

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

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported):  
NOVEMBER 1, 2004

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

DELAWARE  
(State or other  
jurisdiction  
of incorporation)

1-16417  
(Commission File Number)

74-2956831  
(IRS Employer  
Identification No.)

ONE VALERO WAY  
SAN ANTONIO, TEXAS  
(Address of principal executive offices)

78249  
(Zip Code)

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

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

ITEM 7.01 REGULATION FD DISCLOSURE

On November 1, 2004, Valero L.P., a Delaware limited partnership, announced that it has entered into agreements to acquire Kaneb Pipe Line Partners, L.P., a Delaware limited partnership, and Kaneb Services LLC, a Delaware limited liability company.

A copy of the press release announcing the transaction is furnished with this report as Exhibit 99.1, and a copy of the investor presentation relating to the transaction is furnished with this report as Exhibit 99.2, and are incorporated herein by reference.

The information in this report is being furnished, not filed, pursuant to Item 7.01 of Form 8-K. Accordingly, the information in this report, including the press release and the investor presentation, will not be incorporated by reference into any registration statement filed by the Company under the Securities Act of 1933, as amended, unless specifically identified therein as being incorporated therein by reference.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS.

(c) Exhibits.

99.1 Press Release Announcing the Transaction dated November 1, 2004.



SIGNATURE

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 hereunto duly authorized.

VALERO L.P.

By: Riverwalk Logistics, L.P.  
Valero L.P.'s general partner

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

Date: November 1, 2004

By: /s/Bradley C. Barron

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Name: Bradley C. Barron  
Title: Corporate Secretary

VALERO L.P. TO ACQUIRE KANEB SERVICES LLC  
AND KANEB PIPE LINE PARTNERS, L.P.

NEW PARTNERSHIP TO BE LARGEST TERMINAL OPERATOR AND SECOND LARGEST  
PETROLEUM LIQUIDS PIPELINE OPERATOR IN NATION

SAN ANTONIO, November 1, 2004 -- Valero L.P. (NYSE: VLI), Kaneb Services LLC (NYSE: KSL) and Kaneb Pipe Line Partners, L.P. (NYSE: KPP) today announced that they have executed definitive agreements to merge Valero L.P. and Kaneb Partners to become the largest terminal operator and second largest petroleum liquids pipeline operator in the United States. As part of the transaction, Valero L.P. will also acquire all of Kaneb Services' equity securities for cash. The general partner of the combined partnership will continue to be owned by affiliates of Valero Energy Corporation (NYSE: VLO). Kaneb Services and Kaneb Partners will become wholly owned subsidiaries of Valero L.P.

The assets of the combined partnership, which will retain the name Valero L.P., will include approximately 9,700 miles of pipeline comprised of approximately 6,900 miles of refined product pipelines, 800 miles of crude oil pipelines and a 2,000-mile anhydrous ammonia pipeline. The combined partnership will also own 101 terminal facilities located in 30 states, Canada, Mexico, the Netherlands Antilles, Australia, New Zealand and the United Kingdom, as well as four crude oil storage tank facilities. The combined system will have approximately 85 million barrels of storage capacity.

"We're excited to bring together two of the best pipeline and terminal operators in the country to form one of the premier mid-stream logistics partnerships in the world," said Curt Anastasio, President and Chief Executive Officer of Valero L.P. "The combined entity will be in a much better strategic position with stronger, more diversified operations, increased earnings stability and a terrific platform for future growth. Our relationship with our general partner, Valero Energy, will continue to be of significant benefit to Valero L.P. going forward given that Valero Energy is the largest independent refining company in the United States and is committed to further expanding its operations.

"This is a great transaction for our investors. Upon closing of the merger, we intend to recommend to our board of directors an increase in the annual distribution from \$3.20 per unit to \$3.42 per unit, which would represent a nearly 7 percent increase. In addition, we expect this transaction will be significantly accretive to cash flow and will position us well for further distribution increases. With our combined operations, we see outstanding opportunities to increase unitholder value through a wider array of growth opportunities than either partnership had independently. And, we are fortunate to be adding key members from Kaneb's high-quality management team and its workforce, who are among the best in the industry," said Anastasio.

