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

FORM 10-Q

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2003

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 X 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 X No ____

The number of common units outstanding as of August 11, 2003 was 13,442,072.

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VALERO L.P. AND SUBSIDIARIES
FORM 10-Q
JUNE 30, 2003

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2003	December 31, 2002
Assets		
Current assets:		
Cash and cash equivalents	$ 12,027	$ 33,533
Receivable from Valero Energy	16,088	8,482
Accounts receivable	2,812	1,502
Other current assets	1,576	177
Total current assets	32,503	43,694
Property, plant and equipment	861,439	486,939
Less accumulated depreciation and amortization	(149,192)	(137,663)
Property, plant and equipment, net	712,247	349,276
Goodwill	4,715	4,715
Investment in Skelly-Belvieu Pipeline Company	15,794	16,090
Other noncurrent assets, net	10,682	1,733
Total assets	$ 775,941	$ 415,508
Liabilities and Partners' Equity		
Current liabilities:		
Current portion of long-term debt	$ 449	$ 747
Accounts payable and accrued liabilities	14,855	8,133
Payable to Valero Energy	6,666	-
Taxes other than income taxes	3,528	3,797
Total current liabilities	25,498	12,677
Long-term debt, less current portion	364,782	108,911
Other long-term liabilities	25	25
Commitments and contingencies (see Note 5)		
Partners' equity:		
Common units	260,306	170,655
Subordinated units	116,875	117,042
General partner's equity	8,455	6,198
Total partners' equity	385,636	293,895
Total liabilities and partners' equity	$ 775,941	$ 415,508

See accompanying 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 June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Revenues	$ 47,542	$ 30,030	$ 79,358	$ 56,054
Costs and expenses:				
Operating expenses	16,335	9,565	27,996	18,749
General and administrative expenses	1,670	1,698	3,514	3,487
Depreciation and amortization expense	7,269	3,876	11,552	8,231
Total costs and expenses	25,274	15,139	43,062	30,467
Operating income	22,268	14,891	36,296	25,587
Equity income from Skelly-Belvieu Pipeline Company	600	844	1,331	1,522
Interest expense, net	(4,736)	(796)	(7,113)	(1,352)
Income before income tax expense	18,132	14,939	30,514	25,757
Income tax expense	-	-	-	395
Net income	$ 18,132	$ 14,939	$ 30,514	$ 25,362
Allocation of net income:				
Net income	$ 18,132	$ 14,939	$ 30,514	$ 25,362
Less net income applicable to the Wichita Falls Business for the month ended January 31, 2002	-	-	-	(650)
Net income applicable to the general and limited partners' interests	18,132	14,939	30,514	24,712
General partner's interest in net income	(1,066)	(299)	(1,690)	(494)
Limited partners' interest in net income	$ 17,066	$ 14,640	$ 28,824	$ 24,218
Net income per unit applicable to limited partners	$ 0.79	$ 0.76	$ 1.40	$ 1.26
Weighted average number of units outstanding	21,702,990	19,253,894	20,635,667	19,247,789
Cash distributions per unit applicable to limited partners	$ 0.75	$ 0.70	$ 1.45	$ 1.35

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Cash Flows from Operating Activities:		
Net income	$ 30,514	$ 25,362
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	11,552	8,231
Equity income from Skelly-Belvieu Pipeline Company	(1,331)	(1,522)
Distributions of equity income from Skelly-Belvieu Pipeline Company	1,331	1,622
Provision for deferred income taxes	-	54
Changes in operating assets and liabilities:		
Increase in receivable from Valero Energy	(7,606)	(519)
(Increase) decrease in accounts receivable	(1,310)	185
Increase in other current assets	(1,399)	(291)
Increase in accounts payable and accrued liabilities	6,722	525
Increase in payable to Valero Energy	6,666	-
(Decrease) increase in taxes other than income taxes	(269)	1,311
Other, net	2,272	267
Net cash provided by operating activities	47,142	35,225
Cash Flows from Investing Activities:		
Reliability capital expenditures	(2,638)	(1,530)
Expansion capital expenditures	(5,187)	(1,230)
Acquisitions	(366,675)	(75,000)
Distributions in excess of equity income from Skelly-Belvieu Pipeline Company	296	-
Net cash used in investing activities	(374,204)	(77,760)
Cash Flows from Financing Activities:		
Proceeds from 6.05% senior note private placement, net of discount and issuance costs	247,328	-
Proceeds from other long-term debt borrowings	25,000	75,000
Repayment of long-term debt	(25,298)	(46)
Distributions to unitholders and general partner	(30,088)	(24,646)
Distributions to Valero Energy and affiliates	-	(512)
General partner contributions, net of redemption	1,892	-
Proceeds from sale of common units to the public, net of issuance costs	220,787	-
Redemption of common units held by UDS Logistics, LLC	(134,065)	-
Net cash provided by financing activities	305,556	49,796
Net (decrease) increase in cash and cash equivalents	(21,506)	7,261
Cash and cash equivalents as of the beginning of the period	33,533	7,796
Cash and cash equivalents as of the end of the period	$ 12,027	$ 15,057
Non-Cash Activities - Adjustment related to the transfer of the Wichita Falls Business to Valero L.P. by Valero Energy:		
Property, plant and equipment	$ -	$ 64,160
Accrued liabilities and taxes other than income taxes	-	(382)
Deferred income tax liabilities	-	(13,147)
Net Valero Energy investment	-	(50,631)

See accompanying notes to consolidated financial statements.

NOTE 1: Organization, Basis of Presentation, Revenue Changes and New Accounting Pronouncements

Organization

Valero L.P. is a Delaware limited partnership and through its wholly owned subsidiary, Valero Logistics Operations, L.P. (Valero Logistics), owns and operates crude oil and refined product pipeline and terminalling assets that serve Valero Energy Corporation's (Valero Energy) McKee, Three Rivers, Corpus Christi East and Corpus Christi West refineries located in Texas and the Ardmore refinery located in Oklahoma. Valero Logistics also owns and operates the crude oil storage tanks that serve Valero Energy's Corpus Christi West and Texas City refineries located in Texas, and the Benicia refinery located in California. The pipeline, terminalling and storage tank assets provide for the transportation of crude oil and other feedstocks to the refineries and the transportation of refined products from the refineries to terminals or third-party pipelines for further distribution. Revenues of Valero L.P. and its subsidiaries are earned primarily from providing these services to Valero Energy (see Note 6).

As used in this report, the term Partnership may refer, depending on the context, to Valero L.P., Valero Logistics, or both of them taken as a whole. Riverwalk Logistics, L.P., a wholly owned subsidiary of 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 ownership of 48.2% as of June 30, 2003 (see Note 8 and 9). The remaining 51.8% limited partnership interest is held by public unitholders.

Valero Energy is an independent refining and marketing company. Its operations consist of 14 refineries with a total throughput capacity of 2.1 million barrels per day and an extensive network of company-operated and dealer-operated convenience stores. Valero Energy's refining operations rely on various logistics assets (pipelines, terminals, marine dock facilities, bulk storage facilities, refinery delivery racks and rail car loading equipment) that support its refining and retail operations, including the logistics assets owned and operated by the Partnership. Valero Energy markets the refined products produced at the McKee, Three Rivers, Ardmore, Corpus Christi East, Corpus Christi West, Texas City and Benicia refineries primarily in Texas, Oklahoma, Colorado, New Mexico, Arizona, California and several other mid-continent states through a network of company-operated and dealer-operated convenience stores, as well as through other wholesale and spot market sales and exchange agreements.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles 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 United States generally accepted accounting principles (GAAP) for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain previously reported amounts have been reclassified to conform to the 2003 presentation.

Operating results for the six months ended June 30, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. The balance sheet as of December 31, 2002 has been derived from the audited consolidated financial statements as of that date and does not include the balances of the Telfer asphalt terminal acquired in January 2003 or the South Texas Pipelines and Terminals or the Crude Oil Storage Tanks acquired in March 2003 as discussed in Note 3. These consolidated financial statements should be read along with the audited consolidated financial statements and notes thereto included in Valero L.P.'s Annual Report on Form 10-K for the year ended December 31, 2002.

Revenue Changes
Effective January 1, 2003, the Partnership began purchasing the additives that are blended with refined products at the various refined product terminals and increased its blending fee correspondingly. As a result, the fee charged to blend additives into refined products was increased from $0.04 per barrel to $0.12 per barrel.

In conjunction with the acquisitions discussed in Note 3, the Partnership began charging a filtering fee for jet fuel terminalled at the Hobby Airport terminal, and began charging a throughput fee for each barrel of crude oil and intermediate feedstocks received by the Corpus Christi West refinery, the Texas City refinery and the Benicia refinery representing the type of feedstock stored in the crude oil storage tank assets that were acquired from Valero Energy.

New Accounting Pronouncements

FASB Interpretation No. 46
In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46). FIN 46 requires the consolidation of a variable interest entity (VIE) in which an enterprise absorbs a majority of the entity's expected losses, receives a majority of the entity's expected residual returns, or both, as a result of ownership, contractual or other financial interest in the entity. Prior to the issuance of FIN 46, an entity was generally consolidated by an enterprise when the enterprise had a controlling financial interest through ownership of a majority voting interest in the entity.

FIN 46 was immediately applicable to VIE's created after January 31, 2003, and to VIE's in which an enterprise obtained an interest after that date. However, for VIE's created before February 1, 2003, FIN 46 first became applicable as of the first fiscal year or interim period beginning after June 15, 2003. The Partnership holds a variable interest in a VIE that was created prior to February 1, 2003, but it has not obtained any new variable interests during the six months ended June 30, 2003. As such, FIN 46 first applied to the Partnership effective July 1, 2003.

