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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from ______ to ______

Commission File Number 1-16417

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

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

One Valero Way
San Antonio, Texas
(Address of principal executive offices)
78249
(Zip Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. The definition of "accelerated filer and large accelerated filer" is in Rule 12b-2 of the Securities Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). **Yes** ☐ **No** ☒

The number of common units outstanding as of August 1, 2006 was 46,809,749.

VALERO L.P. AND SUBSIDIARIES
FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

VALERO L.P. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Thousands of Dollars, Except Unit Data)

	June 30, 2006 (Unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 52,540	$ 36,054
Receivable from Valero Energy	20,559	21,873
Accounts receivable, net of allowance for doubtful accounts of $1,460 and $1,976 as of June 30, 2006 and December 31, 2005, respectively	81,661	110,066
Inventories	18,543	17,473
Other current assets	27,753	30,138
Assets of businesses held for sale	—	79,807
Total current assets	201,056	295,411
Property and equipment, at cost	2,469,183	2,417,529
Accumulated depreciation and amortization	(302,627)	(257,316)
Property and equipment, net	2,166,556	2,160,213
Intangible assets, net	56,790	59,159
Goodwill	774,966	767,587
Investment in joint ventures	74,602	73,986
Deferred charges and other assets, net	21,248	10,636
Total assets	$3,295,218	$3,366,992
Liabilities and Partners' Equity		
Current liabilities:		
Current portion of long-term debt	$ 566	$ 1,046
Payable to Valero Energy	10,877	12,800
Accounts payable	63,499	104,320
Accrued interest payable	16,777	16,391
Accrued liabilities	36,084	46,917
Taxes other than income taxes	10,088	9,013
Income taxes payable	3,371	4,001
Liabilities of businesses held for sale	—	11,100
Total current liabilities	141,262	205,588
Long-term debt, less current portion	1,158,916	1,169,659
Long-term payable to Valero Energy	5,792	5,507
Deferred income taxes	21,653	13,576
Other long-term liabilities	76,503	71,883
Commitments and contingencies (Note 6)		
Partners' equity:		
Common units (46,809,749 and 37,210,427 outstanding as of June 30, 2006 and December 31, 2005, respectively)	1,844,449	1,749,007
Subordinated units (0 and 9,599,322 outstanding as of June 30, 2006 and December 31, 2005, respectively)	—	114,127
General partner's equity	38,845	38,913
Accumulated other comprehensive income (loss)	7,798	(1,268)
Total partners' equity	1,891,092	1,900,779
Total liabilities and partners' equity	$3,295,218	$3,366,992

See Condensed Notes to Consolidated Financial Statements.

VALERO L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited, Thousands of Dollars, Except Unit and Per Unit Data)

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Revenues:				
Services revenues:				
Third parties	$ 87,676	$ 952	$ 174,934	$ 2,246
Valero Energy	64,418	57,354	125,089	112,695
Total services revenues	152,094	58,306	300,023	114,941
Product sales	127,874	—	253,949	—
Total revenues	279,968	58,306	553,972	114,941
Costs and expenses:				
Cost of product sales	118,283	—	232,501	—
Operating expenses:				
Third parties	55,802	13,025	106,415	24,669
Valero Energy	23,353	8,620	43,810	16,661
Total operating expenses	79,155	21,645	150,225	41,330
General and administrative expenses:				
Third parties	3,271	518	6,131	1,264
Valero Energy	7,104	3,043	12,804	5,800
Total general and administrative expenses	10,375	3,561	18,935	7,064
Depreciation and amortization expense	24,839	8,791	49,028	17,523
Total costs and expenses	232,652	33,997	450,689	65,917
Operating income	47,316	24,309	103,283	49,024
Equity earnings in joint ventures	1,844	421	3,050	799
Interest and other expenses, net	(16,876)	(5,878)	(32,341)	(11,707)
Income from continuing operations before income tax expense	32,284	18,852	73,992	38,116
Income tax expense	492	—	2,611	—
Income from continuing operations	31,792	18,852	71,381	38,116
Loss from discontinued operations	(239)	—	(377)	—
Net income	31,553	18,852	71,004	38,116
Less general partner’s interest and incentive distributions	(4,041)	(1,847)	(8,240)	(3,323)
Limited partners’ interest in net income	$ 27,512	$ 17,005	$ 62,764	$ 34,793
Weighted average number of basic and diluted units outstanding	46,809,749	23,041,394	46,809,749	23,041,394
Income (loss) per unit applicable to limited partners:				
Continuing operations	$ 0.60	$ 0.74	$ 1.35	$ 1.51
Discontinued operations	(0.01)	—	(0.01)	—
Net income	$ 0.59	$ 0.74	$ 1.34	$ 1.51
Cash distributions per unit applicable to limited partners	$ 0.885	$ 0.855	$ 1.770	$ 1.655

See Condensed Notes to Consolidated Financial Statements.

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VALERO L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, Thousands of Dollars)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Cash Flows from Operating Activities:		
Net income	$ 71,004	$ 38,116
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49,028	17,523
Equity income from joint ventures	(3,137)	(799)
Distributions from joint ventures	2,561	113
Changes in operating assets and liabilities:		
Decrease (increase) in receivable from Valero Energy	1,599	(471)
Decrease in accounts receivable	30,364	1,002
Increase in inventories	(1,299)	—
Increase in other current assets	(443)	(416)
(Decrease) increase in payable to Valero Energy	(1,923)	370
Increase in accrued interest payable	364	106
Decrease in accounts payable and other accrued liabilities	(38,445)	(529)
Increase (decrease) in taxes other than income taxes	1,289	(1,275)
Other, net	(3,579)	76
Net cash provided by operating activities	107,383	53,816
Cash Flows from Investing Activities:		
Reliability capital expenditures	(15,156)	(3,893)
Strategic growth capital expenditures	(27,701)	(10,651)
Pre-acquisition costs – Kaneb	—	(3,453)
Other acquisition	(12,827)	—
Investment in other noncurrent assets	(8,066)	—
Proceeds from sale of Australia and New Zealand subsidiaries	70,078	—
Proceeds from insurance settlement	3,661	—
Other	912	—
Net cash provided by (used in) investing activities	10,901	(17,997)
Cash Flows from Financing Activities:		
Long-term debt borrowings	34,000	10,000
Long-term debt repayments	(38,480)	(466)
Decrease in cash book overdrafts	(6,894)	—
Distributions to unitholders and general partner	(89,773)	(39,888)
Other	(359)	—
Net cash used in financing activities	(101,506)	(30,354)
Effect of foreign exchange rate changes on cash	(292)	—
Net increase in cash and cash equivalents	16,486	5,465
Cash and cash equivalents at the beginning of the period	36,054	16,147
Cash and cash equivalents at the end of the period	$ 52,540	$ 21,612
Supplemental cash flow information:		
Cash paid during the period for interest	$ 36,854	$ 12,194
Cash paid during the period for income taxes	$ 2,735	$ —

See Condensed Notes to Consolidated Financial Statements.

VALERO L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION, OPERATIONS AND ACCOUNTING PRONOUNCEMENTS

Organization and Operations

Valero L.P. is a publicly traded Delaware limited partnership formed in 1999 that completed its initial public offering of common units on April 16, 2001.

As used in this report, references to “we,” “us,” “our” or the “Partnership” collectively refer, depending on the context, to Valero L.P. or a wholly owned subsidiary of Valero L.P.

These unaudited consolidated financial statements include the accounts of the Partnership and subsidiaries in which the Partnership has a controlling interest. Intercompany balances and transactions have been eliminated in consolidation. Investments in 50% or less owned entities are accounted for using the equity method of accounting.

These unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and notes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature unless disclosed otherwise. Financial information for the three and six months ended June 30, 2006 and 2005 included in these Condensed Notes to Consolidated Financial Statements is derived from our unaudited consolidated financial statements. Operating results for the three and six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The consolidated balance sheet as of December 31, 2005 has been derived from the audited consolidated financial statements as of that date. You should read these consolidated financial statements in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2005.

We conduct our operations through our subsidiaries, primarily Valero Logistics Operations, L.P. (Valero Logistics) and Kaneb Pipe Line Operating Partnership, L.P. (KPOP). We have four business segments: refined product terminals, refined product pipelines, crude oil pipelines and crude oil storage tanks.

Our operations are managed by Valero GP, LLC. Valero GP, LLC is the general partner of Riverwalk Logistics, L.P., which is the 2% general partner of Valero L.P. As of June 30, 2006, Valero GP, LLC and Riverwalk Logistics, L.P. were indirect wholly owned subsidiaries of Valero Energy Corporation (Valero Energy).

Other

UDS Logistics, LLC, an indirect, wholly owned subsidiary of Valero Energy, owned 21.4% of our limited partner interests as of December 31, 2005. On January 15, 2006, UDS Logistics, LLC, changed its name to Valero GP Holdings, LLC (Holdings). On January 25, 2006, Holdings contributed its 21.4% limited partnership interest (both common and subordinated units) in us and its 99.9% limited partnership interest in Riverwalk Logistics, L.P. to Riverwalk Holdings, LLC in exchange for 100% of the outstanding member interests in Riverwalk Holdings, LLC. In addition, Valero Energy contributed its ownership interest in Valero GP, LLC to Holdings on June 1, 2006 in exchange for additional ownership interest in Holdings. As a result, Valero GP, LLC, Riverwalk Holdings, LLC, and Riverwalk Logistics, L.P. are wholly owned subsidiaries of Holdings.

On July 19, 2006, Holdings completed its initial public offering of 17.25 million units representing limited liability company interests at $22.00 per unit. All of these units were sold by subsidiaries of Valero Energy. As a result, Holdings did not receive any proceeds from this offering. Valero Energy retains an approximate 59% ownership interest in Holdings, but has stated its intention to further reduce and ultimately sell all of its interest in Holdings, pending market conditions.

New Accounting Pronouncements
FASB Interpretation No. 48

In June 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109” (FIN 48). FIN 48 clarifies the accounting for uncertain income tax positions recognized in an enterprise’s financial statements in accordance with FASB Statement No. 109, “Accounting for Income Taxes,”

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

by defining a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. An enterprise recognizes a tax position if it is more-likely-than-not that the tax position will be sustained, based on the technical merits of the position, upon examination. An uncertain tax position is measured in the financial statements at the largest amount of benefit that is more-likely-than-not to be realized. FIN 48 is effective for fiscal years beginning after December 15, 2006 and is not expected to affect our financial position or results of operations.

EITF Issue No. 06-3

In June 2006, the FASB ratified its consensus on EITF Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement" (EITF No. 06-3). EITF 06-3 includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include sales, use, value added, and some excise taxes. These taxes should be presented on either a gross or a net basis, and if reported on a gross basis, a company should disclose amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented. The guidance in EITF No. 06-3 is effective for all periods beginning after December 15, 2006 and is not expected to significantly affect our financial position or results of operations.

2. ACQUISITIONS

Capwood Pipeline

Effective January 1, 2006, we purchased a 23.77% interest in Capwood pipeline from Valero Energy for $12.8 million, which was paid from borrowings under our existing revolving credit agreement. The Capwood pipeline is a 57-mile crude oil pipeline that extends from Patoka, Illinois to Wood River, Illinois. Plains All American Pipeline L.P., the operator of the Capwood pipeline, owns the remaining 76.23% interest. Our financial statements include the results of operations of our interest in the Capwood pipeline in the crude oil pipelines segment for the three and six months ended June 30, 2006.

Kaneb Acquisition

On July 1, 2005, we completed our acquisition (the Kaneb Acquisition) of Kaneb Services LLC (KSL) and Kaneb Pipe Line Partners, L.P. (KPP, and, together with KSL, Kaneb).

The Kaneb Acquisition was accounted for using the purchase method. The purchase price and the final purchase price allocation as of June 30, 2006 were as follows (in thousands):

Cash paid for the outstanding equity securities of KSL	$ 509,307
Value of Valero L.P.'s common units issued in exchange for KPP common units	1,451,249
Transaction costs	9,505
Fair value of long-term debt assumed	779,707
Fair value of other liabilities assumed	180,389
Total	$ 2,930,157
Current assets	$ 605,721
Property and equipment	1,429,652
Goodwill	770,252
Intangible assets	58,900
Other noncurrent assets	65,632
Total	$ 2,930,157

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

The condensed statements of income include the results of operations of the Kaneb Acquisition commencing on July 1, 2005. As a result, information for the three and six months ended June 30, 2006 presented below represents actual results of operations. The unaudited pro forma financial information for the three and six months ended June 30, 2005 includes the historical financial information of Kaneb and the Partnership for the period indicated. This financial information assumes the following:

- we completed the Kaneb Acquisition on January 1, 2005;
- we borrowed $525.0 million to purchase all of the outstanding equity securities of KSL,
- we issued approximately 23.8 million common units in exchange for all of the outstanding common units of KPP,
- we received a contribution from our general partner of $29.2 million to maintain its 2% interest; and
- the results of operations of Martin Oil LLC (a marketing subsidiary of KSL), our Australia and New Zealand subsidiaries, and certain assets we divested in conjunction with the Kaneb Acquisition (Held Separate Businesses), are reported as discontinued operations.

The unaudited pro forma information is not necessarily indicative of the results of future operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Thousands of Dollars, Except Per Unit Data)			
Revenues	$ 279,968	$ 242,014	$ 553,972	$ 461,046
Operating income (loss)	47,316	(20,248)	103,283	25,677
Income (loss) from continuing operations	31,792	(18,868)	71,381	13,525
Income (loss) from discontinued operations	(239)	2,667	(377)	6,455
Net income (loss)	$ 31,553	$ (16,201)	$ 71,004	$ 19,980
Income (loss) per unit applicable to limited partners:				
Continuing operations	$ 0.60	$ (0.46)	$ 1.35	$ 0.15
Discontinued operations	(0.01)	0.06	(0.01)	0.14
Net income (loss)	$ 0.59	$ (0.40)	$ 1.34	$ 0.29

3. DISPOSITIONS

Sale of Australia and New Zealand subsidiaries

On March 30, 2006, we sold our Australia and New Zealand subsidiaries to ANZ Terminals Pty. Ltd., for total proceeds of $70.1 million. The proceeds were used for working capital purposes, including paying down outstanding debt. This transaction included the sale of eight terminals with an aggregate storage capacity of 1.1 million barrels. For the six months ended June 30, 2006, revenues and pre-tax income related to the Australia and New Zealand subsidiaries included in loss from discontinued operations totaled $5.0 million and $0.6 million, respectively. For the three months ended June 30, 2006, the loss from discontinued operations was related to the sale of our Held Separate Businesses.

4. PRODUCT IMBALANCES

Product imbalances occur when customers deliver more or less refined product volumes into our pipelines than they are entitled to receive. We value assets and liabilities related to product imbalances at current market prices. Included in other current assets on the consolidated balance sheets are $17.5 million and $20.0 million of product imbalance assets as of June 30, 2006 and December 31, 2005, respectively. Included in accrued liabilities on the consolidated balance sheets are $14.9 million and $17.5 million of product imbalance liabilities as of June 30, 2006 and December 31, 2005, respectively.

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

5. LONG-TERM DEBT

Credit Agreement Amendments

On June 6, 2006, we completed certain amendments to our $525 million term loan agreement ($525 Million Term Loan Agreement) and our $400 million revolving credit agreement (the $400 Million Revolving Credit Agreement). Both agreements were amended to (i) eliminate the provision that the failure of Valero Energy to own or control our general partner constitutes a "change of control;" (ii) extend the maturities of the agreements to 2011; (iii) include certain material construction projects in the definition of "Consolidated EBITDA;" and (iv) eliminate the requirement that we maintain a minimum consolidated interest coverage ratio. Additionally, the amendments reduced the applicable margin on LIBOR loans, which vary depending upon our credit rating. The term loan agreement of our UK subsidiary (the UK Term Loan) was also amended to (i) extend its maturity to 2011; (ii) include certain material construction projects in the definition of "Consolidated EBITDA;" and (iii) eliminate the requirement that we maintain a minimum consolidated interest coverage ratio.

Our $525 Million Term Loan Agreement, $400 Million Revolving Credit Agreement and UK Term Loan all require that we maintain certain financial ratios and include other restrictive covenants, including a prohibition on distributions if any defaults, as defined in the agreements, exist or would result from the distribution. Our management believes that we are in compliance with all of these ratios and covenants as of June 30, 2006.

$400 Million Revolving Credit Agreement

During the six months ended June 30, 2006, we borrowed $34.0 million under our $400 Million Revolving Credit Agreement to fund the purchase of the Capwood pipeline and a portion of our capital expenditures. Additionally, we repaid $38.0 million during the six months ended June 30, 2006. The $400 Million Revolving Credit Agreement bears interest based on either an alternative base rate or LIBOR. As of June 30, 2006, we had $399.1 million available for borrowing under our $400 Million Revolving Credit Agreement.

Interest Rate Swaps

As of June 30, 2006, the weighted-average interest rate for our interest rate swaps was 7.4%. As of June 30, 2006 and December 31, 2005, the aggregate estimated fair value of the interest rate swaps included in other long-term liabilities in our consolidated balance sheets was $10.6 million and $4.0 million, respectively.

6. COMMITMENTS AND CONTINGENCIES

Litigation and Environmental Matters

We have contingent liabilities resulting from various litigation, claims and commitments, the most significant of which are discussed below. We record accruals for loss contingencies when losses are considered probable and can be reasonably estimated. Legal fees associated with defending ourselves in legal matters are expensed as incurred. As of June 30, 2006, we have recorded $5.2 million of accruals related to settled matters. As of June 30, 2006, we have recorded accruals for contingent losses totaling $48.2 million. The actual payment of any amounts accrued and the timing of any such payments ultimately made is uncertain. We believe that should we be unable to successfully defend ourselves in any of these unsettled matters, the ultimate payment of any or all of the amounts reserved would not have a material adverse effect on our financial position or liquidity. However, if any actual losses ultimately exceed the amounts accrued, there could be a material adverse effect on our results of operations.

Grace Energy Corporation Matter. In 1997, Grace Energy Corporation (Grace Energy) sued subsidiaries of Kaneb in Texas state court. The complaint sought recovery of the cost of remediation of fuel leaks in the 1970s from a pipeline that had once connected a former Grace Energy terminal with Otis Air Force Base in Massachusetts (Otis AFB). Grace Energy alleges the Otis AFB pipeline and related environmental liabilities had been transferred in 1978 to an entity that was part of Kaneb's acquisition of Support Terminal Services, Inc. and its subsidiaries from Grace Energy in 1993. Kaneb contends that it did not acquire the Otis AFB pipeline and never assumed any responsibility for any associated environmental damage.

In 2000, the court entered final judgment that: (i) Grace Energy could not recover its own remediation costs of $3.5 million, (ii) Kaneb owned the Otis AFB pipeline and its related environmental liabilities and (iii) Grace Energy

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

was awarded $1.8 million in attorney costs. Both Kaneb and Grace Energy appealed the trial court's final judgment to the Texas Court of Appeals in Dallas. In 2001, Grace Energy filed a petition in bankruptcy, which created an automatic stay of actions against Grace Energy. Once that stay is lifted, we intend to resume vigorous prosecution of the appeal.

The Otis AFB is a part of a Superfund Site pursuant to the Comprehensive Environmental Response Compensation and Liability Act (CERCLA). The site contains a number of groundwater contamination plumes, two of which are allegedly associated with the Otis AFB pipeline. Relying on the Texas state court's final judgment assigning ownership of the Otis AFB pipeline to Kaneb, the U.S. Department of Justice advised Kaneb in 2001 that it intends to seek reimbursement from Kaneb for the remediation costs associated with the two spill areas. In 2002, the Department of Justice asserted that it had incurred over $49.0 million in costs and expected to incur additional costs of approximately $19.0 million for remediation of the two spill areas. The Department of Justice has not filed a lawsuit against us on this matter and we have not made any payments toward costs incurred by the Department of Justice.

Port of Vancouver Matter. We own a chemical and refined products terminal on property owned by the Port of Vancouver, and we lease the land under the terminal from the Port of Vancouver. Under an Agreed Order entered into with the Washington Department of Ecology when Kaneb purchased the terminal in 1998, Kaneb agreed to investigate and remediate groundwater contamination by the terminal's previous owner and operator originating from the terminal. Investigation and remediation at the terminal are ongoing, in compliance with the Agreed Order. In April 2006, the Washington Department of Ecology commented on our site investigation work plan and asserted that the groundwater contamination at the terminal was commingled with a groundwater contamination plume under other property owned by the Port of Vancouver. We dispute this assertion. No lawsuits have been filed against us in this matter, and we have not made any payments toward remediation of the allegedly commingled plume. Factors that could affect estimated remediation costs include whether Kaneb will be found to have ultimate responsibility for some portion of the allegedly commingled plume, the Port of Vancouver's contribution to the remediation effort and the amount the Port of Vancouver actually receives from other potentially responsible parties.

St. Eustatius Tax Agreement. On June 1, 1989, the governments of the Netherlands Antilles and St. Eustatius approved a Free Zone and Profit Tax Agreement retroactive to January 1, 1989, which expired on December 31, 2000. This agreement required a subsidiary of Kaneb, which we acquired on July 1, 2005, to pay the greater of 2% of taxable income, as defined therein, or 500,000 Netherlands Antilles guilders (approximately $0.3 million) per year. The agreement further provided that any amounts paid in order to meet the minimum annual payment were available to offset future tax liabilities under the agreement to the extent that the minimum annual payment is greater than 2% of taxable income.

On February 22, 2006, we entered into a revised agreement (the 2005 Tax and Maritime Agreement) with the governments of St. Eustatius and the Netherlands Antilles. The 2005 Tax and Maritime Agreement is effective beginning January 1, 2005 and expires on December 31, 2014. Under the terms of the 2005 Tax and Maritime Agreement, we agreed to make a one-time payment of five million Netherlands Antilles guilders (approximately $2.8 million) in full and final settlement of all of our liabilities, taxes, fees, levies, charges, or otherwise (including settlement of audits) due or potentially due to St. Eustatius. We further agreed to pay an annual minimum profit tax to St. Eustatius of one million Netherlands Antilles guilders (approximately $0.6 million), beginning as of January 1, 2005. We agreed to pay the minimum annual profit tax in twelve equal monthly installments. To the extent the minimum annual profit tax exceeds 2% of taxable profit (as defined in the 2005 Tax and Maritime Agreement), we can carry forward that excess to offset future tax liabilities. If the minimum annual profit tax is less than 2% of taxable profit, we agreed to pay that difference.

Other

We are also a party to additional claims and legal proceedings arising in the ordinary course of business. We believe the possibility is remote that the final outcome of any of these claims or proceedings to which we are a party would have a material adverse effect on our financial position, results of operations or liquidity; however, due to the inherent uncertainty of litigation, there can be no assurance that the resolution of any particular claim or proceeding would not have a material adverse effect on our results of operations, financial position or liquidity.

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

Commitments

On April 13, 2006, we entered into an agreement to purchase three 30,000 barrel and two 52,000 barrel tank barges over the next two years. The contract price is $34.1 million, which is subject to adjustment based on the actual cost incurred for the steel.

7. RELATED PARTY TRANSACTIONS

We have related party transactions with Valero Energy for pipeline tariff, terminalling fee and crude oil storage tank fee revenues, which are comparable to the fees charged to third parties for similar services. In addition, we reimburse Valero Energy for the actual costs of Valero Energy employees working solely on our behalf and for charges incurred on our behalf.

Additionally, Valero Energy charges us an administrative service fee for certain administrative functions, primarily information systems support, ad valorem taxes, risk management, and human resources administration. If we cease to obtain such administrative services from Valero Energy, our results of operations may be adversely impacted.

The receivable from Valero Energy as of June 30, 2006 and December 31, 2005 represents amounts due for pipeline tariff, terminalling fee and crude oil storage tank fee revenues, and the payable to Valero Energy primarily represents amounts due for employee costs and the administrative service fee.

The following table summarizes information pertaining to transactions with Valero Energy:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Thousands of Dollars)			
Revenues	$ 64,418	$ 57,354	$ 125,089	$ 112,695
Operating expenses	23,353	8,620	43,810	16,661
General and administrative expenses	7,104	3,043	12,804	5,800

Our share of allocated Valero Energy employee benefit plan expenses, excluding compensation expense related to restricted common units and unit options, was $8.8 million and $3.3 million for the three months ended June 30, 2006 and 2005, respectively, and was $16.6 million and $6.2 million for the six months ended June 30, 2006 and 2005, respectively. These employee benefit plan expenses and the related payroll costs are included in operating expenses and general and administrative expenses.

Services Agreement

For the three and six months ended June 30, 2006, Valero Energy charged us $0.4 million and $0.9 million, respectively, for administrative services. Effective July 1, 2005, the services agreement was amended (the 2005 Services Agreement) to account for our significant growth following the closing of the Kaneb Acquisition resulting in an increase in the administrative fee to $13.8 million for the first year from July 1, 2005 to June 30, 2006.

Effective January 1, 2006, we amended the 2005 Services Agreement (the 2006 Services Agreement) to reflect that Valero GP, LLC directly perform many of the services previously provided by Valero Energy under the 2005 Services Agreement, primarily consisting of information systems, legal, corporate development and health, safety and environmental functions. The Valero Energy employees who had previously performed these services became employees of Valero GP, LLC, and their costs are now directly charged to us. Accordingly, the annual fee charged to us by Valero Energy for administrative services was reduced from $13.8 million to approximately $1.9 million per year. This annual fee will increase to approximately $2.9 million and $3.4 million in 2007 and 2008, respectively. The annual fee will remain at approximately $3.4 million through the term of the agreement. In addition, each annual fee will be subject to adjustments to account for Valero Energy’s annual salary increase. Subject to approval by our Conflicts Committee, the amounts may also be adjusted for changed service levels.

The 2006 Services Agreement will expire on December 31, 2010 with automatic two-year renewal options unless terminated by either party at least six months prior to the renewal period. We may cancel or reduce the level of services that Valero Energy provides us on 60 days prior written notice. The 2006 Services Agreement will terminate upon the change of control of either Valero Energy or us.

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

2006 Omnibus Agreement

On March 31, 2006, Valero L.P. entered into an amended and restated omnibus agreement (the 2006 Omnibus Agreement) with Valero Energy, Valero GP, LLC, Riverwalk Logistics, L.P., and Valero Logistics. The 2006 Omnibus Agreement amended certain definitions and other provisions in the April 16, 2001 omnibus agreement, which it supersedes, to clarify the parties' intent as to the Valero Energy ownership requirements for the application of the business restrictions described below.

Under the 2006 Omnibus Agreement, Valero Energy has agreed, and will cause its controlled affiliates to agree, for so long as Valero Energy owns 20% or more of us or our 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 Ultramar Diamond Shamrock (UDS) as of April 16, 2001, the closing of our 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 we have been offered and declined the opportunity to purchase the business; and
- any newly constructed pipeline, terminalling or storage assets that we have not offered to purchase at fair market value within one year of construction.

Also under the 2006 Omnibus Agreement, Valero Energy has agreed to indemnify us for environmental liabilities related to the assets transferred to us in connection with our initial public offering in 2001, provided that such liabilities arose prior to and are discovered within ten years after that date (excluding liabilities resulting from a change in law after April 16, 2001).

8. PARTNERS' EQUITY

Outstanding Equity

We have identified our general partner interest and subordinated units as participating securities and we use the two-class method when calculating "income per unit applicable to limited partners," which is based on the weighted-average number of common and subordinated units outstanding during the period. Income per unit applicable to limited partners is computed by taking income less the general partner's 2% interest and incentive distributions, divided 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 we have no potentially dilutive securities outstanding.

Cash Distributions

On April 18, 2006, we declared a quarterly cash distribution of $0.885 per unit paid on May 12, 2006 to unitholders of record on May 5, 2006, which totaled $45.8 million. On July 19, 2006, we declared a quarterly cash distribution of $0.885 per unit to be paid on August 14, 2006 to unitholders of record on August 7, 2006, which totaled $45.8 million.

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

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

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	(Thousands of Dollars)			
General partner interest	$ 916	$ 433	$ 1,832	$ 832
General partner incentive distribution	3,480	1,501	6,960	2,613
Total general partner distribution	4,396	1,934	8,792	3,445
Limited partners' distribution	41,427	19,700	82,854	38,133
Total cash distributions	$ 45,823	$ 21,634	$ 91,646	$ 41,578
Cash distributions per unit applicable to limited partners	$ 0.885	$ 0.855	$ 1.770	$ 1.655

Subordinated Units

Effective April 1, 2006, we satisfied all the conditions included in our partnership agreement for the subordination period to end. Accordingly, all 9,599,322 subordinated units converted into common units on a one-for-one basis on May 8, 2006, the first business day after the record date for the distribution related to the first quarter earnings of 2006. Riverwalk Holdings, LLC held the 9,599,322 subordinated units at the time of conversion.

Comprehensive Income

For the three and six months ended June 30, 2006, the difference between our net income and our comprehensive income resulted from foreign currency translation adjustments. Our total comprehensive income was as follows:

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	(Thousands of Dollars)			
Net income	$ 31,553	$ 18,852	$ 71,004	$ 38,116
Foreign currency translation adjustment	6,865	—	9,066	—
Comprehensive income	$ 38,418	$ 18,852	$ 80,070	$ 38,116

9. SEGMENT INFORMATION

Our reportable segments consist of refined product terminals, refined product pipelines, crude oil pipelines and crude oil storage tanks. The operations related to the Kaneb Acquisition on July 1, 2005 principally involve transporting refined petroleum products and fertilizer as a common carrier, the storage of petroleum products, specialty chemicals, and other liquids. In addition, we also deliver and sell bunker fuel at St. Eustatius in the Caribbean and Point Tupper in Nova Scotia, Canada. The results of Kaneb's transportation operations are included in our refined product pipelines segment. The results of Kaneb's storage and bunker fuel operations are included in our refined product terminals segment.

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

Results of operations for the reportable segments were as follows:

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	(Thousands of Dollars)			
Revenues:				
Refined product terminals	$ 201,243	$ 11,484	$ 397,391	$ 21,421
Refined product pipelines	52,201	22,678	104,247	44,860
Crude oil pipelines	14,868	12,375	28,917	25,560
Crude oil storage tanks	11,656	11,769	23,417	23,100
Total revenues	$ 279,968	$ 58,306	$ 553,972	$ 114,941
Operating income:				
Refined product terminals	$ 21,827	$ 3,899	$ 48,872	$ 7,480
Refined product pipelines	17,862	9,222	39,967	18,244
Crude oil pipelines	9,295	7,033	18,398	15,249
Crude oil storage tanks	8,707	7,716	14,981	15,115
Total segment operating income	$ 57,691	$ 27,870	$ 122,218	$ 56,088
Less general and administrative expenses	10,375	3,561	18,935	7,064
Total operating income	$ 47,316	$ 24,309	$ 103,283	$ 49,024

Revenues from Valero Energy by reportable segment were as follows:

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
	(Thousands of Dollars)			
Revenues:				
Refined product terminals	$ 13,435	$ 11,376	$ 24,454	$ 21,166
Refined product pipelines	24,987	21,834	49,343	42,869
Crude oil pipelines	14,340	12,375	27,875	25,560
Crude oil storage tanks	11,656	11,769	23,417	23,100
Total revenues	$ 64,418	$ 57,354	$ 125,089	$ 112,695

Total assets by reportable segment were as follows:

	June 30, 2006	December 31, 2005
	(Thousands of Dollars)	
Refined product terminals	$ 1,637,289	$ 1,701,782
Refined product pipelines	1,271,169	1,286,571
Crude oil pipelines	121,515	123,698
Crude oil storage tanks	201,592	204,580
Total segment assets	3,231,565	3,316,631
General partnership assets assets and other noncurrent assets)	63,653	50,361
Total consolidated assets	$ 3,295,218	$ 3,366,992

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

10. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

Valero L.P. has no operations and its assets consist mainly of its investments in Valero Logistics, KSL and KPP. KPP is the majority owner of KPOP. Valero Logistics and KPOP are 100% indirectly owned by Valero L.P. Valero Logistics and KPOP own and operate pipelines, terminals and storage tanks and have issued publicly traded senior notes. The senior notes issued by Valero Logistics were and continue to be fully and unconditionally guaranteed by Valero L.P. In connection with the Kaneb Acquisition, effective July 1, 2005, Valero L.P. fully and unconditionally guaranteed the outstanding senior notes issued by KPOP. Additionally, effective July 1, 2005, both Valero Logistics and KPOP fully and unconditionally guaranteed the outstanding senior notes of the other. All guarantors are jointly and severally liable for performance under the terms of the guarantees.

