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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

o 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** x **No o**

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 filerx Accelerated filer o Non-accelerated filer o

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

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

VALERO L.P. AND SUBSIDIARIES
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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)

	September 30, 2006 (Unaudited)	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 66,729	$ 36,054
Receivable from Valero Energy	21,132	21,873
Accounts receivable, net of allowance for doubtful accounts of $1,063 and $1,976 as of September 30, 2006 and December 31, 2005, respectively	79,213	110,066
Inventories	8,577	17,473
Other current assets	25,948	30,138
Assets of businesses held for sale	—	79,807
Total current assets	201,599	295,411
Property and equipment, at cost	2,497,919	2,417,529
Accumulated depreciation and amortization	(325,337)	(257,316)
Property and equipment, net	2,172,582	2,160,213
Intangible assets, net	55,164	59,159
Goodwill	774,966	767,587
Investment in joint ventures	74,103	73,986
Deferred charges and other assets, net	22,128	10,636
Total assets	$ 3,300,542	$ 3,366,992
Liabilities and Partners' Equity		
Current liabilities:		
Current portion of long-term debt	$ 566	$ 1,046
Payable to Valero Energy	12,712	12,800
Accounts payable	62,858	104,320
Accrued interest payable	9,740	16,391
Accrued liabilities	39,568	46,917
Taxes other than income taxes	12,020	9,013
Income taxes payable	1,154	4,001
Liabilities of businesses held for sale	—	11,100
Total current liabilities	138,618	205,588
Long-term debt, less current portion	1,178,476	1,169,659
Long-term payable to Valero Energy	5,765	5,507
Deferred income taxes	20,296	13,576
Other long-term liabilities	70,716	71,883
Commitments and contingencies (Note 6)		
Partners' equity:		
Common units (46,809,749 and 37,210,427 outstanding as of September 30, 2006 and December 31, 2005, respectively)	1,839,881	1,749,007
Subordinated units (0 and 9,599,322 outstanding as of September 30, 2006 and December 31, 2005, respectively)	—	114,127
General partner's equity	39,095	38,913
Accumulated other comprehensive income (loss)	7,695	(1,268)
Total partners' equity	1,886,671	1,900,779
Total liabilities and partners' equity	$ 3,300,542	$ 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 September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Revenues:				
Services revenues:				
Third parties	$ 92,679	$ 84,211	$ 267,613	$ 86,457
Valero Energy	69,209	63,999	194,298	176,694
Total services revenues	161,888	148,210	461,911	263,151
Product sales	129,135	110,175	383,084	110,175
Total revenues	291,023	258,385	844,995	373,326
Costs and expenses:				
Cost of product sales	117,759	101,217	350,260	101,217
Operating expenses:				
Third parties	57,753	46,183	164,168	70,852
Valero Energy	24,749	22,246	68,559	38,907
Total operating expenses	82,502	68,429	232,727	109,759
General and administrative expenses:				
Third parties	3,425	3,092	9,556	4,356
Valero Energy	7,963	6,908	20,767	12,708
Total general and administrative expenses	11,388	10,000	30,323	17,064
Depreciation and amortization expense	24,994	22,732	74,022	40,255
Total costs and expenses	236,643	202,378	687,332	268,295
Operating income	54,380	56,007	157,663	105,031
Equity earnings in joint ventures	1,464	1,541	4,514	2,340
Interest and other expenses, net	(15,289)	(14,637)	(47,630)	(26,344)
Income from continuing operations before income tax expense (benefit)	40,555	42,911	114,547	81,027
Income tax expense (benefit)	(614)	2,050	1,997	2,050
Income from continuing operations	41,169	40,861	112,550	78,977
Income (loss) from discontinued operations	—	4,306	(377)	4,306
Net income	41,169	45,167	112,173	83,283
Less general partner's interest and incentive distributions	(4,310)	(3,892)	(12,550)	(7,215)
Limited partners' interest in net income	$ 36,859	$ 41,275	$ 99,623	$ 76,068
Weighted average number of basic and diluted units outstanding	46,809,749	46,809,749	46,809,749	31,051,243
Income loss per unit applicable to limited partners:				
Continuing operations	$ 0.79	$ 0.79	$ 2.14	$ 2.31
Discontinued operations	—	0.09	(0.01)	0.14
Net income	$ 0.79	$ 0.88	$ 2.13	$ 2.45
Cash distributions per unit applicable to limited partners	$ 0.915	$ 0.855	$ 2.685	$ 2.510

See Condensed Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Cash Flows from Operating Activities:		
Net income	$ 112,173	$ 83,283
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	74,022	41,425
Equity earnings from joint ventures	(4,601)	(2,340)
Distributions from joint ventures	4,052	2,488
Changes in operating assets and liabilities:		
Decrease (increase) in receivable from Valero Energy	741	(1,343)
Decrease (increase) in accounts receivable	32,997	(10,680)
Decrease (increase) in inventories	8,672	(1,928)
Decrease (increase) in other current assets	1,335	(1,334)

(Decrease) increase in payable to Valero Energy	(88)	7,528
Decrease in accrued interest payable	(6,652)	(7,152)
(Increase) decrease in accounts payable and other accrued liabilities	(36,693)	19,961
Increase in taxes other than income taxes	3,205	2,019
Other, net	(7,184)	3,471
Net cash provided by operating activities	181,979	135,398
Cash Flows from Investing Activities:		
Reliability capital expenditures	(21,334)	(12,369)
Strategic growth capital expenditures	(48,981)	(28,926)
Kaneb acquisition, net of cash acquired	—	(505,669)
Other acquisition	(12,827)	—
Investment in other noncurrent assets	(9,404)	(999)
Proceeds from sale of Held Separate Businesses, net	—	454,109
Proceeds from sale of Australia and New Zealand subsidiaries	70,072	—
Proceeds from sale of other assets	120	26,788
Proceeds from insurance settlement	3,661	—
Distributions in excess of equity earnings from joint ventures	472	—
Other	912	—
Net cash provided by (used in) investing activities	17,309	(67,066)
Cash Flows from Financing Activities:		
Long-term debt borrowings	59,000	713,194
Long-term debt repayments	(48,480)	(700,520)
Decrease in cash book overdrafts	(8,216)	—
Contributions from general partner	352	29,197
Distributions to unitholders and general partner	(135,596)	(83,839)
Other	(395)	—
Net cash used in financing activities	(133,335)	(41,968)
Effect of foreign exchange rate changes on cash	(660)	(833)
Net increase in cash and cash equivalents	30,675	25,531
Cash and cash equivalents at the beginning of the period	36,054	16,147
Cash and cash equivalents at the end of the period	$ 66,729	$ 41,678
Supplemental cash flow information:		
Cash paid during the period for interest	$ 62,941	$ 37,013
Cash paid during the period for income taxes	$ 5,952	$ 47

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

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 nine months ended September 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 nine months ended September 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 September 30, 2006, Valero GP, LLC and Riverwalk Logistics, L.P. were indirect wholly owned subsidiaries of Valero GP Holdings, LLC (Holdings) (NYSE: VEH). Holdings is an approximately 59% owned subsidiary of Valero Energy Corporation (Valero Energy) (NYSE: VLO) and owned approximately 41% by the public.

Other

UDS Logistics, LLC, an indirect, wholly owned subsidiary of Valero Energy, owned 21.4% of our limited partner interests and the 2% general partner interest as of December 31, 2005. On January 15, 2006, UDS Logistics, LLC changed its name to Valero GP Holdings, LLC. Prior to July 19, 2006, Holdings completed certain organizational transactions resulting in Valero GP, LLC, Riverwalk Holdings, LLC, and Riverwalk Logistics, L.P. becoming 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 Financial Accounting Standards Board (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,” 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 we are continuing to evaluate its effect on 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.

FASB Statement No. 157

In September 2006, the FASB issued Statement No. 157, “Fair Value Measurements.” Statement No. 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measures. Statement No. 157 is effective for fiscal years beginning after November 15, 2007, with early adoption encouraged. The provisions of Statement No. 157 are to be applied on a prospective basis, with the exception of certain financial instruments for which retrospective application is required. The adoption of Statement No. 157 is not expected to materially affect our financial position or results of operations.

2. ACQUISITIONS

St. James Crude Oil Storage Facility

On September 18, 2006, we signed a definitive agreement to acquire a crude oil, storage and blending facility in St. James, Louisiana from Koch Supply and Trading, L.P. for $140 million. The acquisition includes 17 crude oil tanks and three heated refined product tanks with a total capacity of approximately 3.3 million barrels. Additionally, the facility has a rail-loading facility and three docks with barge and ship access. The facility is located on approximately 220 acres of land on the west bank of the Mississippi River approximately 60 miles west of New Orleans and has an additional 585 acres of undeveloped land. We expect the acquisition to close in the fourth quarter of 2006 and to fund the acquisition with borrowings under our revolving credit agreement.

On September 20, 2006, we executed a terminal services agreement (St. James Terminal Agreement) with Valero Marketing and Supply Company (VMSC), a wholly owned subsidiary of Valero Energy. Pursuant to the St. James Terminal Agreement, we will provide crude oil storage and blending services to VMSC at the facility in St. James, Louisiana for a monthly minimum throughput fee plus per barrel throughput charges. The St. James Terminal Agreement has an initial term of five years with an option to extend for an additional five years with a one year notice from VMSC prior to the expiration of the initial term.

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 nine months ended September 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 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

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 months ended September 30, 2006 and 2005 and nine months ended September 30, 2006 presented below represents actual results of operations. The unaudited pro forma financial information for the nine months ended September 30, 2005 includes the historical financial information of Kaneb and the Partnership for that period. 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 September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(Thousands of Dollars, Except Per Unit Data)			
Revenues	$ 291,023	$ 258,385	$ 844,995	$ 719,431
Operating income	54,380	56,007	157,663	81,684
Income from continuing operations	41,169	40,861	112,550	54,386
Income (loss) from discontinued operations	—	4,306	(377)	10,761
Net income	$ 41,169	$ 45,167	$ 112,173	$ 65,147
Income (loss) per unit applicable to limited partners:				
Continuing operations	$ 0.79	$ 0.79	$ 2.14	$ 0.94
Discontinued operations	—	0.09	(0.01)	0.23
Net income	$ 0.79	$ 0.88	$ 2.13	$ 1.17

3. DISPOSITION

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 nine months ended September 30, 2006, revenues and pre-tax income related to the Australia and New Zealand subsidiaries included in income (loss) from discontinued operations totaled $5.0 million and $0.6 million, respectively. The results of operations for the three and nine months ended September 30, 2005 have been restated to reflect the sale of the Australia and New Zealand subsidiaries as income (loss) from discontinued operations.

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 $16.9 million and $20.0 million of product imbalance assets as of September 30, 2006 and December 31, 2005, respectively. Included in accrued liabilities on the consolidated balance sheets are $15.2 million and $17.5 million of product imbalance liabilities as of September 30, 2006 and December 31, 2005, respectively.

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 September 30, 2006.

$400 Million Revolving Credit Agreement

During the nine months ended September 30, 2006, we borrowed $59.0 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 $48.0 million during the nine months ended September 30, 2006. The $400 Million Revolving Credit Agreement bears interest based on either an alternative base rate or LIBOR, which was 5.9% as of September 30, 2006. As of September 30, 2006, we had $384.1 million available for borrowing under our $400 Million Revolving Credit Agreement. Additionally, our $400 Million Revolving Credit Agreement allows us to increase the amount we can borrow to a maximum of $600 million by giving notice to the lenders, so long as we are not in default.

Interest Rate Swaps

As of September 30, 2006, the weighted-average interest rate for our interest rate swaps was 7.0%. As of September 30, 2006 and December 31, 2005, the aggregate estimated fair value of the interest rate swaps included in other long-term liabilities on our consolidated balance sheets was $5.0 million and $4.0 million, respectively.

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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 September 30, 2006, we have recorded $2.8 million of accruals related to settled matters. As of September 30, 2006, we have recorded accruals for contingent losses totaling $48.3 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 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

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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.

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 for our St. Eustatius facility. 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 September 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 September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(Thousands of Dollars)			
Revenues	$ 69,173	$ 63,999	$ 194,262	$ 176,694
Operating expenses	24,749	22,246	68,559	38,907
General and administrative expenses	7,963	6,908	20,767	12,708

Our share of allocated Valero Energy employee benefit plan expenses, excluding compensation expense related to restricted common units and unit options, was $8.5 million and $8.9 million for the three months ended

September 30, 2006 and 2005, respectively, and was $25.1 million and $15.0 million for the nine months ended September 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
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 performs 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 Energy charged us for administrative services under the services agreements in the amount of $0.3 million and $3.1 million for the three months ended September 30, 2006 and 2005, respectively, and $1.3 million and $3.5 million for the nine months ended September 2006 and 2005, respectively.

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).

Non-Compete Agreement
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.

Administration Agreement
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.

Amended and Restated 2000 Long-Term Incentive Plan
Effective October 1, 2006, the Valero GP, LLC 2000 Long-Term Incentive Plan was amended as follows:

- increase the number of units authorized for issuance under the Plan from 250,000 units (of which 223,147 have been granted to date) to 1,500,000 units;
- permit the "cashless-broker" exercise of options;
- provide that if an award under the Plan expires, is cancelled, exercised, paid or otherwise terminates without the delivery of units then the units covered by such award, to the extent of such expiration, cancellation, exercise, payment or termination, shall again be units with respect to which awards under the Plan may be granted;
- amend the Plan to meet the requirements of, and facilitate compliance with, Section 409A of the Internal Revenue Code; and
- amend the definition of "Change of Control" to reflect that as a result of its recently completed initial public offering, Valero GP Holdings, LLC is now the 100% owner of the general partner of Valero L.P.

8. PARTNERS' EQUITY

Allocation of Income and Income Per Unit
We 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. Basic and diluted net income per unit applicable to limited partners is the same because we have no potentially dilutive securities outstanding.

During the quarter ended September 30, 2006, our general partner reimbursed us for certain charges we incurred related to services historically provided under our Services Agreement with Valero Energy. Generally accepted accounting principles require us to record the charges as expenses and record the reimbursement as a capital contribution.

The following table details the calculation of net income applicable to the general partner:

	Three Months Ended September 30		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(Thousands of Dollars)			
Net income applicable to general partner and limited partners' interest	$ 41,169	$ 45,167	$ 112,173	$ 83,283
Charges reimbursed by general partner	352	—	352	—
Net income before charges reimbursed by general partner	41,521	45,167	112,525	83,283
General partner incentive distribution	3,909	3,049	10,869	5,662
Net income before charges reimbursed by general partner and after general partner incentive distribution	37,612	42,118	101,656	77,621
General partner interest	2%	2%	2%	2%
General partner allocation of net income before charges reimbursed by general partner and after general partner incentive distribution	753	843	2,033	1,553
Charges reimbursed by general partner	(352)	—	(352)	—
General partner incentive distribution	3,909	3,049	10,869	5,662
Net income applicable to general partner	$ 4,310	$ 3,892	$ 12,550	$ 7,215

Cash Distributions

On July 19, 2006, we declared a quarterly cash distribution of $0.885 per unit paid on August 14, 2006 to unitholders of record on August 7, 2006, which totaled $45.8 million. On October 26, 2006, we declared a quarterly cash distribution of $0.915 per unit to be paid on November 14, 2006 to unitholders of record on November 7, 2006, which totaled $47.7 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 September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(Thousands of Dollars)			
General partner interest	$ 955	$ 879	$ 2,787	$ 2,157
General partner incentive distribution	3,909	3,049	10,869	7,210
Total general partner distribution	4,864	3,928	13,656	9,367
Limited partners' distribution	42,830	40,022	125,684	98,478
Total cash distributions	$ 47,694	$ 43,950	$ 139,340	$ 107,845
Cash distributions per unit applicable to limited partners	$ 0.915	$ 0.855	$ 2.685	$ 2.510

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 nine months ended September 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 September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(Thousands of Dollars)			
Net income	$ 41,169	$ 45,167	$ 112,173	$ 83,283
Foreign currency translation adjustment	(103)	641	8,963	641
Comprehensive income	$ 41,066	$ 45,808	$ 121,136	$ 83,924

10. SEGMENT INFORMATION

Our reportable segments consist of refined product terminals, refined product pipelines, crude oil pipelines and crude oil storage tanks. The operations we acquired from Kaneb 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, and the sale of 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.