As of June 30, 2003, the Partnership participates in a joint venture (Skelly-Belvieu Pipeline Company, LLC) with ConocoPhillips, and the Partnership's share of this joint venture is 50%. The joint venture owns and operates a refined products pipeline that is only used by each venture partner. The joint venture was created by a contribution of capital from each partner in the form of cash and/or property equal to its proportional share in the venture. In addition, each venture partner shares in all profits and losses equal to its proportional share in the venture, and there are no limits on the exposure to losses or on the ability to share in returns. The Partnership provides management services to the joint venture for which it receives an administrative fee. The Partnership does not control this joint venture, and it records its proportional share of the venture's operating results using the equity method. Under FIN 46, the Partnership's joint venture interest and its other contractual relationships with the joint venture represent variable interests in the joint venture; however, the Partnership is not the primary beneficiary of the joint venture. As a result, the Partnership will not consolidate the joint venture, but will continue to account for its joint venture interest under the equity method.

FASB Statement No. 143
In June 2001, the FASB issued Statement No. 143, "Accounting for Asset Retirement Obligations." This statement establishes standards for accounting for an obligation associated with the retirement of a tangible long-lived asset. An asset retirement obligation should be recognized in the financial statements in the period in which it meets the definition of a liability as defined in FASB Concepts Statement No. 6, "Elements of Financial Statements." The amount of the liability would initially be measured at fair value. Subsequent to initial measurement, an entity would recognize changes in the amount of the liability resulting from (a) the passage of time and (b) revisions to either the timing or amount of estimated cash flows. Statement No. 143 also establishes standards for accounting for the cost associated with an asset retirement obligation. It requires that, upon initial recognition of a liability for an asset retirement obligation, an entity capitalize that cost by recognizing an increase in the carrying amount of the related long-lived asset. The capitalized asset retirement cost would then be allocated to expense using a systematic and rational method.

The Partnership adopted the provisions of Statement No. 143 effective January 1, 2003 and has determined that it is obligated by contractual or regulatory requirements to remove assets or perform other remediation upon retirement of certain of its assets. Determination of the amounts to be recognized upon adoption is based upon numerous estimates and assumptions, including expected settlement dates, future retirement costs, future inflation rates and the credit-adjusted risk-free interest rate. However, the fair value of the asset retirement obligation cannot be reasonably estimated as of June 30, 2003, because the settlement dates are indeterminate. The Partnership will record an asset retirement obligation in the periods in which it can reasonably determine the settlement dates. Accordingly, the adoption of Statement No. 143 did not have an impact on the Partnership's financial position or results of operations.

NOTE 2: Equity and Debt Offerings, Redemption of Common Units and Related Transactions

In conjunction with the Partnership's acquisition from Valero Energy of the South Texas Pipelines and Terminals and the Crude Oil Storage Tanks discussed in Note 3, the Partnership entered into the following transactions:

Common Unit Offering
On March 18, 2003, Valero L.P. consummated a public offering of common units, selling 5,750,000 common units to the public at $36.75 per unit, before underwriters' discount of $1.56 per unit. Net proceeds were $202.3 million, or $35.19 per unit, before offering expenses of $2.0 million. In order to maintain a 2% general partner interest, Riverwalk Logistics, L.P. contributed $4.3 million to Valero L.P. The net proceeds of the common unit offering and the general partner contribution were primarily used to fund the acquisition of the Crude Oil Storage Tanks.

On April 16, 2003, Valero L.P. closed on the exercise of a portion of the underwriters' over-allotment option, by selling 581,000 common units at $35.19 per unit. Net proceeds from this sale were $20.4 million and Riverwalk Logistics, L.P. contributed $0.5 million to maintain its 2% general partner interest. The common unit proceeds and general partner contribution were used to pay down the outstanding balance on the revolving credit facility.

Private Placement of 6.05% Senior Notes and Revolving Credit Facility
Also on March 18, 2003, concurrent with the closing of the common unit offering, Valero Logistics issued, in a private placement, $250.0 million of 6.05% senior notes, due March 2013, at a price of 99.719% before consideration of debt issuance costs of $2.0 million. In addition, Valero Logistics borrowed $25.0 million under its amended $175.0 million revolving credit facility. The net proceeds from the 6.05% senior notes and borrowings under the revolving credit facility were used to redeem common units held by an affiliate of Valero Energy, redeem a related portion of the general partner interest and partially fund the acquisition of the South Texas Pipelines and Terminals.

Redemption of Common Units and Amendment to Partnership Agreement
On March 18, 2003, subsequent to the common unit offering and private placement of 6.05% senior notes discussed above, Valero L.P. redeemed from UDS Logistics, LLC, a wholly owned subsidiary of Valero Energy, 3,809,750 common units at a total cost of $134.1 million, or $35.19 per common unit. In order to maintain a 2% general partner interest, Valero L.P. redeemed a portion of Riverwalk Logistics, L.P.'s general partner interest at a total cost of $2.9 million. In addition to the redemption transaction, Valero L.P. amended its partnership agreement to reduce the vote required to remove the general partner from 66 2/3% to 58% of its outstanding units and to exclude from participating in such a vote the common and subordinated units held by affiliates of the general partner.

Summary

The net proceeds from the common unit offering (including the over-allotment option exercise), the private placement of 6.05% senior notes and the borrowings under the revolving credit facility were used to redeem common units held by UDS Logistics, LLC and acquire the South Texas Pipelines and Terminals and the Crude Oil Storage Tanks discussed in Note 3. A summary of the proceeds received and use of proceeds is as follows (in thousands):

Proceeds received:	
Sale of common units to the public	$ 202,342
Private placement of 6.05% senior notes	249,298
Borrowings under the revolving credit facility	25,000
Exercise of a portion of the underwriters' over-allotment option	20,445
General partner contributions	4,749
Total proceeds	501,834
Use of proceeds:	
South Texas Pipelines and Terminals	150,000
Crude Oil Storage Tanks	200,000
Redemption of common units	134,065
Repayment of a portion of the borrowings under the revolving credit facility	20,000
Redemption of general partner interest	2,857
Professional fees and other costs of equity issuance	2,000
Debt issuance costs	1,970
Total use of proceeds	510,892
Net cash on hand paid out	$ (9,058)

Both the South Texas Pipelines and Terminals and the Crude Oil Storage Tanks acquisitions were approved by the conflicts committee of the board of directors of Valero GP, LLC, the general partner of Riverwalk Logistics, L.P., based in part on an opinion from its independent financial advisor that the consideration paid by the Partnership was fair, from a financial point of view, to the Partnership and its public unitholders.

NOTE 3: Acquisitions

Telfer Asphalt Terminal

On January 7, 2003, the Partnership completed its acquisition of Telfer Oil Company's (Telfer) California asphalt terminal for $15.1 million. The asphalt terminal includes two storage tanks with a combined storage capacity of 350,000 barrels, six 5,000-barrel polymer modified asphalt tanks, a truck rack, rail facilities and various other tanks and equipment. In conjunction with the Telfer acquisition, the Partnership entered into a six-year Terminal Storage and Throughput Agreement with Valero Energy (see Note 6). A portion of the purchase price represented payment to the principal owner of Telfer for a non-compete agreement and for the lease of certain facilities adjacent to the terminal operations.

South Texas Pipelines and Terminals

On March 18, 2003, Valero Energy contributed a South Texas pipeline system to the Partnership for $150.0 million. The South Texas pipeline system is comprised of the Houston pipeline system, the Valley pipeline system and the San Antonio pipeline system (together referred to as the South Texas Pipelines and Terminals) as follows:

- The Houston pipeline system is a 204-mile refined product pipeline originating in Corpus Christi, Texas and ending in Pasadena, Texas at the Houston ship channel. The pipeline has the capacity to transport 105,000 barrels per day of refined products produced at Valero Energy's Corpus Christi East and Corpus Christ West refineries and third party refineries located in Corpus Christi. The pipeline system includes four refined product terminals (Hobby Airport, Placedo, Houston asphalt and Almeda, which is currently idle) with a combined storage capacity of 310,900 barrels of refined products and 75,000 barrels of asphalt.

- The Valley pipeline system is a 130-mile refined product pipeline originating in Corpus Christi and ending in Edinburg, Texas. The pipeline has the capacity to transport 27,100 barrels per day of refined products. Currently, the pipeline transports refined products produced at Valero Energy's Corpus Christi East and Corpus Christi West refineries. The pipeline system includes a refined product terminal in Edinburg with a storage capacity of 184,600 barrels.

- The San Antonio pipeline system is comprised of two segments: the north segment, which runs from Pettus, Texas to San Antonio, Texas and the south segment which runs from Pettus to Corpus Christi. The north segment is 74 miles long and has a capacity of 24,000 barrels per day. The south segment is 60 miles long and has a capacity of 15,000 barrels per day and ends at Valero Energy's Corpus Christi East refinery. The pipeline system includes a refined product terminal in east San Antonio with a storage capacity of 148,200 barrels.

In conjunction with the South Texas Pipelines and Terminals acquisition, the Partnership entered into several agreements with Valero Energy (see Note 6).

Pro Forma Financial Information

The following unaudited pro forma financial information assumes that the South Texas Pipelines and Terminals acquisition was funded with $111.0 million of net proceeds from the issuance of the 6.05% senior notes, $25.0 million of borrowings under the revolving credit facility, $6.7 million of net proceeds from the issuance of 185,422 common units and the related general partner interest capital contribution and $7.3 million of available cash. The unaudited pro forma financial information for the six months ended June 30, 2003 and 2002, assumes that each of these transactions occurred on January 1, 2003 and 2002, respectively.