-More-

The total value of the transaction is approximately \$2.8 billion and is expected to close in the first quarter of 2005. The completion of the merger is subject to the approval of the unitholders of Valero L.P. and Kaneb Partners and the shareholders of Kaneb Services as well as customary regulatory approvals including those under the Hart-Scott-Rodino Antitrust Improvements Act.

Under the terms of the agreement, Valero L.P. will acquire all of the equity securities of Kaneb Services in a fixed cash merger for \$525 million, or \$43.31 per share. In addition, each unitholder of Kaneb Partners will receive a number of Valero L.P. common units based on an exchange ratio formula providing Valero L.P. common units worth \$61.50 per Kaneb Partners common unit within a specified "collar" range of Valero L.P. common unit market prices (plus or minus five percent of \$57.25, the Valero L.P. common unit price as of October 7, 2004), measured over a period prior to closing. Should Valero L.P.'s average per unit price during the measurement period be below \$54.39 per unit, the exchange ratio will be fixed at 1.1307 Valero L.P. common units for each Kaneb Partners unit. Should Valero L.P.'s average per unit price during the measurement period exceed \$60.11 per unit, the exchange ratio will be fixed at 1.0231 Valero L.P. common units for each Kaneb Partners unit.

"This transaction will bring tremendous advantages to Kaneb investors," said John Barnes, Chairman and Chief Executive Officer of Kaneb Services. "The combination of the transaction's favorable exchange ratio and the premium at which Valero L.P. units are trading represents a substantial increase in market value for Kaneb Partners' unitholders. Kaneb Services shareholders will receive cash that also represents a substantial premium to current market value. We have created significant value over the years in the Kaneb companies and we believe this transaction provides an outstanding opportunity to our investors."

"Through the additional Valero L.P. units they will receive, Kaneb Partners' unitholders will have the opportunity to receive larger cash distributions and participate in the outstanding growth prospects represented by the combined

partnership," said Ed Doherty, President and Chief Executive Officer of Kanab Pipe Line Company, Kanab Partners' general partner.

Following the merger, Bill Greehey will remain Chairman of the Board of the general partner and Curt Anastasio will continue to serve as President and Chief Executive Officer of Valero L.P. The combined partnership will be headquartered in San Antonio, Texas.

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The board of directors of Valero L.P., Kaneb Services and Kaneb Partners have all approved the terms of the proposed transaction. Credit Suisse First Boston and Citigroup are serving as financial advisors to Valero L.P. Raymond James and Associates is serving as financial advisor to the special committee of the Kaneb Services board of directors and Houlihan, Lokey, Howard and Zukin is serving as financial advisor to the special committee of the board of the general partner of Kaneb Partners.

Valero L.P. and Kaneb will host a conference call at 10:00 a.m. ET (9:00 a.m. CT) today, November 1, 2004, to discuss this transaction. Anyone interested in listening to the presentation can call 800/901-5218, passcode VALERO, or visit the partnership's web site at [www.valerolp.com](http://www.valerolp.com). In addition, further information about the transaction is provided in a management presentation posted to the Valero L.P. website.

Valero L.P. owns and operates crude oil and refined product pipelines, refined product terminals and refinery feedstock storage assets primarily in Texas, New Mexico, Colorado, Oklahoma and California. The partnership transports refined products from Valero Energy's refineries to established and growing markets in the Mid-Continent, Southwest and the Texas-Mexico border region of the United States. In addition, its pipelines, terminals and storage facilities primarily support eight of Valero Energy's key refineries with crude oil and other feedstocks as well as provide access to domestic and foreign crude oil sources. For more information, visit Valero L.P.'s web site at [www.valerolp.com](http://www.valerolp.com).

Kaneb is a single business represented by two separate publicly traded entities on the New York Stock Exchange. Kaneb's business is focused on mid-stream energy assets -- refined petroleum product pipelines, and petroleum and specialty liquids storage and terminaling facilities. Kaneb is a major transporter of refined petroleum products in the Midwest and is the second largest independent liquids terminaling company in the world. Worldwide operations include facilities in 29 states, Canada, the Netherlands Antilles, Australia, New Zealand and the United Kingdom. Its publicly traded entities are Kaneb Services LLC (NYSE:KSL) and Kaneb Pipe Line Partners, L.P., (NYSE: KPP). For more information, visit [www.kaneb.com](http://www.kaneb.com).