Results of operations for the reportable segments were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(Thousands of Dollars)			
Revenues:				
Refined product terminals	$ 204,567	$ 178,973	$ 601,958	$ 200,394
Refined product pipelines	59,333	53,749	163,580	98,609
Crude oil pipelines	15,072	14,041	43,989	39,601
Crude oil storage tanks	12,051	11,622	35,468	34,722
Total revenues	$ 291,023	$ 258,385	$ 844,995	$ 373,326
Operating income:				
Refined product terminals	$ 26,602	$ 26,370	$ 75,474	$ 33,850
Refined product pipelines	22,209	23,470	62,176	41,714
Crude oil pipelines	9,236	8,431	27,634	23,680
Crude oil storage tanks	7,721	7,736	22,702	22,851
Total segment operating income	$ 65,768	$ 66,007	$ 187,986	$ 122,095
Less general and administrative expenses	11,388	10,000	30,323	17,064
Total operating income	$ 54,380	$ 56,007	$ 157,663	$ 105,031

Revenues from Valero Energy by reportable segment were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(Thousands of Dollars)			
Revenues:				
Refined product terminals	$ 14,341	$ 14,721	$ 38,795	$ 35,887
Refined product pipelines	28,183	23,615	77,526	66,484
Crude oil pipelines	14,634	14,041	42,509	39,601
Crude oil storage tanks	12,051	11,622	35,468	34,722
Total revenues	$ 69,209	$ 63,999	$ 194,298	$ 176,694

Total assets by reportable segment were as follows:

	September 30, 2006	December 31, 2005
	(Thousands of Dollars)	
Refined product terminals	$ 1,624,070	$ 1,701,782
Refined product pipelines	1,276,491	1,286,571
Crude oil pipelines	120,996	123,698
Crude oil storage tanks	199,727	204,580
Total segment assets	3,221,284	3,316,631
General partnership assets	79,258	50,361
Total consolidated assets	$ 3,300,542	$ 3,366,992

11. 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 Balance Sheet
September 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	$ 380	$ 104,266	$ 651,145	$ 129,257	$ (683,449)	$ 201,599
Property and equipment, net	—	795,461	676,927	700,194	—	2,172,582
Goodwill	—	4,715	172,625	597,626	—	774,966
Investment in wholly owned subsidiaries	2,382,282	23,394	656,634	1,324,421	(4,386,731)	—
Equity investments	—	15,636	—	58,467	—	74,103
Other noncurrent assets, net	228	9,617	660	66,787	—	77,292
Total assets	$ 2,382,890	$ 953,089	$ 2,157,991	$ 2,876,752	$ (5,070,180)	$ 3,300,542
Liabilities and Partners' Equity						
Current liabilities	$ 503,914	$ 38,491	$ 35,747	$ 243,915	$ (683,449)	$ 138,618
Long-term debt, less current portion	—	592,019	547,137	39,320	—	1,178,476
Long-term payable to Valero Energy	—	—	—	5,776	—	5,765
Deferred income taxes	—	—	—	20,296	—	20,296
Other long-term liabilities	—	5,520	3,712	61,473	—	70,716
Partners' equity	1,878,976	317,059	1,571,395	2,505,972	(4,386,731)	1,886,671
Total liabilities and partners' equity	$ 2,382,890	$ 953,089	$ 2,157,991	$ 2,876,752	$ (5,070,180)	$ 3,300,542

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

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	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.

Condensed Consolidating Statements of Income
For the Three Months Ended September 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

	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	$ —	$ 68,713	$ 31,013	$ 191,550	$ (253)	$ 291,023
Costs and expenses	730	36,563	26,363	173,240	(253)	236,643
Operating income	(730)	32,150	4,650	18,310	—	54,380
Equity earnings	41,899	385	19,923	20,917	(81,660)	1,464
Interest and other expense, net	—	(9,709)	(4,718)	(862)	—	(15,289)
Income from continuing operations before income tax benefit	41,169	22,826	19,855	38,365	(81,660)	40,555
Income tax benefit	—	—	—	(614)	—	(614)
Income from continuing operations	41,169	22,826	19,855	38,979	(81,660)	41,169
Income from discontinued operations	—	—	—	—	—	—
Net income	$ 41,169	$ 22,826	$ 19,855	$ 38,979	$ (81,660)	$ 41,169

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

Condensed Consolidating Statements of Income
For the Three Months Ended September 30, 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
Revenues	$ —	$ 62,237	$ 29,560	$ 166,804	$ (216)	$ 258,385
Costs and expenses	672	34,268	18,772	148,882	(216)	202,378
Operating income	(672)	27,969	10,788	17,922	—	56,007
Equity earnings	45,839	190	21,913	30,630	(97,031)	1,541
Interest and other expense, net	—	(7,536)	(6,534)	(567)	—	(14,637)
Income from continuing operations before income tax expense	45,167	20,623	26,167	47,985	(97,031)	42,911
Income tax expense	—	—	—	2,050	—	2,050
Income from continuing operations	45,167	20,623	26,167	45,935	(97,031)	40,861
Income from discontinued operations	—	—	3,133	1,173	—	4,306
Net income	$ 45,167	$ 20,623	$ 29,300	$ 47,108	$ (97,031)	$ 45,167

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

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

	Valero L.P.	Valero Logistics Operations, L.P.	Kaneb Pipe Line Operating Partnership, L.P.	Non-Garantor Subsidiaries (a)	Eliminations	Valero L.P. Consolidated
Revenues	$ —	$ 194,091	$ 85,121	$ 566,522	$ (739)	$ 844,995
Costs and expenses	1,735	104,528	68,795	513,013	(739)	687,332
Operating income	(1,735)	89,563	16,326	53,509	—	157,663
Equity earnings	113,908	765	53,160	55,022	(218,341)	4,514
Interest and other expense, net	—	(26,504)	(18,751)	(2,375)	—	(47,630)
Income from continuing operations before income tax expense	112,173	63,824	50,735	106,156	(218,341)	114,547
Income tax expense	—	—	—	1,997	—	1,997
Income from continuing operations	112,173	63,824	50,735	104,159	(218,341)	112,550
Income (loss) from discontinued operations	—	—	317	(694)	—	(377)
Net income	$ 112,173	$ 63,824	$ 51,052	$ 103,465	$ (218,341)	$ 112,173

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

Condensed Consolidating Statements of Income
For the Nine Months Ended September 30, 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
Revenues	$ —	$ 177,179	$ 29,560	$ 167,142	$ (555)	$ 373,326
Costs and expenses	1,304	99,415	18,772	149,359	(555)	268,295
Operating income	(1,304)	77,764	10,788	17,783	—	105,031
Equity earnings	84,587	836	21,913	30,633	(135,629)	2,340
Interest and other expense, net	—	(19,229)	(6,534)	(581)	—	(26,344)
Income from continuing operations before income tax expense	83,283	59,371	26,167	47,835	(135,629)	81,027
Income tax expense	—	—	—	2,050	—	2,050
Income from continuing operations	83,283	59,371	26,167	45,785	(135,629)	78,977
Income from discontinued operations	—	—	3,133	1,173	—	4,306
Net income	$ 83,283	$ 59,371	$ 29,300	$ 46,958	$ (135,629)	$ 83,283

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

Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended September 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	$ 112,173	$ 63,824	$ 51,052	$ 103,465	$ (218,341)	$ 112,173
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	—	28,023	18,326	27,673	—	74,022
Equity income, net of distributions	21,688	(216)	(53,160)	(51,044)	82,732	—
Changes in operating assets and liabilities and other	(2,480)	(7,197)	(8,843)	14,304	—	(4,216)
Net cash provided by (used in) operating activities	131,381	84,434	7,375	94,398	(135,609)	181,979
Cash flows from investing activities:						
Capital expenditures	—	(26,104)	(6,530)	(37,681)	—	(70,315)
Proceeds from sale of assets	—	8	58	70,126	—	70,192
Acquisition and investment in noncurrent assets	—	(14,423)	(50)	(7,758)	—	(22,231)
Other	(77)	(6,259)	26,604	(21,658)	6,435	5,045
Cash flows provided by (used in) investing activities	(77)	(46,778)	20,082	3,029	6,435	(17,309)
Cash flows from financing activities:						
Distributions	(135,596)	(135,596)	—	(13)	135,609	(135,596)
Long-term debt borrowings	—	59,000	—	—	—	59,000
Long-term debt repayments	—	(48,480)	—	—	—	(48,480)
Net intercompany borrowings (repayments)	4,074	107,954	(26,879)	(85,149)	—	—
Other	352	(7,054)	—	4,878	(6,435)	(8,259)
Cash flows provided by (used in) financing activities	(131,170)	(24,176)	(26,879)	(80,284)	129,174	(133,335)
Effect of foreign exchange rate changes on cash	—	—	—	(660)	—	(660)
Net increase in cash and cash equivalents	134	13,480	578	16,483	—	30,675

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	$ 144	$ 15,070	$ 692	$ 50,823	$ —	$ 66,729

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

Condensed Consolidating Statement of Cash Flows
For the Nine Months Ended September 30, 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
Cash flows from operating activities:						
Net income	$ 83,283	$ 59,371	$ 29,300	$ 46,958	$ (135,629)	$ 83,283
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	—	26,033	3,828	11,564	—	41,425
Equity income, net of distributions	(748)	176	(21,913)	(29,305)	51,790	—
Changes in operating assets and liabilities and other	3,835	(633)	1,119	6,369	—	10,690
Net cash provided by (used in) operating activities	86,370	84,947	12,334	35,586	(83,839)	135,398
Cash flows from investing activities:						
Capital expenditures	—	(33,568)	(1,278)	(6,449)	—	(41,295)
Proceeds from sale of assets	—	—	85,466	395,431	—	480,897
Acquisition and investment in noncurrent assets	(522,574)	(1,487)	864	15,042	1,487	(506,668)
Other	141	—	—	(141)	—	—
Cash flows provided by (used in) investing activities	(522,433)	(35,055)	85,052	403,883	1,487	(67,066)
Cash flows from financing activities:						
Distributions	(83,839)	(83,839)	—	—	83,839	(83,839)
Long-term debt borrowings	—	713,194	—	—	—	713,194
Long-term debt repayments	—	(513,467)	(123,668)	(63,385)	—	(700,520)
Net intercompany borrowings (repayments)	490,706	(180,760)	31,218	(341,164)	—	—
Other	29,197	—	—	1,487	(1,487)	29,197
Cash flows provided by (used in) financing activities	436,064	(64,872)	(92,450)	(403,062)	82,352	(41,968)
Effect of foreign exchange rate changes on cash	—	—	—	(833)	—	(833)
Net increase in cash and cash equivalents	1	(14,980)	4,936	35,574	—	25,531
Cash and cash equivalents at the beginning of the period	10	16,041	—	96	—	16,147
Cash and cash equivalents at the end of the period	$ 11	$ 1,061	$ 4,936	$ 35,670	$ —	$ 41,678

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

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 6,449 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

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 nine months ended September 30, 2006.

On March 30, 2006, we sold our Australia and New Zealand subsidiaries to ANZ Terminals Pty. Ltd., for $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 nine months ended September 30, 2006, revenues and pre-tax income related to the Australia and New Zealand subsidiaries are included in loss from discontinued operations totaled $5.0 million and $0.6 million, respectively.

UDS Logistics, LLC, an indirect, wholly owned subsidiary of Valero Energy, owned 21.4% of our limited partner interests and the 2% general partner interest as of December 31, 2005. On January 15, 2006, UDS Logistics, LLC, changed its name to Valero GP Holdings, LLC (Holdings). Prior to July 19, 2006, Holdings completed certain organizational transactions resulting in Valero GP, LLC, Riverwalk Holdings, LLC, and Riverwalk Logistics, L.P. becoming 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. We expect the acquisition to close in the fourth quarter of 2006 and to fund the acquisition with borrowings under our revolving credit agreement.

On September 18, 2006, we signed a definitive agreement to acquire a crude oil, storage and blending facility in St. James, Louisiana from Koch Supply and Trading, L.P. for $140 million. The acquisition includes 17 crude oil tanks and three heated refined product tanks with a total capacity of approximately 3.3 million barrels. Additionally, the facility has a rail-loading facility and three docks with barge and ship access. The facility is located on approximately 220 acres of land on the west bank of the Mississippi River approximately 60 miles west of New Orleans and has an additional 585 acres of undeveloped land. We expect the acquisition to close in the fourth quarter of 2006 and to fund the acquisition with borrowings under our revolving credit agreement.

Results of Operations

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

Financial Highlights

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

	Three Months Ended September 30,

	2006	2005	Change
Statement of Income Data:			
Revenues:			
Services revenues	$ 161,888	$ 148,210	$ 13,678
Product sales	129,135	110,175	18,960
Total revenues	291,023	258,385	32,638
Costs and expenses:			
Cost of product sales	117,759	101,217	16,542
Operating expenses	82,502	68,429	14,073
General and administrative expenses	11,388	10,000	1,388
Depreciation and amortization	24,994	22,732	2,262
Total costs and expenses	236,643	202,378	34,265
Operating income	54,380	56,007	(1,627)
Equity income from joint ventures	1,464	1,541	(77)
Interest and other expenses, net	(15,289)	(14,637)	(652)
Income from continuing operations before income tax expense (benefit)	40,555	42,911	(2,356)
Income tax expense (benefit)	(614)	2,050	(2,664)
Income from continuing operations	41,169	40,861	308
Income (loss) from discontinued operations	—	4,306	(4,306)
Net income	41,169	45,167	(3,998)
Less general partner's interest and incentive distributions	(4,310)	(3,892)	(418)
Limited partners' interest in net income	$ 36,859	$ 41,275	$ (4,416)
Weighted-average units outstanding	46,809,749	46,809,749	
Income (loss) per unit applicable to limited partners:			
Continuing operations	$ 0.79	$ 0.79	$ —
Discontinued operations	—	0.09	(0.09)
Net income	$ 0.79	$ 0.88	$ (0.09)

Segment Operating Highlights

(Thousands of Dollars, Except Barrels/Day Information)

	Three Months Ended September 30,		
	2006	2005	Change
Refined Product Terminals:			
Throughput (barrels/day)(a)	267,144	253,415	13,729
Throughput revenues	$ 13,273	$ 12,387	$ 886
Storage lease revenues	62,925	56,411	6,514
Product sales (bunkering)	128,369	110,175	18,194
Total revenues	204,567	178,973	25,594
Cost of product sales	117,161	101,217	15,944
Operating expenses	49,555	39,450	10,105
Depreciation and amortization	11,249	11,936	(687)
Segment operating income	$ 26,602	$ 26,370	$ 232
Refined Product Pipelines:			
Throughput (barrels/day)	722,952	688,126	34,826
Throughput revenues	$ 58,567	$ 53,749	$ 4,818
Product sales	766	—	766
Total revenues	59,333	53,749	5,584
Cost of product sales	598	—	598
Operating expenses	25,972	22,507	3,465
Depreciation and amortization	10,554	7,772	2,782
Segment operating income	$ 22,209	$ 23,470	$ (1,261)
Crude Oil Pipelines:			
Throughput (barrels/day)	410,211	382,615	27,596
Revenues	$ 15,072	$ 14,041	$ 1,031
Operating expenses	4,559	4,455	104
Depreciation and amortization	1,277	1,155	122
Segment operating income	$ 9,236	$ 8,431	$ 805
Crude Oil Storage Tanks:			

Throughput (barrels/day)	513,904	504,060	9,844
Revenues	$ 12,051	$ 11,622	$ 429
Operating expenses	2,416	2,017	399
Depreciation and amortization	1,914	1,869	45
Segment operating income	$ 7,721	$ 7,736	$ (15)
Consolidated Information:			
Revenues	$ 291,023	$ 258,385	$ 32,638
Cost of product sales	117,759	101,217	16,542
Operating expenses	82,502	68,429	14,073
Depreciation and amortization	24,994	22,732	2,262
Segment operating income	65,768	66,007	(239)
General and administrative expenses	11,388	10,000	1,388
Consolidated operating income	$ 54,380	$ 56,007	$ (1,627)

(a) Excludes throughputs related to storage lease and bunkering operations.

Highlights

Income from continuing operations for the three months ended September 30, 2006 increased slightly compared to the three months ended September 30, 2005, despite a decline in consolidated segmental operating income. Lower income tax expense for the three months ended September 30, 2006, compared to the three months ended September 30, 2005, was offset by the decline in consolidated segmental operating income and higher general and administrative expense.

Consolidated segmental operating income for the three months ended September 30, 2006 decreased $0.2 million compared to the three months ended September 30, 2005, primarily due to a $1.2 million decrease in operating income for the refined product pipelines segment, partially offset by a $0.8 million increase in operating income for the crude oil pipelines segment and a $0.2 million increase in operating income for the refined product terminals segment.

Refined Product Terminals

Revenues increased by $25.6 million for the three months ended September 30, 2006, compared to the three months ended September 30, 2005, primarily due to increases in bunkering revenues of $18.2 million and storage lease revenues of $6.5 million. Bunkering revenue increased as more barrels were sold and at a higher average sales price.

Cost of product sales increased $15.9 million for the three months ended September 30, 2006, compared to the three months ended September 30, 2005 consistent with the increase in bunkering revenues. 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.

Operating expenses increased $10.1 million for the three months ended September 30, 2006, compared to the three months ended September 30, 2005, primarily due to higher planned maintenance and reimbursable project expenses. Reimbursable project expenses are charged back to our customers and its fluctuations are in conjunction with fluctuations in revenues. Operating expenses further increased compared to the three months ended September 30, 2005, due to higher internal overhead expense.

Depreciation and amortization expense decreased $0.7 million for the three months ended September 30, 2006, compared to the three months ended September 30, 2005, primarily due to the final purchase price allocation of our property and equipment related to the Kaneb Acquisition.