	Six Months Ended June 30,	
	2003	2002
	(in thousands)	
Revenues	$85,202	$ 69,570
Operating income	38,286	28,093
Net income	30,850	24,113
Net income per unit applicable to limited partners	1.41	1.18

Crude Oil Storage Tanks

On March 18, 2003, Valero Energy contributed 58 crude oil storage tanks and related assets (the Crude Oil Storage Tanks) to the Partnership for $200.0 million. The Crude Oil Storage Tanks consist of certain tank shells, foundations, tank valves, tank gauges, pressure equipment, temperature equipment, corrosion protection, leak detection, tank lighting and related equipment located at the following Valero Energy refineries:

- Corpus Christi West refinery, which has a total capacity to process 225,000 barrels per day of crude oil and other feedstocks;

- Texas City refinery, which has a total capacity to process 243,000 barrels per day of crude oil and other feedstocks; and

- Benicia refinery, which has a total capacity to process 180,000 barrels per day of crude oil and other feedstocks.

Historically, the Crude Oil Storage Tanks were operated as part of Valero Energy's refining operations and, as a result, no separate fee was charged related to these assets and, accordingly, no revenues were recorded by Valero Energy. The Crude Oil Storage Tanks were not accounted for separately by Valero Energy and were not operated as an autonomous business unit. As a result, the purchase of the Crude Oil Storage Tanks represented an asset acquisition and, therefore, no pro forma impact of this transaction has been included above. In conjunction with the Crude Oil Storage Tanks acquisition, the Partnership entered into several agreements with Valero Energy (see Note 6).

Shell Pipeline Interest
On May 1, 2003, the Partnership acquired Shell Pipeline Company, LP's (Shell) 28% interest in the Amarillo to Abernathy refined product pipeline and Shell's 46% interest in the Abernathy to Lubbock refined product pipeline for $1.6 million. After this acquisition, the Partnership owns a 67% interest and ConocoPhillips owns the remaining 33% interest in the Amarillo to Abernathy refined product pipeline and ConocoPhillips owns the remaining 54% interest in the Abernathy to Lubbock refined product pipeline.

Purchase Price Allocations
The Telfer, South Texas Pipelines and Terminals, Crude Oil Storage Tanks and Shell pipeline interest acquisitions were accounted for using the purchase method. The purchase price for each acquisition has been initially allocated based on the estimated fair values of the individual assets acquired and liabilities assumed at the date of acquisition based on each asset's anticipated contribution to the Partnership, pending completion of final purchase price allocations.

	Telfer	South Texas Pipelines and Terminals	Crude Oil Storage Tanks	Shell Pipeline Interest
	(in thousands)			
Property, plant and equipment........	$ 14,807	$ 150,000	$ 200,000	$ 1,600
Intangible assets....................	250	-	-	-

NOTE 4: Long-term Debt

Long-term debt consisted of the following:

	June 30, 2003	December 31, 2002
	(in thousands)	
6.05% senior notes due 2013............................	$ 253,816	$ -
6.875% senior notes due 2012...........................	101,755	99,700
8.0% Port Authority of Corpus Christi note payable.......	9,660	9,958
Revolving credit facility..............................	-	-
Total debt..	365,231	109,658
Less current portion..................................	(449)	(747)
Long-term debt, less current portion..................	$ 364,782	$ 108,911

Interest payments totaled $4.2 million and $1.3 million for the six months ended June 30, 2003 and 2002, respectively.

Valero L.P. has no operations and its only asset is its investment in Valero Logistics, which owns and operates the Partnership's pipelines, terminals and crude oil storage tank assets. Valero L.P. has fully and unconditionally guaranteed the senior notes issued by Valero Logistics and any obligations under Valero Logistics' revolving credit facility.

6.05% Senior Notes

On March 18, 2003, Valero Logistics completed the sale of $250.0 million of 6.05% senior notes due March 15, 2013, issued in a private placement, for total proceeds of $249.3 million, before debt issuance costs. Debt issuance costs of $2.0 million are being amortized over the life of the senior notes using the effective interest method. The 6.05% senior notes do not have sinking fund requirements. Interest on the 6.05% senior notes is payable semiannually in arrears on March 15 and September 15 of each year beginning September 15, 2003.

The 6.05% senior notes rank equally with all other existing senior unsecured indebtedness of Valero Logistics, including indebtedness under the revolving credit facility and the 6.875% senior notes due July 15, 2012. The 6.05% senior notes contain restrictions on Valero Logistics' ability to incur secured indebtedness unless the same security is also provided for the benefit of holders of the 6.05% senior notes. In addition, the 6.05% senior notes limit Valero Logistics' ability to incur indebtedness secured by certain liens and to engage in certain sale-leaseback transactions. The 6.05% senior notes are irrevocably and unconditionally guaranteed on a senior unsecured basis by Valero L.P. The guarantee by Valero L.P. ranks equally with all of its existing unsecured and unsubordinated indebtedness and is required to rank equally with any future unsecured and unsubordinated indebtedness. At the option of Valero Logistics, the 6.05% senior notes may be redeemed in whole or in part at any time at a redemption price, which includes a make-whole premium, plus accrued and unpaid interest to the redemption date.

The 6.05% senior notes issued on March 18, 2003 were not registered under the Securities Act of 1933 or any other securities laws and consequently the 6.05% senior notes were originally subject to transfer and resale restrictions. The 6.05% senior notes included registration rights which provided that Valero Logistics would use its best efforts to file, within 90 days of issuance, a registration statement for the exchange of the 6.05% senior notes for new notes of the same series that generally would be freely transferable, and to consummate the exchange offer within 210 days. In July of 2003, Valero Logistics closed on the exchange of the outstanding $250.0 million 6.05% senior notes that were not registered under the Securities Act of 1933 for $250.0 million of 6.05% senior notes that have been registered under the Securities Act of 1933. Accordingly, the new senior notes are freely transferable.

The 6.05% senior notes also include a change-in-control provision, which requires that an investment grade entity own and control the general partner of Valero L.P. and Valero Logistics. Otherwise, Valero Logistics must offer to purchase the 6.05% senior notes at a price equal to 100% of their outstanding principal balance plus accrued interest through the date of purchase.

$175.0 Million Revolving Credit Facility

On March 6, 2003, Valero Logistics entered into an amended revolving credit facility with the various banks included in the existing revolving credit facility and with a group of new banks to increase the revolving credit facility to $175.0 million. In addition, the amount that may be borrowed to fund distributions to unitholders was increased from $25.0 million to $40.0 million. In addition to increasing the amount that may be borrowed under the revolving credit facility, the "Total Debt to EBITDA Ratio" as defined in the revolving credit facility was changed such that the ratio may not exceed 4.0 to 1.0 (as opposed to 3.0 to 1.0 in the original facility), and Valero L.P. is now guaranteeing the revolving credit facility. This guarantee by Valero L.P. ranks equally with all of its existing unsecured senior obligations and is required to rank equally with any future unsecured senior obligations.

Interest Rate Swaps

During the six months ended June 30, 2003, Valero Logistics entered into interest rate swap agreements to manage its exposure to changes in interest rates. The interest rate swap agreements have an aggregate notional amount of $167.5 million, of which $60.0 million is tied to the maturity of the 6.875% senior notes and $107.5 million is tied to the maturity of the 6.05% senior notes. Under the terms of the interest rate swap agreements, the Partnership will receive a fixed rate (6.875% and 6.05% for the $60.0 million and $107.5 million of interest rate swap agreements, respectively) and will pay a variable rate based on LIBOR plus a percentage that varies with each agreement. As of

June 30, 2003, the weighted average effective interest rate for the interest rate swaps was 2.9%. The Partnership 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 statement of income. As of June 30, 2003, the aggregate estimated fair value of the interest rate swaps was $6.5 million.

NOTE 5: Commitments and Contingencies

Environmental, Health and Safety

The Partnership's operations are subject to extensive federal, state and local environmental and safety laws and regulations. Although the Partnership believes its operations are in substantial compliance with applicable environmental and safety laws and regulations, risks of additional costs and liabilities are inherent in pipeline, terminalling and storage operations, and there can be no assurance that significant costs and liabilities will not be incurred. Moreover, it is possible that other developments, such as increasingly stringent environmental and safety laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from the operations, could result in substantial costs and liabilities. Accordingly, the Partnership has adopted policies, practices and procedures in the areas of pollution control, pipeline integrity, operator qualifications, public relations, product safety, occupational health and the handling, storage, use and disposal of hazardous materials that are designed to prevent material environmental or other damage, and to limit the financial liability which could result from such events. However, some risk of environmental or other damage is inherent in pipeline, terminalling and storage operations, as it is with other entities engaged in similar businesses. Although environmental and safety costs may have a significant impact on results of operations for any single period, the Partnership believes that such costs will not have a material adverse effect on its financial position.

In connection with the South Texas Pipelines and Terminals acquisition discussed in Note 3, Valero Energy has agreed to indemnify the Partnership from environmental liabilities that are known as of March 18, 2003 or are discovered within 10 years after March 18, 2003 related to:

- the South Texas Pipelines and Terminals that arose as a result of events occurring or conditions existing prior to March 18, 2003; and

- any real or personal property on which the South Texas Pipelines and Terminals are located that arose prior to March 18, 2003.

In connection with the Crude Oil Storage Tanks acquisition, Valero Energy has agreed to indemnify the Partnership from environmental liabilities related to:

- the Crude Oil Storage Tanks that arose as a result of events occurring or conditions existing prior to March 18, 2003;

- any real or personal property on which the Crude Oil Storage Tanks are located that arose prior to March 18, 2003; and

- any actions taken by Valero Energy before, on or after March 18, 2003, in connection with the ownership, use or operation of the Corpus Christi West refinery, the Texas City refinery and the Benicia refinery or the property on which the Crude Oil Storage Tanks are located, or any accident or occurrence in connection therewith.

Legal

The Partnership is involved in various lawsuits, claims and regulatory proceedings incidental to its business. In the opinion of management, the outcome of such matters will not have a material adverse effect on the Partnership's financial position or results of operations.

