS OPERATIONS, L.P.

By: Valero GP, Inc., it general partner

By: /s/ CURTIS V. ANASTASIO

Name: **Curtis V. Anastasio**
Title: **President**

VALERO MARKETING AND SUPPLY COMPANY

By: /s/ MICHAEL S. CISKOWSKI

Name: **Michael S. Ciskowski**
Title: **Executive Vice President**

Exhibit 10.4

TERMINAL AGREEMENT
(CORPUS CHRISTI CRUDE TERMINAL)

This AGREEMENT, effective as of the 1st day of January, 2004, by and between VALERO LOGISTICS OPERATIONS, L.P., a Delaware limited partnership having an office at One Valero Place, San Antonio, Texas 78212 (hereinafter "Terminal"), and Valero Marketing and Supply Company, a Delaware corporation having an office at One Valero Place, San Antonio, Texas 78212 (hereinafter "Customer"), covers the furnishing of storage and services for the storage and handling of Customer's crude oil as specified in Section 1 hereof, hereinafter to be referred to as "Product", by Terminal for Customer at Terminal's North Beach facility near Corpus Christi, Texas, hereinafter referred to as the "Facilities" under the terms and conditions set forth hereinafter:

WITNESSETH

For and in consideration of the mutual covenants and agreements contained herein, it is hereby agreed as follows:

SECTION 1

FACILITIES AND PRODUCTS

1.1 Terminal shall provide the following tank(s) for the storage and handling of Customer's Product as specified herein:

TANK NOS.	SHELL BARRELS	PRODUCTS TO BE STORED IN TANK	METHOD OF	
			RECEIPT	REDELIVERY
400-M1	400,000	Crude oil	V	P
400-M2	400,000	Crude oil	V	P
400-M3	400,000	Crude oil	V	P
400-M4	400,000	Crude oil	V	P
	1,600,000	Total Barrels		

V = Vessel P = Pipeline

SECTION 2

SERVICES

2.1 When instructed by Customer, Terminal agrees to receive, store, blend, circulate and redeliver Customer's Product, by means of the tanks identified in Section 1.

SECTION 3

HOURS OF OPERATION

3.1 The Terminal shall remain open twenty-four (24) hours per day, seven (7) days per week, including holidays, for the receipt and delivery of Product via marine vessel and pipeline.

SECTION 4

4.1 Intentionally Left Blank

SECTION 5

CONSIDERATION

5.1 Customer agrees to pay Terminal the following charges for which Terminal agrees to provide storage and services as specified herein:

1. Monthly Facility Charge: During the term hereof, Customer agrees to pay Terminal a facility charge of $0.30 per barrel, per month, times the number of shell barrels leased hereunder (the "Facility Charge"). Charges for a partial month will be prorated.

2. Dockage and Wharfage Fee: During the term hereof, Customer agrees to pay Terminal a dockage and wharfage fee of $0.07 per barrel for each barrel of Customer's Product delivered into the Facilities from a vessel (the "Dockage and Wharfage Fee").

5.2 Customer shall pay Terminal the Facility Charge and the Dockage and Wharfage Fee monthly by wire or other electronic funds transfer within ten (10) days of receipt of Terminal's invoice for each month. In the event that Customer does not pay such invoices within the agreed upon time, Terminal shall have the right to charge Customer late payment fees on any past due, undisputed amounts computed from the payment due date at an interest rate equal to the prevailing prime rate of interest as reported in the "Money Rates" section of the Wall Street Journal. Payments shall be made to the address and/or account designated by Terminal.

SECTION 6

TERM

6.1 The initial term of this Agreement shall be 12 months commencing on January 1, 2004. This Agreement will automatically renew for one additional 12 month period unless either party provides written notice of termination to the other at least 90 days prior to the expiration of the initial term. Additionally, by providing written notice at least 90 days prior to the expiration of the initial term, Customer may elect to reduce the amount of tankage leased from Terminal to 1,200,000 shell barrels of the tankage specified in Section 1.1 for the next 12 month period. If Customer makes such election, then the Facility Charge shall be correspondingly reduced.