-More-

## INVESTOR NOTICE

Valero L.P., Kaneb Services and Kaneb Partners will file a proxy statement and/or a joint proxy statement/prospectus and other documents with the Securities and Exchange Commission. Investors and security holders are urged to read carefully these documents when they become available because they will contain important information regarding Valero L.P., Kaneb Services, Kaneb Partners and the merger. A definitive proxy statement and/or joint proxy statement/prospectus will be sent to security holders of Valero L.P., Kaneb Services, and Kaneb Partners seeking their approval of the transactions contemplated by the merger agreements. Investors and security holders may obtain a free copy of the proxy statement and/or joint proxy statement/prospectus (when available) and other documents containing information about Valero L.P., Kaneb Services, and Kaneb Partners, without charge, at the SEC's web site at [www.sec.gov](http://www.sec.gov). Copies of the proxy statement and/or definitive joint proxy statement/prospectus and the SEC filings that will be incorporated by reference in the joint proxy statement/prospectus may also be obtained free of charge by directing a request to Kaneb Services or the respective partnerships.

Valero L.P., Kaneb Services, Kaneb Partners, and the officers and directors of Kaneb Services and of the respective general partners of Valero L.P. and Kaneb Partners may be deemed to be participants in the solicitation of proxies from their security holders. Information about these persons can be found in Valero L.P.'s, Kaneb Services', and Kaneb Partners' respective Annual Reports on Form 10-K filed with the SEC, and additional information about such persons may be obtained from the proxy statement and/or joint proxy statement/prospectus when available.

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS - VALERO L.P.

THIS PRESS RELEASE INCLUDES FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE SECURITIES LITIGATION REFORM ACT OF 1995 REGARDING FUTURE EVENTS AND THE FUTURE FINANCIAL PERFORMANCE OF VALERO L.P.. ALL FORWARD-LOOKING STATEMENTS ARE BASED ON THE PARTNERSHIP'S BELIEFS AS WELL AS ASSUMPTIONS MADE BY AND INFORMATION CURRENTLY AVAILABLE TO THE PARTNERSHIP. THESE STATEMENTS REFLECT THE PARTNERSHIP'S CURRENT VIEWS WITH RESPECT TO FUTURE EVENTS AND ARE SUBJECT TO VARIOUS RISKS, UNCERTAINTIES AND ASSUMPTIONS. THESE RISKS, UNCERTAINTIES AND ASSUMPTIONS ARE DISCUSSED IN VALERO L.P.'S 2003 ANNUAL REPORT ON FORM 10-K AND SUBSEQUENT FILINGS MADE WITH THE SECURITIES AND EXCHANGE COMMISSION.

-More-

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS - KANEB

CERTAIN OF KANEB'S STATEMENTS IN THIS PRESS RELEASE ARE NOT PURELY HISTORICAL, AND AS SUCH ARE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. THESE INCLUDE STATEMENTS REGARDING MANAGEMENT'S INTENTIONS, PLANS, BELIEFS, EXPECTATIONS OR PROJECTIONS OF THE FUTURE. FORWARD-LOOKING STATEMENTS INVOLVE RISKS AND UNCERTAINTIES, INCLUDING WITHOUT LIMITATION, THE VARIOUS RISKS INHERENT IN KANEB'S BUSINESS, AND OTHER RISKS AND UNCERTAINTIES DETAILED FROM TIME TO TIME IN KANEB'S PERIODIC REPORTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. ONE OR MORE OF THESE FACTORS HAVE AFFECTED, AND COULD IN THE FUTURE AFFECT, KANEB'S BUSINESS AND FINANCIAL RESULTS IN FUTURE PERIODS, AND COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM PLANS AND PROJECTIONS. THERE CAN BE NO ASSURANCE THAT THE FORWARD-LOOKING STATEMENTS MADE IN THIS DOCUMENT WILL PROVE TO BE ACCURATE, AND ISSUANCE OF SUCH FORWARD-LOOKING STATEMENTS SHOULD NOT BE REGARDED AS A REPRESENTATION BY KANEB, OR ANY OTHER PERSON, THAT THE OBJECTIVES AND PLANS OF KANEB WILL BE ACHIEVED. ALL FORWARD-LOOKING STATEMENTS MADE IN THIS PRESS RELEASE ARE BASED ON INFORMATION PRESENTLY AVAILABLE TO MANAGEMENT, AND KANEB ASSUMES NO OBLIGATION TO UPDATE ANY FORWARD-LOOKING STATEMENTS.



