
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the year ended December 31, 2004

OR

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

Commission File Number 1-16417

VALERO L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

74-2956831
(I.R.S. Employer
Identification No.)

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

78249
(Zip Code)

Telephone number: (210) 345-2000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: Common Units representing limited partnership interests listed on the New York Stock Exchange.

Securities registered pursuant to 12(g) of the Act: None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** **No**

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). **Yes** **No**

As of June 30, 2004, the last day of the registrant's most recently completed second fiscal quarter, the aggregate market value of common units held by non-affiliates based on the last sales price as quoted on the New York Stock Exchange was \$626.5 million.

The number of common and subordinated units outstanding as of February 1, 2005 was 13,442,072 and 9,599,322, respectively.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This Form 10-K contains certain estimates, predictions, projections, assumptions and other forward-looking statements that involve various risks and uncertainties. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect Valero L.P.'s current judgment regarding the direction of its business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested in this report. These forward-looking statements can generally be identified by the words "anticipates," "believes," "expects," "plans," "intends," "estimates," "forecasts," "budgets," "projects," "will," "could," "should," "may" and similar expressions. These statements reflect Valero L.P.'s current views with regard to future events and are subject to various risks, uncertainties and assumptions, including:

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

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

PART I

ITEMS 1. & 2. BUSINESS AND PROPERTIES

Valero L.P.¹ is a Delaware limited partnership formed in 1999 that completed its initial public offering of common units on April 16, 2001. Valero L.P.'s common units are traded on the New York Stock Exchange (NYSE) under the symbol "VLI." Valero L.P.'s principal executive offices are located at One Valero Way, San Antonio, Texas 78249 and its telephone number is (210) 345-2000.

When used in this report, the term "Valero L.P." may refer, depending on the context, to Valero L.P., to one or more of its consolidated subsidiaries, or to all of them taken as a whole. Valero L.P.'s operations are conducted through a subsidiary, Valero Logistics Operations, L.P. (Valero Logistics), and its operations are controlled and managed by Valero GP, LLC. Valero GP, LLC is the general partner of Riverwalk Logistics, L.P. (Riverwalk Logistics), the general partner of Valero L.P. and an indirect wholly owned subsidiary of Valero Energy Corporation. Valero Energy Corporation, a publicly traded Delaware corporation (NYSE symbol "VLO"), currently owns an aggregate 43.7% limited partner interest, as well as the 2% general partner interest, in Valero L.P. As used in this report, the term "Valero Energy" may refer, depending on the context, to Valero Energy Corporation, to one or more of its consolidated subsidiaries or to all of them taken as a whole, but excludes Valero L.P. and its subsidiaries.

Valero L.P.'s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed with (or furnished to) the Securities and Exchange Commission (the SEC) are available free of charge on Valero L.P.'s website at <http://www.valerolp.com> (in the "Investor Relations" section) as soon as reasonably practicable after Valero L.P. files or furnishes such material. Valero L.P. also posts its corporate governance guidelines, code of business conduct and ethics, code of ethics for senior financial officers and the charter of the audit committee of Valero GP, LLC in the same website location. Valero L.P.'s governance documents are also available in print to any unitholder of record that makes a written request to Corporate Secretary, Valero L.P., P.O. Box 696000, San Antonio, Texas 78269.

Valero L.P. generates revenue by charging tariffs for transporting crude oil and refined products through its pipelines and by charging a fee for use of its terminals and the services provided by its crude oil storage tanks. Valero L.P.'s primary customer for its crude oil pipelines, refined product pipelines, refined product terminals and crude oil storage tank operations is Valero Energy, which accounted for 99% of Valero L.P.'s \$220.8 million in revenues for the year ended December 31, 2004. Valero Energy is discussed further in this Item under the caption "Valero L.P.'s Relationship with Valero Energy." Valero L.P.'s assets support nine of Valero Energy's refineries, including the McKee, Three Rivers, Texas City, Corpus Christi East and Corpus Christi West refineries in Texas, the Paulsboro refinery in New Jersey, the Denver refinery in Colorado, the Ardmore refinery in Oklahoma and the Benicia refinery in California.

The term "throughput" as used in this document generally refers to the crude oil or refined product barrels, as applicable, that pass through each pipeline, even if those barrels are also transported in other Valero L.P. pipelines (for which separate tariffs are charged).

SEGMENTS

Valero L.P.'s four reportable business segments are refined product pipelines, crude oil pipelines, crude oil storage tanks and refined product terminals.

¹ On December 31, 2001, Valero Energy Corporation acquired Ultramar Diamond Shamrock Corporation (UDS), the parent company of Shamrock Logistics, L.P. (the name under which Valero L.P. was formed), and on January 1, 2002, Shamrock Logistics, L.P. changed its name to Valero L.P.

REFINED PRODUCT PIPELINES

Valero L.P. has an ownership interest in 24 refined product pipelines with an aggregate length of 3,795 miles, and it also owns a 25-mile crude hydrogen pipeline. Valero L.P.'s refined product pipelines transport refined products from Valero Energy's McKee, Three Rivers, Corpus Christi East, Corpus Christi West and Ardmore refineries to Valero L.P.'s terminals or to interconnections with third-party pipelines for distribution to markets in Texas, Oklahoma, Colorado, New Mexico, Arizona and other mid-continent states. The refined products transported in these pipelines include gasoline, distillates (including diesel and jet fuel), natural gas liquids (such as propane and butane), blendstocks and petrochemicals such as toluene, xylene and raffinate. During the year ended December 31, 2004, gasoline and distillates represented approximately 61% and 30%, respectively, of the total throughput in Valero L.P.'s refined product pipelines. Valero L.P. charges tariffs on a per barrel basis for transporting refined products in its refined product pipelines.

The following table sets forth the average number of barrels of refined products Valero L.P. transported daily through its refined product pipelines, in the aggregate, in each of the years presented.

	Aggregate Throughput Years Ended December 31,				
	2004	2003	2002	2001	2000
Refined product	442,596	392,145	295,456	308,047	309,803

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The following table sets forth information about each of Valero L.P.'s refined product pipelines. In instances where Valero L.P. owns less than 100% of a pipeline, its ownership percentage is indicated, and the capacity, throughput and capacity utilization information reflects only its ownership interest in these pipelines.

Origin and Destination	Length (miles)	Ownership	Capacity (barrels/day)	Year Ended December 31, 2004	
				Throughput (barrels/day)	Capacity Utilization
McKee to El Paso, TX	408	67%	40,000	30,786	77%
McKee to Colorado Springs, CO (1)	256	100%	52,000	10,903	30%
Colorado Springs, CO to Airport	2	100%	14,000	1,232	9%
Colorado Springs to Denver, CO	101	100%	32,000	5,807	18%
McKee to Denver, CO	321	30%	12,450	11,759	94%
McKee to Amarillo, TX (6") (1)(2)	49	100%	51,000	34,149	84%
McKee to Amarillo, TX (8") (1)(2)	49	100%			
Amarillo to Abernathy, TX (1)	102	67%	11,733	8,277	71%
Amarillo, TX to Albuquerque, NM	293	50%	17,150	10,918	64%
Abernathy to Lubbock, TX (1)	19	46%	8,029	3,159	39%
McKee to Skellytown, TX	53	100%	52,000	7,419	14%
Skellytown to Mont Belvieu, TX	572	50%	26,000	11,805	45%
McKee to Southlake, TX	375	100%	27,300	21,808	80%
Three Rivers to San Antonio, TX	81	100%	33,600	26,650	79%
Three Rivers to US/Mexico International Border near Laredo, TX	108	100%	16,800	17,042	101%
Corpus Christi to Three Rivers, TX	68	100%	32,000	1,910	6%
Three Rivers to Corpus Christi, TX	72	100%	15,000	6,634	44%
Three Rivers to Pettus to San Antonio, TX	103	100%	24,000	23,091	96%
Three Rivers to Pettus to Corpus Christi, TX	89	100%	15,000	11,059	74%
Ardmore to Wynnewood, OK	31	100%	90,000	58,828	65%
El Paso, TX to Kinder Morgan	12	67%	40,000	20,878	52%
Corpus Christi to Pasadena, TX	208	100%	105,000	95,904	91%
Corpus Christi to Edinburg, TX	134	100%	27,100	22,578	83%
Other refined product pipeline (3)	289	50%	N/A	N/A	N/A
	3,795		741,162	442,596	61%

- (1) This pipeline transports barrels relating to two tariff routes, one of which begins at this pipeline's origin and ends at this pipeline's destination and one of which is a longer tariff route with an origin or destination on another pipeline of Valero L.P.'s that connects to this pipeline. Throughput disclosed above for this pipeline reflects only the barrels subject to the tariff route beginning at this pipeline's origin and ending at this pipeline's destination. To accurately determine the actual capacity utilization of the pipeline, as well as aggregate capacity utilization, all barrels passing through the pipeline have been taken into account.
- (2) The throughput, capacity and capacity utilization information disclosed above for the McKee to Amarillo 6-inch pipeline reflects both McKee to Amarillo pipelines on a combined basis.
- (3) This category consists of the temporarily idled 6-inch Amarillo, TX to Albuquerque, NM refined product pipeline.

CRUDE OIL PIPELINES

Valero L.P. has an ownership interest in nine crude oil pipelines with an aggregate length of 783 miles. Valero L.P.'s crude oil pipelines deliver crude oil and other feedstocks, such as gas oil, from various points in Texas, Oklahoma, Kansas and Colorado to Valero Energy's McKee, Three Rivers and Ardmore refineries. Also included in this segment are Valero L.P.'s four crude oil storage facilities in Texas and Oklahoma that are located along the crude oil pipelines and in which crude oil may be stored and batched prior to shipment in the crude oil pipelines. Valero L.P. charges tariffs on a per barrel basis for transporting crude oil and other feedstocks in its crude oil pipelines. With the exception of the crude oil storage tanks at Corpus Christi discussed below in *Crude Oil Storage Tanks*, Valero L.P. does not generate any separate revenue from the crude oil storage facilities. Instead, the costs associated with the storage facilities are considered in establishing the tariffs charged for transporting crude oil from the storage facilities to the refineries.

The following table sets forth the average daily number of barrels of crude oil and other feedstocks Valero L.P. transported through its crude oil pipelines, in the aggregate, in each of the years presented:

	Aggregate Throughput Years Ended December 31,				
	2004	2003	2002	2001	2000
			(barrels/day)		
Crude oil and other feedstocks	381,358	355,008	348,023	303,811	294,784

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The following table sets forth information about each of Valero L.P.'s crude oil pipelines:

Origin and Destination	Length	Ownership	Capacity	Year Ended December 31, 2004	
				Throughput	Capacity Utilization
	(miles)		(barrels/day)	(barrels/day)	
Cheyenne Wells, CO to McKee	252	100%	17,500	10,277	59%
Dixon, TX to McKee	44	100%	85,000	36,745	43%
Hooker, OK to Clawson, TX (1)	41	50%	22,000	18,799	85%
Clawson, TX to McKee (2)	31	100%	36,000	11,157	83%
Wichita Falls, TX to McKee	272	100%	110,000	78,412	71%
Corpus Christi, TX to Three Rivers	70	100%	120,000	78,338	65%
Ringgold, TX to Wasson, OK (2)	44	100%	90,000	37,472	42%
Healdton to Ringling, OK	4	100%	52,000	27,223	52%
Wasson, OK to Ardmore (8"-10")(3)	24	100%	90,000	77,045	86%
Wasson, OK to Ardmore (8")(3)	15	100%	40,000	5,890	15%
	<u>797</u>		<u>662,500</u>	<u>381,358</u>	<u>60%</u>

- (1) Valero L.P. receives 50% of the tariff with respect to 100% of the barrels transported in the Hooker, OK to Clawson, TX pipeline. Accordingly, the capacity, throughput and capacity utilization are given with respect to 100% of the pipeline.
- (2) This pipeline transports barrels relating to two tariff routes, one beginning at the pipeline's origin and ending at its destination, and one with an origin or destination on another connecting Valero L.P. pipeline. Throughput disclosed above for this pipeline reflects only the barrels subject to the tariff route beginning at this pipeline's origin and ending at this pipeline's destination. To accurately determine the actual capacity utilization of the pipeline, as well as aggregate capacity utilization, all barrels passing through the pipeline have been taken into account.
- (3) The Wasson, OK to Ardmore pipelines referred to above originate at Wasson as two pipelines but merge into one pipeline prior to reaching Ardmore.

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The following table sets forth information about Valero L.P.'s crude oil storage facilities associated with the crude oil pipeline segment:

Location	Capacity	Number of Tanks	Mode of Receipt	Mode of Delivery	Average Throughput Year Ended December 31, 2004
	(barrels)				(barrels/day)
Dixon, TX	240,000	3	pipeline	pipeline	36,745
Ringgold, TX (1)	600,000	2	pipeline	pipeline	37,472
Wichita Falls, TX	660,000	4	pipeline	pipeline	78,412
Wasson, OK	225,000	2	pipeline	pipeline	82,935
	1,725,000	11			235,564

(1) Valero L.P. owns the Ringgold, TX crude oil storage facility but leases the underlying land under a long-term operating lease.

CRUDE OIL STORAGE TANKS

Valero L.P. owns 60 crude oil and intermediate feedstock storage tanks and related assets with aggregate storage capacity of approximately 12.5 million barrels. The land underlying these tanks is subject to long-term operating leases. Valero L.P.'s storage tanks serve the needs of Valero Energy's Benicia, Corpus Christi and Texas City refineries. Valero L.P. charges a fee for each barrel of crude oil or certain other feedstocks that it delivers to Valero Energy's Benicia, Corpus Christi and Texas City refineries.

The following table sets forth the average daily number of barrels of crude oil and other feedstocks Valero L.P. delivered to Valero Energy's Benicia, Corpus Christi West and Texas City refineries, in the aggregate, in each of the years presented:

	Aggregate Throughput Years Ended December 31,	
	2004	2003
	(barrels/day)	
Crude oil and other feedstocks	473,714	366,986

The following table sets forth information about Valero L.P.'s crude oil storage tanks:

Location	Capacity	Number of Tanks	Mode of Receipt	Mode of Delivery	Average Throughput Year Ended December 31, 2004
	(barrels)				(barrels/day)
Benicia, CA	3,815,000	16	marine/pipeline	pipeline	125,414
Corpus Christi, TX (West)	4,023,000	26	marine	pipeline	144,164
Texas City, TX	3,087,000	14	marine	pipeline	204,136
Corpus Christi, TX (North Beach)(1)	1,600,000	4	marine	pipeline	—
	12,525,000	60			473,714

(1) Valero L.P. does not report throughput for the Corpus Christi North Beach storage facility, as revenues for this facility are based on a lease agreement with Valero Energy.

REFINED PRODUCT TERMINALS

Valero L.P. owns 22 refined product terminals in Texas, Colorado, New Mexico, California, Oklahoma, New Jersey and Nuevo Laredo, Mexico. These terminals have a total of 204 tanks with a combined capacity of 4.5 million barrels. Most of Valero L.P.'s refined product terminals have automated loading facilities and are available 24 hours a day. At its terminals, Valero L.P. charges a per barrel handling fee, as well as a per barrel fee for refined product blending or filtering.

The following table sets forth the average daily number of barrels of refined products Valero L.P. handled at its refined product terminals, in the aggregate, in each of the years presented.

	Aggregate Throughput Years Ended December 31,				
	2004	2003	2002	2001	2000
Refined product	256,576	225,426	175,559	176,771	165,653

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The following table sets forth information about each of Valero L.P.'s refined product terminals:

Location	Capacity	Number of Tanks	Mode of Receipt	Mode of Delivery	Average Throughput Year Ended December 31, 2004
	(barrels)				(barrels/day)
Abernathy, TX	171,000	11	pipeline	truck	8,797
Amarillo, TX	271,000	14	pipeline	truck/pipeline	25,556
Albuquerque, NM	193,000	10	pipeline	truck/pipeline	9,574
Catoosa, OK (asphalt) (1) (3)	340,000	24	truck/rail/barge	truck/rail	2,464
Colorado Springs, CO (1)	324,000	8	pipeline	truck/pipeline	10,913
Corpus Christi, TX (1)	371,000	15	pipeline	marine/pipeline	9,220
Denver, CO	111,000	10	pipeline	truck	17,127
Edinburg, TX	184,600	7	pipeline	truck	22,578
El Paso, TX (2)	347,000	22	pipeline	truck/pipeline	32,657
Harlingen, TX (1)	314,000	7	marine	truck	8,273
Houston, TX (Hobby Airport)	107,100	6	pipeline	truck/pipeline	4,714
Houston, TX (asphalt)	75,000	3	marine	truck	2,481
Laredo, TX	203,000	6	pipeline	truck	14,023
Nuevo Laredo, Mexico (4)	34,300	5	pipeline	truck	—
Paulsboro, NJ	90,800	6	pipeline	truck	22,966
Pittsburg, CA (asphalt)	380,000	8	rail	truck	1,558
Placedo, TX	98,000	4	pipeline	truck	3,086
Rosario, NM (asphalt) (1) (3)	160,000	8	rail	truck	322
San Antonio (east), TX	148,200	8	pipeline	truck/pipeline	22,170
San Antonio (south), TX	221,000	10	pipeline	truck	18,158
Southlake, TX	286,000	6	pipeline	truck	19,939
Alameda, TX (idle)	105,800	6	pipeline	truck	N/A
	4,535,800	204			256,576

- Valero L.P. owns the Colorado Springs, CO, Corpus Christi, TX, Harlingen, TX, Houston, TX (Hobby Airport), Catoosa, OK and Rosario, NM refined product terminals but leases the realty under long-term operating leases.
- Valero L.P. owns a 66.67% undivided interest in the El Paso refined product terminal. The capacity and throughput amounts represent the proportionate share of capacity and throughput attributable to Valero L.P.'s ownership interest. The throughput represents barrels distributed from the El Paso refined product terminal and delivered to a third-party refined product pipeline.
- Valero L.P. acquired the Catoosa, OK terminal and the Rosario, NM terminal on February 20, 2004. The throughput barrels in the above table represent the total throughput from the date of acquisition divided by 366 days.
- The average throughput for the year ended December 31, 2004 for the Nuevo Laredo, Mexico propane terminal, 3,048 barrels per day, is not included in the total here, since these terminal barrels and related revenues are included in the tariff for the Three Rivers to US/Mexico International Border refined product pipeline.

VALERO L.P.'S RELATIONSHIP WITH VALERO ENERGY

Valero L.P.'s operations are strategically located within Valero Energy's refining and marketing supply chain in Texas, Oklahoma, California, Colorado, New Jersey, New Mexico, Arizona and other mid-continent states in the United States. Valero L.P. itself does not own or operate any refining or marketing operations. Valero L.P. is dependent on Valero Energy to provide substantially all the throughput for Valero L.P.'s pipelines, terminals and storage tanks and the ability of Valero Energy's refineries to maintain their production of refined products. During the year ended December 31, 2004, Valero Energy accounted for 99% of Valero L.P.'s revenues.

As of December 31, 2004, Valero Energy, through its wholly owned subsidiaries, owned 9,599,322 subordinated units, 664,119 common units and the 2% general partner interest in Valero L.P., representing an aggregate 45.7% ownership interest.

VALERO ENERGY'S BUSINESS

Valero Energy owns and operates 15 refineries in the United States, Canada and the island of Aruba, nine of which are served by Valero L.P.'s pipelines, terminals or storage assets. As of December 31, 2004, the total throughput capacity of each of those nine refineries was as follows:

<u>Refinery</u>	<u>Location</u>	<u>Total Throughput Capacity</u> (barrels/day)
Texas City	Texas	250,000
Corpus Christi West	Texas	225,000
Paulsboro	New Jersey	195,000
Benicia	California	185,000
McKee	Texas	170,000
Corpus Christi East	Texas	115,000
Three Rivers	Texas	98,000
Ardmore	Oklahoma	85,000
Denver	Colorado	30,000

Valero Energy markets the refined products produced by these refineries primarily in Texas, Oklahoma, Colorado, New Mexico, Arizona, California, New Jersey and several other mid-continent states through wholesale and spot market sales and exchange agreements, as well as through a network of company-operated and dealer-operated convenience stores.

MAJOR AGREEMENTS WITH VALERO ENERGY

Valero L.P.'s relationship with Valero Energy is governed by several significant agreements, which are described in Note 11 of Notes to Consolidated Financial Statements.

RECENT DEVELOPMENTS

PROPOSED KANEB MERGERS

On October 31, 2004, Valero L.P. and Kaneb Services LLC (KSL), a Delaware limited liability company (and parent company of the general partner of Kaneb Pipe Line Partners, L.P.), and certain of Valero L.P.'s affiliated parties entered into a definitive merger agreement (the KSL Agreement), pursuant to which a wholly owned subsidiary of Valero L.P. will merge with KSL, with the surviving entity being a wholly owned subsidiary of Valero L.P. (the KSL Merger). Under the terms of the KSL Agreement, upon completion of the KSL Merger each KSL common share will be converted into the right to receive \$43.31 in cash.

Also on October 31, 2004, Valero L.P. and Kaneb Pipe Line Partners, L.P., a Delaware limited partnership (KPP) and certain of their respective affiliated parties entered into a separate definitive merger agreement (the KPP Agreement), pursuant to which a wholly owned subsidiary of Valero L.P. will merge with KPP, with the surviving entity being a wholly owned subsidiary of Valero L.P. (the KPP Merger, and, together with the KSL Merger, the Kaneb Mergers). Under the terms of the KPP Agreement, upon completion of the KPP Merger each KPP unit will be converted into the right to receive a number of Valero L.P. common units based on an exchange ratio formula providing Valero L.P. common units worth \$61.50 per KPP unit within a specified "collar" range of Valero L.P. common unit market prices (plus or minus five percent of \$57.25), measured over a period prior to closing. Should Valero L.P.'s average per unit price during the measurement period be equal to or less than \$54.39 per unit, the exchange ratio will be fixed at 1.1307 Valero L.P. common units for each KPP unit. Should Valero L.P.'s average per unit price during the measurement period be equal to or greater than \$60.11 per unit, the exchange ratio will be fixed at 1.0231 Valero L.P. common units for each KPP unit.

On March 11, 2005, Valero L.P. unitholders holding a majority of Valero L.P.'s outstanding units voted to approve the issuance of the Valero L.P. common units in the KPP Merger. Also on March 11, 2005, the KPP unitholders and the KSL shareholders (other than Valero L.P., KSL, KPP and their respective affiliates) holding a majority of the outstanding KPP units and the KSL shares voted to approve the Kaneb Mergers.

Both of the Kaneb Mergers are contingent upon the completion of the other and are subject to customary regulatory approvals, including those under the Hart-Scott-Rodino Antitrust Improvements Act, as well as other customary conditions. There can be no assurances as to whether, or on what date, Valero L.P., KSL and KPP will obtain the required regulatory approvals or satisfy the other conditions to the Kaneb Mergers, or that Valero L.P., KSL or KPP will complete the Kaneb Mergers on the contemplated schedule.

REGISTRATION OF COMMON UNITS

On January 25, 2005, the SEC declared effective an amended registration statement on Form S-4 filed by Valero L.P. to register 26,268,524 Valero L.P. common units to be issued to the unitholders of KPP as described above in "*Proposed Kaneb Mergers*" if the KPP Merger is completed as planned.

2005 REVOLVING CREDIT AGREEMENT

On December 20, 2004, Valero Logistics and Valero L.P. entered into a 5-Year Revolving Credit Agreement (the 2005 Revolving Credit Agreement) with certain lenders with an initial aggregate commitment of \$400 million, subject to completion of the Kaneb Mergers. Valero Logistics' obligations under the 2005 Revolving Credit Agreement are unsecured and will be guaranteed by Valero L.P. and certain subsidiaries of Valero L.P. Generally, the lenders will not be obligated to make any loans under the 2005 Revolving Credit Agreement until the Kaneb Mergers are completed. Upon the closing of the 2005 Revolving Credit Agreement, the amounts outstanding under Valero L.P.'s \$175.0 million revolving credit facility (described in Note 7 of Notes to Consolidated Financial Statements) will be paid in full, and that facility will be terminated.

ACQUISITION

On February 20, 2004, Valero L.P. acquired two asphalt terminals located in Catoosa, Oklahoma (near Tulsa) and Rosario, New Mexico (near Santa Fe) from Royal Trading Company (Royal) for \$28.1 million. These terminals have an aggregate storage capacity of 500,000 barrels in 32 tanks and six loading stations.

AMENDMENT TO SERVICES AGREEMENT

Under the Services Agreement, the costs related to employees of Valero Energy who perform services directly on Valero L.P.'s behalf, including salary, wages and employee benefits, are charged by Valero Energy to Valero L.P. In addition, Valero L.P. receives certain administrative services such as legal, accounting, treasury, engineering, information technology and other corporate functions from Valero Energy. Due to Valero L.P.'s significant growth and increased need for personnel to work directly on its behalf, the Services Agreement was amended effective April 1, 2004. The amended Services Agreement is described in detail in Note 11 of Notes to Consolidated Financial Statements.

AMENDMENTS TO PARTNERSHIP AGREEMENT

Effective March 11, 2004, Valero L.P.'s partnership agreement was amended to reduce the percentage of the vote required to remove Valero L.P.'s general partner from 58% to a simple majority (excluding any units held by the general partner or its affiliates). In addition, the partnership agreement was amended to lower the general partner's incentive distribution rights with respect to distributions of available cash from 48% to 23% of the amount of any quarterly distribution that exceeds \$0.90 per unit (The general partner's 2% distribution was not affected by this amendment). Cash distributions are discussed in Note 13 of Notes to Consolidated Financial Statements.

COMPETITION

As a result of Valero L.P.'s physical integration with Valero Energy's refining and marketing operations and its contractual relationships with Valero Energy, management of Valero L.P. believes that it will not face significant competition for barrels of crude oil transported to, and barrels of refined products transported from, the various Valero Energy refineries served by Valero L.P.'s assets, particularly during the terms of the various agreements between Valero L.P. and Valero Energy described in Note 11 to Notes to Consolidated Financial Statements.

However, Valero L.P. faces competition from other pipelines that may be able to supply Valero Energy's end-user markets with refined products on a more competitive basis. If Valero Energy reduced its retail sales of refined products or its wholesale customers reduced their purchases of refined products, the volumes transported through Valero L.P.'s pipelines would be reduced, which would cause a decrease in cash and revenues generated from its operations.

While Valero L.P. believes the capital requirements, tariff regulation, environmental and safety considerations and problems acquiring rights-of-way associated with its business decrease the likelihood that competitors will build pipeline systems of comparable size and scope in the near future, competing pipelines may be built in markets where growing demand and attractive tariffs support such additional capacity.

REGULATION

RATE REGULATION

Several of Valero L.P.'s pipelines are interstate common carrier pipelines, which are subject to regulation by the Federal Energy Regulatory Commission (the FERC) under the Interstate Commerce Act (ICA) and the Energy Policy Act of 1992 (the EP Act). The ICA and its implementing regulations generally require the rates and practices of interstate oil pipelines to be reasonable and nondiscriminatory. The EP Act deemed certain rates in effect prior to its passage to be reasonable and allows interstate common carrier oil pipelines to change their rates within a defined range. Additionally, the rates and practices for Valero L.P.'s intrastate common carrier pipelines are subject to regulation by state commissions. The applicable state statutes and regulations generally require that pipeline rates and practices be reasonable and nondiscriminatory. Shippers may challenge Valero L.P.'s tariff rates and practices on its pipelines in certain instances.

Valero L.P.'s Pipelines Rates

Neither the FERC nor the state commissions have investigated Valero L.P.'s rates or practices. Valero L.P. does not believe that it is likely that there will be a challenge to its tariffs by a current shipper that would materially affect its revenues or cash flows because Valero Energy is currently the only shipper in the majority of Valero L.P.'s pipelines. Valero Energy has committed to refrain from challenging Valero L.P.'s tariffs until at least April 2008. Valero Energy has also agreed to be responsible for any ICA liabilities with respect to activities or conduct occurring during periods prior to April 16, 2001. However, the FERC or a state regulatory commission could investigate Valero L.P.'s tariffs at the urging of a third party. Also, because Valero L.P.'s pipelines are common carrier pipelines, Valero L.P. may be required to accept new shippers who wish to transport in its pipelines and who could potentially decide to challenge Valero L.P.'s tariffs. If any tariff challenge or challenges are successful, cash available for distribution to unitholders could be materially reduced.

ENVIRONMENTAL AND SAFETY REGULATION

General

Valero L.P.'s operations are subject to extensive federal, state and local environmental laws and regulations, including those relating to the discharge of materials into the environment, waste management and pollution prevention measures, and to environmental regulation by several federal, state and local authorities. The principal environmental risks associated with Valero L.P.'s operations relate to unauthorized emissions into the air and unauthorized releases into soil, surface water or groundwater. Valero L.P.'s operations are also subject to extensive federal and state health and safety laws and regulations, including those relating to pipeline safety. Compliance with these laws, regulations and permits increases Valero L.P.'s capital expenditures and its overall cost of business, and violations of these laws, regulations and/or permits can result in significant civil and criminal liabilities, injunctions or other penalties. Accordingly, Valero L.P. has adopted policies, practices and procedures in the areas of pollution control, pipeline integrity, operator qualifications, public relations and education, product safety, occupational health and the handling, storage, use and disposal of hazardous materials that are designed to prevent material environmental or other damage, to ensure the safety of its pipelines, its employees, the public and the environment and to limit the financial liability that could result from such events. Future governmental action and regulatory initiatives could result in changes to expected operating permits, additional remedial actions or increased capital expenditures and operating costs that cannot be assessed with certainty at this time. In addition, contamination resulting from spills of crude oil and refined products occurs within the industry. Risks of additional costs and liabilities are inherent within the industry, and there can be no assurances that significant costs and liabilities will not be incurred in the future.

Water

The Federal Water Pollution Control Act of 1972, as amended, also known as the Clean Water Act, and analogous state statutes impose restrictions and strict controls regarding the discharge of pollutants into state waters or waters of the United States. The discharge of pollutants into state waters or waters of the United States is prohibited, except in accordance with the terms of a permit issued by applicable federal or state authorities. The Oil Pollution Act, enacted in 1990, amends provisions of the Clean Water Act as they pertain to prevention and response to oil spills. Spill prevention control and countermeasure requirements of the Clean Water Act and some state laws require diking and similar structures to help prevent contamination of navigable waters in the event of overflow or release.

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Air Emissions

Valero L.P.'s operations are subject to the Federal Clean Air Act and analogous state and local statutes. Numerous amendments to the Federal Clean Air Act were enacted in 1990. These amendments may result in the imposition over the next several years of certain pollution control requirements with respect to air emissions from the operations of Valero L.P.'s pipelines, storage tanks and terminals. The Environmental Protection Agency (EPA) is developing, over a period of many years, regulations to implement these requirements. Depending on the nature of those regulations, and upon requirements that may be imposed by state and local regulatory authorities, Valero L.P. may be required to incur certain capital expenditures over the next several years for air pollution control equipment in connection with maintaining or obtaining operating permits and approvals and addressing other air emission-related issues.

Due to the broad scope of the issues involved and the complex nature of the regulations, full development and implementation of many Clean Air Act regulations have been delayed. Until such time as the new Clean Air Act requirements are implemented, Valero L.P. is unable to estimate the effect on its financial condition or results of operations or the amount and timing of such required expenditures. At this time, however, Valero L.P. does not believe that it will be materially affected by any such requirements.

Solid Waste

Valero L.P. generates non-hazardous solid wastes that are subject to the requirements of the Federal Resource Conservation and Recovery Act (FRCRA) and analogous state statutes. FRCRA also governs the disposal of hazardous wastes. Valero L.P. is not currently required to comply with a substantial portion of FRCRA requirements because its operations generate minimal quantities of hazardous wastes. However, it is possible that additional wastes, which could include wastes currently generated during operations, will in the future be designated as "hazardous wastes." Hazardous wastes are subject to more rigorous and costly disposal requirements than are non-hazardous wastes.

Hazardous Substances

The Comprehensive Environmental Response, Compensation and Liability Act, referred to as CERCLA and also known as Superfund, and analogous state laws, imposes liability, without regard to fault or the legality of the original act, on some classes of persons that contributed to the release of a "hazardous substance" into the environment. These persons include the owner or operator of the site and entities that disposed or arranged for the disposal of the hazardous substances found at the site. CERCLA also authorizes the EPA and, in some instances, third parties to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs that they incur. In the course of Valero L.P.'s ordinary operations, it may generate waste that falls within CERCLA's definition of a "hazardous substance." While Valero L.P. responsibly manages the hazardous substances that it controls, the intervening acts of third parties may expose Valero L.P. to joint and several liability under CERCLA for all or part of the costs required to clean up sites at which these hazardous substances have been disposed of or released into the environment.

Valero L.P. currently owns or leases, and has in the past owned or leased, properties where hydrocarbons are being or have been handled. Although Valero L.P. has utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other wastes may have been disposed of or released on or under the properties owned or leased by Valero L.P. or on or under other locations where these wastes have been taken for disposal. In addition, many of these properties have been operated by third parties whose treatment and disposal or release of hydrocarbons or other wastes was not under Valero L.P.'s control. These properties and wastes disposed thereon may be subject to CERCLA, the FRCRA and analogous state laws. Under these laws, Valero L.P. could be required to remove or remediate previously disposed wastes (including wastes disposed of or released by prior owners or operators), to clean up contaminated property (including contaminated groundwater) or to perform remedial operations to prevent future contamination.

Pipeline Integrity and Safety

Valero L.P.'s pipelines are subject to extensive laws and regulations governing pipeline integrity and safety. The Pipeline Safety Improvement Act of 2002 and its implementing regulations (collectively, PSIA) generally require pipeline operators to maintain qualification programs for key pipeline operating personnel, to review and update their existing pipeline safety public education programs, to provide information for the National Pipeline Mapping System, to maintain spill response plans and conduct spill response training and to implement integrity management programs for pipelines that could affect high consequence areas (*i.e.*, areas with concentrated populations, navigable waterways and other unusually sensitive areas). While compliance with PSIA may affect Valero L.P.'s capital expenditures and operating expenses, Valero L.P. believes that the cost of such compliance will not materially affect its competitive position and will not have a material effect on its financial condition or results of operations.

PROPERTIES

Valero L.P.'s principal properties are described above under the caption "Segments." Valero L.P. believes that it has satisfactory title to all of its assets. Although title to these properties is subject to encumbrances in some cases, such as customary interests generally retained in connection with acquisition of real property, liens related to environmental liabilities associated with historical operations, liens for current taxes and other burdens and minor easements, restrictions and other encumbrances to which the underlying properties were subject at the time of acquisition by Valero L.P. or its predecessors, Valero L.P. believes that none of these burdens will materially detract from the value of these properties or from its interest in these properties or will materially interfere with their use in the operation of Valero L.P.'s business. In addition, Valero L.P. believes that it has obtained sufficient right-of-way grants and permits from public authorities and private parties for it to operate its business in all material respects as described in this report. Valero L.P. performs scheduled maintenance on all of its pipelines, terminals, crude oil tanks and related equipment and makes repairs and replacements when necessary or appropriate. Valero L.P. believes that all of its pipelines, terminals, crude oil tanks and related equipment have been constructed and are maintained in all material respects in accordance with applicable federal, state and local laws and the regulations and standards prescribed by the American Petroleum Institute, the Department of Transportation and accepted industry practice.

EMPLOYEES

Valero L.P. has no employees. Riverwalk Logistics, the general partner of Valero L.P., is responsible for the management of Valero L.P. Valero GP, LLC, the general partner of Riverwalk Logistics, is responsible for managing the affairs of Riverwalk Logistics, and through it, the affairs of Valero L.P. and Valero Logistics. As of February 1, 2005, Valero GP, LLC employed approximately 285 individuals who perform services for Valero L.P.

ITEM 3. LEGAL PROCEEDINGS

Valero L.P. is a party to various claims and legal actions that have arisen in the ordinary course of its business. Valero L.P. believes it is unlikely that the final outcome of any claims or proceedings to which it is a party will have a material adverse effect on its financial position, results of operations or liquidity; however, due to the inherent uncertainty of litigation, the range of any possible loss cannot be estimated with a reasonable degree of precision and Valero L.P. cannot provide assurance that the resolution of any particular claim or proceeding would not have an adverse effect on its results of operations, financial position or liquidity.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of the unitholders, through solicitation of proxies or otherwise, during the fourth quarter of the year ended December 31, 2004.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON UNITS, RELATED UNITHOLDER MATTERS AND ISSUER PURCHASES OF COMMON UNITS****Market Information, Holders and Distributions**

Valero L.P.'s common units are listed and traded on the New York Stock Exchange under the symbol "VLI." At the close of business on February 1, 2005, Valero L.P. had 135 holders of record of its common units. The high and low sales prices (composite transactions) by quarter for the years ended December 31, 2004 and 2003 were as follows:

	Price Range of Common Unit	
	High	Low
Year 2004		
4th Quarter	\$61.75	\$54.00
3rd Quarter	56.01	49.00
2nd Quarter	55.30	43.60
1st Quarter	55.25	48.40
Year 2003		
4th Quarter	\$50.25	\$43.22
3rd Quarter	44.80	40.75
2nd Quarter	44.20	36.41
1st Quarter	40.64	35.00

The cash distributions applicable to each of the quarters in the years ended December 31, 2004 and 2003 were as follows:

	Record Date	Payment Date	Amount Per Unit
Year 2004			
4th Quarter	February 7, 2005	February 14, 2005	\$ 0.80
3rd Quarter	November 8, 2004	November 12, 2004	0.80
2nd Quarter	August 6, 2004	August 13, 2004	0.80
1st Quarter	May 7, 2004	May 14, 2004	0.80
Year 2003			
4th Quarter	February 6, 2004	February 13, 2004	\$ 0.75
3rd Quarter	November 6, 2003	November 14, 2003	0.75
2nd Quarter	August 5, 2003	August 14, 2003	0.75
1st Quarter	May 6, 2003	May 15, 2003	0.70

Valero L.P. has also issued and outstanding 9,599,322 subordinated units, all of which are held by UDS Logistics, LLC, the limited partner of Riverwalk Logistics and a wholly owned subsidiary of Valero Energy, for which there is no established public trading market. The issuance of subordinated units was exempt from registration with the SEC under Section 4(2) of the Securities Act of 1933. During the subordination period, the holders of the 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 the 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 its partnership agreement, during such periods equals or exceeds the amount that would have been sufficient to enable it to distribute the minimum quarterly distribution on all outstanding units on a 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

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longer be subordinated to the rights of the holders of common units and the subordinated units will be converted into common units, on a one-for-one basis.

During the subordination period, Valero L.P.'s cash is first distributed 98% to the holders of common units and 2% to the general partner until there has been distributed to the holders of common units an amount equal to the minimum quarterly distribution and arrearages in the payment of the minimum quarterly distribution on the common units for any prior quarter. Secondly, cash is distributed 98% to the holders of subordinated units and 2% to the general partner until there has been distributed to the holders of subordinated units an amount equal to the minimum quarterly distribution. Thirdly, cash in excess of the minimum quarterly distributions is distributed to the unitholders and the general partner based on the percentages shown below.

The general partner, Riverwalk Logistics, is entitled to incentive distributions if the amount that Valero L.P. distributes with respect to any quarter exceeds specified target levels shown below:

Quarterly Distribution Amount per Unit	Percentage of Distribution	
	Unitholders	General Partner
Up to \$0.60	98%	2%
Above \$0.60 up to \$0.66	90%	10%
Above \$0.66	75%	25%

The general partner's incentive distributions for the years ended December 31, 2004 and 2003 totaled \$4.4 million and \$2.6 million, respectively. The general partner's share of Valero L.P.'s net income for the years ended December 31, 2004 and 2003 was 7.6% and 5.7%, respectively, due to the impact of the incentive distributions.

Effective March 11, 2004, Valero L.P.'s partnership agreement was amended to lower the general partner's incentive distribution rights with respect to distributions of available cash from 48% to 23% of the amount of any quarterly distribution that exceeds \$0.90 per unit. The general partner will continue to receive a 2% distribution with respect to its general partner interest.

ITEM 6. SELECTED FINANCIAL DATA

The following table contains selected financial data derived from the audited financial statements of Valero L.P. and its predecessor (as defined below). The selected financial data for the years ended December 31, 2004, 2003, 2002 and 2001 and the six months ended December 31, 2000 represent the consolidated operations of Valero L.P.

	Successor (1)				Predecessor (1)	
	Years Ended December 31,				Six Months Ended December 31, 2000	Six Months Ended June 30, 2000
	2004	2003 (2)	2002	2001		
(in thousands, except per unit data and barrel/day information)						
Statement of Income Data:						
Revenues	\$ 220,792	\$ 181,450	\$ 118,458	\$ 98,827	\$ 47,550	\$ 44,503
Operating income	98,024	83,037	57,230	46,505	23,484	17,665
Income from continuing operations (3)	78,418	69,593	55,143	45,873	20,687	49,970
Basic and diluted income from continuing operations per unit applicable to limited partners (4)	3.15	3.02	2.72	1.82		
Cash distributions per unit applicable to limited partners	3.20	2.95	2.75	1.70		

	Successor (1)				
	December 31,				
	2004	2003 (2)	2002	2001(5)	2000
(in thousands)					

Balance Sheet Data:

Property and equipment, net	\$ 784,999	\$ 765,002	\$ 349,276	\$ 349,012	\$ 280,017
Total assets	857,507	827,557	415,508	387,070	329,484
Long-term debt, including debt due to parent (less current portion)	384,171	353,257	108,911	25,660	117,752
Partners' equity / net parent investment (5)	438,311	438,163	293,895	342,166	204,838

(1) Prior to July 1, 2000, Valero L.P.'s pipeline, terminalling and storage assets were owned and operated by Ultramar Diamond Shamrock Corporation (UDS), now part of Valero Energy. These assets and their related operations are referred to herein as the Ultramar Diamond Shamrock Logistics Business and that business is referred to as the "Predecessor" in the above table. The selected financial data for the six months ended June 30, 2000 reflects the operations of the Ultramar Diamond Shamrock Logistics Business as if it had existed as a single separate entity of UDS.

Effective July 1, 2000, UDS transferred the Ultramar Diamond Shamrock Logistics Business to Shamrock Logistics Operations, L.P. (Shamrock Logistics Operations), a wholly owned subsidiary of Shamrock Logistics, L.P. (Shamrock Logistics). Shamrock Logistics was wholly owned by UDS. Shamrock Logistics is referred to as the "Successor" in the above table. The transfer of the Ultramar Diamond Shamrock Logistics Business to Shamrock Logistics Operations represented a reorganization of entities under common control and was recorded at historical cost.

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On April 16, 2001, Shamrock Logistics completed its initial public offering of common units, which represented 26.4% of its outstanding partnership interests.

Effective on December 31, 2001, UDS merged with and into Valero Energy. That acquisition included the acquisition of UDS' majority ownership interest in Shamrock Logistics. The consolidated balance sheet of Shamrock Logistics as of December 31, 2001 was not adjusted to fair value due to the significant level of public ownership interest in Shamrock Logistics. Effective January 1, 2002, Shamrock Logistics became Valero L.P.

- (2) On March 18, 2003, Valero Energy contributed the South Texas Pipeline and Terminal Business and certain feedstock storage tanks to Valero L.P. for \$350.3 million, including transaction costs.
- (3) Income from continuing operations for the six months ended June 30, 2000 includes \$30.8 million of income tax benefit. Effective July 1, 2000, UDS transferred the Ultramar Diamond Shamrock Logistics Business to Shamrock Logistics Operations. As a limited partnership, Shamrock Logistics Operations was not subject to federal or state income taxes. Due to this change in tax status, the deferred income tax liability of \$38.2 million as of June 30, 2000 was written off in the statement of income of the Ultramar Diamond Shamrock Logistics Business for the six months ended June 30, 2000. The resulting income tax benefit of \$30.8 million for the six months ended June 30, 2000 includes the write-off of the deferred income tax liability less income tax expense of \$7.4 million for the six months ended June 30, 2000. The income tax expense for periods prior to July 1, 2000 was based on the effective income tax rate for the Ultramar Diamond Shamrock Logistics Business of 38%. The effective income tax rate exceeds the U.S. federal statutory income tax rate due to state income taxes.
- (4) Income from continuing operations per unit applicable to limited partners is computed by dividing income from continuing operations applicable to limited partners, after deduction of the general partner's 2% interest and incentive distributions, by the weighted average number of limited partnership units outstanding for each class of unitholder. Basic and diluted income from continuing operations per unit applicable to limited partners is the same because Valero L.P. has no potentially dilutive securities outstanding. Income from continuing operations per unit applicable to limited partners for periods prior to April 16, 2001, the date of Shamrock Logistics' initial public offering, is not shown as units had not been issued.
- (5) The selected financial data as of December 31, 2001 includes the acquisition of the Wichita Falls Business, which Valero L.P. acquired on February 1, 2002 from Valero Energy. Because Valero L.P. and the Wichita Falls Business came under the common control of Valero Energy commencing on December 31, 2001, the acquisition represented a reorganization of entities under common control and therefore required a restatement of the December 31, 2001 consolidated balance sheet of Valero L.P. to include the Wichita Falls Business as if it had been combined with Valero L.P. as of December 31, 2001. The partners' equity amount as of December 31, 2001 includes \$50.6 million of net parent investment resulting from Valero L.P.'s acquisition of the Wichita Falls Business. Upon execution of the acquisition on February 1, 2002, partners' equity/net parent investment was reduced by \$51.3 million.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Valero L.P.'s operations provide transportation and storage services to Valero Energy and other unrelated customers. Valero L.P. provides these services with its crude oil and refined product pipelines, refined product terminals and crude oil storage tanks located near or connected to nine of Valero Energy's refineries.

Valero L.P. completed the following acquisitions, which have more than doubled its size in the past three years:

- In 2002, Valero L.P. acquired the Wichita Falls to McKee crude oil pipeline and related Wichita Falls crude oil storage facility on February 1, 2002 and the Texas City crude hydrogen pipeline on May 29, 2002 for a combined total cost of \$75.0 million;
- In 2003, Valero L.P. acquired the Telfer asphalt terminal on January 7, 2003, the South Texas Pipelines and Terminals and the Crude Oil Storage Tanks on March 18, 2003, the Shell pipeline interest on May 1, 2003, the Southlake refined product pipeline effective August 1, 2003 and the Paulsboro refined product terminal on September 3, 2003 for a combined total cost of \$411.2 million; and
- On February 20, 2004, Valero L.P. acquired the Royal Trading asphalt terminals for \$28.1 million.

To fund these acquisitions as well as the redemption of \$134.1 million of common units (3,809,750 common units) in March 2003, Valero L.P. used a combination of sources as follows:

- In 2002, Valero Logistics issued \$100.0 million of 6.875% senior notes;
- In 2003, Valero Logistics issued \$250.0 million of 6.05% senior notes and Valero L.P. issued 7,567,250 common units for \$272.5 million, including general partner contributions; and
- Borrowings under the revolving credit facility.

Proposed Transaction

On October 31, 2004, Valero L.P. and Kaneb Services LLC (KSL), a Delaware limited liability company (and parent company of the general partner of Kaneb Pipe Line Partners, L.P.), and certain of Valero L.P.'s affiliated parties entered into a definitive merger agreement (the KSL Agreement), pursuant to which a wholly owned subsidiary of Valero L.P. will merge with KSL, with the surviving entity being a wholly owned subsidiary of Valero L.P. (the KSL Merger) Under the terms of the KSL Agreement, upon completion of the KSL Merger each KSL common share will be converted into the right to receive \$43.31 in cash.

Also on October 31, 2004, Valero L.P. and Kaneb Pipe Line Partners, L.P., a Delaware limited partnership (KPP) and certain of their respective affiliated parties entered into a separate definitive merger agreement (the KPP Agreement), pursuant to which a wholly owned subsidiary of Valero L.P. will merge with KPP, with the surviving entity being a wholly owned subsidiary of Valero L.P. (the KPP Merger, and, together with the KSL Merger, the Kaneb Mergers) Under the terms of the KPP Agreement, upon completion of the KPP Merger each KPP unit will be converted into the right to receive a number of Valero L.P. common units based on an exchange ratio formula providing Valero L.P. common units worth \$61.50 per KPP unit within a specified "collar" range of Valero L.P. common unit market prices (plus or minus five percent of \$57.25), measured over a period prior to closing. Should Valero L.P.'s average per unit price during the measurement period be equal to or less than \$54.39 per unit, the exchange ratio will be fixed at 1.1307 Valero L.P. common units for each KPP unit. Should Valero L.P.'s average per unit price during the measurement period be equal to or greater than \$60.11 per unit, the exchange ratio will be fixed at 1.0231 Valero L.P. common units for each KPP unit.

On March 11, 2005, Valero L.P. unitholders holding a majority of Valero L.P.'s outstanding units voted to approve the issuance of the Valero L.P. common units in the KPP Merger. Also on March 11, 2005, the KPP unitholders and the KSL shareholders (other than Valero L.P., KSL, KPP and their respective affiliates) holding a majority of the outstanding KPP units and the KSL shares voted to approve the Kaneb Mergers.

Both of the Kaneb Mergers are contingent upon the completion of the other and are subject to customary regulatory approvals, including those under the Hart-Scott-Rodino Antitrust Improvements Act, as well as other customary conditions. There can be no assurances as to whether, or on what date, Valero L.P., KSL and KPP will obtain the required regulatory approvals or satisfy the other conditions to the Kaneb Mergers, or that Valero L.P., KSL or KPP will complete the Kaneb Mergers on the contemplated schedule.

Results of Operations

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Financial Highlights
(in thousands)

	Years Ended December 31,	
	2004	2003
Statement of Income Data:		
Revenues	\$ 220,792	\$ 181,450
Costs and expenses:		
Operating expenses	78,298	64,609
General and administrative expenses	11,321	7,537
Depreciation and amortization	33,149	26,267
Total costs and expenses	122,768	98,413
Operating income	98,024	83,037
Equity income from Skelly-Belvieu Pipeline Company	1,344	2,416
Interest and other expense, net	(20,950)	(15,860)
Net income	78,418	69,593
Less net income applicable to general partner	(5,927)	(3,959)
Net income applicable to the limited partners' interest	\$ 72,491	\$ 65,634
Balance Sheet Data:		
Long-term debt, including current portion (1)	\$ 385,161	\$ 354,192
Partners' equity (2)	438,311	438,163
Debt-to-capitalization ratio (1) / ((1) + (2))	46.8%	44.7%

Segment Operating Highlights
(in thousands, except barrel/day information)

	Years Ended December 31,	
	2004	2003
Crude Oil Pipelines:		
Throughput (barrels/day)	381,358	355,008
Revenues	\$ 52,462	\$ 50,741
Operating expenses	15,468	15,196
Depreciation and amortization	4,499	5,379
Segment operating income	<u>\$ 32,495</u>	<u>\$ 30,166</u>
Refined Product Pipelines:		
Throughput (barrels/day)(a)	442,596	392,145
Revenues	\$ 86,418	\$ 72,276
Operating expenses	37,332	28,914
Depreciation and amortization	14,715	12,380
Segment operating income	<u>\$ 34,371</u>	<u>\$ 30,982</u>
Refined Product Terminals:		
Throughput (barrels/day)(a)	256,576	225,426
Revenues	\$ 39,984	\$ 31,269
Operating expenses	18,365	15,447
Depreciation and amortization	6,471	3,508
Segment operating income	<u>\$ 15,148</u>	<u>\$ 12,314</u>
Crude Oil Storage Tanks:		
Throughput (barrels/day)(a)	473,714	366,986
Revenues	\$ 41,928	\$ 27,164
Operating expenses	7,133	5,052
Depreciation and amortization	7,464	5,000
Segment operating income	<u>\$ 27,331</u>	<u>\$ 17,112</u>
Consolidated Information:		
Revenues	\$ 220,792	\$ 181,450
Operating expenses	78,298	64,609
Depreciation and amortization	33,149	26,267
Segment operating income	<u>109,345</u>	<u>90,574</u>
General and administrative expenses	11,321	7,537
Consolidated operating income	<u>\$ 98,024</u>	<u>\$ 83,037</u>

(a) During the years ended December 31, 2004 and 2003, Valero L.P. completed several acquisitions as discussed above. The throughput related to these newly acquired assets included in the table above is calculated based on throughput for the period from the date of acquisition through December 31 of the year of acquisition divided by the number of days in the applicable year.

Annual Highlights

Net income for the year ended December 31, 2004 increased \$8.8 million or 13% compared to the year ended December 31, 2003. This increase was primarily attributable to the following:

- The acquisitions of the South Texas Pipelines and Terminals and the crude oil storage tanks in March 2003, the Southlake pipeline in August 2003 and the Paulsboro terminal in September 2003. These assets were included in the results of operations for a full year in 2004 compared to a partial year in 2003;
- The acquisition of the Royal Trading asphalt terminals in February 2004;
- The commencement of operations in June 2004 of the Dos Laredos pipeline system, which ships propane to the Nuevo Laredo, Mexico propane terminal;

- Valero Energy's addition of a new crude unit at its Texas City refinery in the fourth quarter of 2003, which allowed that refinery to process more throughput, which benefited our storage tank business;
- Increased tariff rates effective April 2004 and the implementation of a Corpus Christi North Beach storage facility lease agreement effective January 2004; and
- Lower throughput volumes in 2003 due to economic-based production cuts at Valero Energy's McKee refinery, a major turnaround at Valero Energy's Ardmore refinery and planned and unplanned crude unit outages at the Texas City refinery.

Partially offsetting the above increases to net income were the following:

- Crude unit outages at Valero Energy's McKee refinery in the second and third quarters of 2004 and a turnaround at Valero Energy's Benicia refinery in the fourth quarter of 2004;
- Increased operating expense due to the following (excluding the impact of 2003 and 2004 acquisitions):
 - Higher incentive compensation expense,
 - Higher power costs as a result of higher natural gas prices, and
 - Increased internal overhead costs due to the amendment to the Services Agreement, under which overhead previously allocated to Valero Energy is now borne by Valero L.P.
- Higher general and administrative expense primarily due to the amendment to the Services Agreement effective April 1, 2004, between Valero L.P. and Valero Energy for services rendered by Valero Energy corporate employees. In addition, general and administrative expenses in 2004 were higher due to increased external public company expenses, incentive compensation and headcount;
- Less equity income from Skelly-Belvieu Pipeline Company due primarily to a 21% decline in throughput barrels in the Skellytown to Mont Belvieu refined product pipeline in addition to higher maintenance expenses associated with pipeline integrity inspection costs; and
- Higher interest expense, which resulted from several factors, including (a) a full year of interest expense in 2004 related to the \$250.0 million of 6.05% senior notes issued in March 2003; (b) borrowings of \$43.0 million under the revolving credit facility in the first quarter of 2004 to fund the acquisition of the Royal Trading asphalt terminals and a portion of the construction costs related to the Dos Laredos pipelines and terminal; and (c) less interest income from interest rate swaps as interest rates increased in 2004.

On a per unit basis, net income per unit applicable to the limited partners' interest increased 4% or \$0.13 per limited partner unit for the year ended December 31, 2004 compared to the year ended December 31, 2003. This per unit increase was attributable to the above reasons, however, the increase in the per unit amount was partially offset by an increase in the number of common units outstanding as a result of the equity offerings completed in 2003.

Crude Oil Pipelines

Although Valero Energy's McKee refinery had a crude unit down during a portion of the second and third quarter of 2004, throughput for the crude oil pipelines that supply the McKee refinery were slightly higher for 2004 compared to 2003. Throughputs were reduced in 2003 because Valero Energy initiated economic-based refinery production cuts at its McKee refinery in the first quarter of 2003, which contributed to lower throughputs for the crude oil pipelines that supply the McKee refinery.

Revenues for the crude oil pipelines increased \$1.7 million or 3% for the year ended December 31, 2004 compared to the year ended December 31, 2003 due primarily to increased revenues related to the Ardmore crude oil pipelines. During the second quarter of 2003, Valero Energy's Ardmore refinery experienced a major refinery turnaround for most of April, resulting in lower throughput and revenues in the Ringgold to Wasson to Ardmore crude oil pipelines for 2003 as compared to 2004.

Although operating expenses for the crude oil pipelines segment were comparable in the aggregate for the year ended December 31, 2004 and the year ended December 31, 2003, certain components of operating expenses increased while others decreased. Power costs were higher during 2004 due to higher electricity rates as a result of higher natural gas prices and an expansion of the Wichita Falls crude oil pipeline by adding a pump station in the fourth quarter of 2003. In addition, higher employee benefit costs in 2004 were related to higher incentive compensation. These operating expense increases were offset by the transfer of the Corpus Christi North Beach storage facility, including its operating expense, from the crude oil pipeline segment to the crude oil storage tank segment effective January 1, 2004.

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Depreciation and amortization expense for the crude oil pipelines decreased due to the transfer of the Corpus Christi North Beach storage facility from the crude oil pipeline segment to the crude oil storage tank segment effective January 1, 2004.

Refined Product Pipelines

Revenues for the refined product pipelines segment increased \$14.1 million or 20% for the year ended December 31, 2004 compared to the year ended December 31, 2003 due to a 13% increase in throughput resulting primarily from Valero L.P.'s acquisition of the South Texas Pipelines on March 18, 2003 and the Southlake refined product pipeline on August 1, 2003. Revenues for the South Texas Pipelines and Southlake refined product pipeline were \$31.6 million for the year ended December 31, 2004 compared to revenue of \$22.5 million from the dates of acquisition through December 31, 2003. In addition, the Dos Laredos pipeline system, which began shipping propane to the Nuevo Laredo, Mexico propane terminal on June 1, 2004, contributed revenues of \$2.6 million in 2004.

Operating expenses for the refined product pipelines segment increased \$8.4 million or 29% for the year ended December 31, 2004 compared to the year ended December 31, 2003 primarily due to expenses associated with a full year of operations of the South Texas Pipelines acquired on March 18, 2003 and the Southlake refined product pipeline acquired on August 1, 2003, in addition to higher power costs and increased employee benefit costs related to higher incentive compensation.

Depreciation and amortization expense for the refined product pipelines segment increased \$2.3 million or 19% for the year ended December 31, 2004 compared to the year ended December 31, 2003 due to the acquisition of the South Texas Pipelines on March 18, 2003 and the Southlake refined product pipeline effective August 1, 2003 as well as the commencement of operations of the Dos Laredos pipeline system on June 1, 2004.

Refined Product Terminals

Revenues for the refined product terminals segment increased \$8.7 million or 28% for the year ended December 31, 2004 compared to the year ended December 31, 2003 primarily due to a full year of operations of the South Texas Terminals acquired on March 18, 2003 and the Paulsboro refined product terminal acquired on September 3, 2003 and due to the acquisition of the Royal Trading asphalt terminals on February 20, 2004. Revenues for the above-mentioned acquired terminals were \$15.5 million for the year ended December 31, 2004 compared to revenues of \$6.5 million from dates of acquisition through December 31, 2003.

Operating expenses for the refined product terminals segment increased \$2.9 million or 19% for the year ended December 31, 2004 compared to the year ended December 31, 2003 due primarily to expenses associated with the 2003 and 2004 acquisitions. Operating expenses for the above-mentioned acquired terminals were \$6.1 million for the year ended December 31, 2004 compared to \$2.9 from the dates of acquisition through December 31, 2003.