6.2 The Facility Charge and Dockage and Wharfage Fee are subject to adjustment at the end of each contract year during the term of this Agreement based on 75% of the annual percentage increase in the CPI, where “CPI” means the Consumer Price Index – All Urban Consumers – All Items Index applicable to Houston, Texas. The CPI most recently published by the Dept. of Labor – Bureau of Labor Statistics for the calendar year in which the adjustment to the applicable fee is then being calculated shall be used. If the Dept. of Labor ceases publishing the CPI, then the parties shall negotiate in good faith to select a substitute index that shall be used in place of the CPI. If the parties are unable to agree upon an appropriate substitute index, each party shall submit its recommendation for a substitute index to the Chaired Professor in Oil and Gas Law at the law school at Southern Methodist University in Dallas, Texas for his final and binding selection of a substitute index or indices. The parties shall each pay ½ of his fees as invoiced.

SECTION 7

MAINTENANCE OF FACILITIES

7.1 Terminal will maintain the tankage and facilities in good repair and condition during the term of this Agreement. Customer, during the term of this Agreement, has the right to inspect the tankage and facilities and make reasonable requests for repair (or suitable alternative tankage as necessary) if disrepair creates an unreasonable risk of harm to Customer’s Products. Unless disputed in good faith by Terminal, Terminal shall promptly undertake any such repairs at Terminal’s expense. Notwithstanding the foregoing, Customer shall have no obligation to inspect, repair or maintain the Facilities.

SECTION 8

DETERMINATION OF QUALITY AND QUANTITY

8.1 Quality and quantity of the Product when received and when redelivered out of the Terminal hereunder shall be determined by an independent inspector specified by Customer. The charges for such independent inspection shall be paid by Customer. In the event Customer does not provide an independent inspector to determine quality and/or quantity, Terminal’s determination of quantity shall be accepted as final and binding by Customer. Terminal shall be responsible for inspection charges (if any) incurred in connection with transfers within the Terminal (i.e. tank-to tank transfers) made for Terminal’s convenience.

8.2 The quantity of Product received via marine vessel shall be determined from shore tank gauge readings taken before and after loading Product into shore tank. The shore tank shall be allowed to settle for at least two (2) hours after any loading of any substance into or out of, or circulation of, such shore tank, before any opening or closing shore tank gauge readings are taken. The quantity of Product delivered via pipeline shall be determined from the pipeline company’s meter ticket. Shore gauges will be taken as back up.

SECTION 9

TITLE AND CUSTODY

9.1 Subject to the provisions of this Agreement, Terminal shall be deemed to have custody of the Product from the time it passes the flange connection between the Customer’s inbound mode specified in Section 1 hereof and Terminal’s receiving line and until it passes the flange connection between Terminal’s delivery line and Customer’s outbound mode specified in Section 1 hereof. Title to Products shall at all times remain with Customer.

SECTION 10

TAXES

10.1 Customer shall pay any and all taxes, charges and/or assessments levied by any governmental authority on the Product covered hereunder, except for any such taxes, charges, or assessment incurred by the income or gross receipts of Terminal, franchise taxes and real estate taxes, which shall be paid by Terminal.

SECTION 11

INSURANCE

11.1 The charges specified herein do not include any insurance on the Product, it being expressly understood and agreed that should insurance, if any, be desired by Customer, such insurance shall be carried by Customer at its’ own expense.

SECTION 12

LOADING AND UNLOADING OF VESSELS; SCHEDULING

12.1 (a) Customer shall endeavor to advise Terminal not less than five (5) days prior to the commencement of each calendar month of a provisional delivery program for that calendar month. During the calendar month, Customer shall provide daily updates to this schedule.

(b) Terminal shall use reasonable care to coordinate the availability of necessary docks and terminal personnel with the arrival, loading and/or unloading of each vessel scheduled by Customer.