As a result, the following condensed consolidating financial statements are being presented for the current year as an alternative to providing separate financial statements for Valero Logistics and KPOP. Condensed consolidating statements of income for the comparable periods of 2005 are not presented as we did not own Kaneb until July 1, 2005.

Condensed Consolidating Balance Sheet
June 30, 2006
(Thousands of Dollars)

	Valero L.P.	Valero Logistics Operations, L.P.	Kaneb Pipe Line Operating Partnership, L.P.	Non- Guarantor Subsidiaries (a)	Eliminations	Valero L.P. Consolidated
Assets						
Current assets	$ 220	$ 109,139	$ 647,603	$ 137,760	$ (693,666)	$ 201,056
Property and equipment, net	—	799,523	680,585	686,448	—	2,166,556
Goodwill	—	4,715	172,625	597,626	—	774,966
Investment in wholly owned subsidiaries	2,386,205	22,403	636,712	1,304,560	(4,349,880)	—
Equity investments	—	15,232	—	59,370	—	74,602
Other noncurrent assets, net assets, net	228	9,436	666	67,708	—	78,038
Total assets	$2,386,653	$ 960,448	$2,138,191	$ 2,853,472	$(5,043,546)	$3,295,218
Liabilities and Partners' Equity						
Current liabilities Current liabilities	$ 503,359	$ 37,856	$ 33,955	$ 259,758	$ (693,666)	$ 141,262
Long-term debt, less current portion	—	571,416	548,665	38,835	—	1,158,916
Long-term payable to Valero Energy	—	—	—	5,792	—	5,792
Deferred income taxes	—	—	—	21,653	—	21,653
Other long-term liabilities	—	11,123	4,031	61,349	—	76,503
Partners' equity	1,883,294	340,053	1,551,540	2,466,085	(4,349,880)	1,891,092
Total liabilities and partners' equity	$2,386,653	$ 960,448	$2,138,191	$ 2,853,472	$(5,043,546)	$3,295,218

(a) Non-guarantor subsidiaries are wholly owned by Valero L.P., Valero Logistics or KPOP.

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

Condensed Consolidating Balance Sheet
December 31, 2005
(Thousands of Dollars)

	Valero L.P.	Valero Logistics Operations, L.P.	Kaneb Pipe Line Operating Partnership, L.P.	Non-Guarantor Subsidiaries (a)	Eliminations	Valero L.P. Consolidated
Assets						
Current assets	$ 44	$ 196,481	$ 622,669	$ 240,741	$ (764,524)	$ 295,411
Property and equipment, net	—	783,945	694,374	681,894	—	2,160,213
Goodwill	—	4,715	193,127	569,745	—	767,587
Investment in wholly owned subsidiaries	2,403,969	16,920	603,474	1,273,313	(4,297,676)	—
Equity investments	—	15,087	—	58,899	—	73,986
Other noncurrent assets, net assets, net	228	8,677	771	60,119	—	69,795
Total assets	$2,404,241	$1,025,825	$2,114,415	$ 2,884,711	$(5,062,200)	$3,366,992
Liabilities and Partners' Equity						
Current liabilities	$ 502,194	$ 50,252	$ 40,341	$ 377,325	$ (764,524)	$ 205,588
Long-term debt, less current portion	—	581,921	551,607	36,131	—	1,169,659
Long-term payable to Valero Energy	—	—	—	5,507	—	5,507
Deferred income taxes	—	—	—	13,576	—	13,576
Other long-term liabilities	—	4,821	2,124	64,938	—	71,883
Partners' equity	1,902,047	388,831	1,520,343	2,387,234	(4,297,676)	1,900,779
Total liabilities and partners' equity	$2,404,241	$1,025,825	$2,114,415	$ 2,884,711	$(5,062,200)	$3,366,992

(a) Non-guarantor subsidiaries are wholly owned by Valero L.P., Valero Logistics or KPOP.

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

Condensed Consolidating Statements of Income
For the Three Months Ended June 30, 2006
(Thousands of Dollars)

	Valero L.P.	Valero Logistics Operations, L.P.	Kaneb Pipe Line Operating Partnership, L.P.	Non-Guarantor Subsidiaries (a)	Eliminations	Valero L.P. Consolidated
Revenues	$ —	$ 64,695	$ 26,908	$ 188,601	$ (236)	$ 279,968
Costs and expenses	555	34,567	22,703	175,063	(236)	232,652
Operating income	(555)	30,128	4,205	13,538	—	47,316
Equity earnings	32,108	78	13,898	12,893	(57,133)	1,844
Interest and other expense, net	—	(9,165)	(7,019)	(692)	—	(16,876)
Income from continuing operations before income tax expense	31,553	21,041	11,084	25,739	(57,133)	32,284
Income tax expense	—	—	—	492	—	492
Income from continuing operations	31,553	21,041	11,084	25,247	(57,133)	31,792
Income (loss) from discontinued operations	—	—	19	(258)	—	(239)
Net income	$31,553	$ 21,041	$ 11,103	$ 24,989	$ (57,133)	$ 31,553

(a) Non-guarantor subsidiaries are wholly owned by Valero L.P., Valero Logistics or KPOP.

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

Condensed Consolidating Statements of Income
For the Six Months Ended June 30, 2006
(Thousands of Dollars)

	Valero L.P.	Valero Logistics Operations, L.P.	Kaneb Pipe Line Operating Partnership, L.P.	Non-Guarantor Subsidiaries (a)	Eliminations	Valero L.P. Consolidated
Revenues	$ —	$ 125,378	$ 54,108	$ 374,972	$ (486)	$ 553,972
Costs and expenses	1,005	67,965	42,432	339,773	(486)	450,689
Operating income	(1,005)	57,413	11,676	35,199	—	103,283
Equity earnings	72,009	379	33,237	34,106	(136,681)	3,050
Interest and other expense, net	—	(16,795)	(14,033)	(1,513)	—	(32,341)
Income from continuing operations before income tax expense	71,004	40,997	30,880	67,792	(136,681)	73,992
Income tax expense	—	—	—	2,611	—	2,611
Income from continuing operations	71,004	40,997	30,880	65,181	(136,681)	71,381
Income (loss) from discontinued operations	—	—	317	(694)	—	(377)
Net income	$71,004	$ 40,997	$ 31,197	$ 64,487	$ (136,681)	$ 71,004

(a) Non-guarantor subsidiaries are wholly owned by Valero L.P., Valero Logistics or KPOP.

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

Condensed Consolidating Statement of Cash Flows
For the Six Months Ended June 30, 2006
(Thousands of Dollars)

	Valero L.P.	Valero Logistics Operations, L.P.	Kaneb Pipe Line Operating Partnership, L.P.	Non-Guarantor Subsidiaries (a)	Eliminations	Valero L.P. Consolidated
Cash flows from operating activities:						
Net income	$ 71,004	$ 40,997	$ 31,197	$ 64,487	$ (136,681)	$ 71,004
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	—	18,437	12,288	18,303	—	49,028
Equity income, net of distributions	17,764	(234)	(33,237)	(31,192)	46,899	—
Changes in operating assets and liabilities and other	(2,932)	(9,301)	(7,642)	7,226	—	(12,649)
Net cash provided by (used in) operating activities	85,836	49,899	2,606	58,824	(89,782)	107,383
Cash flows from investing activities:						
Capital expenditures	—	(20,793)	(4,118)	(17,946)	—	(42,857)
Proceeds from sale of assets	—	—	—	70,078	—	70,078
Acquisition and investment in noncurrent assets	—	(12,827)	—	(8,066)	—	(20,893)
Other	(77)	(5,250)	26,604	(22,149)	5,445	4,573
Cash flows provided by (used in) investing activities	(77)	(38,870)	22,486	21,917	5,445	10,901
Cash flows from financing activities:						
Distributions	(89,773)	(89,773)	—	(9)	89,782	(89,773)
Long-term debt borrowings	—	34,000	—	—	—	34,000
Long-term debt repayments	—	(38,480)	—	—	—	(38,480)
Net intercompany borrowings (repayments)	4,133	95,686	(24,828)	(74,991)	—	—
Other	16	(6,115)	—	4,291	(5,445)	(7,253)
Cash flows provided by (used in) financing activities	(85,624)	(4,682)	(24,828)	(70,709)	84,337	(101,506)
Effect of foreign exchange rate changes on cash	—	—	—	(292)	—	(292)
Net increase in cash and cash equivalents	135	6,347	264	9,740	—	16,486
Cash and cash equivalents at the beginning of the period	10	1,590	114	34,340	—	36,054
Cash and cash equivalents at the end of the period	$ 145	$ 7,937	$ 378	$ 44,080	$ —	$ 52,540

(a) Non-guarantor subsidiaries are wholly owned by Valero L.P., Valero Logistics or KPOP.

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

11. SUBSEQUENT EVENTS

On July 19, 2006, we entered into a non-compete agreement with Holdings, Riverwalk Logistics, L.P., and Valero GP, LLC (the Non-Compete Agreement). The Non-Compete Agreement will not be effective until Holdings is no longer subject to the Amended and Restated Omnibus Agreement dated March 31, 2006.

Under the Non-Compete Agreement, we will have a right of first refusal with respect to the potential acquisition of assets that relate to the transportation, storage or terminalling of crude oil, feedstocks or refined petroleum products (including petrochemicals) in the United States and internationally. Holdings will have a right of first refusal with respect to the potential acquisition of general partner and other equity interests in publicly traded partnerships under common ownership with the general partner interest. With respect to any other business opportunities, neither the Partnership nor Holdings are prohibited from engaging in any business, even if the Partnership and Holdings would have a conflict of interest with respect to such other business opportunity.

On July 19, 2006, in connection with Holdings' initial public offering, Valero GP, LLC entered into an administration agreement with Holdings (the Administration Agreement). The Administration Agreement provides, among other things, that all of Holdings' employees will be employees of Valero GP, LLC. Valero GP, LLC will provide all executive management, accounting, legal, cash management, corporate finance and other administrative services to Holdings.

Under the Administration Agreement, Holdings will pay Valero GP, LLC $0.5 million annually. This fee will be increased annually to reflect Valero GP, LLC's annual merit increases. Holdings will also reimburse Valero GP, LLC for all direct public company costs and any other direct costs, such as outside legal and accounting fees, that Valero GP, LLC incurs while providing services to Holdings pursuant to the Administration Agreement. The Administration Agreement will terminate on December 31, 2011, with automatic two-year renewals unless terminated by either party on six months' written notice. Holdings may cancel or reduce the services provided by Valero GP, LLC under the Administration Agreement on 60 days' written notice. The Administration Agreement will terminate upon a change of control of either Holdings or Valero GP, LLC.

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

FORWARD-LOOKING STATEMENTS

This Form 10-Q 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 our current judgment regarding the direction of our 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 our current views with regard to future events and are subject to various risks, uncertainties and assumptions. Please read our Annual Report on Form 10-K for the year ended December 31, 2005, Part I, Item 1A "Risk Factors" for a discussion of certain of those risks, uncertainties and assumptions.

If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, our actual results may vary materially from those described in any forward-looking statement. Other unknown or unpredictable factors could also have material adverse effects on our future results. Readers are cautioned not to place undue reliance on this forward-looking information, which is as of the date of the Form 10-Q. We do not intend to update these statements unless it is required by the securities laws to do so, and we undertake 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.

Overview

Valero L.P. is a publicly traded Delaware limited partnership formed in 1999 engaged in the crude oil and refined product transportation, terminalling and storage business. Valero L.P. has terminal facilities in the United States, the Netherlands Antilles, Canada, Mexico, the Netherlands and the United Kingdom.

We conduct our operations through our wholly owned subsidiaries, primarily Valero Logistics Operations, L.P. (Valero Logistics) and Kaneb Pipe Line Operating Partnership, L.P. (KPOP). Our operations are divided into four reportable business segments: refined product terminals, refined product pipelines, crude oil pipelines and crude oil storage tanks.

Refined Product Terminals. We own 57 terminals in the United States that provide storage and handling services on a fee basis for petroleum products, specialty chemicals and other liquids. We also own international terminal operations on the island of St. Eustatius in the Caribbean, Point Tupper in Nova Scotia, Canada, the United Kingdom, the Netherlands and Nuevo Laredo in Mexico. We sold eight terminals located in Australia and New Zealand on March 30, 2006.

Refined Product Pipelines. We own common carrier pipelines in Texas, Oklahoma, Colorado, New Mexico, Kansas, Nebraska, Iowa, South Dakota, North Dakota and Minnesota covering approximately 6,389 miles, consisting of the Central West System which is connected to Valero Energy refineries and the East Pipeline and the North Pipeline which we acquired from Kaneb. In addition, we own a 2,000 mile anhydrous ammonia pipeline located in Louisiana, Arkansas, Missouri, Illinois, Indiana, Iowa and Nebraska.

Crude Oil Pipelines. We own 797 miles of crude oil pipelines which transport 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 as well as associated crude oil storage facilities in Texas and Oklahoma that are located along the crude oil pipelines. We also own 57 miles of crude oil pipeline in Illinois, which serves ConocoPhillips' Wood River refinery.

Crude Oil Storage Tanks. We own 60 crude oil and intermediate feedstock storage tanks and related assets that store and deliver crude oil and intermediate feedstock to Valero Energy's refineries in Benicia, California and Corpus Christi and Texas City in Texas.

We provide transportation, storage services and ancillary services to our customers, including Valero Energy, which indirectly owns our general partner. Factors that affect the results of our operations include:

- company-specific factors, such as integrity issues and maintenance requirements that impact the throughput rates of our assets;
- seasonal factors that affect the demand for refined products and fertilizers transported by and/or stored in our assets;
- industry factors, such as changes in the prices of petroleum products that affect demand and operations of our competitors; and
- other factors such as refinery utilization rates and maintenance turnaround schedules that impact the operations of refineries served by our assets.

Recent Developments

UDS Logistics, LLC, an indirect, wholly owned subsidiary of Valero Energy, owned 21.4% limited partner interest in us as of December 31, 2005. On January 15, 2006, UDS Logistics, LLC, changed its name to Valero GP Holdings, LLC (Holdings). On January 25, 2006, Holdings contributed its 21.4% limited partnership interest (both common and subordinated units) in us and its 99.9% limited partnership interest in Riverwalk Logistics, L.P. to Riverwalk Holdings, LLC in exchange for 100% of the outstanding member interests in Riverwalk Holdings, LLC. In addition, Valero Energy contributed its ownership interest in Valero GP, LLC to Holdings on June 1, 2006 in exchange for additional ownership interest in Holdings. As a result, Valero GP, LLC, Riverwalk Holdings, LLC, and Riverwalk Logistics, L.P. are wholly owned subsidiaries of Holdings.

On July 19, 2006, Holdings completed its initial public offering of 17.25 million units representing limited liability company interests at $22.00 per unit. All of these units were sold by subsidiaries of Valero Energy. As a result, Holdings did not receive any proceeds from this offering. Valero Energy retains an approximate 59% ownership interest in Holdings, but has stated its intention to further reduce and ultimately sell all of its interest in Holdings, pending market conditions.

On July 19, 2006, we entered into a non-compete agreement with Holdings, Riverwalk Logistics, L.P., and Valero GP, LLC (the Non-Compete Agreement). The Non-Compete Agreement will not be effective until Holdings is no longer subject to the Amended and Restated Omnibus Agreement dated March 31, 2006. Under the Non-Compete Agreement, we will have a right of first refusal with respect to the potential acquisition of assets that relate to the transportation, storage or terminalling of crude oil, feedstocks or refined petroleum products (including petrochemicals) in the United States and internationally. Holdings will have a right of first refusal with respect to the potential acquisition of general partner and other equity interests in publicly traded partnerships under common ownership with the general partner interest. With respect to any other business opportunities, neither the Partnership nor Holdings are prohibited from engaging in any business, even if the Partnership and Holdings would have a conflict of interest with respect to such other business opportunity.

On July 19, 2006, in connection with Holdings' initial public offering, Valero GP, LLC entered into an administration agreement with Holdings (the Administration Agreement). The Administration Agreement provides, among other things, that all of Holdings' employees will be employees of Valero GP, LLC. Valero GP, LLC will provide all executive management, accounting, legal, cash management, corporate finance and other administrative services to Holdings. Under the Administration Agreement, Holdings will pay Valero GP, LLC $0.5 million annually. This fee will be increased annually to reflect Valero GP, LLC's annual merit increases. Holdings will also reimburse Valero GP, LLC for all direct public company costs and any other direct costs, such as outside legal and accounting fees, that Valero GP, LLC incurs while providing services to Holdings pursuant to the Administration Agreement. The Administration Agreement will terminate on December 31, 2011, with automatic two-year renewals unless terminated by either party on six months' written notice. Holdings may cancel or reduce the services provided by Valero GP, LLC under the Administration Agreement on 60 days' written notice. The Administration Agreement will terminate upon a change of control of either Holdings or Valero GP, LLC.

On March 30, 2006, we sold our Australia and New Zealand subsidiaries to ANZ Terminals Pty. Ltd., for total proceeds of $70.1 million. The proceeds were used for working capital purposes, including paying down outstanding debt. This transaction included the sale of eight terminals with an aggregate storage capacity of 1.1 million barrels.

For the six months ended June 30, 2006, revenues and pre-tax income related to the Australia and New Zealand subsidiaries included in loss from discontinued operations totaled $5.0 million and $0.6 million, respectively. For the three months ended June 30, 2006, the loss from discontinued operations was related to the sale of our Held Separate Businesses.

Effective January 1, 2006, we purchased a 23.77% interest in Capwood pipeline from Valero Energy for $12.8 million, which was paid from borrowings under our existing revolving credit agreement. The Capwood pipeline is a 57-mile crude oil pipeline that extends from Patoka, Illinois to Wood River, Illinois. Plains All American Pipeline L.P., the operator of the Capwood pipeline, owns the remaining 76.23% interest. Our financial statements include the results of operations of our interest in the Capwood pipeline in the crude oil pipelines segment for the three and six months ended June 30, 2006.

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Results of Operations

Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005

Financial Highlights
(Unaudited, Thousands of Dollars, Except Unit and Per Unit Data)

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Change
Statement of Income Data:			
Revenues:			
Services revenues	$ 152,094	$ 58,306	$ 93,788
Product sales	127,874	—	127,874
Total revenues	279,968	58,306	221,662
Costs and expenses:			
Cost of product sales	118,283	—	118,283
Operating expenses	79,155	21,645	57,510
General and administrative expenses	10,375	3,561	6,814
Depreciation and amortization	24,839	8,791	16,048
Total costs and expenses	232,652	33,997	198,655
Operating income	47,316	24,309	23,007
Equity income from joint ventures	1,844	421	1,423
Interest and other expenses, net	(16,876)	(5,878)	(10,998)
Income from continuing operations before income tax expense	32,284	18,852	13,432
Income tax expense	492	—	492
Income from continuing operations	31,792	18,852	12,940
Loss from discontinued operations	(239)	—	(239)
Net income	31,553	18,852	12,701
Less general partner’s interest and incentive distributions	(4,041)	(1,847)	(2,194)
Limited partners’ interest in net income	$ 27,512	$ 17,005	$ 10,507
Weighted-average units outstanding	46,809,749	23,041,394	
Income (loss) per unit applicable to limited partners:			
Continuing operations	$ 0.60	$ 0.74	$ (0.14)
Discontinued operations	(0.01)	—	(0.01)
Net income	$ 0.59	$ 0.74	$ (0.15)

Segment Operating Highlights
(Thousands of Dollars, Except Barrels/Day Information)

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Change
Refined Product Terminals:			
Throughput (barrels/day) (a)	265,277	251,851	13,426
Throughput revenues	$ 12,876	$ 11,484	$ 1,392
Storage lease revenues	60,493	—	60,493
Product sales (bunkering)	127,874	—	127,874
Total revenues	201,243	11,484	189,759
Cost of product sales	118,283	—	118,283
Operating expenses	50,092	5,725	44,367
Depreciation and amortization	11,041	1,860	9,181
Segment operating income	$ 21,827	$ 3,899	$ 17,928
Refined Product Pipelines:			
Throughput (barrels/day)	709,480	438,067	271,413
Revenues	$ 52,201	$ 22,678	$ 29,523
Operating expenses	23,736	9,552	14,184
Depreciation and amortization	10,603	3,904	6,699
Segment operating income	$ 17,862	$ 9,222	$ 8,640
Crude Oil Pipelines:			
Throughput (barrels/day)	440,691	324,001	116,690
Revenues	$ 14,868	$ 12,375	$ 2,493
Operating expenses	4,290	4,186	104
Depreciation and amortization	1,283	1,156	127
Segment operating income	$ 9,295	$ 7,033	$ 2,262
Crude Oil Storage Tanks:			
Throughput (barrels/day)	484,322	527,361	(43,039)
Revenues	$ 11,656	$ 11,769	$ (113)
Operating expenses	1,037	2,182	(1,145)
Depreciation and amortization	1,912	1,871	41
Segment operating income	$ 8,707	$ 7,716	$ 991
Consolidated Information:			
Revenues	$ 279,968	$ 58,306	$ 221,662
Cost of product sales	118,283	—	118,283
Operating expenses	79,155	21,645	57,510
Depreciation and amortization	24,839	8,791	16,048
Segment operating income	57,691	27,870	29,821
General and administrative expenses	10,375	3,561	6,814
Consolidated operating income	$ 47,316	$ 24,309	$ 23,007

(a) Excludes throughputs related to storage lease and bunkering operations acquired in the Kaneb Acquisition.

Highlights

Net income for the three months ended June 30, 2006 increased $12.7 million compared to the three months ended June 30, 2005 due to higher consolidated segmental operating income and higher equity income from joint ventures, partially offset by increased general and administrative expense and increased interest expense. All of these increases predominantly resulted from our acquisition (Kaneb Acquisition) completed on July 1, 2005, of Kaneb Services LLC (KSL) and Kaneb Pipe Line Partners, L.P. (KPP, and, together with KSL, Kaneb). Our results of operations for the three months ended June 30, 2005 does not include any Kaneb results.

Consolidated segmental operating income for the three months ended June 30, 2006 increased $29.8 million compared to the three months ended June 30, 2005, primarily due to a $17.9 million increase in operating income for the refined product terminals segment and a $8.6 million increase in operating income for the refined product pipelines segment. These increases relate primarily to the effect of the Kaneb Acquisition.

Except for storage lease revenues and bunker fuel sales, operating income for our segments depends upon the level of throughputs moving through our assets. In addition to the Kaneb Acquisition, which impacted only the refined product terminals and refined product pipelines segments, all of our segments are affected by scheduled maintenance turnarounds or other operational issues at refineries that we serve. During the three months ended June 30, 2006, our operations were affected by scheduled maintenance turnarounds at Valero Energy’s Paulsboro and Three Rivers refineries as well as Tesoro’s Mandan refinery in North Dakota. Our operations were also affected by unplanned outages at Valero Energy’s McKee and Texas City refineries.

Refined Product Terminals

Revenues increased by $189.8 million for the three months ended June 30, 2006, compared to the three months ended June 30, 2005, primarily due to the Kaneb Acquisition, which contributed $127.9 million of bunkering revenues and $60.5 million of storage lease revenues.

Cost of product sales totaled $118.3 million for the three months ended June 30, 2006. Cost of product sales reflects the cost of bunker fuel sold to marine vessels at our facilities at St. Eustatius in the Caribbean and Point Tupper in Nova Scotia, Canada, which we acquired as part of the Kaneb Acquisition.

Operating expenses increased $44.4 million for the three months ended June 30, 2006, compared to the three months ended June 30, 2005, primarily due to the inclusion of operating expenses related to the assets acquired in the Kaneb Acquisition. Operating expenses further increased compared to the three months ended June 30, 2005, due to increased internal overhead expense resulting from increased headcount.

Depreciation and amortization expense increased $9.2 million for the three months ended June 30, 2006, compared to the three months ended June 30, 2005, primarily due to an increase in our property and equipment related to the Kaneb Acquisition.

Refined Product Pipelines

Revenues increased by $29.5 million for the three months ended June 30, 2006, compared to the three months ended June 30, 2005, primarily due to the Kaneb Acquisition, which increased throughputs by approximately 220,000 barrels per day, resulting in additional revenues of $26.9 million. Revenues also increased due to the expansion of a refined product pipeline in South Texas and northeastern Mexico (Burgos project). The Burgos project commenced operations on the Edinburg to Harlingen segment in October 2005, and the Harlingen to Brownsville segment in March 2006.

Operating expenses increased by $14.2 million for the three months ended June 30, 2006, compared to the three months ended June 30, 2005, primarily due to the inclusion of operating expenses of $13.6 million related to the assets acquired in the Kaneb Acquisition. Operating expenses also increased compared to the three months ended June 30, 2005, due to increased power costs resulting from higher throughputs on the Burgos project.

Depreciation and amortization expense increased by $6.7 million for the three months ended June 30, 2006 compared to the three months ended June 30, 2005, primarily due to increases in our property and equipment related to the Kaneb Acquisition.

Crude Oil Pipelines

Revenues increased by $2.5 million for the three months ended June 30, 2006, compared to the three months ended June 30, 2005, due to higher revenues of $1.5 million on the Ringgold to Wasson crude oil pipeline for the three months ended June 30, 2006, as lower overall throughputs resulted from a maintenance turnaround at Valero Energy's Ardmore refinery during the three months ended June 30, 2005. In addition, our purchase of the Capwood pipeline, which increased throughputs by approximately 44,000 barrels per day, resulted in additional revenues of $0.5 million.

Crude Oil Storage Tanks

Operating expenses decreased by $1.1 million for the three months ended June 30, 2006, compared to the three months ended June 30, 2005, due to lower maintenance expense on the Texas City crude oil tanks.

General

General and administrative expenses increased by $6.8 million for the three months ended June 30, 2006, compared to the three months ended June 30, 2005, primarily due to increased headcount and increased professional fees as a result of the Kaneb Acquisition.

Equity income from joint ventures increased by $1.4 million for the three months ended June 30, 2006, compared to the three months ended June 30, 2005, primarily related to our 50% ownership in a terminal and storage facility in Linden, New Jersey, which was acquired in the Kaneb Acquisition.

Interest expense increased by $10.7 million for the three months ended June 30, 2006, compared to the three months ended June 30, 2005, due to higher average debt balances resulting from debt assumed in the Kaneb Acquisition and debt incurred to fund the Kaneb Acquisition combined with higher interest rates in 2006.

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Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005

Financial Highlights
(Unaudited, Thousands of Dollars, Except Unit and Per Unit Data)

	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005	Change
Statement of Income Data:			
Revenues:			
Services revenues	$ 300,023	$ 114,941	$ 185,082
Product sales	253,949	—	253,949
Total revenues	553,972	114,941	439,031
Costs and expenses:			
Cost of product sales	232,501	—	232,501
Operating expenses	150,225	41,330	108,895
General and administrative expenses	18,935	7,064	11,871
Depreciation and amortization	49,028	17,523	31,505
Total costs and expenses	450,689	65,917	384,772
Operating income	103,283	49,024	54,259
Equity income from joint ventures	3,050	799	2,251
Interest and other expenses, net	(32,341)	(11,707)	(20,634)
Income from continuing operations before income tax expense	73,992	38,116	35,876
Income tax expense	2,611	—	2,611
Income from continuing operations	71,381	38,116	33,265
Loss from discontinued operations	(377)	—	(377)
Net income	71,004	38,116	32,888
Less general partner’s interest and incentive distributions	(8,240)	(3,323)	(4,917)
Limited partners’ interest in net income	$ 62,764	$ 34,793	$ 27,971
Weighted-average units outstanding	46,809,749	23,041,394	
Income (loss) per unit applicable to limited partners:			
Continuing operations	$ 1.35	$ 1.51	$ (0.16)
Discontinued operations	(0.01)	—	(0.01)
Net income	$ 1.34	$ 1.51	$ (0.17)

	June 30, 2006	December 31, 2005	Change
Balance Sheet Data:			
Long-term debt, including current portion	$ 1,159,482	$ 1,170,705	$ (11,223)
Partners’ equity	1,891,092	1,900,779	(9,687)
Debt-to-capitalization ratio (a)	38.0%	38.1%	(0.1)%

(a) Our debt-to-capitalization ratio is defined as our long-term debt, including current portion, divided by the sum of our long-term debt, including current portion, and partners’ equity.

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Segment Operating Highlights
(Thousands of Dollars, Except Barrels/Day Information)

	Six Months Ended June 30, 2006	2005	Change
Refined Product Terminals:			
Throughput (barrels/day) (a)	258,811	252,686	6,125
Throughput revenues	$ 23,416	$ 21,421	$ 1,995
Storage lease revenues	120,026	—	120,026
Product sales (bunkering)	253,949	—	253,949
Total revenues	397,391	21,421	375,970
Cost of product sales	232,501	—	232,501
Operating expenses	94,071	10,222	83,849
Depreciation and amortization	21,947	3,719	18,228
Segment operating income	$ 48,872	$ 7,480	$ 41,392
Refined Product Pipelines:			
Throughput (barrels/day)	705,248	441,014	264,234
Revenues	$ 104,247	$ 44,860	$ 59,387
Operating expenses	43,538	18,855	24,683
Depreciation and amortization	20,742	7,761	12,981
Segment operating income	$ 39,967	$ 18,244	$ 21,723
Crude Oil Pipelines:			
Throughput (barrels/day)	434,219	352,386	81,833
Revenues	$ 28,917	$ 25,560	$ 3,357
Operating expenses	7,987	8,009	(22)
Depreciation and amortization	2,532	2,302	230
Segment operating income	$ 18,398	$ 15,249	$ 3,149
Crude Oil Storage Tanks:			
Throughput (barrels/day)	498,618	516,562	(17,944)
Revenues	$ 23,417	$ 23,100	$ 317
Operating expenses	4,629	4,244	385
Depreciation and amortization	3,807	3,741	66
Segment operating income	$ 14,981	$ 15,115	$ (134)
Consolidated Information:			
Revenues	$ 553,972	$ 114,941	$439,031
Cost of product sales	232,501	—	232,501
Operating expenses	150,225	41,330	108,895
Depreciation and amortization	49,028	17,523	31,505
Segment operating income	122,218	56,088	66,130
General and administrative expenses	18,935	7,064	11,871
Consolidated operating income	$ 103,283	$ 49,024	$ 54,259

(a) Excludes throughputs related to storage lease and bunkering operations acquired in the Kaneb Acquisition.