ACQUISITION OF  
KANEK SERVICES, LLC &  
KANEK PIPE LINE PARTNERS, L.P.

NOVEMBER 1, 2004

VALERO L.P. FORWARD LOOKING STATEMENTS

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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VALERO LP LOGO 2

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KANEB FORWARD LOOKING STATEMENTS

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INVESTOR NOTICE

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Valero LP, Kaneb Services, Kaneb Partners, and the officers and directors of Kaneb Services and of the respective general partners of Valero LP and Kaneb Partners may be deemed to be participants in the solicitation of proxies from their security holders. Information about these persons can be found in Valero LP's, Kaneb Services', and Kaneb Partner's respective Annual Reports on Form 10-K filed with the SEC, and additional information about such persons may be obtained from the proxy statement/prospectus when it becomes available.

VALERO LP LOGO 4

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MANAGEMENT PRESENTATION

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CURT ANASTASIO - PRESIDENT AND CEO,  
VALERO L.P.

ED DOHERTY - CHAIRMAN AND CEO,  
KANE PIPE LINE PARTNERS, L.P.

STEVE BLANK - CFO,  
VALERO, L.P.

VALERO LP LOGO 5  
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TRANSACTION SUMMARY

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- 0 VALERO LP (NYSE: VLI) TO ACQUIRE KANEB SERVICES (NYSE: KSL)  
AND KANEB PIPE LINE PARTNERS (NYSE: KPP) FOR \$2.8 BILLION
- 0 VLI WILL ACQUIRE KSL FOR \$43.31 CASH PER SHARE
- 0 VLI WILL ACQUIRE KPP FOR \$61.50 PER UNIT, SUBJECT TO A FIXED  
VALUE COLLAR OF +/- 5%
- 0 UPON CLOSING, VALERO ENERGY (NYSE: VLO) WILL CONTINUE TO OWN  
100% OF THE GP OF VLI AND 21% OF THE COMMON UNITS
- 0 UPON CLOSING, VLI INTENDS TO RECOMMEND AN INCREASE IN ITS  
COMMON UNIT DISTRIBUTION TO \$3.42 PER UNIT
- 0 EXPECT TRANSACTION TO CLOSE IN THE 1ST QUARTER 2005

VALERO LP LOGO 6

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STRATEGIC RATIONALE

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- 0 CREATES THE LARGEST TERMINAL OPERATOR AND 2ND LARGEST PETROLEUM LIQUIDS PIPELINE OPERATOR IN THE U.S.
- 0 TRANSACTION IS EXPECTED TO BE CASH FLOW ACCRETIVE TO BOTH VLI AND KPP UNITHOLDERS
- 0 EXPECT TO ACHIEVE AT LEAST \$25 MILLION IN SYNERGIES
- 0 GREATLY EXPANDS GEOGRAPHIC PRESENCE AND ENHANCES GROWTH PROSPECTS
- 0 DIVERSIFIES VLI'S CUSTOMER BASE
- 0 RELATIONSHIP WITH VALERO ENERGY CREATES ADDITIONAL OPPORTUNITIES

VALERO LP LOGO 7

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THE COMBINED ENTERPRISE

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- 0 CREATES ONE OF THE LARGEST MLPS WITH AN ENTERPRISE VALUE OF APPROXIMATELY \$4.3 BILLION
- 0 COMBINED ENTITY WILL OPERATE AROUND 9,700 MILES OF REFINED PRODUCT AND CRUDE PIPELINES
- 0 101 TERMINALS WITH APPROX. 85 MILLION BARRELS OF STORAGE CAPACITY
- 0 COMBINED PARTNERSHIP EXPECTED TO BE RATED INVESTMENT GRADE BY MOODY'S AND S&P
- 0 BILL GREEHEY WILL REMAIN CHAIRMAN OF THE BOARD AND CURT ANASTASIO WILL REMAIN PRESIDENT AND CEO
- 0 HEADQUARTERED IN SAN ANTONIO

