

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2004

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 1-16417

VALERO L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No

The number of common and subordinated units outstanding as of October 31, 2004 was 13,442,072 and 9,599,322, respectively.

VALERO L.P. AND SUBSIDIARIES
FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2004	December 31, 2003
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 17,687	\$ 15,745
Receivable from Valero Energy	18,574	15,781
Accounts receivable	3,428	5,333
Other current assets	1,863	1,275
	<u>41,552</u>	<u>38,134</u>
Total current assets	41,552	38,134
Property, plant and equipment	981,640	928,886
Less accumulated depreciation and amortization	(188,247)	(163,884)
	<u>793,393</u>	<u>765,002</u>
Property, plant and equipment, net	793,393	765,002
Goodwill	4,715	4,715
Investment in Skelly-Belvieu Pipeline Company	15,582	15,703
Other noncurrent assets, net	3,636	4,003
	<u>858,878</u>	<u>827,557</u>
Total assets	\$ 858,878	\$ 827,557
Liabilities and Partners' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 485	\$ 935
Accounts payable and accrued liabilities	14,158	16,145
Payable to Valero Energy	3,783	9,849
Taxes other than income taxes	5,412	4,441
	<u>23,838</u>	<u>31,370</u>
Total current liabilities	23,838	31,370
Long-term debt, less current portion	395,114	353,257
Other long-term liabilities	1,023	4,767
Partners' equity:		
Common units (13,442,072 outstanding at September 30, 2004 and December 31, 2003)	310,834	310,589
Subordinated units (9,599,322 outstanding at September 30, 2004 and December 31, 2003)	118,199	118,005
General partner's equity	9,870	9,569
	<u>438,903</u>	<u>438,163</u>
Total partners' equity	438,903	438,163
Total liabilities and partners' equity	\$ 858,878	\$ 827,557

See Accompanying Condensed Notes to Consolidated Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenues	\$ 58,075	\$ 51,695	\$ 166,106	\$ 131,053
Costs and expenses:				
Operating expenses	21,626	19,445	59,746	47,441
General and administrative expenses	3,588	1,588	8,233	5,102
Depreciation and amortization	8,413	7,135	24,536	18,687
Total costs and expenses	33,627	28,168	92,515	71,230
Operating income	24,448	23,527	73,591	59,823
Equity income from Skelly-Belvieu Pipeline Company	372	657	1,102	1,988
Interest and other expense, net	(5,433)	(4,504)	(15,630)	(11,617)
Net income	\$ 19,387	\$ 19,680	\$ 59,063	\$ 50,194
Allocation of net income:				
Net income	\$ 19,387	\$ 19,680	\$ 59,063	\$ 50,194
General partner's interest in net income	(1,478)	(1,138)	(4,451)	(2,828)
Limited partners' interest in net income	\$ 17,909	\$ 18,542	\$ 54,612	\$ 47,366
Net income per unit applicable to limited partners	\$ 0.78	\$ 0.82	\$ 2.37	\$ 2.23
Weighted average number of limited partnership units outstanding	23,041,394	22,477,019	23,041,394	21,256,196
Cash distributions per unit applicable to limited partners	\$ 0.80	\$ 0.75	\$ 2.40	\$ 2.20

See Accompanying Condensed Notes to Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2004	2003
Cash Flows from Operating Activities:		
Net income	\$ 59,063	\$ 50,194
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	24,536	18,687
Changes in operating assets and liabilities:		
Increase in receivable from Valero Energy	(2,793)	(9,219)
Decrease (increase) in accounts receivable	1,905	(1,000)
Increase in other current assets	(588)	(1,295)
Increase (decrease) in accounts payable and accrued liabilities	(1,987)	2,659
Increase (decrease) in payable to Valero Energy	(6,066)	6,877
Increase in taxes other than income taxes	971	1,247
Other, net	550	2,734
	75,591	70,884
Cash Flows from Investing Activities:		
Reliability capital expenditures	(7,030)	(5,302)
Expansion capital expenditures	(17,942)	(10,537)
Acquisitions	(28,085)	(410,936)
Proceeds from sale of property, plant and equipment	33	—
Distributions in excess of equity income from Skelly-Belvieu Pipeline Company	121	234
	(52,903)	(426,541)
Cash Flows from Financing Activities:		
Proceeds from 6.05% senior note placement, net of discount and issuance costs	—	247,328
Proceeds from other long-term debt borrowings	43,000	25,000
Repayment of long-term debt	(5,450)	(25,298)
Distributions to unitholders and general partner	(58,296)	(47,508)
General partner contribution, net of redemption	—	2,930
Proceeds from sale of common units to the public, net of issuance costs	—	269,026
Redemption of common units held by UDS Logistics, LLC	—	(134,065)
	(20,746)	337,413
Net increase (decrease) in cash and cash equivalents	1,942	(18,244)
Cash and cash equivalents at the beginning of the period	15,745	33,533
	\$ 17,687	\$ 15,289
Supplemental cash flow information:		
Cash paid during the period for interest	\$ 23,564	\$ 15,374