Depreciation and amortization expense for the refined product terminals segment increased \$3.0 million for the year ended December 31, 2004 compared to the year ended December 31, 2003 due to the acquisitions completed in 2003 and 2004 as well as the June 1, 2004 startup of the Nuevo Laredo terminal, which is connected to the Dos Laredos pipeline system.

Crude Oil Storage Tanks

Revenues for the crude oil storage tanks segment increased \$14.8 million or 54% for the year ended December 31, 2004 compared to the year ended December 31, 2003 due to a 29% increase in throughput attributable to the following:

- Valero L.P.'s ownership of the crude oil storage tanks for only 288 days of the year ended December 31 2003, compared to 366 days in the year ended December 31, 2004; and
- Valero Energy's addition of a new crude unit at its Texas City refinery in the fourth quarter of 2003, which allowed that refinery to process more throughput in 2004. In addition, there were several planned and unplanned crude unit outages at the Texas City refinery in 2003 which lowered the amount of throughput processed in 2003.

Partially offsetting the above increases in 2004 was a plant-wide turnaround at Valero Energy's Benicia refinery in the fourth quarter of 2004, which lowered throughput in 2004.

In addition, effective January 1, 2004, Valero L.P. transferred the operations of its Corpus Christi North Beach storage facility to the crude oil storage tanks segment from the crude oil pipelines segment. Prior to the transfer, Valero L.P. had included the use of this storage facility as a part of the crude oil pipeline tariff for the Corpus Christi to Three Rivers crude oil pipeline. Valero L.P. and Valero Energy entered into a one-year shell barrel capacity lease agreement, which is

Segment Operating Highlights
(in thousands, except barrel/day information)

	Years Ended December 31,	
	2003	2002
Crude Oil Pipelines:		
Throughput (barrels/day)	355,008	348,023
Revenues	\$ 50,741	\$ 47,925
Operating expenses	15,196	13,541
Depreciation and amortization	5,379	5,618
Segment operating income	<u>\$ 30,166</u>	<u>\$ 28,766</u>
Refined Product Pipelines:		
Throughput (barrels/day)(a)	392,145	295,456
Revenues	\$ 72,276	\$ 52,302
Operating expenses	28,914	16,202
Depreciation and amortization	12,380	8,051
Segment operating income	<u>\$ 30,982</u>	<u>\$ 28,049</u>
Refined Product Terminals:		
Throughput (barrels/day)(a)	225,426	175,559
Revenues	\$ 31,269	\$ 18,231
Operating expenses	15,447	8,095
Depreciation and amortization	3,508	2,771
Segment operating income	<u>\$ 12,314</u>	<u>\$ 7,365</u>
Crude Oil Storage Tanks:		
Throughput (barrels/day)(a)	366,986	—
Revenues	\$ 27,164	\$ —
Operating expenses	5,052	—
Depreciation and amortization	5,000	—
Segment operating income	<u>\$ 17,112</u>	<u>\$ —</u>
Consolidated Information:		
Revenues	\$ 181,450	\$ 118,458
Operating expenses	64,609	37,838
Depreciation and amortization	26,267	16,440
Segment operating income	<u>90,574</u>	<u>64,180</u>
General and administrative expenses	7,537	6,950
Consolidated operating income	<u>\$ 83,037</u>	<u>\$ 57,230</u>

(a) During the years ended December 31, 2003 and 2002, Valero L.P. completed several acquisitions as discussed above. The throughput related to these newly acquired assets included in the table above is calculated based on throughput for the period from the date of acquisition through December 31, divided by 365 days.

Annual Highlights

Net income for the year ended December 31, 2003 was \$69.6 million compared to \$55.1 million for the year ended December 31, 2002, an increase of 26%. This increase was primarily attributable to the additional operating income generated from the various acquisitions completed during 2003.

Partially offsetting the increase in net income were the following:

- Higher general and administrative expenses due primarily to an increase in external public company expenses and higher compensation expense;

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- Less equity income from Skelly-Belvieu Pipeline Company due to an 11% decrease in throughput barrels in the Skellytown to Mont Belvieu refined product pipeline and higher integrity maintenance expenses incurred in 2003; and
- Higher interest expense due to interest expense related to the \$250.0 million of 6.05% senior notes issued in March 2003. Partially offsetting the higher interest expense in 2003 is the effect of interest rate swaps entered into during the first four months of 2003.

On a per unit basis, net income per unit applicable to the limited partners' interest increased 11% or \$0.30 per unit for the year ended December 31, 2003 compared to the year ended December 31, 2002. This per unit increase was also attributable to the acquisitions completed during the year ended December 31, 2003, partially offset by an increase in the number of common units outstanding as a result of the equity offerings completed in 2003 to fund a portion of the acquisition costs.

Crude Oil Pipelines

Revenues for the crude oil pipelines increased \$2.8 million due primarily to increased revenues for the Wichita Falls to McKee and the Corpus Christi to Three Rivers crude oil pipelines as a result of a combined 7% increase in throughput barrels. Revenues and throughput for Valero L.P.'s other crude oil pipelines for 2003 were comparable to 2002.

Operating expenses for the crude oil pipelines increased \$1.7 million or 12% due to increased chemical expenses related to drag reducing agents to transport higher volumes of heavier sour crude oil and increased utility costs to transport the higher throughput in 2003 as compared to 2002. Utility costs were higher during 2003 due to higher electricity rates as a result of higher natural gas prices.

Depreciation and amortization expense for the crude oil pipelines for the year ended December 31, 2003 remained level with the amount recognized for the year ended December 31, 2002 due to no significant changes in the underlying property and equipment balances.

Refined Product Pipelines

Revenues for the refined product pipelines increased \$20.0 million and throughput increased 33% due primarily to the acquisition of the South Texas Pipelines on March 18, 2003 and the Southlake refined product pipeline on August 1, 2003. Revenues for the South Texas Pipelines and Southlake refined product pipeline were \$22.5 million and throughput totaled 102,650 barrels per day, on a basis of 365 days, from date of acquisition through December 31, 2003. Partially offsetting the increased revenues related to the acquisitions was a \$4.5 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 Colorado Springs, resulting in lower throughput in this pipeline.

Operating expenses for the refined product pipelines increased \$12.7 million or 78% due primarily to the expenses associated with the operations of the South Texas Pipelines and the Southlake refined product pipeline. Operating expenses for the South Texas Pipelines and Southlake refined product pipeline were \$11.4 million from the date of acquisition through December 31, 2003. In addition, Valero L.P. incurred higher pipeline inspection and repair costs during 2003 as compared to 2002 primarily for the Amarillo to Albuquerque refined product pipeline and the Three Rivers to San Antonio refined product pipeline, and increased utility costs due to higher electricity rates as a result of higher natural gas prices during 2003.

Depreciation and amortization expense for the refined product pipelines increased 54% or \$4.3 million for the year ended December 31, 2003 as compared to the year ended December 31, 2002 due to the acquisitions completed during 2003.

Refined Product Terminals

Revenues for the refined product terminals increased \$13.0 million and throughput increased 28% due primarily to the acquisitions of the Telfer asphalt terminal on January 7, 2003, the South Texas Terminals on March 18, 2003 and the Paulsboro refined product terminal on September 3, 2003. Revenues for the acquired terminals were \$10.8 million and throughput totaled 47,761 barrels per day, on a basis of 365 days, from the date of acquisition through December 31, 2003. Revenues for the other refined product terminals increased \$2.2 million due primarily to an increase in the additive blending fee from \$0.04 per barrel to \$0.12 per barrel effective January 1, 2003.

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Operating expenses for the refined product terminals increased \$7.4 million or 91% due primarily to the expenses associated with the operations of the South Texas Terminals, the Telfer asphalt terminal and the Paulsboro refined product terminal. Operating expenses for the South Texas Terminals, the Telfer asphalt terminal and the Paulsboro refined product terminal were \$5.3 million from the date of acquisition through December 31, 2003. In addition, chemical expenses related to gasoline additives increased by \$1.0 million, as a result of Valero L.P. purchasing the additives during 2003 versus customers supplying the additives in 2002.

Depreciation and amortization expense increased 27% or \$0.7 million for the year ended December 31, 2003 as compared to the year ended December 31, 2002 due to the acquisitions completed during 2003.

Crude Oil Storage Tanks

Revenues for the crude oil storage tanks represent revenues earned on the throughput barrels from the date of acquisition, March 18, 2003, through December 31, 2003. Operating expenses for the crude oil storage tanks consist primarily of the fees charged by Valero Energy for the personnel providing operating and routine maintenance services, and rent expense charged by Valero Energy under the lease and access agreements. Depreciation and amortization expense was recognized for the period from March 18, 2003 through December 31, 2003.

Liquidity and Capital Resources

Valero L.P.'s primary cash requirements are for reliability and expansion capital expenditures, acquisitions, distributions to partners, debt service and normal operating expenses. Valero L.P. expects to fund its short-term needs for such items as reliability capital expenditures and quarterly distributions to the partners from operating cash flows. Long-term capital requirements are expected to be funded from a variety of sources including cash flows from operating activities, borrowings under the \$175.0 million revolving credit facility, the 2005 Revolving Credit Agreement (upon closing of the Kaneb Mergers) the issuance of additional common units or debt securities and other capital market transactions.

Revolving Credit Facility

On March 6, 2003, Valero Logistics amended its December 2000 revolving credit facility, increasing its credit limit to \$175.0 million. The revolving credit facility expires on January 15, 2006. At Valero Logistics' option, borrowings under the revolving credit facility bear interest based on either an alternative base rate or LIBOR, which was 3.4% as of December 31, 2004. 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 borrowings under the revolving credit facility are unsecured and rank equally with all of Valero Logistics' outstanding unsecured and unsubordinated debt. The revolving credit facility is irrevocably and unconditionally guaranteed by Valero L.P. Valero L.P.'s guarantee ranks equally with all of its existing and future unsecured senior obligations.

The revolving credit facility requires that Valero Logistics maintain certain financial ratios, as defined in the revolving credit facility, including a consolidated debt coverage ratio not to exceed 4.0 to 1.0 and a consolidated interest coverage ratio no less than 3.5 to 1.0. The revolving credit facility 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. The revolving credit facility also includes a change-in-control provision, which requires that Valero Energy continue to own, directly or indirectly, 51% of Valero L.P.'s general partner interest or Valero Energy and/or Valero L.P. own 100% of the general partner interest in Valero Logistics or 100% of the outstanding limited partner interests in Valero Logistics. Management believes that Valero Logistics is in compliance with all of these ratios and covenants.

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. Valero Logistics repaid the borrowings during the second quarter of 2003, primarily from proceeds from the common unit offerings completed by Valero L.P.

As of December 31, 2004, Valero Logistics had \$147.0 million of available borrowing capacity under its \$175.0 million revolving credit facility. During 2004, Valero Logistics borrowed \$28.0 million under the revolving credit facility to fund the purchase of the Royal Trading asphalt terminals and borrowed an additional \$15.0 million to partially fund

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construction of the Nuevo Laredo, Mexico propane terminal and related pipelines. Valero Logistics repaid \$15.0 million of the borrowings under the revolving credit facility in the third and fourth quarters of 2004.

On December 20, 2004, Valero Logistics and Valero L.P. entered into a 5-Year Revolving Credit Agreement (the 2005 Revolving Credit Agreement) with certain lenders with an initial aggregate commitment of \$400 million, subject to completion of the Kaneb Mergers. Valero Logistics' obligations under the 2005 Revolving Credit Agreement are unsecured and will be guaranteed by Valero L.P. and certain subsidiaries of Valero L.P. Generally, the lenders will not be obligated to make any loans under the 2005 Revolving Credit Agreement until the Kaneb Mergers are completed. Upon closing of the 2005 Revolving Credit Agreement, the amounts outstanding under the \$175.0 million revolving credit facility will be paid in full, and that facility will be terminated.

Senior Notes

On July 15, 2002, Valero Logistics issued \$100.0 million of 6.875% senior notes due July 15, 2012 with interest payable in arrears on January 15 and July 15 of each year. The net proceeds were used to repay the \$91.0 million then outstanding under the revolving credit facility.

On March 18, 2003, Valero Logistics issued, in a private placement to institutional investors, \$250.0 million of 6.05% senior notes, due March 15, 2013, with interest payable in arrears on March 15 and September 15 of each year beginning September 15, 2003. The net proceeds of \$247.3 million were used to redeem 3,809,750 common units held by UDS Logistics, LLC (\$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 cost. On July 10, 2003, Valero Logistics exchanged all of the \$250.0 million of privately issued 6.05% senior notes for a like principal amount of 6.05% senior notes that were registered under the Securities Act of 1933.

Neither series of senior notes have sinking fund requirements. 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. Both series of 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 senior notes. In addition, the senior notes limit Valero Logistics' ability to incur indebtedness secured by certain liens and to engage in certain sale-leaseback transactions. Also, both series of 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, each of the series of 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 senior notes also include change-in-control provisions, which require (1) that Valero Energy or an investment grade entity own, directly or indirectly, 51% of the general partner interests of Valero L.P. and (2) that Valero L.P. or an investment grade entity own, directly or indirectly, all of the general partner and limited partner interests in Valero Logistics. Otherwise, Valero Logistics must offer to purchase the senior notes at a price equal to 100% of their outstanding principal balance plus accrued interest through the date of purchase.

Other Long-term Debt

During 2004, Valero Logistics repaid \$0.5 million on the note payable to the Port of Corpus Christi Authority of Nueces County, Texas. The note payable is due in annual installments of \$1.2 million through December 31, 2015 and is collateralized by the Corpus Christi North Beach crude oil storage facility.

Interest Rate Swaps

During 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, Valero Logistics will receive a 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. Valero Logistics accounts for the interest rate swaps as fair value hedges, with changes in the fair value of each swap and the related debt instrument recorded as an adjustment to interest expense in the consolidated statements of income.

Common Unit Offerings

On March 18, 2003, Valero L.P. sold 5,750,000 common units in a public offering for net proceeds of \$204.6 million, including a \$4.3 million general partner contribution from Riverwalk Logistics to maintain its 2% general partner interest. Valero L.P. used the net proceeds primarily to fund the acquisition of the Crude Oil Storage Tanks. On April 16, 2003, Valero L.P. sold 581,000 common units for net proceeds of \$20.9 million, including a \$0.5 million general partner contribution, upon the exercise of a portion of the underwriters' over-allotment option. Valero L.P. used the net proceeds to pay down the then outstanding balance due under the revolving credit facility.

On August 11, 2003, Valero L.P. sold 1,236,250 common units in a public offering, which included 161,250 common units related to an over-allotment option, for net proceeds of \$49.3 million, including a \$1.0 million general partner contribution. Valero L.P. used the net proceeds primarily to fund the acquisitions of the Southlake refined product pipeline and the Paulsboro refined product terminal.

Shelf Registration Statement

On October 2, 2003, the SEC declared effective a shelf registration statement on Form S-3 filed by Valero L.P. and Valero Logistics to register \$750.0 million of securities for potential future issuance. 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 debt securities, which will be fully and unconditionally guaranteed by Valero L.P. The full balance of the \$750.0 million universal shelf registration statement is available as of December 31, 2004.

Distributions

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

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:

	Years Ended December 31,		
	2004	2003	2002
	(in thousands, except per unit data)		
General partner interest	\$ 1,595	\$ 1,404	\$ 1,103
General partner incentive distribution	4,449	2,620	1,103
Total general partner distribution	6,044	4,024	2,206
Limited partners' distribution	73,733	66,179	52,969
Total cash distributions	\$ 79,777	\$ 70,203	\$ 55,175
Cash distributions per unit applicable to limited partners	\$ 3.20	\$ 2.95	\$ 2.75

On February 14, 2005, Valero L.P. paid a quarterly cash distribution of \$0.80 per unit for the fourth quarter of 2004.

Capital Requirements

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

- reliability capital expenditures (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 pipelines, terminals or storage tank assets.

During the year ended December 31, 2004, Valero L.P. incurred reliability capital expenditures of \$9.7 million primarily related to pipeline replacements along the Corpus Christi to Pasadena and the Three Rivers to Corpus Christi refined product pipelines as well as system automation projects related to terminal and pipeline management software. Expansion capital expenditures for the year ended December 31, 2004 of \$19.7 million were primarily related to the construction of the Nuevo Laredo, Mexico propane terminal and related pipelines, the expansion of the Corpus Christi to Edinburg refined product pipeline and the project to increase the capacity of the Wasson to Ardmore crude oil pipeline.

On February 20, 2004, Valero L.P. acquired two asphalt terminals, one in Catoosa, Oklahoma near Tulsa and one in Rosario, New Mexico near Santa Fe, from Royal Trading Company (Royal Trading) for \$28.1 million, which was funded with borrowings under Valero Logistics' \$175.0 million revolving credit facility. These terminals have an aggregate storage capacity of 500,000 barrels in 32 tanks and six loading stations.

During the year ended December 31, 2003, Valero L.P. incurred reliability capital expenditures of \$10.4 million primarily related to pipeline replacements along the Corpus Christi to Pasadena refined product pipeline, tank and pipeline pump station upgrades at several locations and system automation projects related to terminal and pipeline management software. Expansion capital expenditures of \$21.2 million were primarily related to the construction of the Nuevo Laredo, Mexico propane terminal and related pipeline, the addition of new pumps on the Wichita Falls to McKee crude oil pipeline and the expansion of the Corpus Christi to Edinburg refined product pipeline. Also during 2003, Valero L.P. completed \$411.2 million of acquisitions, which included the following:

- South Texas Pipelines and Terminals from Valero Energy for \$150.1 million,
- Crude Oil Storage Tanks from Valero Energy for \$200.2 million,
- Southlake refined product pipeline from Valero Energy for \$29.9 million,
- Telfer asphalt terminal from Telfer Oil Company for \$15.3 million,
- Paulsboro refined product terminal from ExxonMobil Oil Corporation for \$14.1 million, and
- Shell pipeline interest from Shell Pipeline Company, LP for \$1.6 million.

During the year ended December 31, 2002, Valero L.P. incurred reliability capital expenditures of \$3.9 million primarily related to tank and automation upgrades at both the refined product terminals and the crude oil storage facilities and corrosion protection and automation upgrades for refined product pipelines. Expansion capital expenditures of \$1.8 million were primarily related to the completion of the Amarillo to Albuquerque refined product pipeline expansion, which is net of ConocoPhillips' 50% share of costs. Also during 2002, Valero L.P. completed \$75.0 million of acquisitions, which included the following:

- Wichita Falls Business (consisting of the Wichita Falls to McKee crude oil pipeline and related storage facility) from Valero Energy for \$64.0 million, and
- Crude hydrogen pipeline from Valero Energy for \$11.0 million.

For 2005, Valero L.P. expects to incur approximately \$67.4 million of capital expenditures, including \$18.9 million for reliability capital projects and \$48.5 million for expansion capital projects. Valero L.P. continuously evaluates its capital budget and makes changes as economic conditions warrant.

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Long-Term Contractual Obligations

The following table presents long-term contractual obligations and commitments of Valero L.P. and the related payments due, in total and by period, as of December 31, 2004.

	Payments Due by Period				Total
	Less Than 1 Year	1-3 Years	4-5 Years	Over 5 Years	
			(in thousands)		
Long-term debt (stated maturities)	\$ 990	\$29,837	\$1,483	\$352,851	\$385,161
Operating leases	1,596	4,259	2,206	16,117	24,178
Rights of way payments	31	91	59	343	524
Catoosa, OK asphalt terminal purchase obligation	26	77	51	76	230

The operating lease amounts in the above table include minimum rentals due under the various land leases for the refined product terminals and the crude oil storage tanks.

A purchase obligation is an enforceable and legally binding agreement to purchase goods or services that specifies significant terms, including (i) fixed or minimum quantities to be purchased, (ii) fixed, minimum or variable price provisions, and (iii) the approximate timing of the transaction. Valero L.P.'s only purchase obligation relates to a minimum quantity guarantee for the wharfage and tollage payments at the Catoosa, OK asphalt terminal.

Valero L.P. does not have any long-term contractual obligations related to its investment in the Skelly-Belvieu Pipeline Company, other than the requirement to operate the pipeline on behalf of the members and to fund Valero L.P.'s 50% share of capital expenditures as they arise. Skelly-Belvieu Pipeline Company does not have any outstanding debt as of December 31, 2004.

Related Party Transactions

In addition to owning a combined 45.7% general and limited partner interest in Valero L.P., Valero L.P. and Valero Energy have entered into a number of operating agreements, which govern the required services provided to and from Valero Energy. Most of the operating agreements include adjustment provisions, which allow Valero L.P. to increase the handling, storage and throughput fees charged by Valero L.P. to Valero Energy based on a consumer price index. In addition, the pipeline tariffs charged by Valero L.P. are reviewed annually and adjusted based on an inflation index and may also be adjusted to take into consideration additional costs incurred to provide the transportation services. The following is a summary of the significant requirements of the individual agreements.

Services Agreement

Valero L.P. does not have any employees. Under the Services Agreement, the costs related to employees of Valero Energy who perform services directly on Valero L.P.'s behalf (direct services), including salary, wages and employee benefits are charged by Valero Energy to Valero, L.P. In addition, Valero L.P. receives certain administrative services such as legal, accounting, treasury, engineering, information technology and other corporate functions from Valero Energy. Under the provisions of the Services Agreement Valero L.P. paid Valero Energy an annual fee of \$5.2 million related to these administrative services. Due to the significant growth of Valero L.P. and the increased need for personnel to work directly on behalf of Valero L.P. who were previously performing administrative services, the terms of the Services Agreement were amended effective April 1, 2004.

Under the terms of the amended Services Agreement, Valero L.P. continues to reimburse Valero Energy for the direct costs of employees working on behalf of Valero L.P. The number of employees who perform services directly on behalf of Valero L.P. was increased, thereby increasing the direct service charge, while the administrative services fee was reduced to an initial \$1.2 million per year from \$5.2 million per year. Each year over the next four years, the administrative services fee will be increased by \$1.2 million and further increased by Valero Energy's average percentage increase in salaries. The administrative services fee may also be adjusted to account for changes in service levels due to Valero L.P.'s acquisition, sale or construction of assets. The Conflicts Committee of the Board of Directors of Valero GP, LLC approved the amendment to the Services Agreement in March 2004. These fees are in addition to general and administrative costs incurred from third parties for services Valero Energy does not provide under the Services Agreement.

Pipelines and Terminals Usage Agreement - McKee, Three Rivers and Ardmore

Under the terms of the Pipelines and Terminals Usage Agreement, Valero L.P. provides transportation services that support Valero Energy's refining and marketing operations relating to the McKee, Three Rivers and Ardmore refineries. Pursuant to the agreement, Valero Energy has agreed through April 2008:

- To transport in Valero L.P.'s crude oil pipelines at least 75% of the aggregate volumes of crude oil shipped to the McKee, Three Rivers and Ardmore refineries;
- To transport in Valero L.P.'s refined product pipelines at least 75% of the aggregate volumes of refined products shipped from the McKee, Three Rivers and Ardmore refineries; and
- To use Valero L.P.'s refined product terminals for terminalling services for at least 50% of the refined products shipped from the McKee, Three Rivers and Ardmore refineries.

In the event Valero Energy does not transport in Valero L.P.'s pipelines or use Valero L.P.'s terminals to handle the minimum volume requirements and if its obligation has not been suspended under the terms of the agreement, Valero Energy will be required to make a cash payment determined by multiplying the shortfall in volume by the applicable weighted-average pipeline tariff or terminal fee. During the year ended December 31, 2004, Valero Energy exceeded its obligations under the Pipelines and Terminals Usage Agreement. Additionally, Valero Energy has agreed not to challenge, or cause others to challenge Valero L.P.'s interstate or intrastate tariffs for the transportation of crude oil and refined products until at least April 2008.

Crude Oil Storage Tanks Agreements

In connection with the crude oil storage tank contribution, Valero L.P. and Valero Energy entered into the following agreements related to the operations of the crude oil storage tanks.

- Handling and Throughput Agreement – Valero Energy has agreed to pay Valero L.P. a fee, for an initial period of ten years, for all crude oil and certain other feedstocks delivered to each of the Corpus Christi West refinery, the Texas City refinery and the Benicia refinery and to use Valero L.P. for handling all deliveries to these refineries. The throughput fees are adjustable annually, generally based on 75% of the regional consumer price index applicable to the location of each refinery. The agreement may be extended by Valero Energy for up to an additional five years.
- Services and Secondment Agreements – Valero Energy has agreed to provide to Valero L.P. personnel who perform operating and routine maintenance services related to the crude oil storage tank operations. The annual reimbursement for services is an aggregate \$3.5 million for the initial year and is subject to adjustment based on the 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 Valero L.P. option to extend for an additional five years. In addition to the fees Valero L.P. has agreed to pay, Valero L.P. is responsible for operating expenses and specified capital expenditures related to the tank assets that are not addressed in the agreement. These operating expenses and capital expenditures include tank safety inspections, maintenance and repairs, certain environmental expenses, insurance premiums and ad valorem taxes.
- Lease and Access Agreements – Valero L.P. leases from Valero Energy 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 is 25 years, subject to automatic renewal for successive one-year periods thereafter.

South Texas Pipelines and Terminals Agreements

In connection with the South Texas Pipelines and Terminals contribution, Valero L.P. and Valero Energy entered into the following agreements related to the operations of the pipelines and terminals:

- A terminalling agreement 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, including an additive fee for gasoline additive blended at the terminals. At the Houston Hobby Airport terminal, Valero Energy agreed to pay a filtering fee for each barrel of jet fuel stored or handled at the terminal.
- A throughput commitment agreement pursuant to which Valero Energy agreed, for an initial period of seven years:
 - to transport in the Houston and Valley pipeline systems an aggregate of 40% of the Corpus Christi refineries' gasoline and distillate production but only if the combined throughput in these pipelines is less than 110,000 barrels per day;
 - to 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;
 - to use the Houston asphalt terminal for an aggregate of 7% of the asphalt production of the Corpus Christi refineries;
 - to use the Edinburg refined product terminal for an aggregate of 7% of the gasoline and distillate production of the Corpus Christi refineries, but only if the throughput at this terminal is less than 20,000 barrels per day; and
 - to use the San Antonio east terminal for 75% of the throughput in the Pettus to San Antonio refined product pipeline.

In the event Valero Energy does not transport in Valero L.P.'s pipelines or use Valero L.P.'s terminals to handle the minimum volume requirements and if its obligation has not been suspended under the terms of the agreement, Valero Energy will be required to make a cash payment determined by multiplying the shortfall in volume by the applicable weighted-average pipeline tariff or terminal fee. In 2003, Valero Energy indicated to Valero L.P. that the segment of the Corpus Christi to Edinburg refined product pipeline that runs approximately 60 miles south from Corpus Christi to Seeligson Station required repair and replacement. Valero Energy agreed to indemnify Valero L.P. for any costs Valero L.P. incurs to repair and replace this segment in excess of \$1.5 million, excluding costs to upgrade the size of the pipe, which is Valero L.P.'s responsibility. This repair and replacement project became operational in the fourth quarter of 2004.

Other Agreements

Other agreements between Valero L.P. and Valero Energy include:

- A hydrogen tolling agreement, which provides that Valero Energy will pay Valero L.P. minimum annual revenues of \$1.4 million for transporting crude hydrogen from BOC's chemical facility in Clear Lake, Texas to Valero Energy's Texas City refinery.
- A terminal storage and throughput agreement related to the Pittsburg asphalt terminal, which provides that Valero Energy will pay Valero L.P. a monthly lease fee of \$0.2 million, a minimum annual throughput fee of \$0.4 million and will reimburse Valero L.P. for utility costs.
- In conjunction with the Royal Trading acquisition in February 2004, Valero L.P. entered into a five-year terminal storage and throughput agreement with Valero Energy. The agreement provides a base throughput and blending fee schedule with volume incentive discounts once certain thresholds are met. In addition, Valero Energy has agreed to utilize the acquired terminals for a minimum of 18.5% of the McKee and Ardmore refineries' asphalt production.
- Valero L.P. and Valero Energy entered into a one-year shell barrel capacity lease agreement on January 1, 2004 for the 1.6 million barrels of capacity at the Corpus Christi North Beach storage facility, renewable annually. The use of this storage facility was previously included as part of the crude oil pipeline tariff for the Corpus Christi to Three Rivers crude oil pipeline.

Equity Ownership

As of December 31, 2004, UDS Logistics, LLC, an indirect wholly owned subsidiary of Valero Energy, owns 614,572 of Valero L.P.'s outstanding common units and all 9,599,322 of Valero L.P.'s outstanding subordinated units. In addition, Valero GP, LLC, also an indirect wholly owned subsidiary of Valero Energy, owns 49,547 of Valero L.P.'s outstanding common units. As a result, Valero Energy owns a 43.7% limited partner interest in Valero L.P. and the 2% general partner interest held by Riverwalk Logistics.

Environmental, Health and Safety

Valero L.P. is subject to extensive federal, state and local environmental and safety laws and regulations, including those relating to the discharge of materials into the environment, waste management, pollution prevention measures, pipeline integrity and operator qualifications, among others. 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 Valero L.P. for a period of approximately 10 years from the date of acquisition, for pre-acquisition environmental liabilities related to the assets transferred or otherwise acquired by Valero L.P. from Valero Energy or UDS. 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, Valero L.P. could be held liable for pre-acquisition environmental liabilities should Valero Energy be unable to fulfill its obligation. However, Valero L.P. believes that such a situation is remote given Valero Energy's financial condition. As of December 31, 2004 and 2003, Valero L.P. had accrued \$0.3 million and \$0.1 million, respectively, for environmental matters, which is expected to be spent over the next two years.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to select accounting policies and to make estimates and assumptions related thereto that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The following summary provides further information about Valero L.P.'s critical accounting policies and should be read in conjunction with Note 2 of the Consolidated Financial Statements, which summarizes Valero L.P.'s significant accounting policies.

Revenue Recognition

Revenues are derived from interstate and intrastate pipeline transportation of crude oil and refined products, the storage and throughput of crude oil and the terminalling and blending of refined products. Transportation revenues are based on pipeline tariffs that are subject to extensive federal and/or state regulation. Terminalling and blending revenues are based on fees which Valero L.P. believes are market based. Reductions to the current pipeline tariffs or terminalling and blending fees charged could have a material adverse effect on Valero L.P.'s results of operations. For the year ended December 31, 2004, 99% of Valero L.P.'s revenues were derived from Valero Energy and Valero Energy has agreed not to challenge certain of Valero L.P.'s pipeline tariffs or terminalling fees until at least April 2008. See Note 11 of the Consolidated Financial Statements for a discussion of Valero L.P.'s relationship with Valero Energy.

Depreciation

Depreciation expense is calculated using the straight-line method over the estimated useful lives of Valero L.P.'s property and equipment. Because of the expected long useful lives of the property and equipment, Valero L.P. depreciates its property and equipment over periods ranging from 3 years to 40 years. Changes in the estimated useful lives of the property and equipment could have a material adverse effect on Valero L.P.'s results of operations.

Impairment of Long-Lived Assets and Goodwill

Long-lived assets are required to be tested for recoverability whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Goodwill must be tested for impairment annually or more frequently if events or changes in circumstances indicate that the related asset might be impaired. An impairment loss should be recognized only if the carrying amount of the asset/goodwill is not recoverable and exceeds its fair value.

In order to test for recoverability, management must make estimates of projected cash flows related to the asset which include, but are not limited to, assumptions about the use or disposition of the asset, estimated remaining life of the asset, and future expenditures necessary to maintain the asset's existing service potential. In order to determine fair value, management must make certain estimates and assumptions including, among other things, an assessment of market conditions, projected cash flows, investment rates, interest/equity rates and growth rates, that could significantly impact the fair value of the long-lived asset or goodwill. Due to the subjectivity of the assumptions used to test for recoverability and to determine fair value, significant impairment charges could result in the future, thus affecting Valero L.P.'s future reported net income.

Asset Retirement Obligation

Effective January 1, 2003, Valero L.P. adopted Statement No. 143, "Accounting for Asset Retirement Obligations," which established accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated asset retirement cost. An entity is required to recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. If a reasonable estimate of fair value cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of fair value can be made.

In order to determine fair value, management must make certain estimates and assumptions including, among other things, projected cash flows, a credit-adjusted risk-free rate, and an assessment of market conditions that could significantly impact the estimated fair value of the asset retirement obligation. These estimates and assumptions are very subjective. Valero L.P. has determined that it is obligated by contractual or regulatory requirements to remove assets or perform other remediation upon retirement of certain assets. However, the fair value of the asset retirement obligation cannot currently be reasonably estimated because the settlement dates are indeterminate. Valero L.P. will record an asset retirement obligation in the periods in which it can reasonably determine the settlement dates.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Borrowings under the revolving credit facility expose Valero Logistics to increases in the benchmark interest rate underlying its variable rate revolving credit facility.

The following table provides information about Valero L.P.'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.

December 31, 2004								
Expected Maturity Dates								
	2005	2006	2007	2008	2009	There- after	Total	Fair Value
(in thousands, except interest rates)								
Long-term Debt:								
Fixed rate	\$ 990	\$ 566	\$ 611	\$ 660	\$ 713	\$ 355,652	\$ 359,192	\$ 389,933
Average interest rate	8.0%	8.0%	8.0%	8.0%	8.0%	6.3%	6.3%	
Variable rate	\$ —	\$ 28,000	\$ —	\$ —	\$ —	\$ —	\$ 28,000	\$ 28,000
Average interest rate	—	3.4%	—	—	—	—	3.4%	
Interest Rate Swaps Fixed to Variable:								
Notional amount	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 167,500	\$ 167,500	\$ (1,217)
Average pay rate	5.1%	5.7%	6.0%	6.2%	6.6%	7.0%	6.4%	
Average receive rate	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Management's Report on Internal Control over Financial Reporting

Valero L.P.'s management is responsible for establishing and maintaining adequate "internal control over financial reporting" (as defined in Rule 13a-15(f) under the Exchange Act) for Valero L.P. Valero L.P.'s management evaluated the effectiveness of Valero L.P.'s internal control over financial reporting as of December 31, 2004. In its evaluation, Valero L.P.'s management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Management believes that as of December 31, 2004, Valero L.P.'s internal control over financial reporting was effective based on those criteria. Valero L.P.'s independent registered public accounting firm has issued an attestation report on management's assessment of Valero L.P.'s internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors of Valero GP, LLC
and Unitholders of Valero L.P.:

We have audited the accompanying consolidated balance sheet of Valero L.P. and subsidiaries (a Delaware limited partnership) (the Partnership) as of December 31, 2004, and the related consolidated statements of income, cash flows and partners' equity for the year then ended. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the PCAOB). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Valero L.P. and subsidiaries as of December 31, 2004, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

We also have audited, in accordance with the standards of the PCAOB, the effectiveness of Valero L.P. and subsidiaries' internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 11, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

San Antonio, Texas
March 11, 2005

Report of Independent Registered Public Accounting Firm

The Board of Directors of Valero GP, LLC
and Unitholders of Valero L.P.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting for the year ended December 31, 2004, that Valero L.P. and subsidiaries (the Partnership) maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Partnership's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Partnership's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) (the PCAOB). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Valero L.P. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by COSO. Also, in our opinion, Valero L.P. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by COSO.

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We also have audited, in accordance with the standards of the PCAOB, the consolidated balance sheet of Valero L.P. and subsidiaries as of December 31, 2004, and the related consolidated statements of income, partners' equity, and cash flows for the year then ended, and our report dated March 11, 2005 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

San Antonio, Texas
March 11, 2005

Report of Independent Registered Public Accounting Firm

To the Board of Directors of Valero GP, LLC and Unitholders of Valero L.P.

We have audited the accompanying consolidated balance sheets of Valero L.P. and subsidiaries (a Delaware limited partnership, “the Partnership”) as of December 31, 2003, and the related consolidated statements of income, cash flows and partners’ equity for the years ended December 31, 2003 and 2002. These financial statements are the responsibility of the Partnership’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Partnership’s internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership’s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Valero L.P. and subsidiaries as of December 31, 2003, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

/s/ ERNST & YOUNG LLP

San Antonio, Texas
March 11, 2004

VALERO L.P. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except unit data)

	December 31,	
	2004	2003
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,147	\$ 15,745
Receivable from Valero Energy	19,195	15,781
Accounts receivable	3,395	5,333
Other current assets	1,242	1,275
	<hr/>	<hr/>
Total current assets	39,979	38,134
	<hr/>	<hr/>
Property and equipment	981,360	928,886
Less accumulated depreciation and amortization	(196,361)	(163,884)
	<hr/>	<hr/>
Property and equipment, net	784,999	765,002
Goodwill	4,715	4,715
Investment in Skelly-Belvieu Pipeline Company	15,674	15,703
Other noncurrent assets, net of accumulated amortization of \$2,064 and \$1,040 as of 2004 and 2003, respectively	12,140	4,003
	<hr/>	<hr/>
Total assets	\$ 857,507	\$ 827,557
	<hr/>	<hr/>
Liabilities and Partners' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 990	\$ 935
Payable to Valero Energy	4,166	9,849
Accounts payable and other accrued liabilities	16,055	8,499
Accrued interest payable	7,693	7,646
Taxes other than income taxes	4,705	4,441
	<hr/>	<hr/>
Total current liabilities	33,609	31,370
	<hr/>	<hr/>
Long-term debt, less current portion	384,171	353,257
Other long-term liabilities	1,416	4,767
Commitments and contingencies (see note 9)		
Partners' equity:		
Common units (13,442,072 outstanding as of 2004 and 2003)	310,507	310,589
Subordinated units (9,599,322 outstanding as of 2004 and 2003)	117,968	118,005
General partner's equity	9,836	9,569
	<hr/>	<hr/>
Total partners' equity	438,311	438,163
	<hr/>	<hr/>
Total liabilities and partners' equity	\$ 857,507	\$ 827,557
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2004	2003	2002
Revenues	\$ 220,792	\$ 181,450	\$ 118,458
Costs and expenses:			
Operating expenses	78,298	64,609	37,838
General and administrative expenses	11,321	7,537	6,950
Depreciation and amortization	33,149	26,267	16,440
Total costs and expenses	122,768	98,413	61,228
Operating income	98,024	83,037	57,230
Equity income from Skelly-Belvieu Pipeline Company	1,344	2,416	3,188
Interest and other expense, net	(20,950)	(15,860)	(4,880)
Income before income tax expense	78,418	69,593	55,538
Income tax expense	—	—	(395)
Net income	\$ 78,418	\$ 69,593	\$ 55,143
Allocation of net income:			
Net income	\$ 78,418	\$ 69,593	\$ 55,143
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' interest	78,418	69,593	54,493
General partner's interest in net income	(5,927)	(3,959)	(2,187)
Limited partners' interest in net income	\$ 72,491	\$ 65,634	\$ 52,306
Basic and diluted net income per unit applicable to limited partners	\$ 3.15	\$ 3.02	\$ 2.72
Weighted average number of basic and diluted units outstanding	23,041,394	21,706,164	19,250,867

See accompanying notes to consolidated financial statements.

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

	Years Ended December 31,		
	2004	2003	2002
Cash Flows from Operating Activities:			
Net income	\$ 78,418	\$ 69,593	\$ 55,143
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	33,149	26,267	16,440
Equity income from Skelly-Belvieu Pipeline Company	(1,344)	(2,416)	(3,188)
Distributions of equity income from Skelly-Belvieu Pipeline Company	1,344	2,416	3,493
Changes in operating assets and liabilities:			
Increase in receivable from Valero Energy	(3,414)	(7,299)	(2,666)
Decrease (increase) in accounts receivable	1,938	(3,831)	1,353
Increase in other current assets	(260)	(1,098)	(177)
Increase (decrease) in payable to Valero Energy	(5,683)	9,849	—
Increase in accrued interest payable	47	4,441	3,188
Increase in accounts payable and other accrued liabilities	4,457	3,571	770
Increase in taxes other than income taxes	264	644	2,369
Other, net	705	3,451	931
Net cash provided by operating activities	109,621	105,588	77,656
Cash Flows from Investing Activities:			
Reliability capital expenditures	(9,701)	(10,353)	(3,943)
Expansion capital expenditures	(19,702)	(21,208)	(1,761)
Acquisitions	(28,085)	(411,176)	(75,000)
Transaction costs related to the proposed acquisition of Kaneb Services, LLC and Kaneb Pipeline Partners, L.P.	(1,098)	—	—
Proceeds from dispositions of property and equipment and other assets	46	—	—
Distributions in excess of equity income from Skelly-Belvieu Pipeline Company	29	387	97
Net cash used in investing activities	(58,511)	(442,350)	(80,607)
Cash Flows from Financing Activities:			
Proceeds from 6.05% senior note offering, net of discount and issuance costs	—	247,297	—
Proceeds from 6.875% senior note offering, net of discount and issuance costs	—	—	98,207
Proceeds from other long-term debt borrowings	43,000	25,000	75,000
Repayment of long-term debt	(15,468)	(25,298)	(91,164)
Distributions to unitholders and general partner	(78,240)	(65,916)	(52,843)
Redemption of common units held by UDS Logistics, LLC	—	(134,065)	—
General partner contributions, net of redemption	—	2,930	—
Proceeds from sale of common units to the public, net of issuance costs	—	269,026	—
Other	—	—	(512)
Net cash provided by (used in) financing activities	(50,708)	318,974	28,688
Net increase (decrease) in cash and cash equivalents	402	(17,788)	25,737
Cash and cash equivalents as of the beginning of year	15,745	33,533	7,796
Cash and cash equivalents as of the end of year	\$ 16,147	\$ 15,745	\$ 33,533
Supplemental cash flow information:			
Cash paid for interest	\$ 24,120	\$ 15,701	\$ 1,988
Non-cash adjustment related to the transfer of the Wichita Falls Business to Valero L.P. by Valero Energy:			
Property and equipment	\$ —	\$ —	\$ 64,160
Accrued liabilities and taxes other than income taxes	—	—	(382)
Deferred income tax liabilities	—	—	(13,147)
Net parent investment	—	—	(50,631)

See accompanying notes to consolidated financial statements.

VALERO L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF PARTNERS' EQUITY
Years Ended December 31, 2004, 2003 and 2002
(in thousands)

	Limited Partners		General Partner	Net Parent Investment	Total Partners' Equity
	Common	Subordinated			
Balance as of January 1, 2002	\$ 169,305	\$ 116,399	\$ 5,831	\$ 50,631	\$ 342,166
Net income	26,225	26,081	2,187	650	55,143
Cash distributions to partners	(25,585)	(25,438)	(1,820)	—	(52,843)
Adjustment resulting from the acquisition of the Wichita Falls Business on February 1, 2002	—	—	—	(51,281)	(51,281)
Other	710	—	—	—	710
Balance as of December 31, 2002	170,655	117,042	6,198	—	293,895
Net income	36,832	28,802	3,959	—	69,593
Cash distributions to partners	(34,559)	(27,839)	(3,518)	—	(65,916)
Sales of 7,567,250 common units to the public in March, April and August 2003 and related general partner interest contributions	269,026	—	5,787	—	274,813
Redemption of 3,809,750 common units held by UDS Logistics, LLC and related general partner interest redemption	(134,065)	—	(2,857)	—	(136,922)
Other	2,700	—	—	—	2,700
Balance as of December 31, 2003	310,589	118,005	9,569	—	438,163
Net income	42,290	30,201	5,927	—	78,418
Cash distributions to partners	(42,342)	(30,238)	(5,660)	—	(78,240)
Other	(30)	—	—	—	(30)
Balance as of December 31, 2004	\$ 310,507	\$ 117,968	\$ 9,836	\$ —	\$ 438,311

See accompanying notes to consolidated financial statements.

VALERO L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2004, 2003 and 2002

NOTE 1: Organization, Operations and Significant Organizational Transactions

Organization

Valero L.P., a Delaware limited partnership, 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, the Paulsboro refinery located in New Jersey, the Denver refinery in Colorado and the Ardmore refinery located in Oklahoma. Valero Logistics also owns and operates 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 11: Related Party Transactions).

As used in this report, the term Valero L.P. 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 limited partner ownership of 43.7%. The remaining 54.3% limited partnership interest is held by public unitholders.

Valero Energy, an independent refining and marketing company, owns and operates 15 refineries with a combined total throughput capacity as of December 31, 2004 of approximately 2.5 million barrels per day. 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 Valero L.P. Valero Energy markets the refined products produced at its McKee, Three Rivers, Corpus Christi East, Corpus Christi West, Texas City, Benicia, Paulsboro, Denver and Ardmore refineries primarily in Texas, Oklahoma, Colorado, New Mexico, Arizona, California, New Jersey 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.

Operations

Valero L.P.'s operations include interstate and intrastate pipelines, which are subject to extensive federal and state environmental and safety regulations. In addition, the pipeline tariffs and practices under which Valero L.P. offers interstate and intrastate transportation services with its pipelines are subject to regulation by the Federal Energy Regulatory Commission (FERC), the Texas Railroad Commission or the Colorado Public Utility Commission, depending on the location of the pipeline. Tariffs and practices for each pipeline are required to be filed with the respective commission upon completion of a pipeline and when a tariff is being revised. In addition, the regulations include annual reporting requirements for each pipeline.

Valero L.P. has an ownership interest in 24 refined product pipelines with an aggregate length of 3,795 miles and a 25-mile crude hydrogen pipeline. Valero L.P. also has an ownership interest in 9 crude oil pipelines with an aggregate length of 783 miles and 4 crude oil storage facilities with a total storage capacity of 1.7 million barrels that are connected to the crude oil pipelines. Valero L.P. operates all but three of the pipelines.

Valero L.P. owns 22 refined product terminals with a total storage capacity of 4.5 million barrels in 204 tanks. Valero L.P. also owns an additional 4 crude oil storage tank operations with a total storage capacity of 12.5 million barrels in 60 tanks.

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

Significant Organizational Transactions

On February 1, 2002, Valero L.P. acquired the Wichita Falls Crude Oil Pipeline and Storage Business (the Wichita Falls Business) from Valero Energy for \$64.0 million. Since Valero L.P. and the Wichita Falls Business came under the common control of Valero Energy commencing on December 31, 2001, the acquisition represented a reorganization of entities under common control. As a result, the statements of income and cash flows for the year ended December 31, 2002 reflect the operations of the Wichita Falls Business for the entire year.

On March 31, 2003, Valero Logistics and its general partner, Valero GP, Inc., formed Valero Internacional, S .de R.L. de C.V., a Mexican limited liability company, to own and operate a propane terminal in Nuevo Laredo, Mexico. The propane terminal became operational on June 1, 2004.

Proposed Transaction

On October 31, 2004, Valero L.P. and Kaneb Services LLC (KSL), a Delaware limited liability company (and parent company of the general partner of Kaneb Pipe Line Partners, L.P.), and certain of their respective affiliated parties entered into a definitive merger agreement (the KSL Agreement), pursuant to which a wholly owned subsidiary of Valero L.P. will merge with KSL, with the surviving entity being a wholly owned subsidiary of Valero L.P. (the KSL Merger) Under the terms of the KSL Agreement, upon completion of the KSL Merger each KSL common share will be converted into the right to receive \$43.31 in cash.

Also on October 31, 2004, Valero L.P. and Kaneb Pipe Line Partners, L.P., a Delaware limited partnership (KPP) and certain of their respective affiliated parties entered into a separate definitive merger agreement (the KPP Agreement), pursuant to which a wholly owned subsidiary of Valero L.P. will merge with KPP, with the surviving entity being a wholly owned subsidiary of Valero L.P. (the KPP Merger, and together with the KSL Merger, the Kaneb Mergers) Under the terms of the KPP Agreement, upon completion of the KPP Merger each KPP unit will be converted into the right to receive a number of Valero L.P. common units based on an exchange ratio formula providing Valero L.P. common units worth \$61.50 per KPP unit within a specified “collar” range of Valero L.P. common unit market prices (plus or minus five percent of \$57.25), measured over a period prior to closing. Should Valero L.P.’s average per unit price during the measurement period be equal to or less than \$54.39 per unit, the exchange ratio will be fixed at 1.1307 Valero L.P. common units for each KPP unit. Should Valero L.P.’s average per unit price during the measurement period be equal to or exceed \$60.11 per unit, the exchange ratio will be fixed at 1.0231 Valero L.P. common units for each KPP unit.

The completion of each of the KPP Merger and the KSL Merger is subject to the approval of a majority of the unitholders of each of Valero L.P. and KPP, as well as a majority of the shareholders of KSL, respectively (see Note 16: Subsequent Events). Further, the Kaneb Mergers are both contingent upon each other and are subject to customary regulatory approvals including those under the Hart-Scott-Rodino Antitrust Improvements Act.

NOTE 2: Summary of Significant Accounting Policies

Consolidation: The accompanying consolidated financial statements represent the consolidated operations of Valero L.P. and its subsidiaries. All inter-partnership transactions have been eliminated in consolidation. In addition, the operations of certain crude oil and refined product pipelines and refined product terminals in which Valero L.P. owns an undivided interest, are proportionately consolidated in the accompanying consolidated financial statements.

Use of Estimates: The preparation of consolidated financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. On an ongoing basis, management reviews its estimates based on currently available information. Changes in facts and circumstances may result in revised estimates.

Cash and Cash Equivalents: All highly liquid investments with an original maturity of three months or less when purchased are considered to be cash equivalents.

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

Property and Equipment: Property and equipment is stated at cost. Additions to property and equipment, including reliability and expansion capital expenditures and capitalized interest, are recorded at cost. Reliability capital expenditures represent capital expenditures to replace partially or fully depreciated assets to maintain the existing operating capacity of existing assets and extend their useful lives. Expansion capital expenditures represent capital expenditures to expand the operating capacity of existing assets, whether through construction or acquisition. Repair and maintenance costs associated with existing assets that are minor in nature and do not extend the useful life of existing assets are charged to operating expenses as incurred. Depreciation is provided using the straight-line method over the estimated useful lives of the related assets. When property and equipment is retired or otherwise disposed of, the difference between the carrying value and the net proceeds is recognized as gain or loss in the consolidated statement of income in the year retired.

Impairment of Long-Lived Assets: Long-lived assets, including property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The evaluation of recoverability is performed using undiscounted estimated net cash flows generated by the related asset. If an asset is deemed to be impaired, the amount of impairment is determined as the amount by which the net carrying value exceeds discounted estimated net cash flows.

Asset Retirement Obligations: Effective January 1, 2003, Valero L.P. adopted Statement No. 143, "Accounting for Asset Retirement Obligations," which establishes financial accounting and reporting standards for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The provisions of this statement apply to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees.

Valero L.P. has determined that it is obligated by contractual or regulatory requirements to remove assets or perform other remediation upon retirement of certain assets. However, the fair value of the asset retirement obligation cannot currently be reasonably estimated as of December 31, 2004, because the settlement dates are indeterminate. Valero L.P. will record an asset retirement obligation in the periods in which it can reasonably determine the settlement dates. Accordingly, neither Valero L.P.'s financial position as of December 31, 2004 nor its results of operations for the years ended December 31, 2004 and 2003 have been impacted.

Goodwill: Goodwill represents the excess of cost over the fair value of net assets acquired in 1997. Beginning January 1, 2002, goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that the goodwill might be impaired. Valero L.P. uses October 1 of each year as its annual valuation date for the impairment test. Based on the results of the impairment tests performed as of October 1, 2004, 2003 and 2002, no impairment had occurred.

Investment in Skelly-Belvieu Pipeline Company, LLC: Formed in 1993, the Skelly-Belvieu Pipeline Company, LLC (Skelly-Belvieu Pipeline Company) owns a liquefied petroleum gas pipeline that begins in Skellytown, Texas and extends to Mont Belvieu, Texas near Houston. Skelly-Belvieu Pipeline Company is owned 50% by Valero L.P. and 50% by ConocoPhillips. Valero L.P. accounts for this investment under the equity method of accounting.

Deferred Financing Costs: Deferred financing costs are amortized over the life of the related debt obligation using the effective interest method and are included in other noncurrent assets in the consolidated balance sheets.

Environmental Remediation Costs: Environmental remediation costs are expensed and an associated accrual established when site restoration and environmental remediation and cleanup obligations are either known or considered probable and can be reasonably estimated. Accrued liabilities are based on estimates of probable undiscounted future costs over a 20-year time period using currently available technology and applying current regulations, as well as Valero L.P.'s own internal environmental policies. The environmental liabilities have not been reduced by possible recoveries from third parties. Environmental costs include initial site surveys, costs for remediation and restoration and ongoing monitoring costs, as well as fines, damages and

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

other costs, when estimable. Adjustments to initial estimates are recorded, from time to time, to reflect changing circumstances and estimates based upon additional information developed in subsequent periods.

Revenue Recognition: Revenues are derived from interstate and intrastate pipeline transportation of refined products and crude oil, terminalling, blending and filtering of refined products and the movement of crude oil and other refinery feedstocks through crude oil storage tanks (see Note 11: Related Party Transactions).

Transportation revenues (based on pipeline tariffs) are recognized as refined product or crude oil is delivered through the pipelines. The costs of the four crude oil storage facilities associated with the crude oil pipelines are considered in establishing the tariffs charged for transporting crude oil from the storage facilities to the refineries.

Terminalling revenues (based on a terminalling fee) are recognized as refined products move through the terminal and as additives are blended with refined products. In addition to the throughput fee, Valero L.P. also charges a storage capacity fee at the Pittsburg asphalt terminal and a filtering fee for jet fuel terminalled at the Houston Hobby Airport terminal.

Crude oil storage tank revenues are recognized as crude oil and certain other refinery feedstocks are received by the related refinery.

Federal and State Income Taxes: Valero L.P. and Valero Logistics are limited partnerships and are not subject to federal or state income taxes. Accordingly, the taxable income or loss of Valero L.P. and Valero Logistics, which may vary substantially from income or loss reported for financial reporting purposes, is generally includable in the federal and state income tax returns of the individual partners. For transfers of publicly held units subsequent to the initial public offering, Valero L.P. has made an election permitted by section 754 of the Internal Revenue Code to adjust the common unit purchaser's tax basis in Valero L.P.'s underlying assets to reflect the purchase price of the units. This results in an allocation of taxable income and expense to the purchaser of the common units, including depreciation deductions and gains and losses on sales of assets, based upon the new unitholder's purchase price for the common units.

The Wichita Falls Business was included in UDS' (now Valero Energy's) consolidated federal and state income tax returns. Deferred income taxes were computed based on recognition of future tax expense or benefits, measured by enacted tax rates that were attributable to taxable or deductible temporary differences between financial statement and income tax reporting bases of assets and liabilities. No recognition was given to federal or state income taxes associated with the Wichita Falls Business for financial statement purposes for periods subsequent to its acquisition by Valero L.P. The deferred income tax liabilities related to the Wichita Falls Business as of February 1, 2002 were retained by Valero Energy and were credited to net parent investment upon the transfer of the Wichita Falls Business to Valero L.P.

Partners' Equity: Valero L.P.'s partners' equity consists of common units, primarily held by public unitholders, subordinated units held by UDS Logistics, LLC, a wholly owned subsidiary of Valero Energy, and a 2% general partner interest held by Riverwalk Logistics, L.P. In addition, Valero GP, LLC, the general partner of Riverwalk Logistics, L.P. and an affiliate of Valero Energy, holds Valero L.P. common units to settle awards of restricted common units previously issued to employees, officers and directors of Valero GP, LLC. UDS Logistics, LLC also holds common units. The common units held by the public represent a 54.3% ownership interest in Valero L.P. as of December 31, 2004.

Net Parent Investment: The net parent investment as of January 1, 2002 as reflected on the Consolidated Statements of Partners' Equity represents the historical cost to Valero Energy, net of deferred income tax liabilities and certain other accrued liabilities, related to the Wichita Falls Business. The Wichita Falls Business was consolidated with Valero L.P. as of December 31, 2001 as a result of a reorganization of entities under common control in connection with the acquisition of the Wichita Falls Business by Valero L.P. (see Note 1: Organization, Operations and Significant Organizational Transactions).

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

Income Allocation: Valero L.P.'s net income for each quarterly reporting period is first allocated to the general partner in an amount equal to the general partner's incentive distribution declared for the respective reporting period. The remaining net income is allocated among the limited and general partners in accordance with their respective 98% and 2% interests.

Net Income per Unit Applicable to Limited Partners: Valero L.P. has identified the general partner and the subordinated units as participating securities and uses the two-class method when calculating the net income per unit applicable to limited partners, which is based on the weighted-average number of common and subordinated units outstanding during the period. Net income per unit applicable to limited partners is computed by dividing net income applicable to limited partners, after deducting the general partner's 2% interest and incentive distributions, by the weighted-average number of limited partnership units outstanding. Basic and diluted net income per unit applicable to limited partners is the same because Valero L.P. has no potentially dilutive securities outstanding. The general partner's incentive distribution allocation for the years ended December 31, 2004, 2003 and 2002 was \$4.4 million, \$2.6 million and \$1.1 million, respectively. The amount of net income per unit allocated to common units was equal to the amount allocated to the subordinated units for the years presented (see Note 13: Partners' Equity, Allocations of Net Income and Cash Distributions).

Risk Management Activities: Beginning in 2003, Valero L.P. entered into interest rate swap agreements for the purpose of hedging the interest rate risk associated with a portion of its fixed-rate senior notes. Valero L.P. accounts for the interest rate swaps as fair value hedges and recognizes the fair value of each interest rate swap in the consolidated balance sheet as either an asset or liability. Changes in the fair value of the interest rate swaps, along with the offsetting gain or loss on the debt that is being hedged, are recognized currently in the consolidated statement of income as an adjustment to interest expense.

Reclassifications: Certain previously reported amounts in the 2003 consolidated financial statements have been reclassified to conform to the 2004 presentation.

NOTE 3: Equity and Debt Offerings, Redemption of Common Units and Related Transactions

March 2003 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 (see Note 4: Acquisitions).

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 then 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 to institutional investors, \$250.0 million of 6.05% senior notes, 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 \$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 UDS Logistics, LLC, redeem a related portion of the general partner interest and partially fund the acquisition of the South Texas Pipelines and Terminals (see Note 4: Acquisitions).

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

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 3,809,750 common units at a total cost of \$134.1 million, or \$35.19 per 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.

August 2003 Common Unit Offering

On August 11, 2003, Valero L.P. consummated a public offering of common units, selling 1,236,250 common units, which included 161,250 common units related to the underwriter's 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. The net proceeds of the common unit offering and the general partner contribution were primarily used to fund the acquisitions of the Southlake refined product pipeline and the Paulsboro refined product terminal (see Note 4: Acquisitions).

Summary of 2003 Transactions

The net proceeds from the 2003 common unit offerings, 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, repay the outstanding balance under the revolving credit facility and pay for asset and business acquisitions completed during 2003. A summary of the proceeds received and use of proceeds is as follows (in thousands):

Proceeds received:	
March, April and August sales of common units to the public, including underwriters' over-allotment options	\$271,372
Private placement of 6.05% senior notes	249,298
Borrowings under the revolving credit facility	25,000
General partner contributions	5,787
Total proceeds	551,457
Use of proceeds:	
South Texas Pipelines and Terminals	150,115
Crude Oil Storage Tanks	200,198
Southlake Refined Product Pipeline	29,911
Paulsboro Refined Product Terminal	14,055
Redemption of common units	134,065
Repayment of borrowings under the revolving credit facility	25,000
Redemption of general partner interest	2,857
Professional fees and other costs of equity issuance	2,346
Debt issuance costs	2,001
Total use of proceeds	560,548
Net cash on hand paid out	\$ (9,091)

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

NOTE 4: Acquisitions

Completed During 2004

Royal Trading Asphalt Terminals

On February 20, 2004, Valero L.P. acquired two asphalt terminals, one in Catoosa, Oklahoma near Tulsa and one in Rosario, New Mexico near Santa Fe, from Royal Trading Company (Royal Trading) for \$28.1 million. These terminals have an aggregate storage capacity of 500,000 barrels in 32 tanks and six loading stations. The purchase price was allocated to the individual tangible and identifiable intangible assets acquired based on their fair values as determined by an independent appraisal.