Refined Product Pipelines

Revenues increased by $5.6 million for the three months ended September 30, 2006, compared to the three months ended September 30, 2005, primarily due to higher tariff rates as the annual index adjustment was effective July 1, 2006, coupled with supply dynamics in the El Paso market resulting in higher throughputs in the McKee to El Paso refined product pipeline system. Revenues also increased due to the expansion of our 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. In addition, revenue increased by $0.8 million due to the commencement of butane blending on our east pipeline in the third quarter of 2006.

Cost of product sales totaled $0.6 million for the three months ended September 30, 2006 as butane blending on our central east pipelines commenced in the third quarter of 2006. Cost of product sales reflects the cost of butane blended into gasoline on our east pipeline.

Operating expenses increased $3.5 million for the three months ended September 30, 2006, compared to the three months ended September 30, 2005, primarily due to higher maintenance and internal overhead expenses.

Depreciation and amortization expense increased by $2.8 million for the three months ended September 30, 2006 compared to the three months ended September 30, 2005, primarily due to the final purchase price allocation of our property and equipment related to the Kaneb Acquisition and completion of the Burgos project in July 2006.

Crude Oil Pipelines

Revenues increased by $1.0 million for the three months ended September 30, 2006, compared to the three months ended September 30, 2005, due to higher tariff rates as the annual index adjustment was effective July 1, 2006. In addition, our purchase of the Capwood pipeline, which increased throughputs by approximately 34,000 barrels per day, resulted in additional revenues of $0.4 million for the three months ended September 30, 2006.

Crude Oil Storage Tanks

Revenues increased by $0.4 million for the three months ended September 30, 2006, compared to the three months ended September 30, 2005, primarily due to higher throughput at the Corpus Christi North Beach storage facility. In addition, Valero Energy's Corpus Christi refinery experienced the effects of two hurricanes and operating issues during the three months ended September 30, 2005, which resulted in lower throughputs and revenues for that period.

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

General

General and administrative expenses increased by $1.4 million for the three months ended September 30, 2006, compared to the three months ended September 30, 2005, primarily due to increased headcount resulting from a reduction in administrative services received from Valero Energy.

For the three months ended September 30, 2006, we recorded an income tax benefit of $0.6 million compared to income tax expense of $2.1 million for the three months ended September 30, 2005. The income tax benefit for the three months ended September 30, 2006 resulted from a reduction in the Canadian federal income tax rate as well as adjustments to our deferred tax assets and liabilities based on the filing of our 2005 income tax returns.

Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005

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

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005	Change
Statement of Income Data:			
Revenues:			
Services revenues	$ 461,911	$ 263,151	$ 198,760
Product sales	383,084	110,175	272,909
Total revenues	844,995	373,326	471,669
Costs and expenses:			
Cost of product sales	350,260	101,217	249,043
Operating expenses	232,727	109,759	122,968
General and administrative expenses	30,323	17,064	13,259
Depreciation and amortization	74,022	40,255	33,767
Total costs and expenses	687,332	268,295	419,037
Operating income	157,663	105,031	52,632
Equity income from joint ventures	4,514	2,340	2,174
Interest and other expenses, net	(47,630)	(26,344)	(21,286)
Income from continuing operations before income tax expense	114,547	81,027	33,520
Income tax expense	1,997	2,050	(53)
Income from continuing operations	112,550	78,977	33,573
Income (loss) from discontinued operations	(377)	4,306	(4,683)
Net income	112,173	83,283	28,890
Less general partner's interest and incentive distributions	(12,550)	(7,215)	(5,335)
Limited partners' interest in net income	$ 99,623	$ 76,068	$ 23,555
Weighted-average units outstanding	46,809,749	31,051,243	
Income (loss) per unit applicable to limited partners:			
Continuing operations	$ 2.14	$ 2.31	$ (0.17)
Discontinued operations	(0.01)	0.14	(0.15)
Net income	$ 2.13	$ 2.45	$ (0.32)

	September 30, 2006	December 31, 2005	Change
Balance Sheet Data:			
Long-term debt, including current portion	$ 1,179,042	$ 1,170,705	$ 8,337
Partners' equity	1,886,671	1,900,779	(14,108)
Debt-to-capitalization ratio (a)	38.5%	38.1%	0.4%

(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.

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

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005	Change
Refined Product Terminals:			
Throughput (barrels/day) (a)	261,619	252,933	8,686
Throughput revenues	$ 36,689	$ 33,808	$ 2,881
Storage lease revenues	182,951	56,411	126,540
Product sales (bunkering)	382,318	110,175	272,143
Total revenues	601,958	200,394	401,564
Cost of product sales	349,662	101,217	248,445
Operating expenses	143,626	49,672	93,954
Depreciation and amortization	33,196	15,655	17,541
Segment operating income	$ 75,474	$ 33,850	$ 41,624
Refined Product Pipelines:			
Throughput (barrels/day)	711,215	524,290	186,925
Throughput revenues	$ 162,814	$ 98,609	$ 64,205
Product sales	766	—	766
Total revenues	163,580	98,609	64,971
Cost of product sales	598	—	598
Operating expenses	69,510	41,362	28,148
Depreciation and amortization	31,296	15,533	15,763
Segment operating income	$ 62,176	$ 41,714	$ 20,462
Crude Oil Pipelines:			
Throughput (barrels/day)	426,129	362,574	63,555
Revenues	$ 43,989	$ 39,601	$ 4,388
Operating expenses	12,546	12,464	82
Depreciation and amortization	3,809	3,457	352
Segment operating income	$ 27,634	$ 23,680	$ 3,954
Crude Oil Storage Tanks:			
Throughput (barrels/day)	503,769	512,349	(8,580)
Revenues	$ 35,468	$ 34,722	$ 746
Operating expenses	7,045	6,261	784
Depreciation and amortization	5,721	5,610	111
Segment operating income	$ 22,702	$ 22,851	$ (149)
Consolidated Information:			
Revenues	$ 844,995	$ 373,326	$ 471,669
Cost of product sales	350,260	101,217	249,043
Operating expenses	232,727	109,759	122,968
Depreciation and amortization	74,022	40,255	33,767
Segment operating income	187,986	122,095	65,891
General and administrative expenses	30,323	17,064	13,259
Consolidated operating income	$ 157,663	$ 105,031	$ 52,632

(a) Excludes throughputs related to storage lease and bunkering operations.

Highlights

Income from continuing operations for the nine months ended September 30, 2006 increased $33.6 million compared to the nine months ended September 30, 2005 due to higher consolidated segmental operating income and higher equity earnings in joint ventures, partially offset by increased general and administrative expense and increased interest expense. All of these increases predominantly resulted from the Kaneb Acquisition.

Consolidated segmental operating income for the nine months ended September 30, 2006 increased $65.9 million compared to the nine months ended September 30, 2005, primarily due to a $41.6 million increase in operating income for the refined product terminals segment and a $20.5 million increase in operating income for the refined product pipelines segment. These increases relate primarily to the effect of the Kaneb Acquisition.

Refined Product Terminals

Revenues increased by $401.6 million for the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, primarily due to the Kaneb Acquisition. The Kaneb Acquisition contributed $382.3 million of bunkering revenues and $183.0 million of storage lease revenues for the nine months ended September 30, 2006 compared to $110.2 million of bunkering revenues and $56.4 million of storage lease revenue for the period from the Kaneb Acquisition on July 1, 2005 to September 30, 2005.

Cost of product sales totaled $349.7 million for the nine months ended September 30, 2006 and $101.2 million for the period from the Kaneb Acquisition on July 1, 2005 to September 30, 2005. 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 $94.0 million for the nine months ended September 30, 2006, compared to the nine months ended September 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 nine months ended September 30, 2005, due to increased internal overhead expense.

Depreciation and amortization expense increased $17.5 million for the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, primarily due to an increase in our property and equipment related to the Kaneb Acquisition.

Refined Product Pipelines

Revenues increased by $65.0 million for the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, primarily due to the Kaneb Acquisition, which increased throughputs by approximately 144,000 barrels per day, resulting in additional revenues of $55.6 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, supply dynamics in the El Paso and Denver markets caused higher throughputs and revenues on the McKee to El Paso refined product pipeline system and the McKee to Denver refined product pipelines.

Operating expenses increased by $28.1 million for the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, primarily due to the inclusion of operating expenses related to the assets acquired in the Kaneb Acquisition.

Depreciation and amortization expense increased by $15.8 million for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005, primarily due to increases in our property and equipment related to the Kaneb Acquisition.

C***rude Oil Pipelines***

Revenues increased by $4.4 million for the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, due to higher revenues of $2.4 million on the Ardmore crude oil pipelines for the nine months ended September 30, 2006 as lower overall throughputs resulted from a maintenance turnaround at Valero Energy's Ardmore refinery during the nine months ended September 30, 2005. In addition, our purchase of the Capwood pipeline, which increased throughputs by approximately 41,000 barrels per day, resulted in additional revenues of $1.5 million.

Crude Oil Storage Tanks

Revenues increased by $0.7 million for the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, primarily due to increased throughput in our Corpus Christi North Beach storage facility. In addition, Valero Energy's Corpus Christi refinery experienced a maintenance turnaround and effects of two hurricanes during 2005 which resulted in lower throughputs and revenues for the nine months ended September 30, 2005.

Operating expenses increased by $0.8 million for the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, due to increased dockage and wharfage costs at the Corpus Christi North Beach storage facility.

General

General and administrative expenses increased by $13.3 million for the nine months ended September 30, 2006, compared to the nine months ended September 30, 2005, due to increased headcount as a result of the Kaneb Acquisition. This increase in general and administrative expenses was partially offset by a decrease of $2.3 million in the service fee charges to us under the 2006 Services Agreement by Valero Energy.

Equity income from joint ventures increased by $2.2 million for the nine months ended September 30, 2006, compared to the nine months ended September 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 $21.3 million for the nine months ended September 30, 2006, compared to the nine months ended September 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.

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 costs for those services may increase, which would adversely impact our results of operations.

Services Agreement

For the three and nine months ended September 30, 2006, Valero Energy charged us $0.3 million and $1.3 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

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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).

Non-Compete Agreement
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.

Administration Agreement
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.

Amended and Restated 2000 Long-Term Incentive Plan
Effective October 1, 2006, the Valero GP, LLC 2000 Long-Term Incentive Plan was amended as follows:

- increase the number of units authorized for issuance under the Plan from 250,000 units (of which 223,147 have been granted to date) to 1,500,000 units;
- permit the "cashless-broker" exercise of options;
- provide that if an award under the Plan expires, is cancelled, exercised, paid or otherwise terminates without the delivery of units then the units covered by such award, to the extent of such expiration, cancellation, exercise, payment or termination, shall again be units with respect to which awards under the Plan may be granted;
- amend the Plan to meet the requirements of, and facilitate compliance with, Section 409A of the Internal Revenue Code; and
- amend the definition of "Change of Control" to reflect that as a result of its recently completed initial public offering, Valero GP Holdings, LLC is now the 100% owner of the general partner of Valero L.P.

St James Terminal Agreement
On September 20, 2006, we executed a terminal services agreement (St. James Terminal Agreement) with Valero Marketing and Supply Company (VMSC), a wholly owned subsidiary of Valero Energy. Pursuant to the St. James Terminal Agreement, we will provide crude oil storage and blending services to VMSC at the facility in St. James, Louisiana for a monthly minimum throughput fee plus per barrel throughput charges. The St. James Terminal Agreement has an initial term of five years with an option to extend for an additional five years with a one year notice from VMSC prior to the expiration of the initial term.

Technical Termination under IRC §708(b)(1)(B)
Valero Energy has stated its intention to sell its remaining interests in Holdings, pending market conditions. If Valero Energy completes the sale of its remaining interests such that 50% or more of the total interests in Holding's capital and profits are sold within a twelve-month period, Holding's partnership will "terminate" for federal income tax purposes. A technical "termination" is a federal income tax concept that has no impact on the day-to-day business or operations of a partnership. A technical termination of Holdings will result in a deemed sale or exchange of its interests in our capital and profits. This deemed sale or exchange of its interests in our capital and profits will also cause the technical termination of our partnership for federal tax purposes if this deemed sale, together with all other sales of our units, results in a sale or exchange of 50% or more of our capital and profits interest within a twelve-month period. A technical termination would, among other things, result in the closing of our taxable year for all unitholders and would result in a deferral of depreciation and cost recovery deductions allowable in computing our taxable income. Thus, if this occurs, our unitholders will be allocated an increased amount of federal taxable income for the year in which we are considered to be terminated, and for future years, as a percentage of the cash distributed to unitholders with respect to that period. The technical termination of our partnership for federal income tax purposes would have no effect on our financial position or results of operations.

Outlook
For the remainder of 2006, we expect the results of the fourth quarter of 2006 to be lower than the third quarter of 2006 due to higher maintenance expenses and lower expected thoughputs due to seasonality.

Results for the first quarter of 2007 are expected to be lower than the fourth quarter of 2006 due to several planned outages at our customer's refineries and continued lower expected thoughputs due to seasonality.

Despite lower expectations for the first quarter of 2007, we expect 2007 annual results to be comparable to 2006 as we expect operating income to increase by $15 to $20 million, which includes higher depreciation of approximately $15 million. Operating income and depreciation expense are expected to increase primarily due to the effects of the following:

- a full year of operations in 2007 of the St. James crude oil terminal as we expect to complete the acquisition in the fourth quarter of 2006;
- a full year of operations in 2007 of the Burgos project which was completed in July 2006; and
- terminal expansion projects at St. Eustatius in the Caribbean and Amsterdam in the Netherlands as well as other projects that are expected to start contributing to our results of operations in 2007.

In addition, we expect higher interest expense to offset the increase in operating income due to higher debt balances, including borrowings related to funding the acquisitions and capital expenditures described above.

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 Nine Months Ended September 30, 2006 and 2005
Net cash provided by operating activities for the nine months ended September 30, 2006 was $182.0 million compared to $135.4 million for the nine months ended September 30, 2005. The increase in cash generated from operating activities is primarily due to higher net income adjusted for non-cash items.

Net cash provided by operating activities for the nine months ended September 30, 2006, combined with available cash on hand, were used to fund distributions to unitholders and the general partner in the aggregate amount of $135.6 million. The proceeds from long-term debt borrowings totaling $59.0 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.

The net cash provided by operating activities for the nine months ended September 30, 2005 was $135.4 million. The net cash provided by operations, combined with available cash on hand, were used to fund distributions to unitholders and the general partner in the aggregate amount of $83.8 million. Proceeds from long-term debt borrowings totaling $713.2 million, combined with proceeds from the general partner contribution totaling $29.2 million and proceeds received from the sale of Martin Oil LLC to a subsidiary of Valero Energy totaling $26.8 million were used to fund the acquisition of KSL, repay certain outstanding indebtedness of KSL and KPP and to fund capital expenditures and investment of other noncurrent assets of $42.3 million. Proceeds received from the sale of the Held Separate Businesses on September 30, 2005 were used to repay debt outstanding under the $400 Million Revolving Credit Agreement and the $525 Million Term Loan Agreement.

Partners' Equity
Cash Distributions. 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. On October 26, 2006, we declared a quarterly cash distribution of $0.915 per unit to be paid on November 14, 2006 to unitholders of record on November 7, 2006, which totaled $47.7 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 September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
	(Thousands of Dollars)			
General partner interest	$ 955	$ 879	$ 2,787	$ 2,157
General partner incentive distribution	3,909	3,049	10,869	7,210
Total general partner distribution	4,864	3,928	13,656	9,367
Limited partners' distribution	42,830	40,022	125,684	98,478
Total cash distributions	$ 47,694	$ 43,950	$ 139,340	$ 107,845
Cash distributions per unit applicable to limited partners	$ 0.915	$ 0.855	$ 2.685	$ 2.510

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 nine months ended September 30, 2006, we incurred reliability capital expenditures of $22.8 million, including $1.5 million related to noncurrent assets, primarily related to the upgrade and enhancement of the assets acquired with the Kaneb Acquisition. Strategic growth capital expenditures of $56.9 million, including $7.9 million related to noncurrent assets, during the nine months ended September 30, 2006 primarily related to the Burgos project, which we completed in July 2006, the St Eustatius tank expansion and other terminal expansion projects.

For the remainder of 2006, we expect to incur approximately $75 million of capital expenditures, including $20 million for reliability capital projects and $55 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.

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 September 30, 2006.

$400 Million Revolving Credit Agreement

During the nine months ended September 30, 2006, we borrowed $59.0 million under our $400 Million Revolving Credit Agreement to fund the purchase of the Capwood pipeline and our capital expenditures. Additionally, we repaid $48.0 million during the nine months ended September 30, 2006. The $400 Million Revolving Credit Agreement bears interest based on either an alternative base rate or LIBOR, which was 5.9% as of September 30, 2006. As of September 30, 2006, we had $384.1 million available for borrowing under our $400 Million Revolving Credit Agreement. Additionally, we may request an increase in the amount of commitments under our $400 Million Revolving Credit Agreement for up to a maximum of $600 million.