NOTE 6: Related Party Transactions

The Partnership has related party transactions with Valero Energy for pipeline tariff, terminalling fee and crude oil storage tank fee revenues, certain employee costs, insurance costs, operating expenses, administrative costs and rent expense. The receivable from Valero Energy as of December 31, 2002 and through March 18, 2003 represented the net amount due for these related party transactions and the net cash collected under Valero Energy's centralized cash management program on the Partnership's behalf. Beginning March 19, 2003, the receivable from Valero Energy represents amounts due for pipeline tariff, terminalling fee and crude oil storage tank 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 transactions with Valero Energy:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
	(in thousands)			
Revenues................................	$ 47,493	$ 29,892	$ 79,259	$ 55,802
Operating expenses......................	6,127	3,377	10,195	6,784
General and administrative expenses......	1,409	1,631	2,968	2,931

Telfer Terminal Storage and Throughput Agreement
On January 7, 2003, the Partnership and Valero Energy entered into a five-year Terminal Storage and Throughput Agreement pursuant to which Valero Energy agreed to (a) lease the asphalt storage tanks and related equipment for a monthly fee of $0.60 per barrel of storage capacity, (b) move asphalt through the terminal during the term of the agreement for a fee of $1.25 per barrel of throughput with a guaranteed minimum annual throughput of 280,000 barrels, and (c) reimburse the Partnership for certain costs, including utilities.

South Texas Pipelines and Terminals Agreements
In conjunction with the acquisition of the South Texas Pipelines and Terminals, Valero Energy and the Partnership entered into the following agreements:

- Throughput Commitment Agreement pursuant to which Valero Energy agreed, for an initial period of seven years, to (i) transport in the Houston and Valley pipeline systems an aggregate of 40% of the Corpus Christi East and Corpus Christi West refineries gasoline and distillate production but only if the combined throughput on these pipelines is less than 110,000 barrels per day, (ii) transport in the Pettus to San Antonio refined product pipeline 25% of the Three Rivers refinery gasoline and distillate production and in the Pettus to Corpus Christi refined product pipeline 90% of the Three Rivers refinery raffinate production, (iii) use the Houston asphalt terminal for an aggregate of 7% of the asphalt production of the Corpus Christi East and Corpus Christi West refineries, (iv) use the Edinburg refined product terminal for an aggregate of 7% of the gasoline and distillate production of the Corpus Christi East and Corpus Christi West refineries, but only if the throughput at this terminal is less than 20,000 barrels per day; and (v) use the San Antonio terminal for 75% of the throughput in the Pettus to San Antonio refined product pipeline. In the event Valero Energy does not transport in the pipelines or use the terminals to handle the minimum volume requirements and if its obligation has not been suspended under the terms of the agreement, it will be required to make a cash payment determined by multiplying the shortfall in volume by the applicable weighted average tariff rate or terminal fee. Also, Valero Energy agreed to allow the Partnership to increase its tariff to compensate for any revenue shortfall in the event the Partnership has to curtail throughput in the Corpus Christi to Edinburg refined product pipeline as a result of repair and replacement activities.

- Terminalling Agreements pursuant to which Valero Energy agreed, during the initial period of five years, to pay a terminalling fee for each barrel of refined product stored or handled by or on behalf of Valero Energy at the terminals included in the South Texas Pipelines and Terminals, including an additive fee for gasoline additives blended at the terminals. At the Hobby Airport terminal, Valero Energy will also pay a filtering fee for each barrel of jet fuel stored or handled at the terminal.

Additionally, Valero Energy has indicated to the Partnership that the segment of the Corpus Christi to Edinburg refined product pipeline that runs approximately 60 miles south from Corpus Christi to Seeligson Station will require repair and, in some places, replacement. Valero Energy has agreed to indemnify the Partnership for any costs the Partnership incurs to repair and replace this segment in excess of $1.5 million.

Crude Oil Storage Tanks Agreements
In conjunction with the acquisition of the Crude Oil Storage Tanks, Valero Energy and the Partnership entered into the following agreements:

- Handling and Throughput Agreement pursuant to which Valero Energy agreed to pay the Partnership a fee, for an initial period of ten years, for 100% of crude oil delivered to each of the Corpus Christi West refinery, the Texas City refinery or the Benicia refinery and to use the Partnership for handling all deliveries to these refineries. The throughput fees under the agreement are adjustable annually, generally based on 75% of the regional consumer price index applicable to the location of each refinery.

- Services and Secondment Agreements pursuant to which Valero Energy agreed to second to the Partnership personnel who will provide operating and routine maintenance services with respect to the Crude Oil Storage Tanks. The annual reimbursement for services is an aggregate $3.5 million for the initial year and is subject to adjustment based on actual expenses incurred and increases in the regional consumer price index. The initial term of the Services and Secondment Agreements is ten years with a Partnership option to extend for an additional five years.

- Lease and Access Agreements pursuant to which Valero Energy will lease to the Partnership the real property on which the Crude Oil Storage Tanks are located for an aggregate of $0.7 million per year. The initial term of each lease will be 25 years, subject to automatic renewal for successive one-year periods thereafter. The Partnership may terminate any of these leases upon 30 days notice after the initial term or at the end of a renewal period. In addition, the Partnership may terminate any of these leases upon 180 days notice prior to the expiration of the current term if the Partnership ceases to operate the Crude Oil Storage Tanks or ceases business operations.

NOTE 7: Employee Benefit Expenses

The Partnership, which has no employees, relies on employees of Valero Energy and its affiliates to provide the necessary services to operate the Partnership's assets. Effective January 1, 2003, most of the employees providing services to the Partnership became employees of Valero GP, LLC, a wholly owned subsidiary of Valero Energy. The Valero GP, LLC employees are included in the various employee benefit plans of Valero Energy and its affiliates. These plans include qualified, non-contributory defined benefit retirement plans, defined contribution 401(k) plans, employee and retiree medical, dental and life insurance plans, long-term incentive plans (i.e., unit options and bonuses) and other such benefits.

The Partnership's share of allocated Valero Energy employee benefit plan expenses was $0.8 million and $0.4 million for the three months ended June 30, 2003 and 2002, respectively, and $1.3 million and $0.7 million for the six months ended June 30, 2003 and 2002, respectively. These employee benefit plan expenses are included in operating expenses with the related payroll costs.

Long-Term Incentive Plan
The Board of Directors of Valero GP, LLC previously adopted the 2000 Long-Term Incentive Plan (the LTIP) under which Valero GP, LLC may award up to 250,000 common units to certain key employees of Valero Energy's affiliates providing services to Valero L.P. and to directors and officers of Valero GP, LLC. Awards

under the LTIP can include awards such as unit options, restricted common units, distribution equivalent rights (DERs) and contractual rights to receive common units.

On January 24, 2003, under the LTIP, Valero GP, LLC granted 30,000 contractual rights to receive common units and DERs to its officers and directors, excluding the outside directors. In conjunction with the grant of contractual rights to receive common units under the LTIP, Valero GP, LLC purchased 30,000 newly issued Valero L.P. common units from Valero L.P. for total consideration of $1.1 million. In addition, in March of 2003, Valero GP, LLC settled the previous purchase of 55,250 common units with the payment of $2.3 million.

In January of 2003, one-third of the previously issued 55,250 contractual rights vested and Valero GP, LLC distributed actual Valero L.P. common units to the officers and directors. Certain of the officers and directors settled their tax withholding on the vested common units by delivering 6,491 common units to Valero GP, LLC. As of June 30, 2003, Valero GP, LLC owns 73,319 common units of Valero L.P.

The Partnership's share of the LTIP expenses was $0.1 million and $0.3 million for the three months ended June 30, 2003 and 2002, respectively, and $0.4 million and $0.3 million for the six months ended June 30, 2003 and 2002, respectively. These LTIP expenses are included in general and administrative expenses.

In June of 2003, the Board of Directors of Valero GP, LLC adopted the 2003 Employee Unit Incentive Plan (the UIP) under which Valero GP, LLC may award up to 500,000 common units to any employee of Valero GP, LLC or its affiliates, excluding officers and directors of Valero GP, LLC and its affiliates. Awards under the UIP can include unit options, unit appreciation rights, restricted units, performance awards, unit compensation and other unit based awards.

NOTE 8: Partners' Equity

Outstanding Equity

Prior to the redemption of common units and the common unit offering in March 2003 and the exercise of a portion of the underwriters' over-allotment option in April 2003, Valero Energy, through various affiliates, owned 73.6% of Valero L.P.'s outstanding partners' equity. After giving effect to the redemption of common units, the common unit offering and the over-allotment option exercise, outstanding partners' equity of Valero L.P. as of June 30, 2003 includes 12,205,822 common units (614,572 of which are held by UDS Logistics, LLC and 73,319 of which 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. As a result, Valero Energy now owns 48.2% of Valero L.P., including the 2% general partner interest (see Note 9).

Net Income per Unit Applicable to Limited Partners

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 the Partnership has no potentially dilutive securities outstanding. The Partnership 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.

Cash Distributions
The Partnership makes quarterly distributions of 100% of its available cash, generally defined as cash receipts less cash disbursements and cash reserves established by the general partner in its sole discretion. These quarterly distributions are declared and paid within 45 days subsequent to each quarter-end. 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 June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
	(in thousands, except per unit data)			
General partner interest	$ 348	$ 282	$ 667	$ 539
General partner incentive distribution	718	339	1,102	425
Total general partner distribution	1,066	621	1,769	964
Limited partners' distributions	16,354	13,478	31,618	25,993
Total cash distributions	$ 17,420	$ 14,099	$ 33,387	$ 26,957
Cash distributions per unit applicable to limited partners	$ 0.75	$ 0.70	$ 1.45	$ 1.35

NOTE 9: Subsequent Events

Distributions
On July 28, 2003, the Partnership declared a quarterly distribution of $0.75 per unit payable on August 14, 2003 to unitholders of record on August 5, 2003.