Highlights

Net income for the six months ended June 30, 2006 increased $32.9 million compared to the six months ended June 30, 2005 due to higher consolidated segmental operating income and higher equity earnings in joint ventures, partially offset by increased general and administrative expense, increased interest expense and increased income tax expense. All of these increases predominantly resulted from the Kaneb Acquisition. Our results of operations for the six months ended June 30, 2005 does not include any Kaneb results.

Consolidated segmental operating income for the six months ended June 30, 2006 increased $66.1 million compared to the six months ended June 30, 2005, primarily due to a $41.4 million increase in operating income for the refined product terminals segment and a $21.7 million increase in operating income for the refined product pipelines segment. These increases relate primarily to the effect of the Kaneb Acquisition.

Except for storage lease revenues and bunker fuel sales, operating income for our segments depends upon the level of throughputs moving through our assets. In addition to the Kaneb Acquisition, which impacted only the refined product terminals and refined product pipelines segments, all of our segments are affected by scheduled maintenance turnarounds or other operational issues at refineries that we serve. During the six months ended June 30, 2006, our operations were affected by scheduled maintenance turnarounds at Valero Energy's Paulsboro, Three Rivers and Texas City refineries as well as Tesoro's Mandan refinery in North Dakota. Our operations were also affected by unplanned outages at Valero Energy's McKee and Texas City refineries.

Refined Product Terminals

Revenues increased by $376.0 million for the six months ended June 30, 2006, compared to the six months ended June 30, 2005, primarily due to the Kaneb Acquisition, which contributed $253.9 million of bunkering revenues and $120.0 million of storage lease revenues.

Cost of product sales totaled $232.5 million for the six months ended June 30, 2006. Cost of product sales reflects the cost of bunker fuel sold to marine vessels at our facilities at St. Eustatius in the Caribbean and Point Tupper in Nova Scotia, Canada, which we acquired as part of the Kaneb Acquisition.

Operating expenses increased $83.8 million for the six months ended June 30, 2006, compared to the six months ended June 30, 2005, primarily due to the inclusion of operating expenses related to the assets acquired in the Kaneb Acquisition. Operating expenses further increased compared to the six months ended June 30, 2005, due to increased internal overhead expense resulting from increased headcount.

Depreciation and amortization expense increased $18.2 million for the six months ended June 30, 2006, compared to the six months ended June 30, 2005, primarily due to an increase in our property and equipment related to the Kaneb Acquisition.

Refined Product Pipelines

Revenues increased by $59.4 million for the six months ended June 30, 2006, compared to the six months ended June 30, 2005, primarily due to the Kaneb Acquisition, which increased throughputs by approximately 219,000 barrels per day, resulting in additional revenues of $54.1 million. Revenues also increased due to the expansion of the Burgos project, which commenced operations on the Edinburg to Harlingen segment in October 2005, and the Harlingen to Brownsville segment in March 2006. In addition, revenues increased in the refined product pipelines that serve Valero Energy's McKee refinery due to increased demand in the Denver market.

Operating expenses increased by $24.7 million for the six months ended June 30, 2006, compared to the six months ended June 30, 2005, primarily due to the inclusion of operating expenses of $24.8 million related to the assets acquired in the Kaneb Acquisition. Partially offsetting the increase in operating expenses were decreased environmental expenses.

Depreciation and amortization expense increased by $13.0 million for the six months ended June 30, 2006 compared to the six months ended June 30, 2005, primarily due to increases in our property and equipment related to the Kaneb Acquisition.

Crude Oil Pipelines

Revenues increased by $3.4 million for the six months ended June 30, 2006, compared to the six months ended June 30, 2005, due to higher revenues of $2.1 million on the Ringgold to Wasson crude oil pipeline for the six months ended June 30, 2006 as lower overall throughputs resulted from a maintenance turnaround at Valero Energy's Ardmore refinery during the six months ended June 30, 2005. In addition, our purchase of the Capwood pipeline, which increased throughputs by approximately 45,000 barrels per day, resulted in additional revenues of $1.0 million.

Crude Oil Storage Tanks

Revenues increased by $0.3 million for the six months ended June 30, 2006, compared to the six months ended June 30, 2005, primarily due to increased throughput in our Corpus Christi North Beach storage facility.

Operating expenses increased by $0.4 million for the six months ended June 30, 2006, compared to the six months ended June 30, 2005, due to increased dockage and wharfage costs at the Corpus Christi North Beach storage facility.

General

General and administrative expenses increased by $11.9 million for the six months ended June 30, 2006, compared to the six months ended June 30, 2005, primarily due to increased headcount as a result of the Kaneb Acquisition.

Equity income from joint ventures increased by $2.3 million for the six months ended June 30, 2006, compared to the six months ended June 30, 2005, primarily related to our 50% ownership in a terminal and storage facility in Linden, New Jersey, which was acquired in the Kaneb Acquisition.

Interest expense increased by $20.6 million for the six months ended June 30, 2006, compared to the six months ended June 30, 2005, due to higher average debt balances resulting from debt assumed in the Kaneb Acquisition and debt incurred to fund the Kaneb Acquisition combined with higher interest rates in 2006.

Income tax expense was $2.6 million for the six months ended June 30, 2006, all of which related to certain operations acquired in the Kaneb Acquisition that are conducted through separate taxable wholly owned corporate subsidiaries.

Related Party Transactions

We have related party transactions with Valero Energy for pipeline tariff, terminalling fee and crude oil storage tank fee revenues, which are comparable to the fees charged to third parties for similar services. In addition, we reimburse Valero Energy for the actual costs of Valero Energy employees working solely on our behalf and for charges incurred on our behalf.

Additionally, Valero Energy charges us an administrative service fee for certain administrative functions, primarily information systems support, ad valorem taxes, risk management, and human resources administration. If we cease to obtain such administrative services from Valero Energy our results of operations may be adversely impacted.

Services Agreement

For the three and six months ended June 30, 2006, Valero Energy charged us $0.4 million and $0.9 million, respectively for administrative services. Effective July 1, 2005, the Services Agreement was amended (the 2005 Services Agreement) to account for our significant growth following the closing of the Kaneb Acquisition resulting in an increase in the administrative fee to $13.8 million for the first year from July 1, 2005 to June 30, 2006.

Effective January 1, 2006, we amended the 2005 Services Agreement (the 2006 Services Agreement) to reflect that Valero GP, LLC directly perform many of the services previously provided by Valero Energy under the 2005 Services Agreement, primarily consisting of information systems, legal, corporate development and health, safety and environmental functions. The Valero Energy employees who had previously performed these services became employees of Valero GP, LLC, and their costs are now directly charged to us. Accordingly, the annual fee charged to us by Valero Energy for administrative services was reduced from $13.8 million to approximately $1.9 million per year. This annual fee will increase to approximately $2.9 million and $3.4 million in 2007 and 2008, respectively. The annual fee will remain at approximately $3.4 million through the term of the agreement. In addition, each annual fee will be subject to adjustments to account for Valero Energy's annual salary increase. Subject to approval by our Conflicts Committee, the amounts may also be adjusted for changed service levels.

The 2006 Services Agreement will expire on December 31, 2010 with automatic two-year renewal options unless terminated by either party at least six months prior to the renewal period. We may cancel or reduce the level of services that Valero Energy provides us on 60 days prior written notice. The 2006 Services Agreement will terminate upon the change of control of either Valero Energy or us.

2006 Omnibus Agreement

On March 31, 2006, Valero L.P. entered into an amended and restated omnibus agreement (the 2006 Omnibus Agreement) with Valero Energy, Valero GP, LLC, Riverwalk Logistics, L.P., and Valero Logistics. The 2006 Omnibus Agreement amended certain definitions and other provisions in the April 16, 2001 omnibus agreement, which it supersedes, to clarify the parties' intent as to the Valero Energy ownership requirements for the application of the business restrictions described below.

Under the 2006 Omnibus Agreement, Valero Energy has agreed, and will cause its controlled affiliates to agree, for so long as Valero Energy owns 20% or more of us or our 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 Ultramar Diamond Shamrock (UDS) as of April 16, 2001, the closing of our 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 we have been offered and declined the opportunity to purchase the business; and
- any newly constructed pipeline, terminalling or storage assets that we have not offered to purchase at fair market value within one year of construction.

Also under the 2006 Omnibus Agreement, Valero Energy has agreed to indemnify us for environmental liabilities related to the assets transferred to us in connection with our initial public offering, provided that such liabilities arose prior to and are discovered within ten years after that date (excluding liabilities resulting from a change in law after April 16, 2001).

Outlook

For the third quarter of 2006, we expect to benefit from increased pipeline tariffs, which went into effect on July 1, 2006, higher volumes from the Burgos project and higher demand for asphalt and refined products. However, we expect the results of the third quarter of 2006 to be similar to the second quarter of 2006 as we continue to be impacted by scheduled turnarounds at refineries we serve, and the commencement of maintenance projects on our former Kaneb assets. For the fourth quarter of 2006, we expect our results of operations to improve due to fewer turnarounds, lower maintenance expenses and increases in our bunkering business. We continue to expect our results of operations for the second half of 2006 to exceed our results of operations for the first half of 2006.

LIQUIDITY AND CAPITAL RESOURCES

General

Our primary cash requirements are for distributions to partners, debt service, reliability and strategic growth capital expenditures, acquisitions and normal operating expenses. We have typically generated sufficient cash from our current operations to fund day-to-day operating and general and administrative expenses, reliability capital expenditures and distribution requirements. We also have available borrowing capacity under our existing revolving credit facility and, to the extent necessary, may raise additional funds through equity or debt offerings to fund strategic capital expenditures or other cash requirements not funded from operations. However, there can be no assurance regarding the availability of any additional funds or whether such additional funds can be obtained on terms acceptable to us.

Cash Flows for the Six Months Ended June 30, 2006 and 2005

Net cash provided by operating activities for the six months ended June 30, 2006 was $107.4 million compared to $53.8 million for the six months ended June 30, 2005. The increase in cash generated from operating activities is primarily due to net income adjusted for all non-cash items and larger changes in working capital resulting from the Kaneb Acquisition.

Net cash provided by operating activities for the six months ended June 30, 2006, combined with available cash on hand, was used to fund distributions to unitholders and the general partner in the amount of $89.8 million. The proceeds from long-term debt borrowings totaling $34.0 million were used to fund the purchase of the Capwood pipeline and a portion of our capital expenditures. The proceeds from the sale of the Australia and New Zealand subsidiaries totaling $70.1 million were used for working capital purposes, including paying down outstanding debt.

Net cash provided by operating activities for the six months ended June 30, 2005 was $53.8 million. The net cash provided by operations, combined with available cash on hand, was used primarily to fund distributions to unitholders and the general partner in the amount of $39.9 million. Additionally, we used cash from operating activities in combination with proceeds from long-term debt borrowings totaling $10.0 million to fund capital expenditures of $14.5 million and pre-acquisition costs associated with the Kaneb Acquisition of $3.5 million.

Partners' Equity

Cash Distributions. On April 18, 2006, we declared a quarterly cash distribution of $0.885 per unit paid on May 12, 2006 to unitholders of record on May 5, 2006, which totaled $45.8 million. On July 19, 2006, we declared a quarterly cash distribution of $0.885 per unit to be paid on August 14, 2006 to unitholders of record on August 7, 2006, which totaled $45.8 million.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Thousands of Dollars)			
General partner interest	$ 916	$ 433	$ 1,832	$ 832
General partner incentive distribution	3,480	1,501	6,960	2,613
Total general partner distribution	4,396	1,934	8,792	3,445
Limited partners' distribution	41,427	19,700	82,854	38,133
Total cash distributions	$ 45,823	$ 21,634	$ 91,646	$ 41,578
Cash distributions per unit applicable to limited partners	$ 0.885	$ 0.855	$ 1.770	$ 1.655

Subordinated Units. Effective April 1, 2006, we satisfied all the conditions included in our partnership agreement for the subordination period to end. Accordingly, all 9,599,322 subordinated units converted into common units on a one-for-one basis on May 8, 2006, the first business day after the record date for the distribution related to the first quarter earnings of 2006. Riverwalk Holdings, LLC held the 9,599,322 subordinated units at the time of conversion.

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.

Our capital expenditures consist primarily of:

- reliability capital expenditures, such as those required to maintain equipment reliability and safety and to address environmental and safety regulations; and

- strategic growth capital expenditures, such as those to expand and upgrade pipeline capacity and to construct new pipelines, terminals and storage tanks. In addition, strategic growth capital expenditures may include acquisitions of pipelines, terminals, storage tank assets, or other logistic assets.

During the six months ended June 30, 2006, we incurred reliability capital expenditures of $16.2 million primarily related to the upgrade and enhancement of the assets acquired with the Kaneb Acquisition. Strategic growth capital expenditures of $34.7 million during the six months ended June 30, 2006 were primarily related to the Burgos project, which we completed in July 2006.

For the remainder of 2006, we expect to incur approximately $130 million of capital expenditures, including $30 million for reliability capital projects and $100 million for strategic growth capital projects. We continuously evaluate our capital forecast and make changes as economic conditions warrant. If conditions warrant, our actual capital expenditures for 2006 may exceed the forecasted amounts. We believe cash generated from operations combined with other sources of liquidity previously described will be sufficient to fund our capital expenditures in 2006.

Other Contingencies

We are subject to certain loss contingencies, the outcome of which could have an effect on our cash flows. Specifically, we may be required to make substantial payments to the U.S. Department of Justice for certain remediation costs as further disclosed in Note 6 of Condensed Notes to Consolidated Financial Statements.

Long-Term Contractual Obligations

Credit Agreement Amendments

On June 6, 2006, we completed certain amendments to our $525 million term loan agreement ($525 Million Term Loan Agreement) and our $400 million revolving credit agreement (the $400 Million Revolving Credit Agreement). Both agreements were amended to (i) eliminate the provision that the failure of Valero Energy to own or control our general partner constitutes a “change of control;” (ii) extend the maturities of the agreements to 2011; (iii) include certain material construction projects in the definition of “Consolidated EBITDA;” and (iv) eliminate the requirement that we maintain a minimum consolidated interest coverage ratio. Additionally, the amendments reduced the applicable margin on LIBOR loans, which vary depending upon our credit rating. The term loan agreement of our UK subsidiary (the UK Term Loan) was also amended to (i) extend its maturity to 2011; (ii) include certain material construction projects in the definition of “Consolidated EBITDA;” and (iii) eliminate the requirement that we maintain a minimum consolidated interest coverage ratio.

Our $525 Million Term Loan Agreement, $400 Million Revolving Credit Agreement and UK Term Loan all require that we maintain certain financial ratios and include other restrictive covenants, including a prohibition on distributions if any defaults, as defined in the agreements, exist or would result from the distribution. Our management believes that we are in compliance with all of these ratios and covenants as of June 30, 2006.

$400 Million Revolving Credit Agreement

During the six months ended June 30, 2006, we borrowed $34.0 million under our $400 Million Revolving Credit Agreement to fund the purchase of the Capwood pipeline and our capital expenditures. Additionally, we repaid $38.0 million during the six months ended June 30, 2006. The $400 Million Revolving Credit Agreement bears interest based on either an alternative base rate or LIBOR. As of June 30, 2006, we had $399.1 million available for borrowing under our $400 Million Revolving Credit Agreement.

Interest Rate Swaps

As of June 30, 2006, the weighted-average interest rate for our interest rate swaps was 7.4%. As of June 30, 2006 and December 31, 2005, the aggregate estimated fair value of the interest rate swaps included in other long-term liabilities in our consolidated balance sheets was $10.6 million and $4.0 million, respectively.

Environmental, Health and Safety

We are 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

	June 30, 2006							
	Expected Maturity Dates							
	2006	2007	2008	2009	2010	There-after	Total	Fair Value
	(Thousands of Dollars, Except Interest Rates)							
Long-term Debt:								
Fixed rate	$ 566	$611	$660	$713	$ 770	$893,717	$897,037	$915,887
Average interest rate	8.0%	8.0%	8.0%	8.0%	8.0%	6.6%	6.6%	
Variable rate	$ —	$—	$—	$—	$ —	$225,000	$225,000	$225,000
Average interest rate	—	—	—	—	—	6.0%	6.0%	
Interest Rate Swaps Fixed to Variable:								
Notional amount	$ —	$—	$—	$—	$ —	$167,500	$167,500	$ (10,559)
Average pay rate	7.4%	7.3%	7.3%	7.4%	7.4%	7.4%	7.4%	
Average receive rate	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	

	December 31, 2005							
	Expected Maturity Dates							
	2006	2007	2008	2009	2010	There-after	Total	Fair Value
	(Thousands of Dollars, Except Interest Rates)							
Long-term Debt:								
Fixed rate	$1,046	$611	$660	$713	$ 36,901	$854,881	$894,812	$954,039
Average interest rate	8.0%	8.0%	8.0%	8.0%	6.7%	6.6%	6.6%	
Variable rate	$ —	$—	$—	$—	$229,000	$ —	$229,000	$229,000
Average interest rate	—	—	—	—	5.2%	—	5.2%	
Interest Rate Swaps Fixed to Variable:								
Notional amount	$ —	$—	$—	$—	$ —	$167,500	$167,500	$ (4,002)
Average pay rate	6.6%	6.6%	6.6%	6.6%	6.7%	6.6%	6.6%	
Average receive rate	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	

Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures.*

Our management has evaluated, with the participation of the principal executive officer and principal financial officer of Valero GP, LLC, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report, and has concluded that our disclosure controls and procedures were effective as of June 30, 2006.

(b) *Changes in internal control over financial reporting.*

There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The information below describes new proceedings or material developments in proceedings that we previously reported in our annual report on Form 10-K for the year ended December 31, 2005, or our quarterly report on Form 10-Q for the quarter ended March 31, 2006.

Port of Vancouver Matter. We own a chemical and refined products terminal on property owned by the Port of Vancouver, and we lease the land under the terminal from the Port of Vancouver. Under an Agreed Order entered into with the Washington Department of Ecology when Kaneb purchased the terminal in 1998, Kaneb agreed to investigate and remediate groundwater contamination by the terminal's previous owner and operator originating from the terminal. Investigation and remediation at the terminal are ongoing, in compliance with the Agreed Order. In April 2006, the Washington Department of Ecology commented on our site investigation work plan and asserted that the groundwater contamination at the terminal was commingled with a groundwater contamination plume under other property owned by the Port of Vancouver. We dispute this assertion. No lawsuits have been filed against us in this matter, and we have not made any payments toward remediation of the allegedly commingled plume. Factors that could affect estimated remediation costs include whether Kaneb will be found to have ultimate responsibility for some portion of the allegedly commingled plume, the Port of Vancouver's contribution to the remediation effort and the amount the Port of Vancouver actually receives from other potentially responsible parties.

Environmental Enforcement Matters

While it is not possible to predict the outcome of the following environmental proceedings, if any one or more of them were decided against us, we believe that there would be no material effect on our consolidated financial position. Nevertheless, we are reporting these proceedings to comply with SEC regulations, which require us to disclose proceedings arising under federal, state or local provisions regulating the discharge of materials into the environment or protecting the environment if we reasonably believe that such proceedings will result in monetary sanctions of $100,000 or more.

The California Bay Area Air Quality Management District has proposed penalties totaling $494,000 for alleged air violations at a terminal in Martinez, California. We sold the Martinez terminal to Pacific Energy Group LLC, a subsidiary of Pacific Energy Partners, L.P., on September 30, 2005. As a part of the asset purchase agreement, Pacific Energy Group, LLC assumed responsibility for the notices of violation at the Martinez terminal.

As we previously disclosed, the California Bay Area Air Quality Management District proposed penalties for air violations at our Selby terminal. In June 2006, the California Bay Area Air Quality Management District agreed to settle the air violations at the Selby terminal for penalties totaling approximately $256,000.

Item 6. Exhibits

*Exhibit 10.01	Second Amendment to 5-Year Revolving Credit Agreement dated as of May 15, 2006 among Valero Logistics Operations, L.P., Valero L.P., JPMorgan Chase Bank, N.A., as Administrative Agent, and the Lenders party thereto.
*Exhibit 10.02	Third Amendment to 5-Year Revolving Credit Agreement dated as of May 31, 2006 among Valero Logistics Operations, L.P., Valero L.P., JPMorgan Chase Bank, N.A., as Administrative Agent, and the Lenders party thereto.
*Exhibit 10.03	First Amendment to 5-Year Term Credit Agreement dated as of May 15, 2006 among Valero Logistics Operations, L.P., Valero L.P., JPMorgan Chase Bank, N.A., as Administrative Agent, and the Lenders party thereto.
*Exhibit 10.04	Second Amendment to 5-Year Term Credit Agreement dated as of May 31, 2006 among Valero Logistics Operations, L.P., Valero L.P., JPMorgan Chase Bank, N.A., as Administrative Agent, and the Lenders party thereto.

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*Exhibit 10.05	Administration Agreement between Valero GP Holdings, LLC and Valero GP, LLC dated as of July 19, 2006.
*Exhibit 10.06	Non-compete Agreement between Valero GP Holdings, LLC, Valero L.P., Riverwalk Logistics, L.P. and Valero GP, LLC, entered into as of July 19, 2006.
†*Exhibit 10.07	Valero GP, LLC Excess Pension Plan, effective July 1, 2006
†*Exhibit 10.08	Valero GP, LLC Excess Thrift Plan, effective July 1, 2006
†*Exhibit 10.09	Valero GP, LLC Supplemental Executive Retirement Plan, effective July 1, 2006
*Exhibit 12.01	Statement of Computation of Ratio of Earnings to Fixed Charges
*Exhibit 31.01	Rule 13a-14(a) Certifications (under Section 302 of the Sarbanes-Oxley Act of 2002)
*Exhibit 32.01	Section 1350 Certifications (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002)

* Filed herewith.

† Identifies management contracts or compensatory plans or arrangements required to be filed as an exhibit hereto.

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SIGNATURES

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

VALERO L.P.
(Registrant)
By: Riverwalk Logistics, L.P., its general partner
By: Valero GP, LLC, its general partner

By: /s/ Curtis V. Anastasio
Curtis V. Anastasio
President and Chief Executive Officer
August 8, 2006

By: /s/ Steven A. Blank
Steven A. Blank
Senior Vice President, Chief Financial Officer and Treasurer
August 8, 2006

By: /s/ Thomas R. Shoaf
Thomas R. Shoaf
Vice President and Controller
August 8, 2006

Exhibit 10.01

SECOND AMENDMENT

TO

5-YEAR REVOLVING CREDIT AGREEMENT

dated as of

May 15, 2006

among

VALERO LOGISTICS OPERATIONS, L.P.,
as Borrower,

VALERO L.P.,

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

and

The Lenders Party Hereto

SECOND AMENDMENT TO 5-YEAR REVOLVING CREDIT AGREEMENT

THIS SECOND AMENDMENT TO 5-YEAR REVOLVING CREDIT AGREEMENT (this "Second Amendment") dated as of May 15, 2006, is among **VALERO LOGISTICS OPERATIONS, L.P.**, a Delaware limited partnership (the "Borrower"); **VALERO L.P.,** a Delaware limited partnership (the "MLP"); **JPMORGAN CHASE BANK, N.A.**, as administrative agent (in such capacity, together with its successors in such capacity, the "Administrative Agent") for the lenders party to the Credit Agreement referred to below (collectively, the "Lenders"); and the undersigned Lenders.

R E C I T A L S

A. The Borrower, the Administrative Agent and the Lenders are parties to that certain 5-Year Revolving Credit Agreement dated as of December 20, 2004 (as amended by the First Amendment to 5-Year Revolving Credit Agreement dated as of June 30, 2005 among the Borrower, the MLP, the Administrative Agent and the Lenders party thereto, the "Credit Agreement"), pursuant to which the Lenders have made certain extensions of credit available to the Borrower.

B. The Borrower has requested and the Lenders have agreed to amend certain provisions of the Credit Agreement.

C. NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Defined Terms. Each capitalized term used herein but not otherwise defined herein has the meaning given such term in the Credit Agreement. Unless otherwise indicated, all references to Sections in this Second Amendment refer to Sections of the Credit Agreement.

Section 2. Amendments to Credit Agreement.

2.1 Amendments to Section 1.01.

(a) The definition of "Agreement" is hereby amended in its entirety to read as follows:

"Agreement" means this 5-Year Revolving Credit Agreement, as amended by the First Amendment and the Second Amendment, as the same may be amended, modified, supplemented or restated from time to time in accordance herewith.

(b) The definition of "Change in Control" is hereby amended in its entirety to read as follows:

"Change in Control" means any of the following events:

(a) 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 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; or

(c) the occurrence of any transaction that results in any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) other than a Permitted Holder becoming the Beneficial Owner, directly or indirectly, of more than 50% of the general partner interests in the MLP.

(c) The following definitions are hereby added where alphabetically appropriate to read as follows:

"Beneficial Owner" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the Exchange Act), such "person" will be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, and any statute successor thereto.

"Investment Grade Person" means a Person that has issued unsecured senior debt that has at least two of the following ratings on the date the transaction constituting a Change in Control is consummated:

(a) BBB- or above, in the case of S&P (or its equivalent under any successor rating categories of S&P);

(b) Baa3 or above, in the case of Moody's (or its equivalent under any successor rating categories of Moody's); or

(c) the equivalent in respect of the rating categories of any rating agencies substituted for S&P or Moody's.

"Permitted Holder" means Valero Energy or any Investment Grade Person.

"Second Amendment" means the Second Amendment to 5-Year Revolving Credit Agreement dated as of May 15, 2006 among the Borrower, the MLP, the Administrative Agent and the Lenders party thereto.

Section 3. Conditions Precedent. This Second Amendment shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 10.02 of the Credit Agreement) (the "Effective Date"):

3.1 The Administrative Agent and the Lenders shall have received all fees and other amounts due and payable, if any, in connection with this Second Amendment on or prior to the Effective Date.

3.2 The Administrative Agent shall have received from the Required Lenders, the Borrower and the MLP, counterparts (in such number as may be requested by the Administrative Agent) of this Second Amendment signed on behalf of such Persons.

3.3 The Administrative Agent shall have received such other documents as the Administrative Agent or special counsel to the Administrative Agent may reasonably request.

3.4 No Default shall have occurred and be continuing, after giving effect to the terms of this Second Amendment.

Section 4. Miscellaneous.

4.1 Confirmation. The provisions of the Credit Agreement, as amended by this Second Amendment, shall remain in full force and effect following the effectiveness of this Second Amendment.

4.2 Ratification and Affirmation; Representations and Warranties. The Borrower and the MLP each hereby (a) acknowledges the terms of this Second Amendment; (b) ratifies and affirms its obligations under, and acknowledges, renews and extends its continued liability under, each Loan Document to which it is a party and agrees that each Loan Document to which it is a party remains in full force and effect, except as expressly amended hereby, notwithstanding the amendments contained herein and (c) represents and warrants to the Lenders that as of the date hereof, after giving effect to the terms of this Second Amendment: (i) all of the representations and warranties contained in each Loan Document to which it is a party are true and correct, unless such representations and warranties are stated to relate to a specific earlier date, in which case, such representations and warranties shall continue to be true and correct as of such earlier date and (ii) no Default has occurred and is continuing.

4.3 Loan Document. This Second Amendment is a "Loan Document" as defined and described in the Credit Agreement and all of the terms and provisions of the Credit Agreement relating to Loan Documents shall apply hereto.

4.4 Counterparts. This Second Amendment may be executed by one or more of the parties hereto in any number of separate counterparts, and all of such counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of this Second Amendment by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof.

4.5 NO ORAL AGREEMENT. THIS SECOND AMENDMENT, THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS EXECUTED IN CONNECTION

HEREWITH AND THEREWITH REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR UNWRITTEN ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES.

4.6 GOVERNING LAW. THIS SECOND AMENDMENT (INCLUDING, BUT NOT LIMITED TO, THE VALIDITY AND ENFORCEABILITY HEREOF) SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

[SIGNATURES BEGIN NEXT PAGE]

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to be duly executed as of the date first written above.

VALERO LOGISTICS OPERATIONS, L.P.

By: Valero GP, Inc., its General Partner

By: /s/ Steven A. Blank
Steven A. Blank
Senior Vice President and
Chief Financial Officer

VALERO L.P.

By: Riverwalk Logistics, L.P., its General Partner

By: Valero GP, LLC, its General Partner

By: /s/ Steven A. Blank
Steven A. Blank
Senior Vice President and
Chief Financial Officer

JPMORGAN CHASE BANK, N.A., individually and as Administrative Agent

By /s/ Robert W. Traband

Name: Robert W. Traband

Title: Vice President

SUNTRUST BANK, individually and as
Syndication Agent

By	/s/ Peter Panos
Name:	Peter Panos
Title:	Vice President

BARCLAYS BANK PLC, individually and as
Co-Documentation Agent

By /s/ Allison McGuigan
Name: Allison McGuigan
Title: Associate Director

MIZUHO CORPORATE BANK (USA),
individually and as Co-Documentation Agent

By /s/ Raymond Ventura
Name: Raymond Ventura
Title: Senior Vice President

ROYAL BANK OF CANADA, individually and as
Co-Documentation Agent

By /s/ Dan J. McKinnerney
Name: Dan J. McKinnerney
Title: Authorized Signatory

THE BANK OF TOKYO-MITSUBISHI, LTD.,
individually and as Co-Managing Agent

By /s/ Kelton Glasscock
Name: Kelton Glasscock
Title: Vice President & Manager

BANK OF AMERICA, N.A., individually and as
Co-Managing Agent

By /s/ Claire Liu
Name: Claire Liu
Title: Senior Vice President

THE BANK OF NOVA SCOTIA, individually and
as Co-Managing Agent

By /s/ William E. Zarrett
Name: William E. Zarrett
Title: Managing Director

BNP PARIBAS, individually and as
Co-Managing Agent

By	/s/ Larry Robinson
Name:	Larry Robinson
Title:	Director

By	/s/ Greg Smothers
Name:	Greg Smothers
Title:	Vice President

CITIBANK, N.A., individually and as
Co-Managing Agent

By /s/ Amy K. Pincu
Name: Amy K. Pincu
Title: Attorney-in-Fact

THE ROYAL BANK OF SCOTLAND plc,
individually and as Co-Managing Agent

By /s/ Paul McDonagh

Name: Paul McDonagh
Title: Managing Director

BAYERISCHE HYPO-UND VEREINSBANK
AG, NEW YORK BRANCH, individually and as
Co-Managing Agent

By ______________________________
Name:
Title:

By ______________________________
Name:
Title:

KEYBANK NATIONAL ASSOCIATION,
individually and as Co-Managing Agent

By /s/ Thomas Rajan

Thomas Rajan
Senior Vice President

SUMITOMO MITSUI BANKING CORPORATION,
individually and as Co-Managing Agent

By	/s/ David A. Buck
Name:	David A. Buck
Title:	Senior Vice President

CALYON NEW YORK BRANCH, individually and as Co-Managing Agent

By /s/ Bertrand Cord'homme

Name: Bertrand Cord'homme

Title: Director

By /s/ Page Dillehunt

Name: Page Dillehunt

Title: Managing Director

WELLS FARGO BANK, NATIONAL
ASSOCIATION, individually and as
Co-Managing Agent

By	/s/ Jo Ann Vasquez
Name:	Jo Ann Vasquez
Title:	Vice President

LEHMAN BROTHERS BANK, FSB

By	/s/ Janine M. Shugan
Name:	Janine M. Shugan
Title:	Authorized Signatory

UBS LOAN FINANCE LLC

By /s/ Iris R. Otsa
Name: Iris R. Otsa
Title: Associate Director, Banking Products Services, US

By /s/ Richard L. Tavrow
Name: Richard L. Tavrow
Title: Director, Banking Products Services, US

COMPASS BANK

By /s/ David G. Mills

Name: David G. Mills

Title: Senior Vice President

BANK HAPOALIM B.M.