VALERO LP LOGO 8

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KANEB OVERVIEW

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- 0 KANEB OPERATES AS A SINGLE BUSINESS REPRESENTED BY TWO NYSE COMPANIES
  - 0 KANEB SERVICES LLC ("KSL") - OWNS THE GENERAL PARTNER
  - 0 KANEB PIPE LINE PARTNERS ("KPP") - THE MASTER LIMITED PARTNERSHIP
- 0 KPP OWNS AND OPERATES MID-STREAM ENERGY ASSETS CONSISTING PRIMARILY OF REFINED PETROLEUM PRODUCTS AND AMMONIA PIPELINES, PETROLEUM AND SPECIALTY LIQUIDS STORAGE AND TERMINALING FACILITIES
  - 0 PIPELINE OPERATIONS
    - 0 FOUR PIPELINE SYSTEMS IN MID-WESTERN UNITED STATES
    - 0 OVER 5,000 MILES OF PIPELINE
    - 0 25 PIPELINE TERMINALS, APPROX. 7.7 MILLION BARRELS OF STORAGE
  - 0 TERMINAL OPERATIONS
    - 0 54 FACILITIES WITH APPROX. 60 MILLION BARRELS OF STORAGE
  - 0 PRODUCT SALES OPERATIONS
    - 0 DELIVER BUNKER FUEL TO SHIPS IN THE CARIBBEAN AND NOVA SCOTIA, CANADA



KANEB SYSTEM OVERVIEW

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[GRAPH]

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LEGEND

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- Kaneb Terminals
  - Kaneb North Pipeline System
  - Kaneb East Pipeline System
  - Kaneb West Pipeline System
  - Kaneb Ammonia Pipeline System
- 

KEY STATISTICS:

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- 3,080 MILES OF REFINED PRODUCT PIPELINES
  - 2,000 MILE AMMONIA PIPELINE
  - 54 TERMINAL FACILITIES WITH APPROX. 60 MILLION BARRELS OF STORAGE
  - 25 ASSOCIATED PIPELINE TERMINALS WITH APPROX. 7.7 MILLION BARRELS OF STORAGE
-

BENEFITS TO KANEB INVESTORS

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- 0 OFFER REPRESENTS A 38% PREMIUM TO KSL SHAREHOLDERS
- 0 OVER 20% PREMIUM TO KPP UNITHOLDERS
  - 0 KPP UNITHOLDERS ALSO EXPECTED TO REALIZE A 9% INCREASE IN THEIR TOTAL DISTRIBUTION
- 0 GOING FORWARD, KPP UNITHOLDERS TO BENEFIT FROM:
  - 0 BROADER GEOGRAPHIC PLATFORM AND BETTER DIVERSITY OF OPERATIONS
  - 0 LOWER GP SPLIT MEANS MORE CASH AVAILABLE TO LPS
  - 0 LOWER COST OF CAPITAL
  - 0 SIGNIFICANT SYNERGIES
  - 0 IMPROVED PLATFORM FOR GROWTH
    - 0 GROWTH OPPORTUNITIES WITH THE LEADING INDEPENDENT REFINING COMPANY IN NORTH AMERICA

[GRAPH]

LEGEND:

- Refined Product Pipelines
  - Crude Oil Pipelines
  - Liquified Petroleum Gas Pipeline
  - Hydrogen Pipeline
  - Refined Product Terminals
  - Nuevo Laredo Propane Terminal
  - Crude Oil Storage Tanks
  - Bulk Feedstock Storage Facilities
  - Valero Energy Refineries
- 

KEY STATISTICS:

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- 3,800 MILES OF REFINED PRODUCT PIPELINES
  - 800 MILES OF CRUDE OIL PIPELINES
  - 22 TERMINALS WITH 4.5 MILLION BARRELS OF REFINED PRODUCT STORAGE CAPACITY
  - 4 PRIMARY CRUDE OIL STORAGE TANK FACILITIES WITH 12.6 MILLION BARRELS OF CRUDE OIL STORAGE CAPACITY
-

COMBINED OPERATIONS

[GRAPH]

LEGEND

Valero Corp. Refineries  
Valero LP Pipelines  
Valero LP Refined Product Terminals  
Valero LP Crude Tanks  
Kaneb Terminals  
Kaneb North Pipeline System  
Kaneb East Pipeline System  
Kaneb West Pipeline System  
Kaneb Ammonia Pipeline System

PRO FORMA KEY STATISTICS:

AROUND 9,700 MILES OF CRUDE AND REFINED PRODUCT PIPELINE  
101 TERMINAL FACILITIES AND 4 CRUDE OIL STORAGE TANKS WITH  
AROUND 85 MILLION BARRELS OF STORAGE