Common Unit Offering
On August 11, 2003, Valero L.P. closed on a public offering of common units, selling 1,236,250 common units, which includes 161,250 common units related to the over-allotment option, to the public at $41.15 per unit, before underwriter's discount of $1.85 per unit. Net proceeds were $48.6 million, or $39.30 per unit, before offering expenses of $0.3 million. In order to maintain its 2% general partner interest, Riverwalk Logistics, L.P. contributed $1.0 million to Valero L.P. As a result of this common unit offering, Valero Energy now owns 45.8% of Valero L.P., including the 2% general partner interest.

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

Cautionary Statement Regarding Forward-Looking Information

This report includes forward-looking statements regarding future events and the future financial performance of the Partnership. All forward-looking statements are based on the Partnership's beliefs as well as assumptions made by and information currently available to the Partnership. Words such as "believes", "expects", "intends", "forecasts", "projects" and similar expressions, identify forward-looking statements within the meaning of the Securities Litigation Reform Act of 1995. These statements reflect the Partnership'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 the Partnership's pipelines and handled at the Partnership's terminals and storage tanks;
- Any significant decrease in the demand for refined products in the markets served by the Partnership's pipelines;
- Any material decline in production by any of Valero Energy's McKee, Three Rivers, Corpus Christi East, Corpus Christi West, Texas City, Benicia 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 the Partnership's pipelines;
- Any challenges to the Partnership's tariff rates or changes in the FERC's ratemaking methodology;
- Any material decrease in the supply of or material increase in the price of crude oil available for transport through the Partnership's pipelines and storage tanks;
- Inability to expand the Partnership's business and acquire new assets as well as to attract third party shippers;
- Conflicts of interest with Valero Energy;
- Any inability to borrow additional funds;
- Any substantial costs related to environmental and safety risks, including increased costs of compliance;
- Any change in the credit rating assigned to Valero Logistics' indebtedness;
- Any change in the credit rating assigned to Valero Energy's indebtedness;
- Any reductions in space allocated to the Partnership 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
- The Partnership's former use of Arthur Andersen LLP as its independent auditor.

If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, actual results may vary materially from those described in the 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, and the Partnership undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise.

Introduction

The following discussion and analysis of the Partnership's results of operations and financial condition should be read in conjunction with Part I - Financial Information, Item 1. Financial Statements.

Significant Developments in 2003

On January 7, 2003, the Partnership acquired an asphalt terminal located in Pittsburg, California from Telfer for $15.1 million in cash. The statement of income for the six months ended June 30, 2003 includes the results of operations of the Telfer asphalt terminal from January 7, 2003 through June 30, 2003.

On March 18, 2003, Valero L.P. consummated a public offering of common units resulting in net proceeds of $204.6 million (including the general partner contribution), Valero Logistics issued the 6.05% senior notes in a private placement resulting in net proceeds of $247.3 million and Valero Logistics borrowed $25.0 million under its revolving credit facility. A portion of the net proceeds from the 6.05% senior notes were used to redeem 3,809,750 common units owned by UDS Logistics, LLC and a prorata portion of general partner interest for $136.9 million. The remainder of the net proceeds from the 6.05% senior notes, along with the net proceeds from the common unit offering, cash on hand and borrowings under the revolving credit facility were used to pay $350 million related to the contribution by Valero Energy to Valero Logistics of the South Texas Pipelines and Terminals and the Crude Oil Storage Tanks. The statement of income for the six months ended June 30, 2003 includes the results of operations of the South Texas Pipelines and Terminals and the Crude Oil Storage Tanks from March 19, 2003 through June 30, 2003, and includes the impact of the debt and equity financings related to the above acquisitions and redemption. On April 16, 2003, Valero L.P. closed on the exercise of a portion of the underwriters' over-allotment option, by selling 581,000 common units for net proceeds of $20.9 million (including the general partner contribution), which proceeds were used to pay down a portion of the outstanding borrowings under the revolving credit facility.

On May 1, 2003, the Partnership acquired Shell's 28% interest in the Amarillo to Abernathy refined product pipeline and Shell's 46% interest in the Abernathy to Lubbock refined product pipeline for $1.6 million. The statement of income for the three and six months ended June 30, 2003, includes the results of operations of the additional Shell pipeline interest from May 1, 2003 through June 30, 2003.

Seasonality

The operating results of the Partnership are affected by factors affecting the business of Valero Energy, including refinery utilization rates, the demand for refined products and industry refining capacity.

The throughput of crude oil that the Partnership transports is directly affected by the level of, and refiner demand for, crude oil in markets served directly by the Partnership's crude oil pipelines and crude oil storage tanks. Crude oil inventories tend to increase due to overproduction of crude oil by producing companies and countries, planned maintenance turnaround activity by refiners and unplanned outages at refineries.

The throughput of the refined products that the Partnership transports is directly affected by the level of, and user demand for, refined products in the markets served directly or indirectly by the Partnership's refined product pipelines and terminals. Demand for gasoline in most markets peaks during the summer driving season, which extends from May through September, and declines during the fall and winter months. Demand for gasoline in the Arizona market, however, generally is higher in the winter months than summer months due to greater tourist activity and second home usage in the winter months.

Results of Operations

Three Months Ended June 30, 2003 Compared to Three Months Ended June 30, 2002

The results of operations for the three months ended June 30, 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 June 30, 2003, which includes the results of operations of the South Texas Pipelines and Terminals, the Crude Oil Storage Tanks and Telfer for the full quarter and the results of operations of the Shell pipeline interest from May 1, 2003 through June 30, 2003. The results of operations for the three months ended June 30, 2002 presented in the following table are derived from the consolidated statement of income for Valero L.P. and subsidiaries for the three months ended June 30, 2002.

Financial Data:

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002
Statement of Income Data:	(in thousands)	
Revenues	$ 47,542	$ 30,030
Costs and expenses:		
Operating expenses	16,335	9,565
General and administrative expenses	1,670	1,698
Depreciation and amortization expense	7,269	3,876
Total costs and expenses	25,274	15,139
Operating income	22,268	14,891
Equity income from Skelly-Belvieu Pipeline Company	600	844
Interest expense, net	(4,736)	(796)
Net income	18,132	14,939
Less net income applicable to general partner	(1,066)	(299)
Net income applicable to the limited partners' interest	$ 17,066	$ 14,640
Net income per unit applicable to limited partners	$ 0.79	$ 0.76
Weighted average number of limited partnership units outstanding	21,702,990	19,253,894
Earnings before interest, taxes and depreciation and amortization (EBITDA) (a)	$ 30,137	$ 19,611
Distributable cash flow (a)	$ 24,234	$ 18,081

Balance Sheet Data:	June 30, 2003	June 30, 2002
Long-term debt, including current portion (1)	$ 365,231	$ 101,076
Partners' equity (2)	385,636	291,932
Debt-to-capitalization ratio (1) / ((1)+(2))	48.6%	25.7%

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

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002
	(in thousands)	
Income before income tax expense	$ 18,132	$ 14,939
Plus interest expense, net	4,736	796
Plus depreciation and amortization expense	7,269	3,876
EBITDA	30,137	19,611
Less equity income from Skelly-Belvieu Pipeline Company	(600)	(844)
Less interest expense, net	(4,736)	(796)
Less reliability capital expenditures	(1,446)	(741)
Plus distributions from Skelly-Belvieu Pipeline Company	879	851
Distributable cash flow	$ 24,234	$ 18,081

For a discussion regarding the Partnership's rationale for utilizing the non-GAAP measures of EBITDA and distributable cash flow, please see Valero L.P.'s Annual Report on Form 10-K for the year ended December 31, 2002.

Operating Data:

The following table reflects total throughput, on a barrels per day basis, for the Partnership's crude oil pipelines, refined product pipelines, refined product terminals and crude oil storage tanks for the three months ended June 30, 2003 and 2002.

	Three Months Ended June 30, 2003	2002	% Change
	(barrels per day)		
Crude oil pipeline throughput	348,390	360,558	(3)%
Refined product pipeline throughput	396,639	303,654	31%
Refined product terminal throughput	233,881	179,915	30%
Crude oil storage tank throughput	475,280	N/A	N/A

Net income for the three months ended June 30, 2003 was $18.1 million as compared to $14.9 million for the three months ended June 30, 2002. The increase of $3.2 million was primarily attributable to the additional net income generated from the acquisition of the South Texas Pipelines and Terminals and the Crude Oil Storage Tanks on March 18, 2003 and the Telfer asphalt terminal on January 7, 2003. The increase in net income resulting from these acquisitions was partially offset by the impact of lower throughput barrels in the Ardmore crude oil pipelines resulting from a major refinery turnaround, and lower throughput barrels in the McKee to Colorado Springs to Denver refined product pipeline resulting from Valero Energy's Denver refinery maximizing production and lower jet fuel sales by Valero Energy in Denver.