The terms of our 6.05% and 6.875% senior notes require that Valero Energy or an investment grade entity own, directly or indirectly, 51% of our general partner interests, which will no longer be the case if Valero Energy sells its remaining interests in Holdings. Within 30 days of such a sell down by Valero Energy, we would be required to provide notice to the noteholders in which we offer to purchase the senior notes at a price equal to 100% of the principal amount, plus accrued interest through the date of purchase.

We believe that our cash on hand, cash from operations, and sources of liquidity described above, including the increase in our $400 Million Revolving Credit Agreement to a maximum of $600 million, would be sufficient to satisfy our capital needs for acquisitions, capital expenditures, and the potential need to repurchase our senior notes.

Interest Rate Swaps

As of September 30, 2006, the weighted-average interest rate for our interest rate swaps was 7.0%. As of September 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 $5.0 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.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial

statements and accompanying notes. Actual results could differ from those estimates. Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2005.

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.

	September 30, 2006							
	Expected Maturity Dates							
	2006	2007	2008	2009	2010	Thereafter	Total	Fair Value
	(Thousands of Dollars, Except Interest Rates)							
Long-term Debt:								
Fixed rate	$ 566	$ 611	$ 660	$ 713	$ 770	$ 894,202	$ 897,522	$ 936,290
Average interest rate	8.0%	8.0%	8.0%	8.0%	8.0%	6.6%	6.6%	
Variable rate	$ —	$ —	$ —	$ —	$ —	$ 240,000	$ 240,000	$ 240,000
Average interest rate	—	—	—	—	—	6.0%	6.0%	
Interest Rate Swaps Fixed to Variable:								
Notional amount	$ —	$ —	$ —	$ —	$ —	$ 167,500	$ 167,500	$ (4,981)
Average pay rate	7.0%	6.8%	6.6%	6.7%	6.8%	6.8%	6.8%	
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	Thereafter	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 September 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 June 30, 2006.

Environmental Enforcement Matters

As we first reported in our quarterly report on Form 10-Q for the quarter ended June 30, 2006, the California Bay Area Air Quality Management District proposed penalties totaling $494,000 for alleged air violations at the Martinez Terminal. The Martinez Terminal was sold to Pacific Energy Group LLC, a subsidiary of Pacific Energy Partners, L.P., on September 30, 2005. As part of the asset purchase agreement, Pacific Energy Group LLC, a subsidiary of Pacific Energy Partners, L.P., assumed responsibility for the notices of violation at the Martinez Terminal. A settlement agreement has been signed by all parties, and Pacific will pay the total amount of penalty assessed.

We are also a party to additional claims and legal proceedings arising in the ordinary course of business. We believe that the possibility is remote that the final outcome of any of these claims or proceedings to which we or our subsidiaries 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 operation, financial position or liquidity.

Item 4. Submission of Matters to a Vote of Security Holders

On August 18, 2006, Valero L.P. filed a definitive proxy statement pursuant to Section 14(a) of the Securities Exchange Act of 1934 to solicit the consent of its unitholders to approve certain amendments to the Valero GP, LLC Amended and Restated 2000 Long-Term Incentive Plan (the Plan).

As further described in the proxy statement, the proposed amendments to the Plan were to:

- increase the number of Units authorized for issuance under the Plan from 250,000 Units (of which 221,556 have been granted to date) to 1,500,000 Units;
- permit the "cashless-broker" exercise of options;
- provide that if an award under the Plan expires, is cancelled, exercised, paid or otherwise terminates without the delivery of Units then the Units covered by such award, to the extent of such expiration, cancellation, exercise, payment or termination, shall again be Units with respect to which awards under the Plan may be granted;
- amend the Plan to meet the requirements of, and facilitate compliance with, Section 409A of the Code; and
- amend the definition of "Change of Control" to reflect that as a result its recently completed initial public offering, Valero GP Holdings, LLC is now the 100% owner of the general partner of Valero L.P.

The consent expired on September 18, 2006. The unitholders approved the proposal and voted as follows:

For	Against	Abstain	Non-Votes
23,968,943	2,141,205	335,634	0

Item 6. Exhibits

	Exhibit 10.01	Terminal Services Agreement executed September 20, 2006, between Valero Logistics Operations, L.P. and Valero Marketing and Supply Company- incorporated by reference to Exhibit 10.01 to Valero L.P.'s Current Report on Form 8-K dated September 28, 2006 and filed October 3, 2006.
+	Exhibit 10.02	Second Amended and Restated 2000 Long-Term Incentive Plan- incorporated by reference to Exhibit 10.01 to Valero L.P.'s Current Report on Form 8-K dated September 18, 2006 and filed September 22, 2006.
*	Exhibit 10.03	Non-Compete Agreement between Valero GP Holdings, LLC, Valero L.P., Riverwalk Logistics, L.P. and Valero GP, LLC, effective as of July 19, 2006.
*	Exhibit 10.04	Administration Agreement between Valero GP Holdings, LLC and Valero GP, LLC, effective as of July 19, 2006.
+*	Exhibit 10.05	Change of Control Severance Agreement by and among Valero L.P., Valero GP, LLC and Curtis V. Anastasio, dated November 6, 2006.

+*	Exhibit 10.06	Form of Change of Control Severance Agreement by and among Valero L.P., Valero GP, LLC and each of the executive officers of Valero GP, LLC, all dated November 6, 2006.
+	Exhibit 10.07	Form of Unit Option Award Agreement under the Valero GP, LLC Second Amended and Restated 2000 Long-Term Incentive Plan — incorporated by reference to Exhibit 10.02 to Valero L.P.'s Current Report on Form 8-K dated November 2, 2006 and filed November 3, 2006.
+	Exhibit 10.08	Form of Restricted Unit Award Agreement under the Valero GP, LLC Second Amended and Restated 2000 Long-Term Incentive Plan — incorporated by reference to Exhibit 10.03 to Valero L.P.'s Current Report on Form 8-K dated November 2, 2006 and filed November 3, 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.

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
November 8, 2006

By: /s/ Steven A. Blank

Steven A. Blank
Senior Vice President, Chief Financial Officer and Treasurer
November 8, 2006

By: /s/ Thomas R. Shoaf

Thomas R. Shoaf
Vice President and Controller
November 8, 2006

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

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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 10.04

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 ALERO 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.** he 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

CHANGE OF CONTROL
SEVERANCE AGREEMENT

AGREEMENT, dated as of the 6th day of November, 2006 (this "Agreement"), by and among **Valero L.P.**, a Delaware limited partnership (the "Partnership"), **Valero GP, LLC**, a Delaware limited liability company (the "Employer"), and **Curtis V. Anastasio** (the "Executive").

WHEREAS, each of the Board of Directors of the Employer (the "Board") and the Board of Directors of Valero GP Holdings, LLC (the "VEH Board"), has determined that it is in the best interests of the Partnership and its unitholders to assure that the Partnership will have the continued dedication of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined herein). Each of the Board and the VEH Board believes it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control and to encourage the Executive's full attention and dedication to the current Company, the Partnership and the Affiliated Companies in the event of any threatened or pending Change of Control, and to provide the Executive with compensation and benefits arrangements upon a Change of Control that ensure that the compensation and benefits expectations of the Executive will be satisfied and that provide the Executive with compensation and benefits arrangements that are competitive with those of other companies. Therefore, in order to accomplish these objectives, each of the Board and the VEH Board has caused the Partnership and the Employer to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

Section 1. **Certain Definitions.** (a) "Effective Date" means the first date during the Change of Control Period (as defined herein) on which a Change of Control occurs. Notwithstanding anything in this Agreement to the contrary, if a Change of Control occurs and if the Executive's employment with the Partnership or the Employer (as applicable) is terminated prior to the date on which the Change of Control occurs, and if it is reasonably demonstrated by the Executive that such termination of employment (1) was at the request of a third party that has taken steps reasonably calculated to effect a Change of Control or (2) otherwise arose in connection with or in anticipation of a Change of Control, then "Effective Date" means the date immediately prior to the date of such termination of employment.

(b) "Change of Control Period" means the period commencing on the date hereof and ending on the third anniversary of the date hereof; *provided*, *however*, that, commencing on the date one year after the date hereof, and on each annual anniversary of such date (such date and each annual anniversary thereof, the "Renewal Date"), unless previously terminated, the Change of Control Period shall be automatically extended so as to terminate three years from such Renewal Date, unless, at least 60 days prior to the Renewal Date, the Partnership shall give notice to the Executive that the Change of Control Period shall not be so extended.

(c) "Affiliated Company" means any company controlled by, controlling or under common control with (1) the Partnership or the Employer or (2) where such term is used with respect to another entity, such entity.

(d) "Change of Control" means, and shall be deemed to have occurred upon, the first to occur of one or more of the following events after the date hereof:

(i) a "person" or "group" (within the meaning of Sections 13(d) or 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act")) (a "Person"), other than any Affiliated Company becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act) of more than 40% of all voting interests of Valero GP Holdings, LLC, a Delaware limited liability company, then outstanding;

(ii) the failure of Valero GP Holdings, LLC to "control" (as such term is defined in Rule 405 promulgated under the Securities Act of 1933) the Employer, Riverwalk Logistics, L.P. or all of the general partner interests in the Partnership;

(iii) Riverwalk Logistics, L.P. ceases to be the general partner of the Partnership or Riverwalk Logistics, L.P. ceases to be controlled by either the Employer or one of the Affiliated Companies of the Employer (other than Valero Energy Corporation ("VLO") or a direct or indirect wholly owned subsidiary of VLO as the result of the sale by one or more of the foregoing of limited liability company interests in Valero GP Holdings LLC);

(iv) a Person other than any Affiliated Company becomes the "beneficial owner" of more than 50% of all voting interests of the Partnership then outstanding;

(v) the consolidation or merger of Valero GP Holdings, LLC with or into another Person pursuant to a transaction in which the outstanding voting interests of Valero GP Holdings, LLC are changed into or exchanged for cash, securities or other property, other than any such transaction where:

(a) all outstanding voting interests of Valero GP Holdings, LLC are changed into or exchanged for voting stock or interests of the surviving corporation or entity or its parent, and

(b) the holders of the voting interests of Valero GP Holdings, LLC immediately prior to such transaction own, directly or indirectly, not less than a majority of the voting stock or interests of the surviving corporation or entity or its parent immediately after such transaction;

(vi) the consolidation or merger of the Partnership with or into another Person pursuant to a transaction in which the outstanding voting interests of the Partnership are changed into or exchanged for cash, securities or other property, other than any such transaction where Valero GP Holdings, LLC or any of its Affiliated Companies retains "control" (as defined in Rule 405 promulgated under the Securities Act of 1933), whether by way of holding the general partner interest, managing member interest or a majority of the outstanding voting interests of the surviving entity or its parent;

(vii) the sale, lease, exchange, disposition or other transfer (in one or a series of related transactions) of all or substantially all of the assets of Valero GP Holdings, LLC to any Person other than one or more Affiliated Companies of Valero GP Holdings, LLC;

(viii) the sale, lease, exchange, disposition or other transfer (in one or a series of related transactions) by the Partnership of all or substantially all of the assets of the Partnership to any Person other than one or more of the Affiliated Companies of the Partnership; or

(ix) a change in the composition of the VEH Board, as a result of which fewer than a majority of the directors of the VEH Board are Incumbent Directors. "Incumbent Directors" shall mean directors who either (A) are directors of Valero GP Holdings, LLC as of the date hereof, (B) are elected after the date hereof to the VEH Board by the Incumbent Directors, or (C) are elected, or nominated for election, thereafter to the VEH Board with the affirmative votes of at least a majority of Incumbent Directors at the time of such election or nomination, but "Incumbent Director" shall not include an individual whose election or nomination is in connection with (i) an actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the VEH Board or (ii) a plan or agreement to replace a majority of the then Incumbent Directors (other than any such plan or agreement approved by a majority of the then Incumbent Directors).

Section 2. **<u>Employment Period</u>.** The Partnership or the Employer (as applicable) hereby agrees to continue the Executive in its employ, subject to the terms and conditions of this Agreement, for the period commencing on the Effective Date and ending on the third anniversary of the Effective Date (the "Employment Period"). The Employment Period shall terminate upon the Executive's termination of employment for any reason.

Section 3. **<u>Terms of Employment</u>.** (a) **<u>Position and Duties</u>.** (1) During the Employment Period, (A) the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Effective Date and (B) the Executive's services shall be performed at the office where the Executive was employed immediately preceding the Effective Date or at any other location less than 35 miles from such office.

(2) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Partnership, the Employer and/or the Affiliated Companies (as applicable) and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period, it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Partnership or the Employer in accordance with this Agreement. It is expressly understood and agreed that, to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the

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continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Partnership, the Employer or the Affiliated Companies (as applicable).

(b) **<u>Compensation</u>.** (1) **<u>Base Salary</u>.** During the Employment Period, the Executive shall receive an annual base salary (the "Annual Base Salary") at an annual rate at least equal to 12 times the highest monthly base salary paid or payable, including any base salary that has been earned but deferred, to the Executive by the Partnership, the Employer and/or the Affiliated Companies (as applicable) in respect of the 12-month period immediately preceding the month in which the Effective Date occurs. The Annual Base Salary shall be paid at such intervals as the Employer pays executive salaries generally. During the Employment Period, the Annual Base Salary shall be reviewed at least annually, beginning no more than 12 months after the last salary increase awarded to the Executive prior to the Effective Date. Any increase in the Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. The Annual Base Salary shall not be reduced after any such increase and the term "Annual Base Salary" shall refer to the Annual Base Salary as so increased.

(2) **<u>Annual Bonus</u>.** In addition to the Annual Base Salary, the Executive shall be awarded, for each fiscal year ending during the Employment Period, an annual bonus (the "Annual Bonus") in cash at least equal to the Executive's highest bonus earned under the Partnership's and/or the Employer's annual incentive bonus plans (as applicable), or any comparable bonus under any predecessor or successor plan or plans, for the last three full fiscal years prior to the Effective Date (or for such lesser number of full fiscal years prior to the Effective Date for which the Executive was eligible to earn such a bonus, and annualized in the case of any pro rata bonus earned for a partial fiscal year) (the "Recent Annual Bonus"). (If the Executive has not been eligible to earn such a bonus for any period prior to the Effective Date, the "Recent Annual Bonus" shall mean the Executive's target annual bonus for the year in which the Effective Date occurs.) Each such Annual Bonus shall be paid no later than two and a half months after the end of the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect to defer the receipt of such Annual Bonus pursuant to an arrangement that meets the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code").

(3) **<u>Incentive, Savings and Retirement Plans</u>.** During the Employment Period, the Executive shall be entitled to participate in all cash incentive, equity incentive, savings and retirement plans, practices, policies, and programs applicable generally to other peer executives of the Partnership, the Employer and the Affiliated Companies, but in no event shall such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, less favorable, in the aggregate, than the most favorable of those provided by the Partnership, the Employer and the Affiliated Companies for the Executive under such plans, practices, policies and programs as in effect at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, those

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provided generally at any time after the Effective Date to other peer executives of the Partnership, the Employer and the Affiliated Companies.

(4) **Welfare Benefit Plans.** During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Partnership, the Employer and the Affiliated Companies (including, without limitation, medical, prescription, dental, vision, disability, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Partnership, the Employer and the Affiliated Companies, but in no event shall such plans, practices, policies and programs provide the Executive with benefits that are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Partnership, the Employer and the Affiliated Companies.

(5) **Expenses.** During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Partnership, the Employer and the Affiliated Companies in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Partnership, the Employer and the Affiliated Companies.

(6) **Fringe Benefits.** During the Employment Period, the Executive shall be entitled to fringe benefits, in accordance with the most favorable plans, practices, programs and policies of the Partnership, the Employer and the Affiliated Companies in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Partnership, the Employer and the Affiliated Companies.

(7) **Office and Support Staff.** During the Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Partnership, the Employer and the Affiliated Companies at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other peer executives of the Partnership, the Employer and the Affiliated Companies.

(8) **Vacation.** During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Partnership, the Employer and the Affiliated Companies as in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or,

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if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Partnership, the Employer and the Affiliated Companies.