SECTION 13

USE, CLEANING, REMOVAL AND DISPOSAL

13.1 Customer agrees to use the storage tanks and Facilities only for the storage of Products specified in Section 1, and Customer shall be responsible for any damage to the extent caused by the storage in the tank of any Product which is not expressly authorized under the terms hereof.

13.2 Any cleaning of tanks and lines at the Facilities required due to a change in service requested by Customer during the term will be at Customer's expense. Customer shall also be responsible for removing and disposing of water from Product in the tanks specified in Section 1.1 at no cost to Terminal.

13.3 Upon termination or expiration of this Agreement, Terminal shall be responsible for the cost of cleaning all residual Product from the tanks specified in Section 1.1, provided that Customer shall be responsible for the cost of disposing of such residual Product and title to such residual Product shall remain with Customer.

SECTION 14

RESPONSIBILITY FOR LOSS OR DAMAGE

14.1 (a) Terminal shall not be liable for contamination or any loss or damage to the Product while stored in the Terminal's tankage or while the Product is in process of being received into or redelivered out of the tankage or otherwise in Terminal's custody, unless such condition, loss or damages are caused by Terminal's failure to use reasonable care in handling receiving, storing and/or redelivering such Product or otherwise performing Terminal's obligations under this Agreement.

(b) Terminal shall only be liable for such losses of Customer's Product, to the extent such losses exceed one quarter of one percent of the monthly volume of Product, which monthly volume for this purpose shall consist of the sum of the opening inventory of Customer's Product contained in Terminal's storage tank(s) at the beginning of each month period during the term plus the amount of Customer's Product received into Terminal's Facilities during such month period less the amount of any shipments of Customer's Product out of Terminal's Facilities.

In the event Terminal should be liable hereunder for evaporation, shrinkage, contamination or for any loss or damage to the Product, Terminal and Customer agree that Terminal's liability for said Product shall be equal to the market value of the Product as of the date of the determination of loss as herein above provided, together with reasonable replacement costs incurred by Customer.

14.2 Except as set forth herein, both parties hereby agree that neither party shall, under any circumstances, be liable to the other party for incidental or consequential damage including, but not limited to damage alleged to result from delay incurred by the other party or by any third party as a result of the other party's action or inaction hereunder.

SECTION 15

INDEMNITY

15.1 Subject to the provisions of this Agreement, Terminal shall be responsible for and shall indemnify, defend and save harmless Customer from and against any and all claims, demands and causes of action brought by any and all persons, including without limitation, Terminal's officers, agents, employees, representatives, or subcontractors or by any third parties, including any governmental agencies or instrumentalities and against any and all judgments in respect thereto on account of personal injury or death or of property damage or destruction or loss, in any case to the extent arising out of the Terminal's negligence or willful misconduct or failure to comply with, or its violation of, any law, statute, regulation or order of the Untied States, State of Texas, and of any other governmental or quasi-governmental authority having jurisdiction, including those that relate to the prevention, abatement and elimination of pollution, including, but not limited to, the Federal Comprehensive Environmental Response, Compensation, and Liability Act, the Resource Conservation and Recovery Act, the Clean Water Act, the Safe Drinking Water Act, the Toxic Substances Control Act, Clean Air Act, and the Hazardous Materials Transportation Act, together with all state statutes serving any similar or related purposes.

15.2 Subject to the provisions of this Agreement, Customer shall be responsible for and shall indemnify, defend and save harmless Terminal from and against any and all claims, demands and causes of action brought by any and all persons, including without limitation, Customer's officers, agents, employees, representatives, or subcontractors or by any third parties, including any governmental agencies or instrumentalities and against any and all judgments in respect thereto on account of personal injury or death or of property damage or destruction or loss, in any case to the extent arising out of the Customer's negligence or willful misconduct or failure to comply with, or its violation of, any law, statute, regulation or order of the Untied States, State of Texas, and of any other governmental or quasi-governmental authority having jurisdiction, including those that relate to the prevention, abatement and elimination of pollution, including, but not limited to, the Federal Comprehensive Environmental Response, Compensation, and Liability Act, the Resource Conservation and Recovery Act, the Clean Water Act, the Safe Drinking Water Act, the Toxic Substances Control Act, Clean Air Act, and the Hazardous Materials Transportation Act, together with all state statutes serving any similar or related purposes.