Revenues for the three months ended June 30, 2003 were $47.5 million as compared to $30.0 million for the three months ended June 30, 2002, an increase of 58% or $17.5 million. The following discusses significant revenue increases and decreases:

- revenues for the Crude Oil Storage Tanks acquired on March 18, 2003 totaled $8.6 million for the three months ended June 30, 2003;

- revenues for the South Texas Terminals for the three months ended June 30, 2003 totaled $1.9 million based on throughput of 50,398 barrels per day and revenues for the Telfer asphalt terminal for the three months ended June 30, 2003 were $1.1 million based on throughput of 938 barrels per day. Revenues for the other refined product terminals, excluding the South Texas Terminals and the Telfer asphalt terminal, increased $0.6 million primarily due to an increase in the additive blending fee from $0.04 per barrel to $0.12 per barrel effective January 1, 2003 and a 1% increase in throughput barrels;

- revenues for the refined product pipelines increased $3.9 million and throughput increased 31% primarily due to revenues from the acquisition of the South Texas Pipelines on March 18, 2003. Revenues for the South Texas Pipelines were $5.8 million and throughput totaled 109,759 barrels per day during the second quarter of 2003. Partially offsetting the increased revenues related to the South Texas Pipelines was a $2.1 million decrease in revenues related to the McKee to Colorado Springs to Denver pipeline resulting from Valero Energy maximizing production at its Denver refinery and lower jet fuel sales by Valero Energy in Denver, resulting in lower throughput in this pipeline; and

- revenues for the crude oil pipelines increased $1.4 million even though total throughput decreased 3% primarily due to increased revenues for the Wichita Falls to McKee and the Corpus Christi to Three Rivers crude oil pipelines due to a combined 16% increase in throughput barrels, which was partially offset by a decrease in revenues for the Ardmore crude oil pipelines due to a combined 20% decrease in throughput barrels. During the second quarter of 2003, Valero Energy supplied its McKee refinery with greater quantities of heavy sour crude oil, which was transported from the Texas Gulf Coast, instead of crude oil transported through the Clawson to Dixon to McKee crude oil pipelines. Also during the second quarter of 2003, Valero Energy's Ardmore refinery was shut down for a major refinery turnaround for most of April, resulting in a decrease in the Ringgold to Wasson to Ardmore crude oil pipelines.

Operating expenses increased $6.8 million for the three months ended June 30, 2003 as compared to the three months ended June 30, 2002 primarily due to the following items:

- the acquisition of the South Texas Pipelines and Terminals increased operating expenses by $3.5 million;

- the acquisition of the Crude Oil Storage Tanks increased operating expenses by $1.4 million;

- the acquisitions of the Telfer asphalt terminal and crude hydrogen pipeline increased operating expenses by $0.6 million;

- power costs, excluding the impact of acquisitions, increased $0.6 million due primarily to higher natural gas prices; and

- employee benefit expenses increased $0.4 million as a result of higher accruals for incentive compensation due to higher net income and increases in medical and pension costs.

General and administrative expenses were as follows:

	Three Months Ended June 30, 2003	2002
	(in thousands)	
Services agreement	$ 1,300	$ 1,300
Third party expenses	482	557
Reimbursement from partners on jointly owned pipelines	(112)	(159)
General and administrative expenses	$ 1,670	$ 1,698

General and administrative expenses decreased 2% for the three months ended June 30, 2003 as compared to the three months ended June 30, 2002 due to lower third party legal and accounting expenses, partially offset by lower reimbursements from partners on jointly owned pipelines as a result of the Partnership's purchase of Shell's interest in the Amarillo to Abernathy and the Abernathy to Lubbock refined product pipelines.

Depreciation and amortization expense increased 88% during the three months ended June 30, 2003 as compared to the three months ended June 30, 2002 due to the additional depreciation recognized for the South Texas Pipelines and Terminals, the Crude Oil Storage Tanks and the Telfer asphalt terminal.

Equity income from Skelly-Belvieu Pipeline Company for the three months ended June 30, 2003 decreased 29% as compared to the three months ended June 30, 2002 due to a 16% decrease in throughput barrels in the Skellytown to Mont Belvieu refined product pipeline. The decrease in throughput is due to both Valero Energy and ConocoPhillips utilizing greater quantities of natural gas to run their North Texas refining operations instead of selling the natural gas to third parties in Mont Belvieu.

Interest expense for the three months ended June 30, 2003 was $4.7 million, net of interest income and capitalized interest of $0.1 million, as compared to $0.8 million of interest expense, net of interest income and capitalized interest of $0.1 million, for the three months ended June 30, 2002. Interest expense was higher in 2003 due to interest expense related to the $100.0 million of 6.875% senior notes issued in July of 2002 and the $250.0 million of 6.05% senior notes issued in March of 2003. The 2003 borrowings were used to fund the common unit redemption and a portion of the South Texas Pipelines and Terminals acquisition, all of which closed in March 2003. The 2002 borrowings were used to repay borrowings under the variable-rate revolving credit facility. Partially offsetting the higher interest expense in 2003 from the above factors is the effect of interest rate swaps entered into during the first quarter and early April of 2003. The Partnership 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, reducing the effective interest rate on such debt by approximately 300 basis points based on current rates.

Net income applicable to the general partner for the three months ended June 30, 2003 includes the effect of $0.7 million of incentive distributions.

Six Months Ended June 30, 2003 Compared to Six Months Ended June 30, 2002

The results of operations for the six months ended June 30, 2003 presented in the following table are derived from the consolidated statement of income for Valero L.P. and subsidiaries for the six months ended June 30, 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 June 30, 2003, the Telfer asphalt terminal from January 7, 2003 through June 30, 2003 and the Shell pipeline interest from May 1, 2003 through June 30, 2003. The results of operations for the six months ended June 30, 2002 presented in the following table are derived from the consolidated statement of income for Valero L.P. and subsidiaries for the six months ended June 30, 2002, which includes the Wichita Falls Business for the month ended January 31, 2002 prior to its actual acquisition on February 1, 2002.

Financial Data:

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
Statement of Income Data:	(in thousands)	
Revenues	$ 79,358	$ 56,054
Costs and expenses:		
Operating expenses	27,996	18,749
General and administrative expenses	3,514	3,487
Depreciation and amortization expense	11,552	8,231
Total costs and expenses	43,062	30,467
Operating income	36,296	25,587
Equity income from Skelly-Belvieu Pipeline Company	1,331	1,522
Interest expense, net	(7,113)	(1,352)
Income before income tax expense	30,514	25,757
Income tax expense	-	395
Net income	30,514	25,362
Less net income applicable to general partner	(1,690)	(494)
Less net income related to the Wichita Falls Business for the month ended January 31, 2002	-	(650)
Net income applicable to the limited partners' interest	$ 28,824	$ 24,218
Net income per unit applicable to limited partners	$ 1.40	$ 1.26
Weighted average number of limited partnership units outstanding	20,635,667	19,247,789
EBITDA (a)	$ 49,179	$ 35,340
Distributable cash flow (a)	$ 39,724	$ 32,558

Balance Sheet Data:	June 30, 2003	December 31, 2002
Long-term debt, including current portion (1)	$ 365,231	$ 109,658
Partners' equity (2)	385,636	293,895
Debt-to-capitalization ratio (1) / ((1)+(2))	48.6%	27.2%

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

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
	(in thousands)	
Income before income tax expense	$ 30,514	$ 25,757
Plus interest expense, net	7,113	1,352
Plus depreciation and amortization expense	11,552	8,231
EBITDA	49,179	35,340
Less equity income from Skelly-Belvieu Pipeline Company	(1,331)	(1,522)
Less interest expense, net	(7,113)	(1,352)
Less reliability capital expenditures	(2,638)	(1,530)
Plus distributions from Skelly-Belvieu Pipeline Company	1,627	1,622
Distributable cash flow	$ 39,724	$ 32,558

For a discussion regarding the Partnership's rationale for utilizing the non-GAAP measures of EBITDA and distributable cash flow, please see Valero L.P.'s Annual Report on Form 10-K for the year ended December 31, 2002.

Operating Data:

The following table reflects total throughput, on a barrels per day basis, for the Partnership's crude oil pipelines, refined product pipelines, refined product terminals and crude oil storage tanks for the six months ended June 30, 2003 and 2002. On March 18, 2003, the Partnership acquired the South Texas Pipelines and Terminals and the Crude Oil Storage Tanks from Valero Energy. The throughput related to these newly acquired assets included in the table below is calculated based on throughput for the period from March 19, 2003 through June 30, 2003 divided by the 181 days in the six months ended June 30, 2003.

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002	% Change
	(barrels per day)		
Crude oil pipeline throughput	340,619	336,605	1%
Refined product pipeline throughput	347,000	283,375	22%
Refined product terminal throughput	205,495	177,877	16%
Crude oil storage tank throughput	277,468	N/A	N/A

Net income for the six months ended June 30, 2003 was $30.5 million as compared to $25.4 million for the six months ended June 30, 2002. The increase of $5.1 million was primarily attributable to the additional net income generated from the acquisitions of the South Texas Pipelines and Terminals, the Crude Oil Storage Tanks and the Telfer asphalt terminal. Net income generated by the acquired assets during the six months ended June 30, 2003 totaled $6.6 million.

Revenues for the six months ended June 30, 2003 were $79.4 million as compared to $56.1 million for the six months ended June 30, 2002, an increase of 42% or $23.3 million. The following discusses significant revenue increases and decreases:

- revenues for the Crude Oil Storage Tanks from March 19, 2003 through June 30, 2003 totaled $10.0 million;

- revenues for the refined product pipelines increased $5.2 million and throughput increased 22% primarily due to revenues from the acquisition of the South Texas Pipelines on March 18, 2003. Revenues for the South Texas Pipelines were $6.9 million and throughput totaled 63,798 barrels per day from March 19, 2003 through June 30, 2003. Partially offsetting the increased revenues related to the South Texas Pipelines was a $2.7 million decrease in revenues related to the McKee to Colorado Springs to Denver pipeline resulting from Valero Energy maximizing production at its Denver refinery and lower jet fuel sales by Valero Energy in Denver, resulting in lower throughput in this pipeline;

- revenues for the South Texas Terminals for the period from March 19, 2003 through June 30, 2003 totaled $2.1 million based on throughput of 29,233 barrels per day and revenues for the Telfer asphalt terminal for the six months ended June 30, 2003 were $2.1 million based on throughput of 1,584 barrels per day. Revenues for the other refined product terminals, excluding the South Texas Terminals and the Telfer asphalt terminal, increased $0.8 million primarily due to an increase in the additive blending fee from $0.04 per barrel to $0.12 per barrel effective January 1, 2003, partially offset by a 2% decrease in throughput barrels; and

- revenues for the crude oil pipelines increased $3.1 million primarily due to increased revenues for the Wichita Falls to McKee and the Corpus Christi to Three Rivers crude oil pipelines due to a combined 16% increase in throughput barrels and the crude hydrogen pipeline which was acquired in May of 2002. Revenues and throughput for the Partnership's other crude oil pipelines for the first six months of 2003 were comparable to the first six months of 2002 as the impact of the economic-based refinery production cuts made by Valero Energy in the first quarter of 2003, coupled with the Ardmore refinery turnaround in March and April of 2003, offset the economic-based refinery production cuts initiated by Valero Energy in the first six months of 2002;.