(9) **Immediate Vesting of Outstanding Equity Incentive Awards.** Notwithstanding any provision in the Company's and the Employer's equity incentive plans or the award agreements thereunder, effective immediately upon the occurrence of a Change of Control, (A) all unit options (incentive or non-qualified) outstanding as of the date of such Change of Control, which are not then exercisable and vested, shall become fully exercisable and vested to the full extent of the original grant and, following the Executive's termination of employment for any reason, shall remain exercisable for the longer of (x) the post-termination exercise period provided under the applicable award agreement with respect to the applicable circumstances of the Executive's termination and (y) the period ending on the date no later than (1) the 15th day of the third month following the date the exercise period otherwise would have expired and (2) December 31 of the calendar year in which the exercise period otherwise would have expired (*provided*, that the period in clause (y) shall be automatically extended to the maximum extent permitted under Section 409A of the Code without being considered to be an "extension" within the meaning of the regulations under Section 409A of the Code, but in no event shall it be extended by this Agreement beyond two years from the Date of Termination); *provided*, *however*, that in no event shall a unit option be exercisable beyond the expiration date of its full original option term; (B) all restrictions applicable to any restricted unit awards outstanding as of the date of such Change of Control shall lapse, and such restricted unit awards shall become free of all restrictions and become fully vested and transferable to the full extent of the original grant; and (C) all restricted unit awards and performance unit awards for any outstanding performance periods outstanding as of the date of such Change of Control shall fully vest and be earned and shall be settled and payable in full (in the case of performance unit awards based on the deemed achievement of performance at 200% of target level for the entire performance period). Notwithstanding the foregoing provisions of clause (C), in the event the accelerated settlement or payment of a restricted unit award or performance unit award pursuant to this Section 3(b)(9) would give rise to the additional tax imposed under Section 409A of the Code, such restricted unit award and performance unit award shall vest and be earned as provided in clause (C) (and shall not be subject to the forfeiture under any circumstances), but shall not be settled until the originally scheduled vesting date set forth in the applicable award agreement or such earlier date or event as shall not result in the imposition of the tax imposed under Section 409A of the Code.

Section 4. **Termination of Employment.** (a) **Death or Disability.** The Executive's employment shall terminate automatically if the Executive dies during the Employment Period. If the Employer determines in good faith that the Disability (as defined herein) of the Executive has occurred during the Employment Period (pursuant to the definition of "Disability"), it may give to the Executive written notice in accordance with Section 11(b) of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Partnership or the Employer (as applicable) shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), *provided* that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. "Disability" means the

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absence of the Executive from the Executive's duties with the Partnership or the Employer (as applicable) on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness that is determined to be total and permanent by a physician selected by the Partnership or the Employer (as applicable) or its respective insurers and acceptable to the Executive or the Executive's legal representative.

(b) **Cause.** The Partnership or the Employer (as applicable) may terminate the Executive's employment during the Employment Period with or without Cause. "Cause" means:

(1) the willful and continued failure of the Executive to perform substantially the Executive's duties (as contemplated by Section 3(a)(1)(A)) with the Partnership, the Employer or any Affiliated Company (other than any such failure resulting from incapacity due to physical or mental illness or following the Executive's delivery of a Notice of Termination for Good Reason), after a written demand for substantial performance is delivered to the Executive by the Board, the VEH Board or the Chief Executive Officer of the Employer that specifically identifies the manner in which the Board, the VEH Board or the Chief Executive Officer of the Employer believes that the Executive has not substantially performed the Executive's duties; or

(2) the willful engaging by the Executive in illegal conduct or gross misconduct that is materially and demonstrably injurious to the Partnership, the Employer or any Affiliated Company.

For purposes of this Section 4(b), no act, or failure to act, on the part of the Executive shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Partnership, the Employer or the Affiliated Companies. Any act, or failure to act, based upon authority (A) given pursuant to a resolution duly adopted by the Board, the VEH Board, or if Valero GP Holdings, LLC is not the ultimate parent corporation of the Affiliated Companies and is not publicly traded, the board of directors of the ultimate parent of the Partnership (the "Applicable Board"), (B) upon the instructions of the Chief Executive Officer of the Employer or a senior officer of the Employer or (C) based upon the advice of counsel for the Partnership or the Employer shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Partnership, the Employer or the Affiliated Companies. The cessation of employment of the Executive shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Applicable Board (excluding the Executive, if the Executive is a member of the Applicable Board) at a meeting of the Applicable Board called and held for such purpose (after reasonable notice is provided to the Executive and the Executive is given an opportunity, together with counsel for the Executive, to be heard before the Applicable Board), finding that, in the good faith opinion of the board, the Executive is guilty of the conduct described in Section 4(b)(1) or 4(b)(2), and specifying the particulars thereof in detail.

(c) **Good Reason.** The Executive's employment may be terminated by the Executive for Good Reason or by the Executive voluntarily without Good Reason. "Good Reason" means:

(1) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 3(a), or any other diminution in such position, authority, duties or responsibilities (whether or not occurring solely as a result of either Valero GP Holdings, LLC or the Partnership ceasing to be a publicly traded entity), excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and that is remedied by the Partnership or the Employer (as applicable) promptly after receipt of notice thereof given by the Executive;

(2) any failure by the Partnership or the Employer (as applicable) to comply with any of the provisions of Section 3(b), other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and that is remedied by the Partnership or the Employer (as applicable) promptly after receipt of notice thereof given by the Executive;

(3) the Partnership, the Employer or an Affiliated Company (as applicable) requiring the Executive (i) to be based at any office or location other than as provided in Section 3(a)(1)(B), (ii) to be based at a location other than the principal executive offices of the Partnership if the Executive was employed at such location immediately preceding the Effective Date, or (iii) to travel on Partnership, the Employer or an Affiliated Company's business to a substantially greater extent than required immediately prior to the Effective Date;

(4) any purported termination by the Partnership or the Employer (as applicable) of the Executive's employment otherwise than as expressly permitted by this Agreement; or

(5) any failure by the Partnership or the Employer to comply with and satisfy Section 10(c).

For purposes of this Section 4(c), any good faith determination of Good Reason made by the Executive shall be conclusive. The Executive's mental or physical incapacity following the occurrence of an event described above in clauses (1) through (5) shall not affect the Executive's ability to terminate employment for Good Reason.

(d) **Notice of Termination.** Any termination by the Partnership or the Employer (as applicable) for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 11(b). "Notice of Termination" means a written notice that (1) indicates the specific termination provision in this Agreement relied upon, (2) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the

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Executive's employment under the provision so indicated, and (3) if the Date of Termination (as defined herein) is other than the date of receipt of such notice, specifies the Date of Termination (which Date of Termination shall be not more than 30 days after the giving of such notice). The failure by the Executive or the Partnership or the Employer (as applicable) to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Partnership or the Employer, respectively, hereunder or preclude the Executive or the Partnership or the Employer respectively, from asserting such fact or circumstance in enforcing the Executive's or the Partnership's or the Employer's respective rights hereunder.

(e) **Date of Termination.** "Date of Termination" means (1) if the Executive's employment is terminated by the Partnership or the Employer (as applicable) for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified in the Notice of Termination (which date shall not be more than 30 days after the giving of such notice), as the case may be, (2) if the Executive's employment is terminated by the Partnership or the Employer (as applicable) other than for Cause or Disability, the date on which the Partnership or the Employer (as applicable) notifies the

Executive of such termination, (3) if the Executive resigns without Good Reason, the date on which the Executive notifies the Partnership or the Employer (as applicable) of such termination, and (4) if the Executive's employment is terminated by reason of death or Disability, the date of death of the Executive or the Disability Effective Date, as the case may be.

Section 5. **Obligations of the Partnership or the Employer (as applicable) upon Termination.** (a) **Good Reason; Other Than for Cause, Death or Disability.** If, during the Employment Period, the Partnership or the Employer (as applicable) terminates the Executive's employment other than for Cause or Disability or the Executive terminates employment for Good Reason:

(1) the Partnership or the Employer (as applicable) shall pay to the Executive, in a lump sum in cash within 30 days after the Date of Termination, the aggregate of the following amounts:

(A) the sum of (i) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (ii) the product of (x) the higher of (I) the Recent Annual Bonus and (II) the Annual Bonus paid or payable, including any bonus or portion thereof that has been earned but deferred (and annualized for any fiscal year consisting of less than 12 full months or during which the Executive was employed for less than 12 full months), for the most recently completed fiscal year during the Employment Period, if any (such higher amount, the "Highest Annual Bonus") and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination and the denominator of which is 365, and (iii) any accrued vacation pay, in each case, to the extent not theretofore paid (the sum of the amounts described in subclauses (i), (ii) and (iii), the "Accrued Obligations");

(B) the amount equal to the product of (i) three and (ii) the sum of (x) the Executive's Annual Base Salary and (y) the Highest Annual Bonus;

(C) an amount equal to the excess of (i) the actuarial equivalent of the benefit under the Partnership's, the Employer's and/or any Affiliated Company's qualified defined benefit retirement plan (the "Retirement Plan") (utilizing actuarial assumptions no less favorable to the Executive than those in effect under the Retirement Plan immediately prior to the Effective Date) and any excess or supplemental retirement plan in which the Executive participates (collectively, the "SERP") that the Executive would receive if the Executive's employment continued for three years after the Date of Termination, assuming for this purpose that (x) the Executive's age and service credit are increased by the number of years that the Executive is deemed to be so employed and, (y) all accrued benefits are fully vested and (z) the Executive's compensation in each of the three years is that required by Sections 3(b)(1) and 3(b)(2) payable in equal monthly installments over such three years, over (ii) the actuarial equivalent of the Executive's actual benefit (paid or payable), if any, under the Retirement Plan and the SERP as of the Date of Termination; and

(D) an amount equal to the sum of the Partnership, the Employer or an Affiliated Company's (as applicable) matching or other Partnership, the Employer or an Affiliated Company's (as applicable) contributions under the Partnership's, the Employer's or an Affiliated Company's (as applicable) qualified defined contribution plans and any excess or supplemental defined contribution plans in which the Executive participates that the Executive would receive if the Executive's employment continued for three years after the Date of Termination, assuming for this purpose that (x) the Executive's benefits under such plans are fully vested, (y) the Executive's compensation in each of the three years is that required by Sections 3(b)(1) and 3(b)(2) and (z) to the extent that the Partnership and/or the Employer (as applicable) contributions are determined based on the contributions or deferrals of the Executive, that the Executive's contribution or deferral elections, as appropriate, are those in effect immediately prior the Date of Termination; and

(2) for three years after the Executive's Date of Termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, but, to the extent required in order to comply with Section 409A of the Code, in no event beyond the end of the second calendar year that begins after the Executive's "separation from service" within the meaning of Section 409A of the Code (the "Benefit Continuation Period"), the Partnership and/or the Employer (as applicable) shall continue benefits to the Executive and/or the Executive's family at least equal to, and at the same cost to the Executive and/or the Executive's family, as those that would have been provided to them in accordance with the plans, programs, practices and policies described in Section 3(b)(4) if the Executive's employment had not been terminated or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Partnership, the Employer and

the Affiliated Companies and their families, *provided*, *however*, that, if the Executive becomes reemployed with another employer and is eligible to receive such benefits under another employer provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. The Executive's entitlement to COBRA continuation coverage under Section 4980B of the Code ("COBRA Coverage") shall not be offset by the provision of benefits under this Section 5(a)(2) and the period of COBRA Coverage shall commence at the end of the Benefit Continuation Period. For purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed (for purposes of both age and service credit) until the end of the Benefit Continuation Period and to have retired on the last day of such period; and

(3) to the extent not theretofore paid or provided, the Partnership or the Employer (as applicable) shall timely pay or provide to the Executive any Other Benefits (as defined in Section 6).

Notwithstanding the foregoing provisions of this Section 5(a), to the extent required in order to comply with Section 409A of the Code, cash amounts that would otherwise be payable under this Section 5(a) during the six-month period immediately following the Date of Termination shall instead be paid, with interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code ("Interest"), on the first business day after the date that is six months following the Executive's "separation from service" within the meaning of Section 409A of the Code.

(b) **Death.** If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, the Partnership or the Employer (as applicable) shall provide the Executive's estate or beneficiaries with the Accrued Obligations and the timely payment or delivery of the Other Benefits, and shall have no other severance obligations under this Agreement. The Accrued Obligations shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of the Other Benefits, the term "Other Benefits" as utilized in this Section 5(b) shall include, without limitation, and the Executive's estate and/or beneficiaries shall be entitled to receive, benefits at least equal to the most favorable benefits provided by the Partnership, the Employer and the Affiliated Companies to the estates and beneficiaries of peer executives of the Partnership, the Employer and the Affiliated Companies under such plans, programs, practices and policies relating to death benefits, if any, as in effect with respect to other peer executives and their beneficiaries at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive's estate and/or the Executive's beneficiaries, as in effect on the date of the Executive's death with respect to other peer executives of the Partnership, the Employer and the Affiliated Companies and their beneficiaries.

(c) **Disability.** If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period, the Partnership or the Employer (as

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applicable) shall provide the Executive with the Accrued Obligations and the timely payment or delivery of the Other Benefits, and shall have no other severance obligations under this Agreement. The Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination, provided, that to the extent required in order to comply with Section 409A of the Code, amounts and benefits to be paid or provided under this Section 5(c) shall be paid, with Interest, or provided to the Executive on the first business day after the date that is six months following the Executive's "separation from service" within the meaning of Section 409A of the Code. With respect to the provision of the Other Benefits, the term "Other Benefits" as utilized in this Section 5(c) shall include, and the Executive shall be entitled after the Disability Effective Date to receive, disability and other benefits at least equal to the most favorable of those generally provided by the Partnership, the Employer and the Affiliated Companies to disabled executives and/or their families in accordance with such plans, programs, practices and policies relating to disability, if any, as in effect generally with respect to other peer executives and their families at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive and/or the Executive's family, as in effect at any time thereafter generally with respect to other peer executives of the Partnership, the Employer and the Affiliated Companies and their families.

(d) **Cause; Other Than for Good Reason.** If the Executive's employment is terminated for Cause during the Employment Period, the Partnership or the Employer (as applicable) shall provide the Executive with the Executive's Annual Base Salary through the Date of Termination, and the timely payment or delivery of the Other Benefits and shall have no other severance obligations under this Agreement. If the Executive voluntarily terminates employment during the Employment Period, excluding a termination for Good Reason, the Partnership or the Employer (as applicable) shall provide to the Executive the Accrued Obligations and the timely payment or delivery of the Other Benefits, and shall have no other severance obligations under this Agreement. In such case, all the Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination, provided, that to the extent required in order to comply with Section 409A of the Code, amounts and benefits to be paid or provided under this sentence of Section 5(d) shall be paid, with Interest, or provided to the Executive on the first business day after the date that is six months following the Executive's "separation from service" within the meaning of Section 409A of the Code.

Section 6. **Non-exclusivity of Rights.** Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Partnership, the Employer or the Affiliated Companies and for which the Executive may qualify, nor, subject to Section 11(f), shall anything herein limit or otherwise affect such rights as the Executive may have under any other contract or agreement with the Partnership, the Employer or the Affiliated Companies. Amounts that are vested benefits or that the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any other contract or agreement with the Partnership, the Employer or the Affiliated Companies at or subsequent to the Date of Termination ("Other Benefits") shall be payable in accordance with such plan, policy, practice or program or contract or agreement, except as explicitly modified by this Agreement. Without limiting the generality of the

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foregoing, the Executive's resignation under this Agreement with or without Good Reason, shall in no way affect the Executive's ability to terminate employment by reason of the Executive's "retirement" under any compensation and benefits plans, programs or arrangements of the Partnership, the Employer or the Affiliated Companies in which the Executive participates, including without limitation any retirement or pension plans or arrangements or to be eligible to receive benefits under any compensation or benefit plans, programs or arrangements of the Partnership, the Employer or the Affiliated Companies, including without limitation any retirement or pension plan or arrangement of the Partnership, the Employer or the Affiliated Companies or substitute plans adopted by the Partnership or the Employer or their respective successors, and any termination which otherwise qualifies as Good Reason shall be treated as such even if it is also a "retirement" for purposes of any such plan. Notwithstanding the foregoing, if the Executive receives payments and benefits pursuant to Section 5(a) of this Agreement, the Executive shall not be entitled to any severance pay or benefits under any severance plan, program or policy of the Partnership, the Employer and the Affiliated Companies, unless otherwise specifically provided therein by a specific reference to this Agreement.

Section 7. **Full Settlement.** The Partnership's and the Employer's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense, or other claim, right or action that the Partnership or the Employer may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement, and such amounts shall not be reduced whether or not the Executive obtains other employment. The Partnership and the Employer agree to pay as incurred (within 10 days following the Partnership's or the Employer's receipt of an invoice from the Executive), to the full extent permitted by law, all legal fees and expenses that the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Partnership, the Employer, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus, in each case, Interest.

Section 8. Certain Additional Payments by the Partnership or the Employer.