In conjunction with the Royal Trading acquisition, Valero L.P. entered into a five-year terminal storage and throughput agreement with Valero Energy. The agreement provides a base throughput and blending fee schedule with volume incentive discounts once certain thresholds are met. In addition, Valero Energy has agreed to utilize the acquired terminals for a minimum of 18.5% of the McKee and Ardmore refineries' asphalt production. The results of operations for these two terminals are included in the consolidated statements of income commencing on February 20, 2004.

The pro forma financial information for the years ended December 31, 2004 and 2003 that give effect to the acquisition of Royal Trading as of January 1, 2004 and 2003 has not been disclosed, as the effect is not significant.

Completed During 2003

Telfer Asphalt Terminal

On January 7, 2003, Valero L.P. completed its acquisition of Telfer Oil Company's (Telfer) Pittsburg, California asphalt terminal for \$15.3 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, Valero L.P. entered into a six-year Terminal Storage and Throughput Agreement with Valero Energy. 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 the South Texas pipeline system to Valero L.P. for \$150.1 million, including transaction costs. The South Texas pipeline system was 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). In conjunction with the South Texas Pipelines and Terminals acquisition, Valero L.P. entered into several agreements with Valero Energy (see Note 11: Related Party Transactions).

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 capital contribution and \$7.4 million of available cash.

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

The unaudited pro forma financial information for the years ended December 31, 2003 and 2002, assumes that the South Texas Pipelines and Terminals acquisition occurred on January 1, 2003 and 2002, respectively.

	Years Ended December 31,	
	2003	2002
	(in thousands, except per unit data)	
Revenues	\$ 187,294	\$ 146,355
Operating income	85,028	63,072
Net income	69,930	53,500
Net income per unit applicable to limited partners	3.03	2.61

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 Valero L.P. for \$200.2 million, including transaction costs. The Crude Oil Storage Tanks consisted of certain tank shells, foundations, tank valves, tank gauges, pressure equipment, temperature equipment, corrosion protection, leak detection, tank lighting and related equipment located at Valero Energy's Corpus Christi West refinery, Texas City refinery and Benicia refinery.

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, Valero L.P. entered into several agreements with Valero Energy (see Note 11: Related Party Transactions).

Shell Pipeline Interest

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

Southlake Refined Product Pipeline

Effective August 1, 2003, Valero L.P. acquired the Southlake refined product pipeline from Valero Energy for \$29.9 million. The pipeline, which has a capacity of 27,300 barrels per day, is a 375-mile pipeline connecting Valero Energy's McKee refinery to Valero L.P.'s Southlake refined product terminal near Dallas, Texas.

Paulsboro Refined Product Terminal

On September 3, 2003, Valero L.P. acquired the Paulsboro refined product terminal from ExxonMobil Oil Corporation for \$14.1 million. The Paulsboro refined product terminal is located in Paulsboro, New Jersey, next to Valero Energy's Paulsboro refinery. The terminal has a storage capacity of 90,800 barrels.

Purchase Price Allocations for 2003 Acquisitions

The purchase prices for the Telfer, South Texas Pipelines and Terminals, Crude Oil Storage Tanks, Shell, Southlake and Paulsboro acquisitions were allocated based on the fair values of the individual assets acquired at the date of acquisition.

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

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 Valero L.P. was fair, from a financial point of view, to Valero L.P. and its public unitholders. The conflicts committee also approved the acquisition of the Southlake refined product pipeline by Valero L.P. from Valero Energy.

The following summarizes the purchase price allocation of the assets acquired in 2003:

	Property and equipment	Intangible assets	Total
		(in thousands)	
Telfer (Pittsburg) Asphalt Terminal	\$ 15,047	\$ 250	\$ 15,297
South Texas Pipelines and Terminals	149,575	540	150,115
Crude Oil Storage Tanks	200,198	—	200,198
Shell Pipeline Interest	1,600	—	1,600
Southlake Refined Product Pipeline	29,911	—	29,911
Paulsboro Refined Product Terminal	14,055	—	14,055
	<hr/>	<hr/>	<hr/>
Total Purchase Price Allocations	\$410,386	\$ 790	\$411,176

Completed During 2002

Wichita Falls Business

On February 1, 2002, Valero L.P. acquired the Wichita Falls Business from Valero Energy for a total cost of \$64.0 million, which Valero L.P. had an option to purchase pursuant to the Omnibus Agreement between Valero L.P. and Valero Energy (see Note 11: Related Party Transactions). The purchase price was funded with borrowings under Valero Logistics' revolving credit facility.

The Wichita Falls Business consisted of the following assets:

- A 272-mile crude oil pipeline originating in Wichita Falls, Texas and ending at Valero Energy's McKee refinery in Dumas, Texas. The Wichita Falls crude oil pipeline connects to third-party pipelines that originate along the Texas Gulf Coast; and
- Four crude oil storage tanks located in Wichita Falls, Texas.

Since the acquisition of the Wichita Falls Business represented the transfer of a business between entities under the common control of Valero Energy, the consolidated balance sheet as of December 31, 2001 and the statements of income and cash flows for the month ended January 31, 2002 (preceding the acquisition date) were restated to include the Wichita Falls Business.

As discussed in Note 2: Summary of Significant Accounting Policies, Valero L.P. and Valero Logistics are limited partnerships and are not subject to federal or state income taxes. However, the Wichita Falls Business was subject to federal and state income taxes prior to its acquisition on February 1, 2002. The \$0.4 million of income tax expense included in the consolidated statement of income for the year ended December 31, 2002 represents the Wichita Falls Business' income tax expense for the month ended January 31, 2002, which was calculated as if the Wichita Falls Business filed a separate federal and state income tax return.

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

The balance sheet of the Wichita Falls Business as of December 31, 2001, which was included in the consolidated balance sheet of Valero L.P. as of December 31, 2001, is summarized below, as well as, a reconciliation to the adjustment recorded when the acquisition was consummated on February 1, 2002.

	Wichita Falls Business
	(in thousands)
Balance Sheet as of December 31, 2001:	
Property and equipment	\$ 64,160
Accounts payable and accrued liabilities	(131)
Taxes other than income taxes	(251)
Deferred income tax liabilities	(13,147)
	<hr/>
Net parent investment as of December 31, 2001	50,631
Net income for the month ended January 31, 2002	650
	<hr/>
Adjustment resulting from the acquisition of the Wichita Falls Business on February 1, 2002	\$ 51,281
	<hr/>

Crude Hydrogen Pipeline

In May 2002, Valero Energy completed the construction of a 30-mile pure hydrogen pipeline, which originates at Valero Energy's Texas City refinery and ends at Praxair, Inc.'s La Porte, Texas plant. The total cost to construct the pipeline was \$11.0 million.

On May 29, 2002, Valero L.P. acquired the 30-mile pure hydrogen pipeline from Valero Energy for \$11.0 million, which was funded with borrowings under Valero Logistics' revolving credit facility. Valero L.P. then exchanged, on May 29, 2002, this 30-mile pure hydrogen pipeline for Praxair, Inc.'s 25-mile crude hydrogen pipeline, which originates at BOC's (successor to Celanese Ltd.) chemical facility in Clear Lake, Texas and ends at Valero Energy's Texas City refinery in Texas City, Texas, under an exchange agreement previously negotiated between Valero Energy and Praxair, Inc. In conjunction with the exchange, Valero L.P. entered into an operating agreement with Praxair, Inc. whereby Praxair, Inc. will operate the pipeline for an annual fee of \$0.1 million, plus reimbursement of repair, replacement and relocation costs.

Valero Energy owns the crude hydrogen transported in the pipeline, and the transportation services provided by Valero L.P. to Valero Energy are subject to a hydrogen tolling agreement. The hydrogen tolling agreement provides that Valero Energy will pay Valero L.P. minimum annual revenues of \$1.4 million for transporting crude hydrogen.

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

NOTE 5: Property and Equipment

Property and equipment, at cost, consisted of the following:

	Estimated Useful Lives	December 31,	
		2004	2003
	(years)	(in thousands)	
Land	-	\$ 8,526	\$ 6,151
Land and leasehold improvements	20	3,942	341
Buildings	35	10,464	10,319
Pipeline and equipment	3 - 40	876,905	828,247
Rights of way	20 - 35	68,446	50,087
Construction in progress	-	13,077	33,741
Total		981,360	928,886
Less accumulated depreciation and amortization		(196,361)	(163,884)
Property and equipment, net		\$ 784,999	\$ 765,002

Capitalized interest costs included in property and equipment were \$0.2 million, \$0.1 million and \$0.3 million for the years ended December 31, 2004, 2003 and 2002, respectively.

NOTE 6: Investment in Skelly-Belvieu Pipeline Company

The following presents summarized unaudited financial information related to Skelly-Belvieu Pipeline Company as of December 31, 2004 and 2003 and for the years ended December 31, 2004, 2003 and 2002:

	December 31,	
	2004	2003
	(in thousands)	
Balance Sheet Information:		
Current assets	\$ 2,928	\$ 1,712
Property, plant and equipment, net	45,235	47,254
Total assets	\$48,163	\$48,966
Current liabilities	\$ 378	\$ 351
Members' equity	47,785	48,615
Total liabilities and members' equity	\$48,163	\$48,966

	Years Ended December 31,		
	2004	2003	2002
	(in thousands)		
Statement of Income Information:			
Revenues	\$9,355	\$11,613	\$12,849
Net income	1,916	4,062	5,605
Valero L.P.'s share of net income	1,344	2,416	3,188
Valero L.P.'s share of distributions	1,373	2,803	3,590

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

The excess of Valero L.P.'s 50% share of members' equity over the carrying value of its investment is attributable to the step-up in basis to fair value of property and equipment of the initial contribution to Skelly-Belvieu Pipeline Company. This excess, which totaled \$8.2 million as of December 31, 2004 and \$8.6 million as of December 31, 2003, is being accreted into income over the average life of the assets held by Skelly-Belvieu, or 33 years.

NOTE 7: Long-term Debt

Long-term debt consisted of the following:

	December 31,	
	2004	2003
	(in thousands)	
6.05% senior notes due 2013, net of unamortized discount of \$577 in 2004 and \$647 in 2003 and a fair value adjustment of \$441 in 2004 and \$2,759 in 2003	\$248,982	\$246,594
6.875% senior notes due 2012, net of unamortized discount of \$237 in 2004 and \$268 in 2003 and a fair value adjustment of \$776 in 2004 and \$1,794 in 2003	98,987	97,938
Port Authority of Corpus Christi note payable	9,192	9,660
Revolving credit facility (3.4% borrowing rate at December 31, 2004)	28,000	—
Total debt	385,161	354,192
Less current portion	(990)	(935)
Long-term debt, less current portion	\$384,171	\$353,257

The long-term debt repayments are due as follows (in thousands):

2005	\$ 990
2006	28,566
2007	611
2008	660
2009	713
Thereafter	355,652
Total repayments	387,192
Less unamortized discount and fair value adjustment	(2,031)
Total debt	\$385,161

Interest payments totaled \$24.1 million, \$15.7 million and \$2.0 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Valero L.P. has no operations and its assets consist mainly of its investment in Valero Logistics, which owns and operates pipelines, terminals and storage tanks. 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, issued in a private placement to institutional investors, for total proceeds of \$249.3 million, before debt issuance costs of \$2.0 million. The 6.05% senior notes do not have sinking fund requirements. Interest on the 6.05% senior notes is payable semi-annually in arrears on March 15th and September 15th of each year beginning September 15, 2003.

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

Although the 6.05% senior notes were not initially registered under the Securities Act of 1933 or any other securities laws, Valero Logistics closed on the exchange of the outstanding \$250.0 million 6.05% senior notes that were not registered for \$250.0 million of 6.05% senior notes that have been registered under the Securities Act of 1933 in July 2003.

6.875% Senior Notes

On July 15, 2002, Valero Logistics completed the sale of \$100.0 million of 6.875% senior notes for total proceeds of \$99.7 million before debt issuance costs of \$1.5 million. The net proceeds were used to repay the \$91.0 million then outstanding under the revolving credit facility. The 6.875% senior notes do not have sinking fund requirements. Interest on the 6.875% senior notes is payable semi-annually in arrears on January 15 and July 15 of each year.

Both Series of Senior Notes

The 6.05% senior notes and the 6.875% senior notes rank equally with existing senior unsecured indebtedness of Valero Logistics, including indebtedness under the revolving credit facility. Both series of 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 senior notes. In addition, the senior notes limit Valero Logistics' ability to incur indebtedness secured by certain liens and to engage in certain sale-leaseback transactions. Also, both series of 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, each of the series of 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 senior notes also include a change-in-control provision, which requires (1) that Valero Energy or an investment grade entity own, directly or indirectly, 51% of the general partner interests of Valero L.P. and (2) that Valero L.P. or an investment grade entity own, directly or indirectly, all of the general partner and limited partner interests in Valero Logistics. Otherwise, Valero Logistics must offer to purchase the senior notes at a price equal to 100% of their outstanding principal balance plus accrued interest through the date of purchase.

Revolving Credit Facility

On December 15, 2000, Valero Logistics entered into a \$120.0 million revolving credit facility, which expires on January 15, 2006. At Valero Logistics' option, borrowings under the revolving credit facility bear interest based on either an alternative base rate or LIBOR, which was 3.4% as of December 31, 2004. 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. Borrowings to fund distributions to unitholders, however, were originally limited to \$25.0 million with such borrowings required to be reduced to zero for a period of at least 15 consecutive days during each fiscal year.

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. The amount that may be borrowed to fund distributions to unitholders was increased from \$25.0 million to \$40.0 million, 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. guarantees the revolving credit facility. The amounts available under the revolving credit facility are not subject to a borrowing base computation. As of December 31, 2004, Valero Logistics had \$147.0 million available under its revolving credit agreement.

The revolving credit facility requires that Valero Logistics maintain certain financial ratios and includes other restrictive covenants, including a prohibition on distributions by Valero Logistics if any default, as defined in the revolving credit facility, exists or would result from the distribution. The revolving credit facility also includes a change-in-control provision, which requires that Valero Energy continue to own, directly or indirectly, 51% of Valero L.P.'s general partner interest or Valero Energy and/or Valero L.P. own 100% of the general partner interest

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

in Valero Logistics or 100% of the outstanding limited partner interest in Valero Logistics. Management believes that Valero Logistics is in compliance with all of these ratios and covenants.

On December 20, 2004, Valero Logistics and Valero L.P. entered into a 5-Year Revolving Credit Agreement (the 2005 Revolving Credit Agreement) with certain lenders with an initial aggregate commitment of \$400 million, subject to completion of the Kaneb Mergers. Valero Logistics' obligations under the 2005 Revolving Credit Agreement are unsecured and will be guaranteed by Valero L.P. and certain subsidiaries of Valero L.P. Generally, the Lenders will not be obligated to make any loans under the 2005 Revolving Credit Agreement until the Kaneb Mergers are completed. Upon closing of the 2005 Revolving Credit Agreement, the amounts outstanding under the \$175.0 million revolving credit facility will be paid in full, and that facility will be terminated.

Port Authority of Corpus Christi Note Payable

The proceeds from the original \$12.0 million note payable due to the Port of Corpus Christi Authority of Nueces County, Texas (Port Authority of Corpus Christi) were used for the construction of a crude oil storage facility in Corpus Christi, Texas. The note payable is due in annual installments of \$1.2 million through December 31, 2015 and is collateralized by the crude oil storage facility. Interest on the unpaid principal balance accrues at a rate of 8% per annum. The land on which the crude oil storage facility was constructed is leased from the Port Authority of Corpus Christi (see Note 9: Commitments and Contingencies).

Interest Rate Swaps

During 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, Valero Logistics 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 December 31, 2004 and 2003, the weighted average effective interest rate for the interest rate swaps was 4.7% and 3.1%, respectively. As of December 31, 2004 and 2003, the aggregate estimated fair value of the interest rate swaps included in other long-term liabilities in the consolidated balance sheet was \$1.2 million and \$4.6 million, respectively.

NOTE 8: Health, Safety and Environmental Matters

Valero L.P.'s operations are subject to extensive federal, state and local environmental and safety laws and regulations. Although Valero L.P. 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, Valero L.P. has adopted policies, practices and procedures in the areas of pollution control, pipeline integrity, operator qualifications, public relations and education, 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.

Valero Energy has agreed to indemnify Valero L.P. for a period of 10 years from the date of acquisition for pre-acquisition environmental liabilities related to assets transferred or otherwise acquired by Valero L.P. from Valero Energy or UDS. Excluded from this indemnification are liabilities that result from a change in environmental law after the date of acquisition.

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

Additionally, ExxonMobil has agreed to indemnify Valero L.P. for pre-acquisition environmental liabilities in connection with off site disposal activities performed prior to September 4, 2003 related to the Paulsboro refined product terminal acquisition (see note 4: Acquisitions).

As an operator or owner of the assets, Valero L.P. could be held liable for pre-acquisition environmental liabilities should Valero Energy or ExxonMobil be unable to fulfill their obligation. However, Valero L.P. believes that such a situation is unlikely.

Environmental and safety exposures and liabilities are difficult to assess and estimate due to unknown factors such as the timing and extent of remediation, the determination of Valero L.P.'s liability in proportion to other parties, improvements in cleanup technologies and the extent to which environmental and safety laws and regulations may change in the future. Although environmental and safety costs may have a significant impact on the results of operations for any single period, Valero L.P. believes that such costs will not have a material adverse effect on its financial position. During the years ended December 31, 2004 and 2003, Valero L.P. incurred \$0.7 million and \$0.5 million, respectively of environmental remediation costs, including \$0.3 million accrued for future remediation related to two new matters in 2004 and \$0.1 million accrued for future remediation related to two matters in 2003. The current portion accrued is included in accounts payable and accrued liabilities and the long-term portion is included in other long-term liabilities. For the year ended December 31, 2002, Valero L.P. had not incurred any material environmental or safety liabilities.

NOTE 9: Commitments and Contingencies

Valero L.P. has several agreements with the Port Authority of Corpus Christi including a crude oil dock user agreement, a land lease agreement and a note agreement. The crude oil dock user agreement, which renews annually in May, allows Valero L.P. to operate and manage a crude oil dock in Corpus Christi. Valero L.P. shares use of the crude oil dock with two other users, and operating costs are split evenly among the three users. The crude oil dock user agreement requires that Valero L.P. collect wharfage fees, based on the quantity of barrels offloaded from each vessel, and dockage fees, based on vessels berthing at the dock. These fees are remitted to the Port Authority of Corpus Christi. The wharfage and one-half of the dockage fees that Valero L.P. pays for the use of the crude oil dock reduces the annual amount it owes to the Port Authority of Corpus Christi under the note agreement discussed in Note 7: Long-term Debt. The wharfage and dockage fees for Valero L.P.'s use of the crude oil dock totaled \$1.4 million, \$1.2 million and \$1.1 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Valero L.P. has a refined product dock user agreement, which renews annually in April, with the Port Authority of Corpus Christi to use a refined product dock. Valero L.P. shares use of the refined product dock with one other user, and operating costs are split evenly between the two users. The refined product dock user agreement requires that Valero L.P. collect and remit the wharfage and dockage fees to the Port Authority of Corpus Christi. The wharfage and dockage fees for Valero L.P.'s use of the refined product dock totaled \$0.3 million, \$0.2 million and \$0.2 million for the years ended December 31, 2004, 2003 and 2002, respectively.

The crude oil and the refined product docks in Corpus Christi provide Valero Energy's Three Rivers refinery access to marine facilities to receive crude oil and deliver refined products. For the years ended December 31, 2004, 2003 and 2002, the Three Rivers refinery received 82%, 81% and 86%, respectively, of its crude oil requirements from crude oil received at the crude oil dock. Also, for the years ended December 31, 2004, 2003 and 2002, 7%, 7% and 6%, respectively, of the refined products produced at the Three Rivers refinery were transported via pipeline to the Corpus Christi refined product dock.

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

Valero L.P. has the following land leases related to refined product terminals, crude oil storage facilities and the crude oil storage tank operations:

- Corpus Christi crude oil storage facility: a 20-year noncancellable operating lease through 2014, at which time the lease is renewable every five years, for a total of 20 renewable years.
- Corpus Christi refined product terminal: a five-year noncancellable operating lease through 2006, and a five-year noncancellable operating lease through 2007, at which time the agreements are renewable for at least two five-year periods.
- Harlingen refined product terminal: a 13-year noncancellable operating lease through 2008, and a 30-year noncancellable operating lease through 2008.
- Hobby airport terminal in Houston, Tx: a 40-year operating lease through 2022.
- Colorado Springs airport terminal: a 50-year noncancellable operating lease through 2043, at which time the lease is renewable for another 50-year period.
- Corpus Christi West crude oil storage tanks: a 25-year operating lease through 2027, at which time the lease is renewable for successive one-year periods thereafter.
- Texas City crude oil storage tanks: a 25-year operating lease through 2027, at which time the lease is renewable for successive one-year periods thereafter.
- Benicia crude oil storage tanks: a 25-year operating lease through 2027, at which time the lease is renewable for successive one-year periods thereafter.
- Catoosa, OK asphalt terminal lease: a 15-year operating lease through 2014, at which time the lease is renewable for three successive five-year periods.
- Rosario, NM asphalt terminal lease: a 25-year operating lease through 2025, at which time the lease is renewable for another 25-year period.

All of Valero L.P.'s land leases require monthly payments totaling \$0.1 million. Future minimum rental payments applicable to all noncancellable operating leases as of December 31, 2004, are as follows (in thousands):

2005	\$ 1,596
2006	1,582
2007	1,574
2008	1,103
2009	1,103
Thereafter	17,220
	<hr/>
Future minimum lease payments	\$24,178
	<hr/>

Rental expense for all operating leases totaled \$1.2 million, \$0.9 million and \$0.3 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Valero L.P. 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 Valero L.P.'s financial position or results of operations.

NOTE 10: Risk Management Activities

Interest Rate Risk

The estimated fair value of Valero L.P.'s fixed-rate debt as of December 31, 2004 and 2003 was \$389.9 million and \$377.2 million, respectively, as compared to the carrying amount of \$357.2 million and \$354.2 million, respectively. These fair values were estimated using discounted cash flow analysis, based on Valero L.P.'s current incremental borrowing rates for similar types of borrowing arrangements.

Valero L.P. is exposed to market risk for changes in interest rates related to its long-term debt obligations. Interest rate swap agreements, which were entered into during 2003, are used to manage a portion of the exposure to

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

changing interest rates by converting certain fixed-rate debt to variable-rate debt. Interest rates on borrowings under the revolving credit facility float with market rates and thus the carrying amount approximates fair value.

Concentration of Credit Risk

Substantially all of Valero L.P.'s revenues are derived from Valero Energy and its subsidiaries. Valero Energy transports crude oil to six of its refineries using Valero L.P.'s various crude oil pipelines and storage facilities and the crude oil storage tanks, and transports refined products from seven of its refineries to its company-owned retail operations or wholesale customers using Valero L.P.'s various refined product pipelines and terminals. Valero Energy and its subsidiaries are investment grade customers; therefore, Valero L.P. does not believe that the trade receivable from Valero Energy represents a significant credit risk. However, the concentration of business with Valero Energy, which is a large refining and retail marketing company, has the potential to impact Valero L.P., both positively and negatively, to changes in the refining and marketing industry.

NOTE 11: Related Party Transactions

Valero L.P. has related party transactions with Valero Energy for pipeline tariff, terminalling fee and crude oil storage tank fee revenues, certain employee costs, insurance costs, administrative costs, and rent expense. The receivable from Valero Energy as of December 31, 2004 and 2003 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 information pertaining to transactions with Valero Energy:

	Years Ended December 31,		
	2004	2003	2002
	(in thousands)		
Revenues	\$ 217,608	\$ 178,605	\$ 117,804
Operating expenses	31,960	24,196	13,795
General and administrative expenses	10,367	6,110	5,921

Services Agreement

Valero L.P. does not have any employees. Under the Services Agreement, the costs related to employees of Valero Energy who perform services directly on Valero L.P.'s behalf (direct services), including salary, wages and employee benefits are charged by Valero Energy to Valero, L.P. In addition, Valero L.P. receives certain administrative services such as legal, accounting, treasury, engineering, information technology and other corporate functions from Valero Energy. Under the provisions of the Services Agreement Valero L.P. paid Valero Energy an annual fee of \$5.2 million related to these administrative services. Due to the significant growth of Valero L.P. and the increased need for personnel to work directly on behalf of Valero L.P. who were previously performing administrative services, the terms of the Services Agreement were amended effective April 1, 2004.

Under the terms of the amended Services Agreement, Valero L.P. continues to reimburse Valero Energy for the direct costs of employees working on behalf of Valero L.P. The number of employees who perform services directly on behalf of Valero L.P. was increased, thereby increasing the direct service charge, while the administrative services fee was reduced to an initial \$1.2 million per year from \$5.2 million per year. Each year over the next four years, the administrative services fee will be increased by \$1.2 million and further increased by Valero Energy's average percentage increase in salaries. The administrative services fee may also be adjusted to account for changes in service levels due to Valero L.P.'s acquisition, sale or construction of assets. The Conflicts Committee of the Board of Directors of Valero GP, LLC approved the amendment to the Services Agreement in March 2004. These fees are in addition to general and administrative costs incurred from third parties for services Valero Energy does not provide under the Services Agreement.

A portion of Valero L.P.'s general and administrative costs is passed on to third parties, which jointly own certain pipelines and terminals with Valero L.P. The net amount of general and administrative costs allocated to partners of

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

jointly owned pipelines totaled \$0.7 million, \$0.5 million and \$0.7 million for the years ended December 31, 2004, 2003 and 2002, respectively.

Pipelines and Terminals Usage Agreement - McKee, Three Rivers and Ardmore

Under the terms of the Pipeline and Terminals Usage Agreement entered into on April 16, 2001, Valero Energy has agreed to use Valero L.P.'s pipelines to transport at least 75% of the crude oil shipped to and at least 75% of the refined products shipped from Valero Energy's McKee, Three Rivers and Ardmore refineries and to use the related refined product terminals for terminalling services for at least 50% of all refined products shipped from the McKee, Three Rivers and Ardmore refineries until at least April 2008. For the year ended December 31, 2004, Valero Energy used Valero L.P.'s pipelines to transport 98% of its crude oil shipped to and 85% of the refined products shipped from the McKee, Three Rivers and Ardmore refineries, and Valero Energy used Valero L.P.'s terminalling services for 54% of all refined products shipped from these refineries.

If market conditions change with respect to the transportation of crude oil or refined products, or to the end markets in which Valero Energy sells refined products, in a material manner such that Valero Energy would suffer a material adverse effect if it were to continue to use Valero L.P.'s pipelines and terminals that service the McKee, Three Rivers and Ardmore refineries at the required levels, Valero Energy's obligation to Valero L.P. will be suspended during the period of the change in market conditions to the extent required to avoid the material adverse effect.

In the event Valero Energy does not transport in Valero L.P.'s pipelines or use Valero L.P.'s terminals to handle the minimum volume requirements and if its obligation has not been suspended under the terms of the agreement, Valero Energy will be required to make a cash payment determined by multiplying the shortfall in volume by the applicable weighted average pipeline tariff or terminal fee.

South Texas Pipelines and Terminals Agreements

In conjunction with the acquisition of the South Texas Pipelines and Terminals in March 2003, Valero L.P. and Valero Energy entered into the following agreements:

- Throughput commitment agreement pursuant to which Valero Energy agreed, for an initial period of seven years:
 - to transport in the Houston and Valley pipeline systems an aggregate of 40% of the Corpus Christi refineries' gasoline and distillate production but only if the combined throughput in these pipelines is less than 110,000 barrels per day;
 - to 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;
 - to use the Houston asphalt terminal for an aggregate of 7% of the asphalt production of the Corpus Christi refineries;
 - to use the Edinburg refined product terminal for an aggregate of 7% of the gasoline and distillate production of the Corpus Christi refineries, but only if the throughput at this terminal is less than 20,000 barrels per day; and
 - to use the San Antonio East terminal for 75% of the throughput in the Pettus to San Antonio refined product pipeline.

In the event Valero Energy does not transport in Valero L.P.'s pipelines or use Valero L.P.'s 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 pipeline tariff or terminal fee.

In 2003, Valero Energy indicated to Valero L.P. that the segment of the Corpus Christi to Edinburg refined product pipeline that runs approximately 60 miles south from Corpus Christi to Seeligson Station required repair and replacement. Valero Energy agreed to indemnify Valero L.P. for any costs Valero L.P. incurred to repair and replace this segment in excess of \$1.5 million, excluding costs to upgrade the size of the pipe, which is

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

Valero L.P.'s responsibility. This repair and replacement project became operational in the fourth quarter of 2004.

- Terminalling agreement pursuant to which Valero Energy has 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 additive blended at the terminals. At the Houston Hobby Airport terminal, Valero Energy will pay a filtering fee for each barrel of jet fuel stored or handled at the terminal.

Crude Oil Storage Tank Agreements

In conjunction with the acquisition of the Crude Oil Storage Tanks in March 2003, Valero L.P. and Valero Energy entered into the following agreements:

- Handling and throughput agreement pursuant to which Valero Energy agreed to pay Valero L.P. a fee for 100% of crude oil and certain other feedstocks delivered to each of the Corpus Christi West refinery, the Texas City refinery and the Benicia refinery and to use Valero L.P. for handling all deliveries to these refineries. The throughput fees are adjustable annually, generally based on 75% of the regional consumer price index applicable to the location of each refinery. The initial term of the handling and throughput agreement is ten years, which may be extended by Valero Energy for up to an additional five years.
- Services and secondment agreements pursuant to which Valero Energy agreed to provide to Valero L.P. personnel who perform operating and routine maintenance services related to the crude oil storage tank operations. The annual reimbursement for services is an aggregate \$3.5 million. The initial term of the services and secondment agreements is ten years which Valero L.P. has the option to extend for an additional five years. In addition to the fees Valero L.P. has agreed to pay Valero Energy under the services and secondment agreements, Valero L.P. is responsible for operating expenses and specified capital expenditures related to the tank assets that are not addressed in the services and secondment agreements. These operating expenses and capital expenditures include tank safety inspections, maintenance and repairs, certain environmental expenses, insurance premiums and ad valorem taxes.
- Lease and access agreements pursuant to which Valero Energy leases to Valero L.P. the land on which the crude oil storage tanks are located for an aggregate of \$0.7 million per year. The initial term of each lease is 25 years, subject to automatic renewal for successive one-year periods thereafter. Valero L.P. may terminate any of these leases upon 30 days notice after the initial term or at the end of a renewal period. In addition, Valero L.P. may terminate any of these leases upon 180 days notice prior to the expiration of the current term if Valero L.P. ceases to operate the crude oil storage tanks or ceases business operations.

Royal Trading Throughput Agreement

In conjunction with the Royal Trading acquisition, Valero L.P. entered into a five-year terminal storage and throughput agreement with Valero Energy. The agreement provides a base throughput and blending fee schedule with volume incentive discounts once certain thresholds are met. In addition, Valero Energy has agreed to utilize the acquired terminals for a minimum of 18.5% of the combined McKee and Ardmore refineries' asphalt production.

Corpus Christi North Beach Storage Facility Lease

Valero L.P. and Valero Energy entered into a one-year shell barrel capacity lease agreement on January 1, 2004 for the 1.6 million barrels of capacity at the Corpus Christi North Beach storage facility. This lease automatically renews for additional one-year terms unless either party terminates it with a 90-day written notice. The use of this storage facility was previously included as part of the crude oil pipeline tariff for the Corpus Christi to Three Rivers crude oil pipeline.

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

Omnibus Agreement

The Omnibus Agreement governs potential competition between Valero Energy and Valero L.P. Under the Omnibus Agreement, Valero Energy has agreed, and will cause its controlled affiliates to agree, for so long as Valero Energy controls the general partner, not to engage in the business of transporting crude oil and other feedstocks or refined products, including petrochemicals, or operating crude oil storage facilities or refined product terminalling assets in the United States. This restriction does not apply to:

- any business retained by UDS as of April 16, 2001, the closing of Valero L.P.'s initial public offering, or any business owned by Valero Energy at the date of its acquisition of UDS on December 31, 2001;
- any business with a fair market value of less than \$10 million;
- any business acquired by Valero Energy in the future that constitutes less than 50% of the fair market value of a larger acquisition, provided Valero L.P. has been offered and declined the opportunity to purchase the business; and
- any newly constructed pipeline, terminalling or storage assets that Valero L.P. has not offered to purchase at fair market value within one year of construction.

Also under the Omnibus Agreement, Valero Energy has agreed to indemnify Valero L.P. for environmental liabilities related to the assets transferred to Valero L.P. in connection with Valero L.P.'s initial public offering, provided that such liabilities arose prior to and are discovered within 10 years after that date (excluding liabilities resulting from a change in law after April 16, 2001).

NOTE 12: Employee Benefit Plans

Valero L.P., which has no employees, relies on employees of Valero Energy and its affiliates to provide the necessary services to operate Valero L.P.'s assets. Effective January 1, 2003, most of the employees providing operational services to Valero L.P. became employees of Valero GP, LLC, a wholly owned subsidiary of Valero Energy and the general partner of Riverwalk Logistics, L.P. 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, bonus plans, long-term incentive plans (i.e. unit options and restricted common units) and other such benefits.

Valero L.P.'s share of allocated Valero Energy employee benefit plan expenses, excluding the compensation expense related to the contractual rights to receive common units, restricted units and unit options, was \$11.2 million, \$4.8 million and \$1.7 million for the years ended December 31, 2004, 2003 and 2002, respectively. These employee benefit plan expenses are included in operating expenses with the related payroll costs.

Long-Term Incentive Plans

Valero GP, LLC has 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 unit options, restricted common units, distribution equivalent rights (DERs) and contractual rights to receive common units.

In June 2003, 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 employees 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.

In addition, Valero GP, LLC has adopted the 2002 Unit Option Plan (the UOP) under which Valero GP, LLC may award up to 200,000 unit options to officers and directors of Valero GP, LLC or its affiliates.

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

In January 2002, under the LTIP, Valero GP, LLC granted 55,250 contractual rights to receive common units and DERs to its officers, certain key employees of its affiliates and its outside directors. In conjunction with the grant of contractual rights to receive common units under the LTIP, Valero L.P. issued 55,250 common units to Valero GP, LLC on January 21, 2002 for total consideration of \$2.3 million (based on the then \$40.95 market price per common unit). The contractual rights to receive common units vest one-third at the end of each year of a three-year vesting period. In January 2003 and 2004, one-third of the 55,250 contractual rights to receive common units vested and Valero GP, LLC distributed actual Valero L.P. common units to the officers and directors.

In 2002, Valero GP, LLC granted 131,800 unit options under the UOP and 44,400 unit options under the LTIP. These unit option grants vest one-third at the end of each year of a three-year vesting period. Effective March 18, 2003, unit options are accounted for at fair value and the compensation expense related to Valero GP, LLC employees is reimbursed by Valero L.P. to Valero GP, LLC.

On January 24, 2003, under the LTIP, Valero GP, LLC granted 30,000 contractual rights to receive common units and DERs to its eligible recipients, 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 (based on the then \$38.30 market price per common unit).

In October 2003, Valero GP, LLC granted 1,440 restricted units under the UIP, 32,000 unit options under the UOP and 2,280 restricted units and 28,625 unit options under the LTIP. These October 2003 grants vest one-fifth at the end of each year of a five-year vesting period.

In July 2004, Valero GP, LLC granted 579 restricted units under the LTIP, which vest one-third at the end of each year of a three-year vesting period.

In October 2004, Valero GP, LLC granted 2,680 restricted units and 49,575 unit options under the UIP, 23,775 unit options under the UOP and 9,425 restricted units under the LTIP. These October 2004 grants vest one-fifth at the end of each year of a five-year vesting period.

Valero L.P.'s share of compensation expense related to the contractual rights to receive common units, restricted units and unit options issued under the LTIP, the UIP and the UOP was \$0.7 million, \$0.9 million and \$0.7 million, respectively, for the years ended December 31, 2004, 2003 and 2002 and such amounts have been included in general and administrative expenses in the consolidated statements of income for those years.

NOTE 13: Partners' Equity, Allocations of Net Income and Cash Distributions

Partners' Equity

As of December 31, 2002, Valero Energy and its affiliates owned 73.6% of Valero L.P.'s outstanding partners' equity, including the 2% general partner interest. After giving effect to the redemption of common units in March 2003, the March and August 2003 common unit offerings and the April 2003 over-allotment option exercise, outstanding partners' equity of Valero L.P. as of December 31, 2004 includes 13,442,072 common units (664,119 of which are held by affiliates of Valero Energy), 9,599,322 subordinated units held by UDS Logistics, LLC and a 2% general partner interest held by Riverwalk Logistics, L.P. UDS Logistics, LLC is a wholly owned subsidiary of Valero Energy and the limited partner of Riverwalk Logistics, L.P. As a result of the above 2003 equity transactions, Valero Energy and its affiliates now own 45.7% of Valero L.P., including the 2% general partner interest.

There is no established public market for the trading of the subordinated units. In addition, all of the subordinated units may convert to common units on a one-for-one basis if Valero L.P. meets the tests set forth in the partnership agreement as discussed below. If the subordination period ends, the rights of the holders of subordinated units will

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

no longer be subordinated to the rights of the holders of common units and the subordinated units will be converted into common units.

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

Allocations of Net Income

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 general partner will receive. The partnership agreement also contains provisions for the allocation of net income and loss to the unitholders and the general partner. For purposes of maintaining partner capital accounts, the partnership agreement specifies that items of income and loss shall be allocated among the partners in accordance with their respective percentage interests. Normal allocations according to percentage interests are done after giving effect, if any, to priority income allocations in an amount equal to incentive cash distributions allocated 100% to the general partner.

Cash Distributions

Valero L.P. 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. 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 diluted basis and the related distribution on the 2% general partner interest during those periods.

During the subordination period, Valero L.P.'s cash is first distributed 98% to the holders of common units and 2% to the general partner until there has been distributed to the holders of common units an amount equal to the minimum quarterly distribution and arrearages in the payment of the minimum quarterly distribution on the common units for any prior quarter. Secondly, cash is distributed 98% to the holders of subordinated units and 2% to the general partner until there has been distributed to the holders of subordinated units an amount equal to the minimum quarterly distribution. Thirdly, cash in excess of the minimum quarterly distributions is distributed to the unitholders and the general partner based on the percentages shown below.

The general partner is entitled to incentive distributions if the amount Valero L.P. distributes with respect to any quarter exceeds specified target levels shown below:

<u>Quarterly Distribution Amount per Unit</u>	<u>Percentage of Distribution</u>	
	<u>Unitholders</u>	<u>General Partner</u>
Up to \$0.60	98%	2%
Above \$0.60 up to \$0.66	90%	10%
Above \$0.66	75%	25%

Effective March 11, 2004, Valero L.P.'s partnership agreement was amended to lower the general partner's incentive distribution rights with respect to distributions of available cash from 48% to 23% of the amount of any quarterly distribution that exceeds \$0.90 per unit. The general partner will continue to receive a 2% distribution with respect to its general partner interest.

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

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

	Years Ended December 31,		
	2004	2003	2002
	(in thousands, except per unit data)		
General partner interest	\$ 1,595	\$ 1,404	\$ 1,103
General partner incentive distribution	4,449	2,620	1,103
Total general partner distribution	6,044	4,024	2,206
Limited partners' distribution	73,733	66,179	52,969
Total cash distributions	\$ 79,777	\$ 70,203	\$ 55,175
Cash distributions per unit applicable to limited partners	\$ 3.20	\$ 2.95	\$ 2.75

On January 27, 2005, Valero L.P. declared a quarterly distribution of \$0.80 per unit payable on February 14, 2005 to unitholders of record on February 7, 2005. This distribution related to the fourth quarter of 2004 and totaled \$19.9 million, of which \$1.5 million represented the general partner's share of such distribution. The general partner's distribution included a \$1.1 million incentive distribution.

NOTE 14: Segment Information

Valero L.P.'s operating segments include refined product pipelines, crude oil pipelines, refined product terminals and crude oil storage tanks. These reportable segments are strategic business units that offer different services and performance is evaluated based on operating income, before general and administrative expenses. General and administrative expenses are not allocated to the operating segments since those expenses relate primarily to the overall management at the entity level. Valero L.P.'s principal services include providing pipeline transportation services, terminalling services and crude oil storage handling services. Valero L.P.'s services have been provided primarily to Valero Energy, from which Valero L.P. derived \$217.6 million or 98.6% of its revenues for the year ended December 31, 2004.

The refined product pipelines segment revenues are earned by charging tariffs for the transportation of refined product volumes (per barrel) moved through the pipelines. For the year ended December 31, 2004, 97.1% of the refined product pipelines segment revenues were earned from services provided to Valero Energy. The crude oil pipelines segment revenues are earned by charging a tariff for the transportation of crude oil and other refinery feedstock volumes (per barrel) moved through the pipelines. The cost of the crude oil storage facilities connected to the various crude oil pipelines is included in the determination of the crude oil pipeline tariffs. For the year ended December 31, 2004, all of the revenues for the crude oil pipelines segment were earned from services provided to Valero Energy. The two largest operating expense items of both pipeline segments are labor and utility costs.

The refined product terminals segment revenues are earned by charging a fee for refined product volumes (per barrel) handled at the terminals and certain terminals charge additional fees for barrels that are blended with additives or for barrels that are filtered. For the year ended December 31, 2004, 98.3% of the refined product terminals segment revenues were earned from services provided to Valero Energy. The two largest operating expense items for the refined product terminals segment are labor and utility costs.

The crude oil storage tanks segment revenues are earned by charging a fee for each barrel of crude oil and certain other refinery feedstock delivered to the related refinery. For the year ended December 31, 2004, all of the revenues for the crude oil storage tanks segment were earned from services provided to Valero Energy. The two largest

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operating expense items for the crude oil storage tanks segment are the fees paid to Valero Energy under the services and secondment agreements and regulatory inspection and repair costs.

Results of operations for the reportable segments were as follows:

	Years Ended December 31,		
	2004	2003	2002
	(in thousands)		
Revenues:			
Crude oil pipelines	\$ 52,462	\$ 50,741	\$ 47,925
Refined product pipelines	86,418	72,276	52,302
Refined product terminals	39,984	31,269	18,231
Crude oil storage tanks	41,928	27,164	—
Total revenues	\$ 220,792	\$ 181,450	\$ 118,458
Operating expenses:			
Crude oil pipelines	\$ 15,468	\$ 15,196	\$ 13,541
Refined product pipelines	37,332	28,914	16,202
Refined product terminals	18,365	15,447	8,095
Crude oil storage tanks	7,133	5,052	—
Total operating expenses	\$ 78,298	\$ 64,609	\$ 37,838
Depreciation and amortization:			
Crude oil pipelines	\$ 4,499	\$ 5,379	\$ 5,618
Refined product pipelines	14,715	12,380	8,051
Refined product terminals	6,471	3,508	2,771
Crude oil storage tanks	7,464	5,000	—
Total depreciation and amortization	\$ 33,149	\$ 26,267	\$ 16,440
Operating income:			
Crude oil pipelines	\$ 32,495	\$ 30,166	\$ 28,766
Refined product pipelines	34,371	30,982	28,049
Refined product terminals	15,148	12,314	7,365
Crude oil storage tanks	27,331	17,112	—
Total segment operating income	109,345	90,574	64,180
General and administrative expenses	11,321	7,537	6,950
Total operating income	\$ 98,024	\$ 83,037	\$ 57,230

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

Total assets by reportable segment were as follows:

	December 31,	
	2004	2003
	(in thousands)	
Crude oil pipelines	\$ 127,668	\$ 146,338
Refined product pipelines	347,008	358,257
Refined product terminals	145,966	102,854
Crude oil storage tanks	209,919	198,191
Total segment assets	830,561	805,640
Other partnership assets (including current assets and other noncurrent assets)	26,946	21,917
Total consolidated assets	\$857,507	\$827,557

Effective January 1, 2004, Valero L.P.'s Corpus Christi North Beach storage facility was transferred from the crude oil pipelines segment to the crude oil storage tanks segment. Valero L.P. and Valero Energy entered into a one-year shell barrel capacity lease agreement for the 1.6 million barrels of capacity at the facility. The use of this storage facility was previously included as part of the crude oil pipeline tariff for the Corpus Christi to Three Rivers crude oil pipeline. As of December 31, 2003, the assets related to the Corpus Christi North Beach storage facility totaled \$18.0 million. Goodwill is allocated to two of Valero L.P.'s segments, crude oil pipelines and refined product pipelines. The Investment in Skelly-Belvieu Pipeline Company is included in the refined product pipelines segment.

Capital expenditures, including acquisitions, by reportable segment were as follows:

	Years Ended December 31,		
	2004	2003	2002
	(in thousands)		
Crude oil pipelines	\$ 3,275	\$ 2,656	\$ 65,070
Refined product pipelines	12,009	176,956	13,444
Refined product terminals	41,148	62,927	2,190
Crude oil storage tanks	1,056	200,198	—
Total capital expenditures	\$57,488	\$ 442,737	\$ 80,704

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NOTE 15: Quarterly Financial Data (unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
(in thousands, except per unit data)					
2004:					
Revenues	\$52,324	\$55,707	\$58,075	\$54,686	\$220,792
Operating income	24,543	24,600	24,448	24,433	98,024
Net income	19,970	19,706	19,387	19,355	78,418
Net income per unit applicable to limited partners	0.80	0.79	0.78	0.78	3.15
Cash distributions per unit applicable to limited partners	0.80	0.80	0.80	0.80	3.20
2003:					
Revenues	\$31,816	\$47,542	\$51,695	\$50,397	\$181,450
Operating income	14,028	22,268	23,527	23,214	83,037
Net income (1)	12,382	18,132	19,680	19,399	69,593
Net income per unit applicable to limited partners (2)	0.60	0.79	0.82	0.79	3.02
Cash distributions per unit applicable to limited partners	0.70	0.75	0.75	0.75	2.95

- (1) The significant increase in revenues, operating income and net income beginning in the second quarter of 2003 is due primarily to the acquisition of the South Texas Pipelines and Terminals and the Crude Oil Storage Tanks as discussed in Note 4: Acquisitions.
- (2) Net income per unit applicable to limited partners for each of the quarters of 2003 was impacted by the common unit offerings completed during 2003 as discussed in Note 3: Equity and Debt Offerings, Redemption of Common Units and Related Transactions. As a result, the net income per unit applicable to limited partners for the year does not equal the sum of the four quarterly per unit amounts.

NOTE 16: Subsequent Events

On January 25, 2005, the SEC declared effective an amended registration statement on Form S-4 filed by Valero L.P. to register 26,268,524 Valero L.P. common units to be issued to the unitholders of KPP as described above in "Proposed Transaction" if the KPP Merger is completed as planned (See Note 1: Organization, Operations and Significant Organizational Transactions).

On March 11, 2005, Valero L.P. unitholders holding a majority of Valero L.P.'s outstanding units voted to approve the issuance of the Valero L.P. common units in the KPP Merger. Also on March 11, 2005, the KPP unitholders and the KSL shareholders (other than Valero L.P., KSL, KPP and their respective affiliates) holding a majority of the outstanding KPP units and the KSL shares voted to approve the Kaneb Mergers.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING.

(a) Management's Report on Internal Control over Financial Reporting.

Management's report on internal control over financial reporting required by Item 9A appears in Item 8 of this report on Form 10-K, and is incorporated herein by reference.

(b) Attestation Report of the Registered Public Accounting Firm.

The report of KPMG LLP on management's assessment of Valero L.P.'s internal control over financial reporting appears in Item 8 of this report on Form 10-K.

(c) Changes in Internal Controls over Financial Reporting.

There has been no change in Valero L.P.'s internal controls over financial reporting 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.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

DIRECTORS AND EXECUTIVE OFFICERS OF VALERO GP, LLC

Valero L.P. does not have directors or officers. The directors and officers of Valero GP, LLC, the general partner of Valero L.P.'s general partner, Riverwalk Logistics, perform all management functions for Valero L.P. Diamond Shamrock Refining and Marketing Company, a subsidiary of Valero Energy and the sole member of Valero GP, LLC, selects the directors of Valero GP, LLC. Officers of Valero GP, LLC are appointed by its directors.

Set forth below is certain information concerning the directors and executive officers of Valero GP, LLC:

<u>Name</u>	<u>Age</u>	<u>Position Held with Valero GP, LLC</u>
William E. Greehey	68	Chairman of the Board
Curtis V. Anastasio	48	President, Chief Executive Officer and Director
Gregory C. King	44	Director
William R. Klesse	58	Director
H. Frederick Christie	71	Director
Dan J. Hill	64	Director
Rodman D. Patton	61	Director
Robert A. Profusek	55	Director
Steven A. Blank	50	Senior Vice President and Chief Financial Officer
Clayton E. Killinger	44	Vice President and Controller
James R. Bluntzer	50	Vice President-Operations
Rodney L. Reese	54	Vice President-Engineering and Technical Services

Mr. Greehey became Chairman of the board of directors of Valero GP, LLC on January 1, 2002, effective with the acquisition of UDS by Valero Energy. Mr. Greehey has served as Chairman of the board of directors and Chief Executive Officer of Valero Energy since 1979. He was also President of Valero Energy from 1998 until January 2003.

Mr. Anastasio became the President and a director of Valero GP, LLC in December 1999 and became its President and Chief Executive Officer in June 2000 coincident with Valero Logistics' commencement of operations. He served as Vice President, General Counsel, and Secretary of UDS from 1997 until that time.

Mr. King became a director of Valero GP, LLC effective January 1, 2002. He was elected President of Valero Energy in January 2003. He previously served as Executive Vice President and General Counsel of Valero Energy since September 2001, and prior to that served as Valero Energy's Executive Vice President and Chief Operating Officer since January 2001. Mr. King was Senior Vice President and Chief Operating Officer of Valero Energy from 1999 to January 2001. He was elected Vice President and General Counsel of Valero Energy in 1997. He joined Valero Energy's former parent in 1993.

Mr. Klesse has been a director of Valero GP, LLC since December 1999, and he served as the Chairman of its board of directors until January 1, 2002. He was elected Executive Vice President and Chief Operating Officer of Valero Energy in January 2003. He previously served as Executive Vice President – Refining and Commercial Operations of Valero Energy since the date of Valero Energy's acquisition of UDS. He had served as Executive Vice President, Operations of UDS from January 1999 through December 2001. Prior to January 1999, he served as an Executive Vice President for UDS since February 1995, overseeing operations, refining, product supply and logistics.

Mr. Christie became a director of Valero GP, LLC effective January 1, 2002. He is a consultant specializing in strategic and financial planning. In 1991 he retired as Chief Executive Officer from the Mission Group, the non-utility subsidiary of SCE Corp. He had previously served as President of Southern California Edison Company. Mr. Christie

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is a director or trustee of 19 mutual funds under the Capital Research and Management Company. He is a director of International House of Pancakes, Inc., Ducommun, Incorporated, and Southwest Water Company.

Mr. Hill became a director of Valero GP, LLC in July 2004. He recently served as a consultant to El Paso Corporation. Prior to that, he served as President and Chief Executive Officer of Coastal Refining and Marketing Company. In 1978, Mr. Hill was named as Senior Vice President of The Coastal Corporation and President of Coastal States Crude Gathering. In 1971, he began managing Coastal's NGL business. Previously, Mr. Hill worked for Amoco and Mobil.

Mr. Patton became a director of Valero GP, LLC in June 2001. He retired from Merrill Lynch & Co. in 1999 where he had served as Managing Director in the Energy Group since 1993. Prior to that, he served in investment banking and corporate finance positions with Credit Suisse First Boston (1981-1993) and Blyth Eastman Paine Webber (1971-1981). He is a director of Apache Corporation.

Mr. Profusek became a director of Valero GP, LLC in June 2001. He is a partner in the New York office of Jones Day. He is also a director of CTS Corporation. He served as Executive Vice President, responsible for investment activities, of Omnicom Group Inc. from May 2000 to August 2002. Prior to May 2000, he was a partner at Jones Day.

Mr. Blank became Senior Vice President and Chief Financial Officer of Valero GP, LLC in January 2002. From December 1999 until January 2002, he was Chief Accounting and Financial Officer and a director of Valero GP, LLC. He also served as UDS's Vice President and Treasurer from December 1996 until January 1, 2002, when he became Vice President-Finance of Valero Energy.

Mr. Killinger became Vice President and Controller of Valero GP, LLC and Valero Energy in January 2003. He served as Assistant Controller- Budgeting and Forecasting for Valero Energy from December 2001 through December 2002. Prior to December 2001, he was a partner with Arthur Andersen LLP.

Mr. Bluntzer became Vice President-Operations of Valero GP, LLC in February 2004. He served as Vice President-Terminal Operations of Valero GP, LLC from May 2003 to February 2004. He served as Special Projects Director of Valero GP, LLC from January 2002 to May 2003 and as Vice President of Midstream Operations of Valero Energy from June 2001 to January 2002. He served as Refinery Logistics & Supply Chain Director of Valero Energy from July 2000 to June 2001.

Mr. Reese has served as Vice President, Engineering and Technical Services of Valero GP, LLC since April 2003. Prior to that, he served as Vice President-Operations of Valero GP, LLC since December 1999. He has been employed for 20 years in various pipeline engineering and operations positions by Valero Energy and its predecessor, UDS. He served as Director, Pipelines and Terminals for UDS from October 1999 to December 2001. Prior to October 1997, he was Director, Product Pipeline Operations for UDS and served in various managerial capacities with UDS's pipeline group.

INFORMATION REGARDING THE BOARD OF DIRECTORS

The business of Valero L.P. is managed under the direction of the board of directors of Valero GP, LLC. The board conducts its business through meetings of the board and its committees. During 2004, the board held eight meetings. No member of the board attended less than 75% of the meetings of the board and committees of which he was a member.

The board of directors is composed of eight directors, four of whom are members of the management of either Valero GP, LLC or Valero Energy and four of whom are non-management directors. As a limited partnership, Valero L.P. is not required by the listing standards of the NYSE to have a majority of independent directors. The board has determined that all four of its non-management directors, H. Frederick Christie, Dan J. Hill, Rodman D. Patton and Robert A. Profusek, meet the independence requirements of the NYSE as set forth in the NYSE Listed Company Manual.

INDEPENDENCE DETERMINATIONS

Under the NYSE listing standards, no board member qualifies as independent unless the board of directors affirmatively determines that the director has no material relationship with Valero L.P. Based upon information requested from and provided by each director concerning their background, employment and affiliations, including commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships, the board of directors has determined that none of the non-management directors named above have a material relationship with Valero L.P., either directly or as a partner, security holder or officer of an organization that has a relationship with Valero L.P., and all of the non-management directors are independent under the NYSE's listing standards.

As provided for under the NYSE listing standards, the board has adopted categorical standards or guidelines to assist the board in making its independence determinations with respect to each director. Under the NYSE listing standards, immaterial relationships that fall within the guidelines are not required to be disclosed in this Form 10-K.

A relationship falls within the guidelines adopted by the board if it:

- is not a relationship that would preclude a determination of independence under Section 303A.02(b) of the NYSE Listed Company Manual;
- consists of charitable contributions by Valero L.P. to an organization in which a director is an executive officer and Valero L.P.'s contributions do not exceed the greater of \$1 million or 2% of the organization's gross revenues in any of the last three years;
- consists of charitable contributions by Valero L.P. to any organization with which a director, or any member of a director's immediate family, is affiliated as an officer, director or trustee pursuant to a matching gift program of Valero L.P. and made on terms applicable to employees and directors generally, or is in amounts that do not exceed \$250,000 per year; or
- is not required to be, and it is not otherwise, disclosed in this Form 10-K.

PRESIDING DIRECTOR

The board has designated Mr. Profusek to serve as Presiding Director for the meetings of the non-management directors outside the presence of management.

COMMUNICATION WITH THE BOARD, NON-MANAGEMENT DIRECTORS OR PRESIDING DIRECTOR

Unitholders and other interested parties may communicate with the board, the non-management directors or the Presiding Director by sending written communication in an envelope addressed to "Board of Directors," "Non-management Directors" or "Presiding Director" in care of Corporate Secretary, Valero L.P., P.O. Box 696000, San Antonio, Texas 78269.

AUDIT COMMITTEE

The audit committee reviews and reports to the board on various auditing and accounting matters, including the quality, objectivity and performance of Valero L.P.'s internal and external accountants and auditors, the adequacy of its financial controls and the reliability of financial information reported to the public. The audit committee is composed of Mr. Patton, Mr. Christie, Mr. Hill and Mr. Profusek. The audit committee met eight times in 2004.

The board of directors has determined that each of the audit committee members meets the independence standards for audit committees set forth in the NYSE listing standards and the applicable regulations of the SEC. The board of directors has adopted a written charter for the audit committee. The board of directors has determined that a member of the audit committee, namely Mr. Patton, is an *audit committee financial expert* (as defined by the SEC) and that he is "independent" as that term is used in Item 7(d)(3)(iv) of Schedule 14A of the Exchange Act.

COMPENSATION COMMITTEE

Valero GP, LLC has a compensation committee composed of the directors who the board has determined to be independent. For more information, see Item 11. Executive Compensation "Compensation Committee Interlocks and Insider Participation."

CONFLICTS COMMITTEE

Valero L.P.'s partnership agreement provides for a conflicts committee composed of the directors who the board has determined to be independent. The conflicts committee reviews and makes recommendations relating to potential conflicts of interest between Valero L.P., on one hand, and Valero Energy, on the other hand. The members of the conflicts committee are Mr. Christie (chairman), Mr. Hill, Mr. Profusek and Mr. Patton.

REPORT OF THE AUDIT COMMITTEE FOR FISCAL YEAR 2004

Management of Valero GP, LLC is responsible for Valero L.P.'s internal controls and the financial reporting process. KPMG LLP, Valero L.P.'s independent registered public accounting firm for the year ended December 31, 2004, is responsible for performing an independent audit of Valero L.P.'s consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) and generally accepted auditing standards, and an audit of Valero L.P.'s internal control over financial reporting in accordance with the standards of the PCAOB, and issuing a report thereon. The audit committee monitors and oversees these processes and approves the selection and appointment of Valero L.P.'s independent registered public accounting firm and recommends the ratification of such selection and appointment to the board of directors.

The audit committee has reviewed and discussed Valero L.P.'s audited consolidated financial statements with management and the independent registered public accounting firm. The audit committee has discussed with KPMG LLP the matters required to be discussed by Statement on Auditing Standards No. 61, "Communications with Audit Committees." The audit committee has received written confirmation of the firm's independence from KPMG LLP and has discussed with KPMG LLP that firm's independence.

Based on the foregoing review and discussions and such other matters the audit committee deemed relevant and appropriate, the audit committee recommended to the board of directors that the audited consolidated financial statements of Valero L.P. be included in Valero L.P.'s Annual Report on Form 10-K for the year ended December 31, 2004.