15.3 Where personal injury, death, or loss of or damage to property is the result of the joint negligence or misconduct of Terminal and Customer, the extent of each party's obligations shall be determined by applicable law.

15.4 The indemnity obligations set forth in this Section 15 include the reasonable attorneys' fees of the indemnified party.

SECTION 16

COMPLIANCE WITH LAWS AND REGULATIONS

16.1 It is the intent of the parties hereto that the Facilities and services to be provided by Terminal will not conflict with or violate any law, regulation or ruling of any federal, state, county, municipal or other governmental body.

16.2 In the event any governmental body or any change in applicable law shall require the installation of facilities or fixtures, or require changes to Terminal's normal operating procedures or facilities or fixtures related to the storage and handling of Customer's Product or the general class of products which includes Customer's Product, Terminal shall notify Customer of the necessity and cost of such installation of facilities or fixtures, or changes in operating procedures and to the required increase in compensation resulting therefrom to reflect Terminal's additional costs of compliance. To the extent appropriate, Terminal shall charge all its Customers on a prorated basis for any such costs. In the event Terminal decides, in its sole discretion, that the cost of compliance is excessive or Customer decides, in its sole discretion, that the increase in compensation hereunder is excessive, either party may thereafter cancel this Agreement upon 90 days written notice to the other. Absent such notice, Terminal shall endeavor, in good faith, to install such facilities or fixtures or make such necessary changes to Terminal's operating procedures.

SECTION 17

FORCE MAJEURE

17.1 Neither party shall have any liability for discoloration, contamination, damage to or destruction of the Product or property to the extent such discoloration, contamination, damage or destruction of Product or property are caused or brought about by any act or occurrence beyond the reasonable control of the party claiming force majeure (each, a "Force Majeure Event"), including, without limitation, any act of God or public enemy or by labor troubles, strikes, lockouts, non-availability of labor, riots, fires, storms, lightning, floods, hurricanes, washouts, tornadoes, explosions, breakdown or failure of or accident to storage tanks, docks, pipelines, machinery or equipment, failure of equipment to perform as represented or warranted by the manufacturer (provided such failure to perform does not arise from failure to maintain such equipment), governmental embargoes or interventions, failure or delay of manufacturers or persons from whom Terminal is obtaining machinery, equipment, materials or supplies to deliver the same or from any law, proclamation, regulation or order of any government, governmental agency or court having or claiming to have jurisdiction over any part of Terminal's Facility or right-of-ways, and cancellation or withdrawal of permits by governmental agencies (provided any such governmental action is not the result of a party's failure to comply with applicable laws, rules or regulations). In the event of destruction of, governmental regulatory interference with, or any damage to Terminal's facilities that renders tankage unsuitable for Customer's Products, Terminal shall not be required to furnish additional or alternate facilities to Customer.

17.2 In the event that any tankage becomes unsuitable for Customer's Products due to no fault of Customer, or Customer is unable to utilize such tankage due to a Force Majeure Event, as provided in Section 17.1 hereof, the facility charge for such tankage will be suspended for the duration of such unsuitability or inability.

SECTION 18

DEMURRAGE

18.1 Terminal shall be liable to Customer for actual demurrage costs to the extent arising out of (a) Terminal's failure to use reasonable care in the performance of its obligations under this Agreement, or (b) Terminal's inability to receive or redeliver Customer's Product pursuant to any of the methods set forth in Section 1.1.