COMBINED PIPELINE OPERATIONS

[GRAPH]

KANEB NORTH PIPELINE SYSTEM

KANEB EAST PIPELINE SYSTEM

KANEB WEST PIPELINE

KANEB AMMONIA PIPELINE

VLI PIPELINE SYSTEM

LEGEND

- Valero Corp. Refineries
- Valero LP Pipelines
- Valero LP Refined Product Terminals
- Valero LP Crude Tanks
- Kanab Terminals
- Kanab North Pipeline System
- Kanab East Pipeline System
- Kanab West Pipeline System
- Kanab Ammonia Pipeline System

COMBINED TERMINAL OPERATIONS

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[GRAPH]

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LEGEND

Kaneb Terminals

Valero LP Refined Product Terminals

Valero Corp. Refineries

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VALERO LP LOGO 15

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BETTER EARNINGS DIVERSITY

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PERCENT OF OPERATING INCOME BY SEGMENT

VLI  
[PIE CHART]

COMBINED OPERATIONS<sup>1</sup>  
[PIE CHART]

KPP1  
[PIE CHART]

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PIPELINE OPERATIONS                       TERMINAL OPERATIONS  
 CRUDE OIL STORAGE TANKS                       PRODUCT SALES OPERATIONS

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1 EXCLUDES OPERATING INCOME OF MARTIN OIL, A MARKETING SUBSIDIARY OF KSL.  
NOTE: PERCENTAGE OF TOTAL OPERATING INCOME IS FOR THE NINE  
MONTHS ENDED SEPTEMBER 30, 2004

VALERO LP LOGO 16

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LESS DEPENDENCE ON ONE CUSTOMER

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PRE-MERGER  
CUSTOMER BASE

[PIE CHART]

VALERO ENERGY 98%

THIRD PARTIES 2%

PRO FORMA POST-MERGER  
CUSTOMER BASE<sup>1</sup>

[PIE CHART]

VALERO ENERGY  
26%

THIRD PARTIES  
74%

0 DEPENDENCE ON MCKEE SYSTEM REDUCED FROM 40% TO 15% OF EBITDA

1 EXCLUDES REVENUE OF MARTIN OIL, A MARKETING SUBSIDIARY OF KSL.  
NOTE: PERCENTAGES BASED ON TOTAL REVENUES FOR THE NINE MONTHS  
ENDED SEPTEMBER 30, 2004



FINANCIAL HIGHLIGHTS

(Dollars in 000s, except per unit amounts)

	VALERO L.P. YTD 9/30/04	KANEB PARTNERS YTD 9/30/04
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NET INCOME APPLICABLE TO LPS	\$54,612	\$59,883
EPU	\$2.37	\$2.11
EBITDA	\$99,229	\$144,035
DISTRIBUTABLE CASH FLOW	\$76,690	\$91,804
DISTRIBUTABLE CASH FLOW APPLICABLE TO LIMITED PARTNERS	\$67,942	\$83,768
DISTRIBUTION PAID TO LIMITED PARTNERS	\$55,299	\$72,219
COVERAGE RATIO APPLICABLE TO LPS	1.23X	1.16X
DEBT-TO-CAPITALIZATION	47.4%	57.9%

FINANCING PLAN

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(DOLLARS IN MILLIONS)

SOURCES OF FUNDS:

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Valero L.P. common unit exchange <sup>1</sup>	\$1,422
New debt issuance	550
Less: cash assumed	(79)
Debt assumed at book value	686
Debt assumed FV write-up	44
Other liabilities assumed	180
Valero Energy capital contribution to maintain 2% GP	28 ---
TOTAL SOURCES	\$2,831 =====

USES OF FUNDS:

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Current Assets	\$112
Property, Plant & Equipment	1,681
Other Assets	34
Goodwill & other intangible assets	1,004
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TOTAL USES	\$2,831 =====

1 Assuming exchange at mid-point of fixed value collar

PRO FORMA ASSUMPTIONS

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Closing Date: Assumed at December 31, 2004

Forecast: 2004: Based on 9 mos. actuals and 4th quarter forecasts for each entity  
2005: Internal forecasts for each entity

Distribution: GP's incentive distribution limited to 25%. Adopt Kaneb's distribution of \$3.42 per unit. Distributable cash flow accretion calculated assuming distribution of all distributable cash flow.