By ______________________________
Name:
Title:

By ______________________________
Name:
Title:

Exhibit 10.02

THIRD AMENDMENT

TO

5-YEAR REVOLVING CREDIT AGREEMENT

dated as of

May 31, 2006

among

VALERO LOGISTICS OPERATIONS, L.P.,
as Borrower,

VALERO L.P.,

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

and

The Lenders Party Hereto

THIRD AMENDMENT TO 5-YEAR REVOLVING CREDIT AGREEMENT

THIS THIRD AMENDMENT TO 5-YEAR REVOLVING CREDIT AGREEMENT (this "Third Amendment") dated as of May 31, 2006, is among **VALERO LOGISTICS OPERATIONS, L.P.**, a Delaware limited partnership (the "Borrower"); **VALERO L.P.,** a Delaware limited partnership (the "MLP"); **JPMORGAN CHASE BANK, N.A.**, as administrative agent (in such capacity, together with its successors in such capacity, the "Administrative Agent") for the lenders party to the Credit Agreement referred to below (collectively, the "Lenders"); and the undersigned Lenders.

RECITALS

A. The Borrower, the Administrative Agent and the Lenders are parties to that certain 5-Year Revolving Credit Agreement dated as of December 20, 2004 (as amended by the First Amendment to 5-Year Revolving Credit Agreement dated as of June 30, 2005 and the Second Amendment to 5-Year Revolving Credit Agreement dated as of May 15, 2006, each among the Borrower, the MLP, the Administrative Agent and the Lenders party thereto, the "Credit Agreement"), pursuant to which the Lenders have made certain extensions of credit available to the Borrower.

B. The Borrower has requested and the Lenders have agreed to amend certain provisions of the Credit Agreement.

C. NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Defined Terms. Each capitalized term used herein but not otherwise defined herein has the meaning given such term in the Credit Agreement. Unless otherwise indicated, all references to Sections in this Third Amendment refer to Sections of the Credit Agreement.

Section 2. Amendments to Credit Agreement.

2.1 Amendments to Section 1.01.

(a) The definition of "Agreement" is hereby amended in its entirety to read as follows:

"Agreement" means this 5-Year Revolving Credit Agreement, as amended by the First Amendment, the Second Amendment and the Third Amendment, as the same may be amended, modified, supplemented or restated from time to time in accordance herewith.

(b) The grid in the definition of "Applicable Rate" is hereby amended in its entirety to read as follows:

Index Debt Ratings:	ABR Spread	Eurodollar Spread	Facility Fee Rate
Tier 1 Greater than BBB or Baa2	0.00%	0.270%	0.080%
Tier 2 BBB or Baa2	0.00%	0.400%	0.100%
Tier 3 BBB- or Baa3	0.000%	0.500%	0.125%
Tier 4 BB+ or Ba1	0.000%	0.575%	0.175%
Tier 5 Less than BB+ or Ba1	0.000%	0.700%	0.200%

(c) The definition of "Consolidated EBITDA" is hereby amended in its entirety to read as follows:

"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 (a) plus the following to the extent deducted from Consolidated Operating Income in such period: (i) depreciation, amortization and other non-cash charges for such period and (ii) cash distributions received by the Borrower from Skelly-Belvieu Pipeline Company, and similar joint ventures, during such period; (b) minus all non-cash income added to Consolidated Operating Income in such period; and (c) plus any Material Project EBITDA Adjustments for 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) $17,500,000 for the Rolling Period ending on September 30, 2005, (B) $15,000,000 for the Rolling Period ending on December 31, 2005, (C) $10,000,000 for the Rolling Period ending on March 31, 2006 and (D) $5,000,000 for the Rolling Period ending on June 30, 2006.

(d) The definition of "Maturity Date" is hereby amended in its entirety to read as follows:

"Maturity Date" means May 31, 2011, and for any Lender agreeing to extend its Maturity Date pursuant to Section 2.20, the date on May 31 in each year thereafter pursuant to which the Maturity Date has been extended, but in no event later than May 31, 2013.

(e) The following definitions are hereby added where alphabetically appropriate to read as follows:

"Consenting Lenders" has the meaning set forth in Section 2.20(b).

"Extension Confirmation Date" has the meaning set forth in Section 2.20(b).

"Extension Effective Date" has the meaning set forth in Section 2.20(b).

"Material Project" means each new pipeline, storage facility, processing plant or other capital expansion project wholly owned by the MLP or its Subsidiaries, the construction of which commenced after May 31, 2006 and which has a budgeted capital cost exceeding $25,000,000.

"Material Project EBITDA Adjustments" means, with respect to each Material Project, (a) for any Rolling Period ending on or prior to the last day of the fiscal quarter during which the Material Project is completed, a percentage (based on the then-current completion percentage of the Material Project) of an amount to be approved by the Required Lenders as the projected Consolidated EBITDA attributable to such Material Project (such amount to be determined based on contracts relating to such Material Project, the creditworthiness of the other parties to such contracts and projected revenues from such contracts, capital costs and expenses, scheduled completion, and other factors deemed appropriate by the Lenders) shall be added to actual Consolidated EBITDA for the MLP and its Subsidiaries for the fiscal quarter in which construction of such Material Project commences and for each fiscal quarter thereafter until completion of the Material Project (net of any actual Consolidated EBITDA attributable to such Material Project following its completion), provided that if construction of the Material Project is not completed by the scheduled completion date, then the foregoing amount shall be reduced by the following percentage amounts depending on the period of delay for completion (based on the period of actual delay or then-estimated delay, whichever is longer): (i) longer than 90 days, but not more than 180 days, 25%, (ii) longer than 180 days but not more than 270 days, 50%, and (iii) longer than 270 days, 100%; and (b) for each Rolling Period ending on the last day of the first, second and third fiscal quarters, respectively, immediately following the fiscal quarter during which the Material Project is completed, an amount equal to the projected Consolidated EBITDA attributable to the Material Project for the period from but excluding the end of such Rolling Period through and including the last day of the fourth fiscal quarter following the fiscal quarter during which the Material Project is completed shall be added to Consolidated EBITDA for such Rolling Period (net of any actual Consolidated

EBITDA attributable to the Material Project for the period from and including the date of completion through and including the last day of the fiscal quarter during which the Material Project is completed). Notwithstanding the foregoing, (i) no such additions shall be allowed with respect to any Material Project unless not later than 45 days prior to commencement of construction thereof, the Borrower shall have delivered to the Administrative Agent and the Lenders written pro forma projections of Consolidated EBITDA attributable to such Material Project and such other information and documentation as the Administrative Agent or any Lender may reasonably request, all in form and substance satisfactory to the Administrative Agent and the Required Lenders, and (ii) the aggregate amount of all Material Project EBITDA Adjustments during any period shall be limited to 20% of the total actual Consolidated EBITDA of the MLP and its Subsidiaries for such period (which total actual Consolidated EBITDA shall be determined without including any Material Project EBITDA Adjustments or any adjustments in respect of any acquisitions or dispositions as provided in the definition of Consolidated EBITDA).

"Responsible Officer" means, as to any Person, the Chief Executive Officer, the President, any Financial Officer or any Vice President of such Person. Unless otherwise specified, all references to a Responsible Officer herein shall mean a Responsible Officer of the Borrower.

"Third Amendment" means the Third Amendment to 5-Year Revolving Credit Agreement dated as of May 31, 2006 among the Borrower, the MLP, the Administrative Agent and the Lenders party thereto.

(f) The definitions of "Consolidated Interest Coverage Ratio" and "Consolidated Interest Expense" are hereby deleted.

2.2 Amendment to Section 2.11(c). Section 2.11(c) is hereby amended in its entirety to read as follows:

"(c) The Borrower agrees to pay to the Administrative Agent for the account of each Lender a utilization fee which shall accrue at a per annum rate equal to 0.100% on the daily amount of such Lender's Revolving Credit Exposure during the time the sum of the total Revolving Credit Exposures equals or exceeds 50% of the total Commitments. Utilization fees shall be computed on the basis of a year of 360 days and shall be payable in arrears on the last day of March, June, September and December of each year."

2.3 Amendment to Section 2.18(b). Section 2.18(b) is hereby amended by inserting the words ", or if any Lender shall fail to agree to extend the Maturity Date pursuant to Section 2.20 if the Required Lenders have agreed to do so," after the word "hereunder," and before the word "then" in the fourth line thereof.

2.4 Amendment to Article II. Article II is hereby amended to add the following new Section 2.20 to read as follows:

"Section 2.20. Extension of Maturity Date.

(a) Not earlier than 90 days prior to, nor later than 30 days prior to, each anniversary of May 31, 2006, and on not more than two occasions, the Borrower may, upon notice to the Administrative Agent (which shall promptly notify the Lenders), request a one-year extension of the Maturity Date then in effect. Within 30 days of delivery of such notice, each Lender shall notify the Administrative Agent whether or not it consents to such extension (which consent may be given or withheld in such Lender's sole and absolute discretion). Any Lender not responding within the above time period shall be deemed not to have consented to such extension. The Administrative Agent shall promptly notify the Borrower and the Lenders of the Lenders' responses.

(b) The Maturity Date shall be extended only if the Required Lenders (calculated excluding any Lender in default in its obligation to fund Loans hereunder and prior to giving effect to any replacements of Lenders permitted herein) (the "Consenting Lenders") have consented thereto. If so extended, the Maturity Date, as to the Consenting Lenders, shall be extended to the same date in the year following the Maturity Date then in effect (such existing Maturity Date being the "Extension Effective Date"). The Administrative Agent and the Borrower shall promptly confirm to the Lenders such extension, specifying the date of such confirmation (the "Extension Confirmation Date"), the Extension Effective Date, and the new Maturity Date (after giving effect to such extension). As a condition precedent to such extension, the Borrower shall deliver to the Administrative Agent a certificate of the Borrower dated as of the Extension Confirmation Date (in sufficient copies for each Lender) signed by a Responsible Officer of the Borrower (i) certifying and attaching the resolutions adopted by the Borrower approving or consenting to such extension and (ii) certifying that, (A) before and after giving effect to such extension, the representations and warranties contained in Article III made by it are true and correct on and as of the Extension Confirmation Date, except to the extent that such representations and warranties specifically refer to an earlier date, (B) before and after giving effect to such extension no Default exists or will exist as of the Extension Confirmation Date, and (C) since December 31, 2003, no event, development or circumstance that has had or could reasonably be expected to have a Material Adverse Effect has occurred. The Borrower shall prepay any Loans outstanding on the Extension Effective Date (and pay any additional amounts required pursuant to Section 2.15) to the extent necessary to keep outstanding Loans ratable with any revised and new Applicable Percentages of all the Lenders effective as of the Extension Effective Date."

2.5 Amendment to Section 6.01(f). Section 6.01(f) is hereby amended by:

(a) deleting the words "(i) the Consolidated Interest Coverage Ratio set forth in Section 6.11(a) and (ii)"; and

(b) changing the reference to "Section 6.11(b)" therein to "Section 6.11".

2.6 Amendments to Section 6.04(f) and (g). Section 6.04(f) and (g) are each hereby amended by:

(a) deleting the words ", (ii) the Consolidated Interest Coverage Ratio set forth in Section 6.11(a),";

(b) renumbering "(iii)" to "(ii)"; and

(c) changing the reference to "Section 6.11(b)" therein to "Section 6.11".

2.7 Amendment to Section 6.11. Section 6.11 is hereby amended in its entirety to read as follows:

"Section 6.11. Financial Condition Covenants. The MLP will not permit at any time its Consolidated Debt Coverage Ratio to be in excess of (a) 5.00 to 1.00 for any Rolling Period ending on or before June 30, 2006 and (b) 4.75 to 1.00 for any Rolling Period ending on or subsequent to September 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 (a) or (b) above, as applicable."

2.8 Amendment to Section 10.02(b). Clause (v) of Section 10.02(b) is hereby amended by inserting the words "or Section 2.20" after the words "Section 4.01" and before the word "or" in the first line of such clause (v).

Section 3. Conditions Precedent. This Third Amendment shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 10.02 of the Credit Agreement) (the "Effective Date"):

3.1 The Administrative Agent and the Lenders shall have received all fees and other amounts due and payable, if any, in connection with this Third Amendment on or prior to the Effective Date.

3.2 The Administrative Agent shall have received from all of the Lenders, the Borrower and the MLP, counterparts (in such number as may be requested by the Administrative Agent) of this Third Amendment signed on behalf of such Persons.

3.3 The Administrative Agent shall have received such other documents as the Administrative Agent or special counsel to the Administrative Agent may reasonably request.

3.4 No Default shall have occurred and be continuing, after giving effect to the terms of this Third Amendment.

Section 4. Miscellaneous.

4.1 Confirmation. The provisions of the Credit Agreement, as amended by this Third Amendment, shall remain in full force and effect following the effectiveness of this Third Amendment.

4.2 Ratification and Affirmation; Representations and Warranties. The Borrower and the MLP each hereby (a) acknowledges the terms of this Third Amendment; (b) ratifies and affirms its obligations under, and acknowledges, renews and extends its continued liability under, each Loan Document to which it is a party and agrees that each Loan Document to which it is a party remains in full force and effect, except as expressly amended hereby, notwithstanding the amendments contained herein and (c) represents and warrants to the Lenders that as of the date hereof, after giving effect to the terms of this Third Amendment: (i) all of the representations and warranties contained in each Loan Document to which it is a party are true and correct, unless such representations and warranties are stated to relate to a specific earlier date, in which case, such representations and warranties shall continue to be true and correct as of such earlier date and (ii) no Default has occurred and is continuing.

4.3 Loan Document. This Third Amendment is a "Loan Document" as defined and described in the Credit Agreement and all of the terms and provisions of the Credit Agreement relating to Loan Documents shall apply hereto.

4.4 Counterparts. This Third Amendment may be executed by one or more of the parties hereto in any number of separate counterparts, and all of such counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of this Third Amendment by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof.

4.5 NO ORAL AGREEMENT. THIS THIRD AMENDMENT, THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS EXECUTED IN CONNECTION HEREWITH AND THEREWITH REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR UNWRITTEN ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES.

4.6 GOVERNING LAW. THIS THIRD AMENDMENT (INCLUDING, BUT NOT LIMITED TO, THE VALIDITY AND ENFORCEABILITY HEREOF) SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

[SIGNATURES BEGIN NEXT PAGE]

IN WITNESS WHEREOF, the parties hereto have caused this Third Amendment to be duly executed as of the date first written above.

VALERO LOGISTICS OPERATIONS, L.P.

By: Valero GP, Inc., its General Partner

By: /s/ Steven A. Blank
Steven A. Blank
Senior Vice President and
Chief Financial Officer

VALERO L.P.

By: Riverwalk Logistics, L.P., its General Partner

By: Valero GP, LLC, its General Partner

By: /s/ Steven A. Blank
Steven A. Blank
Senior Vice President and
Chief Financial Officer

JPMORGAN CHASE BANK, N.A., individually
and as Administrative Agent

By	/s/ Robert Traband
Name:	Robert Traband
Title:	Vice President

SUNTRUST BANK, individually and as
Syndication Agent

By /s/ Peter Panos

Name: Peter Panos

Title: Vice President

BARCLAYS BANK PLC, individually and as
Co-Documentation Agent

By	/s/ Peter Harrington
Name:	Peter Harrington
Title:	Director

MIZUHO CORPORATE BANK (USA),
individually and as Co-Documentation Agent

By /s/ Raymond Ventura

Name: Raymond Ventura

Title: Senior Vice President

ROYAL BANK OF CANADA, individually and as
Co-Documentation Agent

By	/s/ Don J. McKinnerney
Name:	Don J. McKinnerney
Title:	Authorized Signatory

THE BANK OF TOKYO-MITSUBISHI, LTD.,
individually and as Co-Managing Agent

By /s/ Kelton Glasscock
Name: Kelton Glasscock
Title: Vice President & Manager

BANK OF AMERICA, N.A., individually and as Co-Managing Agent

By	/s/ Claire Liu
Name:	Claire Liu
Title:	Senior Vice President

THE BANK OF NOVA SCOTIA, individually and as Co-Managing Agent

By /s/ N. Bell
Name: N. Bell
Title: Senior Manager

BNP PARIBAS, individually and as
Co-Managing Agent

By /s/ Mark A. Cox
Name: Mark A. Cox
Title: Director

By /s/ Larry Robinson
Name: Larry Robinson
Title: Director

CITIBANK, N.A., individually and as
Co-Managing Agent

By /s/ Amy K. Pincu
Name: Amy K. Pincu
Title: Attorney-in-Fact

THE ROYAL BANK OF SCOTLAND plc,
individually and as Co-Managing Agent

By /s/ Matthew Main
Name: Matthew Main
Title: Managing Director

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KEYBANK NATIONAL ASSOCIATION,
individually and as Co-Managing Agent

By /s/ Thomas Rajan
Thomas Rajan
Senior Vice President

SUMITOMO MITSUI BANKING CORPORATION,
individually and as Co-Managing Agent

By /s/ William M. Ginn
Name: William M. Ginn
Title: General Manager

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WELLS FARGO BANK, NATIONAL ASSOCIATION, individually and as Co-Managing Agent

By /s/ Jo Ann Vasquez

Name: Jo Ann Vasquez

Title: Vice President

LEHMAN BROTHERS BANK, FSB

By	/s/ Janine M. Shugan
Name:	Janine M. Shugan
Title:	Authorized Signatory

UBS LOAN FINANCE LLC

By	/s/ Richard L. Tavrow
Name:	Richard L. Tavrow
Title:	Director, Banking Products Services, US
By	/s/ Irja R. Otsa
Name:	Irja R. Otsa
Title:	Associate Director, Banking Products Services, US

COMPASS BANK

By	/s/ Payton K. Swope
Name:	Payton K. Swope
Title:	Vice President

BANK HAPOALIM B.M.

By ______________________________
Name:
Title:

By ______________________________
Name:
Title:

Exhibit 10.03

FIRST AMENDMENT

TO

5-YEAR TERM CREDIT AGREEMENT

dated as of

May 15, 2006

among

VALERO LOGISTICS OPERATIONS, L.P.,
as Borrower,

VALERO L.P.,

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

and

The Lenders Party Hereto

FIRST AMENDMENT TO 5-YEAR TERM CREDIT AGREEMENT

THIS FIRST AMENDMENT TO 5-YEAR TERM CREDIT AGREEMENT (this "First Amendment") dated as of May 15, 2006, is among **VALERO LOGISTICS OPERATIONS, L.P.**, a Delaware limited partnership (the "Borrower"); **VALERO L.P.,** a Delaware limited partnership (the "MLP"); **JPMORGAN CHASE BANK, N.A.**, as administrative agent (in such capacity, together with its successors in such capacity, the "Administrative Agent") for the lenders party to the Credit Agreement referred to below (collectively, the "Lenders"); and the undersigned Lenders.

R E C I T A L S

A. The Borrower, the Administrative Agent and the Lenders are parties to that certain 5-Year Term Credit Agreement dated as of July 1, 2005 (the "Credit Agreement"), pursuant to which the Lenders have made certain extensions of credit available to the Borrower.

B. The Borrower has requested and the Lenders have agreed to amend certain provisions of the Credit Agreement.

C. NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Defined Terms. Each capitalized term used herein but not otherwise defined herein has the meaning given such term in the Credit Agreement. Unless otherwise indicated, all references to Sections in this First Amendment refer to Sections of the Credit Agreement.

Section 2. Amendments to Credit Agreement.

2.1 Amendments to Section 1.01.

(a) The definition of "Agreement" is hereby amended in its entirety to read as follows:

"Agreement" means this 5-Year Term Credit Agreement, as amended by the First Amendment, as the same may be amended, modified, supplemented or restated from time to time in accordance herewith.

(b) The definition of "Change in Control" is hereby amended in its entirety to read as follows:

"Change in Control" means any of the following events:

(a) 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 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; or

(c) the occurrence of any transaction that results in any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) other than a Permitted Holder becoming the Beneficial Owner, directly or indirectly, of more than 50% of the general partner interests in the MLP.

(c) The following definitions are hereby added where alphabetically appropriate to read as follows:

"Beneficial Owner" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act, except that in calculating the beneficial ownership of any particular "person" (as that term is used in Section 13(d)(3) of the Exchange Act), such "person" will be deemed to have beneficial ownership of all securities that such "person" has the right to acquire by conversion or exercise of other securities, whether such right is currently exercisable or is exercisable only upon the occurrence of a subsequent condition.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, and any statute successor thereto.

"First Amendment" means the First Amendment to 5-Year Term Credit Agreement dated as of May 15, 2006 among the Borrower, the MLP, the Administrative Agent and the Lenders party thereto.

"Investment Grade Person" means a Person that has issued unsecured senior debt that has at least two of the following ratings on the date the transaction constituting a Change in Control is consummated:

(a) BBB- or above, in the case of S&P (or its equivalent under any successor rating categories of S&P);

(b) Baa3 or above, in the case of Moody's (or its equivalent under any successor rating categories of Moody's); or

(c) the equivalent in respect of the rating categories of any rating agencies substituted for S&P or Moody's.

"Permitted Holder" means Valero Energy or any Investment Grade Person.

Section 3. Conditions Precedent. This First Amendment shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 10.02 of the Credit Agreement) (the "Effective Date"):

3.1 The Administrative Agent and the Lenders shall have received all fees and other amounts due and payable, if any, in connection with this First Amendment on or prior to the Effective Date.

3.2 The Administrative Agent shall have received from the Required Lenders, the Borrower and the MLP, counterparts (in such number as may be requested by the Administrative Agent) of this First Amendment signed on behalf of such Persons.

3.3 The Administrative Agent shall have received such other documents as the Administrative Agent or special counsel to the Administrative Agent may reasonably request.

3.4 No Default shall have occurred and be continuing, after giving effect to the terms of this First Amendment.

Section 4. Miscellaneous.

4.1 Confirmation. The provisions of the Credit Agreement, as amended by this First Amendment, shall remain in full force and effect following the effectiveness of this First Amendment.

4.2 Ratification and Affirmation; Representations and Warranties. The Borrower and the MLP each hereby (a) acknowledges the terms of this First Amendment; (b) ratifies and affirms its obligations under, and acknowledges, renews and extends its continued liability under, each Loan Document to which it is a party and agrees that each Loan Document to which it is a party remains in full force and effect, except as expressly amended hereby, notwithstanding the amendments contained herein and (c) represents and warrants to the Lenders that as of the date hereof, after giving effect to the terms of this First Amendment: (i) all of the representations and warranties contained in each Loan Document to which it is a party are true and correct, unless such representations and warranties are stated to relate to a specific earlier date, in which case, such representations and warranties shall continue to be true and correct as of such earlier date and (ii) no Default has occurred and is continuing.

4.3 Loan Document. This First Amendment is a “Loan Document” as defined and described in the Credit Agreement and all of the terms and provisions of the Credit Agreement relating to Loan Documents shall apply hereto.

4.4 Counterparts. This First Amendment may be executed by one or more of the parties hereto in any number of separate counterparts, and all of such counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of this First Amendment by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof.

4.5 NO ORAL AGREEMENT. THIS FIRST AMENDMENT, THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS EXECUTED IN CONNECTION HEREWITH AND THEREWITH REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR UNWRITTEN ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES.

4.6 GOVERNING LAW. THIS FIRST AMENDMENT (INCLUDING, BUT NOT LIMITED TO, THE VALIDITY AND ENFORCEABILITY HEREOF) SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

[SIGNATURES BEGIN NEXT PAGE]

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be duly executed as of the date first written above.

VALERO LOGISTICS OPERATIONS, L.P.

By: Valero GP, Inc., its General Partner

By: /s/ Steven A. Blank
Steven A. Blank
Senior Vice President and
Chief Financial Officer

VALERO L.P.

By: Riverwalk Logistics, L.P., its General Partner

By: Valero GP, LLC, its General Partner

By: /s/ Steven A. Blank
Steven A. Blank
Senior Vice President and
Chief Financial Officer

JPMORGAN CHASE BANK, N.A., individually
and as Administrative Agent

By /s/ Robert W. Traband
Name: Robert W. Traband
Title: Vice President

BARCLAYS BANK PLC, individually and as
Syndication Agent

By /s/ Allison McGuigan
Name: Allison McGuigan
Title: Associate Director

MIZUHO CORPORATE BANK, individually and
as Co-Documentation Agent

By	/s/ Raymond Ventura
Name:	Raymond Ventura
Title:	Deputy General Manager

ROYAL BANK OF CANADA, individually and as
Co-Documentation Agent

By	/s/ Don J. McKinnerney
Name:	Don J. McKinnerney
Title:	Authorized Signatory

THE ROYAL BANK OF SCOTLAND, plc,
individually and as Co-Documentation Agent

By /s/ Paul McDonagh

Name: Paul McDonagh

Title: Managing Director

SCOTIABANC INC., individually and as Co-Documentation Agent

By	/s/ William E. Zarrett
Name:	William E. Zarrett
Title:	Managing Director

SUNTRUST BANK, individually and as Co-Documentation Agent

By /s/ Peter Panos

Name: Peter Panos

Title: Vice President

THE BANK OF TOKYO-MITSUBISHI, LTD., individually and as Managing Agent

By /s/ Kelton Glasscock

Name: Kelton Glasscock

Title: Vice President & Manager

BAYERISCHE HYPO-UND VEREINSBANK
AG, NEW YORK BRANCH, individually and as
Managing Agent

By ______________________________
Name:
Title:

By ______________________________
Name:
Title:

SUMITOMO MITSUI BANKING CORPORATION,
individually and as Managing Agent

By	/s/ David A. Buck
Name:	David A. Buck
Title:	Senior Vice President

BANK OF AMERICA, N.A., individually and as Co-Agent

By /s/ Claire Liu
Name: Claire Liu
Title: Senior Vice President

BNP PARIBAS, individually and as
Co-Agent

By /s/ Larry Robinson
Name: Larry Robinson
Title: Director

By /s/ Greg Smothers
Name: Greg Smothers
Title: Vice President

CALYON NEW YORK BRANCH, individually
and as Co-Agent

By /s/ Bertrand Cord'homme
Name: Bertrand Cord'homme
Title: Director

By /s/ Page Dillehunt
Name: Page Dillehunt
Title: Managing Director

CITIBANK, N.A., individually and as
Co-Agent

By /s/ Amy K. Pincu
Name: Amy K. Pincu
Title: Attorney-in-Fact

WELLS FARGO BANK, NATIONAL ASSOCIATION, individually and as Co-Agent

By	/s/ Jo Ann Vasquez
Name:	Jo Ann Vasquez
Title:	Vice President

LEHMAN BROTHERS BANK, FSB

By /s/ Janine M. Shugan

Name: Janine M. Shugan

Title: Authorized Signatory

UBS LOAN FINANCE LLC

By /s/ Irja R. Otsa
Name: Irja R. Otsa
Title: Associate Director, Banking Products Services, US

By /s/ Richard L. Tavrow
Name: Richard L. Tavrow
Title: Director, Banking Products Services, US

BANK HAPOALIM B.M.

By ____________________________
Name:
Title:

By ____________________________
Name:
Title:

COMPASS BANK

By	/s/ David G. Mills
Name:	David G. Mills
Title:	Senior Vice President

Exhibit 10.04

SECOND AMENDMENT

TO

5-YEAR TERM CREDIT AGREEMENT

dated as of

May 31, 2006

among

VALERO LOGISTICS OPERATIONS, L.P.,
as Borrower,

VALERO L.P.,

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

and

The Lenders Party Hereto

SECOND AMENDMENT TO 5-YEAR TERM CREDIT AGREEMENT

THIS SECOND AMENDMENT TO 5-YEAR TERM CREDIT AGREEMENT (this "Second Amendment") dated as of May 31, 2006, is among **VALERO LOGISTICS OPERATIONS, L.P.**, a Delaware limited partnership (the "Borrower"); **VALERO L.P.,** a Delaware limited partnership (the "MLP"); **JPMORGAN CHASE BANK, N.A.**, as administrative agent (in such capacity, together with its successors in such capacity, the "Administrative Agent") for the lenders party to the Credit Agreement referred to below (collectively, the "Lenders"); and the undersigned Lenders.

R E C I T A L S

A. The Borrower, the Administrative Agent and the Lenders are parties to that certain 5-Year Term Credit Agreement dated as of July 1, 2005 (as amended by the First Amendment to 5-Year Term Credit Agreement dated as of May 15, 2006 among the Borrower, the MLP, the Administrative Agent and the Lenders party thereto, the "Credit Agreement"), pursuant to which the Lenders have made certain extensions of credit available to the Borrower.

B. The Borrower has requested and the Lenders have agreed to amend certain provisions of the Credit Agreement.

C. NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

Section 1. Defined Terms. Each capitalized term used herein but not otherwise defined herein has the meaning given such term in the Credit Agreement. Unless otherwise indicated, all references to Sections in this Second Amendment refer to Sections of the Credit Agreement.

Section 2. Amendments to Credit Agreement.

2.1 Amendments to Section 1.01.

(a) The definition of "Agreement" is hereby amended in its entirety to read as follows:

"Agreement" means this 5-Year Term Credit Agreement, as amended by the First Amendment and the Second Amendment, as the same may be amended, modified, supplemented or restated from time to time in accordance herewith.

(b) The grid in the definition of “Applicable Rate” is hereby amended in its entirety to read as follows:

Index Debt Ratings:	ABR Spread	Eurodollar Spread
Tier 1 Greater than BBB or Baa2	0.00%	0.400%
Tier 2 BBB or Baa2	0.00%	0.550%
Tier 3 BBB- or Baa3	0.000%	0.650%
Tier 4 BB+ or Ba1	0.000%	0.800%
Tier 5 Less than BB+ or Ba1	0.000%	0.950%

(c) The definition of “Consolidated EBITDA” is hereby amended in its entirety to read as follows:

“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 (a) plus the following to the extent deducted from Consolidated Operating Income in such period: (i) depreciation, amortization and other non-cash charges for such period and (ii) cash distributions received by the Borrower from Skelly-Belvieu Pipeline Company, and similar joint ventures, during such period; (b) minus all non-cash income added to Consolidated Operating Income in such period; and (c) plus any Material Project EBITDA Adjustments for 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) $17,500,000 for the Rolling Period ending on September 30, 2005, (B) $15,000,000 for the Rolling Period ending on December 31, 2005, (C) $10,000,000 for the Rolling Period ending on March 31, 2006 and (D) $5,000,000 for the Rolling Period ending on June 30, 2006.

(d) The definition of “Maturity Date” is hereby amended in its entirety to read as follows:

“Maturity Date” means May 31, 2011, and for any Lender agreeing to extend its Maturity Date pursuant to Section 2.17, the date on May 31 in each year thereafter pursuant to which the Maturity Date has been extended, but in no event later than May 31, 2013.

(e) The following definitions are hereby added where alphabetically appropriate to read as follows:

“Consenting Lenders” has the meaning set forth in Section 2.17(b).

“Extension Confirmation Date” has the meaning set forth in Section 2.17(b).

“Extension Effective Date” has the meaning set forth in Section 2.17(b).

“Material Project” means each new pipeline, storage facility, processing plant or other capital expansion project wholly owned by the MLP or its Subsidiaries, the construction of which commenced after May 31, 2006 and which has a budgeted capital cost exceeding $25,000,000.