18.2 If a Customer vessel arrives at the dock as scheduled and Terminal does not have sufficient personnel to dock the ship, or discharge the Product, or if Terminal delays the discharge, loading or departure of the vessel through Terminal's neglect, Terminal shall be liable to Customer for actual vessel demurrage costs.

18.3 To the extent demurrage claims arise out of or relate to the delay or nonperformance of Terminal's obligations under this Agreement due to a Force Majeure Event, Terminal shall be liable for Customer's actual demurrage claim.

SECTION 19

DEFAULT

19.1 Should Customer default at any time in the prompt payment of any monies due hereunder after notice of such failure to pay from Terminal, or in the prompt performance and observance of any of the terms or conditions of this Agreement, other than those relating to the payment of money, and any such default, not relating to the payment of money, continues for thirty (30) or more days after written notice thereof by Terminal to Customer, or should Customer go into bankruptcy, voluntary or involuntary, or be placed in the hands of a receiver, State or Federal, then and in any such event, at the option of Terminal, the Terminal shall have the right to terminate this Agreement and receive any remedies available to it.

19.2 Should Terminal default at any time in the prompt performance and observance of any of the terms or conditions of this Agreement, and any such default continues for thirty (30) or more days after written notice thereof by Customer to Terminal, or should Terminal go into bankruptcy, voluntary or involuntary, or be placed in the hands of a receiver, State or Federal, then and in any such event, at the option of Customer, the Customer shall have the right to terminate this Agreement and receive any remedies available to it.

SECTION 20

ASSIGNMENT-SUBLETTING-RELATIONSHIP CREATED-BINDING EFFECT

20.1 This Agreement shall not be assigned, in whole or part, by either party without the prior written consent of the other party, which shall not be unreasonably withheld.

20.2 Customer shall not sublet the Facilities set forth in Section 1.1 hereof without the prior written consent of Terminal, which shall not be unreasonably withheld. In the event Customer sublets facilities and Terminal so requests, Customer shall insure that the sublessee grants to Terminal a security interest in sublessee’s product to secure payment of storage charges by executing and delivering to Terminal a security agreement in a form reasonably satisfactory to Terminal.

20.3 This Agreement shall be binding upon and shall operate for and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

SECTION 21

MODIFICATION

21.1 This Agreement shall not be modified or changed except by the written instrument executed by a duly authorized officer of each of the parties hereto.

SECTION 22

REPORTS

22.1 Terminal agrees to provide a daily report summarizing the inventory changes in the past 24 hours. At the end of each month during the term hereof, Terminal shall provide to Customer a report summarizing all Product received into storage and redelivered out of storage during that month, the beginning storage inventory, the ending storage inventory and any gain or loss of actual physical inventory over computed inventory. In addition, Terminal shall prepare invoices for the amounts due Terminal for services performed hereunder.

SECTION 23

NOTICES

23.1 Any notice, request, consent and other communication required hereunder shall be in writing and transmitted by personal delivery, telex, telefax or registered mail at the address herein specified. Any notice hereunder shall be deemed to be received when personally delivered, twenty-four (24) hours after dispatch in the case of telex and telefax and three (3) business days after transmittal in the case of registered mail.

The address for Customer shall be:

One Valero Way

San Antonio, TX 78249

Attention: Vice President, Crude Supply

The address for Terminal shall be:

One Valero Way

San Antonio, TX 78249

Attention: Vice President, Operations

From time to time, either party may designate another address for the purpose of this Agreement by mailing to the other party notice of such change of address, which shall be effective fifteen (15) days after the giving of such notice.

SECTION 24

GOVERNING LAW

24.1 The rights and remedies of the parties hereunder shall be governed by the laws of Texas.

SECTION 25

SOLE AGREEMENT

25.1 This Agreement constitutes the sole and entire agreement between the parties pertaining to the subject matter hereof and, effective as of the commencement of the term hereof, supersedes and cancels any and all other oral or written agreements or understandings between or assumed by the parties with respect to the foregoing matters or any part thereof.