Members of the Audit Committee:

Rodman D. Patton
H. Frederick Christie
Dan J. Hill
Robert A. Profusek

COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Section 16(a) of the Exchange Act requires directors, executive officers and persons who beneficially own more than 10% of Valero L.P.'s units to file certain reports with the SEC and NYSE concerning their beneficial ownership of Valero L.P.'s equity securities. Valero L.P. believes that during the year ended December 31, 2004, its officers, directors and 10% unitholders were in compliance with applicable requirements of Section 16(a).

CODE OF ETHICS FOR SENIOR FINANCIAL OFFICERS

Valero L.P. has adopted a code of ethics that applies to Valero GP, LLC's principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions (collectively referred to as "Senior Financial Officers"). This Code charges the Senior Financial Officers with responsibilities regarding honest and ethical conduct, the preparation and quality of the disclosures in the documents and reports Valero L.P. files with the SEC and compliance with applicable laws, rules and regulations.

ITEM 11. EXECUTIVE COMPENSATION**SUMMARY COMPENSATION TABLE**

The following table sets forth a summary of compensation paid for the last three years, if applicable, to Valero GP, LLC's CEO and to its four other most highly compensated executive officers whose total annual salary and bonus exceeded \$100,000 for the fiscal year ended December 31, 2004. Valero GP, LLC's other executive officers are employed by Valero Energy. Their services are rendered under the terms of the Services Agreement for which Valero L.P. pays Valero Energy an annual fee for general and administrative services rendered by Valero Energy employees for the benefit of Valero L.P. The Services Agreement is discussed fully in Note 11 of Notes to Consolidated Financial Statements.

Name and Principal Position (1)	Year	Annual Compensation		Long-Term Compensation Awards			
		Salary	Bonus (2)	Restricted Unit Awards(3)	Number of Securities Underlying Options Granted	LTIP Payouts(4)	All Other Compensation(5)
Curtis V. Anastasio, President and Chief Executive Officer	2004	\$321,000	\$359,700	\$217,564	9,625	\$176,266	\$ 192,180
	2003	307,506	250,000	245,672	11,800	49,235	112,350
	2002	300,008	97,000	204,750	25,000	—	43,545
Steven A. Blank, Senior Vice President and Chief Financial Officer	2004	\$276,500	\$260,000	\$155,403	6,875	\$234,982	\$ 107,010
James R. Bluntzer, Vice President-Operations	2004	\$177,961	\$126,700	\$ 55,945	2,475	—	\$ 6,305
	2003	171,558	107,000	24,943	2,675	—	—
Jerry D. McVicker, Vice President-Business Development (6)	2004	\$191,626	\$125,000	\$ 49,446	2,400	—	\$ 11,850
	2003	184,849	115,000	26,757	2,875	—	12,491
Rodney L. Reese, Vice President-Engineering and Technical Services	2004	\$172,071	\$110,000	\$ 54,250	2,400	—	\$ 10,324
	2003	163,835	95,000	24,036	2,575	—	11,506
	2002	154,988	35,900	—	4,900	—	14,551

- (1) The named executive officers hold or held the indicated offices in Valero GP, LLC, the general partner of Riverwalk Logistics, Valero L.P.'s general partner. Valero L.P. does not have any officers or directors.
- (2) In 2004 and 2003, executive bonuses were paid 100% in cash, but recipients could elect to use 25% of their cash bonus award to purchase Valero L.P. common units at market price. For 2002, executive bonuses were paid 75% in cash and 25% in Valero Energy common stock.
- (3) Cash distributions are paid on restricted units at the same rate as on Valero L.P.'s unrestricted common units. Restricted units granted in 2004 and in October 2003 vest 1/5 annually over a five-year period, and restricted units granted in January 2003 and in 2002 vest 1/3 annually over a three-year period. The aggregate number of unvested restricted units held at December 31, 2004 and the market value of such units on that date (calculated according to SEC regulations without regard to restrictions on such units) were: Mr. Anastasio, 8,130 units, \$483,166; Mr. Blank, 4,624 units, \$274,804; Mr. Bluntzer, 1,540 units; \$91,522, Mr. McVicker, 1,465 units, \$87,065; and Mr. Reese, 1,490 units, \$88,551.
- (4) LTIP payouts are the number of performance share awards vested for the applicable year's performance multiplied by the market price per share of Valero Energy common stock on the vesting date. These performance shares were granted under Valero Energy's Executive Stock Incentive Plan. Total shareholder return, or TSR, during a specified "performance period" was established as the performance measure for determining what portion of an award may vest. TSR is measured by dividing the sum of (a) the net change in the price of a share of Valero Energy's common stock between the beginning of the performance period and the end of the performance period, and (b) the total dividends paid on the common stock during the performance period, by (c) the price of a share of Valero Energy's common stock at the beginning of the performance period. Each performance share award is subject to vesting in three equal increments, based upon Valero Energy's TSR. At the end of each performance period, Valero Energy's TSR is compared to the TSR for a target group of comparable companies. Valero Energy and the companies in the target group are then ranked by quartile. Participants then earn 0%, 50%, 100% or 150% of that portion of the initial grant amount that is vesting for such period, depending on whether Valero Energy's TSR is in the last, 3rd, 2nd or 1st quartile of the target group; 200% will be earned if Valero Energy ranks highest in the group. Amounts not earned in the given performance period can be carried forward for one additional performance period and up to 100% of the carried-forward amount can still be earned, depending upon the quartile achieved for such subsequent period.

- (5) Amounts include contributions made to Valero Energy's Thrift Plan and Excess Thrift Plan, and unused portions of amounts provided by Valero Energy under Valero Energy's Flexible Benefits Plan. Messrs. Anastasio, Blank, Bluntzer, McVicker and Reese were allocated \$19,237, \$16,620, \$6,305, \$11,498 and \$10,324, respectively, as a result of contributions to the Thrift Plan (and, in the case of Messrs. Anastasio, Blank and McVicker the Excess Thrift Plan) for 2004. Also included for 2004: Mr. Anastasio received \$7,258 as reimbursement of certain membership dues. Amounts for 2004 also include vesting of restricted stock issued to Mr. Anastasio and Mr. Blank under Valero Energy's long-term incentive plan, for which Mr. Anastasio was vested for \$165,685 and Mr. Blank was vested \$90,390.
- (6) Mr. McVicker was Vice President- Business Development of Valero GP, LLC until December 7, 2004, when he became Vice President of Optimization and Planning & Economics of Valero Energy.

OPTION GRANTS AND RELATED INFORMATION

The following table sets forth further information regarding the grants of Valero L.P. unit options to the named executive officers reflected in the Summary Compensation Table.

OPTION GRANTS IN THE LAST FISCAL YEAR

Name	Number of Securities Underlying Options Granted (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price (\$/Security)(1)	Market Price at Grant Date (\$/Security)	Expiration Date	Grant Date Present Value (\$)(2)
Curtis V. Anastasio	9,625	11.19%	\$ 56.5100	\$56.5100	10/28/2014	50,531
Steven A. Blank	6,875	7.99%	\$ 56.5100	\$56.5100	10/28/2014	36,094
James R. Bluntzer	2,475	2.88%	\$ 56.5100	\$56.5100	10/28/2014	12,994
Jerry D. McVicker	2,400	2.79%	\$ 56.5100	\$56.5100	10/28/2014	12,600
Rodney L. Reese	2,400	2.79%	\$ 56.5100	\$56.5100	10/28/2014	12,600

- (1) All options reported vest in equal increments over a five-year period from the date of grant, unless otherwise noted. Under the terms of Valero GP, LLC's 2000 Long Term Incentive Plan, a participant may satisfy the tax withholding obligations related to exercise by tendering cash payment, by authorizing Valero GP, LLC to withhold units otherwise issuable to the participant or by delivering to Valero GP, LLC already owned and unencumbered units, subject to certain conditions.
- (2) The Black-Scholes option pricing model was used to determine grant date present value. This model is designed to value publicly traded options. Options issued under Valero GP, LLC's option plan are not freely traded, and the exercise of such options is subject to substantial restrictions. Moreover, the Black-Scholes model does not give effect to either risk of forfeiture or lack of transferability. The estimated values under the Black-Scholes model are based on assumptions as to variables such as interest rates, unit price volatility and future cash distribution yield. The estimated grant date present values presented in this table were calculated using an expected average option life of five years, risk-free rate of return of 3.41%, average volatility rate of 18.58% based on daily volatility rates from the initial public offering by Valero L.P. through December 31, 2004, and cash distribution yield of 5.66%, which is the expected annualized quarterly cash distribution rate in effect at the date of grant expressed as a percentage of the market value of the common units at the date of grant. The actual value of unit options could be zero; realization of any positive value depends upon the actual future performance of the common units, the continued employment of the option holder throughout the vesting period and the timing of the exercise of the option. Accordingly, the values set forth in this table may not be achieved.

**AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR
AND FY-END OPTION VALUES**

The following table sets forth information regarding Valero L.P. common units and shares of Valero Energy common stock underlying options exercisable at December 31, 2004, and options exercised during 2004, for the executive officers named in the Summary Compensation Table.

Name	Securities Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at FY-End(#)		Value of Unexercised In-the-Money Options at FY-End (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Curtis V. Anastasio						
VLI Units	—	—	18,027	27,398	\$ 378,367	\$ 344,162(1)
VLO Stock	9,600	\$ 234,043	90,968	3,332	\$ 2,675,946	\$ 100,510(2)
Steven A. Blank						
VLI Units	—	—	5,074	17,167	\$ 98,414	\$ 191,942(1)
VLO Stock	45,520	\$ 557,851	8,000	14,826	\$ 207,660	\$ 361,171(2)
James R. Bluntzer						
VLI Units	—	—	3,535	6,115	\$ 71,163	\$ 69,173(1)
VLO Stock	—	—	37,210	—	\$ 1,187,566	— (2)
Jerry D. McVicker						
VLI Units	—	—	575	4,700	\$ 8,096	\$ 39,392(1)
VLO Stock	—	—	40,604	6,106	\$ 1,427,910	\$ 73,404(2)
Rodney L. Reese						
VLI Units	—	—	3,782	6,093	\$ 76,544	\$ 70,649(1)
VLO Stock	2,000	\$ 44,169	9,560	—	\$ 327,970	— (2)

(1) Represents the dollar value obtained by multiplying the number of unexercised in-the-money options by the difference between the stated exercise price per unit of the options and the closing market price per unit of Valero L.P.'s common units on December 31, 2004.

(2) Represents the dollar value obtained by multiplying the number of unexercised in-the-money options by the difference between the stated exercise price per share of the options and the closing market price per share of Valero Energy's common stock on December 31, 2004.

RETIREMENT BENEFITS

The following table sets forth the estimated annual gross benefits payable under Valero Energy's Pension Plan, Excess Pension Plan and Supplemental Executive Retirement Plan, or SERP, upon retirement at age 65, based upon the assumed compensation levels and years of service indicated and assuming an election to have payments continue for the life of the participant only.

ESTIMATED ANNUAL PENSION BENEFITS AT AGE 65

Covered Compensation	Years of Service				
	15	20	25	30	35
\$ 200,000	\$ 54,000	\$ 72,000	\$ 90,000	\$ 108,000	\$ 125,000
300,000	83,000	111,000	138,000	166,000	194,000
400,000	112,000	150,000	187,000	225,000	262,000
500,000	142,000	189,000	236,000	283,000	330,000
600,000	171,000	228,000	285,000	342,000	398,000
700,000	200,000	267,000	333,000	400,000	467,000
800,000	229,000	306,000	382,000	459,000	535,000
900,000	259,000	345,000	431,000	517,000	603,000
1,000,000	288,000	384,000	480,000	576,000	671,000
1,100,000	317,000	423,000	528,000	634,000	740,000
1,200,000	346,000	462,000	577,000	693,000	808,000
1,300,000	376,000	501,000	626,000	751,000	876,000
1,400,000	405,000	540,000	675,000	810,000	944,000
1,500,000	434,000	579,000	723,000	868,000	1,013,000
1,600,000	463,000	618,000	772,000	927,000	1,081,000
1,700,000	493,000	657,000	821,000	985,000	1,149,000
1,800,000	522,000	696,000	870,000	1,044,000	1,217,000
1,900,000	551,000	735,000	918,000	1,102,000	1,286,000
2,000,000	580,000	774,000	967,000	1,161,000	1,354,000

Valero Energy maintains a noncontributory defined benefit Pension Plan in which virtually all employees of Valero Energy, including those providing services for Valero L.P., are eligible to participate and under which contributions by individual participants are neither required nor permitted. Valero Energy also maintains a noncontributory, non-qualified Excess Pension Plan and a non-qualified SERP, which provide supplemental pension benefits to certain highly compensated employees. The Pension Plan (supplemented, as necessary, by the Excess Pension Plan) provides a monthly pension at normal retirement equal to 1.6% of the participant's average monthly compensation (based upon the participant's earnings during the three consecutive calendar years during the last 10 years of the participant's credited service affording the highest such average) times the participant's years of credited service. The SERP provides an additional benefit equal to 0.35% times the product of the participant's years of credited service (maximum 35 years) multiplied by the excess of the participant's average monthly compensation over the lesser of 1.25 times the monthly average (without indexing) of the social security wage bases for the 35-year period ending with the year the participant attains social security retirement age, or the monthly average of the social security wage base in effect for the year that the participant retires. For purposes of the SERP, the participant's most highly compensated consecutive 36 months of service are considered. Compensation for purposes of the Pension Plan, Excess Pension Plan and SERP includes salary and bonus as reported in the Summary Compensation Table. Pension benefits are not subject to any deduction for social security or other offset amounts.

Credited years of service (for purposes of the Pension Plan) for the period ended December 31, 2004 for the executive officers named in the Summary Compensation Table are as follows: Mr. Anastasio- 17 years, Mr. Blank- 25 years; Mr. Bluntzer- 29 years, Mr. McVicker- 18 years, and Mr. Reese- 18 years. Mr. Anastasio and Mr. Blank have been eligible to participate in the SERP since 2002.

COMPENSATION OF DIRECTORS

Directors who are not employees of Valero GP, LLC or its affiliates receive the following compensation: a \$25,000 annual retainer, a \$1,000 fee for each in-person meeting attended, a \$500 fee for each telephonic meeting attended, a \$2,500 retainer for chairing either the compensation or the conflicts committees, a \$5,000 retainer for chairing the audit committee, a \$1,000 fee for each in-person committee meeting attended and a \$500 fee for each telephonic committee meeting attended. In addition, upon their initial appointment to the board of directors, directors receive a grant of restricted units under the Valero GP, LLC 2000 Long-Term Incentive Plan having an aggregate value of \$30,000 at the time of grant.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Mr. Profusek (Chairman), Mr. Christie, Mr. Hill and Mr. Patton served on the compensation committee of the board of directors of Valero GP, LLC in 2004. No executive officer of Valero GP, LLC has served as a member of the board of directors or on the compensation committee of any company whose executive officers include a member of Valero GP, LLC's compensation committee.

The compensation committee administers the incentive plans of Valero GP, LLC and makes awards under them, in consultation with management, that create appropriate incentives for employees and management of Valero GP, LLC.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED UNITHOLDER MATTERS
DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth ownership of Valero L.P. common units and Valero Energy common stock by directors and executive officers of Valero GP, LLC as of February 1, 2005. Unless otherwise indicated in the notes to the table, each of the named persons and members of the group has sole voting and investment power with respect to the common units and common stock shown:

<u>Name of Beneficial Owner(1)</u>	<u>Units Beneficially Owned (2)(3)</u>	<u>Units under Exercisable Options (4)</u>	<u>Percentage of Outstanding Units(2)</u>	<u>Shares of Valero Energy Stock Beneficially Owned (5)(6)</u>	<u>Shares of Valero Energy Stock under Exercisable Options (7)</u>	<u>Percentage of Outstanding Shares(5)</u>
Curtis V. Anastasio	24,735	23,027	*	35,085	78,968	*
Steven A. Blank	16,739	6,740	*	7,258	—	*
James R. Bluntzer	2,180	5,035	*	17,811	37,210	*
H. Frederick Christie	2,250	—	*	26,096	19,358	*
William E. Greehey	66,422	—	*	2,772,424	4,807,566	2.90%
Dan J. Hill	679	—	*	—	—	*
Gregory C. King	6,991	13,334	*	151,929	359,146	*
William R. Klesse	25,329	6,667	*	326,006	333,880	*
Jerry D. McVicker	3,346	575	*	24,301	50,604	*
Rodman D. Patton	8,750	—	*	5,000	—	*
Robert A. Profusek (8)	1,490	—	*	—	—	*
Rodney L. Reese	5,962	5,415	*	4,507	9,560	*
All directors and executive officers as a group (12 persons)	164,873	60,793	1.67%	3,370,417	5,686,732	3.47%

* Indicates that the percentage of beneficial ownership does not exceed 1% of the class.

- (1) The business address for all beneficial owners listed above is One Valero Way, San Antonio, Texas 78249.
- (2) As of February 1, 2005, 13,442,072 common units were issued and outstanding. No executive officer or director owns any class of equity securities of Valero L.P. other than common units. The calculation for Percentage of Outstanding Units includes common units listed under the captions "Units Beneficially Owned" and "Units under Exercisable Options."
- (3) Includes restricted common units issued under Valero L.P.'s long-term incentive plans. Restricted units granted under Valero GP, LLC's long-term incentive plans may not be disposed of until vested. Does not include common units that could be acquired under options, which information is set forth in the next column.
- (4) Consisting of common units that may be acquired within 60 days of February 1, 2005 through the exercise of common unit options.
- (5) As of February 1, 2005, 255,523,487 shares of Valero Energy's common stock were issued and outstanding. No executive officer or director owns any class of equity securities of Valero Energy other than common stock. The calculation for Percentage of Outstanding Shares includes shares listed under the captions "Shares of Valero Energy Stock Beneficially Owned" and "Shares of Valero Energy Stock under Exercisable Options."
- (6) Includes shares allocated pursuant to the Valero Energy Corporation Thrift Plan through January 31, 2005, as well as shares of restricted stock granted under Valero Energy's Executive Stock Incentive Plan and Valero Energy's Restricted Stock Plan for Non-Employee Directors. Except as otherwise noted, each person named in the table, and each other executive officer, has sole power to vote or direct the vote and to dispose or direct the disposition of all such shares beneficially owned by him. Restricted stock granted under Valero Energy's Executive Stock Incentive Plan and Valero Energy's Restricted Stock Plan for Non-Employee Directors may not be disposed of until vested. Does not include shares that could be acquired under options, which information is set forth in the next column.
- (7) Consisting of shares of common stock that may be acquired within 60 days of February 1, 2005 through the exercise of stock options. Such shares may not be voted unless the stock options are exercised. Stock options that may become exercisable within such 60-day period only in the event of a change of control of Valero Energy are excluded. Except as set forth herein, none of the current executive officers or directors of Valero L.P. hold any rights to acquire Valero Energy common stock, except through exercise of stock options.

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- (8) Includes 1,000 common units held in trust for Kathryn A. Profusek as to which Mr. Profusek shares voting and investment power. Mr. Profusek disclaims beneficial ownership of these shares.

CERTAIN BENEFICIAL OWNERS

Except as otherwise indicated, the following table sets forth certain information as of February 1, 2005 with respect to each entity known to Valero L.P. to be the beneficial owner of more than 5% of its outstanding units.

<u>Name and Address of Beneficial Owner</u>	<u>Common Units</u>	<u>Percentage of Common Units(3)</u>	<u>Subordinated Units</u>	<u>Percentage of Subordinated Units</u>
Valero Energy Corporation (1) One Valero Way San Antonio, Texas 78249	642,232	4.8%	9,599,322	100%
Goldman, Sachs & Co. (2) The Goldman Sachs Group, Inc. 85 Broad Street New York, NY 10004	1,350,280	10.1%	—	—

- (1) Valero Energy owns the common and subordinated units through its wholly owned subsidiaries, Valero GP, LLC and UDS Logistics, LLC. Valero Energy shares voting and investment power with certain of its wholly owned subsidiaries with respect to the common and subordinated units.
- (2) According to an amended Schedule 13G/A filed with the SEC on February 8, 2005, Goldman, Sachs & Co. and The Goldman Sachs Group, Inc. share voting and dispositive power with respect to these common units.
- (3) Assumes 13,442,072 common units outstanding.

EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth information about Valero GP, LLC's equity compensation plans, which are described in further detail in Note 12 of Notes to Consolidated Financial Statements:

<u>Plan categories</u>	<u>Number of Securities to be issued upon exercise of outstanding unit options, warrants and rights</u>	<u>Weighted-Average exercise price of outstanding unit options, warrants and rights</u>	<u>Number of securities remaining for future issuance under equity compensation plans</u>
Equity Compensation Plans approved by security holders	114,596	\$ 41.88	80,107
Equity Compensation Plans not approved by security holders	226,946	\$ 44.65	461,180(1)

- (1) As of December 31, 2004, options to purchase 14,875 Valero L.P. common units remained available for grant under the 2002 Unit Option Plan. As of December 31, 2004, 446,305 units remained available for grant under the 2003 Employee Unit Incentive Plan.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**RIGHTS OF VALERO L.P.'S GENERAL PARTNER**

As of February 1, 2005, UDS Logistics, LLC, the limited partner of Riverwalk Logistics, owned 614,572 common units and 9,599,322 subordinated units of Valero L.P. representing an aggregate 43.5% limited partner interest in Valero L.P. Riverwalk Logistics owns a 2% general partner interest in Valero L.P. and also owns incentive distribution rights giving Riverwalk Logistics higher percentages of Valero L.P.'s cash distributions as various target distribution levels are met. (For further information on these incentive distribution rights, see Note 13 of Notes to Consolidated Financial Statements.) Valero GP, LLC, the general partner of Riverwalk Logistics, owns 28,262 common units representing a 0.2% limited partnership interest in Valero L.P.

The subordinated units may convert to common units on a one-for-one basis on the first day following the record date for distributions for the quarter ending March 31, 2006, if Valero L.P. meets certain tests set forth in its partnership agreement. 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 will be converted into common units.

Riverwalk Logistics, the sole general partner of Valero L.P., is responsible for the management of Valero L.P. Valero GP, LLC, the sole general partner of Riverwalk Logistics, is responsible for managing the affairs of Riverwalk Logistics, and through it, the affairs of Valero L.P. and Valero Logistics.

RELATIONSHIP WITH VALERO ENERGY

For a discussion of Valero L.P.'s relationship with Valero Energy, see Items 1. & 2. Business and Properties, "Valero L.P.'s Relationship with Valero Energy."

SUMMARY OF TRANSACTIONS WITH VALERO ENERGY

Valero L.P. has related-party transactions with Valero Energy for pipeline tariff, terminalling fee and crude oil storage tank fee revenues, certain employee costs, insurance costs, administrative costs, and rent expense. On the consolidated balance sheet of Valero L.P. and subsidiaries, the balance of the account *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 Valero L.P.'s behalf. Beginning March 19, 2003, the balance of the account *Receivable from Valero Energy* represents amounts due for pipeline tariff, terminalling fee and crude oil storage tank fee revenues, and the balance of the account *Payable to Valero Energy* represents amounts due for employee costs, insurance costs, operating expenses, administrative costs and rent expense.

The following table sets forth information pertaining to transactions with Valero Energy:

	Years Ended December 31,	
	2004	2003
	(in thousands)	
Revenues	\$217,608	\$178,605
Operating expenses	31,960	24,196
General and administrative expenses	10,367	6,110

INDEBTEDNESS OF MANAGEMENT

Ultramar Diamond Shamrock Corporation (UDS), which merged into Valero Energy on December 31, 2001, maintained an employee stock purchase program pursuant to which key employees were provided with loans to purchase common stock of UDS. Since 2001, before the merger of UDS into Valero Energy, there have been no extensions of credit, renewals of extensions of credit or material modifications of any term of any extension of credit under this program. Upon Valero Energy's merger with UDS, all shares of common stock of UDS converted into shares of common stock of Valero Energy.

Mr. Blank participated in the program and has an outstanding balance under the program. The highest amount outstanding under the loans at any time since the beginning of 2004 was \$197,475, and the amount outstanding on February 15, 2005 was \$171,045.

Loans under this program bear interest at a rate equal to the Applicable Federal Rate (AFR) for short-term loans, as effective month-to-month during the term of the loan, not to exceed 8%. As of February 15, 2005, AFR on Mr. Blank's loans was 2.92%. The terms of the loans require that repayment begins on the first February 15 following the fifth anniversary of the date of the loan. On that date, and on each anniversary thereof until repayment is complete, Mr. Blank is required to pay the lesser of: (i) 20% of the original principal amount, and (ii) the entire principal amount that remains outstanding.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

KPMG FEES FOR FISCAL YEAR 2004

AUDIT FEES

The aggregate fees for fiscal year 2004 for professional services rendered by KPMG for the audit of the annual financial statements for the year ended December 31, 2004 included in this Form 10-K, review of Valero L.P.'s interim financial statements included in Valero L.P.'s 2004 Forms 10-Q, the audit of the effectiveness of Valero L.P.'s internal control over financial reporting as of December 31, 2004 and related services that are normally provided by the principal auditor (*e.g.*, comfort letters and assistance with review of documents filed with the SEC) were \$829,136.

Of the foregoing Audit Fees, the audit fees specifically related to the audit of Valero L.P.'s internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002 were \$349,300.

AUDIT-RELATED FEES; TAX FEES; ALL OTHER FEES

KPMG did not render any services for fiscal year 2004 that would require the payment by Valero L.P. of any fees deemed "Audit-Related Fees," "Tax Fees" or "Other Fees" as categorized by Item 9(e) of Schedule 14A.

ERNST & YOUNG FEES FOR FISCAL YEAR 2003

AUDIT FEES

The aggregate fees for fiscal year 2003 for professional services rendered by Ernst & Young for the audit of the annual financial statements for the year ended December 31, 2003 included in Valero L.P.'s Form 10-K and review of Valero L.P.'s interim financial statements included in Valero L.P.'s 2003 Forms 10-Q and related services that are normally provided by the principal auditor (*e.g.*, comfort letters and assistance with review of documents filed with the SEC) were \$683,599.

AUDIT-RELATED FEES; TAX FEES; ALL OTHER FEES

Ernst & Young did not render any services for fiscal year 2003 that required the payment by Valero L.P. of any fees deemed "Audit-Related Fees," "Tax Fees" or "Other Fees" as categorized by Item 9(e) of Schedule 14A.

AUDIT COMMITTEE PRE-APPROVAL POLICY

The audit committee has adopted a pre-approval policy to address the approval of services rendered to Valero L.P. by its independent auditors, which is filed herewith as Exhibit 99.01.

None of the services (described above) for 2003 or 2004 provided by Ernst & Young and KPMG, respectively, were approved by the audit committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements. The following consolidated financial statements of Valero L.P. and its subsidiaries are included in Part II, Item 8 of this Form 10-K:

Management's Report on Internal Control over Financial Reporting	39
Reports of independent registered public accounting firm (KPMG LLP)	40
Report of independent registered public accounting firm (Ernst & Young LLP)	42
Consolidated Balance Sheets as of December 31, 2004 and 2003	44
Consolidated Statements of Income for the Years Ended December 31, 2004, 2003 and 2002	45
Consolidated Statements of Cash Flows – Years Ended December 31, 2004, 2003 and 2002	46
Consolidated Statements of Partners' Equity – Years Ended December 31, 2004, 2003 and 2002	47
Notes to Consolidated Financial Statements	48

(2) Financial Statement Schedules and Other Financial Information. No financial statement schedules are submitted because either they are inapplicable or because the required information is included in the consolidated financial statements or notes thereto.

(3) Exhibits

Filed as part of this Form 10-K are the following:

<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated by Reference to the Following Document</u>
2.01	Agreement and Plan of Merger, dated as of October 31, 2004, by and among Valero L.P., Riverwalk Logistics, L.P., Valero GP, LLC, VLI Sub A LLC and Kaneb Services LLC	Valero L.P.'s Current Report on Form 8-K filed November 4, 2004, Exhibit 99.1
2.02	Agreement and Plan of Merger, dated as of October 31, 2004, by and among Valero L.P., Riverwalk Logistics, L.P., Valero GP, LLC, VLI Sub B LLC and Kaneb Pipe Line Partners, L.P. and Kaneb Pipe Line Company LLC	Valero L.P.'s Current Report on Form 8-K filed November 4, 2004, Exhibit 99.2
4.01	Amended and Restated Certificate of Limited Partnership of Valero L.P.	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001, Exhibit 3.3
4.02	Third Amended and Restated Agreement of Limited Partnership of Valero L.P.	Valero L.P.'s Quarterly Report on Form 10-Q for quarter ended March 31, 2003, Exhibit 3.1
4.03	First Amendment to Third Amended and Restated Agreement of Limited Partnership of Valero L.P.	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2003, Exhibit 4.3
4.04	Certificate of Limited Partnership of Valero Logistics Operations, L.P.	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 3.4

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<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated by Reference to the Following Document</u>
4.05	Certificate of Amendment to Certificate of Limited Partnership of Valero Logistics Operations, L.P.	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 3.5
4.06	Second Amended and Restated Agreement of Limited Partnership of Valero Logistics Operations, L.P.	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001, Exhibit 3.9
4.07	Second Amendment to Second Amended and Restated Agreement of Limited Partnership of Valero Logistics Operations, L.P.	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001, Exhibit 3.10
4.08	Certificate of Limited Partnership of Riverwalk Logistics, L.P.	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 3.7
4.09	Agreement of Limited Partnership of Riverwalk Logistics, L.P.	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 3.8
4.10	Certificate of Formation of Valero GP, LLC	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 3.9
4.11	Certificate of Amendment to Certificate of Formation of Valero GP, LLC	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001, Exhibit 3.14
4.12	First Amended and Restated LLC Agreement of Shamrock Logistics GP, LLC	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 3.10
4.13	First Amendment to First Amended and Restated Limited Liability Company Agreement of Valero GP, LLC	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001, Exhibit 3.15
4.14	First Amended and Restated Limited Partnership Agreement of Riverwalk Logistics, L.P.	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001, Exhibit 3.16
4.15	Indenture, dated July 15, 2002, among Valero Logistics Operations, L.P., as Issuer, Valero L.P., as Guarantor, and The Bank of New York, as Trustee, relating to Senior Debt Securities	Valero L.P.'s Current Report on Form 8-K filed July 15, 2002, Exhibit 4.1
4.16	First Supplemental Indenture, dated as of July 15, 2002, to Indenture dated July 15, 2002, in each case among Valero Logistics Operations, L.P., as Issuer, Valero L.P., as Guarantor, and The Bank of New York, as Trustee, relating to 6 7/8% Senior Notes Due 2012	Valero L.P.'s Current Report on Form 8-K filed July 15, 2002, Exhibit 4.2

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<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated by Reference to the Following Document</u>
4.17	Second Supplemental Indenture, dated as of March 18, 2003, to Indenture dated July 15, 2002, as amended and supplemented by a First Supplemental Indenture thereto dated as of July 15, 2002, in each case among Valero Logistics Operations, L.P., as Issuer, Valero L.P., as Guarantor, and The Bank of New York, as Trustee (including, form of global note representing \$250,000,000 6.05% Senior Notes due 2013)	Valero L.P.'s Current Report on Form 8-K filed May 9, 2003, Exhibit 4.1
4.18	Registration Rights Agreement, dated March 18, 2003, among Valero Logistics Operations, L.P., as Issuer, Valero L.P., as Guarantor, and the initial purchasers of Valero Logistics Operations, L.P. 6.05% Senior Notes due 2013	Valero L.P.'s Quarterly Report on Form 10-Q for quarter ended March 31, 2003, Exhibit 10.10
10.01	Amended and Restated Credit Agreement dated as of December 15, 2000, as amended March 6, 2003, among Valero Logistics Operations, L.P., the Lenders party thereto, and JPMorgan Chase Manhattan Bank, as Administrative Agent, Royal Bank of Canada, as Syndication Agent, Suntrust Bank and Mizuho Corporate Bank, Ltd., as Co-Documentation Agents, JPMorgan Securities Inc., as Arranger	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2002, Exhibit 10.1
10.02	5-Year Revolving Credit Agreement dated as of December 20, 2004 among Valero Logistics Operations, L.P., Valero L.P., the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, Suntrust Bank, as Syndication Agent, and Barclays Bank PLC, Mizuho Corporate Bank Ltd., and Royal Bank of Canada, as Co-Documentation Agents	*
+10.03	Valero GP, LLC Amended and Restated 2003 Employee Unit Incentive Plan	*
+10.04	Valero GP, LLC Amended and Restated 2002 Unit Option Plan	*

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<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated by Reference to the Following Document</u>
+10.05	Valero GP, LLC Amended and Restated 2000 Long-Term Incentive Plan	*
+10.06	Form of Restricted Unit Agreement under the Valero GP, LLC Amended and Restated 2000 Long-Term Incentive Plan	Valero L.P.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, Exhibit 10.4
+10.07	Form of Unit Option Award Agreement under the Valero GP, LLC Amended and Restated 2000 Long-Term Incentive Plan	Valero L.P.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, Exhibit 10.6
+10.08	Valero GP, LLC Short-Term Incentive Plan	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 10.4
+10.09	Valero GP, LLC Intermediate-Term Incentive Plan	Registration Statement on Form S-1 (File No. 333-43668), Exhibit 10.9
+10.10	Performance Award Agreement dated January 22, 2003 between Curtis V. Anastasio and Valero Energy Corporation	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2003, Exhibit 10.8
10.11	Pipelines and Terminals Usage Agreement by and among Ultramar Diamond Shamrock Corporation, Shamrock Logistics Operations, L.P., Shamrock Logistics, L.P., Riverwalk Logistics, L.P. and Shamrock Logistics GP, LLC, dated April 16, 2001	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001, Exhibit 10.6
10.12	Omnibus Agreement by and among Ultramar Diamond Shamrock Corporation, Shamrock Logistics Operations, L.P., Shamrock Logistics, L.P., Riverwalk Logistics, L.P. and Shamrock Logistics GP, LLC, dated effective as of April 16, 2001	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001, Exhibit 10.7
10.13	First Amendment to Omnibus Agreement, effective April 16, 2001	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001, Exhibit 10.11

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<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated by Reference to the Following Document</u>
10.14	Amended and Restated Services Agreement among Diamond Shamrock Refining and Marketing Company, Valero L.P., Valero Logistics Operations, L.P., Riverwalk Logistics, L.P. and Valero GP, LLC, dated as of April 1, 2004	Valero L.P.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, Exhibit 10.1
10.15	Operating Agreement by and between Shamrock Logistics Operations, L.P. and Valero Pipeline Company, dated January 1, 2002	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2001, Exhibit 10.13
10.16	Contribution Agreement by and among Valero Refining Company—California, UDS Logistics, LLC, Valero L.P., Valero GP, Inc. and Valero Logistics Operations, L.P. dated as of March 6, 2003	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2002, Exhibit 10.13
10.17	Contribution Agreement by and among Valero Refining Company—Texas, L.P., UDS Logistics, LLC, Valero L.P., Valero GP, Inc. and Valero Logistics Operations, L.P. dated as of March 6, 2003	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2002, Exhibit 10.14
10.18	Contribution Agreement by and among Valero Pipeline Company, UDS Logistics, LLC, Valero L.P., Valero GP, Inc. and Valero Logistics Operations, L.P. dated as of March 6, 2003	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2002, Exhibit 10.15
10.19	Handling and Throughput Agreement between Valero Marketing and Supply Company and Valero Logistics Operations, L.P., dated as of March 18, 2003	Valero L.P.'s Quarterly Report on Form 10-Q for quarter ended March 31, 2003, Exhibit 10.1
10.20	Amendment Number One to the Handling and Throughput Agreement between Valero Marketing and Supply Company and Valero Logistics Operations, L.P., effective as of April 27, 2004	Valero L.P.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, Exhibit 10.3
10.21	Services and Secondment Agreement between Valero Refining-Texas, L.P. and Valero Logistics Operations, L.P., dated as of March 18, 2003	Valero L.P.'s Quarterly Report on Form 10-Q for quarter ended March 31, 2003, Exhibit 10.3
10.22	Services and Secondment Agreement between Valero Refining Company-California and Valero Logistics Operations, L.P., dated as of March 18, 2003	Valero L.P.'s Quarterly Report on Form 10-Q for quarter ended March 31, 2003, Exhibit 10.2

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<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated by Reference to the Following Document</u>
10.23	Throughput Commitment Agreement by and among Valero Marketing and Supply Company, Valero Logistics Operations, L.P. and Valero L.P., dated as of March 18, 2003	Valero L.P.'s Quarterly Report on Form 10-Q for quarter ended March 31, 2003, Exhibit 10.4
10.24	Terminalling Agreement (Edinburg) between Valero Marketing and Supply Company and Valero Logistics Operations, L.P., dated as of March 18, 2003	Valero L.P.'s Quarterly Report on Form 10-Q for quarter ended March 31, 2003, Exhibit 10.5
10.25	Terminalling Agreement (Houston Asphalt) between Valero Marketing and Supply Company and Valero Logistics Operations, L.P., dated as of March 18, 2003	Valero L.P.'s Quarterly Report on Form 10-Q for quarter ended March 31, 2003, Exhibit 10.6
10.26	Terminalling Agreement (Hobby Airport) between Valero Marketing and Supply Company and Valero Logistics Operations, L.P., dated as of March 18, 2003	Valero L.P.'s Quarterly Report on Form 10-Q for quarter ended March 31, 2003, Exhibit 10.7
10.27	Terminalling Agreement (Placedo) between Valero Marketing and Supply Company and Valero Logistics Operations, L.P., dated as of March 18, 2003	Valero L.P.'s Quarterly Report on Form 10-Q for quarter ended March 31, 2003, Exhibit 10.8
10.28	Terminalling Agreement (San Antonio East) between Valero Marketing and Supply Company and Valero Logistics Operations, L.P., dated as of March 18, 2003	Valero L.P.'s Quarterly Report on Form 10-Q for quarter ended March 31, 2003, Exhibit 10.9
10.29	Terminal Storage and Throughput Agreement between Valero Marketing and Supply Company and Valero Logistics Operation, L.P. effective as of January 15, 2004	Valero L.P.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, Exhibit 10.2
10.30	Terminal Agreement (Corpus Christi Crude Terminal) between Valero Marketing Supply Company and Valero Logistics Operation, L.P. effective as of January 1, 2004	Valero L.P.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, Exhibit 10.4
12.01	Statement of Computation of Ratio of Earnings to Fixed Charges	*
14.01	Code of Ethics for Senior Financial Officers	Valero L.P.'s Annual Report on Form 10-K for year ended December 31, 2003, Exhibit 14.1
21.01	List of subsidiaries of Valero L.P.	*

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<u>Exhibit Number</u>	<u>Description</u>	<u>Incorporated by Reference to the Following Document</u>
23.01	Consent of KPMG LLP, dated March 11, 2005	*
23.02	Consent of Ernst & Young LLP, dated March 11, 2005	*
24.01	Powers of Attorney (included in signature page of this Form 10-K)	*
31.01	Rule 13a-14(a) Certifications (under Section 302 of the Sarbanes-Oxley Act of 2002)	*
32.01	Section 1350 Certifications (under Section 906 of the Sarbanes-Oxley Act of 2002)	*
99.01	Audit Committee Pre-Approval Policy	*
99.02	Report of Independent Registered Public Accountants, Balance Sheet— December 31, 2004 and Notes to Balance Sheet— December 31, 2004 of Riverwalk Logistics, L.P.	*

* Filed herewith.

+ Identifies management contracts or compensatory plans or arrangements required to be filed as an exhibit hereto pursuant to Item 15(c) of Form 10-K.

Copies of exhibits filed as a part of this Form 10-K may be obtained by unitholders of record at a charge of \$0.15 per page, minimum \$5.00 each request. Direct inquiries to Corporate Secretary, Valero L.P., P.O. Box 696000, San Antonio, Texas 78269-0600.

Disclosures Required by Section 303A.12 of the NYSE Listed Company Manual. Section 303A.12 of the NYSE Listed Company Manual requires the chief executive officer (“CEO”) of each listed company to certify to the NYSE each year that he or she is not aware of any violation by the listed company of any of the NYSE corporate governance listing standards. The CEO of Valero L.P. submitted the required certification without qualification to the NYSE as of November 24, 2004. In addition, the CEO certification and the chief financial officer’s certification required by Section 302 of the Sarbanes-Oxley Act of 2002 (the “SOX 302 Certifications”) with respect to Valero L.P.’s disclosures in its Form 10-K for the year ended December 31, 2003 were filed as Exhibit 31.01 to Valero L.P.’s Form 10-K for the year ended December 31, 2003. The SOX 302 Certifications with respect to Valero L.P.’s disclosures in its Form 10-K for the year ended December 31, 2004 are being filed as Exhibit 31.01 to this Form 10-K.

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Curtis V. Anastasio, Steven A. Blank and Bradley C. Barron, or any of them, each with power to act without the other, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any or all subsequent amendments and supplements to this Annual Report on Form 10-K, and to file the same, or cause to be filed the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby qualifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ WILLIAM E. GREEHEY _____ (William E. Greehey)	Chairman of the Board	March 11, 2005
/s/ CURTIS V. ANASTASIO _____ (Curtis V. Anastasio)	President, Chief Executive Officer and Director (Principal Executive Officer)	March 11, 2005
/s/ STEVEN A. BLANK _____ (Steven A. Blank)	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 11, 2005
/s/ CLAYTON E. KILLINGER _____ (Clayton E. Killinger)	Vice President and Controller (Principal Accounting Officer)	March 11, 2005
/s/ WILLIAM R. KLESSE _____ (William R. Klesse)	Director	March 11, 2005
/s/ GREGORY C. KING _____ (Gregory C. King)	Director	March 11, 2005
/s/ H. FREDERICK CHRISTIE _____ (H. Frederick Christie)	Director	March 11, 2005
/s/ DAN J. HILL _____ (Dan J. Hill)	Director	March 11, 2005
/s/ RODMAN D. PATTON _____ (Rodman D. Patton)	Director	March 11, 2005
/s/ ROBERT A. PROFUSEK _____ (Robert A. Profusek)	Director	March 11, 2005

5-YEAR REVOLVING CREDIT AGREEMENT

dated as of December 20, 2004

among

VALERO LOGISTICS OPERATIONS, L.P.

VALERO L.P.

The Lenders Party Hereto

and

**JPMORGAN CHASE BANK, N.A.,
as Administrative Agent**

**SUNTRUST BANK,
as Syndication Agent**

and

**BARCLAYS BANK PLC,
MIZUHO CORPORATE BANK LTD.,**

and

**ROYAL BANK OF CANADA,
as Co-Documentation Agents**

**J.P. MORGAN SECURITIES INC.,
as Sole Bookrunner**

and

**J.P. MORGAN SECURITIES INC. and SUNTRUST ROBINSON HUMPHREY, A DIVISION OF
SUNTRUST CAPITAL MARKETS, INC.,
as Co-Lead Arrangers**

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EXHIBITS:

Exhibit A —	Form of Assignment and Assumption
Exhibit B —	Form of Opinion of the Borrower’s and the MLP’s Counsel
Exhibit C –	Form of Subsidiary Guaranty Agreement
Exhibit D-1 –	Form of Initial Notice of Commitment Increase
Exhibit D-2 –	Form of Notice of Confirmation of Commitment Increase

5-YEAR REVOLVING CREDIT AGREEMENT dated as of December 20, 2004 among VALERO LOGISTICS OPERATIONS, L.P., a Delaware limited partnership, VALERO L.P., a Delaware limited partnership, the LENDERS party hereto, JP MORGAN CHASE BANK, N.A., as Administrative Agent, SUNTRUST BANK, as Syndication Agent, and BARCLAYS BANK PLC, MIZUHO CORPORATE BANK LTD., and ROYAL BANK OF CANADA, as Co-Documentation Agents.

The parties hereto agree as follows:

ARTICLE I
Definitions

Section 1.01. Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

“ABR”, when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

“Acquired Companies” means, collectively, KSL and KPP, and their respective subsidiaries.

“Acquisition” means the mergers of KPP and KSL into Wholly-Owned Subsidiaries of the MLP pursuant to the terms and conditions of the Acquisition Documents.

“Acquisition Documents” means (a) Agreement and Plan of Merger dated as of October 31, 2004 by and among Valero L.P., Riverwalk Logistics, L.P., Valero GP, LLC, VLI Sub A LLC and KSL and (b) Agreement and Plan of Merger dated as of October 31, 2004 by and among Valero L.P., Riverwalk Logistics, L.P., Valero GP, LLC, VLI Sub B LLC, KPP, and Kaneb Pipe Line Company LLC, in each case, as amended, modified or supplemented.

“Adjusted LIBO Rate” means, with respect to any Eurodollar Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

“Administrative Agent” means JPMorgan Chase Bank, N.A., in its capacity as administrative agent for the Lenders hereunder.

“Administrative Questionnaire” means an Administrative Questionnaire in a form supplied by the Administrative Agent.

“Affiliate” means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

“Agreement” means this 5-Year Revolving Credit Agreement, as the same may be amended, modified, supplemented or restated from time to time in accordance herewith.

“**Alternate Base Rate**” means, for any day, a rate per annum equal to the higher of (a) the Prime Rate in effect on such day and (b) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate or the Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate or the Federal Funds Effective Rate, respectively.

“**Applicable Percentage**” means, with respect to any Lender, the percentage of the total Commitments represented by such Lender’s Commitment. If the Commitments have terminated or expired, the Applicable Percentages shall be determined based upon the Commitments most recently in effect, giving effect to any assignments.

“**Applicable Rate**” means, for any day, with respect to any ABR Loan or Eurodollar Revolving Loan, or with respect to the facility fees payable hereunder, as the case may be, the applicable rate per annum set forth below under the caption “ABR Spread”, “Eurodollar Spread” or “Facility Fee Rate”, as the case may be, based upon the ratings by Moody’s and/or S&P, respectively, applicable on such date to the Index Debt:

<u>Index Debt Ratings:</u>	<u>ABR Spread</u>	<u>Eurodollar Spread</u>	<u>Facility Fee Rate</u>
Tier 1 Greater than BBB or Baa2	0.00%	0.525%	0.100%
Tier 2 BBB or Baa2	0.00%	0.625%	0.125%
Tier 3 BBB - or Baa3	0.000%	0.725%	0.150%
Tier 4 BB+ or Ba1	0.250%	1.050%	0.200%
Tier 5 Less than BB+ or Ba1	0.500%	1.200%	0.300%

For purposes of the foregoing, (i) if either Moody’s or S&P shall not have in effect a rating for the Index Debt (after having established such a rating and other than by reason of the circumstances referred to in the last sentence of this definition), then such rating agency shall be deemed to have established a rating in Tier 5; (ii) if both Moody’s and S&P have established a rating for the Index Debt and such ratings established or deemed to have been established by Moody’s and S&P shall fall within different Tiers, then (a) so long as either or both such ratings are Investment Grade or better, the Applicable Rate shall be based on the higher of the two ratings, unless one of the two ratings is two or more Tiers lower than the other, in which case the Applicable Rate shall be determined by reference to the Tier next below that of the higher of the

two ratings; and (b) so long as both such ratings are below Investment Grade, the Applicable Rate shall be based on the lower of the two ratings, unless one of the two ratings is two or more Tiers lower than the other, in which case the Applicable Rate shall be determined by reference to the Tier next above that of the lower of the two ratings and (iii) if the ratings established or deemed to have been established by Moody's and S&P for the Index Debt shall be changed (other than as a result of a change in the rating system of Moody's or S&P), such change shall be effective as of the date on which it is first announced by the applicable rating agency, irrespective of when notice of such change shall have been furnished by the Borrower to the Administrative Agent and the Lenders pursuant to Section 5.01 or otherwise. Each change in the Applicable Rate shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change. If the rating system of Moody's or S&P shall change, or if either such rating agency shall cease to be in the business of rating corporate debt obligations, the Borrower and the Lenders shall negotiate in good faith to amend this definition to reflect such changed rating system or the unavailability of ratings from such rating agency and, pending the effectiveness of any such amendment, the Applicable Rate shall be determined by reference to the rating most recently in effect prior to such change or cessation.

"Approved Fund" has the meaning assigned to such term in Section 10.04.

"Assessment Rate" means, for any day, the annual assessment rate in effect on such day that is payable by a member of the Bank Insurance Fund classified as "well-capitalized" and within supervisory subgroup "B" (or a comparable successor risk classification) within the meaning of 12 C.F.R. Part 327 (or any successor provision) to the Federal Deposit Insurance Corporation for insurance by such Corporation of time deposits made in dollars at the offices of such member in the United States; provided that if, as a result of any change in any law, rule or regulation, it is no longer possible to determine the Assessment Rate as aforesaid, then the Assessment Rate shall be such annual rate as shall be determined by the Administrative Agent to be representative of the cost of such insurance to the Lenders.

"Assignment and Assumption" means an assignment and assumption entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 10.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

"Availability Period" means the period from and including the Effective Date to but excluding the earlier of the Maturity Date and the date of termination of the Commitments.

"Benefit Arrangement" means at any time an employee benefit plan within the meaning of Section 3(3) of ERISA which is not a Plan or a Multiemployer Plan and which is maintained or otherwise contributed to by any ERISA Affiliate.

"Board" means the Board of Governors of the Federal Reserve System of the United States of America.

"Borrower" means Valero Logistics Operations, L.P., a Delaware limited partnership.

“**Borrower Obligations**” means the collective reference to all amounts owing by the Borrower and its Subsidiaries pursuant to this Agreement and the other Guaranteed Documents, including, without limitation, the unpaid principal of and interest on the Loans and LC Disbursements and all other obligations and liabilities of the Borrower (including, without limitation, interest accruing at the then applicable rate provided in this Agreement after the maturity of the Loans and LC Disbursements and interest accruing at the then applicable rate provided in this Agreement after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) to the Guaranteed Creditors, whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with the Guaranteed Documents, whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses or otherwise (including, without limitation, all fees and disbursements of counsel to the Guaranteed Creditors that are required to be paid by the Borrower pursuant to the terms of any of the foregoing agreements).

“**Borrowing**” means (a) Revolving Loans of the same Type, made, converted or continued on the same date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect or (b) a Competitive Loan or group of Competitive Loans of the same Type made on the same date and as to which a single Interest Period is in effect.

“**Borrowing Request**” means a request by the Borrower for a Revolving Borrowing in accordance with Section 2.03.

“**Business Day**” means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed; provided that, when used in connection with a Eurodollar Loan, the term “**Business Day**” shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

“**Capital Lease Obligations**” of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

“**Change in Control**” means any of the following events:

(a) (i) Valero Energy shall cease, indirectly or directly, to own at least a majority of the issued and outstanding Equity Interests of, or shall cease to Control, the general partner(s) of the MLP, or (ii) 100% (and not less than 100%) of the issued and outstanding Equity Interest of the general partner(s) of the Borrower shall cease to be owned, directly or indirectly, or the Borrower shall cease to be Controlled, by Valero Energy and/or the MLP; or

(b) 100% (and not less than 100%) of the limited partnership interests of the Borrower shall cease to be owned in the aggregate, directly or indirectly, by the MLP and/or Valero Energy.

“Change in Law” means (a) the adoption of any law, rule or regulation after the date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender or any Issuing Bank (or, for purposes of Section 2.14(b), by any lending office of such Lender or by such Lender’s or such Issuing Bank’s holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the date of this Agreement.

“Class”, when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are Revolving Loans or Competitive Loans.

“Code” means the Internal Revenue Code of 1986, as amended from time to time.

“Commitment” means, with respect to each Lender, the commitment of such Lender to make Revolving Loans and to acquire participations in Letters of Credit hereunder, expressed as an amount representing the maximum aggregate amount of such Lender’s Revolving Credit Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.08 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 2.19 or Section 10.04. The initial amount of each Lender’s Commitment is set forth on Schedule 2.01, or in the Assignment and Assumption pursuant to which such Lender shall have assumed its Commitment, as applicable. The initial aggregate amount of the Lenders’ Commitments is \$400,000,000.

“Commitment Increase Effective Date” has the meaning assigned such term in Section 2.19.

“Common Units” means the common units of limited partner interests in the MLP.

“Competitive Bid” means an offer by a Lender to make a Competitive Loan in accordance with Section 2.04.

“Competitive Bid Rate” means, with respect to any Competitive Bid, the Margin or the Fixed Rate, as applicable, offered by the Lender making such Competitive Bid.

“Competitive Bid Request” means a request by the Borrower for Competitive Bids in accordance with Section 2.04.

“Competitive Loan” means a Loan made pursuant to Section 2.04.

“Consolidated Debt Coverage Ratio” means, for any day, the ratio of (a) all Indebtedness of the MLP and its Subsidiaries, on a consolidated basis, as of the last day of the then most recent Rolling Period over (b) Consolidated EBITDA for such Rolling Period.

“Consolidated EBITDA” means, without duplication, as to the MLP and its Subsidiaries, on a consolidated basis for each Rolling Period, the amount equal to Consolidated Operating Income for such period plus (a) depreciation and amortization for such period, and (b) cash distributions received by the Borrower from Skelly-Belvieu Pipeline Company, and similar joint ventures, during such period; provided that (i) Consolidated EBITDA shall be adjusted from time to time as necessary to give pro forma effect to permitted acquisitions or Investments (other than Joint Venture Interests) or sales of property by the MLP and its Subsidiaries and (ii) Consolidated EBITDA shall be adjusted to take into account *pro forma* synergies as a result of the Acquisition in an amount equal to (A) \$25,000,000 for the Rolling Period ending on June 30, 2005, (B) \$20,000,000 for the Rolling Period ending on September 30, 2005, (C) \$15,000,000 for the Rolling Period ending on December 31, 2005 and (D) \$5,000,000 for the Rolling Period ending on March 31, 2006.

“Consolidated Interest Coverage Ratio” means, for any day, the ratio of (i) Consolidated EBITDA for the then most recent Rolling Period to (ii) Consolidated Interest Expense for such Rolling Period.

“Consolidated Interest Expense” means, for any Rolling Period, total interest expense (including that attributable to Capital Lease Obligations) of the MLP and its Subsidiaries for such period with respect to all outstanding Indebtedness of the MLP and its Subsidiaries (including, without limitation, all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers’ acceptance financing and net costs under any Swap Agreements to the extent such net costs are allocable to such period in accordance with GAAP).

“Consolidated Operating Income” means, as to the MLP and its Subsidiaries on a consolidated basis for each Rolling Period, the amount equal to gross income minus operating expenses, general and administrative expenses, depreciation and amortization, and taxes other than income taxes, in each case for such period.

“Consolidated Net Worth” means, at any time, an amount equal to the consolidated partners’ equity of the MLP and its Subsidiaries.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have meanings correlative thereto.

“Default” means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

“Disclosed Matters” means the actions, suits and proceedings and the environmental matters disclosed in Schedule 3.06.

“dollars” or “\$” refers to lawful money of the United States of America.

“Domestic Subsidiary” means any Subsidiary that is organized under the laws of the United States of America or any state thereof or the District of Columbia.

“Effective Date” means the date on which the conditions specified in Section 4.01 are satisfied (or waived in accordance with Section 10.02).

“Environmental Approvals” means any Governmental Approvals required under applicable Environmental Laws.

“Environmental Laws” means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Material or to health and safety matters.

“Environmental Liability” means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the MLP or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Equity Interest” means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any member interests in a limited liability company, and general or limited partnership interests in a partnership, any and all equivalent ownership interests in a Person and any and all warrants, options or other rights to purchase any of the foregoing. In addition, “Equity Interest” shall include, without limitation, with respect to the Borrower, the limited partner interests of the Borrower and the General Partner Interests and, with respect to the MLP, the Units and the general partner interest of the MLP.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time.

“ERISA Affiliate” means any trade or business (whether or not incorporated) that, together with the MLP, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

“ERISA Event” means (a) any “reportable event”, as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived); (b) the existence with respect to any Plan of an “accumulated funding deficiency” (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the MLP or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by the MLP or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (f) the incurrence by the MLP or any

of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (g) the receipt by the MLP or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the MLP or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

“Eurodollar”, when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate (or, in the case of a Competitive Loan, the LIBO Rate).

“Event of Default” has the meaning assigned to such term in Article VII.

“Excluded Taxes” means, with respect to the Administrative Agent, any Lender, any Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) income or franchise taxes imposed on (or measured by) its net income by the United States of America, or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 2.18(b)), any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement (or designates a new lending office) or is attributable to such Foreign Lender’s failure to comply with Section 2.16(e), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.16(a).

“Existing Credit Agreement” means the Amended and Restated Credit Agreement, dated as of December 15, 2000, as amended and restated through March 6, 2003, by and among the Borrower, the Lenders (as defined therein) party thereto, JPMorgan Chase Bank, as Administrative Agent, Royal Bank of Canada, as syndication agent, and SunTrust Bank and Mizuho Corporate Bank Ltd., as co-documentation agents, as amended.

“Federal Funds Effective Rate” means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

“Financial Officer” means with respect to any Person, the chief accounting officer, chief financial officer, treasurer or controller of such Person.

“Fixed Rate” means, with respect to any Competitive Loan (other than a Eurodollar Competitive Loan), the fixed rate of interest per annum specified by the Lender making such Competitive Loan in its related Competitive Bid.

“Fixed Rate Loan” means a Competitive Loan bearing interest at a Fixed Rate.

“Foreign Lender” means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

“GAAP” means generally accepted accounting principles in the United States of America.

“General Partner” means Valero GP, Inc., a Delaware corporation.

“General Partner Interest” means all general partner interests in the Borrower.

“Governmental Authority” means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

“Guarantee” of or by any Person (the “guarantor”) means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the “primary obligor”) in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation; provided, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“Guaranteed Creditors” means the collective reference to the Administrative Agent and the Lenders.

“Guaranteed Documents” means the collective reference to this Agreement and the other Loan Documents.

“Guarantor” means each of the MLP and each Subsidiary and other Person that from time to time executes and delivers a Subsidiary Guaranty (or becomes a party thereto by executing and delivering a supplement thereto or otherwise).

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

“Increasing Lender” has the meaning assigned to such term in Section 2.19.

“Indebtedness” of any Person means, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments or by any other securities providing for the mandatory payment of money (including, without limitation, preferred stock subject to mandatory redemption or sinking fund provisions), (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (e) all obligations of such Person in respect of the deferred purchase price of property or services (excluding current accounts payable incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed, (g) all Guarantees by such Person of Indebtedness of others, (h) all Capital Lease Obligations of such Person, (i) all non-contingent obligations of such Person as an account party in respect of letters of credit and letters of guaranty, (j) all obligations, contingent or otherwise, of such Person in respect of bankers’ acceptances, (k) all obligations of such Person with respect to any arrangement, directly or indirectly, whereby such Person or its Subsidiaries shall sell or transfer any material asset, and whereby such Person or any of its Subsidiaries shall then or immediately thereafter rent or lease as lessee such asset or any part thereof, and (l) all recourse and support obligations of such Person or any of its Subsidiaries with respect to the sale or discount of any of its accounts receivable. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person’s ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor.

“Indemnified Taxes” means Taxes other than Excluded Taxes.

“Indenture” means the Indenture, dated as of July 15, 2002, between the Borrower, as Issuer, the MLP, as Guarantor, and The Bank of New York, as Trustee, relating to the issuance of senior debt securities, as amended, modified and supplemented from time to time in accordance herewith.

“Index Debt” means senior, unsecured, long-term indebtedness for borrowed money of the Borrower that is not guaranteed by any other Person other than the Guarantors or subject to any other credit enhancement.

“Information Memorandum” means the Confidential Information Memorandum dated November 8, 2004 relating to the Borrower and the Transactions.