Operating expenses increased $9.2 million for the six months ended June 30, 2003 as compared to the six months ended June 30, 2002 primarily due to the following items:

- the acquisition of the South Texas Pipelines and Terminals increased operating expenses by $4.2 million;

- the acquisition of the Crude Oil Storage Tanks increased operating expenses by $1.6 million;

- maintenance expenses, excluding the impact of acquisitions, increased $1.5 million due primarily to the increased number of pipeline and terminal integrity inspections performed during the first six months of 2003 as compared to 2002 and increased chemical expenses related to drag reducing agents and gasoline additives;

- the acquisitions of the Telfer asphalt terminal and crude hydrogen pipeline increased operating expenses by $1.1 million; and

- employee benefit expenses increased $0.5 million as a result of higher accruals for incentive compensation due to higher net income and increases in medical and pension costs.

General and administrative expenses were as follows:

	Six Months Ended June 30, 2003	2002
	(in thousands)	
Services agreement	$ 2,600	$ 2,600
Third party expenses	1,188	1,162
General and administrative expenses related to the Wichita Falls Business for the month ended January 31, 2002	-	40
Reimbursement from partners on jointly owned pipelines	(274)	(315)
General and administrative expenses	$ 3,514	$ 3,487

General and administrative expenses increased 1% for the six months ended June 30, 2003 as compared to the six months ended June 30, 2002 due primarily to an increase in general and administrative costs from third parties and lower reimbursements from partners on jointly owned pipelines as a result of the Partnership's purchase of Shell's interest in the Amarillo to Abernathy and the Abernathy to Lubbock refined product pipelines.

Depreciation and amortization expense increased by 40% during the six months ended June 30, 2003 as compared to the six months ended June 30, 2002 due primarily to the acquisitions of the South Texas Pipelines and Terminals, the Crude Oil Storage Tanks and the Telfer asphalt terminal.

Equity income from Skelly-Belvieu Pipeline Company for the six months ended June 30, 2003 decreased 13% as compared to the six months ended June 30, 2002 due to a 6% decrease in throughput barrels in the Skellytown to Mont Belvieu refined product pipeline. The decrease in throughput is due to both Valero Energy and ConocoPhillips utilizing greater quantities of natural gas to run their North Texas refining operations instead of selling the natural gas to third parties in Mont Belvieu.

Interest expense for the six months ended June 30, 2003 was $7.1 million, net of interest income and capitalized interest of $0.2 million, as compared to $1.4 million of interest expense, net of interest income and capitalized interest of $0.2 million, for the six months ended June 30, 2002. Interest expense was higher in 2003 due to interest expense related to the $100.0 million of 6.875% senior notes issued in July of 2002 and the $250.0 million of 6.05% senior notes issued in March of 2003. Partially offsetting the higher interest expense in 2003 from the above factors is the effect of interest rate swaps entered into during the six months ended June 30, 2003. The Partnership 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, reducing the effective interest rate on such debt by approximately 300 basis points based on current rates.

Income tax expense for the six months ended June 30, 2002 represents income tax expense incurred by the Wichita Falls Business during the month ended January 31, 2002, prior to the transfer of the Wichita Falls Business to the Partnership.

Net income for the six months ended June 30, 2002 includes $0.7 million of net income related to the Wichita Falls Business for the month ended January 31, 2002, which was allocated entirely to the general partner. Net income applicable to the general partner for the six months ended June 30, 2003 includes the effect of $1.1 million of incentive distributions.

Financial Outlook

Throughput volumes thus far in the third quarter of 2003 are similar to the throughput volumes handled by the Partnership in the second quarter of 2003, which included a full quarter of operations of the South Texas Pipelines and Terminals and the Crude Oil Storage Tanks. Due to the favorable refined product fundamentals Valero Energy is experiencing throughout its refining system, and the expected return to service of certain processing facilities at Valero Energy's Benicia and Texas City refineries, the Partnership anticipates its throughput volumes will trend at or above current levels for the remainder of the third quarter of 2003. Net income per unit for the third quarter of 2003 will be impacted by the 1,236,250 increase in common units outstanding resulting from the August 2003 common unit offering.

Liquidity and Capital Resources

The Partnership'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. The Partnership 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.

Amended Revolving Credit Facility

On March 6, 2003, Valero Logistics amended its revolving credit facility, increasing its credit limit to $175.0 million. On March 18, 2003, Valero Logistics borrowed $25.0 million under the revolving credit facility to partially fund the purchase of the South Texas Pipelines and Terminals from Valero Energy, which borrowings were repaid during the three months ended June 30, 2003 primarily with the proceeds from the underwriters' exercise of the over-allotment option. 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. Valero Logistics also incurs a facility fee on the aggregate commitments of lenders under the revolving credit facility, whether used or unused. Borrowings under the revolving credit facility may be used for working capital and general partnership purposes; however, borrowings to fund distributions to unitholders are limited to $40.0 million. All borrowings designated as borrowings subject to the $40.0 million sublimit must be reduced to zero for a period of at least 15 consecutive days during each fiscal year. The revolving credit facility also allows Valero Logistics to issue letters of credit for an aggregate of $75.0 million.

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. Valero L.P. has guaranteed the obligations under the revolving credit facility.

6.05% Senior Notes

On March 18, 2003, Valero Logistics issued, in a private placement, $250.0 million of 6.05% senior notes, due March 15, 2013, for proceeds of $247.3 million, net of discount of $0.7 million and debt issuance costs of $2.0 million. The net proceeds were used to redeem 3,809,750 common units held by an affiliate of Valero Energy ($134.1 million), redeem a related portion of the general partner interest ($2.9 million) and partially fund the South Texas Pipelines and Terminals acquisition. The 6.05% senior notes are redeemable and do not have sinking fund requirements. Interest on the 6.05% senior notes is payable semiannually in arrears on March 15 and September 15 of each year beginning September 15, 2003. Valero L.P. has guaranteed the 6.05% senior notes.

The 6.05% senior notes were not registered under the Securities Act of 1933 or any other securities laws and consequently the 6.05% senior notes were subject to transfer and resale restrictions. In July 2003, Valero Logistics closed on the exchange of the outstanding $250.0 million 6.05% senior notes that were not registered under the Securities Act of 1933 for $250.0 million of 6.05% senior notes that have been registered under the Securities Act of 1933. Accordingly, the new senior notes are freely transferable.

6.875% Senior Notes

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 6.875% senior notes are redeemable, 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. Valero L.P. has guaranteed the 6.875% senior notes.

Common Unit Offerings

On March 18, 2003, Valero L.P. closed on a public offering of 5,750,000 common units at a price of $36.75 per unit, before underwriters' discount of $1.56 per unit, for net proceeds of $202.3 million before offering expenses of $2.0 million. In order to maintain its 2% general partner interest, Riverwalk Logistics, L.P. made a $4.3 million general partner contribution. The Partnership used the net proceeds of the common unit offering and the general partner contribution primarily to fund the acquisition of the Crude Oil Storage Tanks. On April 16, 2003, Valero L.P. closed on the exercise of a portion of the underwriters' over-allotment option, by selling 581,000 common units at $35.19 per unit, net of underwriters' discount. Net proceeds from this sale of $20.4 million, combined with a $0.4 million contribution from Riverwalk Logistics, L.P. to maintain its 2% general partner interest, were used to pay down the outstanding balance due under the revolving credit facility.

On August 11, 2003, Valero L.P. closed on a public offering of 1,236,250 common units, which includes 161,250 common units related to the over-allotment option, at a price of $41.15 per unit, before underwriter's discount of $1.85 per unit, for net proceeds of $48.6 million before offering expenses of $0.3 million. In order to maintain its 2% general partner interest, Riverwalk Logistics, L.P. made a $1.0 million general partner contribution. As a result of this common unit offering, Valero Energy's ownership of Valero L.P. has been reduced to 45.8%, including the 2% general partner interest.

Shelf Registration Statement

On June 6, 2002, Valero L.P. and Valero Logistics filed a $500.0 million universal shelf registration statement with 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. As a result of the July 2002 6.875% senior note offering by Valero Logistics, the March 2003 common unit offering (including the over-allotment option) by Valero L.P. and the August 2003 common unit offering (including the over-allotment option) by Valero L.P., the remaining balance available under the universal shelf registration statement is $116.5 million.

Interest Rate Swaps

During the six months ended June 30, 2003, Valero Logistics entered into interest rate swap agreements to manage its exposure to changes in interest rates. The interest rate swap agreements have an aggregate notional amount of $167.5 million, of which $60.0 million is tied to the maturity of the 6.875% senior notes and $107.5 million is tied to the maturity of the 6.05% senior notes. Under the terms of the interest rate swap agreements, the Partnership will receive the fixed rate (6.875% and 6.05%, respectively) and will pay a variable rate based on LIBOR plus a percentage that varies with each agreement. The Partnership 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 statement of income.