“Material Project EBITDA Adjustments” means, with respect to each Material Project, (a) for any Rolling Period ending on or prior to the last day of the fiscal quarter during which the Material Project is completed, a percentage (based on the then-current completion percentage of the Material Project) of an amount to be approved by the Required Lenders as the projected Consolidated EBITDA attributable to such Material Project (such amount to be determined based on contracts relating to such Material Project, the creditworthiness of the other parties to such contracts and projected revenues from such contracts, capital costs and expenses, scheduled completion, and other factors deemed appropriate by the Lenders) shall be added to actual Consolidated EBITDA for the MLP and its Subsidiaries for the fiscal quarter in which construction of such Material Project commences and for each fiscal quarter thereafter until completion of the Material Project (net of any actual Consolidated EBITDA attributable to such Material Project following its completion), provided that if construction of the Material Project is not completed by the scheduled completion date, then the foregoing amount shall be reduced by the following percentage amounts depending on the period of delay for completion (based on the period of actual delay or then-estimated delay, whichever is longer): (i) longer than 90 days, but not more than 180 days, 25%, (ii) longer than 180 days but not more than 270 days, 50%, and (iii) longer than 270 days, 100%; and (b) for each Rolling Period ending on the last day of the first, second and third fiscal quarters, respectively, immediately following the fiscal quarter during which the Material Project is completed, an amount equal to the projected Consolidated EBITDA attributable to the Material Project for the period from but excluding the end of such Rolling Period through and including the last day of the fourth fiscal quarter following the fiscal quarter during which the Material Project is completed shall be added to Consolidated EBITDA for such Rolling Period (net of any actual Consolidated EBITDA attributable to the Material Project for the period from and including the date of completion through and including the last day of the fiscal quarter during which the Material Project is completed). Notwithstanding the foregoing, (i) no such additions shall be allowed with respect to any Material Project unless not later than 45 days prior to commencement of construction thereof, the Borrower shall have delivered to the Administrative Agent and the Lenders written pro forma projections of Consolidated EBITDA attributable to such Material Project and such other information and documentation as the Administrative Agent or any Lender may reasonably request, all in form and substance satisfactory to the Administrative Agent and the Required Lenders, and (ii) the aggregate amount of all Material Project EBITDA Adjustments during any period shall be limited to 20% of the total actual Consolidated EBITDA of the MLP and its Subsidiaries for such period (which total actual Consolidated EBITDA shall be determined without including any Material Project EBITDA Adjustments or any adjustments in respect of any acquisitions or dispositions as provided in the definition of Consolidated EBITDA).

"Responsible Officer" means, as to any Person, the Chief Executive Officer, the President, any Financial Officer or any Vice President of such Person. Unless otherwise specified, all references to a Responsible Officer herein shall mean a Responsible Officer of the Borrower.

"Second Amendment" means the Second Amendment to 5-Year Term Credit Agreement dated as of May 31, 2006 among the Borrower, the MLP, the Administrative Agent and the Lenders party thereto.

(f) The definitions of "Consolidated Interest Coverage Ratio" and "Consolidated Interest Expense" are hereby deleted.

2.2 Amendment to Section 2.16(b). Section 2.16(b) is hereby amended by inserting the words ", or if any Lender shall fail to agree to extend the Maturity Date pursuant to Section 2.17 if the Required Lenders have agreed to do so," after the word "hereunder," and before the word "then" in the fourth line thereof.

2.3 Amendment to Article II. Article II is hereby amended to add the following new Section 2.17 to read as follows:

"Section 2.17. Extension of Maturity Date.

(a) Not earlier than 90 days prior to, nor later than 30 days prior to, each anniversary of May 31, 2006, and on not more than two occasions, the Borrower may, upon notice to the Administrative Agent (which shall promptly notify the Lenders), request a one-year extension of the Maturity Date then in effect. Within 30 days of delivery of such notice, each Lender shall notify the Administrative Agent whether or not it consents to such extension (which consent may be given or withheld in such Lender's sole and absolute discretion). Any Lender not responding within the above time period shall be deemed not to have consented to such extension. The Administrative Agent shall promptly notify the Borrower and the Lenders of the Lenders' responses.

(b) The Maturity Date shall be extended only if the Required Lenders (calculated excluding any Lender in default in its obligation to fund Loans hereunder and prior to giving effect to any replacements of Lenders permitted herein) (the "Consenting Lenders") have consented thereto. If so extended, the Maturity Date, as to the Consenting Lenders, shall be extended to the same date in the year following the Maturity Date then in effect (such existing Maturity Date being the "Extension Effective Date"). The Administrative Agent and the Borrower shall promptly confirm to the Lenders such extension, specifying the date of such confirmation (the "Extension Confirmation Date"), the Extension Effective Date, and the new Maturity Date (after giving effect to such extension). As a condition precedent to such extension, the Borrower shall deliver to the Administrative Agent a certificate of the Borrower dated as of the Extension Confirmation Date (in sufficient copies for each Lender) signed by a Responsible Officer of the Borrower (i) certifying and attaching the resolutions adopted by the Borrower approving or consenting to such extension and (ii) certifying that, (A) before and after giving effect to such extension, the representations and warranties contained in Article III made by it are true and correct on and as of the Extension Confirmation Date, except to the extent that such representations and warranties specifically refer to an earlier date, (B) before and after giving effect to such extension no Default exists or will exist as of the Extension Confirmation Date, and (C) since December 31, 2004, no event, development or circumstance that has had or could reasonably be expected to have a Material Adverse Effect has occurred. The Borrower shall prepay any Loans outstanding on the Extension Effective Date (and pay any additional amounts required pursuant to Section 2.13) to the extent necessary to keep outstanding Loans ratable with any revised and new Applicable Percentages of all the Lenders effective as of the Extension Effective Date."

2.4 Amendment to Section 6.01(f). Section 6.01(f) is hereby amended by:

(a) deleting the words "(i) the Consolidated Interest Coverage Ratio set forth in Section 6.11(a) and (ii)"; and

(b) changing the reference to "Section 6.11(b)" therein to "Section 6.11".

2.5 Amendments to Section 6.04(f) and (g). Section 6.04(f) and (g) are each hereby amended by:

(a) deleting the words ", (ii) the Consolidated Interest Coverage Ratio set forth in Section 6.11(a),";

(b) renumbering "(iii)" to "(ii)"; and

(c) changing the reference to "Section 6.11(b)" therein to "Section 6.11".

2.6 Amendment to Section 6.11. Section 6.11 is hereby amended in its entirety to read as follows:

"Section 6.11. Financial Condition Covenants. The MLP will not permit at any time its Consolidated Debt Coverage Ratio to be in excess of (a) 5.00 to 1.00 for any Rolling Period ending on or before June 30, 2006 and (b) 4.75 to 1.00 for any Rolling Period ending on or subsequent to September 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 (a) or (b) above, as applicable."

2.7 Amendment to Section 10.02(b). Clause (v) of Section 10.02(b) is hereby amended by inserting the words "or Section 2.17" after the words "Section 4.01" and before the word "or" in the second line of such clause (v).

Section 3. Conditions Precedent. This Second Amendment shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 10.02 of the Credit Agreement) (the "Effective Date"):

3.1 The Administrative Agent and the Lenders shall have received all fees and other amounts due and payable, if any, in connection with this Second Amendment on or prior to the Effective Date.

3.2 The Administrative Agent shall have received from all of the Lenders, the Borrower and the MLP, counterparts (in such number as may be requested by the Administrative Agent) of this Second Amendment signed on behalf of such Persons.

3.3 The Administrative Agent shall have received such other documents as the Administrative Agent or special counsel to the Administrative Agent may reasonably request.

3.4 No Default shall have occurred and be continuing, after giving effect to the terms of this Second Amendment.

Section 4. Miscellaneous.

4.1 Confirmation. The provisions of the Credit Agreement, as amended by this Second Amendment, shall remain in full force and effect following the effectiveness of this Second Amendment.

4.2 Ratification and Affirmation; Representations and Warranties. The Borrower and the MLP each hereby (a) acknowledges the terms of this Second Amendment; (b) ratifies and affirms its obligations under, and acknowledges, renews and extends its continued liability under, each Loan Document to which it is a party and agrees that each Loan Document to which it is a party remains in full force and effect, except as expressly amended hereby, notwithstanding the amendments contained herein and (c) represents and warrants to the Lenders that as of the date hereof, after giving effect to the terms of this Second Amendment: (i) all of the representations and warranties contained in each Loan Document to which it is a party are true and correct, unless such representations and warranties are stated to relate to a specific earlier date, in which case, such representations and warranties shall continue to be true and correct as of such earlier date and (ii) no Default has occurred and is continuing.

4.3 Loan Document. This Second Amendment is a “Loan Document” as defined and described in the Credit Agreement and all of the terms and provisions of the Credit Agreement relating to Loan Documents shall apply hereto.

4.4 Counterparts. This Second Amendment may be executed by one or more of the parties hereto in any number of separate counterparts, and all of such counterparts taken together shall be deemed to constitute one and the same instrument. Delivery of this Second Amendment by facsimile transmission shall be effective as delivery of a manually executed counterpart hereof.

4.5 NO ORAL AGREEMENT. THIS SECOND AMENDMENT, THE CREDIT AGREEMENT AND THE OTHER LOAN DOCUMENTS EXECUTED IN CONNECTION HEREWITH AND THEREWITH REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR UNWRITTEN ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES.

4.6 GOVERNING LAW. THIS SECOND AMENDMENT (INCLUDING, BUT NOT LIMITED TO, THE VALIDITY AND ENFORCEABILITY HEREOF) SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

[SIGNATURES BEGIN NEXT PAGE]

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to be duly executed as of the date first written above.

VALERO LOGISTICS OPERATIONS, L.P.

By: Valero GP, Inc., its General Partner

By: /s/ Steven A. Blank
Steven A. Blank
Senior Vice President and
Chief Financial Officer

VALERO L.P.

By: Riverwalk Logistics, L.P., its General Partner

By: Valero GP, LLC, its General Partner

By: /s/ Steven A. Blank
Steven A. Blank
Senior Vice President and
Chief Financial Officer

JPMORGAN CHASE BANK, N.A., individually and
as Administrative Agent

By /s/ Robert Traband
Name: Robert Traband
Title: Vice President

BARCLAYS BANK PLC, individually and as Syndication Agent

By /s/ Peter Harrington
Name: Peter Harrington
Title: Director

MIZUHO CORPORATE BANK, individually and
as Co-Documentation Agent

By	/s/ Raymond Ventura
Name:	Raymond Ventura
Title:	Deputy General Manager

ROYAL BANK OF CANADA, individually and as
Co-Documentation Agent

By	/s/ Don J. McKinnerney
Name:	Don J. McKinnerney
Title:	Authorized Signatory

THE ROYAL BANK OF SCOTLAND, plc,
individually and as Co-Documentation Agent

By /s/ Matthew Main
Name: Matthew Main
Title: Managing Director

SCOTIABANC INC., individually and as Co-Documentation Agent

By	/s/ William E. Zarrett
Name:	William E. Zarrett
Title:	Managing Director

SUNTRUST BANK, individually and as Co-Documentation Agent

By /s/ Peter Panos
Name: Peter Panos
Title: Vice President

THE BANK OF TOKYO-MITSUBISHI, LTD., individually and as Managing Agent

By /s/ Kelton Glasscock
Name: Kelton Glasscock
Title: Vice President & Manager

BAYERISCHE LANDESBANK, CAYMAN ISLANDS BRANCH

By /s/ Stephen Christenson
Name: Stephen Christenson
Title: First Vice President

By /s/ Norman McClave
Name: Norman McClave
Title: First Vice President

SUMITOMO MITSUI BANKING CORPORATION,
individually and as Managing Agent

By /s/ William M. Ginn
Name: William M. Ginn
Title: General Manager

BANK OF AMERICA, N.A., individually and as
Co-Agent

By /s/ Claire Liu
Name: Claire Liu
Title: Senior Vice President

BNP PARIBAS, individually and as
Co-Agent

By /s/ Mark A. Cox
Name: Mark A. Cox
Title: Director

By /s/ Larry Robinson
Name: Larry Robinson
Title: Director

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CITIBANK, N.A., individually and as
Co-Agent

By /s/ Amy K. Pincu
Name: Amy K. Pincu
Title: Attorney-in-Fact

WELLS FARGO BANK, NATIONAL ASSOCIATION, individually and as Co-Agent

By	/s/ Jo Ann Vasquez
Name:	Jo Ann Vasquez
Title:	Vice President

LEHMAN BROTHERS BANK, FSB

By /s/ Janine M. Shugan

Name: Janine M. Shugan

Title: Authorized Signatory

UBS LOAN FINANCE LLC

By	/s/ Richard L. Tavrow
Name:	Richard L. Tavrow
Title:	Director, Banking Products Services, US

By	/s/ Irja R. Otsa
Name:	Irja R. Otsa
Title:	Associate Director, Banking Products Services, US

MIZUHO CORPORATE BANK (USA)

By /s/ Raymond Ventura

Name: Raymond Ventura

Title: Senior Vice President

COMPASS BANK

By	/s/ Payton K. Swope
Name:	Payton K. Swope
Title:	Vice President

Exhibit 10.05

ADMINISTRATION AGREEMENT

BETWEEN

VALERO GP HOLDINGS, LLC

AND

VALERO GP, LLC

DATED AS OF July 19, 2006

ADMINISTRATION AGREEMENT

This ADMINISTRATION AGREEMENT (this "Agreement") is entered into as of July 19, 2006 and effective as of Effective Date, as defined below, between VALERO GP HOLDINGS, LLC, a Delaware limited liability company ("Holdings"), and VALERO GP, LLC, a Delaware limited liability company ("Valero GP").

RECITALS

WHEREAS, management of Holdings has determined that certain executive management, accounting, legal, cash management, corporate finance and other administrative services required by Holdings should be performed by Valero GP in exchange for an administrative services fee;

WHEREAS, on March 10, 2006, upon recommendation by management of Valero GP and the Conflicts Committee of the Board of Directors of Valero GP (the "Conflicts Committee"), the Board of Directors of Valero GP approved the terms of this Agreement;

WHEREAS, Valero GP has agreed to provide certain administrative services under this Agreement to Holdings; and

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

ARTICLE I
DEFINITIONS

Section 1.1 Definitions. The following definitions shall be for all purposes, unless otherwise clearly indicated to the contrary, applied to the terms used in this Agreement.

(a) "Affiliates" means entities that directly or indirectly through one or more intermediaries control, or are controlled by, or are under common control with, such party, and the term "control" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of management and policies of an entity, whether through the ownership of voting securities, by contract or otherwise; *provided*, *however*, that with respect to Valero GP, the term "Affiliate" shall exclude Holdings.

(b) "Associate" means, when used to indicate a relationship with any Person, (a) any corporation or organization which such Person is a director, officer or partner or is, directly or indirectly, the owner of 20% or more of any class of voting stock or other voting interest; (b) any trust or other estate in which such Person has at least a 20% beneficial interest or as to which such Person serves as trustee or in a similar fiduciary capacity; and (c) any relative or spouse of such Person, or any relative of such spouse, who has the same principal residence as such Person.

(c) "Effective Date" means the closing date of the initial public offering of Holdings.

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

(e) "Group" means a Person that with or through any of its Affiliates or Associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting (except voting pursuant to a revocable proxy or consent given to such Person in response to a proxy or consent solicitation made to ten or more Persons), exercising investment power or disposing of any membership interests in Holdings with any other Person that beneficially owns, or whose Affiliates or Associates beneficially own, directly or indirectly, membership interests in Holdings.

(f) "Person" means an individual or a corporation, limited liability company, partnership, joint venture, trust, unincorporated organization or other enterprise (including an employee benefit plan), association, government agency or political subdivision thereof or other entity.

(g) "Valero Energy Affiliates" shall mean any and all Affiliates of Valero Energy Corporation.

ARTICLE II
PROVISION OF SERVICES

Section 2.1 Provision of Administrative Services by Valero GP.

(a) Administrative Services. Valero GP or any Affiliate or designee of Valero GP shall provide to Holdings non-exclusive executive management, accounting, legal, cash management, corporate finance and other administrative services, and such other services as Valero GP and Holdings may from time to time agree (the "Administrative Services").

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

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

all third party expenses directly related to Holdings, including, but not limited to, public company costs, outside legal fees, outside accounting fees, fees and expenses of directors, external advisors and consultants, and insurance costs, including but not limited to, directors and officers.

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

Section 2.2 Fees for Administrative Services.

(a) Commencing on the Effective Date of this Agreement, and for each contract year thereafter, Holdings shall pay to Valero GP an annual fee (the "Administrative Services Fee"). The Administrative Services Fee shall be $500,000 per year, subject to adjustment as provided in Section 2.2(b).

(b) On the last day of each contract year starting with the contract year ending December 31, 2006, and prior to the beginning of the next contract year, the Administrative Services Fee shall be increased by an amount equal to Valero GP's general annual merit increase percentage for the just completed contract year.

(c) Valero GP, with the approval and consent of the Conflicts Committee, may agree to further modifications in the Administrative Services Fee in connection with changed levels of Administrative Services provided to Holdings due to modifications of Holdings' operations through acquisitions or otherwise.

(d) The parties hereto acknowledge that the Administrative Services Fee is intended to reflect Valero GP's actual costs to provide the Administrative Services. At the end of each contract year, the scope of the Administrative Services and the related Administrative Services Fee are subject to review either at the request of Valero GP or Holdings, in either case by providing 10 days written notice to the other party but in no event later than 60 days before the end of the applicable contract year, with such review to be completed no later than March 31 of the immediately following contract year, with any modification of the Administrative Services Fee, other than as provided in Sections 2.2 (b) and 2.4, subject to the consent and approval of the Conflicts Committee.

(e) Any fees payable hereunder for periods less than a full contract year shall be prorated for the period for which services were provided based on the actual number of days elapsed and a year of 365 days.

Section 2.3 Payment of Fees.

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

(b) To the extent reasonably practicable, all third party invoices for Direct Charges shall be submitted to Holdings for payment. For Direct Charges not paid directly by Holdings, if any, Valero GP shall present Holdings with an invoice within 10 days after the end of each calendar month that reflects an amount equal to all Direct Charges reimbursable to Valero GP. Holdings shall pay such sum within 30 days of the end of the applicable calendar month.

Section 2.4 Cancellation or Reduction of Services. Holdings may terminate or reduce the level of any Administrative Service on 60 days' prior written notice to Valero GP. Upon such termination or reduction, the Administrative Services Fee shall be reduced accordingly, whether on a temporary or a permanent basis, for such time as such service is reduced or terminated.

Section 2.5 Term. The provisions of this Article II will apply until this Agreement is terminated or amended in accordance with Section 3.1 or Section 3.12, respectively.

ARTICLE III
MISCELLANEOUS

Section 3.1 Termination/Change of Control.

(a) This Agreement shall terminate on December 31, 2011 (the "Initial Term"); provided that this Agreement shall automatically continue for successive two-year terms after the Initial Term unless or until six months' advance notice is given by Valero GP to terminate this Agreement, in which case this Agreement shall terminate six months after such notice is delivered. Notwithstanding the foregoing, Holdings (i) may terminate the provision of one or more Administrative Services or reduce the level of one or more Administrative Services, in each case in accordance with the provisions of Section 2.4 hereof and (ii) shall have the right at any time to terminate this Agreement by giving written notice to Valero GP, and in such event this Agreement shall terminate six months from the date on which such notice is given.

(b) Notwithstanding Section 3.1(a), if a Change of Control of Holdings or Valero GP occurs, this Agreement shall terminate. The following shall constitute a Change of Control:

(i) Holdings shall cease to own, directly or indirectly, 100% of each of Valero GP and Riverwalk Logistics, L.P., a Delaware limited partnership ("Riverwalk");

(ii) both (A) the Valero Energy Affiliates shall be in the aggregate the legal or beneficial owners (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of less than a majority of the combined voting power of the then total membership interests (including all securities which are convertible into membership interests) of Holdings, and (B) any Person or Group of Persons acting in concert as a partnership or other Group (a "Group of Persons"), other than one or more of the Valero Energy Affiliates, shall be the legal or beneficial owner (within the meaning of Rule 13d-3 under the Securities Exchange Act of 1934, as amended) of more than 20% of the combined voting power of the then total membership interests (including all securities which are convertible into membership interests) of Holdings, provided, that a "Group of Persons" shall not include the underwriter in any firm underwriting undertaken in connection with the initial public offering or any subsequent public offering of Holdings; or

(iii) occupation of a majority of the seats (other than vacant seats) on the Board of Directors (or Board of Managers) of Holdings by Persons who were neither (A) nominated by the board of directors of Holdings nor (B) appointed by directors, a majority of whom were so nominated.

Section 3.2 No Third Party Beneficiary. The provisions of this Agreement are enforceable solely by the parties to the Agreement and no limited partner, assignee, member or other person shall have the right, separate and apart from the parties hereto, to enforce any provisions of this Agreement or to compel an party to this Agreement to comply with the terms of this Agreement.

Section 3.3 No Fiduciary Duties. Neither party hereto shall have any fiduciary obligations or duties to the other party by reason of this Agreement. Subject to the (i) Omnibus Agreement among Valero Energy Corporation (as successor to Ultramar Diamond Shamrock Corporation), Valero GP, Riverwalk, Valero L.P. and Valero Logistics Operations, L.P., dated as of April 16, 2001, as such agreement may be amended from time to time, and (ii) Non-Compete Agreement among Holdings, Valero GP, Riverwalk and Valero L.P., dated as of [ ], 2006, as such agreement may be amended from time to time, any party hereto may conduct any activity or business for its own profit whether or not such activity or business is in competition with any activity or business of the other party.

Section 3.4 Limited Warranty; Limitation of Liability

Valero GP represents that it will provide or cause the services to be provided to Holdings with reasonable care and in accordance with all applicable laws, rules, and regulations, including without limitation those of the Federal Energy Regulatory Commission. EXCEPT AS SET FORTH IN THE IMMEDIATELY PRECEDING SENTENCE AND IN SECTION 2.1 (d), ALL PRODUCTS OBTAINED FOR HOLDINGS ARE AS IS, WHERE IS, WITH ALL FAULTS AND VALERO GP MAKES NO (AND HEREBY DISCLAIMS AND NEGATES ANY AND ALL) REPRESENTATIONS AND WARRANTIES, EXPRESS OR IMPLIED, INCLUDING THE WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE WITH RESPECT TO THE SERVICES RENDERED OR PRODUCTS OBTAINED FOR HOLDINGS. FURTHERMORE, HOLDINGS MAY NOT RELY UPON ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, INCLUDING THE WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE MADE TO VALERO GP BY ANY PARTY (INCLUDING, AN AFFILIATE OR DESIGNEE OF VALERO GP) PERFORMING SERVICES ON BEHALF OF VALERO GP HEREUNDER, UNLESS SUCH PARTY MAKES AN EXPRESS WARRANTY TO HOLDINGS. HOWEVER, IN THE CASE OF SERVICES PROVIDED BY A THIRD PARTY FOR HOLDINGS, IF THE THIRD PARTY PROVIDER OF SUCH SERVICES MAKES AN EXPRESS WARRANTY TO HOLDINGS, HOLDINGS IS ENTITLED TO CAUSE VALERO GP TO RELY ON AND TO ENFORCE SUCH WARRANTY.

IT IS EXPRESSLY UNDERSTOOD BY HOLDINGS THAT VALERO GP AND ITS AFFILIATES AND DESIGNEES SHALL HAVE NO LIABILITY FOR THE FAILURE OF THIRD PARTY PROVIDERS TO PERFORM ANY SERVICES HEREUNDER AND FURTHER THAT VALERO GP AND ITS AFFILIATES AND DESIGNEES SHALL HAVE NO LIABILITY WHATSOEVER FOR THE SERVICES PROVIDED BY ANY SUCH THIRD PARTY UNLESS IN EITHER EVENT SUCH SERVICES ARE PROVIDED IN A MANNER WHICH WOULD EVIDENCE GROSS NEGLIGENCE OR INTENTIONAL MISCONDUCT ON THE PART OF VALERO GP OR ITS AFFILIATES OR DESIGNEES BUT VALERO GP SHALL, ON BEHALF OF HOLDINGS, PURSUE ALL RIGHTS AND REMEDIES UNDER

ANY SUCH THIRD PARTY CONTRACT. HOLDINGS AGREES THAT THE REMUNERATION PAID TO VALERO GP HEREUNDER FOR THE SERVICES TO BE PERFORMED REFLECT THIS LIMITATION OF LIABILITY AND DISCLAIMER OF WARRANTIES. IN NO EVENT SHALL VALERO GP BE LIABLE TO HOLDINGS OR ANY OTHER PERSON FOR ANY INDIRECT, SPECIAL, OR CONSEQUENTIAL DAMAGES RESULTING FROM ANY ERROR IN THE PERFORMANCE OF SERVICES OR FROM THE BREACH OF THIS AGREEMENT, REGARDLESS OF THE FAULT OF VALERO GP, ANY VALERO GP AFFILIATE OR DESIGNEE, OR ANY THIRD PARTY PROVIDER OR WHETHER VALERO GP, ANY VALERO GP AFFILIATE OR DESIGNEE, OR THE THIRD PARTY PROVIDER ARE WHOLLY, CONCURRENTLY, PARTIALLY, OR SOLELY NEGLIGENT. TO THE EXTENT ANY THIRD PARTY PROVIDER HAS LIMITED ITS LIABILITY TO VALERO GP OR ITS AFFILIATE OR DESIGNEE FOR SERVICES UNDER AN OUTSOURCING OR OTHER AGREEMENT, HOLDINGS AGREES TO BE BOUND BY SUCH LIMITATION OF LIABILITY FOR ANY PRODUCT OR SERVICE PROVIDED TO HOLDINGS BY SUCH THIRD PARTY PROVIDER UNDER VALERO GP'S OR SUCH AFFILIATE'S OR DESIGNEE'S AGREEMENT.

Section 3.5 Force Majeure. If either party to this Agreement is rendered unable by force majeure to carry out its obligations under this Agreement, other than a party's obligation to make payments as provided for herein, that party shall give the other party prompt written notice of the force majeure with reasonably full particulars concerning it. Thereupon, the obligations of the party giving the notice, insofar as they are affected by the force majeure, shall be suspended during, but no longer than the continuance of, the force majeure. The affected party shall use all reasonable diligence to remove or remedy the force majeure situation as quickly as practicable.

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

Section 3.6 Further Assurances. In connection with this Agreement and all transactions contemplated by this Agreement, each signatory party hereto agrees to execute and deliver such additional documents and instruments as may be required for a party to provide the services hereunder and to perform such other additional acts as may be necessary or appropriate to effectuate, carry out, and perform all of the terms and provisions of this Agreement.

Section 3.7 Notices. Any notice, request, demand, direction or other communication required or permitted to be given or made under this Agreement to a party shall be in writing and may be given by hand delivery, postage prepaid first-class mail delivery, delivery by a reputable international courier service guaranteeing next business day delivery or by facsimile (if confirmed by one of the foregoing methods) to such party at its address noted below:

(a) in the case of Valero GP, to:

Valero GP, LLC
One Valero Way
San Antonio, Texas 78249
Attention: Legal Department
Telecopy: (210) 345-4861

(b) in the case of Holdings, to:

Valero GP Holdings, LLC
One Valero Way
San Antonio, Texas 78249
Attention: Legal Department
Telecopy: (210) 345-xxxx

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

Section 3.8 Counterparts. This Agreement may be executed in several counterparts, no one of which needs to be executed by all of the parties. Such counterpart, including a facsimile transmission of this Agreement, shall be deemed to be an original and shall have the same force and effect as an original. All counterparts together shall constitute but one and the same instrument.

Section 3.9 Applicable Law. The provisions of this Agreement shall be construed in accordance with the laws of the State of Texas, excluding any conflicts of law rule or principle that might refer the construction or interpretation hereof to the laws of another jurisdiction.

Section 3.10 Binding Effect; Assignment. Except for the ability of Valero GP to cause one or more of the Administrative Services to be performed by a third party provider or an Affiliate of Valero GP, no party shall have the right to assign its rights or obligations under this Agreement (by operation of law or otherwise) without the consent of the other parties.

Section 3.11 Invalidity of Provisions. In the event that one or more of the provisions contained in this Agreement shall be invalid, illegal or unenforceable in any respect under any applicable law, the validity, legality or enforceability of the remaining provisions hereof shall not be affected or impaired thereby.

Section 3.12 Modification; Amendment. This Agreement may be amended or modified from time to time only by a written amendment signed by both parties hereto; provided however, that Valero GP may not, without the prior approval of the Conflicts Committee, agree to any amendment or modification to this Agreement that, in the reasonable discretion of Valero GP, will adversely affect the holders of common units of the Partnership.

Section 3.13 Entire Agreement. This Agreement constitutes the whole and entire agreement between the parties hereto and supersedes any prior agreement, undertaking, declarations, commitments or representations, verbal or oral, in respect of the subject matter hereof.

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

Valero GP, LLC

By: /s/ Curtis V. Anastasio
Name: Curtis V. Anastasio
Title: President and Chief Executive Officer

VALERO GP HOLDINGS, LLC

By: /s/ Steven A. Blank
Name: Steven A. Blank
Title: Senior Vice President, Chief Financial Officer and Treasurer

SIGNATURE PAGE TO ADMINISTRATION AGREEMENT

NON-COMPETE AGREEMENT

THIS NON-COMPETE AGREEMENT (this "*Agreement*") is entered into this 19th day of July, 2006, and effective as of the Effective Time (as defined below), by and among Valero GP Holdings, LLC, a Delaware limited liability company ("*Holdings*"), Valero L.P., a Delaware limited partnership (the "*MLP*"), Riverwalk Logistics, L.P., a Delaware limited partnership and general partner of the MLP ("*Riverwalk*"), and Valero GP, LLC, a Delaware limited liability company and general partner of Riverwalk ("*Valero GP*" and together with the MLP, Riverwalk, and their respective Subsidiaries, the "*Partnership Parties*").

R E C I T A L

The parties hereto desire, by their execution of this Agreement, to evidence the terms and conditions pursuant to which business opportunities available to the Partnership Parties and Holdings and their respective affiliates (other than the Partnership Parties) will be addressed.

WHEREAS, Valero Energy Corporation ("*Valero Energy*"), Valero GP, Riverwalk, the MLP and Valero Logistics Operations, L.P. are parties to the Amended and Restated Omnibus Agreement, dated as of March 31, 2006 (the "*Omnibus Agreement*"), pursuant to which Holdings, as a Controlled Valero Affiliate (as defined in the Omnibus Agreement), is prohibited from engaging in a Restricted Business (as defined in the Omnibus Agreement);

WHEREAS, Valero Energy has stated its intent to reduce its ownership of Holdings, which would result in Holdings no longer being a Controlled Valero Affiliate and no longer being bound by the terms of the Omnibus Agreement;

WHEREAS, it is the intent of the parties hereto to be bound by the provisions of this Agreement effective immediately upon Holdings no longer being bound by the provisions of the Omnibus Agreement.

In consideration of the premises and the covenants, conditions, and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I:
Definitions

1.1 Definitions.

(a) Capitalized terms used herein but not defined herein shall have the meanings given them in the MLP Agreement.

(b) As used in this Agreement, the following terms shall have the respective meanings set forth below:

"*Affiliate*" shall have the meaning attributed to such term in the MLP Agreement.

"*Agreement*" shall mean this Non-Compete Agreement, as it may be amended, modified, or supplemented from time to time.