SECTION 26

COUNTERPARTS

26.1 This Agreement may be executed in any number of counterparts and any party hereto may execute any such counterpart, each of which when executed by all parties and delivered shall be deemed to be an original.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS THEREOF, the parties have executed this Agreement as of the date set forth above.

VALERO LOGISTICS OPERATIONS, L.P.,
a Delaware limited partnership

By: Valero G.P. Inc., its General Partner

By: /s/ CURTIS V. ANASTASIO

Name: **Curtis V. Anastasio**
Title: **President and Chief Executive Officer**

VALERO MARKETING AND SUPPLY COMPANY

By: /s/ ROBERT S. BEADLE

Name: **Robert S. Beadle**
Title: **Senior Vice President**

Exhibit 12.1

VALERO L.P.
STATEMENT OF COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(in thousands, except ratio)

	Three Months Ended March 31, 2004	Years Ended December 31, 2003	2002	2001	2000	1999
Earnings:						
Income from continuing operations before provision for income taxes and income from equity investees	$ 19,417	$ 67,177	$ 52,350	$ 42,694	$ 35,968	$ 65,445
Add:						
Fixed charges	5,291	16,443	5,492	4,203	5,266	997
Amortization of capitalized interest	14	55	48	39	34	32
Distributions from Skelly-Belvieu Pipeline Company	688	2,803	3,590	2,874	4,658	4,238
Less: Interest capitalized	(17)	(123)	(255)	(298)	—	(115)
Total earnings	$ 25,393	$ 86,355	$ 61,225	$ 49,512	$ 45,926	$ 70,597
Fixed charges:						
Interest expense [1]	$ 5,078	$ 15,291	$ 4,968	$ 3,721	$ 5,181	$ 777
Amortization of debt issuance costs	100	740	160	90	—	—
Interest capitalized	17	123	255	298	—	115
Rental expense interest factor [2]	96	289	109	94	85	105
Total fixed charges	$ 5,291	$ 16,443	$ 5,492	$ 4,203	$ 5,266	$ 997
Ratio of earnings to fixed charges	4.8x	5.3x	11.1x	11.8x	8.7x	70.8x

(1) The interest expense, net reported in Valero L.P.'s consolidated statements of income for the three months ended March 31, 2004 and the years ended December 31, 2003 and 2002 includes interest income of $52,000, $171,000 and $248,000, respectively.

(2) The interest portion of rental expense represents one-third of rents, which is deemed representative of the interest portion of rental expense.

Exhibit 31.1

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Curtis V. Anastasio, the principal executive officer of Valero GP, LLC, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Valero L.P. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 7, 2004

/s/ CURTIS V. ANASTASIO

Curtis V. Anastasio
President, Chief Executive Officer and Director

CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002

I, Steven A. Blank, the principal financial officer of Valero GP, LLC, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Valero L.P. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusion about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2004

/s/ STEVEN A. BLANK

Steven A. Blank
Senior Vice President and Chief Financial Officer

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C.
SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Valero L.P. on Form 10-Q for the quarter ended March 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Curtis V. Anastasio, President, Chief Executive Officer and a Director of Valero GP, LLC hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Valero L.P.

/s/ CURTIS V. ANASTASIO

Curtis V. Anastasio
President, Chief Executive Officer and Director

May 7, 2004

A signed original of the written statement required by Section 906 has been provided to Valero L.P. and will be retained by Valero L.P. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO 18 U.S.C.
SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Valero L.P. on Form 10-Q for the quarter ended March 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Steven A. Blank, Senior Vice President and Chief Financial Officer of Valero GP, LLC hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Valero L.P.

/s/ STEVEN A. BLANK

Steven A. Blank
Senior Vice President and Chief Financial Officer

May 7, 2004

A signed original of the written statement required by Section 906 has been provided to Valero L.P. and will be retained by Valero L.P. and furnished to the Securities and Exchange Commission or its staff upon request.