(a) Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any payment or distribution by the Partnership, the Employer or the Affiliated Companies to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 8) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, collectively the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (the "Gross-Up Payment") in an amount such that, after payment by the Executive of all taxes (and any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, but excluding any income taxes and penalties imposed pursuant to Section 409A of the Code, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions of this Section 8(a), if it shall be determined that the Executive is entitled to the Gross-Up Payment, but that the Parachute Value of all Payments does not exceed 110% of the Safe Harbor Amount, then no Gross-Up Payment shall be made to the Executive and the amounts payable under this Agreement shall be reduced so that the Parachute Value of all Payments, in the aggregate, equals the Safe Harbor Amount. The reduction of the amounts payable hereunder, if applicable, shall be made by first reducing the payments under Section 5(a)(i)(B), unless an alternative method of reduction is elected by the Executive, and in any event shall be made in such a manner as to maximize the Value of all Payments actually made to the Executive. For purposes of reducing the Payments to the Safe Harbor Amount, only amounts payable under this Agreement (and no other Payments) shall be reduced. If the reduction of the amount payable under this Agreement would not result in a reduction of the Parachute Value of all Payments to the Safe Harbor Amount, no amounts payable under the Agreement shall be reduced pursuant to this Section 8(a). The Partnership's or the Employer's (as applicable) obligation to make Gross-Up Payments under this Section 8 shall not be conditioned upon the Executive's termination of employment. For the purposes of this Section 8, (i) the term "Parachute Value" of a Payment shall mean the present value as of the date of the change of control for purposes of Section 280G of the Code of the portion of such Payment that constitutes a "parachute payment" under Section 280G(b)(2), as determined by the Accounting Firm for purposes of determining whether and to what extent the Excise Tax will apply to such Payment; (ii) the "Safe Harbor Amount" means 2.99 times the Executive's "base amount," within the meaning of Section 280G(b)(3) of the Code; and (iii) the "Value" of a Payment shall mean the economic present value of a Payment as of the date of the change of control for purposes of Section 280G of the Code, as determined by the Accounting Firm using the discount rate required by Section 280G(d)(4) of the Code.

(b) Subject to the provisions of Section 8(c), all determinations required to be made under this Section 8, including whether and when a Gross-Up Payment is required,

the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Deloitte & Touche, LLP, or such other nationally recognized certified public accounting firm as may be designated by the Executive, subject to the Partnership's approval which will not be unreasonably withheld (the "Accounting Firm"). The Accounting Firm shall provide detailed supporting calculations both to the Partnership, the Employer and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment or such earlier time as is requested by the Partnership or the Employer. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Executive, subject to the Partnership's approval which will not be unreasonably withheld, may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Partnership. Any Gross-Up Payment, as determined pursuant to this Section 8, shall be paid by the Partnership or the Employer (as applicable) to the Executive within 5 days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Partnership, the Employer and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments that will not have been made by the Partnership or the Employer (as applicable) should have been made (the "Underpayment"), consistent with the calculations required to be made hereunder. In the event the Partnership or the Employer (as applicable) exhausts its remedies pursuant to Section 8(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Partnership or the Employer (as applicable) to or for the benefit of the Executive.

(c) The Executive shall notify the Partnership in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Partnership or the Employer (as applicable) of the Gross-Up Payment. Such notification shall be given as soon as practicable, but no later than 10 business days after the Executive is informed in writing of such claim. The Executive shall apprise the Partnership of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which the Executive gives such notice to the Partnership (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Partnership or the Employer notifies the Executive in writing prior to the expiration of such period that the Partnership or the Employer desires to contest such claim, the Executive shall:

(1) give the Partnership and the Employer any information reasonably requested by the Partnership or the Employer relating to such claim,

(2) take such action in connection with contesting such claim as the Partnership or the Employer shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Partnership or the Employer,

(3) cooperate with the Partnership and the Employer in good faith in order effectively to contest such claim, and

(4) permit the Partnership and the Employer to participate in any proceedings relating to such claim;

provided, *however*, that the Partnership or the Employer shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest, and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 8(c), the Partnership shall control all proceedings taken in connection with such contest, and, at its sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the applicable taxing authority in respect of such claim and may, at its sole discretion, either pay the tax claimed to the appropriate taxing authority on behalf of the Executive and direct the Executive to sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Partnership shall determine; *provided*, *however*, that, if the Partnership or the Employer pays such claim and directs the Executive to sue for a refund, the Partnership and the Employer shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties) imposed with respect to such payment or with respect to any imputed income in connection with such payment; and *provided*, *further*, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Partnership's control of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of a Gross-Up Payment or payment by the Partnership or the Employer of an amount on the Executive's behalf pursuant to Section 8(c), the Executive becomes entitled to receive any refund with respect to the Excise Tax to which such Gross-Up Payment relates or with respect to such claim, the Executive shall (subject to the Partnership's and the Employer's complying with the requirements of Section 8(c), if applicable) promptly pay to the Partnership or the Employer (as applicable) the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after payment by the Partnership or the Employer (as applicable) of an amount on the Executive's behalf pursuant to Section 8(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Partnership or the Employer does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then the amount of such payment shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

(e) Notwithstanding any other provision of this Section 8, the Partnership or the Employer (as applicable) may, in its sole discretion, withhold and pay over to the Internal Revenue Service or any other applicable taxing authority, for the benefit of the Executive, all or any portion of any Gross-Up Payment, and the Executive hereby consents to such withholding.

(f) Notwithstanding anything contained herein to the contrary, no Gross Up Payment shall be payable under this Section 8, if the Partnership furnishes to the Executive an opinion of a nationally recognized accounting or law firm to the effect that, as of immediately prior to the Effective Date, the Partnership should not be treated a "corporation" within the meaning of the regulations issued under Section 280G of the Code; *provided*, *however*, that the Executive shall continue to have rights and the Partnership shall continue to have obligations under this Section 8, including without limitation those under Sections 8(b), (c) and (d).

Section 9. **<u>Confidential Information</u>.** The Executive shall hold in a fiduciary capacity for the benefit of the Partnership and the Employer all secret or confidential information, knowledge or data relating to the Partnership, the Employer or the Affiliated Companies, and their respective businesses, which information, knowledge or data shall have been obtained by the Executive during the Executive's employment by the Partnership or the Employer (as applicable) and which information, knowledge or data shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Employer, the Executive shall not, without the prior written consent of the Partnership or the Employer (as applicable) or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Partnership or the Employer and those persons designated by the Partnership or the Employer. In no event shall an asserted violation of the provisions of this Section 9 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

Section 10. **<u>Successors</u>.** (a) This Agreement is personal to the Executive, and, without the prior written consent of the Partnership or the Employer, shall not be assignable by the Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Partnership and its successors and assigns and the Employer and its successors and assigns. Except as provided in Section 10(c), without the prior written consent of the Executive, this Agreement shall not be assignable by the Partnership or the Employer.

(c) Each of the Partnership and the Employer will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Partnership or the Employer (as applicable) to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Partnership or the Employer (as applicable) would be required to

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perform it if no such succession had taken place. "Partnership" means the Partnership as hereinbefore defined and any successor to its business and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law or otherwise. "Employer" means the Employer as hereinbefore defined and any successor to its business and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law or otherwise.

Section 11. **<u>Miscellaneous</u>.** (a) This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified other than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

if to the Executive: At the most recent address
on file in the Employer's records

if to the Partnership or the Employer: Valero L.P.
One Valero Way
San Antonio, Texas 78249

Attention: Corporate Secretary

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Partnership or the Employer (as applicable) may withhold from any amounts payable under this Agreement such United States federal, state or local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive's or the Partnership's or the Employer's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive, the Partnership or the Employer may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Sections 4(c)(1) through 4(c)(5), shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) The Executive and the Partnership and the Employer acknowledge that, except as may otherwise be provided under any other written agreement between the Executive

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and the Partnership, the Employer or the Executive, the employment of the Executive by the Partnership or the Employer (as applicable) is "at will" and, subject to Section 1(a), prior to the Effective Date, the Executive's employment may be terminated by either the Executive or the Partnership or the Employer (as applicable) at any time prior to the Effective Date, in which case the Executive shall have no further rights under this Agreement. From and after the Effective Date, except as specifically provided herein, this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

(g) If any compensation or benefits provided by this Agreement may result in the application of Section 409A of the Code, the Partnership or the Employer shall, in consultation with the Executive, modify the Agreement in the least restrictive manner necessary in order to exclude such compensation from the definition of "deferred compensation" within the meaning of such Section 409A or in order to comply with the provisions of Section 409A, other applicable provision(s) of the Code and/or any rules, regulations or other regulatory guidance issued under such statutory provisions and without any diminution in the value of the payments to the Executive.

(h) The Partnership hereby guarantees the full payment and performance of all of the Employer's obligations under this Agreement and the Executive shall be entitled to full recourse against the Partnership with respect to any obligations of the Employer to the Executive hereunder.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from the Board and the VEH Board, the Partnership and the Employer have caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

/s/ Curtis V. Anastasio
Curtis V. Anastasio

VALERO L.P.

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

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

VALERO GP, LLC

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

CHANGE OF CONTROL
SEVERANCE AGREEMENT

AGREEMENT, dated as of the **6th** day of November, 2006 (this "Agreement"), by and among **Valero L.P.**, a Delaware limited partnership (the "Partnership"), **Valero GP, LLC**, a Delaware limited liability company (the "Employer"), and **[___]** (the "Executive").

WHEREAS, each of the Board of Directors of the Employer (the "Board") and the Board of Directors of Valero GP Holdings, LLC (the "VEH Board"), has determined that it is in the best interests of the Partnership and its unitholders to assure that the Partnership will have the continued dedication of the Executive, notwithstanding the possibility, threat or occurrence of a Change of Control (as defined herein). Each of the Board and the VEH Board believes it is imperative to diminish the inevitable distraction of the Executive by virtue of the personal uncertainties and risks created by a pending or threatened Change of Control and to encourage the Executive's full attention and dedication to the current Company, the Partnership and the Affiliated Companies in the event of any threatened or pending Change of Control, and to provide the Executive with compensation and benefits arrangements upon a Change of Control that ensure that the compensation and benefits expectations of the Executive will be satisfied and that provide the Executive with compensation and benefits arrangements that are competitive with those of other companies. Therefore, in order to accomplish these objectives, each of the Board and the VEH Board has caused the Partnership and the Employer to enter into this Agreement.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

Section 1. **Certain Definitions.** (a) "Effective Date" means the first date during the Change of Control Period (as defined herein) on which a Change of Control occurs. Notwithstanding anything in this Agreement to the contrary, if a Change of Control occurs and if the Executive's employment with the Partnership or the Employer (as applicable) is terminated prior to the date on which the Change of Control occurs, and if it is reasonably demonstrated by the Executive that such termination of employment (1) was at the request of a third party that has taken steps reasonably calculated to effect a Change of Control or (2) otherwise arose in connection with or in anticipation of a Change of Control, then "Effective Date" means the date immediately prior to the date of such termination of employment.

(b) "Change of Control Period" means the period commencing on the date hereof and ending on the third anniversary of the date hereof; *provided*, *however*, that, commencing on the date one year after the date hereof, and on each annual anniversary of such date (such date and each annual anniversary thereof, the "Renewal Date"), unless previously terminated, the Change of Control Period shall be automatically extended so as to terminate three years from such Renewal Date, unless, at least 60 days prior to the Renewal Date, the Partnership shall give notice to the Executive that the Change of Control Period shall not be so extended.

(c) "Affiliated Company" means any company controlled by, controlling or under common control with (1) the Partnership or the Employer or (2) where such term is used with respect to another entity, such entity.

(d) "Change of Control" means, and shall be deemed to have occurred upon, the first to occur of one or more of the following events after the date hereof:

(i) a "person" or "group" (within the meaning of Sections 13(d) or 14(d)(2) of the Securities Exchange Act of 1934 (the "Exchange Act")) (a "Person"), other than any Affiliated Company becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act) of more than 40% of all voting interests of Valero GP Holdings, LLC, a Delaware limited liability company, then outstanding;

(ii) the failure of Valero GP Holdings, LLC to "control" (as such term is defined in Rule 405 promulgated under the Securities Act of 1933) the Employer, Riverwalk Logistics, L.P. or all of the general partner interests in the Partnership;

(iii) Riverwalk Logistics, L.P. ceases to be the general partner of the Partnership or Riverwalk Logistics, L.P. ceases to be controlled by either the Employer or one of the Affiliated Companies of the Employer (other than Valero Energy Corporation ("VLO") or a direct or indirect wholly owned subsidiary of VLO as the result of the sale by one or more of the foregoing of limited liability company interests in Valero GP Holdings LLC);

(iv) a Person other than any Affiliated Company becomes the "beneficial owner" of more than 50% of all voting interests of the Partnership then outstanding;

(v) the consolidation or merger of Valero GP Holdings, LLC with or into another Person pursuant to a transaction in which the outstanding voting interests of Valero GP Holdings, LLC are changed into or exchanged for cash, securities or other property, other than any such transaction where:

(a) all outstanding voting interests of Valero GP Holdings, LLC are changed into or exchanged for voting stock or interests of the surviving corporation or entity or its parent, and

(b) the holders of the voting interests of Valero GP Holdings, LLC immediately prior to such transaction own, directly or indirectly, not less than a majority of the voting stock or interests of the surviving corporation or entity or its parent immediately after such transaction;

(vi) the consolidation or merger of the Partnership with or into another Person pursuant to a transaction in which the outstanding voting interests of the Partnership are changed into or exchanged for cash, securities or other property, other than any such transaction where Valero GP Holdings, LLC or any of its Affiliated Companies retains "control" (as defined in Rule 405 promulgated under the Securities Act of 1933), whether by way of holding the general partner interest, managing member interest or a majority of the outstanding voting interests of the surviving entity or its parent;

(vii) the sale, lease, exchange, disposition or other transfer (in one or a series of related transactions) of all or substantially all of the assets of Valero GP Holdings, LLC to any Person other than one or more Affiliated Companies of Valero GP Holdings, LLC;

(viii) the sale, lease, exchange, disposition or other transfer (in one or a series of related transactions) by the Partnership of all or substantially all of the assets of the Partnership to any Person other than one or more of the Affiliated Companies of the Partnership; or

(ix) a change in the composition of the VEH Board, as a result of which fewer than a majority of the directors of the VEH Board are Incumbent Directors. "Incumbent Directors" shall mean directors who either (A) are directors of Valero GP Holdings, LLC as of the date hereof, (B) are elected after the date hereof to the VEH Board by the Incumbent Directors, or (C) are elected, or nominated for election, thereafter to the VEH Board with the affirmative votes of at least a majority of Incumbent Directors at the time of such election or nomination, but "Incumbent Director" shall not include an individual whose election or nomination is in connection with (i) an actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the VEH Board or (ii) a plan or agreement to replace a majority of the then Incumbent Directors (other than any such plan or agreement approved by a majority of the then Incumbent Directors).

Section 2. **Employment Period.** The Partnership or the Employer (as applicable) hereby agrees to continue the Executive in its employ, subject to the terms and conditions of this Agreement, for the period commencing on the Effective Date and ending on the third anniversary of the Effective Date (the "Employment Period"). The Employment Period shall terminate upon the Executive's termination of employment for any reason.

Section 3. **Terms of Employment.** (a) **Position and Duties.** (1) During the Employment Period, (A) the Executive's position (including status, offices, titles and reporting requirements), authority, duties and responsibilities shall be at least commensurate in all material respects with the most significant of those held, exercised and assigned at any time during the 120-day period immediately preceding the Effective Date and (B) the Executive's services shall be performed at the office where the Executive was employed immediately preceding the Effective Date or at any other location less than 35 miles from such office.

(2) During the Employment Period, and excluding any periods of vacation and sick leave to which the Executive is entitled, the Executive agrees to devote reasonable attention and time during normal business hours to the business and affairs of the Partnership, the Employer and/or the Affiliated Companies (as applicable) and, to the extent necessary to discharge the responsibilities assigned to the Executive hereunder, to use the Executive's reasonable best efforts to perform faithfully and efficiently such responsibilities. During the Employment Period, it shall not be a violation of this Agreement for the Executive to (A) serve on corporate, civic or charitable boards or committees, (B) deliver lectures, fulfill speaking engagements or teach at educational institutions and (C) manage personal investments, so long as such activities do not significantly interfere with the performance of the Executive's responsibilities as an employee of the Partnership or the Employer in accordance with this Agreement. It is expressly understood and agreed that, to the extent that any such activities have been conducted by the Executive prior to the Effective Date, the

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continued conduct of such activities (or the conduct of activities similar in nature and scope thereto) subsequent to the Effective Date shall not thereafter be deemed to interfere with the performance of the Executive's responsibilities to the Partnership, the Employer or the Affiliated Companies (as applicable).

(b) **Compensation.** (1) **Base Salary.** During the Employment Period, the Executive shall receive an annual base salary (the "Annual Base Salary") at an annual rate at least equal to 12 times the highest monthly base salary paid or payable, including any base salary that has been earned but deferred, to the Executive by the Partnership, the Employer and/or the Affiliated Companies (as applicable) in respect of the 12-month period immediately preceding the month in which the Effective Date occurs. The Annual Base Salary shall be paid at such intervals as the Employer pays executive salaries generally. During the Employment Period, the Annual Base Salary shall be reviewed at least annually, beginning no more than 12 months after the last salary increase awarded to the Executive prior to the Effective Date. Any increase in the Annual Base Salary shall not serve to limit or reduce any other obligation to the Executive under this Agreement. The Annual Base Salary shall not be reduced after any such increase and the term "Annual Base Salary" shall refer to the Annual Base Salary as so increased.