"*Conflicts Committee*" means a committee of the Board of Directors of Holdings or Valero GP, as applicable, as defined in the Holdings Agreement or the MLP Agreement, respectively.

"*Effective Time*" means the time at which Holdings is no longer a Controlled Valero Affiliate under the terms of the Omnibus Agreement.

"*Holdings*" means Valero GP Holdings, LLC, a Delaware limited liability company, and any successors thereto.

"*Holdings Agreement*" means the Second Amended and Restated Limited Liability Company Agreement of Holdings, and any amendments thereto and restatements thereof.

"*Logistics Business*" means any business, asset or group of assets related the transportation, storage or terminalling of crude oil, feedstocks or refined petroleum products (including petrochemicals), in the United States or internationally that is not a Public Equity Security.

"*Logistics Business Notice*" shall have the meaning set forth in Section 2.1(b).

"*MLP*" means Valero L.P., a Delaware limited partnership, and any successors thereto.

"*MLP Agreement*" means the Third Amended and Restated Agreement of Limited Partnership of the MLP, and any amendments thereto and restatements thereof.

"*Partnership Parties*" means Valero GP, the MLP, Riverwalk and their respective Subsidiaries.

"*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.

"*Public Equity Securities*" shall mean (i) general partner interests (or securities which have characteristics similar to general partner interests) and incentive distribution rights or similar rights in publicly traded partnerships or interests in Persons that own or control such general partner or similar interests (collectively, "*GP Interests*") and securities convertible, exercisable, exchangeable or otherwise representing ownership or control of such GP Interests and (ii) incentive distribution rights and limited partner interests (or securities which have characteristics similar to incentive distribution rights or limited partner interests) in publicly traded partnerships or interests in Persons that own or control such limited partner or similar interests (collectively, "*non-GP Interests*"); provided that such non-GP Interests are owned by the owners of the GP Interests being acquired or their respective Affiliates.

"*Public Equity Securities Notice*" shall have the meaning set forth in Section 2.1(b).

"*Riverwalk*" means Riverwalk Logistics, L.P., a Delaware limited partnership, and any successors thereto.

"*Valero GP*" means Valero GP, LLC, a Delaware limited liability company, and any successors thereto.

ARTICLE II:
Business Opportunities

2.1 Public Equity Securities Opportunity. (a) During the term of this Agreement, the Partnership Parties are prohibited from acquiring Public Equity Securities unless and until the opportunity to acquire such Public Equity Securities has been offered to Holdings and Holdings has declined or abandoned such opportunity as provided in Section 2.1(b).

(b) If any of the Partnership Parties becomes aware of an opportunity to acquire Public Equity Securities from a third party that it wishes to pursue, then as soon as practicable, Valero GP (on behalf of the Partnership Parties) shall notify Holdings of such opportunity (the "*Public Equity Securities Notice*") and deliver to Holdings all information prepared by or on behalf of the Partnership Parties relating to the Public Equity Securities. As soon as practicable, but in any event within 30 days after receipt of such notification and information, Holdings shall notify the Partnership Parties that either (i) Holdings has elected, with the approval of a majority of the members of the Conflicts Committee, not to cause Holdings to pursue the opportunity to acquire such Public Equity Securities, or (ii) Holdings has elected to pursue the opportunity to acquire such Public Equity Securities. If at any time Holdings abandons such opportunity, as evidenced (x) in writing by Holdings, or (y) by Holdings' failure to consummate the acquisition of the Public Equity Securities within one year of the Public Equity Securities Notice, the Partnership Parties shall have the unrestricted right to pursue such opportunity.

2.2 Logistics Business Opportunity. (a) During the term of this Agreement, Holdings is prohibited from acquiring a Logistics Business unless and until the opportunity to acquire such Logistics Business has been offered to the Partnership Parties and the Partnership Parties have declined or abandoned such opportunity as provided in Section 2.2(b).

(b) If Holdings becomes aware of an opportunity to acquire a Logistics Business from a third party that it wishes to pursue, then as soon as practicable, Holdings shall notify Valero GP (on behalf of the Partnership Parties) of such opportunity (the "*Logistics Business Notice*") and deliver to Valero GP all information prepared by or on behalf of Holdings relating to the Logistics Business. As soon as practicable, but in any event within 30 days after receipt of such notification and information, Valero GP (on behalf of the Partnership Parties) shall notify Holdings that either (i) Valero GP has elected, with the approval of a majority of the members of the Conflicts Committee, not to cause the Partnership Parties to pursue the opportunity to acquire such Logistics Business, or (ii) Valero GP (on behalf of the Partnership Parties) has elected to pursue the opportunity to acquire such Logistics Business. If at any time the Partnership Parties abandon such opportunity, as evidenced (x) in writing by Valero GP (on behalf of the Partnership

Parties), or (y) by the Partnership Parties' failure to consummate the acquisition of the Logistics Business within one year of the Logistics Business Notice, Holdings shall have the unrestricted right to pursue such opportunity.

2.3 No Obligation to Present Business Opportunities. Other than as set forth Section 2.1 with respect to Public Equity Securities, none of the Partnership Parties shall have any obligation to present any business opportunity (including, but not limited to, Logistics Businesses) to Holdings and its Affiliates. Other than as set forth in Section 2.2 with respect to Logistics Businesses, Holdings shall have no obligation to present any business opportunity (including, but not limited to, Public Equity Securities) to the Partnership Parties and their Affiliates.

2.4 Term

This Agreement shall remain in effect for as long as Holdings or any of its Affiliates owns directly or indirectly 20% or more of Valero GP or Riverwalk or their successors.

ARTICLE III:
Miscellaneous

3.1 Choice of Law. This Agreement shall be subject to and governed by the laws of the State of Texas, excluding any conflicts-of-law rule or principle that might refer to the construction or interpretation of this Agreement to the laws of another state.

3.2 Notice. All notices or requests or consents provided for or permitted to be given pursuant to this Agreement must be in writing and must be given by depositing same in the United States mail, addressed to the Person to be notified, postpaid, and registered or certified with return receipt requested or by delivering such notice in person or by telecopier or telegram to such party. Notice given by personal delivery or mail shall be effective upon actual receipt. Notice given by telegram or telecopier shall be effective upon actual receipt if received during the recipient's normal business hours, or at the beginning of the recipient's next business day after receipt if not received during the recipient's normal business hours. All notices to be sent to a party pursuant to this Agreement shall be sent to or made at the address set forth below such party's signature to this Agreement, or at such other address as such party may stipulate to the other parties in the manner provided in this Section 3.2.

3.3 Entire Agreement; Supersedure. This Agreement constitutes the entire agreement of the parties relating to the matters contained herein, superseding all prior contracts or agreements, whether oral or written, relating to the matters contained herein.

3.4 Effect of Waiver or Consent. No waiver or consent, express or implied, by any party to or of any breach or default by any Person in the performance by such Person of its obligations hereunder shall be deemed or construed to be a consent or waiver to or of any other breach or default in the performance by such Person of the same or any other obligations of such Person hereunder. Failure on the part of a party to complain of any act of any Person or to declare any Person in default, irrespective of how long such failure continues, shall not constitute a waiver by such party of its rights hereunder until the applicable statute of limitations period has run.

3.5 Amendment or Modification. This Agreement may be amended or modified from time to time only by the written agreement of all the parties hereto. Each such instrument shall be reduced to writing and shall be designated on its face an “Amendment” or an “Addendum” to this Agreement.

3.6 Assignment. No party shall have the right to assign its rights or obligations under this Agreement, by operation of law or otherwise, without the consent of the other parties hereto.

3.7 Counterparts. This Agreement may be executed in any number of counterparts with the same effect as if all signatory parties had signed the same document. All counterparts shall be construed together and shall constitute one and the same instrument.

3.8 Severability. If any provision of this Agreement or the application thereof to any Person or circumstance shall be held invalid or unenforceable to any extent, the remainder of this Agreement and the application of such provision to other Persons or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

3.9 Gender, Parts, Articles and Sections. Whenever the context requires, the gender of all words used in this Agreement shall include the masculine, feminine and neuter, and the number of all words shall include the singular and plural. All references to Article numbers and Section numbers refer to Parts, Articles and Sections of this Agreement, unless the context otherwise requires.

3.10 Further Assurances. In connection with this Agreement and all transactions contemplated by this Agreement, each signatory party hereto agrees to execute and deliver such additional documents and instruments and to perform such additional acts as may be necessary or appropriate to effectuate, carry out and perform all of the terms, provisions and conditions of this Agreement and all such transactions.

3.11 Withholding or Granting of Consent. Each party may, with respect to any consent or approval that it is entitled to grant pursuant to this Agreement, grant or withhold such consent or approval in its sole and uncontrolled discretion, with or without cause, and subject to such conditions as it shall deem appropriate.

3.12 Laws and Regulations. Notwithstanding any provision of this Agreement to the contrary, no party hereto shall be required to take any act, or fail to take any act, under this Agreement if the effect thereof would be to cause such party to be in violation of any applicable law, statute, rule or regulation.

3.13 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their heirs, executors, administrators, successors, legal representatives and permitted assigns.

3.14 Negotiation of Rights of Limited Partners, Assignees, and Third Parties. The provisions of this Agreement are enforceable solely by the parties to this Agreement, and no limited Partner, assignee, member or other Person shall have the right to enforce any provision of this Agreement or to compel any party to this Agreement to comply with the terms of this Agreement.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed by their respective authorized officers as of the Effective Date.

VALERO GP HOLDINGS, LLC

By: /s/ Steven A. Blank
Name: Steven A. Blank
Title: Senior Vice President, Chief Financial Officer and Treasurer

Address for Notice:

One Valero Way
San Antonio, Texas 78249
Facsimile No.: (210) 353-8361

VALERO L.P.

By: Riverwalk Logistics, L.P.,
its general partner

By: Valero GP, LLC,
its general partner

By: /s/ Curtis V. Anastasio
Name: Curtis V. Anastasio
Title: Chief Executive Officer and President

Address for Notice:

One Valero Way
San Antonio, Texas 78249
Facsimile No.: (210) 370-4392

RIVERWALK LOGISTICS, L.P.

By: Valero Logistics GP, LLC,
its general partner

By: /s/ Curtis V. Anastasio
Name: Curtis V. Anastasio
Title: Chief Executive Officer and President

Address for Notice:

One Valero Way
San Antonio, Texas 78249
Facsimile No.: (210) 370-4392

VALERO GP, LLC

By: /s/ Curtis V. Anastasio
Name: Curtis V. Anastasio
Title: Chief Executive Officer and President

Address for Notice:

One Valero Way
San Antonio, Texas 78249
Facsimile No.: (210) 370-4392

Exhibit 10.07

VALERO GP, LLC

EXCESS PENSION PLAN

Effective July 1, 2006

VALERO GP, LLC.

EXCESS PENSION PLAN

Table of Contents

VALERO GP, LLC

EXCESS PENSION PLAN

The Valero GP, LLC Excess Pension Plan (hereinafter referred to as the “Excess Pension Plan” or the “Plan”) is hereby established effective July 1, 2006 (“Effective Date”) for the purpose of providing benefits to those employees of Valero GP, LLC and its subsidiaries (hereinafter collectively referred to as the “Company”) whose pension benefits under the Valero GP, LLC Pension Plan (the “Pension Plan”) and the Valero Energy Corporation Pension Plan (“Prior Pension Plan”) are subject to limitations under the Internal Revenue Code of 1986, as amended (the “Code”), or are otherwise indirectly constrained by the Code from realizing the maximum benefit available to them under the terms of the Pension Plan and the Prior Pension Plan.

The Excess Pension Plan is an “excess benefit plan” as defined under §3(36) of The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), for those benefits provided in excess of Section 415 of the Code. Benefits provided as a result of other statutory limitations are limited to a select group of management or other highly compensated employees. The Excess Pension Plan is not intended to constitute either a qualified plan under the provisions of Section 401 of the Code or a funded plan subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”).

The Plan is being established in connection with a spin-off from the Valero Energy Corporation Excess Pension Plan (“Predecessor Excess Pension Plan”) of the benefits accrued under the Predecessor Excess Pension Plan as of the Effective Date with respect to eligible Employees of the Company. In this connection, it is the intent of the Company that this Plan not constitute a new nonqualified deferred compensation plan, but rather merely the assumption and continuation of the Predecessor Excess Pension Plan, effective as of July 1, 2006, with respect to eligible Employees of the Company who have accrued a benefit under the Predecessor Excess Pension Plan. The original effective date of the Predecessor Excess Pension Plan was January 1, 1995.

The Company has established the Pension Plan, effective as of July 1, 2006, to provide defined benefit pension benefits to eligible Employees of the Company, with respect to future service. Effective as of July 1, 2006, eligible Employees of the Company will cease accruing additional benefits under the Prior Pension Plan and the Predecessor Excess Pension Plan. It is the intent of the Company that this Plan shall assume the liabilities of the Predecessor Excess Pension Plan as of July 1, 2006, with respect to eligible Employees of the Company, and shall provide a single, nonqualified excess defined benefit to eligible Employees for their pre-July 1, 2006 benefit accruals under the Predecessor Excess Pension Plan and their post-July 1, 2006 benefit accruals under this Plan.

It is the intent of the Company and Valero Energy Corporation ("VEC") that this Plan be maintained by the Company for the benefit of eligible employees of the Company and that, from and after the date hereof, this spin-off plan and the Company shall be solely liable for all benefits due such eligible Employees under this Plan and the Predecessor Excess Pension Plan.

VALERO GP, LLC

EXCESS PENSION PLAN

All defined terms used in the Pension Plan and the Prior Pension Plan, as the case may be, shall have the same meanings for purposes of this Plan except as otherwise provided below.

SECTION 1. DEFINITIONS.

1.1 "Basic Plan Benefit" shall mean the sum of the monthly benefits payable from the Pension Plan and the Prior Pension Plan which:

1.1.1 In the case of an unmarried Participant, is based upon the lifetime annuities payable to such Participant pursuant to the relevant provisions of the Pension Plan and of the Prior Pension Plan; or,

1.1.2 In the case of a married Participant, is based upon the joint and survivor pensions of Equivalent Actuarial Value to the pensions otherwise payable to such Participant for life pursuant to the relevant provisions of the Pension Plan and of the Prior Pension Plan after reduction to reflect the number of months (if any) during which a pre-retirement spouse's benefit election has been in effect.

1.2 "Change in Control" shall mean the occurrence of one or more of the following events:

1.2.1 Any one person or more than one person acting as a group (a "Group") shall acquire (whether in one or more transactions) ownership of interests in the Company that, together with interests held by such person or Group, constitutes more than 50% of the total fair market value or total voting power of all interests, of the Company; or

1.2.2 any one person or Group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or Group) ownership interests in the Company representing 35% or more of the total voting power of all such interests in the Company; or

1.2.3 a majority of the members of the governing body of the Company (or, for purposes of this subparagraph 1.2.3, the relevant entity under the provisions of Prop. Treas. Reg. §1.409A-3(g)(5)(vi)(A)) is replaced during any 12-month period by members whose appointment or election is not endorsed by a majority of the members of the governing body of the Company prior to the date of appointment or election; or

1.2.4 any one person or Group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or Group) assets from the Company that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions.

1.2.5 A Change in Control shall also be deemed to occur if a Change in Control, as defined in sections 1.2.1, 1.2.2, 1.2.3 or 1.2.4 above, shall occur with respect to:

1.2.5.1 the entity for which a Participant is providing services at the time of such Change in Control; or

1.2.5.2 the entity liable for paying the benefits under this Plan (or all such entities if more than one entity shall be so liable); or

1.2.5.3 an entity that is the majority holder of interests in any entity identified in the preceding sections 1.2.5.1 or 1.2.5.2, or any entity in a chain of entities in which such entity is a majority holder of interests in another entity in the chain, ending in an entity identified in sections 1.2.5.1 or 1.2.5.2 above.

1.2.6 Special Rules.

1.2.6.1 For purposes of calculating ownership in determining whether a Change in Control has occurred, the attribution rules of Code Section 318(a) shall apply with respect to stock of a corporation, and shall be applied by analogy with respect to other types of business entities.

1.2.6.2 If, at the time of a transaction, any one person or Group is considered to own more than 50 percent of the total fair market value or total voting power of interests in the Company (or other entity), or is considered to own 35 percent or more of the total voting power of interests in the Company (or other entity), then the acquisition of additional interests in the Company or other entity shall not be treated as a Change in Control under section 1.2.1 or 1.2.2 above, as applicable.

1.2.6.3 For purposes of applying the provisions of section 1.2.4 above, a transfer of assets is not treated as a change in the ownership of such assets if the assets are transferred to:

(a) any person or Group who holds an interest in the Company, in exchange for such interest;

(b) an entity, 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company;

(c) a person or Group that owns, directly or indirectly, 50% or more of the total value or voting power of the Company; or

(d) an entity, at least 50% of the total value or voting powers of which is owned, directly or indirectly, by a person or Group described in (c) above.

In applying the provisions of this section 1.2.6.3, a person's status is determined immediately after the transfer of assets.

1.3 "Code" shall mean the Internal Revenue Code of 1986, as amended.

1.4 "Committee" shall mean the Benefit Plans Administrative Committee, which shall administer the Excess Pension Plan.

1.5 "Company" shall include the Employer and any Affiliated Employer as such terms are respectively defined in the Pension Plan.

1.6 "Considered Compensation" shall mean "Considered Compensation" as such term is defined in the Pension Plan, but determined without regard to the Compensation Limit.

1.7 "Company" shall mean Valero GP, LLC or any successor by merger, purchase or otherwise.

1.8 "Compensation Limit" shall mean the maximum annual compensation allowed to be taken into account by the Pension Plan for any Plan Year pursuant to the provisions of §401(a)(17) of the Code or any successor provision thereto.

1.9 "Credited Service" shall mean the sum of the Credited Service earned by a Participant under the Pension Plan and the Prior Pension Plan.

1.10 "Employee" shall mean any person who is currently employed by the Company.

1.11 "Equivalent Actuarial Value" shall mean equivalent value when computed on the basis of the mortality tables and interest rate last approved by the Committee appointed under the terms of the Pension Plan, as set forth herein and as amended from time to time.

1.12 "Excess Pension Plan" or "Plan" shall mean the Valero GP, LLC Excess Pension Plan, as set forth herein or as amended from time to time.

1.13 "Final Average Monthly Earnings" shall mean "Final Average Salary" as such term is defined in the Pension Plan and the Prior Pension Plan, respectively, but determined without regard to the Compensation Limit and including any amounts that would otherwise be excluded from such calculation because of being contributed to a Plan of Deferred Compensation.

1.14 "Normal Retirement Date" shall mean Normal Retirement Date, as such term is defined in the Pension Plan and the Prior Pension Plan, respectively.

1.15 "Participant" means an Employee who is a participant in the Excess Pension Plan.

1.16 “Pension Plan” shall mean the Valero GP, LLC Pension Plan (as amended).

1.17 “Plan of Deferred Compensation” shall mean any non-qualified deferred compensation plan or arrangement, any Code section 125 cafeteria plan, or any Code section 401(k) cash or deferral arrangement maintained by the Company.

1.18 “Prior Pension Plan” shall mean the Valero Energy Corporation Pension Plan (as amended).

1.19 “SERP” shall mean the Valero GP, LLC Supplemental Executive Retirement Plan (as amended).

1.20 “Separation from Service” shall mean a separation from service as defined in Code section 409A and the regulations and rulings issued thereunder.

1.21 “Surviving Spouse” shall mean the spouse of a Participant who is eligible to receive a surviving spouse benefit under the Pension Plan or the Prior Pension Plan, as the case may be.

1.22 “Trust” shall mean the trust, if any, established by the Company to fund its obligations hereunder.

SECTION 2. PARTICIPATION - §415(b) BENEFIT PLAN COMPONENT.

2.1 Conditions of Eligibility.

2.1.1 Every Employee shall become eligible to participate in the §415(b) benefit plan component of the Plan on the later of becoming eligible to participate in the Pension Plan or the effective date of the Plan.

2.1.2 Notwithstanding paragraph 2.1.1 above or section 2.1.3 below, any Employee who is covered under a collective bargaining agreement and whose benefits are the subject of good faith bargaining shall not be eligible to participate in the §415(b) benefit plan component of the Plan.

2.1.3 Additionally, any Employee who is a participant in the SERP or any other plan designed to provide a similar benefit with respect to Code section 415(b), shall not be eligible to participate in the §415(b) benefit plan component of the Excess Pension Plan.

2.2 Participation.

Each Employee actively participating in the Pension Plan whose aggregate benefit under the Pension Plan and the Prior Pension Plan would exceed the limitations of Code section 415(b) shall automatically become a Participant in the §415(b) benefit plan component of the Plan.

2.3 Forfeiture.

Notwithstanding anything herein to the contrary, if a Participant who is receiving, or may be entitled to receive, a benefit hereunder is discharged for cause, or performs acts of willful malfeasance or gross negligence in a matter of material importance to the Company, payments thereafter payable hereunder to such Participant or such Participant's Surviving Spouse will, at the discretion of the Committee, be forfeited and the Company will have no further obligation hereunder to such Participant or to such Participant's Surviving Spouse.

SECTION 3. PARTICIPATION - §401(a)(17) BENEFIT PLAN COMPONENT.

3.1 Conditions of Eligibility.

3.1.1 Every Employee whose Considered Compensation exceeds the Compensation Limit shall become eligible to participate in the §401(a)(17) benefit plan component of the Plan on the later of becoming eligible to participate in the Pension Plan or the effective date of the Plan.

3.1.2 Notwithstanding Section 3.1.1 above or Section 3.1.3 below, any Employee who is covered under a collective bargaining agreement and whose benefits are the subject of good faith bargaining shall not be eligible to participate in the §401(a)(17) benefit plan component of the Plan.

3.1.3 Additionally, any Employee who is a Participant in the SERP or any other plan designed to provide a similar benefit with respect to earnings in excess of the Compensation Limit, shall not be eligible to participate in the §401(a)(17) benefit plan component of the Plan.

3.2 Participation.

The Committee will review the Considered Compensation of each Employee actively participating in the Pension Plan to determine on an individual basis which Employees shall participate in the §401(a)(17) benefit plan component of the Plan.

3.3 Forfeiture.

Notwithstanding anything herein to the contrary, if a Participant who is receiving, or may be entitled to receive, a benefit hereunder is discharged for cause, or performs acts of willful malfeasance or gross negligence in a matter of material importance to the Company, payments thereafter payable hereunder to such Participant or such Participant's Surviving Spouse will, at the discretion of the Committee, be forfeited and the Company will have no further obligation hereunder to such Participant or to such Participant's Surviving Spouse.

SECTION 4. AMOUNT AND FORM OF BENEFIT.

4.1 Vesting.

Except as otherwise provided herein, a Participant's Excess Pension Plan benefit shall vest pursuant to the following vesting schedule:

Participant's Years of Credited Service	Vested Percentage
Less than 5	0%
5 or more	100%

4.2 Benefit Offset.

The monthly pension payable under the Excess Pension Plan, as determined in this Section 4, shall be reduced by the equivalent amount the Pension Plan benefit and/or Prior Pension Plan benefit are increased as the result of increases in the amount of maximum benefits payable from qualified plans in accordance with Code section 415.

4.3 Benefit Formula.

Subject to the provisions of Sections 4.4 and 4.5, the monthly pension payable under the Excess Pension Plan shall be Amount 1 less Amount 2 as identified below. Calculation of Amount 1 for an unmarried Participant shall be based on a lifetime annuity. Calculation of Amount 1 for a married Participant shall be a fifty percent (50%) joint and survivor pension of Equivalent Actuarial Value to the pension otherwise payable for life hereunder.

Amount 1 and Amount 2 are as follows:

Amount 1 — for such Participant is equal to 1.6 percent of the Participant's Final Average Monthly Earnings multiplied by his number of years of Credited Service.

Amount 2 — for such Participant is equal to the sum of his monthly Pension Plan benefit and monthly Prior Pension Plan benefit that would be payable at such time as benefit payments commence under this Plan.

The Excess Pension Plan benefits payable hereunder shall be determined as if the Participant commenced payment of the Participant's Pension Plan benefit and Prior Pension Plan benefit at the same time as benefits commence hereunder and shall not be recalculated or re-determined at such time as the Participant actually commences payment of his Pension Plan benefit and/or Prior Pension Plan benefit.

4.4 Early Retirement.

If a Participant's Plan benefit commences prior to his Normal Retirement Date, the monthly Plan benefit payable to such Participant shall be determined by multiplying the monthly Plan benefit otherwise payable to him by the applicable early retirement reduction factor contained in the schedule of such factors set forth in Section 4.3 of the Pension Plan.

4.5 Modifications.

The Committee shall have the right to modify the calculation of Amount 1, identified in Section 4.3, as to any Participant as it may desire from time to time; provided, however, that any such modification shall not result in a reduction of Amount 1 below the basic level provided in Section 4.3.

SECTION 5. PROVISIONS REGARDING PAYMENT OF BENEFITS.

5.1 Optional Forms of Pension.

At the time a Participant's Excess Pension Plan benefit commences, the Participant shall elect any annuity form of payment available to the Participant under the Pension Plan, which is an actuarial equivalent lifetime form. The Participant shall not be permitted to elect to have his Excess Pension Plan benefits paid in a lump sum, nor in any manner that is coordinated with his Social Security benefits, nor in the form of an annuity payment which is not an actuarial equivalent lifetime form of payment. Notwithstanding the foregoing, if the present lump sum value, calculated on the basis of an immediately payable lump sum of Equivalent Actuarial Value to a Participant's Excess Pension Plan benefit, is not greater than $50,000, then such Participant's Excess Pension Plan benefit shall be paid in a single lump sum.

5.2 Information to be Furnished Participants with Respect to Form of Payment.

The Plan Administrator shall furnish each Participant, on or about 180 days prior to the date on which he has both attained age 55 and completed five years of Credited Service, or the date he attains age 65, if earlier, a written explanation of:

5.2.1 the terms and conditions of payment provided under the form of payment as described in the Excess Pension Plan, and the optional forms of payment which may be elected in lieu thereof,

5.2.2 the terms and conditions of payment provided under the automatic pension as described in the Pension Plan; and,

5.2.3 the relative financial effect on a Participant's total pension of an election not to take the standard and automatic pensions.

5.2.4 the Plan Administrator shall also furnish each married Participant at least 120 days prior to his Normal Retirement Date or as soon as practicable after the Participant makes application for the earlier commencement of his pension under the Plan a written statement of:

5.2.4.1 the amount of pension which would be payable on his behalf under the standard and automatic joint and survivor pensions as described in the Excess Pension Plan and the Pension Plan; and,

5.2.4.2 the amount of pension otherwise payable under the available optional forms of benefit.

5.3 Commencement.

Benefits for each Participant under this Plan shall commence as of the Separation from Service of such Participant.

5.4 Delay of Certain Payments.

With respect to any Participant who is a "Specified Employee", as defined in Code section 409A and the regulations and rulings issued hereunder, any benefit that becomes payable by reason of such Participant's Separation from Service under Section 5.3.3 shall not commence prior to the date that is six (6) months following such Participant's Separation from Service. Upon commencement of any benefit delayed by application of this Section 5.4, the monthly benefit payable to the Participant shall be determined as of the Participant's Separation from Service, and the first payment shall include all payments that would have otherwise becomes payable during the period of such delay. The provisions of this Section 5.4 shall not apply (a) with respect to any benefit that becomes payable due to the death of the Participant, or (b) if, at the time of such Participant's Separation from Service, no equity of the Company is publicly traded on an established securities market or otherwise.

SECTION 6. CHANGE IN CONTROL.

6.1 Full Vesting Upon Change in Control.

Upon a Change in Control, the benefits of all Participants hereunder shall immediately become fully vested and shall become distributable at the time and in accordance with the provisions of Section 5 hereof.

SECTION 7. ADMINISTRATION.

7.1 Committee.

The Committee shall administer the Excess Pension Plan. The Excess Pension Plan shall generally be administered by the Committee pursuant to the same authority, powers and duties of the committee which administers the Pension Plan. The Committee shall interpret the Excess Pension Plan and shall determine all questions arising in the administration, interpretation and application of the Excess Pension Plan. Any such determination by the Committee shall be conclusive and binding on all persons. The

Committee shall determine the amount and manner of payment of the benefits due to or on behalf of each Participant under the Plan and the commencement and termination dates of such benefit payment.

7.2 Claims.

A Participant, Beneficiary and any other person who believes he is entitled to any benefit or right provided under the Plan shall have the right to file a written claim with the Committee in the same manner and governed by the same provisions as provided in Section 8 of the Pension Plan.

SECTION 8. MISCELLANEOUS.

8.1 Amendment and Termination.

The Employer reserves the right, in its sole discretion, to terminate, suspend or amend the Excess Pension Plan, at any time or from time to time, in whole or in part for whatever reasons it may deem appropriate. However, no such termination, suspension or amendment of the Excess Pension Plan shall result in the acceleration of the commencement of any benefit hereunder, nor shall any such termination, suspension or amendment alter, impair or void any Participant's (or Beneficiary's) right with respect to a benefit accrued under the Plan as of the date of such termination, suspension or amendment except such benefits as are voluntarily forfeited by a Participant. In the event of termination of the Excess Pension Plan, all Excess Pension Benefits shall become fully vested and non-forfeitable.

8.2 No Employment Rights.

Nothing contained in the Excess Pension Plan shall be construed as a contract of employment between the Employer and an Employee, or as a right of any Employee to be continued in the employment of the Employer or as a limitation of the right of the Employer to discharge any Employee, with or without cause.

8.3 Assignment.

To the maximum extent permitted by law, no benefit under the Plan shall be assignable or in any manner subject to alienation, sale, transfer, hypothecation, claims or creditors, pledge, attachment or encumbrances of any kind. Provided however, this provision shall not effect the right of the Committee, upon the determination that a judgment, decree or order relating to child support, alimony payments or marital property rights of the spouse, former spouse, child or other dependent of the Participant is a "Qualified Domestic Relations Order" within the meaning of Code §414(p), to distribute or establish a separate subaccount of all or any portion of a Participant's benefits under the Plan to or for the benefit of the beneficiary of the Qualified Domestic Relations Order in a manner permitted under the Plan.

8.4 Withholding Taxes.

The Employer shall have the right to deduct from all payments made under the Plan any federal, state or local taxes required by law to be withheld with respect to such payments.

8.5 Rules and Regulations.

The Committee may adopt rules and regulations to assist in the administration of the Plan. The Plan as amended and restated is intended to satisfy the requirements of Code section 409A and the rules and regulations issued thereunder, and shall be construed and interpreted consistent with such intent.

8.6 Law Applicable.

The Plan is established under and will be construed in accordance with and governed by the laws of the State of Texas.

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IN WITNESS WHEREOF, the Company has executed this Plan on this 1st day of August, 2006, to be effective as of the 1st day of July 2006.

VALERO GP, LLC

By /s/ Steven A. Blank
Steven A. Blank, Chairman
Benefit Plans Administrative Committee

Exhibit 10.08

VALERO GP, LLC

EXCESS THRIFT PLAN

Effective July 1, 2006

VALERO GP, LLC

EXCESS THRIFT PLAN

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VALERO GP, LLC

EXCESS THRIFT PLAN

Introduction

The Valero GP, LLC Excess Thrift Plan ("Excess Thrift Plan" or "Plan") is established effective July 1, 2006 for the purpose of providing benefits to those employees of Valero GP, LLC (the "Company") and its participating subsidiaries whose Annual Additions under the Valero GP, LLC Thrift Plan ("the Thrift Plan") are subject to the limitations on such Annual Additions as provided under §415 of the Internal Revenue Code of 1986, as amended ("the Code"), and/or are constrained from making maximum contributions under the Thrift Plan by §401(a)(17) of the Code, which limits the amount of an employee's annual compensation which may be taken into account under that Plan ("the Compensation Limit").