Synergies: \$25 million per year

Units Outstanding: 47.9 million units outstanding pro forma

Fixed Value Collar: Baseline value set at \$61.50 and exchange ratio of 1.074 VLI units for each KPP unit

Interest Rates: Interest rate on new term debt at 6.5%  
Interest rate on revolving credit debt at 4%

Debt Assumption/Refinancing: VLI will assume KPP's public debt and refinance bank debt

KSL Purchase: To be paid in cash and debt-financed by VLI in either the public or bank market

PRO FORMA STATISTICS

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- 0 EXPECTED SYNERGIES OF \$25 MILLION TO COME FROM . . .
  - 0 TERMINAL OPERATIONS - \$6 MILLION
  - 0 PIPELINE OPERATIONS - \$5 MILLION
  - 0 CORPORATE EXPENSE REDUCTION & OTHER - \$10 MILLION
  - 0 OPERATING COST REDUCTIONS - \$4 MILLION
- 0 \$365 MILLION OF 2005 PROJECTED PRO FORMA EBITDA
- 0 2005 PRO FORMA DISTRIBUTABLE CASH FLOW ACCRETION OF 37 CENTS PER UNIT
- 0 PRO FORMA DEBT-TO-CAPITALIZATION RATIO AT APPROXIMATELY 46%
- 0 EXPECTED TO BE INVESTMENT GRADE RATED

GREAT COMBINATION FOR INVESTORS

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0 DISTRIBUTABLE CASH FLOW ACCRETIVE

0 TO RECOMMEND AN INCREASE IN THE DISTRIBUTION FROM \$3.20 TO  
\$3.42 PER UNIT FOR VLI UNITHOLDERS

0 KPP UNITHOLDERS TOTAL DISTRIBUTION INCREASES DUE TO  
ADDITIONAL UNITS

0 BETTER EARNINGS DIVERSIFICATION

0 BROADER SCOPE OF OPERATIONS CREATES PLATFORM FOR GROWTH

0 RELATIONSHIP TO VALERO ENERGY EXPANDS OPPORTUNITIES

GOING FORWARD - WELL POSITIONED TO CONTINUE DELIVERING INDUSTRY  
LEADING DISTRIBUTION GROWTH

VALERO LP LOGO 22

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APPENDIX

VALERO LP LOGO 23

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FIXED VALUE COLLAR

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FIXED VALUE COLLAR STRUCTURE

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	VALERO L.P.	KANEB	RATIO	KANEB SHARE PRICE
-10%	\$ 51.53	\$ 58.26	1.131	[GRAPH]
-9%	52.10	58.91	1.131	
-8%	52.67	59.56	1.131	
-7%	53.24	60.21	1.131	
-6%	53.82	60.85	1.131	
-5%	54.39	61.50	1.131	
-4%	54.96	61.50	1.119	
-3%	55.53	61.50	1.107	
-2%	56.11	61.50	1.096	
-1%	56.68	61.50	1.085	
BASELINE	57.25	61.50	1.074	ACQUIROR SHARE PRICE
+1%	57.82	61.50	1.064	
+2%	58.40	61.50	1.053	
+3%	58.97	61.50	1.043	
+4%	59.54	61.50	1.033	
+5%	60.11	61.50	1.023	
+6%	60.69	62.09	1.023	
+7%	61.26	62.67	1.023	
+8%	61.83	63.26	1.023	
+9%	62.40	63.84	1.023	
+10%	62.98	64.43	1.023	

RECONCILIATION OF NET INCOME TO EBITDA AND DISTRIBUTABLE CASH FLOW

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

	YTD ----- Valero L.P.	9/30/2004 ----- Kaneb Partners	2005 ----- Projected Pro Forma
Net income	\$59,063	\$67,123	\$176,255
Plus net interest expense & other	15,630	32,180	94,449
Plus depreciation & amortization	24,536	41,677	94,034
Plus income tax expense	N/A	3,055	N/A
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EDITDA	99,229	144,035	364,738
Less VLI's Skelly interest	121	n/a	n/a
Less interest expense	(15,630)	(31,389)	(92,455)
Less income taxes	-	(3,403)	(4,188)
Less reliability capital	(7,030)	(17,439)	(46,427)
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Distributable Cash Flow	76,690	91,804	221,668

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