(2) **Annual Bonus.** In addition to the Annual Base Salary, the Executive shall be awarded, for each fiscal year ending during the Employment Period, an annual bonus (the "Annual Bonus") in cash at least equal to the Executive's highest bonus earned under the Partnership's and/or the Employer's annual incentive bonus plans (as applicable), or any comparable bonus under any predecessor or successor plan or plans, for the last three full fiscal years prior to the Effective Date (or for such lesser number of full fiscal years prior to the Effective Date for which the Executive was eligible to earn such a bonus, and annualized in the case of any pro rata bonus earned for a partial fiscal year) (the "Recent Annual Bonus"). (If the Executive has not been eligible to earn such a bonus for any period prior to the Effective Date, the "Recent Annual Bonus" shall mean the Executive's target annual bonus for the year in which the Effective Date occurs.) Each such Annual Bonus shall be paid no later than two and a half months after the end of the fiscal year for which the Annual Bonus is awarded, unless the Executive shall elect to defer the receipt of such Annual Bonus pursuant to an arrangement that meets the requirements of Section 409A of the Internal Revenue Code of 1986, as amended (the "Code").

(3) **Incentive, Savings and Retirement Plans.** During the Employment Period, the Executive shall be entitled to participate in all cash incentive, equity incentive, savings and retirement plans, practices, policies, and programs applicable generally to other peer executives of the Partnership, the Employer and the Affiliated Companies, but in no event shall such plans, practices, policies and programs provide the Executive with incentive opportunities (measured with respect to both regular and special incentive opportunities, to the extent, if any, that such distinction is applicable), savings opportunities and retirement benefit opportunities, in each case, less favorable, in the aggregate, than the most favorable of those provided by the Partnership, the Employer and the Affiliated Companies for the Executive under such plans, practices, policies and programs as in effect at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, those

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provided generally at any time after the Effective Date to other peer executives of the Partnership, the Employer and the Affiliated Companies.

(4) **Welfare Benefit Plans.** During the Employment Period, the Executive and/or the Executive's family, as the case may be, shall be eligible for participation in and shall receive all benefits under welfare benefit plans, practices, policies and programs provided by the Partnership, the Employer and the Affiliated Companies (including, without limitation, medical, prescription, dental, vision, disability, employee life, group life, accidental death and travel accident insurance plans and programs) to the extent applicable generally to other peer executives of the Partnership, the Employer and the Affiliated Companies, but in no event shall such plans, practices, policies and programs provide the Executive with benefits that are less favorable, in the aggregate, than the most favorable of such plans, practices, policies and programs in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date

or, if more favorable to the Executive, those provided generally at any time after the Effective Date to other peer executives of the Partnership, the Employer and the Affiliated Companies.

(5) **Expenses.** During the Employment Period, the Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by the Executive in accordance with the most favorable policies, practices and procedures of the Partnership, the Employer and the Affiliated Companies in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Partnership, the Employer and the Affiliated Companies.

(6) **Fringe Benefits.** During the Employment Period, the Executive shall be entitled to fringe benefits, in accordance with the most favorable plans, practices, programs and policies of the Partnership, the Employer and the Affiliated Companies in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Partnership, the Employer and the Affiliated Companies.

(7) **Office and Support Staff.** During the Employment Period, the Executive shall be entitled to an office or offices of a size and with furnishings and other appointments, and to secretarial and other assistance, at least equal to the most favorable of the foregoing provided to the Executive by the Partnership, the Employer and the Affiliated Companies at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive, as provided generally at any time thereafter with respect to other peer executives of the Partnership, the Employer and the Affiliated Companies.

(8) **Vacation.** During the Employment Period, the Executive shall be entitled to paid vacation in accordance with the most favorable plans, policies, programs and practices of the Partnership, the Employer and the Affiliated Companies as in effect for the Executive at any time during the 120-day period immediately preceding the Effective Date or,

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if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Partnership, the Employer and the Affiliated Companies.

(9) **Immediate Vesting of Outstanding Equity Incentive Awards.** Notwithstanding any provision in the Company's and the Employer's equity incentive plans or the award agreements thereunder, effective immediately upon the occurrence of a Change of Control, (A) all unit options (incentive or non-qualified) outstanding as of the date of such Change of Control, which are not then exercisable and vested, shall become fully exercisable and vested to the full extent of the original grant and, following the Executive's termination of employment for any reason, shall remain exercisable for the longer of (x) the post-termination exercise period provided under the applicable award agreement with respect to the applicable circumstances of the Executive's termination and (y) the period ending on the date no later than (1) the 15th day of the third month following the date the exercise period otherwise would have expired and (2) December 31 of the calendar year in which the exercise period otherwise would have expired (*provided*, that the period in clause (y) shall be automatically extended to the maximum extent permitted under Section 409A of the Code without being considered to be an "extension" within the meaning of the regulations under Section 409A of the Code, but in no event shall it be extended by this Agreement beyond two years from the Date of Termination); *provided*, *however*, that in no event shall a unit option be exercisable beyond the expiration date of its full original option term; (B) all restrictions applicable to any restricted unit awards outstanding as of the date of such Change of Control shall lapse, and such restricted unit awards shall become free of all restrictions and become fully vested and transferable to the full extent of the original grant; and (C) all restricted unit awards and performance unit awards for any outstanding performance periods outstanding as of the date of such Change of Control shall fully vest and be earned and shall be settled and payable in full (in the case of performance unit awards based on the deemed achievement of performance at 200% of target level for the entire performance period). Notwithstanding the foregoing provisions of clause (C), in the event the accelerated settlement or payment of a restricted unit award or performance unit award pursuant to this Section 3(b)(9) would give rise to the additional tax imposed under Section 409A of the Code, such restricted unit award and performance unit award shall vest and be earned as provided in clause (C) (and shall not be subject to the forfeiture under any circumstances), but shall not be settled until the originally scheduled vesting date set forth in the applicable award agreement or such earlier date or event as shall not result in the imposition of the tax imposed under Section 409A of the Code.

Section 4. **Termination of Employment.** (a) **Death or Disability.** The Executive's employment shall terminate automatically if the Executive dies during the Employment Period. If the Employer determines in good faith that the Disability (as defined herein) of the Executive has occurred during the Employment Period (pursuant to the definition of "Disability"), it may give to the Executive written notice in accordance with Section 11(b) of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Partnership or the Employer (as applicable) shall terminate effective on the 30th day after receipt of such notice by the Executive (the "Disability Effective Date"), *provided* that, within the 30 days after such receipt, the Executive shall not have returned to full-time performance of the Executive's duties. "Disability" means the

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absence of the Executive from the Executive's duties with the Partnership or the Employer (as applicable) on a full-time basis for 180 consecutive business days as a result of incapacity due to mental or physical illness that is determined to be total and permanent by a physician selected by the Partnership or the Employer (as applicable) or its respective insurers and acceptable to the Executive or the Executive's legal representative.

(b) **Cause.** The Partnership or the Employer (as applicable) may terminate the Executive's employment during the Employment Period with or without Cause. "Cause" means:

(1) the willful and continued failure of the Executive to perform substantially the Executive's duties (as contemplated by Section 3(a)(1)(A)) with the Partnership, the Employer or any Affiliated Company (other than any such failure resulting from incapacity due to physical or mental illness or following the Executive's delivery of a Notice of Termination for Good Reason), after a written demand for substantial performance is delivered to the Executive by the Board, the VEH Board or the Chief Executive Officer of the Employer that specifically identifies the manner in which the Board, the VEH Board or the Chief Executive Officer of the Employer believes that the Executive has not substantially performed the Executive's duties; or

(2) the willful engaging by the Executive in illegal conduct or gross misconduct that is materially and demonstrably injurious to the Partnership, the Employer or any Affiliated Company.

For purposes of this Section 4(b), no act, or failure to act, on the part of the Executive shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Partnership, the Employer or the Affiliated Companies. Any act, or failure to act, based upon authority (A) given pursuant to a resolution duly adopted by the Board, the VEH Board, or if Valero GP Holdings, LLC is not the ultimate parent corporation of the Affiliated Companies and is not publicly traded, the board of directors of the ultimate parent of the Partnership (the "Applicable Board"), (B) upon the instructions of the Chief Executive Officer of the Employer or a senior officer of the Employer or (C) based upon the advice of counsel for the Partnership or the Employer shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Partnership, the Employer or the Affiliated Companies. The cessation of employment of the Executive shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Applicable Board (excluding the Executive, if the Executive is a member of the Applicable Board) at a meeting of the Applicable Board called and held for such purpose (after reasonable notice is provided to the Executive and the Executive is given an opportunity, together with counsel for the Executive, to be heard before the Applicable Board), finding that, in the good faith opinion of the board, the Executive is guilty of the conduct described in Section 4(b)(1) or 4(b)(2), and specifying the particulars thereof in detail.

(c) **Good Reason.** The Executive's employment may be terminated by the Executive for Good Reason or by the Executive voluntarily without Good Reason. "Good Reason" means:

(1) the assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities as contemplated by Section 3(a), or any other diminution in such position, authority, duties or responsibilities (whether or not occurring solely as a result of either Valero GP Holdings, LLC or the Partnership ceasing to be a publicly traded entity), excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and that is remedied by the Partnership or the Employer (as applicable) promptly after receipt of notice thereof given by the Executive;

(2) any failure by the Partnership or the Employer (as applicable) to comply with any of the provisions of Section 3(b), other than an isolated, insubstantial and inadvertent failure not occurring in bad faith and that is remedied by the Partnership or the Employer (as applicable) promptly after receipt of notice thereof given by the Executive;

(3) the Partnership, the Employer or an Affiliated Company (as applicable) requiring the Executive (i) to be based at any office or location other than as provided in Section 3(a)(1)(B), (ii) to be based at a location other than the principal executive offices of the Partnership if the Executive was employed at such location immediately preceding the Effective Date, or (iii) to travel on Partnership, the Employer or an Affiliated Company's business to a substantially greater extent than required immediately prior to the Effective Date;

(4) any purported termination by the Partnership or the Employer (as applicable) of the Executive's employment otherwise than as expressly permitted by this Agreement; or

(5) any failure by the Partnership or the Employer to comply with and satisfy Section 10(c).

For purposes of this Section 4(c), any good faith determination of Good Reason made by the Executive shall be conclusive. The Executive's mental or physical incapacity following the occurrence of an event described above in clauses (1) through (5) shall not affect the Executive's ability to terminate employment for Good Reason.

(d) **Notice of Termination.** Any termination by the Partnership or the Employer (as applicable) for Cause, or by the Executive for Good Reason, shall be communicated by Notice of Termination to the other party hereto given in accordance with Section 11(b). "Notice of Termination" means a written notice that (1) indicates the specific termination provision in this Agreement relied upon, (2) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the

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Executive's employment under the provision so indicated, and (3) if the Date of Termination (as defined herein) is other than the date of receipt of such notice, specifies the Date of Termination (which Date of Termination shall be not more than 30 days after the giving of such notice). The failure by the Executive or the Partnership or the Employer (as applicable) to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Partnership or the Employer, respectively, hereunder or preclude the Executive or the Partnership or the Employer respectively, from asserting such fact or circumstance in enforcing the Executive's or the Partnership's or the Employer's respective rights hereunder.

(e) **Date of Termination.** "Date of Termination" means (1) if the Executive's employment is terminated by the Partnership or the Employer (as applicable) for Cause, or by the Executive for Good Reason, the date of receipt of the Notice of Termination or any later date specified in the Notice of Termination (which date shall not be more than 30 days after the giving of such notice), as the case may be, (2) if the Executive's employment is terminated by the Partnership or the Employer (as applicable) other than for Cause or Disability, the date on which the Partnership or the Employer (as applicable) notifies the Executive of such termination, (3) if the Executive resigns without Good Reason, the date on which the Executive notifies the Partnership or the Employer (as applicable) of such termination, and (4) if the Executive's employment is terminated by reason of death or Disability, the date of death of the Executive or the Disability Effective Date, as the case may be.

Section 5. Obligations of the Partnership or the Employer (as applicable) upon Termination. (a) **Good Reason; Other Than for Cause, Death or Disability.** If, during the Employment Period, the Partnership or the Employer (as applicable) terminates the Executive's employment other than for Cause or Disability or the Executive terminates employment for Good Reason:

(1) the Partnership or the Employer (as applicable) shall pay to the Executive, in a lump sum in cash within 30 days after the Date of Termination, the aggregate of the following amounts:

(A) the sum of (i) the Executive's Annual Base Salary through the Date of Termination to the extent not theretofore paid, (ii) the product of (x) the higher of (I) the Recent Annual Bonus and (II) the Annual Bonus paid or payable, including any bonus or portion thereof that has been earned but deferred (and annualized for any fiscal year consisting of less than 12 full months or during which the Executive was employed for less than 12 full months), for the most recently completed fiscal year during the Employment Period, if any (such higher amount, the "Highest Annual Bonus") and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the Date of Termination and the denominator of which is 365, and (iii) any accrued vacation pay, in each case, to the extent not theretofore paid (the sum of the amounts described in subclauses (i), (ii) and (iii), the "Accrued Obligations");

(B) the amount equal to the product of (i) two and (ii) the sum of (x) the Executive's Annual Base Salary and (y) the Highest Annual Bonus;

(C) an amount equal to the excess of (i) the actuarial equivalent of the benefit under the Partnership's, the Employer's and/or any Affiliated Company's qualified defined benefit retirement plan (the "Retirement Plan") (utilizing actuarial assumptions no less favorable to the Executive than those in effect under the Retirement Plan immediately prior to the Effective Date) and any excess or supplemental retirement plan in which the Executive participates (collectively, the "SERP") that the Executive would receive if the Executive's employment continued for two years after the Date of Termination, assuming for this purpose that (x) the Executive's age and service credit are increased by the number of years that the Executive is deemed to be so employed and, (y) all accrued benefits are fully vested and (z) the Executive's compensation in each of the two years is that required by Sections 3(b)(1) and 3(b)(2) payable in equal monthly installments over such two years, over (ii) the actuarial equivalent of the Executive's actual benefit (paid or payable), if any, under the Retirement Plan and the SERP as of the Date of Termination; and

(D) an amount equal to the sum of the Partnership, the Employer or an Affiliated Company's (as applicable) matching or other Partnership, the Employer or an Affiliated Company's (as applicable) contributions under the Partnership's, the Employer's or an Affiliated Company's (as applicable) qualified defined contribution plans and any excess or supplemental defined contribution plans in which the Executive participates that the Executive would receive if the Executive's employment continued for two years after the Date of Termination, assuming for this purpose that (x) the Executive's benefits under such plans are fully vested, (y) the Executive's compensation in each of the two years is that required by Sections 3(b)(1) and 3(b)(2) and (z) to the extent that the Partnership and/or the Employer (as applicable) contributions are determined based on the contributions or deferrals of the Executive, that the Executive's contribution or deferral elections, as appropriate, are those in effect immediately prior the Date of Termination; and

(2) for two years after the Executive's Date of Termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, but, to the extent required in order to comply with Section 409A of the Code, in no event beyond the end of the second calendar year that begins after the Executive's "separation from service" within the meaning of Section 409A of the Code (the "Benefit Continuation Period"), the Partnership and/or the Employer (as applicable) shall continue benefits to the Executive and/or the Executive's family at least equal to, and at the same cost to the Executive and/or the Executive's family, as those that would have been provided to them in accordance with the plans, programs, practices and policies described in Section 3(b)(4) if the Executive's employment had not been terminated or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Partnership, the Employer and

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the Affiliated Companies and their families, *provided, however*, that, if the Executive becomes reemployed with another employer and is eligible to receive such benefits under another employer provided plan, the medical and other welfare benefits described herein shall be secondary to those provided under such other plan during such applicable period of eligibility. The Executive's entitlement to COBRA continuation coverage under Section 4980B of the Code ("COBRA Coverage") shall not be offset by the provision of benefits under this Section 5(a)(2) and the period of COBRA Coverage shall commence at the end of the Benefit Continuation Period. For purposes of determining eligibility (but not the time of commencement of benefits) of the Executive for retiree benefits pursuant to such plans, practices, programs and policies, the Executive shall be considered to have remained employed (for purposes of both age and service credit) until the end of the Benefit Continuation Period and to have retired on the last day of such period; and

(3) to the extent not theretofore paid or provided, the Partnership or the Employer (as applicable) shall timely pay or provide to the Executive any Other Benefits (as defined in Section 6).

Notwithstanding the foregoing provisions of this Section 5(a), to the extent required in order to comply with Section 409A of the Code, cash amounts that would otherwise be payable under this Section 5(a) during the six-month period immediately following the Date of Termination shall instead be paid, with interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code ("Interest"), on the first business day after the date that is six months following the Executive's "separation from service" within the meaning of Section 409A of the Code.

(b) **Death.** If the Executive's employment is terminated by reason of the Executive's death during the Employment Period, the Partnership or the Employer (as applicable) shall provide the Executive's estate or beneficiaries with the Accrued Obligations and the timely payment or delivery of the Other Benefits, and shall have no other severance obligations under this Agreement. The Accrued Obligations shall be paid to the Executive's estate or beneficiary, as applicable, in a lump sum in cash within 30 days of the Date of Termination. With respect to the provision of the Other Benefits, the term "Other Benefits" as utilized in this Section 5(b) shall include, without limitation, and the Executive's estate and/or beneficiaries shall be entitled to receive, benefits at least equal to the most favorable benefits provided by the Partnership, the Employer and the Affiliated Companies to the estates and beneficiaries of peer executives of the Partnership, the Employer and the Affiliated Companies under such plans, programs, practices and policies relating to death benefits, if any, as in effect with respect to other peer executives and their beneficiaries at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive's estate and/or the Executive's beneficiaries, as in effect on the date of the Executive's death with respect to other peer executives of the Partnership, the Employer and the Affiliated Companies and their beneficiaries.