“Initial Notice of Commitment Increase” has the meaning assigned to such term in Section 2.19.

“Interest Election Request” means a request by the Borrower to convert or continue a Revolving Borrowing in accordance with Section 2.07.

“Interest Payment Date” means (a) with respect to any ABR Loan, the last day of each March, June, September and December, (b) with respect to any Eurodollar Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurodollar Borrowing with an Interest Period of more than three months’ duration, each day prior to the last day of such Interest Period that occurs at intervals of three months’ duration after the first day of such Interest Period and (c) with respect to any Fixed Rate Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Fixed Rate Borrowing with an Interest Period of more than 90 days’ duration (unless otherwise specified in the applicable Competitive Bid Request), each day prior to the last day of such Interest Period that occurs at intervals of 90 days’ duration after the first day of such Interest Period, and any other dates that are specified in the applicable Competitive Bid Request as Interest Payment Dates with respect to such Borrowing.

“Interest Period” means (a) with respect to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six-months thereafter, as the Borrower may elect, and (b) with respect to any Fixed Rate Borrowing, the period (which shall not be less than 1 day or more than 270 days) commencing on the date of such Borrowing and ending on the date specified in the applicable Competitive Bid Request; provided, that (i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a Eurodollar Borrowing only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (ii) any Interest Period pertaining to a Eurodollar Borrowing that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and, in the case of a Revolving Borrowing, thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

“Investment” means, as applied to any Person, any direct or indirect purchase or other acquisition by such Person of any Equity Interests in any other Person, or any direct or indirect loan, advance or capital contribution by such Person to any other Person, including all Indebtedness and receivables from such other Person which are not current assets or did not arise from sales to such other Person in the ordinary course of business, and any direct or indirect purchase or other acquisition by such Person of any assets (other than any acquisition of assets in the ordinary course of business).

“Investment Grade” means a rating for Index Debt of BBB- or higher by S&P and Baa3 or higher by Moody’s.

“Issuing Bank” means each of JPMorgan Chase Bank, N.A. and SunTrust Bank, in each case, in its capacity as an issuer of Letters of Credit hereunder, and its successors in such capacity as provided in Section 2.05(i). Any Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of such Issuing Bank, in which case the term “Issuing Bank” shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

“Joint Venture Interest” means an acquisition of or Investment in Equity Interests in another Person, held directly or indirectly by the MLP, that will not be a Subsidiary after giving effect to such acquisition or Investment.

“KPP” means Kaneb Pipe Line Partners, L.P., a Delaware limited partnership.

“KSL” means Kaneb Services LLC, a Delaware limited liability company.

“LC Disbursement” means a payment made by any Issuing Bank pursuant to a Letter of Credit issued by such Issuing Bank.

“LC Exposure” means, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit at such time plus (b) the aggregate amount of all LC Disbursements that have not yet been reimbursed by or on behalf of the Borrower at such time. The LC Exposure of any Lender at any time shall be its Applicable Percentage of the total LC Exposure at such time. The LC Exposure of any Issuing Bank at any time shall be the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit issued by such Issuing Bank at such time plus (b) the aggregate amount of all LC Disbursements made by such Issuing Bank that have not yet been reimbursed by or on behalf of the Borrower at such time.

“Lenders” means the Persons listed on Schedule 2.01 and any other Person that shall have become a party hereto pursuant to an Assignment and Assumption, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Assumption.

“Letter of Credit” means any letter of credit issued pursuant to this Agreement.

“LIBO Rate” means, with respect to any Eurodollar Borrowing for any Interest Period, the rate appearing on Page 3750 of the Dow Jones Market Service (or on any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those currently provided on such page of such Service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the “LIBO Rate” with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which dollar deposits of \$5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

“Lien” means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

“Loan Documents” means this Agreement, the Subsidiary Guaranty, any notes issued pursuant to Section 2.09(e), and any Letter of Credit, as each such agreement may be amended, supplemented or otherwise modified from time to time as permitted hereby, and any and all instruments, certificates, or other agreements delivered in connection with the foregoing.

“Loans” means the loans made by the Lenders to the Borrower pursuant to this Agreement.

“Margin” means, with respect to any Competitive Loan bearing interest at a rate based on the LIBO Rate, the marginal rate of interest, if any, to be added to or subtracted from the LIBO Rate to determine the rate of interest applicable to such Loan, as specified by the Lender making such Loan in its related Competitive Bid.

“Material Adverse Effect” means a material adverse effect on (a) the business, assets, operations or condition (financial or otherwise) of the MLP and its Subsidiaries (including the Borrower) taken as a whole, (b) the ability of the MLP, the Borrower or any Guarantor to perform any of their obligations under this Agreement or any other Loan Document or (c) the rights of or benefits available to the Lenders under this Agreement or any other Loan Document.

“Material Agreements” means the Partnership Agreement (Borrower) and the Indenture as each such agreement may be amended, supplemented or otherwise modified from time to time as permitted hereby.

“Material Domestic Subsidiary” means any Material Subsidiary that is a Domestic Subsidiary.

“Material Subsidiary” means, with respect to the MLP, any Subsidiary (other than the Borrower) that meets any of the following conditions: (i) the MLP’s and its other Subsidiaries’ equity in the income from continuing operations before interest expense and all income taxes of such Subsidiary exceeds 10% of such income of the MLP and its Subsidiaries consolidated for the most recently completed fiscal year or (ii) the MLP’s and its other Subsidiaries’ proportionate share of the total assets (after intercompany eliminations) of such Subsidiary exceeds 10% of the total assets of the MLP and its Subsidiaries consolidated as of the end of the most recently completed fiscal year.

“Material Indebtedness” means Indebtedness (other than the Loans and Letters of Credit), or obligations in respect of one or more Swap Agreements, of any one or more of the MLP and its Subsidiaries in an aggregate principal amount exceeding \$35,000,000. For purposes of determining Material Indebtedness, the “principal amount” of the obligations of the MLP or any Subsidiary in respect of any Swap Agreement at any time shall be the maximum aggregate

amount (giving effect to any netting agreements) that such Person would be required to pay if such Swap Agreement were terminated at such time.

“Maturity Date” means the fifth anniversary of the Effective Date.

“MLP” means Valero L.P., a Delaware limited partnership.

“MLP Obligations” means the collective reference to (i) the Borrower Obligations and (ii) all obligations and liabilities of the MLP which may arise under or in connection with any Guaranteed Document to which the MLP is a party, in each case whether on account of guarantee obligations, reimbursement obligations, loan obligations, fees, indemnities, costs, expenses or otherwise (including, without limitation, all fees and disbursements of counsel to any Guaranteed Creditor under any Guaranteed Document).

“Moody’s” means Moody’s Investors Service, Inc. (or any successor rating organization).

“Multiemployer Plan” means a multiemployer plan as defined in Section 4001(a)(3) of ERISA, to which the MLP or any ERISA Affiliate makes or is obligated to make contributions.

“New Funds Amount” means the amount by which a New Lender’s or an Increasing Lender’s outstanding Loans increase as of a Commitment Increase Effective Date (without regard to any such increase as a result of Borrowings made on such Commitment Increase Effective Date).

“New Lender” has the meaning assigned to such term in Section 2.19.

“Notice of Confirmation of Commitment Increase” has the meaning assigned to such term in Section 2.19.

“Other Taxes” means any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement.

“Partially Increasing Lender” has the meaning assigned to such term in Section 2.19.

“Partnership Agreement (Borrower)” means the Agreement of Limited Partnership of the Borrower among the General Partner and the MLP in the form previously provided to the Lenders, as amended, modified and supplemented from time to time in accordance herewith.

“Partnership Agreement (MLP)” means the Third Amended and Restated Agreement of Limited Partnership of the MLP dated as of March 18, 2003, as amended, modified and supplemented from time to time in accordance herewith.

“PBGC” means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

“Permitted Encumbrances” means:

- (a) Liens imposed by law for Taxes that are not yet due or are being contested in compliance with Section 5.04;
- (b) carriers’, warehousemen’s, mechanics’, materialmen’s, repairmen’s and other like Liens imposed by law, arising in the ordinary course of business and securing obligations that are not overdue by more than 30 days or are being contested in compliance with Section 5.04;
- (c) pledges and deposits made in the ordinary course of business in compliance with workers’ compensation, unemployment insurance and other social security laws or regulations;
- (d) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business;
- (e) judgment liens in respect of judgments that do not constitute an Event of Default under clause (j) of Article VII;
- (f) easements, zoning restrictions, rights-of-way, minor irregularities in title, boundaries, or other survey defects, servitudes, permits, reservations, exceptions, zoning regulations, conditions, covenants, mineral or royalty rights or reservations or oil, gas and mineral leases and rights of others in any property of the MLP or any Subsidiary for streets, roads, bridges, pipes, pipe lines, railroads, electric transmission and distribution lines, telegraph and telephone lines, the removal of oil, gas or other minerals or other similar purposes, flood control, water rights, rights of others with respect to navigable waters, sewage and drainage rights and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not materially detract from the value of the affected property or interfere with the ordinary conduct of business of the MLP or any Subsidiary; provided that the term “Permitted Encumbrances” shall not include any Lien securing Indebtedness; and
- (g) Liens securing an obligation of a third party neither created, assumed nor Guaranteed by the MLP or any Subsidiary upon lands over which easements or similar rights are acquired by the MLP or any Subsidiary in the ordinary course of business of the MLP or any Subsidiary.

“Permitted Investments” means:

- (a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within one year from the date of acquisition thereof;
- (b) investments in commercial paper maturing within 270 days from the date of acquisition thereof and having, at such date of acquisition, a short term deposit rating of no lower than A2 or P2, as such rating is set forth by S&P or Moody’s, respectively;

(c) investments in certificates of deposit, banker's acceptances and time deposits maturing within 180 days from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any commercial bank organized under the laws of the United States of America or any State thereof which has a combined capital and surplus and undivided profits of not less than \$500,000,000; and

(d) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria described in clause (c) above.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the MLP or any ERISA Affiliate contributes or has an obligation to contribute and is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Prime Rate" means the rate of interest per annum publicly announced from time to time by JPMorgan Chase Bank, N.A. as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

"Reducing Lender" has the meaning assigned to such term in Section 2.19.

"Reduction Amount" means the amount by which a Reducing Lender's or a Partially Increasing Lender's outstanding Loans decrease as of a Commitment Increase Effective Date (without regard to any such increase as a result of Borrowings made on such Commitment Increase Effective Date).

"Register" has the meaning set forth in Section 10.04.

"Related Parties" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

"Required Lenders" means, at any time, Lenders having Revolving Credit Exposures and unused Commitments representing greater than 50% of the sum of the total Revolving Credit Exposures and unused Commitments at such time; provided that, for purposes of declaring the Loans to be due and payable pursuant to Article VII, and for all purposes after the Loans become due and payable pursuant to Article VII or the Commitments expire or terminate, the outstanding Competitive Loans of the Lenders shall be included in their respective Revolving Credit Exposures in determining the Required Lenders.

"Restricted Payment" means any dividend or other distribution (whether in cash, securities or other property, with the exception of a Unit split, combination, or dividend, in each

case so long as the only consideration paid in connection therewith is an in-kind payment of additional Units) with respect to any Equity Interest of the MLP or any Subsidiary, or any payment (whether in cash, securities or other property, with the exception of a Unit split, combination, or dividend, in each case so long as the only consideration paid in connection therewith is an in-kind payment of additional Units), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such Equity Interest of the MLP or any option, warrant or other right to acquire any such Equity Interest of the MLP.

“Revolving Credit Exposure” means, with respect to any Lender at any time, the sum of the outstanding principal amount of such Lender’s Revolving Loans and its LC Exposure at such time.

“Revolving Loan” means a Loan made pursuant to Section 2.03.

“Rolling Period” means any period of four consecutive fiscal quarters.

“SEC” means the Securities and Exchange Commission or any successor Governmental Authority.

“S&P” means Standard & Poor’s Ratings Group, a division of McGraw-Hill Companies, Inc. (or any successor rating organization).

“Statutory Reserve Rate” means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject with respect to the Adjusted LIBO Rate, for eurocurrency funding (currently referred to as “Eurocurrency Liabilities” in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. Eurodollar Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

“Subordinated Units” means the subordinated units of limited partner interests in the MLP.

“subsidiary” means, with respect to any Person (the “parent”) at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent’s consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held, or

(b) that is, as of such date, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

“Subsidiary” means any subsidiary of the MLP (including the Borrower).

“Subsidiary Guaranty” means any guaranty executed and delivered pursuant to Section 5.10, as from time to time amended, modified, or supplemented.

“Swap Agreement” means any agreement with respect to any swap, forward, future or derivative transaction or option or similar agreement involving, or settled by reference to, one or more rates, currencies, commodities, equity or debt instruments or securities, or economic, financial or pricing indices or measures of economic, financial or pricing risk or value or any similar transaction or any combination of these transactions; provided that no phantom stock or similar plan providing for payments only on account of services provided by current or former directors, officers, employees or consultants of the MLP or the Subsidiaries shall be a Swap Agreement.

“Taxes” means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

“Transactions” means the execution, delivery and performance by the Borrower and the MLP of this Agreement, the borrowing of Loans, the use of the proceeds thereof and the issuance of Letters of Credit hereunder, and the execution, delivery and performance of the Subsidiary Guaranty.

“Type”, when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate or the Alternate Base Rate or, in the case of a Competitive Loan or Borrowing, the LIBO Rate or a Fixed Rate.

“Units” means the collective reference to the Common Units and the Subordinated Units.

“Valero Energy” means Valero Energy Corporation, a Delaware corporation.

“Wholly-Owned Subsidiary” means, in respect of any Person, any subsidiary of such Person, all of the Equity Interests of which (other than director’s qualifying shares, as may be required by law) is owned by such Person, either directly or indirectly through one or more Wholly-Owned Subsidiaries of such Person. Unless otherwise indicated herein, each reference to the term “Wholly-Owned Subsidiary” shall mean a Wholly-Owned Subsidiary of the MLP.

“Withdrawal Liability” means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

Section 1.02. Classification of Loans and Borrowings. For purposes of this Agreement, Loans may be classified and referred to by Class (e.g., a “Revolving Loan”) or by Type (e.g., a “Eurodollar Loan”) or by Class and Type (e.g., a “Eurodollar Revolving Loan”). Borrowings

also may be classified and referred to by Class (e.g., a “Revolving Borrowing”) or by Type (e.g., a “Eurodollar Borrowing”) or by Class and Type (e.g., a “Eurodollar Revolving Borrowing”).

Section 1.03. Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. The word “will” shall be construed to have the same meaning and effect as the word “shall”. Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person’s successors and assigns, (c) the words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

Section 1.04. Accounting Terms; GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

ARTICLE II The Credits

Section 2.01. Commitments. Subject to the terms and conditions set forth herein, each Lender agrees to make Revolving Loans to the Borrower from time to time during the Availability Period in an aggregate principal amount that will not result in (a) such Lender’s Revolving Credit Exposure exceeding such Lender’s Commitment or (b) the sum of the total Revolving Credit Exposures plus the aggregate principal amount of outstanding Competitive Loans exceeding the total Commitments. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Revolving Loans.

Section 2.02. Loans and Borrowings. (a) Each Revolving Loan shall be made as part of a Borrowing consisting of Revolving Loans made by the Lenders ratably in accordance with

their respective Commitments. Each Competitive Loan shall be made in accordance with the procedures set forth in Section 2.04. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Commitments and Competitive Bids of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Loans as required.

(b) Subject to Section 2.13, (i) each Revolving Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans as the Borrower may request in accordance herewith and (ii) each Competitive Borrowing shall be comprised entirely of Eurodollar Loans or Fixed Rate Loans as the Borrower may request in accordance herewith. Each Lender at its option may make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement.

(c) At the commencement of each Interest Period for any Eurodollar Revolving Borrowing, such Borrowing shall be in an aggregate amount that is an integral multiple of \$1,000,000 and not less than \$5,000,000. At the time that each ABR Revolving Borrowing is made, such Borrowing shall be in an aggregate amount that is an integral multiple of \$500,000 and not less than \$1,000,000; provided that an ABR Revolving Borrowing may be in an aggregate amount that is equal to the entire unused balance of the total Commitments or that is required to finance the reimbursement of an LC Disbursement as contemplated by Section 2.05(e). Each Competitive Borrowing shall be in an aggregate amount that is an integral multiple of \$1,000,000 and not less than \$5,000,000. Borrowings of more than one Type and Class may be outstanding at the same time; provided that there shall not at any time be more than a total of five Eurodollar Revolving Borrowings outstanding.

(d) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request, or to elect to convert or continue, any Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date.

Section 2.03. Requests for Revolving Borrowings. To request a Revolving Borrowing, the Borrower shall notify the Administrative Agent of such request by telephone (a) in the case of a Eurodollar Borrowing, not later than 12:00 noon, New York City time, three Business Days before the date of the proposed Borrowing or (b) in the case of an ABR Borrowing, not later than 12:00 noon, New York City time, on date of the proposed Borrowing; provided that any such notice of an ABR Revolving Borrowing to finance the reimbursement of an LC Disbursement as contemplated by Section 2.05(e) may be given not later than 10:00 a.m., New York City time, on the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower. Each such telephonic and written Borrowing Request shall specify the following information in compliance with Section 2.02:

- (i) the aggregate amount of the requested Borrowing;
- (ii) the date of such Borrowing, which shall be a Business Day;

- (iii) whether such Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing;
- (iv) in the case of a Eurodollar Borrowing, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term "Interest Period"; and
- (v) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.06.

If no election as to the Type of Revolving Borrowing is specified, then the requested Revolving Borrowing shall be an ABR Borrowing. If no Interest Period is specified with respect to any requested Eurodollar Revolving Borrowing, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. Promptly following receipt of a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the requested Borrowing.

Section 2.04. Competitive Bid Procedure.

(a) Subject to the terms and conditions set forth herein, from time to time during the Availability Period the Borrower may request Competitive Bids and may (but shall not have any obligation to) accept Competitive Bids and borrow Competitive Loans; provided that the sum of the total Revolving Credit Exposures plus the aggregate principal amount of outstanding Competitive Loans at any time shall not exceed the total Commitments. To request Competitive Bids, the Borrower shall notify the Administrative Agent of such request by telephone, in the case of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, four Business Days before the date of the proposed Borrowing and, in the case of a Fixed Rate Borrowing, not later than 10:00 a.m., New York City time, one Business Day before the date of the proposed Borrowing; provided that the Borrower may submit no more than one Competitive Bid Request on the same day, but a Competitive Bid Request shall not be made within five Business Days after the date of any previous Competitive Bid Request, unless such previous Competitive Bid Request shall have been withdrawn or all Competitive Bids received in response thereto rejected. Each such telephonic Competitive Bid Request shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Competitive Bid Request in a form approved by the Administrative Agent and signed by the Borrower. Each such telephonic and written Competitive Bid Request shall specify the following information in compliance with Section 2.02:

- (i) the aggregate amount of the requested Borrowing;
- (ii) the date of such Borrowing, which shall be a Business Day;
- (iii) whether such Borrowing is to be a Eurodollar Borrowing or a Fixed Rate Borrowing;
- (iv) the Interest Period to be applicable to such Borrowing, which shall be a period contemplated by the definition of the term "Interest Period"; and

(v) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.07.

Promptly following receipt of a Competitive Bid Request in accordance with this Section, the Administrative Agent shall notify the Lenders of the details thereof by telecopy, inviting the Lenders to submit Competitive Bids.

(b) Each Lender may (but shall not have any obligation to) make one or more Competitive Bids to the Borrower in response to a Competitive Bid Request. Each Competitive Bid by a Lender must be in a form approved by the Administrative Agent and must be received by the Administrative Agent by telecopy, in the case of a Eurodollar Competitive Borrowing, not later than 9:30 a.m., New York City time, three Business Days before the proposed date of such Competitive Borrowing, and in the case of a Fixed Rate Borrowing, not later than 9:30 a.m., New York City time, on the proposed date of such Competitive Borrowing. Competitive Bids that do not conform substantially to the form approved by the Administrative Agent may be rejected by the Administrative Agent, and the Administrative Agent shall notify the applicable Lender as promptly as practicable. Each Competitive Bid shall specify (i) the principal amount (which shall be a minimum of \$5,000,000 and an integral multiple of \$1,000,000 and which may equal the entire principal amount of the Competitive Borrowing requested by the Borrower) of the Competitive Loan or Loans that the Lender is willing to make, (ii) the Competitive Bid Rate or Rates at which the Lender is prepared to make such Loan or Loans (expressed as a percentage rate per annum in the form of a decimal to no more than four decimal places) and (iii) the Interest Period applicable to each such Loan and the last day thereof.

(c) The Administrative Agent shall promptly notify the Borrower by telecopy of the Competitive Bid Rate and the principal amount specified in each Competitive Bid and the identity of the Lender that shall have made such Competitive Bid.

(d) Subject only to the provisions of this paragraph, the Borrower may accept or reject any Competitive Bid. The Borrower shall notify the Administrative Agent by telephone, confirmed by telecopy in a form approved by the Administrative Agent, whether and to what extent it has decided to accept or reject each Competitive Bid, in the case of a Eurodollar Competitive Borrowing, not later than 10:30 a.m., New York City time, three Business Days before the date of the proposed Competitive Borrowing, and in the case of a Fixed Rate Borrowing, not later than 10:30 a.m., New York City time, on the proposed date of the Competitive Borrowing; provided that (i) the failure of the Borrower to give such notice shall be deemed to be a rejection of each Competitive Bid, (ii) the Borrower shall not accept a Competitive Bid made at a particular Competitive Bid Rate if the Borrower rejects a Competitive Bid made at a lower Competitive Bid Rate, (iii) the aggregate amount of the Competitive Bids accepted by the Borrower shall not exceed the aggregate amount of the requested Competitive Borrowing specified in the related Competitive Bid Request, (iv) to the extent necessary to comply with clause (iii) above, the Borrower may accept Competitive Bids at the same Competitive Bid Rate in part, which acceptance, in the case of multiple Competitive Bids at such Competitive Bid Rate, shall be made pro rata in accordance with the amount of each such Competitive Bid, and (v) except pursuant to clause (iv) above, no Competitive Bid shall be accepted for a Competitive Loan unless such Competitive Loan is in a minimum principal amount of \$5,000,000 and an integral multiple of \$1,000,000; provided further that if a

Competitive Loan must be in an amount less than \$5,000,000 because of the provisions of clause (iv) above, such Competitive Loan may be for a minimum of \$1,000,000 or any integral multiple thereof, and in calculating the pro rata allocation of acceptances of portions of multiple Competitive Bids at a particular Competitive Bid Rate pursuant to clause (iv) the amounts shall be rounded to integral multiples of \$1,000,000 in a manner determined by the Borrower. A notice given by the Borrower pursuant to this paragraph shall be irrevocable.

(e) The Administrative Agent shall promptly notify each bidding Lender by telecopy whether or not its Competitive Bid has been accepted (and, if so, the amount and Competitive Bid Rate so accepted), and each successful bidder will thereupon become bound, subject to the terms and conditions hereof, to make the Competitive Loan in respect of which its Competitive Bid has been accepted.

(f) If the Administrative Agent shall elect to submit a Competitive Bid in its capacity as a Lender, it shall submit such Competitive Bid directly to the Borrower at least one quarter of an hour earlier than the time by which the other Lenders are required to submit their Competitive Bids to the Administrative Agent pursuant to paragraph (b) of this Section.

Section 2.05. Letters of Credit.

(a) General. Subject to the terms and conditions set forth herein, the Borrower may request the issuance of Letters of Credit for its own account from any Issuing Bank, in a form reasonably acceptable to the Administrative Agent and such Issuing Bank, at any time and from time to time during the Availability Period. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, an Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the Issuing Bank) to any Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) of this Section), the amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by an Issuing Bank, the Borrower also shall submit a letter of credit application on such Issuing Bank's standard form in connection with any request for a Letter of Credit. Following receipt of a notice requesting the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit) in accordance with this Section, the Administrative Agent shall advise each Lender of the details thereof. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and

warrant that), after giving effect to such issuance, amendment, renewal or extension (i) the total LC Exposure shall not exceed \$200,000,000, (ii) the LC Exposure of JPMorgan Chase Bank, N.A. shall not exceed \$100,000,000, (iii) the LC Exposure of SunTrust Bank shall not exceed \$100,000,000 and (iv) the sum of the total Revolving Credit Exposures plus the aggregate principal amount of outstanding Competitive Loans shall not exceed the total Commitments.

(c) Expiration Date. Each Letter of Credit shall expire at or prior to the close of business on the earlier of (i) the date one year after the date of the issuance of such Letter of Credit (or, in the case of any renewal or extension thereof, one year after such renewal or extension) and (ii) the date that is five Business Days prior to the Maturity Date.

(d) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the Issuing Bank that issues such Letter of Credit or the Lenders, each Issuing Bank that issues a Letter of Credit hereunder hereby grants to each Lender, and each Lender hereby acquires from such Issuing Bank, a participation in such Letter of Credit equal to such Lender's Applicable Percentage of the aggregate amount available to be drawn under such Letter of Credit. In consideration and in furtherance of the foregoing, each Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of each Issuing Bank that issues a Letter of Credit hereunder, such Lender's Applicable Percentage of each LC Disbursement made by such Issuing Bank and not reimbursed by the Borrower on the date due as provided in paragraph (e) of this Section, or of any reimbursement payment required to be refunded to the Borrower for any reason. Each Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Reimbursement. If any Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit issued by such Issuing Bank, the Borrower shall reimburse such LC Disbursement by paying to the Administrative Agent an amount equal to such LC Disbursement not later than 12:00 noon, New York City time, on the date that such LC Disbursement is made, if the Borrower shall have received notice of such LC Disbursement prior to 10:00 a.m., New York City time, on such date, or, if such notice has not been received by the Borrower prior to such time on such date, then not later than 12:00 noon, New York City time, on (i) the Business Day that the Borrower receives such notice, if such notice is received prior to 10:00 a.m., New York City time, on the day of receipt, or (ii) the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to such time on the day of receipt; provided that the Borrower may, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.03 that such payment be financed with an ABR Revolving Borrowing in an equivalent amount and, to the extent so financed, the Borrower's obligation to make such payment shall be discharged and replaced by the resulting ABR Revolving Borrowing. If the Borrower fails to make such payment when due, the Administrative Agent shall notify each Lender of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Lender's Applicable Percentage thereof. Promptly following receipt of such notice, each Lender shall pay to the Administrative Agent its

Applicable Percentage of the payment then due from the Borrower, in the same manner as provided in Section 2.06 with respect to Loans made by such Lender (and Section 2.06 shall apply, mutatis mutandis, to the payment obligations of the Lenders), and the Administrative Agent shall promptly pay to the Issuing Bank that issued such Letter of Credit the amounts so received by it from the Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to this paragraph, the Administrative Agent shall distribute such payment to the Issuing Bank that issued such Letter of Credit or, to the extent that Lenders have made payments pursuant to this paragraph to reimburse such Issuing Bank, then to such Lenders and such Issuing Bank as their interests may appear. Any payment made by a Lender pursuant to this paragraph to reimburse an Issuing Bank for any LC Disbursement (other than the funding of ABR Revolving Loans as contemplated above) shall not constitute a Loan and shall not relieve the Borrower of its obligation to reimburse such LC Disbursement.

(f) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in paragraph (e) of this Section shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein, (ii) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by any Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit, or (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder. Neither the Administrative Agent, the Lenders nor any Issuing Bank, nor any of their Related Parties, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of any Issuing Bank; provided that the foregoing shall not be construed to excuse any Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by such Issuing Bank's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that, in the absence of gross negligence or wilful misconduct on the part of an Issuing Bank (as finally determined by a court of competent jurisdiction), each Issuing Bank shall be deemed to have exercised care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, the Issuing Bank that issued such Letter of Credit may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(g) Disbursement Procedures. Each Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. Such Issuing Bank shall promptly notify the Administrative Agent and the Borrower by telephone (confirmed by teletype) of such demand for payment and whether such Issuing Bank has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse such Issuing Bank and the Lenders with respect to any such LC Disbursement.

(h) Interim Interest. If any Issuing Bank shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to ABR Revolving Loans; provided that, if the Borrower fails to reimburse such LC Disbursement when due pursuant to paragraph (e) of this Section, then Section 2.12(d) shall apply. Interest accrued pursuant to this paragraph shall be for the account of such Issuing Bank, except that interest accrued on and after the date of payment by any Lender pursuant to paragraph (e) of this Section to reimburse such Issuing Bank shall be for the account of such Lender to the extent of such payment.

(i) Replacement of an Issuing Bank. Any Issuing Bank may be replaced at any time by written agreement among the Borrower, the Administrative Agent, the replaced Issuing Bank and the successor Issuing Bank. The Administrative Agent shall notify the Lenders of any such replacement of an Issuing Bank. At the time any such replacement shall become effective, the Borrower shall pay all unpaid fees accrued for the account of the replaced Issuing Bank pursuant to Section 2.11(b). From and after the effective date of any such replacement, (i) the successor Issuing Bank shall have all the rights and obligations of the replaced Issuing Bank under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the replacement of an Issuing Bank hereunder, the replaced Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

(j) Cash Collateralization. If any Event of Default shall occur and be continuing, on the Business Day that the Borrower receives notice from the Administrative Agent or the Required Lenders (or, if the maturity of the Loans has been accelerated, Lenders with LC Exposure representing greater than 50% of the total LC Exposure) demanding the deposit of cash collateral pursuant to this paragraph, the Borrower shall deposit in an account with the Administrative Agent, in the name of the Administrative Agent and for the benefit of the Lenders, an amount in cash equal to the LC Exposure as of such date plus any accrued and unpaid interest thereon; provided that the obligation to deposit such cash collateral shall become effective immediately, and such deposit shall become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default with respect to the Borrower described in clause (g) or (h) of Article VII. Such deposit shall be held by the Administrative Agent as collateral for the payment and performance of the obligations of the

Borrower under this Agreement. The Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits, which investments shall be made at the option and sole discretion of the Administrative Agent and at the Borrower's risk and expense, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall be applied by the Administrative Agent to reimburse each Issuing Bank for LC Disbursements for which it has not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of the Borrower for the LC Exposure at such time or, if the maturity of the Loans has been accelerated (but subject to the consent of Lenders with LC Exposure representing greater than 50% of the total LC Exposure), be applied to satisfy other obligations of the Borrower under this Agreement. If the Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three Business Days after all Events of Default have been cured or waived.

Section 2.06. Funding of Borrowings. (a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 1:00 p.m., New York City time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of the Borrower maintained with the Administrative Agent in New York City and designated by the Borrower in the applicable Borrowing Request or Competitive Bid Request; provided that ABR Revolving Loans made to finance the reimbursement of an LC Disbursement as provided in Section 2.05(e) shall be remitted by the Administrative Agent to the Issuing Bank that made such LC Disbursement.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed time of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of the Borrower, the interest rate applicable to ABR Loans. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

Section 2.07. Interest Elections. (a) Each Revolving Borrowing initially shall be of the Type specified in the applicable Borrowing Request and, in the case of a Eurodollar Revolving Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter, the Borrower may elect to convert such Borrowing to a different Type or to continue

such Borrowing and, in the case of a Eurodollar Revolving Borrowing, may elect Interest Periods therefor, all as provided in this Section. The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing. This Section shall not apply to Competitive Borrowings, which may not be converted or continued.

(b) To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such election by telephone by the time that a Borrowing Request would be required under Section 2.03 if the Borrower were requesting a Revolving Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or teletype to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower.

(c) Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.02:

(i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) whether the resulting Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing; and

(iv) if the resulting Borrowing is a Eurodollar Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period".

If any such Interest Election Request requests a Eurodollar Borrowing but does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one month's duration.

(d) Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender of the details thereof and of such Lender's portion of each resulting Borrowing.

(e) If the Borrower fails to deliver a timely Interest Election Request with respect to a Eurodollar Revolving Borrowing prior to the end of the Interest Period applicable thereto, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period such Borrowing shall be converted to an ABR Borrowing. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing (i) no outstanding Revolving Borrowing may be converted to or

continued as a Eurodollar Borrowing and (ii) unless repaid, each Eurodollar Revolving Borrowing shall be converted to an ABR Borrowing at the end of the Interest Period applicable thereto.

Section 2.08. Termination and Reduction of Commitments. (a) Unless previously terminated, the Commitments shall terminate on the Maturity Date.

(b) The Borrower may at any time terminate, or from time to time reduce, the Commitments; provided that (i) each reduction of the Commitments shall be in an amount that is an integral multiple of \$1,000,000 and not less than \$5,000,000 and (ii) the Borrower shall not terminate or reduce the Commitments if, after giving effect to any concurrent prepayment of the Loans in accordance with Section 2.10, the sum of the Revolving Credit Exposures plus the aggregate principal amount of outstanding Competitive Loans would exceed the total Commitments.

(c) The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Commitments under paragraph (b) of this Section at least three Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section shall be irrevocable; provided that a notice of termination of the Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Any termination or reduction of the Commitments shall be permanent. Each reduction of the Commitments shall be made ratably among the Lenders in accordance with their respective Commitments.

Section 2.09. Repayment of Loans; Evidence of Debt. (a) The Borrower hereby unconditionally promises to pay (i) to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Revolving Loan on the Maturity Date and (ii) to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Competitive Loan on the last day of the Interest Period applicable to such Loan.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Class and Type thereof and the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraph (b) or (c) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(e) Any Lender may request that Loans made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after an increase in such Lender's Commitment pursuant to Section 2.19 or an increase or reduction in such Lender's Commitment pursuant to an assignment pursuant to Section 10.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

Section 2.10. Prepayment of Loans. (a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, subject to prior notice in accordance with paragraph (b) of this Section; provided that the Borrower shall not have the right to prepay any Competitive Loan without the prior consent of the Lender thereof.

(b) The Borrower shall notify the Administrative Agent by telephone (confirmed by telecopy) of any prepayment hereunder (i) in the case of prepayment of a Eurodollar Revolving Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of prepayment, (ii) in the case of prepayment of an ABR Revolving Borrowing, not later than 11:00 a.m., New York City time, one Business Day before the date of prepayment or (iii) in the case of prepayment of a Competitive Loan, not later than 11:00 a.m., New York City time, one Business Day before the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date and the principal amount of each Borrowing or portion thereof to be prepaid; provided that, if a notice of prepayment is given in connection with a conditional notice of termination of the Commitments as contemplated by Section 2.08, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.08. Promptly following receipt of any such notice relating to a Revolving Borrowing, the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment of any Revolving Borrowing shall be in an amount that would be permitted in the case of an advance of a Revolving Borrowing of the same Type as provided in Section 2.02. Each prepayment of a Revolving Borrowing shall be applied ratably to the Loans included in the prepaid Borrowing. Prepayments shall be accompanied by accrued interest to the extent required by Section 2.12 and any break funding payments required by Section 2.15.

Section 2.11. Fees. (a) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a facility fee, which shall accrue at the Applicable Rate on the daily amount of the Commitment of such Lender (whether used or unused) during the period from and including the Effective Date to but excluding the date on which such Commitment terminates; provided that, if such Lender continues to have any Revolving Credit Exposure after its Commitment terminates, then such facility fee shall continue to accrue on the daily amount of

such Lender's Revolving Credit Exposure from and including the date on which its Commitment terminates to but excluding the date on which such Lender ceases to have any Revolving Credit Exposure. Accrued facility fees shall be payable in arrears on the last day of March, June, September and December of each year and on the date on which the Commitments terminate, commencing on the first such date to occur after the Effective Date; provided that any facility fees accruing after the date on which the Commitments terminate shall be payable on demand. All facility fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last).

(b) The Borrower agrees to pay (i) to the Administrative Agent for the account of each Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue at the same Applicable Rate used to determine the interest rate applicable to Eurodollar Revolving Loans on the average daily amount of such Lender's LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date on which such Lender's Commitment terminates and the date on which such Lender ceases to have any LC Exposure, and (ii) to each Issuing Bank a fronting fee, which shall accrue at the rate of 0.125% per annum on the average daily amount of that portion of the LC Exposure attributable to such Issuing Bank (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date of termination of the Commitments and the date on which there ceases to be any LC Exposure attributable to such Issuing Bank, as well as such Issuing Bank's standard fees with respect to the issuance, amendment, renewal or extension of any Letter of Credit or processing of drawings thereunder. Participation fees and fronting fees accrued through and including the last day of March, June, September and December of each year shall be payable on such last day, commencing on the first such date to occur after the Effective Date; provided that all such fees shall be payable on the date on which the Commitments terminate and any such fees accruing after the date on which the Commitments terminate shall be payable on demand. Any other fees payable to an Issuing Bank pursuant to this paragraph shall be payable within 10 days after demand. All participation fees and fronting fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last).

(c) If the Effective Date has not occurred on or prior to March 31, 2005, then the Borrower agrees to pay to the Administrative Agent for the account of each Lender a ticking fee, which shall accrue commencing on April 1, 2005, at a rate equal to 0.075% per annum on such Lender's Commitment. Accrued ticking fees shall be payable in arrears on the Effective Date or, if the Effective Date does not occur on or prior to June 30, 2005, then on June 30, 2005. All ticking fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last).

(d) The Borrower agrees to pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon between the Borrower and the Administrative Agent.

(e) All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Administrative Agent (or to an Issuing Bank, in the case of fees payable to

it) for distribution, in the case of facility fees and participation fees, to the Lenders. Fees paid shall not be refundable under any circumstances.

Section 2.12. Interest. (a) The Loans comprising each ABR Borrowing shall bear interest at the Alternate Base Rate plus the Applicable Rate.

(b) The Loans comprising each Eurodollar Borrowing shall bear interest in the case of a Eurodollar Revolving Loan, at the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate, or (ii) in the case of a Eurodollar Competitive Loan, at the LIBO Rate for the Interest Period in effect for such Borrowing plus (or minus, as applicable) the Margin applicable to such Loan.

(c) Each Fixed Rate Loan shall bear interest at the Fixed Rate applicable to such Loan.

(d) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to (i) in the case of overdue principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided in the preceding paragraphs of this Section or (ii) in the case of any other amount, 2% plus the rate applicable to ABR Loans as provided in paragraph (a) of this Section.

(e) Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan and, in the case of Revolving Loans, upon termination of the Commitments; provided that (i) interest accrued pursuant to paragraph (d) of this Section shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan (other than a prepayment of an ABR Revolving Loan prior to the end of the Availability Period), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment and (iii) in the event of any conversion of any Eurodollar Revolving Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion.

(f) All interest hereunder shall be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate, Adjusted LIBO Rate or LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

Section 2.13. Alternate Rate of Interest. If prior to the commencement of any Interest Period for a Eurodollar Borrowing:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period; or

(b) the Administrative Agent is advised by the Required Lenders (or, in the case of a Eurodollar Competitive Loan, the Lender that is required to make such Loan) that the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period will not adequately and fairly reflect the cost to such Lenders (or Lender) of making or maintaining their Loans (or its Loan) included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election Request that requests the conversion of any Revolving Borrowing to, or continuation of any Revolving Borrowing as, a Eurodollar Borrowing shall be ineffective and (ii) if any Borrowing Request requests a Eurodollar Revolving Borrowing, such Borrowing shall be made as an ABR Borrowing and (iii) any request by the Borrower for a Eurodollar Competitive Borrowing shall be ineffective; provided that (A) if the circumstances giving rise to such notice do not affect all the Lenders, then requests by the Borrower for Eurodollar Competitive Borrowings may be made to Lenders that are not affected thereby and (B) if the circumstances giving rise to such notice affect only one Type of Borrowings, then the other Type of Borrowings shall be permitted.

Section 2.14. Increased Costs. (a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate) or any Issuing Bank; or

(ii) impose on any Lender or any Issuing Bank or the London interbank market any other condition affecting this Agreement or Eurodollar Loans or Fixed Rate Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Loan or Fixed Rate Loan (or of maintaining its obligation to make any such Loan) or to increase the cost to such Lender or such Issuing Bank of participating in, issuing or maintaining any Letter of Credit or to reduce the amount of any sum received or receivable by such Lender or such Issuing Bank hereunder (whether of principal, interest or otherwise), then the Borrower will pay to such Lender or such Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or such Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) If any Lender or any Issuing Bank determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or such Issuing Bank's capital or on the capital of such Lender's or such Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by such Issuing Bank, to a level below that which such Lender or such Issuing Bank or such Lender's or such Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or such Issuing Bank's policies and the policies of such

Lender's or such Issuing Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or such Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or such Issuing Bank or such Lender's or such Issuing Bank's holding company for any such reduction suffered.

(c) A certificate of a Lender or an Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or such Issuing Bank or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender or such Issuing Bank, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Failure or delay on the part of any Lender or any Issuing Bank to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's or such Issuing Bank's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender or an Issuing Bank pursuant to this Section for any increased costs or reductions incurred more than 270 days prior to the date that such Lender or such Issuing Bank, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or such Issuing Bank's intention to claim compensation therefor; provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 270-day period referred to above shall be extended to include the period of retroactive effect thereof.

(e) Notwithstanding the foregoing provisions of this Section, a Lender shall not be entitled to compensation pursuant to this Section in respect of any Competitive Loan if the Change in Law that would otherwise entitle it to such compensation shall have been publicly announced prior to submission of the Competitive Bid pursuant to which such Loan was made.

Section 2.15. Break Funding Payments. In the event of (a) the payment of any principal of any Eurodollar Loan or Fixed Rate Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto, (c) the failure to borrow, convert, continue or prepay any Eurodollar Loan or Fixed Rate Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.10(b) and is revoked in accordance therewith), (d) the failure to borrow any Competitive Loan after accepting the Competitive Bid to make such Loan, or (e) the assignment of any Eurodollar Loan or Fixed Rate Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Borrower pursuant to Section 2.18, then, in any such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event. In the case of a Eurodollar Loan, such loss, cost or expense to any Lender shall be deemed to include an amount determined by such Lender to be the excess, if any, of (i) the amount of interest which would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Loan), over (ii) the amount of interest which would accrue on such principal amount for such period at the interest rate which such Lender would bid were it to

bid, at the commencement of such period, for dollar deposits of a comparable amount and period from other banks in the Eurodollar market. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

Section 2.16. Taxes. (a) Any and all payments by or on account of any obligation of the Borrower hereunder shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent, Lender or Issuing Bank (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify the Administrative Agent, each Lender and each Issuing Bank, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the Administrative Agent, such Lender or such Issuing Bank, as the case may be, on or with respect to any payment by or on account of any obligation of the Borrower hereunder (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or an Issuing Bank, or by the Administrative Agent on its own behalf or on behalf of a Lender or an Issuing Bank, shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate.

Section 2.17. Payments Generally; Pro Rata Treatment; Sharing of Set-offs. (a) The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, fees or reimbursement of LC Disbursements, or of amounts payable under Section 2.14, 2.15 or 2.16, or otherwise) prior to 12:00 noon, New York City time, on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its offices at 270 Park Avenue, New York, New York, except payments to be made directly to an Issuing Bank as expressly provided herein and except that payments pursuant to Sections 2.14, 2.15, 2.16 and 10.03 shall be made directly to the Persons entitled thereto. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments hereunder shall be made in dollars.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements, interest and fees then due hereunder, such funds shall be applied (i) first, towards payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, towards payment of principal and unreimbursed LC Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed LC Disbursements then due to such parties.

(c) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Revolving Loans or participations in LC Disbursements resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Revolving Loans and participations in LC Disbursements and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Revolving Loans and participations in LC Disbursements of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Revolving Loans and participations in LC Disbursements; provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in LC Disbursements to any assignee or participant, other than to the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the

Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or any Issuing Bank hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or such Issuing Bank, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or such Issuing Bank, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or such Issuing Bank with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

(e) If any Lender shall fail to make any payment required to be made by it pursuant to Sections 2.05(d) or (e), 2.06(b) or 2.17(d), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

Section 2.18. Mitigation Obligations; Replacement of Lenders. (a) If any Lender requests compensation under Section 2.14, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.16, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.14 or 2.16, as the case may be, in the future and (ii) would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 2.14, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.16, or if any Lender defaults in its obligation to fund Loans hereunder, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 10.04), all its interests, rights and obligations under this Agreement (other than outstanding Competitive Loans held by it) to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (i) the Borrower shall have received the prior written consent of the Administrative Agent (and, if a Commitment is being assigned, each Issuing Bank), which consent shall not unreasonably be withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans (other than

Competitive Loans) and participations in LC Disbursements, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.14 or payments required to be made pursuant to Section 2.16, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

Section 2.19. Procedures Regarding Increases to the Commitments. (a) So long as no Default or Event of Default has occurred and is continuing, the Borrower may request from time to time, subject to the terms and conditions hereinafter set forth, that the aggregate amount of the Lenders' Commitments be increased. Any such request shall be made by written notice to the Administrative Agent; provided, however, that any such notice must be given no later than 60 days prior to the Maturity Date. Each such notice (a "Initial Notice of Commitment Increase") shall be in the form of Exhibit D-1 and specify therein:

(i) the proposed effective date of such increase, which date (the requested "Commitment Increase Effective Date") shall be no earlier than forty-five days after receipt by the Administrative Agent of such notice; and

(ii) the amount of the requested increase; provided, however, that (A) such increase must be at least \$10,000,000 and (B) after giving effect to such requested increase, the aggregate amount of the Lenders' Commitments shall not exceed \$600,000,000.

The Administrative Agent shall deliver a copy of such Initial Notice of Commitment Increase to each Lender via facsimile transmission on or before the third Business Day next succeeding the date the Administrative Agent receives such Initial Notice of Commitment Increase. After receipt of the Initial Notice of Commitment Increase, each Lender shall determine, in its sole discretion, whether to participate, and to what extent, if any, in such Commitment increase and shall communicate such decision in writing to the Administrative Agent and the Borrower on or before the eleventh day prior to the proposed Commitment Increase Effective Date.

(b) On the tenth day prior to the proposed Commitment Increase Effective Date, so long as no Default or Event of Default has occurred and is continuing, the Borrower shall deliver to the Administrative Agent a written notice confirming the requested increase in the aggregate amount of the Lenders' Commitments. Each such notice (a "Notice of Confirmation of Commitment Increase") shall be in the form of Exhibit D-2 and specify therein:

(i) the proposed Commitment Increase Effective Date, which date shall be no earlier than five Business Days after receipt by the Administrative Agent of such Notice of Confirmation of Commitment Increase;

(ii) the amount of the requested increase; provided, however, that (A) such increase must be at least \$10,000,000 and (B) after giving effect to such requested increase, the aggregate amount of the Lenders' Commitments shall not exceed \$600,000,000;

(iii) the identity of each of the then Lenders, if any, which has agreed with the Borrower to increase its Commitment in an amount such that its Applicable Percentage after giving effect to such requested increase will be the same or greater than its Applicable Percentage prior to giving effect to such requested increase (each such Lender being an “Increasing Lender”), each of the other then Lenders, if any, which has agreed to increase its Commitment in an amount such that its Applicable Percentage after giving effect to such a requested increase will be less than its Applicable Percentage prior to giving effect to such requested increase (each such Lender being a “Partially Increasing Lender”) and the identity of each financial institution not already a Lender, if any, which has agreed with the Borrower to become a Lender to effect such requested increase in the aggregate amount of the Lenders’ Commitments (each such financial institution shall be reasonably acceptable to the Administrative Agent and each such financial institution being a “New Lender” and each of the other then Lenders, if any, which has not agreed to increase its Commitment being a “Reducing Lender”); and

(iv) the amount of the respective Commitments of the then existing Lenders, such Increasing Lenders, such Partially Increasing Lenders, such Reducing Lenders and such New Lenders from and after the effective date of such increase.

(c) On or before each Commitment Increase Effective Date:

(i) the Borrower, each Increasing Lender, each Partially Increasing Lender and each then New Lender shall execute and deliver to the Administrative Agent for its acceptance, as to form, documentation embodying the provisions of the Notice of Commitment Increase relating to the increase in the aggregate amount of the Lenders’ Commitments to be effected on such Commitment Increase Effective Date; and

(ii) upon acceptance of such documentation by the Administrative Agent, which acceptance shall not be unreasonably withheld, and so long as no Default or Event of Default has occurred and is continuing, (A) the Administrative Agent shall give prompt notice of such acceptance to each Lender, (B) it shall become effective, and each Increasing Lender’s and Partially Increasing Lender’s Commitment shall be increased to the amount specified therein, on such Commitment Increase Effective Date and (C) the Administrative Agent shall record each New Lender’s information in the Register.

(d) On each Commitment Increase Effective Date:

(i) each then New Lender and each then Increasing Lender shall, by wire transfer of immediately available funds, deliver to the Administrative Agent such Lenders’ New Funds Amount for such Commitment Increase Effective Date, which amount, for each such Lender, shall constitute Loans made by such Lender to the Borrower pursuant to Section 2.01 on such Commitment Increase Effective Date; and

(ii) the Administrative Agent shall, by wire transfer of immediately available funds, pay to each then Reducing Lender and to each Partially Increasing Lender its Reduction Amount for such Commitment Increase Effective Date, which amount, for each such Lender, shall constitute a prepayment by the Borrower pursuant to Section 2.10, ratably in

accordance with the respective principal amounts thereof, of the principal amounts of all then outstanding Loans of such Lender.

The Administrative Agent shall record each then New Lender's, each then Increasing Lender's and each then Partially Increasing Lender's information in the Register. Also effective as of each Commitment Increase Effective Date, each then New Lender and each then Increasing Lender shall be deemed to have purchased and had transferred to it, and each then Reducing Lender and each Partially Increasing Lender shall be deemed to have sold and transferred as provided in Section 2.05(d) to such New Lenders and Increasing Lenders, such undivided interest and participation in such Reducing Lender's and such Partially Increasing Lender's interest and participation in all then outstanding Letters of Credit, to the extent necessary so that such undivided interests and participations of all Lenders (including each New Lender) shall accord with their respective Applicable Percentages after giving effect to the increase in the aggregate amount of the Lenders' Commitments on such Commitment Increase Effective Date.

ARTICLE III
Representations and Warranties

The MLP and the Borrower, in each case with respect to itself and its subsidiaries, each represents and warrants to the Lenders that:

Section 3.01. Organization; Powers. It and its subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

Section 3.02. Authorization; Enforceability. The Transactions are within its and its subsidiaries corporate, limited liability company or partnership powers and have been duly authorized by all necessary corporate, limited liability company or partnership and, if required, stockholder, member or limited partner action. This Agreement has been duly executed and delivered by it and constitutes a legal, valid and binding obligation of it, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

Section 3.03. Governmental Approvals; No Conflicts. The Transactions (a) do not require any material consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except such as have been obtained or made and are in full force and effect, (b) will not violate any applicable material law or regulation or the charter, by-laws or other organizational documents of it or any of its subsidiaries or any order of any Governmental Authority, (c) will not violate or result in a default under any indenture, agreement or other instrument relating to Material Indebtedness binding upon it or any of its subsidiaries or its assets, or give rise to a right thereunder to require any payment to be made by it or any of its subsidiaries, and (d) will not result in the creation or imposition of any Lien on any asset of it or any of its subsidiaries.

Section 3.04. Financial Condition; No Material Adverse Change. (a) It has heretofore furnished to the Lenders (i) the consolidated balance sheet and statements of income, partners equity and cash flows of the MLP (A) as of and for the fiscal year ended December 31, 2003, reported on by Ernst & Young LLP, and (B) as of and for the fiscal quarter and the portion of the fiscal year ended September 30, 2004, certified by its chief financial officer; (ii) the consolidated balance sheet and statements of income, partners equity and cash flows of the Borrower (A) as of and for the fiscal year ended December 31, 2003, certified by its chief financial officer, and (B) as of and for the fiscal quarter and the portion of the fiscal year ended September 30, 2004, certified by its chief financial officer; (iii) the consolidated balance sheet and statements of income, partners equity and cash flows of KPP (A) as of and for the fiscal year ended December 31, 2003, reported on by KPMG LLP, and (B) as of and for the fiscal quarter and the portion of the fiscal year ended September 30, 2004, certified by its chief financial officer; and (iv) the summary unaudited combined *pro forma* financial data set forth in the joint proxy statement/prospectus included in the Registration Statement on Form S-4 filed with the SEC in connection with the Acquisition. Such financial statements present fairly, in all material respects, the financial position and results of operations and cash flows of (x) the MLP and its consolidated subsidiaries, the Borrower and its consolidated Subsidiaries, and KPP and its consolidated subsidiaries and (y) the *pro forma* consolidated financial condition of the MLP, as of such dates and for such periods in accordance with GAAP, subject to year-end audit adjustments and the absence of footnotes in the case of the statements referred to in clauses (B) above.

(b) Since December 31, 2003, there has been no material adverse change in the business, assets, operations or condition (financial or otherwise) of it and its subsidiaries, taken as a whole.

Section 3.05. Properties. (a) It and its subsidiaries has good title to, or valid leasehold interests in, all its real and personal property material to its business, free and clear of all Liens except Permitted Encumbrances and Liens otherwise permitted or contemplated by this Agreement, except where the failure to have such title or leasehold interest could not reasonably be expected to result in a Material Adverse Effect.

(b) It and its subsidiaries owns, or is licensed to use, or has made all required federal filings (and has not been notified of any contest) with respect to, all trademarks, tradenames, copyrights, patents and other intellectual property material to its business, and the use thereof by it and its subsidiaries does not infringe upon the rights of any other Person, except for any such infringements that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

Section 3.06. Litigation and Environmental Matters. (a) There are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending against or, to the knowledge of it, threatened against or affecting it or any of its subsidiaries (i) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect (other than the Disclosed Matters) or (ii) that involve this Agreement or the Transactions.

(b) Except for the Disclosed Matters and except with respect to any other matters that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, neither it nor any of its subsidiaries (i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) has become subject to any Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability or (iv) knows of any basis for any Environmental Liability.

(c) Since the Effective Date, there has been no change in the status of the Disclosed Matters that, individually or in the aggregate, has resulted in, or materially increased the likelihood of, a Material Adverse Effect.

Section 3.07. Compliance with Laws and Agreements. It and its subsidiaries is in compliance with all laws, regulations and orders of any Governmental Authority applicable to it or its property and all indentures, agreements and other instruments binding upon it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. No Default has occurred and is continuing.

Section 3.08. Investment and Holding Company Status. Neither it nor any of its subsidiaries is (a) an “investment company” as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a “holding company” as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935. The Borrower is not subject to regulation under any Federal or State statute or regulation which limits its ability to incur Indebtedness.

Section 3.09. Taxes. It and its subsidiaries has each timely filed or caused to be filed all Tax returns and reports required to have been filed and has paid or caused to be paid all Taxes required to have been paid by it, except (a) Taxes that are being contested in good faith by appropriate proceedings and for which it or such subsidiary, as applicable, has set aside on its books adequate reserves or (b) to the extent that the failure to do so could not reasonably be expected to result in a Material Adverse Effect.

Section 3.10. ERISA. Except as could not reasonably be expected to result in a Material Adverse Effect, each ERISA Affiliate has fulfilled its obligations under the minimum funding standards of ERISA and the Code with respect to each Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Code with respect to each Plan. Except as could not reasonably be expected to result in a Material Adverse Effect, no ERISA Affiliate has (i) sought a waiver of the minimum funding standard under Section 412 of the Code in respect of any Plan, (ii) failed to make any contribution or payment to any Plan or Multiemployer Plan or in respect of any Benefit Arrangement or made any amendment to any Plan or Benefit Arrangement, which has resulted or could reasonably be expected to result in the imposition of a Lien or the posting of a bond or other security under ERISA or the Code or (iii) incurred any liability under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

Section 3.11. Disclosure. It has disclosed to the Lenders all agreements, instruments and corporate or other restrictions to which it or any of its subsidiaries is subject, and all other

matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. Neither the Information Memorandum nor any of the other reports, financial statements, certificates or other information furnished by or on behalf of it to the Administrative Agent or any Lender in connection with the negotiation of this Agreement or delivered hereunder (as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, it represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

Section 3.12. Investments and Guarantees. Neither it nor any of its subsidiaries has any Investments or has outstanding any Guarantees, except as permitted by this Agreement or reflected in the financial statements described in Section 3.04(a).

Section 3.13. Casualties; Taking of Property. Neither the business nor the assets taken as a whole of it or any of its subsidiaries (after giving effect to the payment or anticipated payment of any proceeds of insurance) have been materially and adversely affected as a result of any fire, explosion, earthquake, flood, drought, windstorm, accident, strike or other labor disturbance, embargo, requisition or taking of any assets or cancellation of contracts, permits or concessions by any domestic or foreign government or any agency thereof, riot, activities of armed forces or acts of God or of any public enemy.

ARTICLE IV
Conditions

Section 4.01. Effective Date. The obligations of the Lenders to make Loans and of the Issuing Banks to issue Letters of Credit hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 10.02):

- (a) The Administrative Agent (or its counsel) shall have received (i) this Agreement, executed and delivered by a duly authorized officer of the Borrower and the MLP, and by the Lenders and the Administrative Agent and (ii) the Subsidiary Guaranty, executed and delivered by a duly authorized officer of each Guarantor (other than the MLP) and satisfactory in form and substance to the Administrative Agent.
- (b) The Administrative Agent shall have received a favorable written opinion (addressed to the Administrative Agent and the Lenders and dated the Effective Date) of (i) Andrews Kurth LLP, counsel for the Borrower and the MLP and (ii) Bradley C. Barron, in-house counsel of Valero Energy, collectively providing the opinions set forth in Exhibit B, and each such opinion covering such other matters relating to the Borrower, the General Partner, the MLP, the Guarantors, this Agreement or the Transactions as the Lenders shall reasonably request. The Borrower hereby requests each such counsel to deliver its applicable opinion to the Administrative Agent and the Lenders.
- (c) The Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the

organization, existence and good standing of the Borrower, the General Partner, the MLP, the Guarantors, the authorization of the Transactions, and any other legal matters relating to the Borrower, the General Partner, the MLP, the Guarantors, the Agreement, the Transactions or the Acquisition, all in form and substance satisfactory to the Administrative Agent and its counsel.

(d) The Administrative Agent shall have received a certificate, dated the Effective Date and signed by the President, Vice President or a Financial Officer of each of the Borrower and the MLP, confirming compliance with the conditions set forth in paragraphs (a) and (b) of Section 4.02.

(e) The Administrative Agent shall have received (i) counterpart originals of the Partnership Agreement (MLP) substantially in the form listed as Exhibit 3.4 to the MLP's annual report on Form 10-K for the fiscal year ended December 31, 2003, the Indenture and the Partnership Agreement (Borrower) in form and substance acceptable to the Lenders, in each case duly executed by each of the parties thereto and (ii) evidence satisfactory to the Lenders that the Partnership Agreement (Borrower), the Indenture and the Partnership Agreement (MLP) are in full force and effect and have not been amended or modified except to the extent such amendments or modifications have been delivered to the Administrative Agent, which evidence may be in the form of a certificate of the President or a Vice President (or equivalent officer) of each of the Borrower and the MLP.

(f) The Administrative Agent shall have received the financial statements referred to in Section 3.04(a).

(g) The Administrative Agent shall have received evidence satisfactory to it that the Acquisition has been or is being concurrently consummated substantially in accordance with the Acquisition Documents (with all of the material conditions precedent thereto having been satisfied in all material respects by the parties thereto other than as consented to by the Lenders).