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, 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. The subordination period is defined generally as the period that will end on the first day of any quarter beginning after March 31, 2006 if (1) Valero L.P. has distributed at least the minimum quarterly distribution on all outstanding units with respect to each of the immediately preceding three consecutive, non-overlapping four-quarter periods and (2) Valero L.P.'s adjusted operating surplus, as defined in the partnership agreement, during such periods equals or exceeds the amount that would have been sufficient to enable Valero L.P. to distribute the minimum quarterly distribution on all outstanding units on a fully diluted basis and the related distribution on the 2% general partner interest during those periods. If the subordination period ends, the rights of the holders of subordinated units will no longer be subordinated to the rights of the holders of common units and the subordinated units may be converted into common units, on a one-for-one basis. The general partner is entitled to incentive distributions if the amount Valero L.P. distributes with respect to any quarter exceeds $0.60 per unit.

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

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
	(in thousands, except per unit data)	
General partner interest	$ 667	$ 539
General partner incentive distribution	1,102	425
Total general partner distribution	1,769	964
Limited partners' distributions	31,618	25,993
Total cash distributions	$ 33,387	$ 26,957
Cash distributions per unit applicable to limited partners	$ 1.45	$ 1.35

In May 2003, Valero L.P. paid a quarterly cash distribution of $0.70 per unit for the first quarter of 2003. On July 28, 2003, Valero L.P. declared a quarterly cash distribution of $0.75 per unit for the second quarter of 2003, which is payable on August 14, 2003 to holders of record on August 5, 2003. The 1,236,250 common units issued in the August 2003 common unit offering are not eligible to receive a distribution related to the second quarter of 2003.

Capital Requirements

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

- reliability capital expenditures (formerly referred to as maintenance 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 pipeline, terminal or storage tank assets.

During the six months ended June 30, 2003, the Partnership incurred reliability capital expenditures of $2.6 million primarily related to tank and pipeline pump station upgrades at numerous locations. Expansion capital expenditures of $5.2 million during the six months ended June 30, 2003 were related to modifications of the Albuquerque refined product terminal, the addition of new pumps on the Wichita Falls to McKee crude oil pipeline and initial construction of the Nuevo Laredo pipeline and propane terminal.

For the remainder of 2003, the Partnership expects to incur approximately $17 million of capital expenditures including approximately $5 million for reliability capital expenditures and approximately $12 million for expansion capital expenditures, including a refined product pipeline from Laredo, Texas to Nuevo Laredo, Mexico and a propane terminal in Nuevo Laredo. The Partnership expects to fund its capital expenditures from cash provided by operations and to the extent necessary, from proceeds of borrowings under the revolving credit facility or debt and equity offerings.

Acquisitions during the six months of 2003 include the January 7, 2003 purchase of an asphalt terminal from Telfer for $15.1 million, the March 18, 2003 purchases of the South Texas Pipelines and Terminals and the Crude Oil Storage Tanks from Valero Energy for a total of $350.0 million and the May 1, 2003 purchase of Shell's interest in the Amarillo to Abernathy and the Abernathy to Lubbock refined product pipelines for $1.6 million. Acquisitions during the first six months of 2002 represent the February 1, 2002 purchase, under a purchase option included in the Omnibus Agreement, of the Wichita Falls crude oil pipeline and storage facilities from Valero Energy for $64.0 million, which was funded with proceeds under the revolving credit facility.

The Partnership believes it has sufficient funds from operations, and to the extent necessary, from public and private capital markets and bank markets, to fund its ongoing operating requirements. The Partnership expects that, to the extent necessary, it can raise additional funds from time to time through equity or debt financings. 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 the Partnership.

Environmental, Health and Safety

The Partnership 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.

Valero Energy has agreed to indemnify the Partnership, for a period of approximately 10 years, for pre-acquisition environmental damage related to assets transferred or otherwise acquired by the Partnership from Valero Energy. These indemnifications do not include liabilities that result from a change in environmental law subsequent to acquisition. As an operator or owner of the assets, the Partnership could be held liable for pre-acquisition environmental damage should Valero Energy be unable to fulfill its obligation. However, the Partnership believes that such a situation is remote given Valero Energy's financial condition. As of June 30, 2003, the Partnership is not aware of any material environmental liabilities that were not covered by the environmental indemnifications.

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 the Partnership is exposed is interest rate risk on its debt. The Partnership 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 and variable-rate debt. In addition, the Partnership 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 the Partnership to increases in the benchmark interest rate underlying its variable-rate revolving credit facility. As of June 30, 2003, the Partnership's fixed-rate debt consisted of the 6.05% senior notes, the 6.875% senior notes and the 8.0% Port of Corpus Christi Authority note payable.

The following table provides information about the Partnership's 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.

	June 30, 2003							
	Expected Maturity Dates							
	2003	2004	2005	2006	2007	There-after	Total	Fair Value
	(in thousands, except interest rates)							
Long-term Debt:								
Fixed rate..................	$ 449	$ 485	$ 524	$ 566	$ 611	$ 357,025	$ 359,660	$ 384,403
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	$ 6,536
Average pay rate..........	2.9%	3.4%	4.4%	5.2%	6.1%	6.8%	5.8%	
Average receive rate......	6.3%	6.3%	6.3%	6.3%	6.3%	6.4%	6.4%	

	December 31, 2002							
	Expected Maturity Dates							
	2003	2004	2005	2006	2007	There-after	Total	Fair Value
	(in thousands, except interest rates)							
Long-term Debt:								
Fixed rate...................	$ 747	$ 485	$ 524	$ 566	$ 611	$ 107,025	$ 109,958	$ 109,922
Average interest rate......	8.0%	8.0%	8.0%	8.0%	8.0%	6.9 %	7.0%	
Variable rate................	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Average interest rate......	-	-	-	-	-	-	-	

Prior to 2003, the Partnership did not engage in interest rate hedging transactions.

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 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 Quarterly Report on Form 10-Q. Based on that evaluation, these officers concluded that the design and operation of 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.

Therehave been no significant changes 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

On July 10, 2003, Valero Logistics closed on the exchange of the outstanding $250.0 million 6.05% senior notes that were not registered under the Securities Act of 1933 for $250.0 million of 6.05% senior notes that have been registered under the Securities Act of 1933. Accordingly, the new 6.05% senior notes are freely transferable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

(b) Reports on Form 8-K

(i) On April 2, 2003, Valero L.P. filed a Current Report on Form 8-K dated March 18, 2003 reporting Item 2 (Acquisition or Disposition of Assets) in connection with Valero L.P.'s acquisition of (a) 58 crude oil storage tanks with an aggregate storage capacity of approximately 11.0 million barrels for $200.0 million and (b) the Valero South Texas Pipelines and Terminals Business consisting of three pipeline systems with an aggregate throughput capacity of 171,100 barrels per day for $150.0 million. Filed in Item 7 (Financial Statements and Exhibits) of the Form 8-K were (1) audited financial statements for the Valero South Texas Pipeline and Terminal Business as of and for the year ended December 31, 2002, and (2) pro forma financial statements for Valero L.P. and subsidiaries as of and for the year ended December 31, 2002 that give effect to the acquisition of the Valero South Texas Pipeline and Terminal Business.

(ii) On April 21, 2003, Valero L.P. furnished pursuant to Regulation FD a Current Report on Form 8-K dated April 21, 2003 reporting Item 12 (under Item 9 for EDGAR System purposes) and furnishing a copy of Valero L.P.'s press release relating to its earnings announcement for the first quarter of 2003. Financial statements were not filed with this report.

(iii) On June 12, 2003, Valero L.P. furnished pursuant to Regulation FD a Current Report on Form 8-K dated June 12, 2003 reporting Item 9 and furnishing a copy of a slide presentation made by Valero L.P.'s management to analysts and investors in June 2003 at the Lehman Brothers Fixed Income Conference in Houston, Texas. Financial statements were not filed with this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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
August 13, 2003

By: /s/ Steven A. Blank

(Steven A. Blank)
Senior Vice President and Chief Financial Officer
August 13, 2003

By: /s/ Clayton E. Killinger

(Clayton E. Killinger)
Vice President and Controller
August 13, 2003

Exhibit 12.1

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

	Six Months Ended June 30,	Years Ended December 31,				
	2003	2002	2001	2000	1999	1998
Earnings:						
Income from continuing operations before provision for income taxes and income from equity investees	$ 29,183	$ 52,350	$ 42,694	$ 35,968	$ 65,445	$ 54,910
Add:						
Fixed charges	7,394	5,492	4,203	5,266	997	1,001
Amortization of capitalized interest	26	48	39	34	32	28
Distributions from Skelly-Belvieu Pipeline Company	1,627	3,590	2,874	4,658	4,238	3,692
Less: Interest capitalized	(73)	(255)	(298)	-	(115)	(121)
Total earnings	$ 38,157	$ 61,225	$ 49,512	$ 45,926	$ 70,597	$ 59,510
Fixed charges:						
Interest expense (1)	$ 6,919	$ 4,968	$ 3,721	$ 5,181	$ 777	$ 796
Amortization of debt issuance costs	276	160	90	-	-	-
Interest capitalized	73	255	298	-	115	121
Rental expense interest factor (2)	126	109	94	85	105	84
Total fixed charges	$ 7,394	$ 5,492	$ 4,203	$ 5,266	$ 997	$ 1,001
Ratio of earnings to fixed charges	5.2x	11.1x	11.8x	8.7x	70.8x	59.5x

(1) The interest expense, net reported in the Partnership's consolidated statements of income for the six months ended June 30, 2003 and the year ended December 31, 2002 includes interest income of $82,000 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.;

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 we 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 changes 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: August 13, 2003

/s/ Curtis V. Anastasio
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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.;

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 we 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; and

(c) Disclosed in this report any changes 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: August 13, 2003

/s/ Steven A. Blank
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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 June 30, 2003, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Curtis V. Anastasio, President, Chief Executive Officer and 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
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Curtis V. Anastasio
President, Chief Executive Officer and Director
August 13, 2003

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 June 30, 2003, 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
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Steven A. Blank
Senior Vice President and Chief Financial Officer
August 13, 2003

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.