(c) **Disability.** If the Executive's employment is terminated by reason of the Executive's Disability during the Employment Period, the Partnership or the Employer (as

applicable) shall provide the Executive with the Accrued Obligations and the timely payment or delivery of the Other Benefits, and shall have no other severance obligations under this Agreement. The Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination, provided, that to the extent required in order to comply with Section 409A of the Code, amounts and benefits to be paid or provided under this Section 5(c) shall be paid, with Interest, or provided to the Executive on the first business day after the date that is six months following the Executive's "separation from service" within the meaning of Section 409A of the Code. With respect to the provision of the Other Benefits, the term "Other Benefits" as utilized in this Section 5(c) shall include, and the Executive shall be entitled after the Disability Effective Date to receive, disability and other benefits at least equal to the most favorable of those generally provided by the Partnership, the Employer and the Affiliated Companies to disabled executives and/or their families in accordance with such plans, programs, practices and policies relating to disability, if any, as in effect generally with respect to other peer executives and their families at any time during the 120-day period immediately preceding the Effective Date or, if more favorable to the Executive and/or the Executive's family, as in effect at any time thereafter generally with respect to other peer executives of the Partnership, the Employer and the Affiliated Companies and their families.

(d) **Cause; Other Than for Good Reason.** If the Executive's employment is terminated for Cause during the Employment Period, the Partnership or the Employer (as applicable) shall provide the Executive with the Executive's Annual Base Salary through the Date of Termination, and the timely payment or delivery of the Other Benefits and shall have no other severance obligations under this Agreement. If the Executive voluntarily terminates employment during the Employment Period, excluding a termination for Good Reason, the Partnership or the Employer (as applicable) shall provide to the Executive the Accrued Obligations and the timely payment or delivery of the Other Benefits, and shall have no other severance obligations under this Agreement. In such case, all the Accrued Obligations shall be paid to the Executive in a lump sum in cash within 30 days of the Date of Termination, provided, that to the extent required in order to comply with Section 409A of the Code, amounts and benefits to be paid or provided under this sentence of Section 5(d) shall be paid, with Interest, or provided to the Executive on the first business day after the date that is six months following the Executive's "separation from service" within the meaning of Section 409A of the Code.

Section 6. **Non-exclusivity of Rights.** Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any plan, program, policy or practice provided by the Partnership, the Employer or the Affiliated Companies and for which the Executive may qualify, nor, subject to Section 11(f), shall anything herein limit or otherwise affect such rights as the Executive may have under any other contract or agreement with the Partnership, the Employer or the Affiliated Companies. Amounts that are vested benefits or that the Executive is otherwise entitled to receive under any plan, policy, practice or program of or any other contract or agreement with the Partnership, the Employer or the Affiliated Companies at or subsequent to the Date of Termination ("Other Benefits") shall be payable in accordance with such plan, policy, practice or program or contract or agreement, except as explicitly modified by this Agreement. Without limiting the generality of the

foregoing, the Executive's resignation under this Agreement with or without Good Reason, shall in no way affect the Executive's ability to terminate employment by reason of the Executive's "retirement" under any compensation and benefits plans, programs or arrangements of the Partnership, the Employer or the Affiliated Companies in which the Executive participates, including without limitation any retirement or pension plans or arrangements or to be eligible to receive benefits under any compensation or benefit plans, programs or arrangements of the Partnership, the Employer or the Affiliated Companies, including without limitation any retirement or pension plan or arrangement of the Partnership, the Employer or the Affiliated Companies or substitute plans adopted by the Partnership or the Employer or their respective successors, and any termination which otherwise qualifies as Good Reason shall be treated as such even if it is also a "retirement" for purposes of any such plan. Notwithstanding the foregoing, if the Executive receives payments and benefits pursuant to Section 5(a) of this Agreement, the Executive shall not be entitled to any severance pay or benefits under any severance plan, program or policy of the Partnership, the Employer and the Affiliated Companies, unless otherwise specifically provided therein by a specific reference to this Agreement.

Section 7. **Full Settlement.** The Partnership's and the Employer's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense, or other claim, right or action that the Partnership or the Employer may have against the Executive or others. In no event shall the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement, and such amounts shall not be reduced whether or not the Executive obtains other employment. The Partnership and the Employer agree to pay as incurred (within 10 days following the Partnership's or the Employer's receipt of an invoice from the Executive), to the full extent permitted by law, all legal fees and expenses that the Executive may reasonably incur as a result of any contest (regardless of the outcome thereof) by the Partnership, the Employer, the Executive or others of the validity or enforceability of, or liability under, any provision of this Agreement or any guarantee of performance thereof (including as a result of any contest by the Executive about the amount of any payment pursuant to this Agreement), plus, in each case, Interest.

Section 8. **Certain Additional Payments by the Partnership or the Employer.**

(a) Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any payment or distribution by the Partnership, the Employer or the Affiliated Companies to or for the benefit of the Executive (whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise, but determined without regard to any additional payments required under this Section 8) (a "Payment") would be subject to the excise tax imposed by Section 4999 of the Code or any interest or penalties are incurred by the Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, collectively the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (the "Gross-Up Payment") in an amount such that, after payment by the Executive of all taxes (and any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up

Payment, but excluding any income taxes and penalties imposed pursuant to Section 409A of the Code, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions of this Section 8(a), if it shall be determined that the Executive is entitled to the Gross-Up Payment, but that the Parachute Value of all Payments does not exceed 110% of the Safe Harbor Amount, then no Gross-Up Payment shall be made to the Executive and the amounts payable under this Agreement shall be reduced so that the Parachute Value of all Payments, in the aggregate, equals the Safe Harbor Amount. The reduction of the amounts payable hereunder, if applicable, shall be made by first reducing the payments under Section 5(a)(i)(B), unless an alternative method of reduction is elected by the Executive, and in any event shall be made in such a manner as to maximize the Value of all Payments actually made to the Executive. For purposes of reducing the Payments to the Safe Harbor Amount, only amounts payable under this Agreement (and no other Payments) shall be reduced. If the reduction of the amount payable under this Agreement would not result in a reduction of the Parachute Value of all Payments to the Safe Harbor Amount, no amounts payable under the Agreement shall be reduced pursuant to this Section 8(a). The Partnership's or the Employer's (as applicable) obligation to make Gross-Up Payments under this Section 8 shall not be conditioned upon the Executive's termination of employment. For the purposes of this Section 8, (i) the term "Parachute Value" of a Payment shall mean the present value as of the date of the change of control for purposes of Section 280G of the Code of the portion of such Payment that constitutes a "parachute payment" under Section 280G(b)(2), as determined by the Accounting Firm for purposes of determining whether and to what extent the Excise Tax will apply to such Payment; (ii) the "Safe Harbor Amount" means 2.99 times the Executive's "base amount," within the meaning of Section 280G(b)(3) of the Code; and (iii) the "Value" of a Payment shall mean the economic present value of a Payment as of the date of the change of control for purposes of Section 280G of the Code, as determined by the Accounting Firm using the discount rate required by Section 280G(d)(4) of the Code.

(b) Subject to the provisions of Section 8(c), all determinations required to be made under this Section 8, including whether and when a Gross-Up Payment is required,

the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Deloitte & Touche, LLP, or such other nationally recognized certified public accounting firm as may be designated by the Executive, subject to the Partnership's approval which will not be unreasonably withheld (the "Accounting Firm"). The Accounting Firm shall provide detailed supporting calculations both to the Partnership, the Employer and the Executive within 15 business days of the receipt of notice from the Executive that there has been a Payment or such earlier time as is requested by the Partnership or the Employer. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change of Control, the Executive, subject to the Partnership's approval which will not be unreasonably withheld, may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Partnership. Any Gross-Up Payment, as determined pursuant to this Section 8, shall be paid by the Partnership or the Employer (as applicable) to the Executive within 5 days of the receipt of the Accounting Firm's determination. Any determination by the Accounting Firm shall be binding upon the Partnership, the Employer and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments that will not have been made by the Partnership or the Employer (as applicable) should have been made (the "Underpayment"), consistent with the calculations required to be made hereunder. In the event the Partnership or the Employer (as applicable) exhausts its remedies pursuant to Section 8(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Partnership or the Employer (as applicable) to or for the benefit of the Executive.

(c) The Executive shall notify the Partnership in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Partnership or the Employer (as applicable) of the Gross-Up Payment. Such notification shall be given as soon as practicable, but no later than 10 business days after the Executive is informed in writing of such claim. The Executive shall apprise the Partnership of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which the Executive gives such notice to the Partnership (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Partnership or the Employer notifies the Executive in writing prior to the expiration of such period that the Partnership or the Employer desires to contest such claim, the Executive shall:

(1) give the Partnership and the Employer any information reasonably requested by the Partnership or the Employer relating to such claim,

(2) take such action in connection with contesting such claim as the Partnership or the Employer shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Partnership or the Employer,

(3) cooperate with the Partnership and the Employer in good faith in order effectively to contest such claim, and

(4) permit the Partnership and the Employer to participate in any proceedings relating to such claim;

provided, *however*, that the Partnership or the Employer shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest, and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 8(c), the Partnership shall control all proceedings taken in connection with such contest, and, at its sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the applicable taxing authority in respect of such claim and may, at its sole discretion, either pay the tax claimed to the appropriate taxing authority on behalf of the Executive and direct the Executive to sue for a refund or contest the claim in any permissible manner, and the Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Partnership shall determine; *provided*, *however*, that, if the Partnership or the Employer pays such claim and directs the Executive to sue for a refund, the Partnership and the Employer shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties) imposed with respect to such payment or with respect to any imputed income in connection with such payment; and *provided*, *further*, that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which such contested amount is claimed to be due is

limited solely to such contested amount. Furthermore, the Partnership's control of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder, and the Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

(d) If, after the receipt by the Executive of a Gross-Up Payment or payment by the Partnership or the Employer of an amount on the Executive's behalf pursuant to Section 8(c), the Executive becomes entitled to receive any refund with respect to the Excise Tax to which such Gross-Up Payment relates or with respect to such claim, the Executive shall (subject to the Partnership's and the Employer's complying with the requirements of Section 8(c), if applicable) promptly pay to the Partnership or the Employer (as applicable) the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after payment by the Partnership or the Employer (as applicable) of an amount on the Executive's behalf pursuant to Section 8(c), a determination is made that the Executive shall not be entitled to any refund with respect to such claim and the Partnership or the Employer does not notify the Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then the amount of such payment shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

(e) Notwithstanding any other provision of this Section 8, the Partnership or the Employer (as applicable) may, in its sole discretion, withhold and pay over to the Internal Revenue Service or any other applicable taxing authority, for the benefit of the Executive, all or any portion of any Gross-Up Payment, and the Executive hereby consents to such withholding.

(f) Notwithstanding anything contained herein to the contrary, no Gross Up Payment shall be payable under this Section 8, if the Partnership furnishes to the Executive an opinion of a nationally recognized accounting or law firm to the effect that, as of immediately prior to the Effective Date, the Partnership should not be treated a "corporation" within the meaning of the regulations issued under Section 280G of the Code; provided, however, that the Executive shall continue to have rights and the Partnership shall continue to have obligations under this Section 8, including without limitation those under Sections 8(b), (c) and (d).

Section 9. **Confidential Information.** The Executive shall hold in a fiduciary capacity for the benefit of the Partnership and the Employer all secret or confidential information, knowledge or data relating to the Partnership, the Employer or the Affiliated Companies, and their respective businesses, which information, knowledge or data shall have been obtained by the Executive during the Executive's employment by the Partnership or the Employer (as applicable) and which information, knowledge or data shall not be or become public knowledge (other than by acts by the Executive or representatives of the Executive in violation of this Agreement). After termination of the Executive's employment with the Employer, the Executive shall not, without the prior written consent of the Partnership or the Employer (as applicable) or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Partnership or the Employer and those persons designated by the Partnership or the Employer. In no event shall an asserted violation of the provisions of this Section 9 constitute a basis for deferring or withholding any amounts otherwise payable to the Executive under this Agreement.

Section 10. **Successors.** (a) This Agreement is personal to the Executive, and, without the prior written consent of the Partnership or the Employer, shall not be assignable by the Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives.

(b) This Agreement shall inure to the benefit of and be binding upon the Partnership and its successors and assigns and the Employer and its successors and assigns. Except as provided in Section 10(c), without the prior written consent of the Executive, this Agreement shall not be assignable by the Partnership or the Employer.

(c) Each of the Partnership and the Employer will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Partnership or the Employer (as applicable) to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Partnership or the Employer (as applicable) would be required to

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perform it if no such succession had taken place. "Partnership" means the Partnership as hereinbefore defined and any successor to its business and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law or otherwise. "Employer" means the Employer as hereinbefore defined and any successor to its business and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law or otherwise.

Section 11. **Miscellaneous.** (a) This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to principles of conflict of laws. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect. This Agreement may not be amended or modified other than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(b) All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

if to the Executive:	At the most recent address on file in the Employer's records
if to the Partnership or the Employer:	Valero L.P. One Valero Way San Antonio, Texas 78249 Attention: Corporate Secretary

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(c) The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(d) The Partnership or the Employer (as applicable) may withhold from any amounts payable under this Agreement such United States federal, state or local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) The Executive's or the Partnership's or the Employer's failure to insist upon strict compliance with any provision of this Agreement or the failure to assert any right the Executive, the Partnership or the Employer may have hereunder, including, without limitation, the right of the Executive to terminate employment for Good Reason pursuant to Sections 4(c)(1) through 4(c)(5), shall not be deemed to be a waiver of such provision or right or any other provision or right of this Agreement.

(f) The Executive and the Partnership and the Employer acknowledge that, except as may otherwise be provided under any other written agreement between the Executive

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and the Partnership, the Employer or the Executive, the employment of the Executive by the Partnership or the Employer (as applicable) is "at will" and, subject to Section 1(a), prior to the Effective Date, the Executive's employment may be terminated by either the Executive or the Partnership or the Employer (as applicable) at any time prior to the Effective Date, in which case the Executive shall have no further rights under this Agreement. From and after the Effective Date, except as specifically provided herein, this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof.

(g) If any compensation or benefits provided by this Agreement may result in the application of Section 409A of the Code, the Partnership or the Employer shall, in consultation with the Executive, modify the Agreement in the least restrictive manner necessary in order to exclude such compensation from the definition of "deferred compensation" within the meaning of such Section 409A or in order to comply with the provisions of Section 409A, other applicable provision(s) of the Code and/or any rules, regulations or other regulatory guidance issued under such statutory provisions and without any diminution in the value of the payments to the Executive.

(h) The Partnership hereby guarantees the full payment and performance of all of the Employer's obligations under this Agreement and the Executive shall be entitled to full recourse against the Partnership with respect to any obligations of the Employer to the Executive hereunder.

IN WITNESS WHEREOF, the Executive has hereunto set the Executive's hand and, pursuant to the authorization from the Board and the VEH Board, the Partnership and the Employer have caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

____
[Executive]

VALERO L.P.

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

By: ______________________________
Name:
Title:

VALERO GP, LLC

By: ______________________________
Name:
Title:

Exhibit 12.01

VALERO L.P.
STATEMENT OF COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Thousands of Dollars, Except Ratio)

	Nine Months Ended September 30, 2006	Year Ended December 31, 2005	2004	2003	2002	2001
Earnings:						
Income from continuing operations before provision for income taxes and income from equity investees	$ 110,033	$ 110,069	$ 77,074	$ 67,177	$ 52,350	$ 42,694
Add:						
Fixed charges	55,844	46,211	21,625	16,443	5,492	4,203
Amortization of capitalized interest	86	80	60	55	48	39
Distributions from joint ventures	4,524	4,657	1,373	2,803	3,590	2,874
Less: Interest capitalized	(1,100)	(1,008)	(192)	(123)	(255)	(298)
Total earnings	$ 169,387	$ 160,009	$ 99,940	$ 86,355	$ 61,225	$ 49,512
Fixed charges:						
Interest expense (1)	$ 50,425	$ 41,616	$ 20,630	$ 15,291	$ 4,968	$ 3,721
Amortization of debt issuance costs	542	622	407	740	160	90
Interest capitalized	1,100	1,008	192	123	255	298
Rental expense interest factor (2)	3,777	2,965	396	289	109	94
Total fixed charges	$ 55,844	$ 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 nine months ended September 30, 2006 and the year ended December 31, 2005 includes investment income of $2,061,000 and $850,000, respectively and includes other income (expense) of $1,276,000 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: November 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: November 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 September 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
November 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 September 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
November 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.