(h) The Administrative Agent shall have received (i) a certificate of the President or a Vice President (or equivalent officer) of each of the Borrower and the MLP certifying: (A) that the Acquisition has been or is concurrently being consummated substantially in accordance with the terms of the Acquisition Documents (with all of the material conditions precedent thereto having been satisfied in all material respects by the parties thereto other than as consented to by the Lenders); (B) that attached thereto is a true and complete executed copy of each of the Acquisition Documents (including all exhibits, schedules and supplements) and that no Acquisition Document has been amended since October 31, 2004 in any material respect except as otherwise consented to by the Administrative Agent and the Lenders (which consent will not be unreasonably withheld); (C) that attached thereto is a true and complete copy of each Certificate of Merger issued by the Delaware Secretary of State in connection with the consummation of the Acquisition; and (ii) such other related documents and information as the Administrative Agent shall have reasonably requested.

(i) The Administrative Agent shall have received, and shall be satisfied with (in each case after giving effect to the Acquisition), (i) the projections of the MLP and its Subsidiaries, (ii) an opening pro forma balance sheet for the year ending December 31, 2003 and

related pro forma income statements and cash flow statements of the MLP and its Subsidiaries for the periods ending September 30, 2004.

(j) The Administrative Agent shall have received evidence satisfactory to it of any necessary shareholder, corporate, limited liability company, and partnership approvals as to authority, enforceability and compliance with law in connection with the Transactions and the consummation of the Acquisition.

(k) The Administrative Agent shall have received evidence satisfactory to it that all loans, letters of credit and other obligations owing pursuant to each of (i) the Existing Agreement and (ii) the \$400,000,000 Revolving Credit Agreement dated as of April 24, 2003 among Kaneb Pipe Line Operating Partnership, L.P., as borrower, KPP, SunTrust Bank, as administrative agent, and the lenders party thereto, as amended, shall have been paid in full and all commitments thereunder shall have been terminated.

(l) The Administrative Agent shall have received all fees and other amounts due and payable on or prior to the Effective Date (including amounts payable in respect of the ticking fee, if any), including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Borrower hereunder.

(m) The Administrative Agent shall have received satisfactory evidence regarding the scope and materiality of any environmental risks affecting the properties of the MLP and its Subsidiaries (including the Acquired Companies).

The Administrative Agent shall notify the Borrower and the Lenders of the Effective Date, and such notice shall be conclusive and binding. Notwithstanding the foregoing, the obligations of the Lenders to make Loans and of the Issuing Banks to issue Letters of Credit under this Agreement shall not become effective unless each of the foregoing conditions is satisfied (or waived pursuant to Section 10.02) at or prior to 3:00 p.m., New York City time, on June 30, 2005 (and, in the event such conditions are not so satisfied or waived, the Commitments shall terminate at such time).

Section 4.02. Each Credit Event. The obligation of each Lender to make a Loan on the occasion of any Borrowing, and of the Issuing Banks to issue, amend, renew or extend any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) The representations and warranties of the Borrower and the MLP set forth in this Agreement shall be true and correct on and as of the date of such Borrowing or the date of issuance, amendment, renewal or extension of such Letter of Credit, as applicable (unless such representations and warranties are stated to relate to a specific earlier date, in which case such representations and warranties shall be true and correct as of such earlier date).

(b) At the time of and immediately after giving effect to such Borrowing or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, no Default shall have occurred and be continuing.

(c) The Administrative Agent shall have received each additional document, instrument, legal opinion or item of information reasonably requested by the Administrative

Agent, including, without limitation, a copy of any debt instrument, security agreement or other material contract to which the MLP or any Subsidiary may be a party.

Each Borrowing and each issuance, amendment, renewal or extension of a Letter of Credit shall be deemed to constitute a representation and warranty by the Borrower and the MLP on the date thereof as to the matters specified in paragraphs (a) and (b) of this Section 4.02.

ARTICLE V
Affirmative Covenants

Commencing on the Effective Date, until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder shall have been paid in full and all Letters of Credit shall have expired or terminated and all LC Disbursements shall have been reimbursed, the MLP and the Borrower each covenants and agrees with the Lenders that:

Section 5.01. Financial Statements and Other Information. It will furnish to the Administrative Agent and each Lender:

(a) no later than 15 days following the date required by applicable SEC rules (without giving effect to any extensions available thereunder) for the filing of such financial statements after the end of each fiscal year of the MLP:

(i) the audited consolidated balance sheet and related statements of income, partners equity and cash flows of the MLP as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by Ernst & Young LLP or other independent public accountants of recognized national standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the financial condition, results of operations and cash flows of the MLP and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied; and

(ii) the consolidated balance sheet and related statements of income, partners equity and cash flows of the Borrower as of the end of and for such year, setting forth in each case in comparative form the figures from the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to the absence of footnotes.

(b) no later than 15 days following the date required by applicable SEC rules (without giving effect to any extensions available thereunder) for the filing of such financial statements after the end of each of the first three fiscal quarters of each fiscal year of the MLP:

(i) the consolidated balance sheet and related statements of income, partners equity and cash flows of the MLP as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of)

the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of the MLP and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes; and

(ii) the consolidated balance sheet and related statements of income, partners equity and cash flows of the Borrower as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of the Borrower and its consolidated subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes.

(c) concurrently with any delivery of financial statements under clause (a) or (b) above, a certificate of a Financial Officer of each of the Borrower and the MLP (i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth reasonably detailed calculations demonstrating compliance with Section 6.11 and (iii) stating whether any change in GAAP or in the application thereof has occurred since the date of the audited financial statements referred to in Section 3.04 and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(d) promptly after Moody's or S&P shall have announced a change in the rating established or deemed to have been established for the Index Debt, written notice of such rating change; and

(e) promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of the Borrower, the MLP or any of their subsidiaries, or compliance with the terms of this Agreement, as the Administrative Agent or any Lender may reasonably request.

Section 5.02. Notices of Material Events. The MLP and the Borrower will furnish to the Administrative Agent and each Lender prompt written notice of the following:

(a) the occurrence of any Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting the MLP, the Borrower or any Affiliate thereof that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect;

(c) if and when any ERISA Affiliate (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Plan which could reasonably be expected to constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the PBGC; (ii) receives notice of complete or partial withdrawal

liability under Title IV of ERISA or notice that any Multiemployer Plan is in reorganization, is insolvent or has been terminated, a copy of such notice; (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate, impose liability (other than for premiums under Section 4007 of ERISA) in respect of, or appoint a trustee to administer any Plan, a copy of such notice; (iv) applies for a waiver of the minimum funding standard under Section 412 of the Code, a copy of such application; (v) gives notice of intent to terminate any Plan under Section 4041(c) of ERISA, a copy of such notice and other information filed with the PBGC; (vi) gives notice of withdrawal from any Plan pursuant to Section 4063 of ERISA, a copy of such notice; or (vii) fails to make any payment or contribution to any Plan or Multi-Employer Plan or in respect of any Benefit Arrangement or makes any amendment to any Plan or Benefit Arrangement which has resulted or could reasonably be expected to result in the imposition of a Lien or the posting of a bond or other security, a certificate of a Financial Officer of each of the Borrower and the MLP setting forth details as to such occurrence and action, if any, which the Borrower, the MLP or applicable ERISA Affiliate is required or proposes to take, but only to the extent that any occurrence described in the preceding clauses (i) through (vii) could reasonably be expected to result in a Material Adverse Effect;

(d) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect;

(e) any material amendment to the Partnership Agreement (MLP), the Partnership Agreement (Borrower) or any Material Agreement, together with a certified copy of such amendment; and

(f) any of the following events, in each case if the occurrence of such event could reasonably be expected to have a Material Adverse Effect:

(i) the receipt by the MLP (or its general partner(s)), the Borrower or the General Partner of any notice of any claim with respect to any Environmental Liability;

(ii) if the President or a Vice President (or equivalent officer) of the MLP or the Borrower, or the officer of the MLP or the Borrower primarily responsible for monitoring compliance by the MLP or the Borrower and its subsidiaries with Environmental Laws, shall obtain actual knowledge that there exists any Environmental Liability pending or threatened against the MLP, the Borrower or any of their subsidiaries; or

(iii) any release, emission, discharge or disposal of any Hazardous Materials that could reasonably be expected to form the basis of any Environmental Liability with respect to the MLP, the Borrower or any of their subsidiaries.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or President or any Vice President (or equivalent officer) of each of the Borrower and the MLP setting forth a description of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

Section 5.03. Existence; Conduct of Business. It will, and will cause each of its subsidiaries to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges and franchises

material to the conduct of its business; provided that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under Section 6.03.

Section 5.04. Payment of Obligations. It will, and will cause each of its subsidiaries to, pay its obligations, including Tax liabilities, that, if not paid, could result in a Material Adverse Effect before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) it or such subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP and (c) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect.

Section 5.05. Maintenance of Properties; Insurance. It will, and will cause each of its subsidiaries to, (a) keep and maintain all property material to the conduct of its business in good working order and condition, ordinary wear and tear excepted, and (b) maintain, with financially sound and reputable insurance companies, insurance in such amounts and against such risks as are customarily maintained by companies engaged in the same or similar businesses operating in the same or similar locations.

Section 5.06. Books and Records; Inspection Rights. It will, and will cause each of its subsidiaries to, keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities. It will, and will cause each of its subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times and as often as reasonably requested.

Section 5.07. Compliance with Laws. It will, and will cause each of its subsidiaries to, comply with all laws, rules, regulations and orders of any Governmental Authority applicable to it or its property and the terms and provisions of the Material Agreements, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

Section 5.08. Use of Proceeds and Letters of Credit. The proceeds of the Loans will be used for working capital and general partnership purposes of the Borrower and its subsidiaries (including, without limitation, for distributions to the MLP to allow the MLP to make distributions to unitholders as contemplated in the Partnership Agreement (MLP)). The Letters of Credit shall be used for general business purposes in the ordinary course of business or for such other purposes as may be approved by the Administrative Agent. No part of the proceeds of any Loan will be used, whether directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Board, including Regulations T, U and X.

Section 5.09. Environmental Laws. It will, and will cause each of its subsidiaries to:

(a) comply with all applicable Environmental Laws and obtain and comply with and maintain any and all licenses, approvals, notifications, registrations or permits required

by applicable Environmental Laws except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect; and

(b) conduct and complete all investigations, studies, sampling and testing, and all remedial, removal and other actions required under Environmental Laws and promptly comply with all lawful orders and directives of all Governmental Authorities regarding Environmental Laws except to the extent that the same are being contested in good faith by appropriate proceedings and the pendency of such proceedings could not reasonably be expected to have a Material Adverse Effect.

Section 5.10. Subsidiaries. It will, substantially contemporaneously with its formation or acquisition (or event or circumstance that qualifies it as a Material Domestic Subsidiary), cause each subsidiary of it that is a Material Domestic Subsidiary to become a Guarantor with respect to, and jointly and severally liable with all other Guarantors for, all obligations of the Borrower under this Agreement by executing and delivering to the Administrative Agent, for the benefit of the Lenders, a Subsidiary Guaranty, substantially in the form of Exhibit C (or a supplement thereto as may be requested by the Administrative Agent). In addition, the MLP and the Borrower shall at all times cause (i) the MLP's and its Subsidiaries' equity in the income from continuing operations before interest expense and all income taxes of the Borrower and all Domestic Subsidiaries that are then parties to a Subsidiary Guaranty to be at least 80% of such income of the MLP's Domestic Subsidiaries consolidated for the most recently completed fiscal year and (ii) the MLP's and its Subsidiaries' proportionate share of the total assets (after intercompany eliminations) of the Borrower and all Domestic Subsidiaries that are then parties to a Subsidiary Guaranty to be at least 80% of the total assets of the MLP's Domestic Subsidiaries consolidated as of the end of the most recently completed fiscal year. The MLP and the Borrower shall, promptly, but in any event no later than 10 days after becoming aware of their non-compliance with the requirements of the immediately preceding sentence, cause one or more of their Domestic Subsidiaries that are not then parties to a Subsidiary Guaranty to become parties to a Subsidiary Guaranty (even if such subsidiary does not constitute a Material Domestic Subsidiary) so as to comply with the requirements of the immediately preceding sentence. The MLP and the Borrower shall, or shall cause its subsidiaries to, further deliver any and all instruments, documents, approvals, consents or opinions of counsel reasonably requested by the Administrative Agent or the Required Lenders in connection with any Subsidiary Guaranty.

ARTICLE VI
Negative Covenants

Commencing on the Effective Date, until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full and all Letters of Credit have expired or terminated and all LC Disbursements shall have been reimbursed, each of the MLP and the Borrower covenants and agrees with the Lenders that:

Section 6.01. Indebtedness. It will not, and will not permit any of its subsidiaries to, create, incur, assume or permit to exist any Indebtedness, except:

(a) Indebtedness created under this Agreement;

(b) Indebtedness of the MLP to any Subsidiary and of any Subsidiary to the MLP or any other Subsidiary to the extent permitted by Section 6.04, so long as the MLP and the Borrower are in compliance with Section 5.10;

(c) Guarantees by the MLP of Indebtedness of any Subsidiary and by any Guarantor of Indebtedness of the MLP or any other Subsidiary and by any Subsidiary that is not a Guarantor of Indebtedness of any other Subsidiary that is not a Guarantor;

(d) other Indebtedness of the MLP and any Subsidiary; provided that, both before and after such Indebtedness is created, incurred or assumed, no Event of Default shall have occurred and be continuing under this Agreement, including, without limitation, an Event of Default with respect to (i) the Consolidated Interest Coverage Ratio set forth in Section 6.11(a) and (ii) the Consolidated Debt Coverage Ratio set forth in Section 6.11(b).

Notwithstanding the foregoing or anything to the contrary contained herein, the MLP and the Borrower will not permit the aggregate principal amount of Indebtedness of Subsidiaries that are not Guarantors (other than Indebtedness described on Schedule 6.01) at any time to exceed 5% of Consolidated Net Worth.

Section 6.02. Liens. It will not, and will not permit any of its subsidiaries to, create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof, except:

(a) Permitted Encumbrances;

(b) any Lien existing on any property or asset prior to the acquisition thereof by the MLP or any Subsidiary or existing on any property or asset of any Person that becomes a Subsidiary after the date hereof prior to the time such Person becomes a Subsidiary; provided that (i) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming a Subsidiary, as the case may be, (ii) such Lien shall not apply to any other property or assets of the MLP or any Subsidiary and (iii) such Lien shall secure only those obligations which it secures on the date of such acquisition or the date such Person becomes a Subsidiary, as the case may be;

(c) Liens on fixed or capital assets acquired, constructed or improved by the MLP or any Subsidiary; provided that (i) such security interest secures Indebtedness permitted by clause (d) of Section 6.01, (ii) such security interests and the Indebtedness secured thereby are incurred prior to or within 90 days after such acquisition or the completion of such construction or improvement, (iii) the Indebtedness secured thereby does not exceed the cost of acquiring, constructing or improving such fixed or capital assets and (iv) such security interests shall not apply to any other property or assets of the MLP or any Subsidiary;

(d) other Liens securing Indebtedness in an amount that does not at any time exceed 10% of Consolidated Net Worth; and

(e) extensions, renewals, modifications or replacements of any of the Liens and other matters referred to in clauses (a) through (d) of this Section, provided that such Lien is

otherwise permitted by the terms hereof and, with respect to Liens securing Indebtedness, no extension or renewal Lien shall (i) secure more than the amount of the Indebtedness or other obligations secured by the Lien being so extended or renewed or (ii) extend to any property or assets not subject to the Lien being so extended or renewed.

Section 6.03. Fundamental Changes. (a) Other than in connection with the Acquisition, it will not, and will not permit any of its subsidiaries to, merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or sell, transfer, lease or otherwise dispose of (in one transaction or in a series of transactions) all or substantially all of its assets (it being understood that “substantially all of its assets” shall mean more than 50% of the aggregate total assets of the MLP and its Subsidiaries, taken as a whole), or all or substantially all of the stock (it being understood that “substantially all of the stock” shall mean stock representing ownership interests in more than 50% of the aggregate total assets of the MLP and its Subsidiaries, taken as a whole) of any of its subsidiaries (in each case whether now owned or hereafter acquired), or liquidate or dissolve, except that, if at the time thereof and immediately after giving effect thereto no Default shall have occurred and be continuing (i) any Subsidiary may merge into the Borrower in a transaction in which the Borrower is the surviving entity or the Borrower may merge with another Person so long as (A) the surviving entity or purchaser, if other than the Borrower, assumes, pursuant to the terms of such transaction, each of the obligations of the Borrower hereunder and under any other documents entered into in connection with the Loans and (B) each such assumption is expressly evidenced by an agreement executed and delivered to the Lenders in a form reasonably satisfactory to the Administrative Agent, (ii) any Subsidiary (other than the Borrower) may merge into any Subsidiary (other than the Borrower) in a transaction in which the surviving entity is a Subsidiary (other than the Borrower), and (iii) any Subsidiary (other than the Borrower) may liquidate or dissolve if the MLP determines in good faith that such liquidation or dissolution is in the best interests of the MLP and is not materially disadvantageous to the Lenders; provided that any such merger involving a Person that is not a Wholly-Owned Subsidiary immediately prior to such merger shall not be permitted unless also permitted by Section 6.04.

(b) It will not, and will not permit any of its Subsidiaries to, engage to any material extent in any business other than businesses of the type conducted by it, its Subsidiaries or KPP, KSL and their subsidiaries on the date of this Agreement and businesses reasonably related thereto.

Section 6.04. Investments, Loans, Advances, Guarantees and Acquisitions. It will not, and will not permit any of its subsidiaries to, purchase, hold or acquire (including pursuant to any merger with any Person that was not a Wholly-Owned Subsidiary prior to such merger) any Investment in or Guarantee any obligations of, any other Person, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit, except:

(a) Permitted Investments;

(b) Investments by it in the Equity Interest of Wholly-Owned Subsidiaries of the MLP, so long as the MLP and the Borrower are in compliance with Section 5.10;

(c) loans or advances made by the MLP to any Wholly-Owned Subsidiary of the MLP and made by any Subsidiary to the MLP or any other Wholly-Owned Subsidiary of the MLP, so long as the MLP and the Borrower are in compliance with Section 5.10;

(d) Guarantees constituting Indebtedness permitted by Section 6.01;

(e) the Borrower's interest in the Skelly-Belvieu Pipeline Company, L.L.C.;

(f) the purchase or other acquisition by a Wholly-Owned Subsidiary of the MLP of the assets of another Person constituting a business unit; provided, that, both before and after giving effect to any such Investment, no Default shall exist, including, without limitation, a Default with respect to (i) use of proceeds set forth in Section 5.08, (ii) the Consolidated Interest Coverage Ratio set forth in Section 6.11(a), or (iii) the Consolidated Debt Coverage Ratio set forth in Section 6.11(b);

(g) Investments in Joint Venture Interests and the purchase or other acquisition by a Subsidiary that is not a Wholly-Owned Subsidiary of the MLP of the assets of another Person constituting a business unit; provided, that, both before and after giving effect to any such Investment, no Default shall exist, including, without limitation, a Default with respect to (i) use of proceeds set forth in Section 5.08, (ii) the Consolidated Interest Coverage Ratio set forth in Section 6.11(a), or (iii) the Consolidated Debt Coverage Ratio set forth in Section 6.11(b); provided that the aggregate amount of Investments and other acquisitions made pursuant to this clause (g) (other than Investments described in Schedule 6.04) shall not exceed \$100,000,000 in the aggregate at any time; and

(h) Guarantees of obligations not constituting Indebtedness of Wholly-Owned Subsidiaries of the MLP incurred in the ordinary course of business.

Section 6.05. Swap Agreements. It will not, and will not permit any of its subsidiaries to, enter into any Swap Agreement, other than Swap Agreements entered into in the ordinary course of business to hedge or mitigate risks to which it or any of its subsidiaries is exposed in the conduct of its business or the management of its liabilities.

Section 6.06. Restricted Payments. It will not, and will not permit any of its subsidiaries to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, except (a) any Subsidiary may declare and pay Restricted Payments to its parent and (b) as long as no Default has occurred and is continuing or would result therefrom, the MLP may make Restricted Payments in accordance with the terms of the Partnership Agreement (MLP).

Section 6.07. Transactions with Affiliates. It will not, and will not permit any of its subsidiaries to, sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except (a) at prices and on terms and conditions not less favorable to it or such subsidiary than could be obtained on an arm's-length basis from unrelated third parties, (b) transactions between or among it and its Wholly-Owned Subsidiaries not involving any other Affiliate, (c) any Restricted Payment permitted by Section 6.06, and (d) pursuant to the agreements listed on Schedule 6.07, which agreements are at prices and on terms and conditions

not less favorable to it than could be obtained on an arm's-length basis from unrelated third parties.

Section 6.08. Restrictive Agreements. It will not, and will not permit any of its subsidiaries to, directly or indirectly, enter into, incur or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition upon (a) the ability of it or any of its subsidiaries to create, incur or permit to exist any Lien upon any of its property or assets, or (b) the ability of any Subsidiary to pay dividends or other distributions with respect to any shares of its capital stock or to make or repay loans or advances to the MLP or any other Subsidiary or to Guarantee Indebtedness of the Borrower or any other Subsidiary; provided that (i) the foregoing shall not apply to restrictions and conditions imposed by law or by this Agreement, (ii) the foregoing shall not apply to restrictions and conditions (x) existing on the date of this Agreement identified on Schedule 6.08 (but shall apply to any extension or renewal of, or any amendment or modification expanding the scope of, any such restriction or condition so as to cause such restriction or condition to be more restrictive than the restriction or condition in existence on the date of this Agreement) or (y) arising or agreed to after the date of this Agreement; provided that such restrictions or conditions are not more restrictive than the restrictions and conditions existing on the date of this Agreement, (iii) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary pending such sale, provided such restrictions and conditions apply only to the Subsidiary that is to be sold and such sale is permitted hereunder, (iv) clause (a) of the foregoing shall not apply to restrictions or conditions imposed by any agreement relating to secured Indebtedness permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Indebtedness and (v) clause (a) of the foregoing shall not apply to customary provisions in leases and other contracts restricting the assignment thereof.

Section 6.09. Limitation on Modifications of Other Agreements. It will not, and will not permit any of its subsidiaries to, amend, modify or change, or consent to any amendment, modification or change to, any of the terms of, the Material Agreements, except to the extent the same could not reasonably be expected to have a Material Adverse Effect.

Section 6.10. Creation of Subsidiaries. It will not at any time create or acquire any subsidiary unless it has caused such subsidiary to comply with the requirements of Section 5.10.

Section 6.11. Financial Condition Covenants. The MLP will not permit at any time (a) its Consolidated Interest Coverage Ratio to be less than 3.00 to 1.00 or (b) its Consolidated Debt Coverage Ratio to be in excess of (i) 5.00 to 1.00 for any Rolling Period ending on or before March 31, 2006 and (ii) 4.75 to 1.00 for any Rolling Period ending on or subsequent to June 30, 2006; provided that if at any time the MLP or any of its Subsidiaries consummates an acquisition (including the Acquisition) for which the MLP or any of its Subsidiaries has paid aggregate net consideration of at least \$100,000,000, then, for the two Rolling Periods the last day of which immediately follow the date on which such acquisition is consummated, the numerator of the maximum Consolidated Debt Coverage Ratio otherwise permitted above shall be increased by 0.5; thereafter, compliance shall be determined by reverting back to clause (i) or (ii) above, as applicable.

ARTICLE VII
Events of Default

From (and including) the Effective Date, if any of the following events ("Events of Default") shall occur:

- (a) the Borrower shall fail to pay any principal of any Loan or any reimbursement obligation in respect of any LC Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;
- (b) the Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in clause (a) of this Article) payable under this Agreement, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of five Business Days;
- (c) any representation or warranty made or deemed made by or on behalf of the Borrower, the MLP or any of their subsidiaries in or in connection with any Loan Document or any amendment or modification thereof or waiver thereunder, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with the Loan Documents or any amendment or modification hereof or waiver hereunder, shall prove to have been incorrect in any material respect when made or deemed made;
- (d) the MLP or the Borrower shall fail to observe or perform any covenant, condition or agreement contained in Section 5.02(a), (c) or (e), Section 5.03 (with respect to the MLP's or the Borrower's existence), Section 5.08 or in Article VI;
- (e) the Borrower or any Guarantor shall fail to observe or perform any covenant, condition or agreement contained in the Loan Documents (other than those specified in clause (a), (b) or (d) of this Article), and such failure shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent to the Borrower (which notice will be given at the request of any Lender);
- (f) the MLP or any Subsidiary shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable (subject to any applicable grace period), whether by acceleration or otherwise, of any Material Indebtedness; or a default shall occur in the performance or observance of any obligation or condition with respect to any Material Indebtedness if the effect of such default is to accelerate the maturity of any such Indebtedness or such default shall continue unremedied for any applicable period of time sufficient to permit the holder or holders of such Indebtedness, or any trustee or agent for such holders, to cause such Indebtedness to become due and payable prior to its expressed maturity;
- (g) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the General Partner, the MLP (or its general partner(s)), the Borrower, any Guarantor or any Material Subsidiary or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the

appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the General Partner, the MLP (or its general partner(s)), the Borrower, any Guarantor or any Material Subsidiary or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(h) the General Partner, the MLP (or its general partner(s)), the Borrower, any Guarantor or any Material Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (g) of this Article, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the General Partner, the MLP (or its general partner(s)), the Borrower, any Guarantor or any Material Subsidiary or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(i) the General Partner, the MLP (or its general partner(s)), the Borrower, any Guarantor or any Material Subsidiary shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(j) one or more judgments for the payment of money in an aggregate amount in excess of \$35,000,000 and that are not covered by insurance shall be rendered against the MLP, any Subsidiary, or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the MLP or any Subsidiary to enforce any such judgment;

(k) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in liability of the MLP and its Subsidiaries in an aggregate amount exceeding \$35,000,000;

(l) the MLP or any Subsidiary shall incur an Environmental Liability requiring payment in any Rolling Period in excess of \$35,000,000 that is not covered by insurance or that remains undischarged for a period of 30 days;

(m) the MLP shall (i) conduct, transact or otherwise engage in, or commit to conduct, transact or otherwise engage in, any business or operations other than (X) those incidental to its ownership of the limited partner interests in the Borrower or of Equity Interests in other Wholly-Owned Subsidiaries and (Y) the incurrence and maintenance of Indebtedness or (ii) own, lease, manage or otherwise operate any properties or assets (including cash and cash equivalents), other than (A) the limited partner interests in the Borrower, (B) ownership interests of a Subsidiary, (C) ownership interests in other subsidiaries not Subsidiaries of the Borrower, (D) cash received in connection with dividends made by the Borrower in accordance with Section 6.06(b) pending application to the holders of the Units and the General Partner Interest,

(E) cash received in connection with the incurrence of Indebtedness and (F) cash received in connection with dividends made by other subsidiaries;

(n) this Agreement or the Subsidiary Guaranty after delivery thereof shall for any reason, except to the extent permitted by the terms hereof or thereof (or as waived by the Lenders in accordance with Section 10.02), ceases to be valid, binding and enforceable in accordance with its terms against the Borrower, the MLP or a Guarantor party thereto or shall be repudiated by any of them, or the Borrower, the MLP or any Guarantor shall so state in writing;

(o) a Change in Control shall occur; or

(p) Section 11.2 of the Partnership Agreement (MLP) (or the definition of the term "Outstanding" as defined therein) shall be amended, modified or changed in any respect.

then, and in every such event (other than an event with respect to the Borrower described in clause (g) or (h) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, and (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; and in case of any event with respect to the Borrower described in clause (g) or (h) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

ARTICLE VIII

MLP Guarantee

Section 8.01. MLP Guarantee.

(a) The MLP, to the maximum extent permitted by applicable law, (i) absolutely, unconditionally and irrevocably, guarantees to the Administrative Agent for the ratable benefit of the Guaranteed Creditors and their respective successors, endorsees, transferees and assigns, the prompt and complete payment and performance by the Borrower when due (whether at the stated maturity, by acceleration or otherwise) of the Borrower Obligations and (ii) indemnifies and holds harmless each Guaranteed Creditor from, and agrees to pay to such Guaranteed Creditor, all reasonable costs and expenses (including reasonable counsel fees and expenses) incurred by such Guaranteed Creditor in enforcing any of its rights under the guarantee contained in this Section 8.01. The MLP agrees that notwithstanding any stay, injunction or other prohibition preventing the payment by the Borrower of all or any portion of the Borrower Obligations and notwithstanding that all or any portion of the Borrower

Obligations may be unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving the Borrower, to the maximum extent permitted by applicable law, such Borrower Obligations shall nevertheless be due and payable by the MLP for the purposes of this guarantee at the time such Borrower Obligations would be payable by the Borrower under the provisions of this Agreement. Notwithstanding the foregoing, any enforcement of this guarantee with respect to the rights of any Guaranteed Creditor shall be accomplished by the Administrative Agent acting on behalf of such Guaranteed Creditor. The guarantee contained in this Section 8.01 is a guarantee of payment and not collection, and the liability of the MLP is primary and not secondary.

(b) The MLP agrees that if the maturity of the Borrower Obligations is accelerated by bankruptcy or otherwise, such maturity shall also be deemed accelerated for the purpose of this guarantee without demand or notice to the MLP. The guarantee contained in this Section 8.01 is a continuing guarantee and shall remain in full force and effect until all the Borrower Obligations and the obligations of the MLP under the guarantee contained in this Section 8.01 shall have been satisfied by payment in full in cash, no Letter of Credit shall be outstanding and the Commitments shall be terminated, notwithstanding that from time to time during the term of this Agreement the Borrower may be free from any Borrower Obligations.

(c) No payment made by the Borrower, the MLP, any other guarantor or any other Person or received or collected by any Guaranteed Creditor from the Borrower, the MLP, any other guarantor or any other Person by virtue of any action or proceeding or any set-off or appropriation or application at any time or from time to time in reduction of or in payment of the Borrower Obligations shall be deemed to modify, reduce, release or otherwise affect the liability of the MLP hereunder which shall, notwithstanding any such payment (other than any payment made by the Borrower or MLP in respect of the Borrower Obligations or any payment received or collected from the Borrower or MLP in respect of the Borrower Obligations), remain liable for the Borrower Obligations until, subject to Section 8.05, the Borrower Obligations are paid in full in cash, no Letter of Credit shall be outstanding and the Commitments are terminated.

Section 8.02. Subrogation. The MLP shall be subrogated to all the rights of any Guaranteed Creditor against the Borrower in respect of any amounts paid by the MLP pursuant to the provisions of the guarantee contained in Section 8.01; provided, however, that the MLP shall not be entitled to enforce or to receive any payments arising out of, or based upon, such right of subrogation with respect to any of the Borrower Obligations until all of the Borrower Obligations and the Guarantees thereof shall have been indefeasibly paid in full in cash or discharged. A director, officer, employee or stockholder, as such, of the MLP shall not have any liability for any obligations of the Guarantor under the guarantee contained in Section 8.01 or any claim based on, in respect of or by reason of such obligations or their creation.

Section 8.03. Amendments, etc. with respect to the Borrower Obligations. The MLP shall remain obligated hereunder notwithstanding that, without any reservation of rights against the MLP and without notice to or further assent by the MLP, any demand for payment of any of the Borrower Obligations made by any Guaranteed Creditor may be rescinded by such Guaranteed Creditor and any of the Borrower Obligations continued, and the Borrower Obligations, or the liability of any other Person upon or for any part thereof, or any collateral security or guarantee therefor or right of offset with respect thereto, may, from time to time, in

whole or in part, be renewed, extended, amended, modified, accelerated, compromised, waived, surrendered or released by any Guaranteed Creditor, and any Guaranteed Document and any other document executed and delivered in connection therewith may be amended, modified, supplemented or terminated, in whole or in part, as the Administrative Agent (or the Required Lenders or all Lenders, as the case may be) may deem advisable from time to time, and any collateral security, guarantee or right of offset at any time held by any Guaranteed Creditor for the payment of the Borrower Obligations may be sold, exchanged, waived, surrendered or released. Except as required by applicable law, no Guaranteed Creditor shall have any obligation to protect, secure, perfect or insure any Lien at any time held by it as security for the Borrower Obligations or for the guarantee contained in Section 8.01 or any property subject thereto.

Section 8.04. **Guarantee Absolute and Unconditional.** To the fullest extent permitted by applicable law, the MLP hereby (i) waives diligence, presentment, demand of payment, notice of intent to accelerate, notice of acceleration, notice of acceptance, filing of claims with a court in the event of the merger, insolvency or bankruptcy of the Borrower or the MLP, and all demands and notices whatsoever, (ii) acknowledges that any agreement, instrument or document evidencing the MLP Obligations may be transferred and that the benefit of its obligations hereunder shall extend to each holder of any agreement, instrument or document evidencing the MLP Obligations without notice to them and (iii) covenants that the MLP Obligations will not be discharged except by complete performance thereof. The MLP further agrees that to the fullest extent permitted by applicable law, if at any time all or any part of any payment theretofore applied by any Person to any of the MLP Obligations is, or must be, rescinded or returned for any reason whatsoever, including without limitation, the insolvency, bankruptcy or reorganization of the MLP, such MLP Obligations shall, to the extent that such payment is or must be rescinded or returned, be deemed to have continued in existence notwithstanding such application, and the MLP Obligations shall continue to be effective or be reinstated, as the case may be, as though such application had not been made.

To the fullest extent permitted by applicable law, the obligations of the MLP under this guarantee shall be as aforesaid full, irrevocable, unconditional and absolute and shall not be impaired, modified, discharged, released or limited by any occurrence or condition whatsoever, including, without limitation, (i) any compromise, settlement, release, waiver, renewal, extension, indulgence or modification of, or any change in, any of the obligations and liabilities of the Borrower or the MLP contained in any of the Borrower Obligations or this Agreement, (ii) any impairment, modification, release or limitation of the liability of the Borrower, the MLP or any of their estates in bankruptcy, or any remedy for the enforcement thereof, resulting from the operation of any present or future provision of any applicable bankruptcy law, as amended, or other statute or from the decision of any court, (iii) the assertion or exercise by the Borrower or the MLP of any rights or remedies under any of the Borrower Obligations or this Agreement or their delay in or failure to assert or exercise any such rights or remedies, (iv) the assignment or the purported assignment of any property as security for any of the Borrower Obligations, including all or any part of the rights of the Borrower or the MLP under this Agreement, (v) the extension of the time for payment by the Borrower or the MLP of any payments or other sums or any part thereof owing or payable under any of the terms and provisions of any of the Borrower Obligations or this Agreement or of the time for performance by the Borrower or the MLP of any other obligations under or arising out of any such terms and provisions or the extension or the renewal of any thereof, (vi) the modification or amendment (whether material or otherwise) of

any duty, agreement or obligation of the Borrower or the MLP set forth in this Agreement, (vii) the voluntary or involuntary liquidation, dissolution, sale or other disposition of all or substantially all of the assets, marshaling of assets and liabilities, receivership, insolvency, bankruptcy, assignment for the benefit of creditors, reorganization, arrangement, composition or readjustment of, or other similar proceeding affecting, the Borrower or any of the MLP or any of their respective assets, or the disaffirmance of any of the Borrower Obligations, or this Agreement in any such proceeding, (viii) the release or discharge of the Borrower or the MLP from the performance or observance of any agreement, covenant, term or condition contained in any of such instruments by operation of law, (ix) the unenforceability of any of the Borrower Obligations or this Agreement, (x) any change in the name, business, capital structure, corporate existence, or ownership of the Borrower or the MLP, or (xi) any other circumstance which might otherwise constitute a defense available to, or a legal or equitable discharge of, a surety or the MLP.

Section 8.05. Reinstatement. To the maximum extent permitted by applicable law, the guarantee contained in Section 8.01 shall continue to be effective, or be reinstated, as the case may be, if at any time payment, or any part thereof, of any of the Borrower Obligations is rescinded or must otherwise be restored or returned by any Guaranteed Creditor upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Borrower or the MLP, or upon or as a result of the appointment of a receiver, intervenor or conservator of, or trustee or similar officer for, the Borrower or the MLP or any substantial part of its property, or otherwise, all as though such payments had not been made.

Section 8.06. Payments. The MLP hereby guarantees that payments hereunder will be paid to the Administrative Agent without set-off or counterclaim and without deduction for any taxes and in immediately available funds and in dollars at the Administrative Agent's payment office at the address provided in Section 10.01 of this Agreement.

ARTICLE IX
The Administrative Agent

Each of the Lenders and the Issuing Banks hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof, together with such actions and powers as are reasonably incidental thereto.

The bank serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder.

The Administrative Agent shall not have any duties or obligations except those expressly set forth herein. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers

expressly contemplated hereby that the Administrative Agent is required to exercise in writing as directed by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 10.02), and (c) except as expressly set forth herein, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Subsidiaries that is communicated to or obtained by the bank serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 10.02) or in the absence of its own gross negligence or wilful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by the Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement, (ii) the contents of any certificate, report or other document delivered hereunder or in connection herewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article IV or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders, the Issuing Banks and the Borrower. Upon any such resignation, the Required Lenders shall have the right, in consultation with the Borrower, to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders and the Issuing Banks, appoint a

successor Administrative Agent which shall be a Lender and a commercial bank with an office in New York, New York and having a combined capital and surplus of at least \$500,000,000, or an Affiliate of any such bank. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 10.03 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any related agreement or any document furnished hereunder or thereunder.

None of the Syndication Agent, the Co-Documentation Agents or the Co-Managing Agents shall have any duties, responsibilities or liabilities under this Agreement or the other Loan Documents other than their duties, responsibilities and liabilities in their capacity as Lenders hereunder.

ARTICLE X
Miscellaneous

Section 10.01. Notices.

(a) Except in the case of notices and other communications expressly permitted to be given by telephone (and subject to paragraph (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(i) if to the Borrower or the MLP, to it at One Valero Way, San Antonio, Texas 78249-1112, Attention of Senior Vice President and Chief Financial Officer (Telecopy No. (210) 345-3629);

(ii) if to the Administrative Agent, to JPMorgan Chase Bank, N.A., Loan and Agency Services Group, 1111 Fannin, 8th Floor, Houston, Texas 77002, Attention of Maria Arreola (Telecopy No. (713) 750-2228);

(iii) if to JPMorgan Chase Bank, N.A., in its capacity as Issuing Bank, to it at JPMorgan Chase Bank, N.A., Letter of Credit Group, Global Trade Services, 10420

Highland Manor Dr., Tampa, Florida 33610, Attention of James Alonzo (Telecopy No. (813) 432-5161);

(iv) if to SunTrust Bank, in its capacity as Issuing Bank, to it at SunTrust Bank, 25 Park Place, 16th Floor, Standby Letter of Credit Dept., MC-3706, Atlanta, Georgia 30303, Attention of Nivetta Freeman (Telecopy No. (404) 588-8129)), with a copy to it at the same address and telecopy number, Attention of Aimee Maier;

(v) if to any other Lender, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

(b) Notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communications pursuant to procedures approved by the Administrative Agent; provided that the foregoing shall not apply to notices pursuant to Article II unless otherwise agreed by the Administrative Agent and the applicable Lender. The Administrative Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications.

(c) Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

Section 10.02. Waivers; Amendments. (a) No failure or delay by the Administrative Agent, any Issuing Bank or any Lender in exercising any right or power hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Issuing Banks and the Lenders hereunder are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or consent to any departure by the Borrower therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent, any Lender or any Issuing Bank may have had notice or knowledge of such Default at the time.

(b) Neither this Agreement nor the Subsidiary Guaranty nor any provision hereof or thereof may be waived, amended or modified (except as expressly set forth herein or therein) except pursuant to an agreement or agreements in writing entered into by the Borrower, the MLP and the Required Lenders or by the Borrower, the MLP and the Administrative Agent with the consent of the Required Lenders; provided that no such agreement shall (i) increase the Commitment of any Lender without the written consent of such Lender, (ii) reduce the principal amount of any Loan or LC Disbursement or reduce the rate of interest thereon, or reduce any

fees payable hereunder, without the written consent of each Lender affected thereby, (iii) postpone the scheduled date of payment of the principal amount of any Loan or LC Disbursement, or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby, (iv) change Section 2.17(b) or (c) in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender, (v) waive or amend Section 4.01 or release any Guarantor (except as set forth in the Subsidiary Guaranty), without the written consent of each Lender or (vi) change any of the provisions of this Section or the definition of "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent or any Issuing Bank hereunder without the prior written consent of the Administrative Agent or such Issuing Bank, as the case may be.

Section 10.03. Expenses; Indemnity; Damage Waiver. (a) The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates, including the reasonable fees, charges and disbursements of counsel for the Administrative Agent, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of this Agreement or any amendments, modifications or waivers of the provisions hereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable out-of-pocket expenses incurred by any Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and (iii) all out-of-pocket expenses incurred by the Administrative Agent, any Issuing Bank or any Lender, including the fees, charges and disbursements of any counsel for the Administrative Agent, any Issuing Bank or any Lender, in connection with the enforcement or protection of its rights in connection with this Agreement, including its rights under this Section, or in connection with the Loans made or Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit.

(b) The Borrower shall indemnify the Administrative Agent, each Issuing Bank and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or the consummation of the Transactions or any other transactions contemplated hereby, (ii) any Loan or Letter of Credit or the use of the proceeds therefrom (including any refusal by any Issuing Bank to honor a demand for payment under a Letter of Credit issued by it if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any actual or alleged presence or release of Hazardous Materials on or from any property owned or operated by the Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to the Borrower or any of its Subsidiaries, or (iv) any actual or

prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or wilful misconduct of such Indemnitee.

(c) To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative Agent or any Issuing Bank under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent or such Issuing Bank, as the case may be, such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent or such Issuing Bank in its capacity as such.

(d) To the extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the Transactions, any Loan or Letter of Credit or the use of the proceeds thereof.

(e) All amounts due under this Section shall be payable not later than 5 Business Days after written demand therefor.

Section 10.04. Successors and Assigns.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby (including any Affiliate of any Issuing Bank that issues any Letter of Credit), except that (i) the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void) and (ii) no Lender may assign or otherwise transfer its rights or obligations hereunder except in accordance with this Section. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby (including any Affiliate of any Issuing Bank that issues any Letter of Credit), Participants (to the extent provided in paragraph (c) of this Section) and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the Issuing Banks and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) (i) Subject to the conditions set forth in paragraph (b)(ii) below, any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it) with the prior written consent (such consent not to be unreasonably withheld) of:

(A) the Borrower, provided that no consent of the Borrower shall be required for an assignment to a Lender, an Affiliate of a Lender, an Approved Fund or, if an Event of Default has occurred and is continuing, any other assignee;

(B) the Administrative Agent, provided that no consent of the Administrative Agent shall be required for an assignment of any Commitment to an assignee that is a Lender with a Commitment immediately prior to giving effect to such assignment; and

(C) each Issuing Bank.

(ii) Assignments shall be subject to the following additional conditions:

(A) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitment or Loans of any Class, the amount of the Commitment or Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$5,000,000 unless each of the Borrower and the Administrative Agent otherwise consent, provided that no such consent of the Borrower shall be required if an Event of Default has occurred and is continuing;

(B) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement, provided that this clause shall not be construed to prohibit the assignment of a proportionate part of all the assigning Lender's rights and obligations in respect of one Class of Commitments or Loans;

(C) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500; and

(D) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

For the purposes of this Section 10.04(b), the term "Approved Fund" has the following meaning:

"Approved Fund" means any Person (other than a natural person) that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course of its business and that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

(iii) Subject to acceptance and recording thereof pursuant to paragraph (b)(iv) of this Section, from and after the effective date specified in each Assignment and Assumption the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under

this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.14, 2.15, 2.16 and 10.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 10.04 shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (c) of this Section.

(iv) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment of, and principal amount of the Loans and LC Disbursements owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent, the Issuing Banks and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the Issuing Banks and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(v) Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Assumption and record the information contained therein in the Register; provided that if either the assigning Lender or the assignee shall have failed to make any payment required to be made by it pursuant to Section 2.05(d) or (e), 2.06(b), 2.17(d) or 10.03(c), the Administrative Agent shall have no obligation to accept such Assignment and Assumption and record the information therein in the Register unless and until such payment shall have been made in full, together with all accrued interest thereon. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(c) (i) Any Lender may, without the consent of the Borrower, the Administrative Agent or any Issuing Bank, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided that (A) such Lender's obligations under this Agreement shall remain unchanged, (B) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (C) the Borrower, the Administrative Agent, the Issuing Banks and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or

waiver described in the first proviso to Section 10.02(b) that affects such Participant. Subject to paragraph (c)(ii) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.14, 2.15 and 2.16 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 10.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.17(c) as though it were a Lender.

(ii) A Participant shall not be entitled to receive any greater payment under Section 2.14 or Section 2.16 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.16 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.16(e) as though it were a Lender.

(d) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including without limitation any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

Section 10.05. Survival. All covenants, agreements, representations and warranties made by the Borrower herein and in the certificates or other instruments delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent, any Issuing Bank or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not expired or terminated. The provisions of Sections 2.14, 2.15, 2.16 and 10.03 and Article IX shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any provision hereof.

Section 10.06. Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written,

relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other required parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 10.07. Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

Section 10.08. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of the Borrower or the MLP against any of and all the obligations of the Borrower or the MLP now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmatured. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

Section 10.09. Governing Law; Jurisdiction; Consent to Service of Process. (a) This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) The Borrower and the MLP each hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that the Administrative Agent, any Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement against the Borrower or its properties in the courts of any jurisdiction.

(c) The Borrower and the MLP each hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any court referred to in paragraph (b) of this Section. Each of the parties

hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 10.01. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

Section 10.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (a) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (b) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

Section 10.11. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

Section 10.12. Confidentiality. Each of the Administrative Agent, the Issuing Banks and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower and its obligations, (g) with the consent of the Borrower or (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to the Administrative Agent, any Issuing Bank or any Lender on a nonconfidential basis from a source other than the Borrower. For the purposes of this Section, "Information" means all information received from the Borrower relating to the Borrower or its business, other than any such information that is available to the Administrative Agent, any Issuing Bank or any Lender on a nonconfidential basis prior to disclosure by the Borrower; provided that, in the case of information received from the Borrower after the date hereof, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided

in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Section 10.13. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts which are treated as interest on such Loan under applicable law (collectively the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

Section 10.14. Limitation of Liability. Neither the General Partner nor the general partner(s) of the MLP shall be liable for (a) the obligations of the Borrower under this Agreement or (b) the obligations of the MLP under this Agreement, including in each case, without limitation, by reason of any payment obligation imposed by governing state partnership statutes and any provision of the applicable limited partnership agreement of the Borrower or the MLP that requires such General Partner or general partner(s), as the case may be, to restore a capital account deficit.

Section 10.15. USA PATRIOT Act. Each Lender that is subject to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act") hereby notifies the Borrower that pursuant to the requirements of the Act, it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender to identify the Borrower in accordance with the Act.

JPMORGAN CHASE BANK, N.A., individually
and as Administrative Agent

By _____ /s/ Robert C. Mertensotto

Name: **Robert C. Mertensotto**

Title: **Managing Director**

Signature Page to
5-Year Revolving Credit Agreement
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By _____ /s/ David Edge
Name: **David Edge**
Title: **Managing Director**

Signature Page to
5-Year Revolving Credit Agreement
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BARCLAYS BANK PLC, individually and as Co-Documentation Agent

By _____ /s/ Nicholas Bell

Name: **Nicholas Bell**

Title: **Director**

Signature Page to
5-Year Revolving Credit Agreement
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By _____ /s/ Greg Botshon

Name: **Greg Botshon**

Title: **Senior Vice President**

Signature Page to
5-Year Revolving Credit Agreement
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ROYAL BANK OF CANADA, individually and as Co-Documentation Agent

By _____ /s/ Linda M. Stephens

Name: **Linda M. Stephens**

Title: **Authorized Signatory**

Signature Page to
5-Year Revolving Credit Agreement
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THE BANK OF TOKYO-MITSUBISHI, LTD., individually and
as Co-Managing Agent

By _____ /s/ Kelton Glasscock
Name: **Kelton Glasscock**
Title: **Vice-President & Manager**

Signature Page to
5-Year Revolving Credit Agreement
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BANK OF AMERICA, N.A., individually and as Co-Managing Agent

By _____ /s/ Claire Liu

Name: **Claire Liu**

Title: **Senior Vice President**

Signature Page to
5-Year Revolving Credit Agreement
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THE BANK OF NOVA SCOTIA, individually and as Co-
Managing Agent

By _____ /s/ N. Bell
Name: **N. Bell**
Title: **Senior Manager**

Signature Page to
5-Year Revolving Credit Agreement
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BNP PARIBAS, individually and as Co-Managing Agent

By _____ /s/ Mark A. Cox
Name: **Mark A. Cox**
Title: **Director**

By _____ /s/ Greg Smothers
Name: **Greg Smothers**
Title: **Vice President**

Signature Page to
5-Year Revolving Credit Agreement
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THE ROYAL BANK OF SCOTLAND plc individually and as
Co-Managing Agent

By _____ /s/ Paul McDonagh

Name: **Paul McDonagh**

Title: **Sr. Vice President**

Signature Page to
5-Year Revolving Credit Agreement
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BAYERISCHE HYPO-UND VEREINSBANK
AG, NEW YORK BRANCH, individually and as
Co-Managing Agent

By _____ /s/ Yoram Dankner

Name: **Yoram Dankner**
Title: **Managing Director**

By _____ /s/ Richard Cordover

Name: **Richard Cordover**
Title: **Director**

Signature Page to
5-Year Revolving Credit Agreement
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KEYBANK NATIONAL ASSOCIATION, individually and as
Co-Managing Agent

By _____ /s/ Keven D. Smith

Kevin D. Smith
Vice President

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5-Year Revolving Credit Agreement
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SUMITOMO MITSUI BANKING CORPORATION,
individually and as Co-Managing Agent

By _____ /s/ Leo Pagarigan
Name: **Leo E. Pagarigan**
Title: **Senior Vice President**

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5-Year Revolving Credit Agreement
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CALYON NEW YORK BRANCH, individually
and as Co-Managing Agent

By _____ /s/ Oliver Audemard

Name: **Oliver Audemard**

Title: **Managing Director**

By _____ /s/ Phillipe Soustra

Name: **Phillipe Soustra**

Title: **Executive Vice President**

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5-Year Revolving Credit Agreement
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WELLS FARGO BANK, NATIONAL ASSOCIATION,
individually and as
Co-Managing Agent

By _____ /s/ Richard A. Gould
Name: **Richard A. Gould**
Title: **VP**

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By _____ /s/ Gary T. Taylor

Name: **Gary T. Taylor**

Title: **Vice President**

Signature Page to
5-Year Revolving Credit Agreement
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UBS LOAN FINANCE LLC

By _____ /s/ Barbara Ezell-McMichael

Name: **Barbara Ezell-McMichael**

Title: **Director**

By _____ /s/ Winslowe Ogbourne

Name: **Winslowe Ogbourne**

Title: **Associate Director**

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5-Year Revolving Credit Agreement
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By _____ /s/ David Mills
Name: **David Mills**
Title: **Senior Vice President**

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5-Year Revolving Credit Agreement
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BANK HAPOALIM B.M.

By _____ /s/ Marc Bosc
Name: **Marc Bosc**
Title: **Vice President**

By _____ /s/ Laura Anne Raffe
Name: **Laura Anne Raffe**
Title: **Executive Vice President & Corporate Manager**

Signature Page to
5-Year Revolving Credit Agreement
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EXHIBIT A

Form of Assignment and Assumption

This Assignment and Assumption (the "Assignment and Assumption") is dated as of the Effective Date set forth below and is entered into by and between [Insert name of Assignor] (the "Assignor") and [Insert name of Assignee] (the "Assignee"). Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (as amended, the "Credit Agreement"), receipt of a copy of which is hereby acknowledged by the Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, the Assignor hereby irrevocably sells and assigns to the Assignee, and the Assignee hereby irrevocably purchases and assumes from the Assignor, subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by the Administrative Agent as contemplated below (i) all of the Assignor's rights and obligations in its capacity as a Lender under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of the Assignor under the respective facilities identified below (including any letters of credit and guarantees included in such facilities) and (ii) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of the Assignor (in its capacity as a Lender) against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (i) above (the rights and obligations sold and assigned pursuant to clauses (i) and (ii) above being referred to herein collectively as the "Assigned Interest"). Such sale and assignment is without recourse to the Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by the Assignor.

1. Assignor: _____

2. Assignee: _____

[and is an Affiliate/Approved Fund of [identify Lender]¹]

3. Borrower(s): _____

4. Administrative Agent: JPMorgan Chase Bank, N.A., as the administrative agent under the Credit Agreement

¹ Select as applicable.

5. Credit Agreement: The 5-Year Revolving Credit Agreement dated as of December 20, 2004 among Valero Logistics Operations, L.P., the Lenders parties thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, and the other agents parties thereto

6. Assigned Interest:

<u>Facility Assigned²</u>	<u>Aggregate Amount of Commitment/Loans for all Lenders</u>	<u>Amount of Commitment/Loans Assigned</u>	<u>Percentage Assigned of Commitment/Loans³</u>
	\$	\$	%
	\$	\$	%
	\$	\$	%

Effective Date: _____, 20__ [TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR

[NAME OF ASSIGNOR]

By: _____
Title:

ASSIGNEE

[NAME OF ASSIGNEE]

By: _____
Title:

² Fill in the appropriate terminology for the types of facilities under the Credit Agreement that are being assigned under this Assignment (e.g. "Revolving Commitment," "Tranche A Commitment," "Tranche B Commitment," etc.)

³ Set forth, to at least 9 decimals, as a percentage of the Commitment/Loans of all Lenders thereunder.

[Consented to and]⁴ Accepted:

[NAME OF ADMINISTRATIVE AGENT], as
Administrative Agent

By _____
Title:

[Consented to:]⁵

[NAME OF RELEVANT PARTY]

By _____
Title:

⁴ To be added only if the consent of the Administrative Agent is required by the terms of the Credit Agreement.

⁵ To be added only if the consent of the Borrower and/or other parties (e.g. Swingline Lender, Issuing Bank) is required by the terms of the Credit Agreement.

[_____]⁶STANDARD TERMS AND CONDITIONS FOR
ASSIGNMENT AND ASSUMPTION1. Representations and Warranties.

1.1 Assignor. The Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of the Assigned Interest, (ii) the Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document⁷, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. The Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it satisfies the requirements, if any, specified in the Credit Agreement that are required to be satisfied by it in order to acquire the Assigned Interest and become a Lender, (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section _____ thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase the Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender, and (v) if it is a Foreign Lender⁸, attached to the Assignment and Assumption is any documentation required to be delivered by it pursuant to the terms of the Credit Agreement, duly completed and executed by the Assignee; and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, the Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with

⁶ Describe Credit Agreement at option of Administrative Agent.

⁷ The term "Loan Document" should be conformed to that used in the Credit Agreement.

⁸ The concept of "Foreign Lender" should be conformed to the section in the Credit Agreement governing withholding taxes and gross-up.

their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts which have accrued to but excluding the Effective Date and to the Assignee for amounts which have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by, and construed in accordance with, the law of the State of New York.

OPINION OF COUNSEL FOR THE BORROWER AND THE MLP

[], 2005

To the Lenders and the Administrative
Agent Referred to Below
c/o JPMorgan Chase Bank, N.A., as
Administrative Agent
270 Park Avenue
New York, New York 10017

Dear Sirs:

[I/We] have acted as counsel for Valero Logistics Operations, L.P. (the "Borrower"), Valero L.P. (the "MLP"), and each of the Subsidiaries of the MLP listed on Annex I hereto (the "Subsidiary Guarantors", and together with the Borrower and the MLP, the "Loan Parties"), in connection with the Credit Agreement dated as of December 20, 2004 (the "Credit Agreement"), among the Borrower, the MLP, the banks and other financial institutions identified therein as Lenders, JPMorgan Chase Bank, N.A., as Administrative Agent, and others as agents, and the other Loan Documents identified below. This opinion is being furnished to you pursuant to Section 4.01(b) of the Credit Agreement. Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

In that connection, we have examined executed copies of the Credit Agreement, the Subsidiary Guaranty Agreement dated as of even date herewith made by each of the Guarantors (as defined therein) in favor of the Administrative Agent (the "Subsidiary Guaranty"), and the notes executed and delivered on the date hereof pursuant to Section 2.09(e) of the Credit Agreement (the "Loan Documents").

In addition, [I, or individuals under my direction,/We] have examined originals or copies, certified or otherwise identified to [my/our] satisfaction, of such documents, corporate records, certificates of public officials and other instruments and have conducted such other investigations of fact and law as [I/we] have deemed necessary or advisable for purposes of this opinion.

Upon the basis of the foregoing, [I am/we are] of the opinion that:

1. The Loan Documents constitute the legal, valid and binding obligations of the Loan Parties party thereto, enforceable against such Loan Parties under the law of the State of New York in accordance with their respective terms.

2. In a case properly argued and presented, a Texas court or a Federal court sitting in Texas and applying Texas conflict of law principles, as set out in Section 35.51 of the Texas Business and Commerce Code, would give effect to the provisions of the Credit Agreement and

the Subsidiary Guaranty selecting New York law as governing, and would apply the substantive laws of the State of New York in construing the Credit Agreement and the Subsidiary Guaranty.

3. Under the circumstances contemplated by the Credit Agreement, the making of the Loans will not violate Section 7 of the Securities Exchange Act of 1934, as amended, or any regulation issued pursuant thereto, including without limitation, the provisions of Regulation T, U or X of the Board of Governors of the Federal Reserve System.

4. The Borrower is not an “investment company” within the meaning of the Investment Company Act of 1940, as amended.

5. The Borrower is not subject to, or is exempt from, regulation as a “holding company” under the Public Utility Holding Company Act of 1935, as amended.

6. The Borrower (a) is a limited partnership duly formed and validly existing under the laws of the State of Delaware and (b) has the limited partnership power and authority to (i) own property and conduct the business in which it is currently engaged and in which it proposes, as of the date hereof, to be engaged after the date hereof, (ii) make, deliver and perform the Loan Documents to which it is a party in accordance with the terms and provisions thereof and (iii) borrow under the Credit Agreement.

7. The MLP (a) is a limited partnership duly formed and validly existing under the laws of the State of Delaware and (b) has the limited partnership power and authority to (i) own property and conduct the business in which it is currently engaged and in which it proposes, as of the date hereof, to be engaged after the date hereof, and (ii) make, deliver and perform the Credit Agreement in accordance with the terms and provisions thereof.

8. Each Subsidiary Guarantor (a) is a limited partnership, corporation or limited liability company validly existing under the laws of the jurisdiction of its formation as described on Annex I hereto and (b) has the limited partnership, corporate or limited liability company power and authority to make, deliver and perform the Subsidiary Guaranty in accordance with the terms and provisions thereof.

9. The execution, delivery and performance of the Credit Agreement by the Borrower and the MLP, and of the Subsidiary Guaranty by each Subsidiary Guarantor, and the borrowings by the Borrower under the Credit Agreement, have been duly authorized by all necessary actions on behalf of the Loan Parties and each other Person whose authorization is relevant to, or constitutes, authorization on behalf of either Loan Party.

10. The Loan Documents have been duly executed and delivered on behalf of the Loan Parties, as applicable.

11. No approvals or consents of any governmental authority of the State of Texas or the United States of America or other consents or approvals by any other Person which have not been obtained on or prior to the date hereof are required (a) in connection with the participation by the Loan Parties in connection with the transactions under the Loan Documents or the execution, delivery and performance by any Loan Party of the Loan Documents to which it is a

party, or (b) for the validity and enforceability of the Loan Documents and the exercise by the Lenders of their rights and remedies thereunder.