The Excess Thrift Plan is comprised of two separate components, consisting of (1) an "excess benefit plan" as defined under §3(36) of the Employee Retirement Income Security Act of 1974, as amended, and (2) a plan which is unfunded and maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees. Each component of the Excess Thrift Plan shall consist of a separate plan for purposes of Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

The Excess Thrift Plan is *not* intended to constitute either a qualified plan under the provisions of §401 of the Code or a funded plan subject to ERISA.

VALERO GP, LLC

EXCESS THRIFT PLAN

All defined terms used in the Thrift Plan shall have the same meanings for purposes of the Excess Thrift Plan except as otherwise provided below.

SECTION 1. DEFINITIONS.

1.1 "Annual Addition" shall mean the total amount that would have constituted "Annual Additions" as defined in paragraph (2) of Code §415(c), if such additions had not been limited pursuant to Code §415(c)(1), and as described in Section 6.6(a) of the Thrift Plan.

1.2 "Annual Addition Limitation" shall mean the limitation on Annual Additions to a Participant's Thrift Plan Account, as provided in Code §415(c)(1), and as described in Section 6.4(a) of the Thrift Plan.

1.3 "Annual Benefit Salary" shall mean a Participant's current base rate of pay expressed in annual terms, exclusive of all other forms of pay, such as bonuses, commissions, overtime pay, shift differential, or any type of fluctuating emolument. However, Annual Benefit Salary shall be determined without regard to any reduction to the Participant's taxable pay as a result of participating in any plan subject to Section 125 of the Code or the §401(k) feature of the Thrift Plan. During a period of absence from work, with or without pay, such as a sick leave, disability leave or personal leave of absence, the Participant's base rate of pay most recently in effect while working shall be used in computing his Annual Benefit Salary.

1.4 "Beneficiary" shall mean the Participant's beneficiary as designated under the Thrift Plan.

1.5 "Change in Control" shall mean the occurrence of one or more of the following events:

(a) Any one person or more than one person acting as a group (a "Group") shall acquire (whether in one or more transactions) ownership of interests in the Company that, together with interests held by such person or Group, constitutes more than 50% of the total fair market value or total voting power of all interests, of the Company; or

(b) any one person or Group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or Group) ownership interests in the Company representing 35% or more of the total voting power of all such interests in the Company; or

(c) a majority of the members of the governing body of the Company (or, for purposes of this subparagraph (c), the relevant entity under the provisions of Prop. Treas. Reg. §1.409A-3(g)(5)(vi)(A)) is replaced during any 12-month period by members whose appointment or election is not endorsed by a majority of the members of the governing body of the Company prior to the date of appointment or election; or

(d) any one person or Group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or Group) assets from the Company that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions.

(e) A Change in Control shall also be deemed to occur if a Change in Control, as defined in (a), (b), (c) or (d) above, shall occur with respect to:

(1) the entity for which a Participant is providing services at the time of such Change in Control, or

(2) the entity liable for paying the benefits under this Plan (or all such entities if more than one entity shall be so liable); or

(3) an entity that is the majority holder of interests in any entity identified in (1) or (2), or any entity in a chain of entities in which such entity is a majority holder of interests in another entity in the chain, ending in an entity identified in (1) or (2) above.

(f) Special Rules.

(1) For purposes of calculating ownership in determining whether a Change in Control has occurred, the attribution rules of Code section 318(a) shall apply with respect to stock of a corporation, and shall be applied by analogy with respect to other types of business entities.

(2) If, at the time of a transaction, any one person or Group is considered to own more than 50 percent of the total fair market value or total voting power of interests in the Company (or other entity), or is considered to own 35 percent or more of the total voting power of interests in the Company (or other entity), then the acquisition of additional interests in the Company or other entity shall not be treated as a Change in Control under section (a) or (b) above, as applicable.

(3) For purposes of applying the provisions of section (d) above, a transfer of assets is not treated as a change in the ownership of such assets if the assets are transferred to:

(A) any person or Group who holds an interest in the Company, in exchange for such interest;

(B) an entity, 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company;

(C) a person or Group that owns, directly or indirectly, 50% or more of the total value or voting power of the Company; or

(D) an entity, at least 50% of the total value or voting powers of which is owned, directly or indirectly, by a person or Group described in (C) above.

In applying the provisions of this section (f)(3), a person's status is determined immediately after the transfer of assets.

1.6 "Code" shall mean the Internal Revenue Code of 1986 and the regulations issued thereunder, as amended from time to time.

1.7 "Committee" shall mean the Benefit Plans Administrative Committee, which administers this Plan.

1.8 "Company" shall mean Valero GP, LLC, and any successor Company through merger, acquisition or otherwise.

1.9 "Company Equity" shall mean units of Valero L.P., a master limited partnership.

1.10 "Compensation Limit" shall mean the maximum annual compensation allowed to be taken into account by the Thrift Plan for any Plan Year, pursuant to the provisions of §401(a)(17) of the Code, or any successor provision thereto.

1.11 "Disabled" or "Disability" shall mean the existence one or more of the following conditions:

(a) The Participant is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months; or

(b) The Participant is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering employees of the Company; or

(c) The Participant is determined to be totally disabled by the Social Security Administration.

1.12 "Employee Contribution Percentage" shall mean the whole percentage of the Participant's Annual Benefit Salary which such Participant has elected to contribute to the Thrift Plan as his Employee Contribution under the provisions of such Plan.

1.13 "Employee" shall mean any person who is currently employed by an Employer.

1.14 "Employer" shall mean the Company or any subsidiary of the Company designated by the Board of Directors or other governing body of the Company as being eligible to participate in the Excess Thrift Plan provided such subsidiary shall adopt the Excess Thrift Plan by action of its Board of Directors or other governing body.

1.15 "Excess Thrift Plan" shall mean the Valero GP, LLC Excess Thrift Plan, as described herein and as hereafter amended.

1.16 "Participant" shall mean an eligible Employee who has become a Participant in the Excess Thrift Plan as provided in Sections 2.2 or 3.2 herein.

1.17 "Plan Year" shall mean the calendar year, except that the first Plan Year of the Excess Thrift Plan shall commence on the Effective Date of the Excess Thrift Plan and end on the following December 31.

1.18 "Thrift Plan" shall mean the Valero GP, LLC Thrift Plan, as amended.

SECTION 2. PARTICIPATION - §415(c) BENEFIT PLAN.

2.1 Conditions of Eligibility.

(a) Every Employee shall become eligible to participate in the §415(c) benefit plan component of the Excess Thrift Plan on the later of becoming eligible to participate in the Thrift Plan or the effective date of the Excess Thrift Plan.

(b) Notwithstanding paragraph (a) above or Section 2.2 below, any Employee who is covered under a collective bargaining agreement and whose benefits are the subject of good faith bargaining shall not be eligible to participate in the §415(c) benefit plan component of the Excess Thrift Plan.

2.2 Participation.

Each Employee actively participating in the Thrift Plan whose Annual Additions for the Plan Year exceed the Annual Addition Limitation, shall automatically become a Participant in the §415(c) benefit plan component of the Excess Thrift Plan.

SECTION 3. PARTICIPATION - §401(A)(17) BENEFIT PLAN.

3.1 Conditions of Eligibility.

(a) Every Employee whose Annual Benefit Salary exceeds the Compensation Limit shall become eligible to participate in the §401(a)(17) benefit plan component of the Excess Thrift Plan on the later of becoming eligible to participate in the Thrift Plan or the effective date of the Excess Thrift Plan.

(b) Notwithstanding Section 3.1(a) above, any Employee who is covered under a collective bargaining agreement and whose benefits are the subject of good faith bargaining shall not be eligible to participate in the §401(a)(17) benefit plan component of the Excess Thrift Plan.

3.2 Participation.

Each Employee actively participating in the Thrift Plan shall automatically become a Participant in the §401(a)(17) benefit plan component of the Excess Thrift Plan on the first day of the calendar month coincident with or next following the date on which such Employee's Annual Benefit Salary exceeds the Compensation Limit for the Plan Year.

SECTION 4. BENEFITS - §415(c) BENEFIT PLAN COMPONENT.

Upon becoming a Participant in the §415(c) benefit plan component of the Excess Thrift Plan pursuant to Section 2.2 above, a separate bookkeeping account shall be established hereunder for such Participant, which shall be credited as follows:

4.1 Amount of §415(c) Benefit.

In any case where a Participant's Annual Additions exceed the Annual Addition Limitation, the Participant's Excess Thrift Plan §415(c) Account shall be credited with an amount equal to the Employer Matching Contributions that would have been made under the Thrift Plan had the Annual Addition Limitation not applied, reduced by the amount of Employer Matching Contributions made to the Participant's Thrift Plan account for such Plan Year.

4.2 Section 415(c) Amounts Credited.

(a) The amounts credited to a Participant's Excess Thrift Plan §415(c) Account shall reflect both a dollar-value and a number of hypothetical units of Company Equity. The dollar-value of hypothetical units of Company Equity credited to a Participant's Excess Thrift Plan §415(c) Account shall be the average of the "high" and "low" sales price of Company Equity, as reported in the New York Stock Exchange Composite Transactions listing in the *Wall Street Journal* (corrected to exclude typographical errors), on the last trading day of the calendar month preceding the date that the amount is credited to the Participant's Excess Thrift Plan §415(c) Account.

(b) The number of hypothetical units of Company Equity credited to a Participant's Excess Thrift Plan §415(c) Account for any month under Section 4.1 shall be equal to:

(1) in the case of adjustments involving units of Company Equity, the actual number of whole and fractional shares involved in the particular adjustment(s) to the Thrift Plan; and

(2) in the case of adjustments involving amounts other than Company Equity, a number of hypothetical units of Company Equity equivalent to the dollar-value of the amounts involved in the particular adjustment(s) to the Thrift Plan.

SECTION 5. BENEFITS - §401(a)(17) BENEFIT PLAN COMPONENT

Upon becoming a Participant in the §401(a)(17) benefit plan component of the Excess Thrift Plan pursuant to Section 3.2 above, a separate bookkeeping account shall be established hereunder for such Participant, which shall be credited as follows:

5.1 Amount of §401(a)(17) Benefit.

To the extent that a Participant's Annual Benefit Salary exceeds the Compensation Limit for the Plan Year, the Participant's Excess Thrift Plan §401(a)(17) Account shall be credited monthly with an amount equal to the Employer Matching Contributions which such Participant would have received under the Thrift Plan had the Compensation Limit not applied (calculated without regard to the Annual Addition Limitation), reduced by (i) any amount credited to the Participant's Excess Thrift Plan §415(c) Account under Section 4.1; and (ii) further reduced the amount of Employer Matching Contributions made to the Participant's Thrift Plan account for such Plan Year.

5.2 Section 401(a)(17) Amounts Credited.

(a) The amounts credited to a Participant's Excess Thrift Plan §401(a)(17) Account shall reflect both a dollar-value and a number of hypothetical units of Company Equity. The dollar-value of hypothetical units of Company Equity credited to a Participant's Excess Thrift Plan §401(a)(17) Account shall be the average of the "high" and "low" sales price of Company Equity, as reported in the New York Stock Exchange Composite Transactions listing in the *Wall Street Journal* (corrected to exclude typographical errors), on the last trading day of the calendar month preceding the date that the amount is credited to the Participant's Excess Thrift Plan §401(a)(17) Account.

(b) The number of hypothetical units of Company Equity credited to a Participant's Excess Thrift Plan §401(a)(17) Account for any month under Section 5.1 shall be equal to the number of whole and fractional shares which would have been allocated to such Participant's Thrift Plan Account had he been permitted to make additional Employee Contributions to the Thrift Plan in an amount equal to the product of the Participant's Employee Contribution Percentage for such month times one-twelfth (1/12) of that portion of his Annual Benefit Salary in excess of the Compensation Limit.

SECTION 6. COMMON PROVISIONS.

In addition to the provisions of Sections 1, 7, 8 and 9 herein, which shall be equally applicable to the §415(c) benefit plan component and the §401(a)(17) benefit plan component of the Excess Thrift Plan, the following provisions of this Section 6 shall apply to both benefit plan components:

6.1 General Principle of Crediting Amounts Under This Plan.

It is intended that amounts shall be credited to Participant's Accounts under Sections 4 and 5 of this Plan to ensure that, to the extent that a Participant's Employer Matching Contribution under the Thrift Plan is limited in any Plan Year by application of the Annual Addition Limitation or the Compensation Limitation, such reduced amount of Employer Matching Contribution shall be credited hereunder, so that the Participant receives the full Employer Matching Contribution (by combining the Employer Matching Contributions made under the Thrift Plan and the amounts credited to this Plan) that he would have received had neither the Annual Addition Limitation nor the Compensation Limitation applied for such Plan Year. The Committee may take such actions as necessary to effect such intent.

6.2 Other Amounts Credited.

(a) During each Plan Year, a Participant's Excess Thrift Plan Accounts shall be credited at the same time and with the same amount of earnings or losses that a like investment in Company Equity would have experienced, including, but not limited to (i) ordinary cash dividends, and (ii) cash (other than ordinary cash dividends), shares or other securities or rights or other property constituting or derived from any stock dividend or rights distribution, split-up, stock split, reverse stock split, recapitalization, combination or exchange of shares, merger, consolidation, acquisition of property or stock, spin-off or separation, reorganization, liquidation or other similar event. All cash amounts inuring to a Participant's Excess Thrift Plan Account under this Section 6.2 shall be converted not less than annually into equivalent hypothetical units of Company Equity. The number of hypothetical units of Company Equity credited to a Participant's Excess Thrift Plan Account for any month under this Section 6.2 shall be determined by the average of the "high" and "low" sales price of units of Company Equity, as reported in the New York Stock Exchange Composite Transactions listing in the *Wall Street Journal*, on the last trading day of the calendar month preceding the date that the amount is credited to the Participant's Excess Thrift Plan Account.

(b) The crediting of any amounts under this Section 6.2 is separate from, and in addition to, the crediting of any amounts under any other provision of the Excess Thrift Plan.

6.3 Changes in Thrift Plan Contribution Percentage.

Notwithstanding any other provision of this Plan, amounts to be credited to a Participant's Account hereunder shall not be increased as a result of an increase in the Participant's Employee Contribution Percentage under the Thrift Plan effected during a Plan Year. The Participant's Employee Contribution Percentage under the Thrift Plan in effect on the first day of a Plan Year shall remain in effect for the entirety of such Plan Year for purposes of determining amounts to be credited under the Excess Thrift Plan.

6.4 Vesting.

Except as provided in Sections 6.6, 6.7, and 9.1, a Participant shall vest in all amounts credited to his Excess Thrift Plan Account in the same manner and on the same schedule as provided in the relevant provisions of the Thrift Plan. Any portion of the hypothetical units credited to a Participant's Excess Thrift Plan Account which is not vested upon the Participant's Separation from Service shall be forfeited.

6.5 Benefits Payable Upon Separation from Service.

In the event of a Participant's Separation from Service (other than by reason of retirement under the Valero GP, LLC Pension Plan), the Participant shall be entitled to the value of his vested Excess Thrift Plan Accounts as soon as reasonably practical thereafter. For purposes of this Plan, "Separation from Service" shall have the meaning provided under Code §409A and the regulations and other guidance promulgated thereunder.

6.6 Benefits Payable Upon Retirement, Death or Disability.

In the event of a Participant's death, Disability, or Separation from Service as a result of his retirement from the service of the Employer under the Valero GP, LLC Pension Plan, the Participant's Excess Thrift Plan Account shall immediately become fully vested and shall be distributed as soon as reasonably practical thereafter.

6.7 Vesting Upon Change in Control.

In the event of a Change in Control, the Excess Thrift Plan Accounts of all Participants shall immediately become fully vested.

6.8 Form of Benefit Payments.

Benefit payments under the Excess Thrift Plan shall be made in the form of a single lump sum cash payment.

6.9 Delay of Certain Benefit Payments.

With respect to any Participant who is a "Specified Employee" within the meaning of Code Section 409A and the rulings and regulations issued thereunder, any amount that becomes payable by reason of such Participant's Separation from Service (including retirement) shall be delayed until a date that is six (6) months following the date of such Participant's Separation from Service. At such time as payment commences, such Participant shall receive all payments that would have been made during such six-month period in the absence of such delay.

Such delay shall not apply, however (i) with respect to any benefit that becomes payable due to the death or Disability of the Participant; or (ii) if, at the time of the Participant's Separation from Service, no equity security of the Company is publicly traded on an established securities market or otherwise.

6.10 Forfeiture of Benefit.

Notwithstanding anything contained in this Excess Thrift Plan to the contrary, if a Participant who is receiving or may be entitled to receive a benefit hereunder is discharged for cause, or performs acts of willful malfeasance or gross negligence in a matter of material importance to the Employer, payments thereafter payable hereunder to such Participant or such Participant's Beneficiary will, at the discretion of, and as determined by the Committee, be forfeited and the Employer will have no further obligation hereunder to such Participant or to such Participant's Beneficiary.

SECTION 7. EMPLOYER CONTRIBUTIONS.

7.1 The Excess Thrift Plan is completely separate from and not a part of the Thrift Plan or any other plan of the Employer. The benefits payable under the Excess Thrift Plan are unfunded and the Participants (and their Beneficiaries) shall be general creditors of the Employer with the respect to any payment due pursuant to the Excess Thrift Plan.

7.2 No contribution shall be required of any Participant or the Employer.

SECTION 8. ADMINISTRATION.

8.1 Committee.

The Committee shall administer the Excess Thrift Plan. The Excess Thrift Plan shall generally be administered by the Committee pursuant to the same authority, powers and duties of the committee which administers the Thrift Plan. The Committee shall interpret the Excess Thrift Plan and shall determine all questions arising in the administration, interpretation and application of the Excess Thrift Plan. Any such determination by the Committee shall be conclusive and binding on all persons. The Committee shall determine the amount and manner of payment of the benefits due to or on behalf of each Participant under the Excess Thrift Plan and the commencement and termination dates of such benefit payment consistent with the terms hereof.

8.2 Claims.

A Participant, Beneficiary and any other person who believes he is entitled to any benefit or right provided under the Excess Thrift Plan shall have the right to file a written claim with the Committee in the same manner and governed by the same provisions as provided in the relevant provisions of the Thrift Plan.

SECTION 9. MISCELLANEOUS.

9.1 Amendment and Termination.

The Employer reserves the right, in its sole discretion, to terminate, suspend or amend the Excess Thrift Plan, at any time or from time to time, in whole or in part for whatever reasons it may deem appropriate. However, no such termination, suspension or amendment of the Excess Thrift Plan shall alter, impair or void any Participant's (or

Beneficiary's) right with respect to a benefit accrued under the Excess Thrift Plan as of the date of such termination, suspension or amendment except such benefits as are voluntarily forfeited by a Participant. In the event of termination of the Excess Thrift Plan, all unvested amounts, together with the earnings thereon, credited to a Participant's Excess Thrift Plan Accounts shall fully vest in him. Such Excess Thrift Plan Accounts shall continue to be maintained pursuant to the provisions of Section 6, and any distributions to a Participant shall continue to be subject to the provisions of Section 6 herein. In the event of a partial termination of the Excess Thrift Plan, the provisions of this Section 9.1 shall be applicable to the Participants affected by such partial termination.

9.2 No Employment Rights.

Nothing contained in the Excess Thrift Plan shall be construed as a contract of employment between the Employer and an Employee, or as a right of any Employee to be continued in the employment of the Employer or as a limitation of the right of the Employer to discharge any Employee, with or without cause.

9.3 Assignment.

To the maximum extent permitted by law, no benefit under the Excess Thrift Plan shall be assignable or in any manner subject to alienation, sale, transfer, hypothecation, claims of creditors, pledge, attachment or encumbrances of any kind. *Provided, however,* that this provision shall not affect the right of the Committee, upon the determination that a judgment, decree or order relating to child support, alimony payments or marital property rights of the spouse, former spouse, child or other dependent of the Participant is a "Qualified Domestic Relations Order" within the meaning of Code §414(p), to distribute or establish a separate subaccount of all or any portion of a Participant's benefits under the Excess Thrift Plan to or for the benefit of the beneficiary of the Qualified Domestic Relations Order in a manner permitted under the Excess Thrift Plan.

9.4 Withholding Taxes.

The Employer shall have the right to deduct from all payments made under the Excess Thrift Plan any federal, state or local taxes required by law to be withheld with respect to such payments.

9.5 Rules and Regulations.

The Committee may adopt rules and regulations to assist in the administration of the Excess Thrift Plan.

9.6 Law Applicable.

The Excess Thrift Plan is established under and will be construed in accordance with and governed by the laws of the State of Texas.

IN WITNESS WHEREOF, the Sponsor has executed this Plan on this 1st day of August, 2006, to be effective as of the 1st day of July 2006.

VALERO GP, LLC

By /s/ Steven A. Blank
Steven A. Blank, Chairman
Benefit Plans Administrative Committee

Exhibit 10.09

VALERO GP, LLC

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

Effective July 1, 2006

VALERO GP, LLC
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

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VALERO GP, LLC
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

The Valero GP, LLC Supplemental Executive Retirement Plan (hereinafter referred to as the “SERP” or the “Plan”) is hereby established effective July 1, 2006 for the purpose of providing certain highly compensated, management personnel of Valero GP, LLC and its subsidiaries (hereinafter collectively referred to as the “Company”) a supplement to the retirement benefit they may otherwise receive under the Valero GP, LLC Pension Plan (the “Pension Plan”) and the Valero Energy Corporation Pension Plan (“Prior Pension Plan”).

Benefits under the Plan are limited to a select group of management or other highly compensated employees. The Plan is <u>not</u> intended to constitute either a qualified plan under the provisions of Section 401 of the Code or a funded plan subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”).

The Plan is established in connection with a spin-off from the Valero Energy Corporation Supplemental Executive Retirement Plan (“Predecessor SERP”) of the benefits accrued under such Predecessor SERP with respect to eligible Employees of the Company. In this connection, it is the intent of the Company that this Plan not constitute a new nonqualified deferred compensation plan, but rather merely an assumption and continuation of the Predecessor SERP, effective as of July 1, 2006, with respect to eligible Employees of the Company who have accrued a benefit under the Predecessor SERP. The original effective date of the Predecessor SERP was January 1, 1983.

The Company has established the Pension Plan effective as of July 1, 2006, to provide defined benefit pension benefits to eligible Employees of the Company, with respect to future service. Effective as of July 1, 2006, eligible Employees of the Company will cease accruing additional benefits under the Prior Pension Plan and the Prior SERP. It is the intent of the

Company that this Plan shall assume the liabilities of the Prior SERP as of July 1, 2006, with respect to eligible Employees of the Company, and shall provide a single, nonqualified defined benefit to eligible Employees for their pre-July 1, 2006 benefit accruals under the Predecessor SERP and their post-July 1, 2006 benefit accruals under this Plan.

It is the intent of the Company and Valero Energy Corporation ("VEC") that this Plan be maintained by the Company for the benefit of eligible Employees of the Company and that, from and after the effective date hereof, this spin-off plan and the Company shall be solely liable for all benefits due such eligible Employees under this Plan and the Predecessor SERP.

ARTICLE I

DEFINITIONS

All defined terms used in the Pension Plan shall have the same meaning for this Plan, except as otherwise set forth below.

1.1 **Accrued Benefit**. "Accrued Benefit" means, as of any given date of determination, the Retirement benefit calculated under Section 4.1 with Final Average Compensation, but with the offsets for the aggregate benefits provided under the Pension Plan and the Prior Pension Plan, and Credited Service determined as of the particular date.

1.2 **Actuarial Equivalent or Actuarially Equivalent Basis.** "Actuarial Equivalent" or "Actuarially Equivalent Basis" means an equality in value of the aggregate amounts expected to be received under different forms of payment based on the same mortality and interest rate assumptions. For this purpose, the mortality and interest rate assumptions used in computing benefits under the Pension Plan will be used. If there is no Pension Plan, then the actuarial assumptions to be used for purposes of this Plan will be those actuarial assumptions deemed appropriate by the actuarial firm, which last served as independent actuary for the Pension Plan, or such other actuarial firm determined by the Committee.

1.3 **Board of Directors.** "Board of Directors" means the Board of Directors of the Company.

1.4 **Change in Control.** "Change in Control" shall mean the occurrence of one or more of the following events:

(a) Any one person or more than one person acting as a group (a "Group") shall acquire (whether in one or more transactions) ownership of interests in the Company that, together with interests held by such person or Group, constitutes more than 50% of the total fair market value or total voting power of all interests, of the Company; or

(b) any one person or Group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or Group) ownership interests in the Company representing 35% or more of the total voting power of all such interests in the Company; or

(c) a majority of the members of the governing body of the Company (or, for purposes of this subparagraph (c), the relevant entity under the provisions of Prop. Treas. Reg. §1.409A-3(g)(5)(vi)(A)) is replaced during any 12-month period by members whose appointment or election is not endorsed by a majority of the members of the governing body of the Company prior to the date of appointment or election; or

(d) any one person or Group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or Group) assets from the Company that have a total gross fair market value equal to or more than 40% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions.

(e) A Change in Control shall also be deemed to occur if a Change in Control, as defined in (a), (b), (c) or (d) above, shall occur with respect to:

(i) the entity for which a Participant is providing services at the time of such Change in Control, or

(ii) the entity liable for paying the benefits under this Plan (or all such entities if more than one entity shall be so liable); or

(iii) an entity that is the majority holder of interests in any entity identified in (i) or (ii), or any entity in a chain of entities in which such entity is a majority holder of interests in another entity in the chain, ending in an entity identified in (i) or (ii) above.

(f) Special Rules.

(i) For purposes of calculating ownership in determining whether a Change in Control has occurred, the attribution rules of Code section 318(a) shall apply with respect to stock of a corporation, and shall be applied by analogy with respect to other types of business entities.

(ii) If, at the time of a transaction, any one person or Group is considered to own more than 50 percent of the total fair market value or total voting power of interests in the Company (or other entity), or is considered to own 35 percent or more of the total voting power of interests in the Company (or other entity), then the acquisition of additional interests in the Company or other entity shall not be treated as a Change in Control under section (a) or (b) above, as applicable.

(iii) For purposes of applying the provisions of section (d) above, a transfer of assets is not treated as a change in the ownership of such assets if the assets are transferred to:

(1) any person or Group who holds an interest in the Company, in exchange for such interest;

(2) an entity, 50% or more of the total value or voting power of which is owned, directly or indirectly, by the Company;

(3) a person or Group that owns, directly or indirectly, 50% or more of the total value or voting power of the Company; or

(4) an entity, at least 50% of the total value or voting powers of which is owned, directly or indirectly, by a person or Group described in (3) above.

In applying the provisions of this section (f)(iii), a person's status is determined immediately after the transfer of assets.

1.5 **Code.** "Code" means the Internal Revenue Code of 1986, as amended from time to time.

1.6 **Company.** "Company" means the Valero GP, LLC, or any successor by merger, purchase or otherwise.

1.7 **Committee.** "Committee" means the Benefit Plans Administrative Committee of the Company.

1.8 **Covered Compensation.** "Covered Compensation" means the average (without indexing) of the Taxable Wage Base for the 35 calendar years ending with the calendar year in which a Participant attains social security retirement age (as defined in Section 415(b)(8) of the Code). A 35-year period shall be used for all Participants regardless of the year of birth of such Participant. In determining a Participant's Covered Compensation prior to the Participant attaining social security retirement age, it shall be assumed that the Taxable Wage Base in effect at the beginning of the Plan Year in which such determination is made will remain constant for all future years.

1.9 **Credited Service.** "Credited Service" means a Participant's continuing period of employment with the Company (whether or not contiguous), commencing on the first day for which such Participant is paid, or entitled to payment, for the performance of duties with the Company and terminating with the Participant's final cessation of participation in the Plan. With respect to any full calendar year in which a Participant receives Eligible Earnings in each payroll period as an active Employee, he shall be credited with one year of Credited Service. With respect to any partial calendar year in which a Participant receives Eligible Earnings as an active Employee (such as the calendar year in which employment commences or participation ceases) he shall be credited with a fraction of a year of Credited Service, in the same proportion that the number of payroll periods during such calendar year that he received Eligible Earnings as an active Employee bears to the total number of payroll periods during such year. All partial years of Credited Service shall be aggregated so that a Participant receives credit for all periods of employment regardless of whether the Credited Service is interrupted. Credited Service shall also include, and a Participant shall be credited with, such additional periods of time, if any, as may have been agreed upon by the Participant and the Company in connection with the Participant's employment, termination or otherwise.

For Participants who: (a) are or become Employees at any time during the period beginning on the Effective Date and ending on the date that Valero Energy Corporation ceases to own (directly or indirectly) any ownership interest in the Company, and (b) immediately prior to becoming Employees, were employees of Valero Energy Company or an affiliate of Valero Energy Company, Credited Service shall also include the service credited for such Employees under the Valero Energy Corporation Pension Plan.

1.10 **Eligible Earnings.** "Eligible Earnings" means all compensation paid or payable by the Company to the employee in the form of base salary or wages and bonuses (whether paid or payable in cash or securities or any combination thereof), including therein any amounts of such base salary or wages and bonuses earned which, at the employee's election, in lieu of a cash payment to him, are contributed to a Plan of Deferred Compensation maintained by the Company, if any. During a leave of absence from work, with or without pay, such as disability leave of absence or personal leave of absence, the Participant's base rate of pay in effect immediately prior to the leave of absence and his most recent bonus amount earned shall be used in computing his Eligible Earnings.

1.11 **Final Average Compensation.** "Final Average Compensation" means a Participant's average monthly Eligible Earnings from any Company for the thirty-six consecutive calendar months that give the highest average monthly rate of Eligible Earnings for the Participant out of all calendar months next preceding the earliest of (a) the date upon which a Participant becomes ineligible for participation in this Plan pursuant to Section 2.2, (b) the latest of (i) the Participant's termination for total disability or (ii) his Separation from Service, (c) the termination of this Plan or (d) a Change in Control.

1.12 **Monthly Covered Compensation.** "Monthly Covered Compensation" means the quotient resulting from dividing Covered Compensation by 12.

1.13 **Monthly FICA Amount**. "Monthly FICA Amount" means the quotient resulting from dividing by 12 the Taxable Wage Base in effect or assumed to be in effect at the beginning of the calendar year in which a Participant attains social security retirement age (as defined in Code section 415(b)(8)).

1.14 **Normal Retirement Date.** "Normal Retirement Date" means the first day of the month coincident with or next following the date on which the Participant attains the age of 65 years.

1.15 **Participant.** "Participant" means either (a) an employee of the Company who is eligible for and is participating in the Plan or (b) a former employee of the Company who is receiving, or is eligible to receive benefits under the Plan.

1.16 **Pension Plan.** “Pension Plan” means the Valero GP, LLC Pension Plan, a defined benefit plan qualified under Section 401(a) of the Code, as it may be amended from time to time and any successor qualified defined benefit plan.

1.17 **Pension Plan Benefit.** “Pension Plan Benefit” means the amount of monthly benefit payable from the Pension Plan which (i) in the case of an unmarried Participant, is based upon a lifetime annuity payable to such Participant pursuant to the provisions of Article 4 of the Pension Plan, or any successor provision; or, (ii) in the case of a married Participant, is based upon a joint and survivor pension of Actuarially Equivalent Value to the pension otherwise payable to such Participant for life pursuant to the provisions of Article 4 of the Pension Plan or any successor provision.