12. The execution, delivery and performance by the Loan Parties of the Loan Documents will not (a) violate any provision of the Partnership Agreement (Borrower), the Partnership Agreement (MLP), or the certificate of incorporation, bylaws, partnership agreement or limited liability company agreement, as applicable, of any Subsidiary Guarantor, (b) result in the breach of, or constitute a default under, any indenture or loan or credit agreement or any other material agreement, lease or instrument, known to me after due inquiry, to which any of the Loan Parties is a party or by which its properties may be bound, (c) result in, or require, the creation or imposition of any Lien on any of its properties or revenues pursuant to any requirement of law, rule regulation or order of any governmental authority of the State of Texas or the United States of America or material contractual obligation binding upon any Loan Party, or (d) result in any violation by any Loan Party of any applicable law of the State of Texas or the United States of America.

13. The partnership interests in the Borrower listed on Schedule A hereto constitute all the partnership interests of record in the Borrower and are owned of record by the Persons designated on Schedule A.

14. The Borrower is not subject to regulation under any statute or regulation of the State of Texas or the United States of America that limits its ability to incur indebtedness.

15. To my knowledge (having made due inquiry with respect thereto), except as disclosed in the Credit Agreement, no litigation, investigation or proceeding of or before any arbitrator or governmental authority is pending or threatened by or against any Loan Party or against any of the properties or revenues of either (a) with respect to the Loan Documents or any of the transactions contemplated thereby or (b) which, if adversely determined, could reasonably be expected to have a Material Adverse Effect.

EXHIBIT C
[FORM OF]
SUBSIDIARY GUARANTY AGREEMENT

made by

EACH OF THE GUARANTORS (as defined herein)

in favor of

JPMORGAN CHASE BANK, N.A.,
as Administrative Agent

Dated as of [], 200[]

SUBSIDIARY GUARANTY AGREEMENT, dated as of [], 200[], made by the signatories hereto (together with any other entity that may become a party hereto as provided herein, the “Guarantors” and each a “Guarantor”), in favor of JPMorgan Chase Bank, N.A., as Administrative Agent (in such capacity, the “Administrative Agent”), for the benefit of the banks and other financial institutions or entities (the “Lenders”) parties to the 5-Year Revolving Credit Agreement, dated as of December 20, 2004 (the “Credit Agreement”), among Valero Logistics Operations, L.P., a Delaware limited partnership (the “Borrower”), Valero L.P., a Delaware limited partnership (the “MLP”), the Lenders, the Administrative Agent, SunTrust Bank, as Syndication Agent, and Barclays Bank Plc, Mizuho Corporate Bank Ltd., and Royal Bank of Canada, as Co-Documentation Agents.

WITNESSETH:

WHEREAS, pursuant to the Credit Agreement, the Lenders have severally agreed to make extensions of credit to the Borrower upon the terms and subject to the conditions set forth therein;

WHEREAS, the Borrower is a member of an affiliated group of companies that includes each Guarantor;

WHEREAS, the proceeds of the extensions of credit under the Credit Agreement may be or have been used in part to enable the Borrower to make valuable transfers to one or more of the Guarantors in connection with the operation of their respective businesses;

WHEREAS, the Borrower and the Guarantors are engaged in related businesses, and each Guarantor will derive substantial direct and indirect benefit from the making of the extensions of credit under the Credit Agreement;

WHEREAS, it is a condition precedent to the obligation of the Lenders to make their respective extensions of credit to the Borrower under the Credit Agreement that the Guarantors shall have executed and delivered this Agreement to the Administrative Agent for the ratable benefit of the Lenders; and

WHEREAS, it is a condition subsequent to the obligation of the Lenders to make their respective extensions of credit to the Borrower under the Credit Agreement that certain subsidiaries of the MLP shall from time to time become parties to this Agreement as Guarantors by executing and delivering an Assumption Agreement, in the form attached hereto as Annex I, to the Administrative Agent for the ratable benefit of the Lenders;

NOW, THEREFORE, in consideration of the premises and to induce the Lenders to continue their respective extensions of credit to the Borrower under the Credit Agreement, each Guarantor hereby agrees with the Administrative Agent, for the ratable benefit of the Lenders, as follows:

SECTION 1. DEFINED TERMS

1.1 Definitions.

(a) Unless otherwise defined herein, terms defined in the Credit Agreement and used herein shall have the meanings given to them in the Credit Agreement.

(b) The following terms shall have the following meanings:

“Agreement”: means this Subsidiary Guaranty Agreement, as the same may be amended, supplemented or otherwise modified from time to time.

“Borrower Obligations”: means the collective reference to all obligations, liabilities and indebtedness (including all Indebtedness) owing by the Borrower pursuant to the Credit Agreement, including, without limitation, the unpaid principal of and interest on the Loans and LC Disbursements and all other obligations and liabilities of the Borrower (including, without limitation, interest accruing at the then applicable rate provided in the Credit Agreement after the maturity of the Loans and LC Disbursements and interest accruing at the then applicable rate provided in the Credit Agreement after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Borrower, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding) to the Administrative Agent or any Lender, whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred, which may arise under, out of, or in connection with, the Credit Agreement, this Agreement, any Letter of Credit or the other Loan Documents or any other document made, delivered or given in connection therewith, in each case whether on account of principal, interest, reimbursement obligations, fees, indemnities, costs, expenses or otherwise (including, without limitation, all fees and disbursements of counsel to the Administrative Agent or to the Lenders that are required to be paid by the Borrower pursuant to the terms of any of the foregoing agreements).

“Guarantor Obligations”: means with respect to any Guarantor, the collective reference to (i) the Borrower Obligations and (ii) all obligations and liabilities of such Guarantor which may arise under or in connection with this Agreement, in each case whether on account of guarantee obligations, reimbursement obligations, loan obligations, fees, indemnities, costs, expenses or otherwise (including, without limitation, all fees and disbursements of counsel to the Administrative Agent or to the Lenders that are required to be paid by such Guarantor pursuant to the terms of this Agreement or any other Loan Document).

“Guarantors”: means the collective reference to each Guarantor party to this Agreement.

“Obligations”: means in the case of each Guarantor, its Guarantor Obligations.

“Solvent”: means with respect to each Guarantor as of any date, that (a) the value of the assets of such Guarantor (both at fair value and present fair saleable value) is, on the date of determination, greater than the total amount of liabilities (including contingent and unliquidated liabilities) of such Guarantor as of such date, (b) as of such date, such Guarantor is able to pay all of its liabilities as such liabilities mature and (c) as of such date, such Guarantor does not have unreasonably small capital given the nature of its business. In computing the amount of contingent or unliquidated liabilities at any time, such liabilities shall be computed at the amount that, in light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

1.2 Other Definitional Provisions.

(a) The words “hereof,” “herein”, “hereto” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and Section and Schedule references are to this Agreement unless otherwise specified.

(b) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

(c) A reference to any Person hereunder shall be deemed to include a reference to such Person’s successor’s, endorsees, transferees and assigns.

SECTION 2. GUARANTEE

2.1 Guarantee.

(a) Each of the Guarantors hereby, jointly and severally, (i) absolutely, unconditionally and irrevocably, guarantees to the Administrative Agent for the ratable benefit of the Lenders and their respective successors, endorsees, transferees and assigns, the prompt and complete payment and performance by the Borrower when due (whether at the stated maturity, by acceleration or otherwise) of the Borrower Obligations and (ii) indemnifies and holds harmless the Administrative Agent and each Lender from, and agrees to pay to the Administrative Agent and each Lender, all reasonable costs and expenses (including reasonable counsel fees and expenses) incurred by the Administrative Agent or such Lender in enforcing any of its rights under this Agreement. The guarantee in this Section 2.1 is a continuing guarantee, and shall apply to all Obligations owing at any time whenever arising or incurred and shall remain in full force and effect until the Obligations have been indefeasibly paid in full in cash. Each Guarantor agrees that notwithstanding any stay, injunction or other prohibition preventing the payment by the Borrower of all or any portion of the Borrower Obligations and notwithstanding that all or any portion of the Borrower Obligations may be unenforceable or not allowable due to the existence of a bankruptcy, reorganization or similar proceeding involving the Borrower, such Borrower Obligations shall nevertheless be due and payable by such Guarantor for the purposes of this Agreement at the time such Borrower Obligations would be payable by the Borrower under the provisions of the Credit Agreement. Notwithstanding the foregoing, any enforcement of this Agreement with respect to the rights of any Lender may be accomplished by the Administrative Agent acting on behalf of such Lender.

(b) Anything herein or in any other Loan Document to the contrary notwithstanding, the maximum liability of each Guarantor hereunder shall in no event exceed the amount which can be guaranteed by such Guarantor under applicable federal and state laws relating to the insolvency of debtors (after giving effect to the right of contribution established in Section 2.2).

(c) Each Guarantor agrees that the Borrower Obligations may at any time and from time to time exceed the amount of the liability of such Guarantor hereunder without impairing the guarantee contained in this Section 2 or affecting the rights and remedies of the Administrative Agent or any Lender hereunder.

(d) The guarantee contained in this Section 2.1 shall remain in full force and effect until all the Borrower Obligations and the obligations of each Guarantor under the guarantee contained in this Section 2.1 shall have been satisfied by indefeasible payment in full in cash, no Letter of Credit shall be outstanding and the Commitments shall be terminated, notwithstanding that from time to time during the term of the Credit Agreement the Borrower may be free from any Borrower Obligations.

(e) No payment made by the Borrower, any of the Guarantors, any other guarantor or any other Person or received or collected by the Administrative Agent or any Lender from the Borrower, any of the Guarantors, any other guarantor or any other Person by virtue of any action or proceeding or any set-off or appropriation or application at any time or from time to time in reduction of or in payment of the Borrower Obligations shall be deemed to modify, reduce, release or otherwise affect the liability of any Guarantor hereunder which shall, notwithstanding any such payment (other than any payment made by such Guarantor in respect of the Borrower Obligations or any payment received or collected from such Guarantor in respect of the Borrower Obligations), remain liable for the Borrower Obligations up to the maximum liability of such Guarantor hereunder until, subject to Section 2.6, the Borrower Obligations are indefeasibly paid in full in cash, no Letter of Credit shall be outstanding and the Commitments are terminated.

2.2 Right of Contribution. Each Guarantor hereby agrees that to the extent that a Guarantor shall have paid more than its proportionate share of any payment made hereunder, such Guarantor shall be entitled to seek and receive contribution from and against any other Guarantor hereunder which has not paid its proportionate share of such payment. Each Guarantor's right of contribution shall be subject to the terms and conditions of Section 2.3. The provisions of this Section 2.2 shall in no respect limit the obligations and liabilities of any Guarantor to the Administrative Agent and the Lenders, and each Guarantor shall remain liable to the Administrative Agent and the Lenders for the full amount guaranteed by such Guarantor hereunder.

2.3 No Subrogation. Notwithstanding any payment made by any Guarantor hereunder or any set-off or application of funds of any Guarantor by the Administrative Agent or any Lender, no Guarantor shall be entitled to be subrogated to any of the rights of the Administrative Agent or any Lender against the Borrower or any other Guarantor (or any other guarantor) or any collateral security or guarantee or right of offset held by the Administrative Agent or any Lender for the payment of the Borrower Obligations, nor shall any Guarantor seek or be entitled to seek any contribution or reimbursement from the Borrower or any other Guarantor (or any other guarantor) in respect of payments made by such Guarantor hereunder, until all amounts owing to the Administrative Agent and the Lenders by the Borrower on account of the Borrower Obligations are indefeasibly paid in full in cash, no Letter of Credit shall be outstanding and the Commitments are terminated. If any amount shall be paid to any Guarantor on account of such subrogation rights at any time when all of the Borrower Obligations shall not have been paid in full in cash, such amount shall be held by such Guarantor in trust for the Administrative Agent and the Lenders, segregated from other funds of such Guarantor, and shall, forthwith upon receipt by such Guarantor, be turned over to the Administrative Agent in the exact form received by such Guarantor (duly indorsed by such Guarantor to the Administrative

Agent, if required), to be applied against the Borrower Obligations, whether matured or unmatured, in such order as the Administrative Agent may determine.

2.4 Amendments, etc. with respect to the Borrower Obligations. Each Guarantor shall remain obligated hereunder notwithstanding that, without any reservation of rights against any Guarantor and without notice to or further assent by any Guarantor, any demand for payment of any of the Borrower Obligations made by the Administrative Agent or any Lender may be rescinded by the Administrative Agent or such Lender and any of the Borrower Obligations continued, and the Borrower Obligations, or the liability of any other Person upon or for any part thereof, or any collateral security or guarantee therefor or right of offset with respect thereto, may, from time to time, in whole or in part, be renewed, extended, amended, modified, accelerated, compromised, waived, surrendered or released by the Administrative Agent or any Lender, and the Credit Agreement and the other Loan Documents and any other documents executed and delivered in connection therewith may be amended, modified, supplemented or terminated, in whole or in part, as the Administrative Agent (or the Required Lenders or all Lenders, as the case may be) may deem advisable from time to time, and any collateral security, guarantee or right of offset at any time held by the Administrative Agent or any Lender for the payment of the Borrower Obligations may be sold, exchanged, waived, surrendered or released. Neither the Administrative Agent nor any Lender shall have any obligation to protect, secure, perfect or insure any Lien at any time held by it as security for the Borrower Obligations or for the guarantee contained in this Section 2 or any property subject thereto.

2.5 Guarantee Absolute and Unconditional. Each Guarantor waives any and all notice of the creation, renewal, extension or accrual of any of the Borrower Obligations and notice of or proof of reliance by the Administrative Agent or any Lender upon the guarantee contained in this Section 2 or acceptance of the guarantee contained in this Section 2; the Borrower Obligations, and any of them, shall conclusively be deemed to have been created, contracted or incurred, or renewed, extended, amended or waived, in reliance upon the guarantee contained in this Section 2; and all dealings between the Borrower and any of the Guarantors, on the one hand, and the Administrative Agent and the Lenders, on the other hand, likewise shall be conclusively presumed to have been had or consummated in reliance upon the guarantee contained in this Section 2. Each Guarantor waives diligence, presentment, protest, demand for payment, notice of intent to accelerate, notice of acceleration and notice of default or nonpayment to or upon the Borrower or any of the Guarantors with respect to the Borrower Obligations. Each Guarantor understands and agrees that the guarantee contained in this Section 2 shall be construed as a continuing, absolute and unconditional guarantee of payment without regard to (a) the validity or enforceability of the Credit Agreement or any other Loan Document, any of the Borrower Obligations or any other collateral security therefor or guarantee or right of offset with respect thereto at any time or from time to time held by the Administrative Agent or any Lender, (b) any defense, set-off or counterclaim (other than a defense of payment or performance) which may at any time be available to or be asserted by the Borrower or any other Person against the Administrative Agent or any Lender, (c) any extension, other indulgence, renewal, settlement, discharge, compromise, waiver, subordination or release in respect of any Borrower Obligation, security, Person or otherwise, (d) any modification or amendment of or supplement to the Borrower Obligations, including any increase or decrease in the principal, the rates of interest or other amounts payable thereunder, (e) any release, non-perfection or invalidity of any direct or indirect security for any Borrower Obligation, (f) any change in the existence,

structure, constitution, name, objects, powers, business, control or ownership of the Borrower or any other Person, or any insolvency, bankruptcy, reorganization or other similar proceeding affecting the Borrower or any other Person or its assets, (g) any limitation, postponement, prohibition, subordination or other restriction on the rights of the Administrative Agent or the Lenders to payment of the Borrower Obligations, (h) any release, substitution or addition of any cosigner, endorser or other guarantor of the Borrower Obligations, (i) any defense arising by reason of any failure of the Borrower to make any presentment, demand for performance, notice of non-performance, protest, notice of intent to accelerate, notice of acceleration and any other notice, including notice of all of the following: acceptance of this Agreement, partial payment or non-payment of all or any part of the Borrower Obligations and the existence, creation, or incurring of new or additional Borrower Obligations, (j) any defense arising by reason of any failure of the Administrative Agent to proceed against the Borrower or any other Person, to proceed against, apply or exhaust any security held from the Borrower or any other Person for the Borrower Obligations, to proceed against, apply or exhaust any security held from any Guarantor or any other Person for this Agreement or to pursue any other remedy in the power of the Administrative Agent or the Lenders whatsoever, (k) any law which provides that the obligation of a guarantor must neither be larger in amount nor in other respects more burdensome than that of the principal obligation or which reduces a guarantor's obligation in proportion to the principal obligation, (l) any defense arising by reason of any incapacity, lack of authority, or other defense of the Borrower or any other Person, or by reason of any limitation, postponement, prohibition on the Administrative Agent's or the Lenders' right to payment of the Borrower Obligations or any part thereof, or by reason of the cessation from any cause whatsoever of the liability of the Borrower or any other Person with respect to all or any part of the Borrower Obligations, or by reason of any act or omission of the Administrative Agent or the Lenders which directly or indirectly results in the discharge or release of the Borrower or any other Person of all or any part of the Borrower Obligations or any security or guarantee therefore, whether by contract, operation of law or otherwise, (m) any defense arising by failure by the Administrative Agent or the Lenders to obtain, perfect or maintain a perfected or prior (or any) security interest in or lien or encumbrance upon any property of the Borrower or any other Person, or by reason of any interest of the Borrower in any property, whether as owner thereof or the holder of a security interest therein or lien or encumbrance thereon, being invalidated, voided, declared fraudulent or preferential or otherwise set aside, or by reason of any impairment by the Borrower of any right to recourse or collateral, (n) any defense arising by reason of the failure of the Borrower to marshal any assets, (o) any defense based upon any failure of the Administrative Agent or any Lender to give to the Borrower or any Guarantor notice of any sale or other disposition of any property securing any or all of the Obligations, or any defect in any notice that may be given in connection with any sale or other disposition of any such property, or any failure of the Administrative Agent or any Lender to comply with any provision of applicable law in enforcing any security interest in or lien upon any such property, including any failure of the Administrative Agent or any Lender to dispose of any such property in a commercially reasonable manner, (p) any dealing whatsoever with the Borrower or other Person or any security, whether negligently or not, or any failure to do so, (q) any defense based upon or arising out any bankruptcy, insolvency, reorganization, moratorium, arrangement, readjustment of debt, liquidation or dissolution proceeding commenced by or against the Borrower or any other Person, including any discharge of, or bar against collecting, any of the Borrower Obligations, in or as a result of any such proceeding, (r) or any other act or omission to act or

delay of any kind by the Borrower, the Administrative Agent, any Lender, any Guarantor or any other Person or any other circumstance whatsoever, whether similar or dissimilar to the foregoing, which might, but for the provisions of this Section 2.5, constitute a legal or equitable discharge, limitation or reduction of such Guarantor's obligations hereunder (other than the indefeasible payment in full in cash of all of the Borrower Obligations). The foregoing provisions apply (and the foregoing waivers will be effective) even if the effect of any action (or failure to take any action) by the Administrative Agent or any Lender is to destroy or diminish a Guarantor's subrogation rights, such Guarantor's right to proceed against the Borrower for reimbursement, such Guarantor's right to recover contribution from any other Guarantor or any other right or remedy. When making any demand hereunder or otherwise pursuing its rights and remedies hereunder against any Guarantor, the Administrative Agent or any Lender may, but shall be under no obligation to, make a similar demand on or otherwise pursue such rights and remedies as it may have against the Borrower, any other Guarantor or any other Person or against any collateral security or guarantee for the Borrower Obligations or any right of offset with respect thereto, and any failure by the Administrative Agent or any Lender to make any such demand, to pursue such other rights or remedies or to collect any payments from the Borrower, any other Guarantor or any other Person or to realize upon any such collateral security or guarantee or to exercise any such right of offset, or any release of the Borrower, any other Guarantor or any other Person or any such collateral security, guarantee or right of offset, shall not relieve any Guarantor of any obligation or liability hereunder, and shall not impair or affect the rights and remedies, whether express, implied or available as a matter of law, of the Administrative Agent or any Lender against any Guarantor. For the purposes hereof "demand" shall include the commencement and continuance of any legal proceedings.

2.6 Reinstatement. The guarantee contained in this Section 2 shall continue to be effective, or be reinstated, as the case may be, if at any time payment, or any part thereof, of any of the Borrower Obligations is rescinded or must otherwise be restored or returned by the Administrative Agent or any Lender upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of the Borrower or any Guarantor, or upon or as a result of the appointment of a receiver, intervenor or conservator of, or trustee or similar officer for, the Borrower or any Guarantor or any substantial part of its property, or otherwise, all as though such payments had not been made.

2.7 Payments. Each Guarantor hereby guarantees that payments hereunder will be paid to the Administrative Agent without set-off or counterclaim and without deduction for any taxes and in immediately available funds and in dollars at the Administrative Agent's payment office at the address provided in Section 2.17 of the Credit Agreement.

SECTION 3. REPRESENTATIONS AND WARRANTIES

To induce the Administrative Agent and the Lenders to enter into the Credit Agreement and to induce the Lenders to make their respective extensions of credit to the Borrower thereunder, each Guarantor hereby represents and warrants to the Administrative Agent and each Lender that:

3.1 Representations in Credit Agreement. In the case of each Guarantor, the representations and warranties relating to subsidiaries of the Borrower and the MLP set forth in

Article 3 of the Credit Agreement, each of which is hereby incorporated herein by reference and shall apply *mutatis mutandis*, are true and correct, and the Administrative Agent and each Lender shall be entitled to rely on each of them as if they were fully set forth herein. Each Guarantor also represents and warrants that it is Solvent and that it is a Subsidiary of the MLP.

SECTION 4. COVENANTS

Each Guarantor covenants and agrees with the Administrative Agent and the Lenders that, from and after the date of this Agreement until the Obligations shall have been indefeasibly paid in full in cash, no Letter of Credit shall be outstanding and the Commitments shall have terminated, in the case of each Guarantor, such Guarantor shall take, or shall refrain from taking, as the case may be, each action that is necessary to be taken or not taken, as the case may be, so that no Default or Event of Default is caused by the failure to take such action or to refrain from taking such action by such Guarantor or any of its Subsidiaries.

SECTION 5. THE ADMINISTRATIVE AGENT

5.1 Authority of Administrative Agent. Each Guarantor acknowledges that the rights and responsibilities of the Administrative Agent under this Agreement with respect to any action taken by the Administrative Agent or the exercise or non-exercise by the Administrative Agent of any option, voting right, request, judgment or other right or remedy provided for herein or resulting or arising out of this Agreement shall, as between the Administrative Agent and the Lenders, be governed by the Credit Agreement and by such other agreements with respect thereto as may exist from time to time among them, but, as between the Administrative Agent and the Guarantors, the Administrative Agent shall be conclusively presumed to be acting as agent for the Lenders with full and valid authority so to act or refrain from acting, and no Guarantor shall be under any obligation, or entitlement, to make any inquiry respecting such authority.

SECTION 6. MISCELLANEOUS

6.1 Amendments in Writing. None of the terms or provisions of this Agreement may be waived, amended, supplemented or otherwise modified except in accordance with Section 10.02 of the Credit Agreement.

6.2 Notices. All notices, requests and demands to or upon the Administrative Agent or any Guarantor hereunder shall be effected in the manner provided for in Section 10.01 of the Credit Agreement; provided that any such notice, request or demand to or upon any Guarantor shall be addressed to such Guarantor at its notice address set forth on Schedule 1.

6.3 No Waiver by Course of Conduct; Cumulative Remedies. Neither the Administrative Agent nor any Lender shall by any act (except by a written instrument pursuant to Section 6.1), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Default or Event of Default. No failure to exercise, nor any delay in exercising, on the part of the Administrative Agent or any Lender, any right, power or privilege hereunder shall operate as a waiver thereof. No single or partial exercise of any right, power or privilege hereunder shall preclude any other or further exercise thereof or the exercise of any other right, power or privilege. A waiver by the Administrative Agent or any Lender of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which the Administrative

Agent or such Lender would otherwise have on any future occasion. The rights and remedies herein provided are cumulative, may be exercised singly or concurrently and are not exclusive of any other rights or remedies provided by law.

6.4 Enforcement Expenses; Indemnification.

(a) Each Guarantor agrees to pay or reimburse each Lender and the Administrative Agent for all its costs and expenses incurred in collecting against such Guarantor under the guarantee contained in Section 2 or otherwise enforcing or preserving any rights under this Agreement and which such Guarantor is a party, including, without limitation, the reasonable fees and disbursements of counsel (including the allocated fees and expenses of in-house counsel) to each Lender and of counsel to the Administrative Agent.

(b) Each Guarantor agrees to pay, and to save the Administrative Agent and the Lenders harmless from, any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, performance and administration of this Agreement to the same extent the Borrower would be required to do so pursuant to Section 10.03 of the Credit Agreement.

(c) The agreements in this Section 6.4 shall survive repayment of the Obligations and all other amounts payable under the Credit Agreement and the other Loan Documents.

6.5 Successors and Assigns. This Agreement shall be binding upon the successors and assigns of each Guarantor and shall inure to the benefit of the Administrative Agent and the Lenders and their successors and assigns; provided that no Guarantor may assign, transfer or delegate any of its rights or obligations under this Agreement without the prior written consent of the Administrative Agent.

6.6 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts (including by telecopy), and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Agreement signed by all the parties shall be lodged with the Borrower and the Administrative Agent. Delivery of an executed counterpart of a signature page of this Agreement by telecopy or facsimile shall be effective as delivery of a manually executed counterpart of this Agreement.

6.7 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

6.8 Integration. This Agreement and the other Loan Documents represent the entire agreement of the Guarantors, the Administrative Agent and the Lenders with respect to the subject matter hereof and thereof, and there are no promises, undertakings, representations or

warranties by the Administrative Agent or any Lender relative to subject matter hereof and thereof not expressly set forth or referred to herein.

6.9 GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK AND TO THE EXTENT CONTROLLING, LAWS OF THE UNITED STATES OF AMERICA.

6.10 Submission to Jurisdiction; Waivers. Each Guarantor hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Documents to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the Courts of the State of New York, the courts of the United States of America for the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to such Guarantor at its address referred to in Section 6.2 or at such other address of which the Administrative Agent shall have been notified pursuant thereto;

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction; and

(e) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this Section 6.10 any special, exemplary, punitive or consequential damages.

6.11 Acknowledgments. Each Guarantor hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement and the other Loan Documents to which it is a party;

(b) neither the Administrative Agent nor any Lender has any fiduciary relationship with or duty to any Guarantor arising out of or in connection with this Agreement or the relationship between the Administrative Agent and Lenders, on one hand, and the Guarantors, on the other hand, in connection herewith or therewith is solely that of debtor and creditor; and

(c) no joint venture is created hereby or by the other Loan Documents or otherwise exists by virtue of the transactions contemplated hereby among the Lenders or among the Guarantors and the Lenders.

6.12 WAIVERS OF JURY TRIAL. EACH GUARANTOR, AND THE ADMINISTRATIVE AGENT AND THE LENDERS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

6.13 Section Headings. The Section headings used in this Agreement are for convenience of reference only and are not to affect the construction hereof or be taken into consideration in the interpretation hereof.

6.14 Additional Guarantors. Each Subsidiary of the MLP that is required to become a party to this Agreement pursuant to Section 5.10 of the Credit Agreement shall become a party hereto and a Guarantor hereunder for all purposes of this Agreement upon execution and delivery by such Subsidiary of an Assumption Agreement in the form of Annex I hereto.

6.15 Release of Guarantors. At the request and sole expense of the Borrower and the MLP: (a) any Material Domestic Subsidiary of the MLP that is a Guarantor shall be released from its obligations hereunder in the event that all of the Equity Interests of such Guarantor shall be sold, transferred or otherwise disposed of in a transaction permitted by the Credit Agreement, provided that the Borrower and the MLP shall have delivered to the Administrative Agent, at least ten Business Days prior to the date of the proposed release, a written request of a Responsible Officer of each of the Borrower and the MLP for release identifying the relevant Guarantor and the terms of the sale or other disposition in reasonable detail, together with a certification by the Borrower and the MLP that such transaction is in compliance with the Credit Agreement and the other Loan Documents and that at the time of such release, after giving effect to any other Subsidiary of the MLP becoming a party hereto, the Borrower and the MLP are in compliance with Section 5.10 of the Credit Agreement and no Event of Default exists or would exist as a result of such release; and (b) any Guarantor that is not a Material Domestic Subsidiary of the MLP shall be released from its obligations hereunder, provided that the Borrower and the MLP shall have delivered to the Administrative Agent, at least ten Business Days prior to the date of the proposed release, a written request of a Responsible Officer of each of the Borrower and the MLP for release identifying the relevant Guarantor, together with a certification by the Borrower and the MLP that at the time of such release, after giving effect to any other Subsidiary of the MLP becoming a party hereto, the Borrower and the MLP are in compliance with Section 5.10 of the Credit Agreement and no Event of Default exists or would exist as a result of such release.

6.16 Limitation of Liability. Neither the General Partner nor the general partner(s) of the MLP shall be liable for (c) the obligations of the Borrower under this Agreement or (d) the obligations of the MLP under this Agreement, including in each case, without limitation, by reason of any payment obligation imposed by governing state partnership statutes and any provision of the applicable limited partnership agreement of the Borrower or the MLP that requires such General Partner or general partner(s), as the case may be, to restore a capital account deficit.

IN WITNESS WHEREOF, each of the undersigned has caused this Subsidiary Guaranty Agreement to be duly executed and delivered as of the date first above written.

Guarantor

By: [_____]
Title:

[Guarantor]

By: [_____]
Title:

NOTICE ADDRESSES OF GUARANTORS

Guarantors

Address

Exhibit C - 14

ACKNOWLEDGMENT AND CONSENT

The undersigned hereby acknowledges receipt of a copy of the Subsidiary Guaranty Agreement dated as of [_____], 2004, (the "Subsidiary Guaranty Agreement"), made by the Guarantors parties thereto in favor of JPMorgan Chase Bank, N.A., as Administrative Agent, for the benefit of the Lenders. The undersigned agrees for the benefit of the Administrative Agent and the Lenders the undersigned will be bound by the terms of the Subsidiary Guaranty Agreement and will comply with such terms insofar as such terms are applicable to the undersigned.

[_____]

By: [_____]

Title:

Address for Notices:

ASSUMPTION AGREEMENT, dated as of [____], [200_], by [____], a [____] corporation (the "Additional Guarantor"), in favor of JPMorgan Chase Bank, N.A., as Administrative Agent (in such capacity, the "Administrative Agent") for the banks and other financial institutions (the "Lenders") parties to the Credit Agreement referred to below. All capitalized terms not defined herein shall have the meaning ascribed to them in such Credit Agreement.

WITNESSETH:

WHEREAS, Valero Logistics Operations, L.P., a Delaware limited partnership (the "Borrower"), Valero L.P., a Delaware limited partnership (the "MLP"), the Lenders and the Administrative Agent have entered into a Credit Agreement, dated as of December 20, 2004 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement");

WHEREAS, in connection with the Credit Agreement, certain subsidiaries of the MLP (other than the Additional Guarantor) have entered into the Subsidiary Guaranty Agreement, dated as of [____], 2004 (as amended, supplemented or otherwise modified from time to time, the "Subsidiary Guaranty Agreement") in favor of the Administrative Agent for the benefit of the Lenders:

WHEREAS, the Credit Agreement requires the Additional Guarantor to become a party to the Subsidiary Guaranty Agreement; and

WHEREAS, the Additional Guarantor has agreed to execute and deliver this Assumption Agreement in order to become a party to the Subsidiary Guaranty Agreement;

NOW, THEREFORE, IT IS AGREED:

1. Subsidiary Guaranty Agreement. By executing and delivering this Assumption Agreement, the Additional Guarantor, as provided in Section 6.14 of the Subsidiary Guaranty Agreement, hereby becomes a party to the Subsidiary Guaranty Agreement as a Guarantor thereunder with the same force and effect as if originally named therein as a Guarantor and, without limiting the generality of the foregoing, hereby expressly assumes all obligations and liabilities of a Guarantor thereunder. The information set forth in Annex I-A hereto is hereby added to the information set forth in Schedule 1 to the Subsidiary Guaranty Agreement. The Additional Guarantor hereby represents and warrants that each of the representations and warranties contained in Section 3 of the Subsidiary Guaranty Agreement is true and correct on and as the date hereof (after giving effect to this Assumption Agreement) as if made on and as of such date.

2. GOVERNING LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK AND TO THE EXTENT CONTROLLING, LAWS OF THE UNITED STATES OF AMERICA.

IN WITNESS WHEREOF, the undersigned has caused this Assumption Agreement to be duly executed and delivered as of the date first above written.

[ADDITIONAL GUARANTOR]

By: [_____]
Name:
Title:

Exhibit C - 17

EXHIBIT D-1

FORM OF INITIAL NOTICE OF COMMITMENT INCREASE

[Date]

JPMorgan Chase Bank, N.A.
as Administrative Agent
1111 Fannin, 8th Floor
Houston, TX 77002

Attention: _____

Ladies and Gentlemen:

The undersigned, Valero Logistics Operations, L.P., refers to the 5-Year Revolving Credit Agreement dated as of December 20, 2004 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement", with terms defined in the Credit Agreement and not otherwise defined herein being used herein as therein defined) among Valero Logistics Operations, L.P., a Delaware limited partnership (the "Borrower"), Valero L.P., a Delaware limited partnership, the Lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, SunTrust Bank, as Syndication Agent, and Barclays Bank Plc, Mizuho Corporate Bank Ltd. and Royal Bank of Canada, as Co-Documentation Agents and hereby gives you notice, pursuant to Section 2.19 of the Credit Agreement that the undersigned hereby requests that (x) the Lenders agree to increase their respective Commitments and/or (y) the New Lenders agree to provide Commitments under the Credit Agreement, and in that connection sets forth below the information relating to such proposed Commitment increase as required by Section 2.19 of the Credit Agreement:

(i) the effective date of such increase of aggregate amount of the Lenders' Commitments is _____; and

(ii) the amount of the requested increase (and/or provision, as applicable) of the aggregate Lenders' Commitments is \$_____ [\$10,000,000 minimum];

Exhibit D-1 - 1

Delivery of an executed counterpart of this Initial Notice of Commitment Increase by telecopier shall be effective as delivery of an original executed counterpart of this Initial Notice of Commitment Increase.

Very truly yours,

VALERO LOGISTICS OPERATIONS, L.P.

By: Valero GP, Inc., its General Partner

By: _____
Steven A. Blank
Vice President

Exhibit D-1 - 2

EXHIBIT D-2

FORM OF NOTICE OF CONFIRMATION OF COMMITMENT INCREASE

[Date]

JPMorgan Chase Bank, N.A.
as Administrative Agent
1111 Fannin, 8th Floor
Houston, TX 77002

Attention: _____

Ladies and Gentlemen:

The undersigned, Valero Logistics Operations, L.P., refers to the 5-Year Revolving Credit Agreement dated as of December 20, 2004 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement", with terms defined in the Credit Agreement and not otherwise defined herein being used herein as therein defined) among Valero Logistics Operations, L.P., a Delaware limited partnership (the "Borrower"), Valero L.P., a Delaware limited partnership, the Lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, SunTrust Bank, as Syndication Agent, and Barclays Bank Plc, Mizuho Corporate Bank Ltd. and Royal Bank of Canada, as Co-Documentation Agents and hereby gives you notice, irrevocably, pursuant to Section 2.19 of the Credit Agreement that the undersigned hereby requests that (x) the Lenders agree to increase their respective Commitments and/or (y) the New Lenders agree to provide Commitments under the Credit Agreement, and in that connection sets forth below the information relating to such proposed Commitment increase as required by Section 2.19 of the Credit Agreement:

(i) the effective date of such increase of aggregate amount of the Lenders' Commitments is _____;

(ii) the amount of the requested increase (and/or provision, as applicable) of the aggregate Lenders' Commitments is _____ [\$10,000,000 minimum];

(iii) the Increasing Lenders, the Partially Increasing Lenders or the New Lenders, if any, which have agreed with the Borrower to increase (and/or provide, as applicable) their respective Commitments or to provide Commitments, as the case may be, are: [INSERT NAMES OF THE INCREASING LENDERS, THE PARTIALLY INCREASING LENDERS AND/OR NEW LENDERS];

(iv) the Reducing Lenders, if any, which have not agreed to increase their respective Commitments are: [INSERT THE NAMES OF THE REDUCING LENDERS]; and

(v) set forth on Schedule I hereto is the amount of the respective Commitments of all Increasing Lenders, Partially Increasing Lenders, Reducing Lenders and New Lenders after the effective date of such increase.

Delivery of an executed counterpart of this Notice of Confirmation of Commitment Increase by telecopier shall be effective as delivery of an original executed counterpart of this Notice of Confirmation of Commitment Increase.

Very truly yours,

VALERO LOGISTICS OPERATIONS, L.P.

By: Valero GP, Inc., its General Partner

By: _____

Steven A. Blank
Vice President

Exhibit D-2 - 2

SCHEDULE 2.01

<u>LENDER</u>	<u>COMMITMENT</u>
JPMorgan Chase Bank, N.A.	\$ 22,500,000
SunTrust Bank	\$ 22,500,000
Barclays Bank PLC	\$ 22,500,000
Mizuho Corporate Bank (USA)	\$ 22,500,000
Royal Bank of Canada	\$ 22,500,000
The Bank of Tokyo – Mitsubishi, Ltd.	\$ 20,000,000
Bank of America, N.A.	\$ 20,000,000
The Bank of Nova Scotia	\$ 20,000,000
BNP Paribas	\$ 20,000,000
Citibank, N.A.	\$ 20,000,000
The Royal Bank of Scotland plc	\$ 20,000,000
Bayerische Hypo-Und Vereinsbank AG, New York Branch	\$ 20,000,000
KeyBank National Association	\$ 20,000,000
Sumitomo Mitsui Banking Corporation	\$ 20,000,000
Calyon New York Branch	\$ 20,000,000
Wells Fargo Bank, National Association	\$ 20,000,000
Lehman Brothers Bank, FSB	\$ 17,500,000
UBS Loan Finance LLC	\$ 17,500,000
Compass Bank	\$ 17,500,000
Bank Hapoalim B.M.	\$ 15,000,000
Total	\$ 400,000,000

Schedule 2.01

SCHEDULE 3.06

Disclosed Matters

Grace Litigation. All actions, suits, proceedings, claims and Environmental Liabilities arising out of or related to the Otis pipeline as described in Kaneb's Form 10K for the year ended December 31, 2003.

PEPCO Litigation. All actions, suits, proceedings, claims and Environmental Liabilities arising out of or related to the Potomac Electric Power Company pipeline as described in Kaneb's Form 10K for the year ended December 31, 2003.

Schedule 3.06

SCHEDULE 6.01

Existing Indebtedness

Indebtedness not to exceed A\$56,200,000 under the Facility Agreement between ST Australia Pty Ltd, Terminals Pty Ltd, Kaneb Pipe Line Operating Partnership, L.P. and National Australia Bank Limited dated April 16, 2003 as amended or restated from time to time (or replaced but no increases thereof).

Indebtedness not to exceed £21,000,000 under Credit Agreement between Kaneb Pipe Line Operating Partnership, L.P. and ST Services, LTD., as borrowers, and SunTrust Bank, Atlanta, as Lender dated January 29, 1999 as amended or restated from time to time (or replaced but no increases thereof).

Schedule 6.01

SCHEDULE 6.04

Existing Investments

Investment in ST Linden Terminal, LLC existing on the date hereof

Investment in Steuart-Aectra Terminals Partnership No. 1 existing on the date hereof

Investment in ST/Center Chillicothe Terminal LLC existing on the date hereof

Investment in BST (Auckland) Ltd. existing on the date hereof

Schedule 6.04

SCHEDULE 6.07

Affiliate Agreements

Services and Secondment Agreement dated as of March 18, 2003 between Valero Refining-California and Valero Logistics Operations, L.P.

Services and Secondment Agreement dated as of March 18, 2003 between Valero Refining-Texas, L.P. and Valero Logistics Operations, L.P.

Amended and Restated Services Agreement dated as of April 1, 2004 among Diamond Shamrock Refining and Marketing Company, Valero L.P., Valero Logistics Operations, L.P., Riverwalk Logistics, L.P. and Valero GP, L.L.C.

Schedule 6.07

SCHEDULE 6.08

Existing Restrictions

Indenture dated as of July 15, 2002.

First Supplemental Indenture dated as of July 15, 2002.

Second Supplemental Indenture dated as of March 19, 2003.

Schedule 6.08

VALERO GP, LLC
AMENDED AND RESTATED
2003 EMPLOYEE UNIT INCENTIVE PLAN

Amended and Restated as of January 1, 2005

SECTION 1. Purpose of the Plan.

The Valero GP, LLC 2003 Employee Unit Incentive Plan (the “Plan”) is intended to promote the interests of Valero L.P., a Delaware limited partnership (the “Partnership”), by providing to employees of Valero GP, LLC, a Delaware limited liability company (the “Company”), and its Affiliates who perform services for the Partnership and its subsidiaries incentive awards for superior performance that are based on Units. The Plan is also intended to enhance the Company’s and its Affiliates’ ability to attract and retain employees whose services are key to the growth and profitability of the Partnership, and to encourage them to devote their best efforts to the business of the Partnership and its subsidiaries, thereby advancing the Partnership’s interests.

SECTION 2. Definitions.

As used in the Plan, the following terms shall have the meanings set forth below:

- 2.1 “Affiliate” means, with respect to any Person, any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the Person in question. As used herein, the term “*control*” means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.
- 2.2 “Award” means a grant of one or more Options or Restricted Units pursuant to the Plan, and any tandem DERs granted with respect to such Award.
- 2.3 “Board” means the Board of Directors of the Company.
- 2.4 “Cause” means:
 - (i) fraud or embezzlement on the part of the Participant;
 - (ii) conviction of or the entry of a plea of *nolo contendere* by the Participant to any felony;
 - (iii) gross insubordination or a material breach of, or the willful failure or refusal by the Participant to perform and discharge his duties, responsibilities or obligations (other than by reason of disability or death) that is not corrected within 30 days following written notice thereof to the Participant, such notice to state with specificity the nature of the breach, failure or refusal; or
 - (iv) any act of willful misconduct by the Participant that (a) is intended to result in substantial personal enrichment of the Participant at the expense of the Partnership, the Company or any of their Affiliates, or (b) has a material adverse impact on the business or reputation of the Partnership, the Company or any of their Affiliates (such determination to be made by the Partnership, the Company or any of their Affiliates in the good faith exercise of its reasonable judgment).

- 2.5 “Change of Control” means, and shall be deemed to have occurred upon the occurrence of one or more of the following events: (i) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company or the Partnership to any Person or its Affiliates, unless immediately following such sale, lease, exchange or other transfer such assets are owned, directly or indirectly, by Valero Energy and its Affiliates or the Company; (ii) the consolidation or merger of the Partnership or the Company with or into another Person pursuant to a transaction in which the outstanding voting interests of the Company is changed into or exchanged for cash, securities or other property, other than any such transaction where, in the case of the Company, (a) all outstanding voting interest of the Company is changed into or exchanged for voting stock or interests of the surviving corporation or entity or its parent and (b) the holders of the voting interests of the Company immediately prior to such transaction own, directly or indirectly, not less than a majority of the voting stock or interests of the surviving corporation or entity or its parent immediately after such transaction and, in the case of the Partnership, Valero Energy retains at least a majority of the general partner interest, managing member interest or a majority of the outstanding voting interests of the surviving corporation or entity or its parent; or (iii) a “person” or “group” (within the meaning of Sections 13(d) or 14(d)(2) of the Exchange Act) being or becoming the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Exchange Act) of more than 50% of all voting interests of the Company then outstanding, other than (a) in a merger or consolidation which would not constitute a Change of Control under clause (ii) above and (b) Valero Energy and its Affiliates.
- 2.6 “Committee” means the Compensation Committee of the Board or such other committee of the Board appointed to administer the Plan.
- 2.7 “DER” or “Distribution Equivalent Right” means a contingent right, granted in tandem with a specific Restricted Unit, to receive an amount in cash equal to the cash distributions made by the Partnership with respect to a Unit during the period such Restricted Unit is outstanding.
- 2.8 “Employee” means any employee of the Company or an Affiliate, who performs services for the Partnership, as determined by the Committee, provided, however that employees who are “officers” of the Company or an Affiliate (as such term is defined in Rule 16a-1(f) of the Exchange Act), are not to be “Employees” for purposes of this Plan.
- 2.9 “Exchange Act” means the Securities Exchange Act of 1934, as amended.
- 2.10 “Fair Market Value” means the closing sales price of a Unit on the New York Stock Exchange on the applicable date (or if there is no trading in the Units on such date, on the next preceding date on which there was trading). If Units are not publicly traded at the time a determination of fair market value is required to be made hereunder, the determination of fair market value shall be made in good faith by the Committee.
- 2.11 “Good Reason” means:
- (i) a reduction in the Participant’s annual base salary;
 - (ii) failure to pay the Participant any compensation due under an employment agreement, if any;

- (iii) failure to continue to provide benefits to the Participant that are substantially similar to those then enjoyed by similarly situated employees unless the Partnership, the Company or their Affiliates provide aggregate benefits equivalent to those then in effect; or
- (iv) the Partnership, the Company or their Affiliates purported termination of the Participant's employment for Cause or disability not pursuant to a procedure indicating the specific provision of the definition of Cause contained in this Plan as the basis for such termination of employment.

The Participant may not terminate for Good Reason unless he has given written notice delivered to the Partnership, the Company or their Affiliates, as appropriate, of the action or inaction giving rise to Good Reason, and such action or inaction is not corrected within thirty (30) days thereafter.

2.12 "Option" means on option to purchase Units as further described in Section 6.1.

2.13 "Participant" means any Employee granted an Award under the Plan.

2.14 [reserved].

2.15 "Person" means an individual or a corporation, limited liability company, partnership, joint venture, trust, unincorporated organization, association, government agency or political subdivision thereof or other entity.

2.16 "Restricted Period" means the period established by the Committee with respect to the vesting of an Award during which the Award either remains subject to forfeiture or is not exercisable by the Participant.

2.17 "Restricted Unit" means a phantom unit granted under the Plan which is equivalent in value and in dividend and interest rights to a Unit, and which upon or following vesting entitles the Participant to receive a Unit or its Fair Market Value in cash, whichever is determined by the Committee.

2.18 "Rule 16b-3" means Rule 16b-3 promulgated by the SEC under the Exchange Act, or any successor rule or regulation thereto as in effect from time to time.

2.19 "SEC" means the Securities and Exchange Commission.

2.20 "Unit" means a common unit of the Partnership.

2.21 "Valero Energy" means Valero Energy Corporation.

SECTION 3. Administration.

Annual grant levels for Participants will be recommended by the Chief Executive Officer of the Company, subject to the review and approval of the Committee. The Plan shall be administered by the Committee. A majority of the Committee shall constitute a quorum, and the acts of the members of the Committee who are present at any meeting thereof at which a quorum is present, or acts unanimously approved by the members of the Committee in writing, shall be the acts of the Committee. Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Committee by the Plan, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to a Participant; (iii) determine the number of Units to be covered by Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and under what circumstances Awards may be

settled, exercised, canceled, or forfeited; (vi) interpret and administer the Plan and any instrument or agreement relating to an Award made under the Plan; (vii) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (viii) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive, and binding upon all Persons, including the Company, the Partnership, any Affiliate, any Participant, and any beneficiary of any Award.

SECTION 4. Units Available for Awards.

- 4.1 Units Available. Subject to adjustment as provided in Section 4.3, the number of Units with respect to which Awards may be granted under the Plan is 500,000. If any Award is forfeited or otherwise terminates or is canceled without the delivery of Units, then the Units covered by such Award, to the extent of such forfeiture, termination, or cancellation, shall again be Units with respect to which Awards may be granted.
- 4.2 Sources of Units Deliverable Under Awards. Any Units delivered pursuant to an Award shall consist, in whole or in part, of Units acquired in the open market, from any Affiliate, the Partnership or any other Person, or any combination of the foregoing, as determined by the Committee in its discretion.
- 4.3 Adjustments. If the Committee determines that any distribution (whether in the form of cash, Units, other securities, or other property), recapitalization, split, reverse split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Units or other securities of the Partnership, issuance of warrants or other rights to purchase Units or other securities of the Partnership, or other similar transaction or event affects the Units such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Units (or other securities or property) with respect to which Awards may be granted, (ii) the number and type of Units (or other securities or property) subject to outstanding Awards, and (iii) if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award; provided, that the number of Units subject to any Award shall always be a whole number.

SECTION 5. Eligibility.

Any Employee shall be eligible to be designated a Participant and receive an Award under the Plan.

SECTION 6. Awards.

- 6.1 Options. The Committee shall have the authority to determine the Employees to whom Options shall be granted, the number of Units to be covered by each Option, the purchase price therefor and the conditions and limitations applicable to the exercise of the Option, including the following terms and conditions and such additional terms and conditions, as the Committee shall determine, that are not inconsistent with the provisions of the Plan.
- (i) Exercise Price. The purchase price per Unit purchasable under an Option shall be determined by the Committee at the time the Option is granted but shall not be less than its Fair Market Value as of the date of grant.
 - (ii) Time and Method of Exercise. The Committee shall determine the Restricted Period (*i.e.*, the time or times at which an Option may be exercised in whole or in part), and the method or methods by which payment of the exercise price with respect thereto may be made or deemed to have been made which may include, without limitation, cash, check acceptable to the Company, a “cashless-broker” exercise (through procedures approved by the Company), other securities or other property, or any combination thereof, having a value on the exercise date equal to the relevant exercise price.
 - (iii) Term. Subject to earlier termination as provided in the grant agreement or the Plan, each Option shall expire on the 10th anniversary of its date of grant.
 - (iv) Forfeiture. Except as otherwise provided in this Plan, in the terms of an Award agreement, or in a written employment agreement (if any) between the Participant and the Company or one of its Affiliates, upon termination of a Participant’s employment with the Company or its Affiliates for any reason (other than for retirement, death or disability of the Participant (see Section 6.3(ix) below)) during the applicable Restricted Period, all Options which remain unexercised, whether vested or unvested, shall be forfeited by the Participant at the close of business on the date of the Participant’s termination of employment. The Committee or the Chief Executive Officer may waive in whole or in part such forfeiture with respect to a Participant’s Options.
- 6.2 Restricted Units. The Committee shall have the authority to determine the Employees to whom Restricted Units shall be granted, the number of Restricted Units to be granted to each such Participant, the duration of the Restricted Period (if any), the conditions under which the Restricted Units may become vested (which may be immediate upon grant) or forfeited, and such other terms and conditions as the Committee may establish respecting such Awards, including whether DERs are granted with respect to such Restricted Units.
- (i) DERs. To the extent provided by the Committee, in its discretion, a grant of Restricted Units may include a tandem DER grant, which may

provide that such DERs shall be paid directly to the Participant, be credited to a bookkeeping account (with or without interest in the discretion of the Committee) subject to the same restrictions as the tandem Award, or be subject to such other provisions or restrictions as determined by the Committee in its discretion.

- (ii) Forfeiture. Except as otherwise provided in this Plan, in the terms of an Award agreement, or in a written employment agreement (if any) between the Participant and the Company or one of its Affiliates, upon termination of a Participant's employment with the Company or its Affiliates for any reason (other than for retirement, death or disability of the Participant (see Section 6.3(ix) below)) during the applicable Restricted Period, all Restricted Units shall be forfeited by the Participant at the close of business on the date of the Participant's termination of employment. The Committee or the Chief Executive Officer may waive in whole or in part such forfeiture with respect to a Participant's Restricted Units.
- (iii) Lapse of Restrictions. Upon the vesting of each Restricted Unit, the Participant shall be entitled to receive from the Company one Unit or its Fair Market Value, as determined by the Committee, subject to the provisions of Section 8.2.

6.3 General.

- (i) Awards May Be Granted Separately or Together. Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution for any other Award granted under the Plan or any award granted under any other plan of the Company or any Affiliate. Awards granted in addition to or in tandem with other Awards or awards granted under any other plan of the Company or any Affiliate may be granted either at the same time as or at a different time from the grant of such other Awards or awards.
- (ii) Limits on Transfer of Awards. No Award and no right under any such Award may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a Participant otherwise than by will or by the laws of descent and distribution and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that an Option may be transferred by a Participant without consideration to immediate family members or related family trusts, limited partnerships or similar entities or on such terms and conditions as the Committee may from time to time establish.
- (iii) Term of Awards. The term of each Award shall be for such period as may be determined by the Committee.

- (iv) Unit Certificates. All certificates for Units or other securities of the Partnership delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the SEC, any stock exchange upon which such Units or other securities are then listed, and any applicable federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.
- (v) Consideration for Grants. Awards may be granted for no cash consideration or for such consideration as the Committee determines including, without limitation, such minimal cash consideration as may be required by applicable law.
- (vi) Delivery of Units or other Securities and Payment by Participant of Consideration. Notwithstanding anything in the Plan or any grant agreement to the contrary, delivery of Units pursuant to the exercise or vesting of an Award may be deferred for any period during which, in the good faith determination of the Committee, the Company is not reasonably able to obtain Units to deliver pursuant to such Award without violating the rules or regulations of any applicable law or securities exchange. No Units or other securities shall be delivered pursuant to any Award until payment in full of any amount required to be paid pursuant to the Plan or the applicable Award agreement (including, without limitation, any exercise price or any tax withholding) is received by the Company. Such payment may be made by such method or methods and in such form or forms as the Committee shall determine, including, without limitation, cash, other Awards, withholding of Units, or any combination thereof; provided that the combined value, as determined by the Committee, of all cash and cash equivalents and the value of any such Units or other property so tendered to the Company, as of the date of such tender, is at least equal to the full amount required to be paid to the Company pursuant to the Plan or the applicable Award agreement.
- (vii) Change of Control. Upon a Change of Control, or such period prior thereto as may be established by the Committee, all Awards shall automatically vest and become payable or exercisable, as the case may be, in full. In this regard, all Restricted Periods shall terminate and all performance criteria, if any, shall be deemed to have been achieved at the maximum level.
- (viii) Sale of Significant Assets. In the event the Company or the Partnership sells or otherwise disposes of, other than to an Affiliate, a significant portion of the assets under its control, (such significance to be determined by action of the Board of the Company in its sole discretion) and as a consequence of such disposition (a) a Participant's employment

is terminated by the Partnership, the Company or their affiliates without Cause or by the Participant for Good Reason, provided, however, that in the case of any such termination by the Participant under this subparagraph 6.3(viii), such termination shall not be deemed to be for Good Reason unless the termination occurs within 180 days after the occurrence of the applicable sale or disposition constituting the reason for the termination or (b) as a result of such sale or disposition, the Participant's employer shall no longer be the Partnership, the Company or one of their Affiliates, then all of such Participant's Awards shall automatically vest and become payable or exercisable, as the case may be, in full. In this regard, all Restricted Periods shall terminate and all performance criteria, if any, shall be deemed to have been achieved at the maximum level.

- (ix) Retirement, Death, Disability. Except as otherwise determined by the Committee and included in the Participant's Award agreement, if a Participant's employment is terminated because of retirement, death or disability (with the determination of disability to be made within the sole discretion of the Committee), any Award held by the Participant shall remain outstanding and vest or become exercisable according to the Award's original terms, provided, however, that any Restricted Units held by such Participant which remain unvested as of the date of retirement, death or disability shall immediately vest and become non-forfeitable as of such date.

SECTION 7. Amendment and Termination.

Except to the extent prohibited by applicable law and unless otherwise expressly provided in an Award agreement or in the Plan:

- (i) Amendments to the Plan. Except as required by applicable law or the rules of the principal securities exchange on which the Units are traded and subject to Section 7(ii) below, the Board or the Committee may amend, alter, suspend, discontinue, or terminate the Plan in any manner, without the consent of any partner, Participant, other holder or beneficiary of an Award, or other Person; provided, however, that the Board or the Committee may not increase the number of Units available for Awards under the Plan.
- (ii) Amendments to Awards. The Committee may waive any conditions or rights under, amend any terms of, or alter any Award theretofore granted, provided no change, other than pursuant to Section 7(iii), in any Award shall materially reduce the benefit to Participant without the consent of such Participant.
- (iii) Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. The Committee is hereby authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 4.3 of the Plan) affecting the Partnership or the financial statements of the Partnership, or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that

such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

SECTION 8. General Provisions.

- 8.1 No Rights to Awards. No Person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Participants. The terms and conditions of Awards need not be the same with respect to each Participant.
- 8.2 Withholding. The Company or any Affiliate is authorized to withhold from any Award, from any payment due or transfer made under any Award or from any compensation or other amount owing to a Participant the amount (in cash, Units, other securities, Units that would otherwise be issued pursuant to such Award or other property) of any applicable taxes payable in respect of the grant of an Award, the lapse of restrictions thereon, or any payment or transfer under an Award or under the Plan and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes.
- 8.3 No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of the Company or any Affiliate. Further, the Company or an Affiliate may at any time dismiss a Participant from employment, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award agreement.
- 8.4 Governing Law. The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Delaware and applicable federal law.
- 8.5 Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award and the remainder of the Plan and any such Award shall remain in full force and effect.
- 8.6 Other Laws. The Committee may refuse to issue or transfer any Units or other consideration under an Award if, in its sole discretion, it determines that the issuance or transfer of such Units or such other consideration might violate any applicable law or regulation, the rules of the principal securities exchange on which the Units are then traded, or entitle the Partnership or an Affiliate to recover the entire then Fair Market Value thereof under Section 16(b) of the Exchange Act, and any payment tendered to the Company by a Participant, other holder or beneficiary in connection with the exercise of such Award shall be promptly refunded to the relevant Participant, holder or beneficiary.

- 8.7 No Trust or Fund Created. Neither the Plan nor the Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any general unsecured creditor of the Company or any Affiliate.
- 8.8 No Fractional Units. No fractional Units shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash, other securities, or other property shall be paid or transferred in lieu of any fractional Units or whether such fractional Units or any rights thereto shall be canceled, terminated, or otherwise eliminated.
- 8.9 Headings. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.
- 8.10 Facility Payment. Any amounts payable hereunder to any person under legal disability or who, in the judgment of the Committee, is unable to properly manage his financial affairs, may be paid to the legal representative of such person, or may be applied for the benefit of such person in any manner which the Committee may select, and the Company shall be relieved of any further liability for payment of such amounts.
- 8.11 Gender and Number. Words in the masculine gender shall include the feminine gender, the plural shall include the singular and the singular shall include the plural.

SECTION 9. Term of the Plan.

The Plan was approved by the Board on June 11, 2003 with an effective date of June 16, 2003, and shall continue until the date terminated by the Board or Units are no longer available for grants of Awards under the Plan, whichever occurs first, provided, however, that notwithstanding the foregoing, no Award shall be made under the Plan after the tenth anniversary of the effective date. However, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award granted prior to such termination, and the authority of the Board or the Committee to amend, alter, adjust, suspend, discontinue, or terminate any such Award or to waive any conditions or rights under such Award, shall extend beyond such termination date.

**VALERO GP, LLC
AMENDED AND RESTATED
2002 UNIT OPTION PLAN**

Amended and Restated as of January 1, 2005

I. Plan Purpose

The Valero GP, LLC 2002 Unit Option Plan (the “Plan”) is intended to promote the interests of Valero L.P., a Delaware limited partnership (the “Partnership”), by providing to employees and directors of Valero GP, LLC, a Delaware limited liability company (the “Company”), and its Affiliates who perform services for the Partnership and its subsidiaries the incentive to acquire Units through the grant of Options to purchase such Units as described herein. The Plan is intended to assist the Company and its Affiliates in the attraction, motivation, and retention of employees who are vital to the growth and financial success of the Partnership and to align employees’ interests with those of other Unit holders of the Partnership.

II. Definitions

In this Plan, except where the context indicates otherwise, the following definitions apply:

- (a) “Affiliate” means an entity that controls, is controlled by, or is under common control with the Company, as defined in Sections 424(e) and (f) of the Code (but substituting “the Company” for “employer corporation”), including entities which become such after adoption of the Plan.
- (b) “Agreement” means a written agreement granting an Option that is executed by the Company and the Optionee.
- (c) “Award” means a grant of one or more Options pursuant to the Plan.
- (d) “Beneficiary” means the person or persons described in Section XI(j).
- (e) “Board” means the Board of Directors of the Company.
- (f) “Cause” means:
 - (i) fraud or embezzlement on the part of the Participant (such determination to be made by the Committee in the good faith exercise of its reasonable judgment);
 - (ii) conviction of or the entry of a plea of *nolo contendere* by the Participant to any felony;
 - (iii) gross insubordination or a material breach of, or the willful failure or refusal by the Participant to perform and discharge his duties, responsibilities or obligations (other than by reason of disability or death) that is not corrected within 30 days following written notice thereof to the Participant, such notice to state with specificity the nature of the breach, failure or refusal; or
 - (iv) any act of willful misconduct by the Participant that (a) is intended to result in substantial personal enrichment of the Participant at the expense of the Partnership, the Company or any of their Affiliates, or (b) has a material adverse impact on the business or reputation of the Partnership, the Company or any of their Affiliates (such determination to be made by the Partnership, the Company or any of their Affiliates in the good faith exercise of their reasonable judgment).

- (g) “Code” means the Internal Revenue Code of 1986, as amended.
- (h) “Committee” means the Compensation Committee of the Board, the committee appointed by the Board to administer the Plan.
- (i) “Company” means Valero GP, LLC, a Delaware limited liability company.
- (j) “Date of Exercise” means the date on which the Company receives notice of the exercise of an Option in accordance with Section VI(c) of the Plan.
- (k) “Date of Grant” means the date on which an Option is granted under the Plan.
- (l) “Director” means a member of the Board of Directors of the Company or any Affiliate.
- (m) “Employee” means any employee of the Company or an Affiliate, as determined by the Committee.
- (n) “Exchange Act” means the Securities Exchange Act of 1934, as amended.
- (o) “Fair Market Value” means the closing price of a Unit on the New York Stock Exchange on the applicable date (or if there is no trading in the Units on such date, on the next preceding date on which there was trading). If Units are not publicly traded at the time a determination of fair market value is required to be made hereunder, the determination of fair market value shall be made in good faith by the Committee.
- (p) “Option” means an option to purchase Units granted under the Plan. Such Options will be nonqualified unit options and are not intended to be Incentive Stock Options as defined in Section 422 of the Code.
- (q) “Option Period” means the period during which an Option may be exercised.
- (r) “Optionee” means a Participant to whom an Option has been granted.
- (s) “Participant” means any Employee or Director granted an Award under the Plan.
- (t) “Partnership” means Valero L.P., a Delaware limited partnership.
- (u) “Plan” means the Valero GP, LLC 2002 Unit Option Plan as set forth herein.
- (v) “Unit” means a common unit of the Partnership.

III. Administration of the Plan

- (a) The Committee shall administer the Plan.
- (b) The Committee shall have full power and authority to interpret the provisions of the Plan and supervise its administration. All decisions and selections made by the Committee pursuant to the provisions of the Plan shall be made by a majority of its members. Any decision reduced to writing and signed by a majority of the members shall be fully effective as if adopted by a majority at a meeting duly held. Subject to the provisions of the Plan, the Committee shall have full and final authority to determine the Participants to whom Options hereunder shall be granted; the number of Units to be covered by each Option; the terms and conditions of any Option, the determination of whether, to what extent, and under what circumstances Options may be settled, exercised, cancelled, or forfeited; the determination of such rules and regulations as deemed proper for the

administration of the Plan; and the making of any other determination or actions required for the proper interpretation and administration of the Plan.

- (c) Unless expressly provided in the Plan, all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Award or Option shall be within the sole discretion of the Committee, may be made at any time, and shall be final, conclusive, and binding upon the Company, the Partnership, any Affiliate, any Participant, and any beneficiary of any Award or Option.

IV. Units Available for Awards

- (a) Units Available. Subject to adjustment as provided in Section IV. (c) hereunder, the number of Units with respect to which Awards may be granted under the Plan is 200,000. If any Award is forfeited or otherwise terminates or is canceled without the exercise of such Option grant, then the Units covered by such Award, to the extent of such forfeiture, termination, or cancellation, shall again be Units with respect to which Awards may be granted.
- (b) Sources of Units Deliverable Under Awards. Any Units delivered pursuant to the exercise of an Option shall consist, in whole or in part, of Units acquired in the open market, from any Affiliate, the Partnership or any other person, or any combination of the foregoing, as determined by the Committee in its discretion.
- (c) Adjustments. If the Committee determines that any distribution (whether in the form of cash, Units, other securities, or other property), recapitalization, split, reverse split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Units or other securities of the Partnership, issuance of warrants or other rights to purchase Units or other securities of the Partnership, or other similar transaction or event affects the Units such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and types of Units (or other securities or property) with respect to which Awards may be granted, (ii) the number and type of Units (or other securities or property) subject to outstanding Awards or Options, and (iii) if deemed appropriate, make provision for a cash payment to the holder of an outstanding Option; provided, that the number of Units subject to any Award or Option shall always be a whole number.

V. Eligibility

Any Employee or Director shall be eligible to be designated a Participant.

VI. Awards

The Committee shall have the authority to determine the Employees and Non-Employee Directors to whom Options shall be granted, the number of Units to be covered by each Option, the Date of Grant of the Option, the purchase price therefor and the conditions and limitations applicable to the exercise of the Option, including the following terms and conditions, as the Committee shall determine, that are not inconsistent with the provisions of the Plan.

- (a) Exercise Price. The purchase price per Unit purchasable under an Option shall be determined by the Committee at the time the Option is granted but shall not be less than its Fair Market Value as of the Date of Grant.
- (b) Time and Method of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part, and the method or methods by which payment of the exercise price with respect thereto may be made or deemed to have been made which may include, without limitation, cash, check acceptable to the Company, a “cashless-broker” exercise (through procedures approved by the Company), other securities or other property, a note from the Participant (in a form acceptable to the Company), or any combination thereof, having a value on the exercise date equal to the relevant exercise price. The Participant shall provide written notice to the Company Secretary of his intent to exercise on or before the Date of Exercise.
- (c) Term. Subject to earlier termination as provided in the Agreement or the Plan, each Option shall expire on the tenth (10th) anniversary of its Date of Grant.
- (d) Forfeiture. Except as otherwise provided in this Plan, in the terms of an Award agreement, or in a written employment agreement (if any) between the Participant and the Company or one of its Affiliates, upon termination of a Participant’s (i) employment with the Company or its Affiliates, or (ii) membership on the Board, whichever is applicable, for any reason (other than for retirement, death or disability of the Participant (see Section VI.(h) below)), all Options which remain unexercised, whether vested or unvested, shall be forfeited by the Participant at the close of business on the date of the Participant’s termination of employment or membership on the Board. The Committee or the Chief Executive Officer may waive in whole or in part such forfeiture with respect to a Participant’s Options.
- (e) [Reserved]
- (f) [Reserved]
- (g) [Reserved]
- (h) Except as otherwise determined by the Committee and included in the Participant’s Award agreement, if a Participant’s employment or Board membership is terminated because of retirement, death or disability (with the determination of disability to be made within the sole discretion of the Committee), any Option held by the Participant shall remain outstanding and vest or become exercisable according to the Option’s original terms.
- (i) [Reserved]
- (j) Notwithstanding the other provisions of this Section VI of the Plan, in no event may an Option be exercised after the expiration of 10 years from the Date of Grant.

VII. Assignability of Awards or Options

Options granted under the Plan shall not be assignable or otherwise transferable by the Participant except by will or the laws of descent and distribution. Otherwise, Options granted under this Plan shall be exercisable during the lifetime of the Participant (except as otherwise provided in the Plan or the

applicable Agreement) only by the Participant for his or her individual account, and no purported assignment or transfer of such Options thereunder, whether voluntary or involuntary, by operation of law or otherwise, shall vest in the purported assignee or transferee any interest or right therein whatsoever but immediately upon any such purported assignment or transfer, or any attempt to make the same, such Options thereunder shall terminate and become of no further effect.

VIII. Effective Date and Term of the Plan

The Plan was approved and adopted by the Board on March 22, 2002 and has become effective thereon.

IX. Withholding

The Company's obligation to deliver Units or pay any amount pursuant to the terms of any Option shall be subject to the satisfaction of applicable federal, state and local tax withholding requirements. To the extent provided in the applicable Agreement and in accordance with rules prescribed by the Committee, a Participant may satisfy any such withholding tax obligation by any of the following means or by a combination of such means: (i) tendering a cash payment, (ii) authorizing the Company to withhold Units otherwise issuable to the Participant, or (iii) delivering to the Company already owned and unencumbered Units.

X. Amendment and Termination of Awards

- (a) Amendments to Awards. The Committee may waive any conditions or rights under, amend any terms of, or alter any Award or Option theretofore granted, provided no change, other than pursuant to Section X(b) below, in an Award shall materially reduce the benefit to Participant without the consent of such Participant.
- (b) Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. The Committee is hereby authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards and Options in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section IV(c) of the Plan) affecting the Partnership or the financial statements of the Partnership, or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

XI. General

The following general provisions shall be applicable to the Plan:

- (a) No Rights to Awards. No Employee or Director shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Participants. The terms and conditions of Awards need not be the same with respect to each Participant.
- (b) No Right to Employment. The grant of an Award or Option shall not be construed as giving a Participant the right to be retained in the employ of the Company or any Affiliate or to remain on the Board, as applicable. Further, the Company or an Affiliate may at any time dismiss a Participant from employment, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in an Agreement.

- (c) Governing Law. The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Delaware and applicable federal law.
- (d) Severability. If any provision of the Plan or any Award or Option is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any person or Award, or would disqualify the Plan or any Award or any Option under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, person, Award, or Option, and the remainder of the Plan and any such Award or Option shall remain in full force and effect.
- (e) Other Laws. The Committee may refuse to issue or transfer any Units or other consideration under an Award or Option if, in its sole discretion, it determines that the issuance or transfer of such Units or such other consideration might violate any applicable law or regulation, the rules of the principal securities exchange on which the Units are then traded, or entitle the Partnership or an Affiliate to recover the entire then Fair Market Value thereof under Section 16(b) of the Exchange Act, and any payment tendered to the Company by a Participant, other holder or beneficiary in connection with the exercise of such Award or Option shall be promptly refunded to the relevant Participant, holder or beneficiary.
- (f) No Trust or Fund Created. Neither the Plan nor the Award or Option shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award or Option, such right shall be no greater than the right of any general unsecured creditor of the Company or any Affiliate.
- (g) No Fractional Units. No fractional Units shall be issued or delivered pursuant to the Plan or any Award or Option, and the Committee shall determine whether cash, other securities, or other property shall be paid or transferred in lieu of any fractional Units or whether such fractional Units or any rights thereto shall be canceled, terminated, or otherwise eliminated.
- (h) Headings. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.
- (i) Gender and Number. Words in the masculine gender shall include the feminine gender, the plural shall include the singular, and the singular shall include the plural.
- (j) Beneficiary. Each person whose name appears on the signature page of a Participant's Agreement after the caption "Beneficiary" or is otherwise designated by Participant in accordance with the rules established by the Committee and who is Participant's

Beneficiary at the time of his or her death shall be recognized under the Plan as the Participant's "Beneficiary" and shall be entitled to exercise the Option, to the extent it is exercisable, after the death of Participant. Any Participant may from time to time revoke or change his or her Beneficiary without the consent of any prior Beneficiary by filing a new designation with the Company. The last such designation received by the Company shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received (within the meaning of such term under Section XI (l) of the Plan) by the Company prior to the Participant's death, and in no event shall any designation be effective as of a date prior to such receipt. If no Beneficiary designation is in effect at the time of the Participant's death, or if no designated Beneficiary survives the Participant or if such designation conflicts with applicable law, each person entitled to the Option under the Participant's last will or, in the absence of any such will, the laws of descent and distribution, shall be deemed to be the Participant's Beneficiary who is entitled to exercise the Option, to the extent it is exercisable after the death of Participant. If the Committee administering the Plan is in doubt as to the right of any person to exercise the Option, the Company may refuse to recognize such exercise, without liability for any interest or distributions on the underlying Units, until the Committee determines the person entitled to exercise the Option, or the Company may apply to any court of appropriate jurisdiction for declaratory or other appropriate relief and such application shall be a complete discharge of the liability of the Company therefore.

- (k) The Company and its Affiliates will pay all expense that may arise in connection to the administration of this Plan.
- (l) Any notice required or permitted to be given under this Plan shall be sufficient if in writing and hand-delivered with appropriate proof of same, or sent by registered or certified mail, return receipt requested, to the Participant, Beneficiary or the Secretary (or equivalent person) of the Company, Affiliate, Partnership, Committee, or other person or entity at the address last furnished by such person or entity. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.
- (m) No liability whatever shall attach to or be incurred by any past, present or future unitholders, stockholders, members, officers or directors, as such, of the Company and its Affiliates, under or by reason any of the terms, conditions or agreements contained in this Plan or implied therefrom, and any and all liabilities of, and any and all rights and claims against, the Company or its Affiliates, or any unitholder, stockholder, member, officer or director, as such, whether arising at common law or in equity or created by statute or constitution or otherwise, pertaining to this Plan (other than liability for the benefits, if any, provided hereunder), are hereby expressly waived and released by every Participant, as part of the consideration for any benefits provided by the Company and its Affiliates under this Plan.
- (n) Neither the Company nor any Affiliates nor the Committee makes any commitment or guarantee that any federal or state tax treatment will apply or be available to any person participating or eligible to participate in this Plan.

- (o) The provisions of the Plan shall be binding on all successors and assigns of (i) the Company or any Affiliates and (ii) a Participant, including without limitation, the estate of such Participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Participant's creditors.
- (p) Except as otherwise provided in any notification or agreement relating to an Award, a Participant shall have no rights as a unitholder of the Partnership until such Participant becomes the holder of record of Units.
- (q) This Plan is not intended by its terms or as a result of surrounding circumstances to provide retirement income or to defer the receipt of payments hereunder to the termination of the Participant's covered employment or beyond. This Plan is strictly a Unit option program and not a pension or welfare benefit plan that is subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). All interpretations and determinations hereunder shall be made on a basis consistent with the status of the Plan as a Unit option program that is not subject to ERISA.

VALERO GP, LLC
AMENDED AND RESTATED
2000 LONG-TERM INCENTIVE PLAN

Amended and Restated as of January 1, 2005

SECTION 1. Purpose of the Plan.

The Valero GP, LLC 2000 Long-Term Incentive Plan (the "Plan") is intended to promote the interests of Valero L.P., a Delaware limited partnership (the "Partnership"), by providing to employees and directors of Valero GP, LLC, a Delaware limited liability company (the "Company"), and its Affiliates who perform services for the Partnership and its subsidiaries incentive awards for superior performance that are based on Units. The Plan is also intended to enhance the Company's and its Affiliates' ability to attract and retain employees whose services are key to the growth and profitability of the Partnership, and to encourage them to devote their best efforts to the business of the Partnership, thereby advancing the Partnership's interests.

SECTION 2. Definitions.

As used in the Plan, the following terms shall have the meanings set forth below:

- 2.1 "Affiliate" means, with respect to any Person, any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with, the Person in question. As used herein, the term "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.
- 2.2 "Award" means a grant of one or more Options or Restricted Units pursuant to the Plan, and any tandem DERs granted with respect to such Award.
- 2.3 "Board" means the Board of Directors of the Company.
- 2.4 "Cause" means:
 - (i) fraud or embezzlement on the part of the Participant;
 - (ii) conviction of or the entry of a plea of *nolo contendere* by the Participant to any felony;
 - (iii) gross insubordination or a material breach of, or the willful failure or refusal by the Participant to perform and discharge his duties, responsibilities or obligations (other than by reason of disability or death) that is not corrected within 30 days following written notice thereof to the Participant, such notice to state with specificity the nature of the breach, failure or refusal; or
 - (iv) any act of willful misconduct by the Participant that (a) is intended to result in substantial personal enrichment of the Participant at the expense of the Partnership, the Company or any of their Affiliates, or (b) has a material adverse impact on the business or reputation of the Partnership, the Company or any of their Affiliates (such determination to be made by the Partnership, the Company or any of their Affiliates in the good faith exercise of its reasonable judgment).

- 2.5 “Change of Control” means, and shall be deemed to have occurred upon the occurrence of one or more of the following events: (i) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company or the Partnership to any Person or its Affiliates, unless immediately following such sale, lease, exchange or other transfer such assets are owned, directly or indirectly, by Valero Energy Corporation and its Affiliates or the Company; (ii) the consolidation or merger of the Partnership or the Company with or into another Person pursuant to a transaction in which the outstanding voting interests of the Company is changed into or exchanged for cash, securities or other property, other than any such transaction where, in the case of the Company, (a) all outstanding voting interest of the Company is changed into or exchanged for voting stock or interests of the surviving corporation or entity or its parent and (b) the holders of the voting interests of the Company immediately prior to such transaction own, directly or indirectly, not less than a majority of the voting stock or interests of the surviving corporation or entity or its parent immediately after such transaction and, in the case of the Partnership, Valero Energy Corporation retains operational control, whether by way of holding a general partner interest, managing member interest or a majority of the outstanding voting interests of the surviving corporation or entity or its parent; or (iii) a “person” or “group” (within the meaning of Sections 13(d) or 14(d)(2) of the Exchange Act) being or becoming the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Exchange Act) of more than 50% of all voting interests of the Company then outstanding, other than (a) in a merger or consolidation which would not constitute a Change of Control under clause (ii) above and (b) Valero Energy Corporation and its Affiliates.
- 2.6 “Committee” means the Compensation Committee of the Board or such other committee of the Board appointed to administer the Plan.
- 2.7 “DER” means a contingent right, granted in tandem with a specific Restricted Unit, to receive an amount in cash equal to the cash distributions made by the Partnership with respect to a Unit during the period such Restricted Unit is outstanding.
- 2.8 “Director” means a “non-employee director” of the Company, as defined in Rule 16b-3.
- 2.9 “Employee” means any employee of the Company or an Affiliate, as determined by the Committee.
- 2.10 “Exchange Act” means the Securities Exchange Act of 1934, as amended.
- 2.11 “Fair Market Value” means the closing sales price of a Unit on the New York Stock Exchange on the applicable date (or if there is no trading in the Units on such date, on the next preceding date on which there was trading). If Units are not publicly traded at the time a determination of fair market value is required to be made hereunder, the determination of fair market value shall be made in good faith by the Committee.
- 2.12 “Good Reason” means:
- (i) a reduction in the Participant’s annual base salary;
 - (ii) failure to pay the Participant any compensation due under an employment agreement, if any;

- (iii) failure to continue to provide benefits substantially similar to those then enjoyed by the Participant unless the Partnership, the Company or their Affiliates provide aggregate benefits equivalent to those then in effect; or
- (iv) failure to continue a compensation plan or to continue the Participant's participation in a plan on a basis not materially less favorable to the Participant, subject to the power of the Partnership, the Company or their Affiliates to amend such plans in their reasonable discretion
- (v) the Partnership, the Company or their Affiliates purported termination of the Participant's employment for Cause or disability not pursuant to a procedure indicating the specific provision of the definition of Cause contained in this Plan as the basis for such termination of employment;

The Participant may not terminate for Good Reason unless he has given written notice delivered to the Partnership, the Company or their Affiliates, as appropriate, of the action or inaction giving rise to Good Reason, and if such action or inaction is not corrected within thirty (30) days thereafter, such notice to state with specificity the nature of the breach, failure or refusal.

2.13 "Option" means an option to purchase Units as described in Section 6.1.

2.14 "Participant" means any Employee or Director granted an Award under the Plan.

2.15 [reserved]

2.16 "Person" means an individual or a corporation, limited liability company, partnership, joint venture, trust, unincorporated organization, association, government agency or political subdivision thereof or other entity.

2.17 "Restricted Period" means the period established by the Committee with respect to the vesting of an Award during which the Award either remains subject to forfeiture or is not exercisable by the Participant.

2.18 "Restricted Unit" means a phantom unit granted under the Plan which is equivalent in value and in divided and interest rights to a Unit, and which upon or following vesting entitles the Participant to receive a Unit .

2.19 "Rule 16b-3" means Rule 16b-3 promulgated by the SEC under the Exchange Act, or any successor rule or regulation thereof as in effect from time to time.

2.20 "SEC" means the Securities and Exchange Commission.

2.21 "Unit" means a common unit of the Partnership.

SECTION 3. Administration.

Annual grant levels for Participants will be recommended by the Chief Executive Officer of the Company, subject to the review and approval of the Committee. The Plan shall be administered by the Committee. A majority of the Committee shall constitute a quorum, and the acts of the members of the Committee who are present at any meeting thereof at which a quorum is present, or acts unanimously approved by the members of the Committee in writing, shall be the acts of the Committee. Subject to the terms of the Plan and applicable law, and in addition to other express

powers and authorizations conferred on the Committee by the Plan, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to a Participant; (iii) determine the number of Units to be covered by Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and under what circumstances Awards may be settled, exercised, canceled, or forfeited; (vi) interpret and administer the Plan and any instrument or agreement relating to an Award made under the Plan; (vii) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (viii) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive, and binding upon all Persons, including the Company, the Partnership, any Affiliate, any Participant, and any beneficiary of any Award.

SECTION 4. Units Available for Awards.

- 4.1 Units Available. Subject to adjustment as provided in Section 4.3, the number of Units with respect to which Awards may be granted under the Plan is 250,000. If any Award is forfeited or otherwise terminates or is canceled without the delivery of Units, then the Units covered by such Award, to the extent of such forfeiture, termination, or cancellation, shall again be Units with respect to which Awards may be granted.
- 4.2 Sources of Units Deliverable Under Awards. Any Units delivered pursuant to an Award shall consist, in whole or in part, of Units acquired in the open market, from any Affiliate, the Partnership or any other Person, or any combination of the foregoing, as determined by the Committee in its discretion.
- 4.3 Adjustments. If the Committee determines that any distribution (whether in the form of cash, Units, other securities, or other property), recapitalization, split, reverse split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Units or other securities of the Partnership, issuance of warrants or other rights to purchase Units or other securities of the Partnership, or other similar transaction or event affects the Units such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Units (or other securities or property) with respect to which Awards may be granted, (ii) the number and type of Units (or other securities or property) subject to outstanding Awards, and (iii) if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award; provided, that the number of Units subject to any Award shall always be a whole number.

SECTION 5. Eligibility.

Any Employee and Director shall be eligible to be designated a Participant.

SECTION 6. Awards.

- 6.1 Options. The Committee shall have the authority to determine the Employees and Directors to whom Options shall be granted, the number of Units to be covered by each Option, the purchase price therefor and the conditions and limitations applicable to the exercise of the Option, including the following terms and conditions and such additional terms and conditions, as the Committee shall determine, that are not inconsistent with the provisions of the Plan.
- (i) Exercise Price. The purchase price per Unit purchasable under an Option shall be determined by the Committee at the time the Option is granted but shall not be less than its Fair Market Value as of the date of grant.
 - (ii) Time and Method of Exercise. The Committee shall determine the Restricted Period (*i.e.*, the time or times at which an Option may be exercised in whole or in part) and the method or methods by which payment of the exercise price with respect thereto may be made or deemed to have been made which may include, without limitation, cash, check acceptable to the Company, a “cash-broker” exercise (through procedures approved by the Company), other securities or other property, a note from the Participant (in a form acceptable to the Company), or any combination thereof, having a value on the exercise date equal to the relevant exercise price.
 - (iii) Term. Subject to earlier termination as provided in the grant agreement or the Plan, each Option shall expire on the 10th anniversary of its date of grant.
 - (iv) Forfeiture. Except as otherwise provided in this Plan, in the terms of an Award agreement, or in a written employment agreement (if any) between the Participant and the Company or one of its Affiliates, upon termination of a Participant’s employment with the Company or its Affiliates for any reason (other than for retirement, death or disability of the Participant (see Section 6.3(ix) below)) during the applicable Restricted Period, all Options which remain unexercised, whether vested or unvested, shall be forfeited by the Participant at the close of business on the date of the Participant’s termination of employment. The Committee or the Chief Executive Officer may waive in whole or in part such forfeiture with respect to a Participant’s Options.
- 6.2 Restricted Units. The Committee shall have the authority to determine the Employees and Directors to whom Restricted Units shall be granted, the number of Restricted Units to be granted to each such Participant, the duration of the Restrict Period (if any), the conditions under which the Restricted Units may become vested (which may be immediate upon grant) or forfeited, and such other terms and conditions as the

Committee may establish respecting such Awards, including whether DERs are granted with respect to such Restricted Units.

- (i) DERs. To the extent provided by the Committee, in its discretion, a grant of Restricted Units may include a tandem DER grant, which may provide that such DERs shall be paid directly to the Participant, be credited to a bookkeeping account (with or without interest in the discretion of the Committee) subject to the same restrictions as the tandem Award, or be subject to such other provisions or restrictions as determined by the Committee in its discretion.
- (ii) Forfeiture. Except as otherwise provided in this Plan, in the terms of an Award agreement, or in a written employment agreement (if any) between the Participant and the Company or one of its Affiliates, upon termination of a Participant's employment with the Company or its Affiliates for any reason (other than for retirement, death or disability of the Participant (see Section 6.3(ix) below)) during the applicable Restricted Period, all Restricted Units shall be forfeited by the Participant at the close of business on the date of the Participant's termination of employment. The Committee or the Chief Executive Officer may waive in whole or in part such forfeiture with respect to a Participant's Restricted Units.
- (iii) Lapse of Restrictions. Upon the vesting of each Restricted Unit, the Participant shall be entitled to receive from the Company one Unit subject to the provisions of Section 8.2.

6.3 General.

- (i) Awards May be Granted Separately or Together. Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution for any other Award granted under the Plan or any award granted under any other plan of the Company or any Affiliate, including the Annual Incentive Plan or the Intermediate Incentive Compensation Plan. Awards granted in addition to or in tandem with other Awards or awards granted under any other plan of the Company or any Affiliate may be granted either at the same time as or at a different time from the grant of such other Awards or awards.
- (ii) Limits on Transfer of Awards. No Award and no right under any such Award may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a Participant otherwise than by will or by the laws of descent and distribution and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate.
- (iii) Terms of Awards. The term of each Award shall be for such period as may be determined by the Committee.

- (iv) Unit Certificates. All certificates for Units or other securities of the Partnership delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the SEC, any stock exchange upon which such Units or other securities are then listed, and any applicable federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.
- (v) Consideration for Grants. Awards may be granted for no cash consideration or for such consideration as the Committee determines including, without limitation, such minimal cash consideration as may be required by applicable law.
- (vi) Delivery of Units or other Securities and Payment by Participant of Consideration. Notwithstanding anything in the Plan or any grant agreement to the contrary, delivery of Units pursuant to the exercise or vesting of an Award may be deferred for any period during which, in the good faith determination of the Committee, the Company is not reasonably able to obtain Units to deliver pursuant to such Award without violating the rules or regulations of any applicable law or securities exchange. No Units or other securities shall be delivered pursuant to any Award until payment in full of any amount required to be paid pursuant to the Plan or the applicable Award Agreement (including, without limitation, any exercise price or any tax withholding) is receivable by the Company. Such payment may be made by such method or methods and in such form or forms as the Committee shall determine, including, without limitation, cash, other Awards, withholding of Units, or any combination thereof; provided that the combined value, as determined by the Committee, of all cash and cash equivalent and the value of any such Units or other property so tendered to the Company, as of the date of such tender, is at least equal to the full amount required to be paid to the Company pursuant to the Plan or the applicable Award agreement.
- (vii) Change of Control. Upon a Change of Control, all Awards shall automatically vest and become payable or exercisable, as the case may be, in full. In this regard, all Restricted Periods shall terminate and all performance criteria, if any, shall be deemed to have been achieved at the maximum level.
- (viii) Sale of Significant Assets. In the event the Company or the Partnership sells or otherwise disposes of a significant portion of the assets under its control, (such significance to be determined by action of the Board of the Company in its sole discretion) and as a consequence of such disposition (a) a Participant's employment is terminated by the Partnership, the Company or their affiliates without Cause or by the Participant for Good Reason or (b) as a result of such sale or disposition, the Participant's employer shall no longer be the Partnership, the Company or one of their Affiliates, then all of such Participant's Awards shall automatically vest and become payable or exercisable, as the case may be, in full. In this regard, all Restricted Periods

shall terminate and all performance criteria, if any, shall be deemed to have been achieved at the maximum level.

- (ix) Retirement, Death, Disability. Except as otherwise determined by the Committee and included in the Participant's Award agreement, if a Participant's employment is terminated because of retirement, death or disability (with the determination of disability to be made within the sole discretion of the Committee), any Award held by the Participant shall remain outstanding and vest or become exercisable according to the Award's original terms, provided, however, that any Restricted Units held by such Participant which remain unvested as of the date of retirement, death or disability shall immediately vest and become non-forfeitable as of such date.

SECTION 7. Amendment and Termination.

Except to the extent prohibited by applicable law and unless otherwise expressly provided in an Award agreement or in the Plan.

- (i) Amendments to the Plan. Except as required by applicable law or the rules of the principal securities exchange on which the Units are traded and subject to Section 7(ii) below, the Board or the Committee may amend, alter, suspend, discontinue, or terminate the Plan in any manner, including increasing the number of Units available for Awards under the Plan, without the consent of any partner, Participant, other holder or beneficiary of an Award, or other Person.
- (ii) Amendments to Awards. The Committee may waive any conditions or rights under, amend any terms of, or alter any Award therefore granted, provided no change, other than pursuant to Section 7(iii), in any Award shall materially reduce the benefit to Participant without the consent of such Participant.
- (iii) Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. The Committee is hereby authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 4.3 of the Plan) affecting the Partnership or the financial statements of the Partnership, or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

SECTION 8. General Provisions.

- 8.1 No Rights to Awards. No Person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Participants. The terms and conditions of Awards need not be the same with respect to each Participant.
- 8.2 Withholding. The Company or any Affiliate is authorized to withhold from any Award, from any payment due or transfer made under any Award or from any compensation or other amount owing to a Participant the amount (in cash, Units, other securities, Units that would otherwise be issued pursuant to such Award or

other property) of any applicable taxes payable in respect of the grant of an Award, the lapse of restrictions thereon, or any payment or transfer under an Award or under the Plan and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes.

- 8.3 **No Right to Employment.** The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of the Company or any Affiliate or to remain on the Board, as applicable. Further, the Company or an Affiliate may at any time dismiss a Participant from employment, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award agreement.
- 8.4 **Governing Law.** The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Delaware and applicable federal law.
- 8.5 **Severability.** If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award and the remainder of the Plan and any such Award shall remain in full force and effect.
- 8.6 **Other Laws.** The Committee may refuse to issue or transfer any Units or other consideration under an Award if, in its sole discretion, it determines that the issuance or transfer of such Units or such other consideration might violate any applicable law or regulation, the rules of the principal securities exchange on which the Units are then traded, or entitle the Partnership or an Affiliate to recover the entire then Fair Market Value thereof under Section 16(b) of the Exchange Act, and any payment tendered to the Company by a Participant, other holder or beneficiary in connection with the exercise of such Award shall be promptly refunded to the relevant Participant, holder or beneficiary.
- 8.7 **No Trust or Fund Created.** Neither the Plan nor the Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any general unsecured creditor of the Company or any Affiliate.
- 8.8 **No Fractional Units.** No fractional Units shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash, other securities, or other property shall be paid or transferred in lieu of any fractional Units or whether such fractional Units or any rights thereto shall be canceled, terminated, or otherwise eliminated.

- 8.9 Headings. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.
- 8.10 Gender and Number. Words in the masculine gender shall include the feminine gender, the plural shall include the singular and the singular shall include the plural.

SECTION 9. Term of the Plan.

The Plan shall be effective on the date of its approval by the Board and shall continue under the date terminated by the Board or Units are no longer available for grants of Awards under the Plan, whichever occurs first, provided, however, that notwithstanding the foregoing, no Award shall be made under the Plan after the tenth anniversary of the Effective Date. However, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award granted prior to such termination, and the authority of the Board or the Committee to amend, alter, adjust, suspend, discontinue, or terminate any such Award or to waive any conditions or rights under such Award, shall extend beyond such termination date.

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

	Years Ended December 31,				
	2004	2003	2002	2001	2000
	(in thousands)				
Earnings:					
Income from continuing operations before provision for income taxes and income from equity investees	\$77,074	\$67,177	\$52,350	\$42,694	\$35,968
Add:					
Fixed charges	21,625	16,443	5,492	4,203	5,266
Amortization of capitalized interest	60	55	48	39	34
Distributions from Skelly-Belvieu Pipeline Company	1,373	2,803	3,590	2,874	4,658
Less: Interest capitalized	(192)	(123)	(255)	(298)	—
Total earnings	\$99,940	\$86,355	\$61,225	\$49,512	\$45,926
Fixed charges:					
Interest expense (1)	\$20,630	\$15,291	\$ 4,968	\$ 3,721	\$ 5,181
Amortization of debt issuance costs	407	740	160	90	—
Interest capitalized	192	123	255	298	—
Rental expense interest factor (2)	396	289	109	94	85
Total fixed charges	\$21,625	\$16,443	\$ 5,492	\$ 4,203	\$ 5,266
Ratio of earnings to fixed charges	4.6x	5.3x	11.1x	11.8x	8.7x

- (1) The interest and other expense, net reported in Valero L.P.'s consolidated statements of income for the years ended December 31, 2004 and 2003 includes interest income of \$221,000 and \$171,000 and other expense of (\$134,000) and \$0, respectively.
- (2) The interest portion of rental expense represents one-third of rents, which is deemed representative of the interest portion of rental expense.

**Valero L.P. and Subsidiaries
as of January 31, 2005**

Name of Entity	State/Country of Incorporation/Organization
Valero GP, Inc.	Delaware
Valero L.P. (parent)	Delaware
Valero Logistics Operations, L.P.	Delaware
Valero Internacional, S. de R.L. de C.V.	Mexico

Consent of Independent Registered Public Accounting Firm

The Board of Directors of Valero GP, LLC
and Unitholders of Valero L.P.:

We consent to the incorporation by reference in the registration statements on Form S-8 (Nos. 333-109541, 333-88264, and 333-81806), on Form S-4 (No. 333-120726) and on Form S-3 (File No. 333-109412) of Valero L. P. and subsidiaries of our reports dated March 11, 2005, on the following:

- the consolidated balance sheet of Valero L. P. and subsidiaries as of December 31, 2004 and the related consolidated statements of income, cash flows and partners' equity for the year then ended, and
- management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 and the effectiveness of internal control over financial reporting as of December 31, 2004, and
- the balance sheet of Riverwalk Logistics, L.P. as of December 31, 2004,

These reports appear in the December 31, 2004 annual report on Form 10-K of Valero L. P. and subsidiaries.

/s/ KPMG LLP

San Antonio, Texas
March 11, 2005

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 333-109412) and related Prospectus of Valero L.P. and Valero Logistics Operations, L.P. for the registration of Common Units of Valero L.P. and Debt Securities of Valero Logistics Operations, L.P., Form S-4 (No. 333-120726) and related Prospectus of Valero L.P. for the registration of Common Units, and Form S-8 (Nos. 333-109451, 333-88264 and 333-81806) pertaining to the Valero GP, LLC 2003 Employee Unit Incentive Plan of our report dated March 11, 2004, with respect to the consolidated balance sheets of Valero L.P. and subsidiaries as of December 31, 2003 and the related consolidated statements of income, cash flows and partners' equity for each of the two years in the period then ended, included in this Annual Report on Form 10-K for the year ended December 31, 2004, filed with the Securities and Exchange Commission.

/s/ ERNST & YOUNG LLP

San Antonio, Texas
March 11, 2005

**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 annual report on Form 10-K of Valero L.P. (the "registrant");

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

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

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

(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: March 15, 2005

/s/ CURTIS V. ANASTASIO

Curtis V. Anastasio
President and Chief Executive Officer

**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 annual report on Form 10-K of Valero L.P. (the "registrant");

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

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

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

(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: March 15, 2005

/s/ STEVEN A. BLANK

Steven A. Blank

Senior Vice President and Chief Financial Officer

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 Annual Report of Valero L.P. (the Partnership) on Form 10-K for the year ended December 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Curtis V. Anastasio, President and Chief Executive 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 the Partnership.

/s/ CURTIS V. ANASTASIO

Curtis V. Anastasio
President and Chief Executive Officer

March 15, 2005

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

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Partnership.

/s/ STEVEN A. BLANK

Steven A. Blank

Senior Vice President and Chief Financial Officer

March 15, 2005

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.

Audit Committee Pre-Approval Policy

I. Statement of Principles

Pursuant to Section 10A of the Securities Exchange Act of 1934, as amended by Section 202 of the Sarbanes-Oxley Act of 2002 (“SOX Act”), the Audit Committee of the board of directors (the “Audit Committee”) of Valero GP, LLC, the general partner of the general partner of Valero L.P. (the “Company”), is required to pre-approve the audit and non-audit services performed by the Company’s independent auditor to assure that the provision of such services does not impair the auditor’s independence. The SEC’s rules establish two approaches for pre-approving services. The two approaches are not mutually exclusive:

- the Audit Committee may pre-approve each particular service on a case-by-case basis (“*separate pre-approval*”), and
- the Audit Committee may adopt a pre-approval policy that is detailed as to the particular types of services that may be provided by the independent auditor without consideration by the Audit Committee on a case-by-case basis (“*policy-based pre-approval*”).

The Audit Committee believes that a combination of these approaches will provide an effective and efficient procedure to pre-approve services performed by the independent auditor. Therefore, unless a type of service has received policy-based pre-approval (as specifically identified in the appendices to this policy), it will require separate pre-approval by the Audit Committee.

The appendices to this policy contain lists of services that have received policy-based pre-approval of this Audit Committee in the following categories (categorized in accordance with the SEC’s rules):

- Audit Services
- Audit-Related Services
- Tax Services
- All Other Services

II. Term of Pre-Approvals

The term of the policy-based pre-approvals stated in the appendices to this policy is the period from January 1, 2005 to January 31, 2006, unless the Audit Committee specifically provides for a different period. The Audit Committee will review and pre-approve, at least annually, the services that may be provided by the independent auditor. The Audit Committee will revise the list of policy-based pre-approved services from time to time as the Committee deems necessary or appropriate.

III. **Delegation**

In accordance with the SOX Act and SEC rules, the Audit Committee hereby delegates to its Chairman the authority to grant separate pre-approvals of services and fees in accordance with this policy. The Audit Committee may further delegate pre-approval authority from time to time to one or more of its other members in its discretion. Any committee member to whom pre-approval authority is delegated shall report any pre-approval decisions to the full Audit Committee at its next meeting. The Audit Committee does not delegate its responsibilities to pre-approve services to any member of the Company's management.

IV. **Services for which Separate Pre-Approval is Required**

The terms and fees for the following services of the independent auditor require *separate* pre-approval by the Audit Committee:

- the annual financial statement audit, including all audits, reviews, procedures and other services required to be performed by the independent auditor to form an opinion on the Company's consolidated financial statements, and
- the annual audit of the Company's internal control over financial reporting, including all services required to be performed by the independent auditor to issue its report on (i) management's assessment regarding the effectiveness of the Company's internal control over financial reporting, and (ii) the effectiveness of the Company's internal control over financial reporting.

The Audit Committee will monitor these engagements as it deems appropriate, and will approve, if necessary, any changes in terms, conditions and fees resulting from changes in engagement scope, changes in the Company's structure or other matters.

V. **Services for which Policy-Based Pre-Approval is Available**

A. **Audit Services**

The Audit Committee may grant *policy-based* pre-approval for Audit Services other than the services described in Section IV above. These Audit Services are generally services that only the Company's independent auditor reasonably can provide, and include:

- services associated with SEC registration statements (*e.g.*, comfort letters, consents), periodic reports and other documents filed with the SEC or other documents issued in connection with securities offerings,
- statutory audits or financial audits for subsidiaries or affiliates of the Company.

The Audit Committee has given policy-based pre-approval for the Audit Services listed in Appendix A. All other Audit Services must be separately pre-approved by the Audit Committee.

B. Audit-Related Services

Audit-Related Services are assurance and related services that are reasonably related to the performance of the annual audit or quarterly review of the Company's financial statements or that are traditionally performed by the independent auditor. The Audit Committee may grant policy-based pre-approval for Audit-Related Services. These services would include:

- employee benefit plan audits,
- due diligence services related to proposed mergers and acquisitions, and
- assistance with understanding and implementing new accounting and financial reporting guidance from rulemaking authorities.

The Audit Committee believes that the provision of the Audit-Related Services listed in Appendix B does not impair the independence of the auditor, and has given policy-based pre-approval for the Audit-Related Services listed in Appendix B. All other Audit-Related Services must be separately pre-approved by the Audit Committee.

C. Tax Services

The Audit Committee believes that the independent auditor can provide Tax Services to the Company such as tax compliance, tax planning and tax advice without impairing the auditor's independence. However, the Audit Committee will not permit the retention of the independent auditor in connection with a transaction initially recommended by the independent auditor, the purpose of which may be tax avoidance and the tax treatment of which may not be supported in the U.S. Internal Revenue Code and related regulations or in the tax laws and regulations of any jurisdiction in which the Company is subject to taxation. In addition, the independent auditor may not provide any tax services to the Company that are deemed to be incompatible with auditor independence per standards promulgated by the Public Company Accounting Oversight Board ("PCAOB").

The Audit Committee has given policy-based pre-approval for the Tax Services listed in Appendix C. All other Tax Services must be separately pre-approved by the Audit Committee, including Tax Services related to large and complex transactions and Tax Services proposed to be provided by the independent auditor to any executive officer or director of the Company, in his or her individual capacity, when such services are paid for by the Company.

D. All Other Services

The Audit Committee may grant policy-based pre-approval for those permissible non-audit services classified as All Other Services that it believes are routine, recurring services that would not impair the independence of the auditor. The Audit Committee has given policy-based pre-approval for the All Other Services listed in Appendix D. Any permissible All Other Services that are not listed in Appendix D must be separately pre-approved by the Audit Committee.

VI. Prohibited Services

A list of the SEC's prohibited non-audit services is attached to this policy as Appendix E. The list sets forth the several services that the SOX Act and the SEC have specifically identified as services that may not be performed by the Company's independent auditor. The Audit Committee will consult the SEC's rules and relevant guidance, with the assistance of counsel when necessary or appropriate, to determine whether any proposed service by the independent auditor falls within any category of prohibited non-audit services.

In addition, the independent auditor may not provide any service or product to the Company for a *contingent fee* (as defined and interpreted by the SEC pursuant to Rule 2-01(c)(5) of Regulation S-K) or a commission, or pursuant to an agreement (written or otherwise) by the Company to pay a "value added" fee based on the results of the independent auditor's performance of a service.

VII. Pre-Approval Fee Levels and Budgeted Amounts

Pre-approval fee levels or budgeted amounts for all services to be provided by the independent auditor will be established at least annually by the Audit Committee. All services that have received policy-based pre-approval are subject to the pre-approval fee levels or budgeted amounts set forth in the appendices to this policy. Any proposed services exceeding these amounts will require separate pre-approval by the Audit Committee or by any person to whom pre-approval authority is granted under Section III above.

VIII. Procedures

Requests or applications to provide services that require separate approval by the Audit Committee must be submitted to the Audit Committee by both the independent auditor and the Company's Chief Financial Officer (or his designee), and must include a joint statement as to whether, in their view, the request or application is consistent with the SEC's rules on auditor independence. In connection with the Audit Committee's consideration of any proposed service, the independent auditor, at the Committee's request, will provide to the Audit Committee detailed documentation regarding the specific services to be provided so that the Committee can make a well-reasoned assessment of the impact of the service on the auditor's independence.

The Audit Committee hereby designates the Company's Vice President of Internal Audit (the "Monitor") to monitor the performance of all services provided by the independent auditor and to determine whether such services are in compliance with this policy. The Monitor will report to the Audit Committee on a periodic basis the results of his monitoring.

Pre-Approved AUDIT SERVICES

Services

assistance with and review of documents filed with the SEC including registration statements, reports on Forms 10-K and 10-Q, and other documents

services associated with other documents issued in connection with securities offerings (*e.g.*, comfort letters, consents)

assistance in responding to SEC comment letters

statutory audits (*e.g.*, FERC audits) and financial audits for subsidiaries of the Company

certificates, letters and opinions issued to regulators, agencies and other third-parties (*e.g.*, insurance, banking, environmental) regarding the Company's assets and/or operations that only the Company's independent auditors reasonably can provide

Pre-approval fee limit for Audit Services (other than services pertaining to registration statements or prospectuses in connection with securities offerings).

\$250,000

Pre-approval fee limit for Audit Services pertaining to registration statements or prospectuses in connection with securities offerings

\$250,000 per registration statement or prospectus

Pre-Approved AUDIT-RELATED SERVICES

Services

due diligence services pertaining to potential business acquisitions or dispositions

financial statement audits of employee benefit plans

accounting consultations and audits in connection with acquisitions

consultations concerning principles of accounting and/or financial reporting treatment (under standards or interpretations by the SEC, PCAOB, FASB or other regulatory or standard-setting bodies)

agreed-upon or expanded audit procedures related to accounting and/or billing records required to respond to or comply with financial, accounting or regulatory reporting matters

Pre-approval fee limit for Audit-Related Services

\$250,000

Pre-Approved TAX SERVICES

Services

Note: The following are subject to the terms of subsection C. of Section V. of this policy.

U.S. federal, state and local tax compliance, including the preparation of original and amended tax returns and claims for refunds

U.S. federal, state and local tax planning and advice, including assistance with tax audits and appeals (but expressly excluding advocacy or litigation services), tax advice related to mergers and acquisitions, tax advice relating to employee benefit plans, and requests for rulings or technical advice from taxing authorities

review of federal, state, local and international income, franchise, and other tax returns

Pre-approval fee limit for Tax Services

\$100,000

Pre-Approved ALL OTHER SERVICES

Services

none

Pre-approval fee limit for All Other Services

\$0

Prohibited Non-Audit Services

- Bookkeeping or other services related to the accounting records or financial statements of the audit client*
- Financial information systems design and implementation*
- Appraisal or valuation services, fairness opinions or contribution-in-kind reports*
- Actuarial services*
- Internal audit outsourcing services*
- Management functions
- Human resources
- Broker-dealer, investment adviser or investment banking services
- Legal services
- Expert services unrelated to the audit

* Provision of these non-audit services may be permitted if it is reasonable to conclude that the results of these services will not be subject to audit procedures. Materiality is not an appropriate basis upon which to overcome the rebuttable presumption that prohibited services will be subject to audit procedures.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors

Valero GP, LLC and Unitholders of Valero L.P.:

We have audited the accompanying balance sheet of Riverwalk Logistics, L.P. (a Delaware limited partnership) (the Partnership) as of December 31, 2004. This financial statement is the responsibility of the Partnership's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit of a balance sheet includes examining, on a test basis, evidence supporting the amounts and disclosures in that balance sheet. An audit of a balance sheet also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of Riverwalk Logistics, L.P. as of December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

San Antonio, Texas

March 11, 2005

RIVERWALK LOGISTICS, L.P.
BALANCE SHEET
DECEMBER 31, 2004
(in thousands)

Assets

Current assets:

Cash	\$ 1
Total current assets	1
Investment in Valero L.P.	20,371
Total assets	\$20,372

Liabilities and Partners' Equity

Current liabilities:

Note payable to UDS Logistics, LLC	\$12,135
Note payable to Valero GP, LLC	12
Total current liabilities	12,147

Commitments and contingencies (see note 5)

Partners' equity:

Limited partner equity held by UDS Logistics, LLC	8,217
General partner equity held by Valero GP, LLC	8
Total partners' equity	8,225
Total liabilities and partners' equity	\$20,372

See accompanying notes to balance sheet.

RIVERWALK LOGISTICS, L.P.
NOTES TO BALANCE SHEET
December 31, 2004

NOTE 1: Organization and Business

Riverwalk Logistics, L.P. (Riverwalk Logistics) is a Delaware limited partnership and the general partner of Valero L.P. The general partner of Riverwalk Logistics is Valero GP, LLC with a 0.1% general partner interest and the limited partner is UDS Logistics, LLC (UDS Logistics) with a 99.9% limited partner interest. Valero GP, LLC and UDS Logistics are indirect, wholly owned subsidiaries of Valero Energy Corporation (Valero Energy).

Valero L.P. is a Delaware limited partnership and its common units are publicly traded on the New York Stock Exchange under the symbol "VLI." The common units held by the public represent 54.3% of Valero L.P.'s outstanding partnership equity with the balance owned by UDS Logistics (common and subordinated units representing 43.5%), Valero GP, LLC (common units representing 0.2%) and Riverwalk Logistics (2% general partner interest). Effective March 11, 2004, Valero L.P.'s partnership agreement was amended to reduce the percentage of the vote required to remove Riverwalk Logistics as general partner from 58% to a simple majority (excluding any vote by Riverwalk Logistics and its affiliates).

Valero L.P., 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's McKee, Three Rivers, Corpus Christi East and Corpus Christi West refineries located in Texas, the Paulsboro refinery located in New Jersey and the Ardmore refinery located in Oklahoma. Valero Logistics also owns and operates 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 services to Valero Energy.

Valero Energy, an independent refining and marketing company, owns and operates 15 refineries with a combined total throughput capacity as of December 31, 2004 of approximately 2.5 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 Valero L.P. Valero Energy markets the refined products produced at its McKee, Three Rivers, Corpus Christi East, Corpus Christi West, Texas City, Benicia, Paulsboro and Ardmore refineries primarily in Texas, Oklahoma, Colorado, New Mexico, Arizona, California, New Jersey 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.

NOTE 2: Basis of Presentation

Riverwalk Logistics' investment in Valero L.P. is stated at cost plus the equity in its undistributed earnings of Valero L.P. since April 16, 2001, the date of Valero L.P.'s initial public offering. Also included in the investment in Valero L.P. is Riverwalk Logistics' share of the allocated goodwill and step-up in basis related to Valero Energy's acquisition of Ultramar Diamond Shamrock Corporation (UDS) on December 31, 2001 (see Note 3: Investment in Valero L.P.).

Riverwalk Logistics is a limited partnership and is not subject to federal or state income taxes. Accordingly, the taxable income or loss, which may vary substantially from income or loss reported for financial reporting purposes, is generally includable in the federal and state income tax returns of the individual partners.

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the balance sheet and accompanying notes. Actual results could differ from those estimates. On an ongoing basis, management reviews its

RIVERWALK LOGISTICS, L.P.
NOTES TO BALANCE SHEET – (Continued)

estimates, including those related to asset impairments, based on currently available information. Changes in facts and circumstances may result in revised estimates.

NOTE 3: Investment in Valero L.P.

Summary Financial Information

The following presents summarized balance sheet information related to Valero L.P. and its subsidiaries as of December 31, 2004 (in thousands):

Assets	
Current assets	\$ 39,979
Property and equipment, net	784,999
Goodwill	4,715
Investment in Skelly-Belvieu Pipeline Company	15,674
Other noncurrent assets, net	12,140
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Total assets	\$857,507
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Liabilities and Partners' Equity	
Current liabilities	\$ 33,609
Long-term debt, less current portion	384,171
Other long-term liabilities	1,416
Common units held by the public, UDS Logistics and Valero GP, LLC	310,507
Subordinated units held by UDS Logistics	117,968
General partner's equity held by Riverwalk Logistics	9,836
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Total liabilities and partners' equity	\$857,507
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Reconciliation of Investment in Valero L.P.

The following is a reconciliation of Valero L.P.'s general partner's equity to Riverwalk Logistics' investment in Valero L.P. as of December 31, 2004 (in thousands):

Valero L.P.'s general partner's equity	\$ 9,836
Allocation of goodwill related to Valero Energy's acquisition of UDS on December 31, 2001	9,000
Allocation of the step-up in basis associated with Valero L.P.'s property and equipment resulting from Valero Energy's acquisition of UDS on December 31, 2001 that was not pushed down to Valero L.P., net of accumulated amortization of \$100	1,535
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Riverwalk Logistics' investment in Valero L.P.	\$20,371
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Transactions between Valero L.P. and Riverwalk Logistics typically relate to capital contributions and redemptions, equity in earnings, and receipt of quarterly cash distributions. The cash distributions received by Riverwalk Logistics are further distributed to its partners, UDS Logistics and Valero GP, LLC.

Valero L.P. Acquisition

On February 20, 2004, Valero L.P. acquired two asphalt terminals, one in Catoosa, Oklahoma near Tulsa and one in Rosario, New Mexico near Santa Fe, from Royal Trading Company for \$28.1 million.

RIVERWALK LOGISTICS, L.P.
NOTES TO BALANCE SHEET – (Continued)

Valero L.P.'s Allocations of Net Income

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 Riverwalk Logistics will receive. Valero L.P.'s partnership agreement also contains provisions for the allocation of net income and loss to the unitholders and Riverwalk Logistics. For purposes of maintaining partner capital accounts, the partnership agreement specifies that items of income and loss shall be allocated among the partners in accordance with their respective percentage interests. Normal allocations according to percentage interests are done after giving effect, if any, to priority income allocations in an amount equal to incentive cash distributions allocated 100% to Riverwalk Logistics.

Valero L.P.'s Cash Distributions

Valero L.P. makes quarterly distributions of 100% of its available cash, generally defined as cash receipts less cash disbursements and cash reserves established by Riverwalk Logistics in its sole discretion. These quarterly distributions are declared and paid within 45 days subsequent to each quarter-end. 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.

During the subordination period, Valero L.P.'s cash is first distributed 98% to the holders of common units and 2% to Riverwalk Logistics until there has been distributed to the holders of common units an amount equal to the minimum quarterly distribution and arrearages in the payment of the minimum quarterly distribution on the common units for any prior quarter. Secondly, cash is distributed 98% to the holders of subordinated units and 2% to Riverwalk Logistics until there has been distributed to the holders of subordinated units an amount equal to the minimum quarterly distribution. Thirdly, cash in excess of the minimum quarterly distributions is distributed to the unitholders and Riverwalk Logistics based on the percentages shown below.

Riverwalk Logistics is entitled to incentive distributions if the amount Valero L.P. distributes with respect to any quarter exceeds specified target levels shown below:

Quarterly Distribution Amount per Unit	Percentage of Distribution	
	Valero L.P. Unitholders	Riverwalk Logistics
Up to \$0.60	98%	2%
Above \$0.60 up to \$0.66	90%	10%
Above \$0.66	75%	25%

NOTE 4: Notes Payable

On March 18, 2003, Riverwalk Logistics, Valero GP, LLC and UDS Logistics executed two revolving promissory notes. The revolving promissory note with Valero GP, LLC has a maximum limit of \$0.2 million and had an outstanding balance of \$12,000 as of December 31, 2004. The revolving promissory note with UDS Logistics has a maximum limit of \$175.0 million and had an outstanding balance of \$12.1 million as of December 31, 2004. Interest on the revolving promissory notes varies based on Valero Energy's weighted average cost of all borrowed funds, including interest expense, amortization of debt issuance expense, commitment fees, costs of maintaining compensating balances, if any, penalties, if any, and all other out-of-pocket costs, fees and expenses incurred in connection with the borrowed funds. Interest is payable monthly; however, it may be added to the principal balance

RIVERWALK LOGISTICS, L.P.
NOTES TO BALANCE SHEET – (Continued)

in lieu of payment. For the year end December 31, 2004, the weighted-average interest rate was 6.1%. Principal is due on demand, but if no demand is made, the outstanding principal is due on December 31, 2005.

NOTE 5: Commitments and Contingencies

Valero L.P.'s operations are subject to extensive federal, state and local environmental and safety laws and regulations. Although Valero L.P. 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 and 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, Valero L.P. 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.

NOTE 6: Related-Party Transactions Between Valero Energy and Valero L.P.

Valero L.P. has related-party transactions with Valero Energy and its subsidiaries for pipeline tariff, terminalling fee and crude oil storage tank fee revenues, certain employee costs, insurance costs, administrative costs and rent expense. The terms of these transactions are governed by various agreements, including the following:

- an omnibus agreement which governs potential competition between Valero Energy and Valero L.P. and includes the environmental indemnification discussed above in Note 5: Commitments and Contingencies;
- a services agreement pursuant to which Valero L.P. receives certain corporate services such as legal, accounting, treasury, engineering, information technology and other corporate functions from Valero Energy. Due to increased levels of service provided by Valero Energy for Valero L.P., Valero L.P. and Valero Energy amended the terms of the services agreement, effective April 1, 2004, to change the annual services fee and other provisions of the agreement;
- a pipeline and terminals usage agreement, pursuant to which Valero L.P. provides transportation and terminalling services that support Valero Energy's refining and marketing operations in the markets relating to the McKee, Three Rivers and Ardmore refineries;
- a handling and throughput agreement, pursuant to which Valero L.P. provides handling services for all crude oil and certain other feedstocks delivered to each of Valero Energy's Corpus Christi West, Texas City and Benicia refineries;
- services and secondment agreements, pursuant to which Valero Energy provides personnel to Valero L.P. who perform operating and routine maintenance services related to the crude oil storage tank operations;
- lease and access agreements, pursuant to which Valero Energy leases to Valero L.P. the real property on which the crude oil storage tanks are located;
- a throughput commitment agreement pursuant to which Valero Energy has agreed to transport certain percentages of gasoline, distillate and raffinate production through certain South Texas pipelines and to use specified terminals for certain percentages of refinery gasoline, distillate and asphalt production;
- a terminalling agreement pursuant to which Valero Energy has agreed to pay a terminalling fee for each barrel handled at specified terminals and a blending or filtering fee for those services, if rendered, at the specified terminals;
- a terminal storage and throughput agreement pursuant to which Valero L.P. will make available its Pittsburg asphalt terminal in Pittsburg, California to Valero Energy for a minimum storage fee, a throughput fee and the reimbursement of utility costs;
- a hydrogen tolling agreement pursuant to which Valero Energy will use Valero L.P.'s crude hydrogen pipeline for a minimum annual fee;

RIVERWALK LOGISTICS, L.P.
NOTES TO BALANCE SHEET – (Continued)

- a barrel capacity lease agreement pursuant to which Valero Energy leases 1.6 million barrels of storage capacity from Valero L.P. at the Corpus Christi North Beach storage facility effective January 1, 2004; and
- a terminal storage and throughput agreement pursuant to which Valero Energy has agreed to utilize two asphalt terminals, one in Rosario, NM and the other in Catoosa, OK, which were purchased in February 2004.

Valero L.P., which has no employees, relies on employees of Valero GP, LLC to provide the necessary services to operate Valero L.P.'s assets. The employees of Valero GP, LLC 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, bonus plans, long-term incentive plans (i.e., unit option and restricted common units) and other such benefits.