1.18 **Plan.** “Plan” means the Valero GP, LLC Supplemental Executive Retirement Plan as set forth in this document, and as amended from time to time.

1.19 **Plan of Deferred Compensation.** “Plan of Deferred Compensation” means any non-qualified deferred compensation plan or arrangement, any Code section 125 cafeteria plan, or any Code section 401(k) cash or deferred arrangement maintained by the Company.

1.20 **Plan Year.** “Plan Year” means the calendar year.

1.21 **Prior Pension Plan**. “Prior Pension Plan” means the Valero Energy Corporation Pension Plan, as amended.

1.22 **Prior Pension Plan Benefit**. “Prior Pension Plan Benefit” means the amount of monthly benefit payable from the Prior Pension Plan which (i) in the case of an unmarried Participant, is based upon a lifetime annuity payable to such Participant pursuant to the provisions of Article 4 of the Prior Pension Plan, or any successor provision; or, (ii) in the case of a married Participant, is based upon a joint and survivor pension of Actuarially Equivalent Value to the pension otherwise payable to such Participant for life pursuant to the provisions of Article 4 of the Prior Pension Plan or any successor provision.

1.23 **Rules.** “Rules” means the Commercial Arbitration Rules of the American Arbitration Association in effect at the date of commencement of any arbitration hereunder.

1.24 **Securities Act.** “Securities Act” means the Securities Exchange Act of 1934, as amended from time to time.

1.25 **Separation from Service**. “Separation from Service” shall mean a separation from service as defined in Code section 409A and the regulations and rulings issued thereunder.

1.26 **Subsidiary.** “Subsidiary” means (i) any corporation 50% or more of whose stock having ordinary voting power to elect directors (irrespective of whether or not at the time stock of any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned, directly or indirectly, by the Company, and (ii) any partnership, association, joint venture or other entity in which, the Company, directly or indirectly, has a 50% or greater equity interest at the time.

1.27 **Surviving Spouse.** “Surviving Spouse” means the spouse of a Participant who is eligible to receive a Qualified Pre-retirement Survivor Annuity benefit under the Pension Plan.

1.28 **Trust.** “Trust” or “Trust Agreement” shall mean the trust, if any, created to fund benefits under the Plan pursuant to Article X.

1.29 **Trustee.** “Trustee” means collectively one or more persons or corporations with trust power which have been appointed by the Committee and have accepted the duties of Trustee of the Trust (if any) and any and all successor or successors appointed by the Company.

ARTICLE II

ELIGIBILITY

2.1 **Eligibility.** An Employee shall become a Participant in the Plan as of the date he is selected by the Committee for inclusion as a Participant in the Plan. Ongoing eligibility and participation of Participants shall be determined by the Committee in its sole discretion, and no employee shall have a right to initial or ongoing participation in this Plan. As of the Effective Date, any Employee who was a participant in the Prior SERP shall automatically become a Participant in this Plan.

2.2 **Frozen Participation.** If an Employee who is a Participant later becomes ineligible to continue to participate but still is employed by an adopting Company, his Accrued Benefit will be frozen as of the last day of the Plan Year prior to the Plan Year during which he initially became ineligible to participate. He will later be entitled to that frozen Accrued Benefit, upon his Separation from Service (if, at the time of such Separation from Service, his Accrued Benefit is vested), subject to the requirements of Articles III and IV. The frozen Accrued Benefit will be payable at the time and in the form set forth in Article IV. The Surviving Spouse of a Participant whose Accrued Benefit is frozen at the time of the Participant’s death shall not be entitled to any death benefit under this Plan. A Participant whose Accrued Benefit is frozen at the time of incurring a disability shall not accrue any further Credited Service either for accrual or vesting purposes after the disability occurs so long as the Participant’s Accrued Benefit in this Plan is frozen. If the frozen Accrued Benefit is less than the benefit which could otherwise be provided without this limitation, then the benefit will not exceed the Participant’s frozen Accrued Benefit. Additionally, if any of the events described in Article VI should occur, the Participant whose Accrued Benefit is frozen shall be subject to having his frozen Accrued Benefit either restricted in amount or forfeited in accordance with Article VI.

2.3 **Renewed Eligibility.** If an employee who is a Participant becomes ineligible to continue to participate but remains employed by an adopting Company and then later again becomes eligible to participate, the Participant will be given Credited Service for the intervening period, will have his Final Average Compensation computed as though the freeze had never occurred, and will be treated for all purposes as though he had not had his participation interrupted.

ARTICLE III

VESTING

Except as otherwise set forth herein, a Participant's Accrued Benefit shall vest pursuant to the following vesting schedule:

Participant's Years of Credited Service	Vested Percentage
Less than 5	0%
5 or more	100%

Notwithstanding the foregoing, the portion of a Participant's Accrued Benefit attributable to Credited Service attained on or after January 1, 1996, shall vest only upon the occurrence of the Participant's (i) death, (ii) Disability, or (iii) Separation from Service after the participant has attained age 55 and 5 years of Credited Service. In the event of the Participant's Separation from Service prior to attaining age 55 and 5 years of Credited Service for any reason other than death or Disability, the Participant's Accrued Benefit hereunder shall be forfeited, and, in such case, the Participant shall be eligible for benefits under the Valero GP, LLC Excess Pension Plan if, and to the extent, the Participant satisfies the eligibility criteria for benefits under such plan.

Notwithstanding the foregoing provisions, a Participant's Accrued Benefit (whether attributable to Credited Services earned prior to, on, or after January 1, 1996) shall vest upon the occurrence of a Change in Control, upon termination of the Plan pursuant to Section 9.1 or if the adopting Subsidiary employing a Participant terminates its participation in the Plan and such Participant's participation in the Plan is not promptly continued through employment by another adopting Subsidiary.

ARTICLE IV

RETIREMENT BENEFIT

4.1 **Calculation of Retirement Benefit.** Subject to the following provisions of this Section 4.1, the provisions of Section 4.3 and Article III; the monthly pension payable under the Plan shall be an amount equal to the sum of (i) plus (ii) minus (iii) where (i) equals: 1.60% of the Participant's Final Average Compensation multiplied by his number of years of Credited Service; and (ii) equals .35% multiplied by the product of his number of years of Credited Service (not to exceed 35 years) times the excess of his Final Average Compensation over the lesser of (a) 1.25 times his Monthly Covered Compensation, or (b) the Monthly FICA Amount; and (iii) equals the sum of the Participant's Pension Plan Benefit and Prior Pension Plan Benefit. In the case of an unmarried Participant the benefit shall be based on a lifetime annuity. In the case of a married Participant the benefit shall be a fifty percent (50%) Qualified Joint and Survivor Annuity pension of Actuarially Equivalent Value to the pension otherwise payable for life hereunder. The monthly pension payable under the Plan, as determined above, shall be further reduced by the equivalent amount the Pension Plan Benefit and the Prior Pension Plan Benefit are increased as a result of increases in the amount of maximum benefits payable from qualified plans in accordance with Code Section 415 or other applicable law. If a Participant's benefits commence prior to his Normal Retirement Date, the monthly pension payable to such Participant shall be determined by multiplying the monthly pension otherwise payable to him by the applicable early retirement reduction factor contained in the Pension Plan.

4.2 **Form and Time of Payment.** Benefits under the Plan shall commence upon the Participant's Separation from Service. In the event that the present lump-sum Actuarial Value of a Participant's benefit at Separation from Service is $50,000 or less, such benefit shall be paid in a single lump sum cash payment. In the event that the present lump-sum Actuarial Value of a

Participant’s benefit at Separation from Service is greater than $50,000, such benefits shall be made available to the Participant only in the form of the monthly annuity payment forms available to the Participant under the Pension Plan which are Actuarial Equivalent lifetime annuities. Any optional annuity form normally available under the Pension Plan that is coordinated with such Participant’s Social Security benefit, or is not an Actuarial Equivalent lifetime annuity, shall not be an available optional payment form under this Plan. In that regard, the Company shall furnish each Participant, on or about 180 days prior to the date on which he will have both attained age 55 and completed five years of Credited Service, or, if earlier, the date he will have attained age 65, a written explanation of (a) the terms and conditions of payment provided under the form of payments as described in the Pension Plan and the optional forms of payment which may be elected in lieu thereof; (b) the terms and conditions of payment provided under the automatic pension as described in the Pension Plan; and (c) the relative financial effect on a Participant’s total pension of an election not to take the standard and automatic pension. In addition, the Company shall also furnish each married Participant at least 120 days prior to the date his benefit is scheduled to commence under the Plan, a written statement of the amount of pension which would be payable on his behalf under the standard and automatic Qualified Joint and Survivor Annuity pension as is described in the Pension Plan; and the amount of pension otherwise payable under the available optional forms of benefit.

4.3 **Modification of Pension.** The Committee shall have the right to modify the calculation of the benefit payable as to any Participant as it may desire from time to time; provided, however, that any such modification shall not result in a reduction of the benefit payable below the amount set forth above in Section 4.1. In addition, except as expressly provided for herein, benefits payable under this Plan to any Participant shall not affect any other right or entitlement a Participant may have by contract or otherwise. In addition, the benefits payable to a Participant under this Plan may be modified by written agreement entered into between the Participant and a Company and approved pursuant to Section 7.7. If so modified, the provisions of such written agreement shall prevail in determining such Participant’s rights and benefits under this Plan.

4.4 **Delay of Certain Payments**. With respect to any Participant who is a “Specified Employee,” as defined in Code Section 409A and the regulations and rulings issued thereunder, any benefit that becomes payable by reason of such Participant’s Separation from Service shall not commence prior to the date that is six (6) months following such Participant’s Separation from Service. Upon commencement of any benefit delayed by application of this Section 4.4, the monthly benefit payable to the Participant shall be determined as of the Participant’s Separation from Service, and the first payment shall include all payments that would have otherwise becomes payable during the period of such delay. The provisions of this Section 4.4 shall not apply (a) with respect to any benefit that becomes payable due to the death of the Participant, or (b) if, at the time of such Participant’s Separation from Service, no stock of the Company is publicly traded on an established securities market or otherwise.

ARTICLE V

PRERETIREMENT SPOUSAL DEATH BENEFIT

5.1 **Death Prior to Commencement of Benefits.** In the event that a Participant dies prior to commencing payment of his benefit hereunder, the Participant's Surviving Spouse shall receive for life a Surviving Spouse benefit under the Plan, which shall continence on the first day of the month following the date of the Participant's death and shall be equal to fifty percent (50%) of the amount the Participant would have received under Section 4.1 if he had experienced a Separation from Service on his date of death and elected immediate commencement of his pension on his Separation from Service.

5.2 **Death After Commencement of Benefits**. Upon the death of a Participant at or after the date that the Participant has commenced payment of his benefit hereunder, there is no separate death benefit and the Surviving Spouse shall be entitled to receive only the survivor portion of any benefit otherwise payable, based upon the form of annuity elected by the Participant under Section 4.1.

5.3 **Beneficiary Designation Prohibited.** Since the only death benefit payable under the Plan is to a Surviving Spouse, and no Participant shall have the right to designate a beneficiary to receive death benefits hereunder.

ARTICLE VI

PROVISIONS RELATING TO ALL BENEFITS

6.1 **Effect of This Article.** The provisions of this Article will control over all other provisions of this Plan.

6.2 **Termination of Employment.** Termination of employment for any reason prior to the participant's vesting under Article III or Article V, if applicable, will cause the Participant and any Surviving Spouse to forfeit all interest in and under this Plan.

6.3 **No Duplication of Benefits.** It is not intended that there be any duplication of benefits. Therefore, in no event will a Participant and/or such Participant's Surviving Spouse qualify for a benefit under both Articles IV and V.

6.4 **Forfeiture For Cause.** If the Committee finds, after full consideration of the facts presented on behalf of both the Company and a Participant, that the Participant was discharged by a Company for fraud, embezzlement, theft, commission of a felony, proven dishonesty in the course of his employment by a Company which damaged the Company, or for disclosing trade secrets of a Company, the entire benefit accrued for the benefit of the Participant and/or his Surviving Spouse will be forfeited even though it may have been previously vested under Article III or V. The decision of the Committee as to the cause of a former Participant's discharge and the damage done to the Company will be final. No decision of the Committee will affect the finality of the discharge of the Participant by the Company in any manner. Notwithstanding the foregoing, no forfeiture should be permitted pursuant to this Section following Plan termination or a Change in Control unless pursuant to arbitration consistent with the provisions of Section 11.3.

6.5 **Forfeiture for Competition.** If at the time a distribution is being made or is to be made to a Participant, the Committee finds after full consideration of the facts presented on behalf of the Company and the Participant, that the Participant at any time within two years following his termination of employment from all Companies and without written consent of a Company, directly or indirectly owns, operates, manages, controls or participates in the ownership (other than through ownership of less than 5% of the common stock of a publicly traded entity), management, operation or control of or is employed by, or is paid as a consultant or other independent contractor by a business which competes with the Company by which he was formerly employed in a trade area served by the Company at the time distributions are being made or to be made and in which the Participant had represented the Company while employed by it; and if the Participant continues to be so engaged 60 days after written notice has been given to him, the Committee may forfeit all benefits otherwise due the Participant even though such benefit may have been previously vested under Article III or V. Notwithstanding the foregoing, no forfeiture shall be permitted pursuant to this Section following Plan termination or a Change in Control unless pursuant to arbitration consistent with the provisions of Section 11.3.

6.6 **Expenses Incurred in Enforcing the Plan.** The Company will pay a Participant for all reasonable legal fees and expenses incurred by him in successfully contesting or disputing his termination of employment by a Company or in successfully seeking to obtain or enforce any benefit provided by this Plan if such termination occurs or a benefit is payable following a Change in Control.

6.7 **No Restrictions on any Portion of Total Payments Determined to be Excess Parachute Payments.** Notwithstanding that any payment or benefit received or to be received by a Participant in connection with a Change in Control, or the termination of his employment by a Company, would not be deductible, whether in whole or in part, by a Company or any affiliated company, as a result of Section 280G of the Code, the benefits payable under this Plan shall nevertheless not be reduced.

6.8 **Benefits Upon Re-employment.** If a former employee who is receiving benefit payments under this Plan is re-employed by the Company, the payment of the benefit will continue during his period of re-employment. The re-employed former employee’s benefit will not be changed as a result of his re-employment.

ARTICLE VII

ADMINISTRATION

7.1 **Committee.** The Plan shall be administered by the Committee.

7.2 **Powers of the Committee.** The Committee will have the exclusive responsibility for the general administration of this Plan according to the terms and provisions of this Plan and will have all powers necessary to accomplish those purposes, including but not by way of limitation the right, power and authority:

(a) to make rules and regulations for the administration of this Plan;

(b) to construe all terms, provisions, conditions and limitations of this Plan;

(c) to correct any defect, supply any omission or reconcile any inconsistency that may appear in this Plan;

(d) to determine all controversies relating to the administration of this Plan, including but not limited to:

(1) differences of opinion arising between a Company and a Participant, and

(2) any question it deems advisable to determine in order to promote the uniform administration of this Plan for the benefit of all interested parties; and

(e) to delegate, without limitation, by written notice to the Company's Chief Financial Officer, the Trustee, the Committee or any other designee, powers of investment and administration as well as those clerical and recordation duties of the Committee, as it deems necessary or advisable for the proper and efficient administration of this Plan.

7.3 **Committee Discretion.** The Committee in exercising any power or authority granted under this Plan or in making any determination under this Plan may use its sole discretion and judgment. Any decision made or any act or omission, by the Committee in good faith shall be final and binding on all parties and, except as otherwise set forth in Sections 6.4, 6.5 and 7.2(d)(1), shall not be subject to *de novo* review.

7.4 **Reliance Upon Information.** The Committee will not be liable for any decision or action taken in good faith in connection with the administration of this Plan. Without limiting the generality of the foregoing, any decision or action taken by the Committee when it relies upon information supplied it by any officer of the Company, the Company's legal counsel, the Company's actuary, the Company's independent accountants or other advisors in connection with the administration of this Plan will be deemed to have been taken in good faith.

ARTICLE VIII

ADOPTION BY SUBSIDIARIES

8.1 **Procedure for and Status After Adoption.** Any Subsidiary of the Company at the date of adoption of this Plan, and any entity becoming a Subsidiary of the Company after such date of adoption, may adopt this Plan by appropriate action of its board of directors or other governing body. Any power reserved under this Plan to the Company may be exercised separately by each such Subsidiary adopting the Plan; provided, however, that (i) powers reserved under this Plan to the Board of Directors or the Committee shall be exercised only by the Board of Directors of the Company or Committee thereof and (ii) powers reserved under this Plan to the Company shall be exercised only by the Company. Each Subsidiary adopting the Plan delegates to the Company exclusive administrative responsibility for the Plan. However, the

Company may allocate the costs of Plan benefits among the Companies in any reasonable manner such that each Company shall bear the costs of participation by those Participants who are or were employees of such Company. Each Subsidiary, by adopting this Plan, and in consideration of the like undertakings of the other adopting Subsidiaries, agrees that the obligations and liabilities of the Company(ies) for the payment of benefits to any Participants (and to any person claiming through a Participant) hereunder shall be the joint and several obligation of each Subsidiary adopting the Plan, not solely of the Company employing or previously employing a Participant. Accordingly, each such adopting Subsidiary agrees that, to the extent permitted under-Section 10.4, each Participant (and any person claiming through a Participant) shall have recourse and a right of action to enforce benefits payable under this Plan against any and all Companies contemporaneously participating in the Plan during the period of such Participant's Credited Service.

8.2 **Termination of Participation By Adopting Subsidiary.** Any Subsidiary adopting this Plan may, by appropriate action of its board of directors or other governing body, terminate its participation in this Plan. The Committee may, in its discretion, also terminate a Subsidiary's participation in this Plan at any time. The termination of the participation in this Plan by a Subsidiary will not, however, affect the rights of any Participant who is working or has worked for the Subsidiary as to benefits previously vested under Article III of this Plan.

ARTICLE IX

AMENDMENT AND/OR TERMINATION

9.1 **Amendment or Termination of the Plan.** The Committee reserves the right in its sole discretion, to suspend, amend or terminate this Plan at any time or from time to time, in whole or in part for whatever reason it deems appropriate.

9.2 **No Retroactive Effect on Annual Benefits.** No amendment will affect the rights of any Participant to the Retirement benefit provided in Article IV previously accrued by the Participant or will change a Participant's rights under any provision relating to a Change in Control after a Change in Control has occurred without his consent. However, the Board of Directors retains the right at any time to change in any manner the Retirement benefit provided in Article IV but only as to accruals after the date of the amendment.

9.3 **Effect of Termination.** If this Plan is terminated, then (i) no Surviving Spouse benefit will be provided to the Surviving Spouse of a Participant dying on or after such date of termination, and no further Retirement benefit will accrue, and (ii) all Plan Participants in active employment of a Company (including Participants whose Accrued Benefit is frozen pursuant to Section 2.2) shall become fully vested. In the event of the termination of the Plan, the Accrued Benefit payable to each affected current or frozen Participant (or Surviving Spouse) shall be determined as of such date of termination and shall be paid at such time and in such form as it would be otherwise payable under the terms of the Plan.

9.4 **Effect of Change in Control.** Upon the occurrence of a Change in Control, all Accrued Benefits of all Participants shall immediately become fully vested. The Accrued Benefit of each Participant shall be paid out at such time and in such form as it would otherwise be payable under the terms of this Plan.

ARTICLE X

FUNDING

10.1 **Payments from Trust.** As set forth in Section 8.1, the Companies are jointly and severally liable to pay the benefits due under this Plan. The Companies may establish, but shall not be required to establish a Trust to provide for the funding of benefits hereunder.

10.2 **Plan May Be Funded Through Life Insurance.** It is specifically recognized that the Company may, but is not required to, purchase life insurance so as to accumulate assets sufficient to fund obligations under this Plan and that the Company may, but is not required to contribute any policy or policies it may purchase and any amount it finds desirable to the Trust or any other trust established to accumulate assets to fund obligations under this Plan. However, under all circumstances, the Participants will have no rights in or to any such policies.

10.3 **Funding of Rabbi Trust.** To the extent the Company establishes a Trust hereunder, the Company may make contributions of cash or other assets to the Trust, but shall not be required to make contributions thereto in any amount. Notwithstanding the foregoing, the Company may require that a Subsidiary adopting the Plan make contributions to the Trust in an amount sufficient to satisfy the liability accrued under the Plan to Participants while employed by such Subsidiary.

10.4 **Ownership of Assets; Release.** All policies of insurance or other assets contributed to the Trust (or to any other trust established for the purpose of funding benefits hereunder) pursuant to Sections 10.2, 10.3 or otherwise shall be contributed by the Company, and all such policies or other assets shall be owned solely by the Company immediately prior to such contribution. No Participant shall contribute policies or assets to the Trust. As an internal accounting matter, the Company may allocate liabilities under the Plan to the various Subsidiaries adopting the Plan. The Company may charge or allocate all or any part of such contributions to Subsidiaries adopting the Plan in any reasonable manner determined by the Company in accordance with generally accepted accounting principles, and may record the amounts so allocated as obligations owing among the Company and such Subsidiaries. The Company may also allocate or distribute assets received by it from the Trust pursuant to Section 10.5 hereof to such Subsidiaries in any reasonable manner determined by the Company in accordance with generally accepted accounting principles. However, notwithstanding the fact that a Subsidiary may be deemed to have a claim against the Company with respect to such contributions or distributions, no Subsidiary shall at any time own or be deemed to own or have any contingent, reversionary or other beneficial interest in any portion of the policies and other assets held in the Trust or any claim, against the Trustee or otherwise, with respect thereto. Each Subsidiary, in consideration of the mutual covenants herein contained, for itself, its successors, assigns, representatives, administrators, trustees and other persons claiming by, through or under such Subsidiary, hereby irrevocably and forever releases and relinquishes (i) any and all rights, claims and interests (beneficial, reversionary, actual, contingent or otherwise), known or unknown, asserted or unasserted, which it has or may have, or may hereafter have, in or with respect to the Trust, the Trust Fund (as such term is defined in the Trust Agreement) and the policies and assets now or hereafter from time to time contributed or contributable thereto, held therein or thereby, or distributable therefrom or thereby, and (ii) any claim, demand, action or cause of action whatsoever which it has or may have, or may hereafter have, against the Trustee, its successors or assigns, with respect thereto.

10.5 **Reversion of Excess Assets.** Assets held pursuant to the Trust shall not be loaned to any Company. However, the Company may, at any time, request the actuary who last performed the annual actuarial valuation of the Pension Plan to determine the Actuarial Equivalent of the Accrued Benefits, assuming the Accrued Benefits to be fully vested (whether they are or not), as of the end of the Plan Year coincident with or last preceding the request, of all Participants and Surviving Spouses of deceased Participants for which the Company is or will be obligated to make payments under this Plan. If the fair market value of the assets held in the Trust, as determined by the Trustee as of that same date, exceeds the Actuarial Equivalent of the Accrued Benefits of all such Participants and Surviving Spouses by not less than 25%, then the Company may direct the Trustee to return to the Company that part of the assets which is in excess of 125% of the Actuarial Equivalent of the Accrued Benefits. If the Plan has terminated, all assets held in the Trust following the distribution of all Accrued Benefits under the Plan shall revert to the Company.

10.6 **Participants Must Rely Only on General Credit of the Companies.** The provisions of Sections 10.2 and 10.3 notwithstanding, it is specifically recognized by the Company and the Participants that this Plan is an unsecured corporate commitment and that each Participant (and any Surviving Spouse or other person claiming through a Participant) must rely upon the general credit of the Company for the fulfillment of its obligations under this Plan. Nothing contained in this Plan or in the Trust Agreement will constitute a representation, covenant or guarantee by the Company that the policies and assets transferred to the Trust (or any other trust established for the purpose of funding benefits hereunder) or the general assets of the Company will be sufficient to pay any or all benefits under this Plan Neither this Plan nor the Trust creates any secured or priority position, preferential right, lien, claim, encumbrance, right, title or other interest of any kind in any Participant in any policy or other asset held by the Company, contributed to the Trust (or any other trust established for the purpose of funding benefits hereunder) or otherwise designated to be used for payment of any obligations created in this Plan. No policy or other specific asset of the Company has otherwise been or will be set aside, or has been or will be pledged in any way for the performance of obligations under this Plan, which would remove the policy or asset from being subject to the claims of the general creditors of the respective Company. The Trust Agreement (and any other agreement entered into to fund obligations under this Plan) shall specify that, with respect to their benefits under this Plan, the Participants (and any Surviving Spouse or other person claiming through a Participant) are only unsecured general creditors.

ARTICLE XI

MISCELLANEOUS

11.1 **Responsibility for Distributions and Withholding of Taxes.** The Company shall calculate the amount of any distribution payable to a Participant hereunder, and the amounts of any deductions required with respect to federal, state or local tax withholding, and shall withhold or cause the same to be withheld. However, any and all taxes payable with respect to any distribution or benefit hereunder shall be the sole responsibility of the Participant, not of the Company or any Company, whether or not the Company or any Company shall have withheld or collected from the Participant any sums required to be so withheld or collected in respect thereof and whether or not any sums so withheld or collected shall be sufficient to provide for any such taxes. Without limitation of the foregoing, and except as may otherwise be provided in any separate employment, severance or other agreement between the Participant and any Company, the individual Participant or Surviving Spouse, as the case may be, shall be solely responsible for payment of any excise, income or other tax imposed (i) upon any payment hereunder which may be deemed to constitute an "excess parachute payment" pursuant to Section 4999 of the Code, or (ii) based upon any theory of "constructive receipt" of any lump-sum or other amount hereunder.

11.2 **Limitation of Rights.** Nothing in this Plan will be construed:

(a) to give a Participant or other person claiming through him any right with respect to any benefit except in accordance with the terms of this Plan or an agreement modifying rights under this Plan;

(b) to limit in any way the right of the Company to terminate a Participant's employment with the Company at any time;

(c) to evidence any agreement or understanding, expressed or implied, that the Company will employ a Participant in any particular position or for any particular remuneration; or

(d) to give a Participant or any other person claiming through him any interest or right under this Plan other than that of any unsecured general creditor.

11.3 **Resolution of Disputes.** It is agreed that any and all disputes, claims, (whether tort, contract, statutory or otherwise) and/or controversies which relate in any manner to the Plan shall, subject to the provisions of Article VII, be submitted to the Company's established dispute resolution program applicable to employees generally.

11.4 **Distributions to Incompetents.** Should a Participant or a Surviving Spouse be incompetent at the time any payment is due hereunder, as determined by the Committee in its sole discretion, the Company is authorized to make such payment to the guardian or conservator of the incompetent Participant or Surviving Spouse or directly to the Participant or Surviving Spouse or to apply those funds for the benefit of the incompetent Participant or Surviving Spouse in any manner the Committee determines in its sole discretion.

11.5 **Nonalienation of Benefits.** No right or benefit provided in this Plan will be transferable by the Participant, except upon his death to a Surviving Spouse as provided in this Plan. No right or benefit under this Plan will be subject to anticipation, alienation, sale, assignment, pledge, encumbrance or charge, and any attempt to anticipate, alienate, sell, assign, pledge, encumber, or charge the same will be void. No right or benefit under this Plan will in any manner be liable for or subject to any debts, contracts, liabilities or torts of the person entitled to such benefits. If any Participant or any Surviving Spouse becomes bankrupt or attempts to anticipate, alienate, sell, assign, pledge, encumber or charge any right or benefit under this Plan, that right or benefit will, in the discretion of the Committee, cease. In that event, the Committee may have the Company hold or apply the right or benefit or any part of it to the benefit of the Participant or Surviving Spouse, his or her spouse, children or other dependents or any of them in any manner and in any proportion the Committee believes to be proper in its sole and absolute discretion, but is not required to do so.

11.6 **Severability.** If any term, provision, covenant or condition of this Plan is held to be invalid, void or otherwise unenforceable, the rest of this Plan will remain in full force and effect and will in no way be affected, impaired or invalidated.

11.7 **Notice.** Any notice or filing required or permitted to be given to a Company, the Committee or a Participant will be sufficient if in writing and hand delivered or sent by U.S. mail to the principal office of the Company, acting on behalf of the Company or Committee, or to the residential mailing address of the Participant. Notice will be deemed to be given as of the date of hand delivery or if delivery is by mail, as of the date shown on the postmark.

11.8 **Gender and Number.** If the context requires it, words of one gender when used in this Plan will include the other gender, and words used in the singular or plural will include the other.

11.9 **Governing Law.** The Plan will be construed, administered and governed in all respects by the laws of the State of Texas.

11.10 **Effective Date.** This Plan will be operative and effective on July 1, 2006.

[THE REMAINDER OF THE PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Company has executed this document on this 1st day of August, 2006, to be effective as of July 1, 2006.

VALERO GP, LLC

By /s/ Steven A. Blank
Steven A. Blank, Chairman
Benefit Plans Administrative Committee

Exhibit 12.01

VALERO L.P.
STATEMENT OF COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Thousands of Dollars, Except Ratio)

	Six Months Ended June 30,	Year Ended December 31,				
	2006	2005	2004	2003	2002	2001
Earnings:						
Income from continuing operations before provision for income taxes and income from equity investees	$ 70,942	$110,069	$77,074	$67,177	$52,350	$42,694
Add:						
Fixed charges	36,712	46,211	21,625	16,443	5,492	4,203
Amortization of capitalized interest	55	80	60	55	48	39
Distributions from joint ventures	2,561	4,657	1,373	2,803	3,590	2,874
Less: Interest capitalized	(800)	(1,008)	(192)	(123)	(255)	(298)
Total earnings	$109,470	$160,009	$99,940	$86,355	$61,225	$49,512
Fixed charges:						
Interest expense (1)	$ 33,113	$ 41,616	$20,630	$15,291	$ 4,968	$ 3,721
Amortization of debt issuance costs	360	622	407	740	160	90
Interest capitalized	800	1,008	192	123	255	298
Rental expense interest factor (2)	2,439	2,965	396	289	109	94
Total fixed charges	$ 36,712	$ 46,211	$21,625	$16,443	$ 5,492	$ 4,203
Ratio of earnings to fixed charges	3.0x	3.5x	4.6x	5.3x	11.1x	11.8x

(1) The “interest and other expense, net” reported in Valero L.P.’s consolidated statements of income for the six months ended June 30, 2006 and the year ended December 31, 2005 includes investment income of $1,173,000 and $850,000, respectively and includes other income (expense) of ($41,000) and ($2,237,000), respectively.

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

Exhibit 31.01

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

I, Curtis V. Anastasio, certify that:

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

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

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

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-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: August 8, 2006

/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, certify that:

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

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

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

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-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: August 8, 2006

/s/ Steven A. Blank

Steven A. Blank
Senior Vice President, Chief Financial Officer and Treasurer

Exhibit 32.01

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

In connection with the Quarterly Report of Valero L.P. (the Partnership) on Form 10-Q for the quarter ended June 30, 2006, 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, the general partner of the general partner of the Partnership, 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
August 8, 2006

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

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

In connection with the Quarterly Report of Valero L.P. (the Partnership) on Form 10-Q for the quarter ended June 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Steven A. Blank, Senior Vice President, Chief Financial Officer and Treasurer of Valero GP, LLC, the general partner of the general partner of the Partnership, 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, Chief Financial Officer and Treasurer
August 8, 2006

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.