See Accompanying Condensed Notes to Consolidated Financial Statements

VALERO L.P. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Three and Nine Months Ended September 30, 2004 and 2003
(unaudited)

NOTE 1: Organization, Basis of Presentation and Principles of Consolidation

As used in this report, the term Valero L.P. may refer, depending on the context, to Valero L.P., Valero Logistics Operations, L.P. (Valero Logistics), the wholly owned subsidiary of Valero L.P., or both of them taken as a whole. Riverwalk Logistics, L.P., a wholly owned subsidiary of Valero Energy Corporation (Valero Energy), is the 2% general partner of Valero L.P. Valero Energy, through various affiliates, is also a limited partner in Valero L.P., resulting in a combined limited partner ownership of 43.6% as of September 30, 2004. The remaining 54.4% limited partnership interest is held by public unitholders.

These unaudited consolidated financial statements include the accounts of Valero L.P. and subsidiaries in which it 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. In addition, the operations of certain crude oil and refined product pipelines and refined product terminals, in which Valero L.P. owns an undivided interest, are proportionately consolidated in the accompanying consolidated financial statements.

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 (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

The consolidated balance sheet as of December 31, 2003 has been derived from the audited consolidated financial statements as of that date. For further information, refer to the consolidated financial statements and notes thereto included in Valero L.P.'s Annual Report on Form 10-K for the year ended December 31, 2003.

NOTE 2: Acquisition

On February 20, 2004, Valero L.P. acquired two asphalt terminals, one in Catoosa, Oklahoma near Tulsa and one in Rosario, New Mexico near Santa Fe, from Royal Trading Company (Royal Trading) for \$28.1 million. These terminals have an aggregate storage capacity of 500,000 barrels in 32 tanks and six loading stations. This acquisition was accounted for as a purchase in accordance with Statement of Financial Accounting Standards No. 141, "Business Combinations," and the purchase price was preliminarily allocated to the individual assets acquired and liabilities assumed based on their estimated fair values. The final allocation of the purchase price is pending an independent appraisal, which is currently expected to be completed by year-end.

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

The pro forma financial information for the three months ended September 30, 2004 and 2003 and the nine months ended September 30, 2004 and 2003 that give effect to the acquisition of Royal Trading as of January 1, 2004 and 2003 has not been disclosed as the effect is not significant.

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

NOTE 3: Long-term Debt***\$175.0 Million Revolving Credit Facility***

During the nine months ended September 30, 2004, Valero Logistics borrowed \$28.0 million under its \$175.0 million revolving credit facility to fund the Royal Trading acquisition and borrowed \$15.0 million to partially fund construction of the Nuevo Laredo, Mexico propane terminal and related pipelines. Valero Logistics repaid \$5.0 million of the borrowings under the revolving credit facility in the third quarter of 2004. Borrowings under Valero Logistics' \$175.0 million revolving credit facility bear interest based on either an alternative base rate or LIBOR. The effective interest rate related to outstanding borrowings under the revolving credit facility during the three months ended September 30, 2004 was 2.6%, and during the nine months ended September 30, 2004 and 2003 was 2.3% and 3.3%, respectively. There were no outstanding borrowings under the revolving credit facility during the three months ended September 30, 2003. As of September 30, 2004, Valero Logistics had \$137.0 million available under its revolving credit facility.

Interest Rate Swaps

During 2003, Valero Logistics entered into \$167.5 million (notional amount) of interest rate swaps, which effectively convert \$167.5 million of fixed-rate debt to variable-rate debt. As of September 30, 2004, the weighted-average effective interest rate for the interest rate swaps was 4.5% and the aggregate estimated fair value was a net payable of \$0.8 million. Valero Logistics accounts for the interest rate swaps as fair value hedges, with changes in the fair value of each swap and the related debt instrument recorded as an adjustment to interest expense in the consolidated statements of income.

Other Long-term Debt

During the nine months ended September 30, 2004, Valero Logistics repaid \$0.5 million on the note payable to the Port of Corpus Christi Authority of Nueces County, Texas. The note payable is due in annual installments of \$1.2 million through December 31, 2015 and is collateralized by the crude oil storage facility.

NOTE 4: Related Party Transactions

Valero L.P. has related party transactions with Valero Energy with regard to pipeline tariff, terminalling fee and crude oil storage tank rent and fee revenues, certain employee costs, insurance costs, operating expenses, administrative costs and rent expense. The receivable from Valero Energy represents amounts due for pipeline tariff, terminalling fee and tank rent and fee revenues, and the payable to Valero Energy represents amounts due for employee costs, insurance costs, operating expenses, administrative costs and rent expense.

The following table summarizes the results of transactions with Valero Energy:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands)			
Revenues	\$ 57,261	\$ 50,727	\$ 163,492	\$ 129,491
Operating expenses	8,615	7,116	24,128	17,311
General and administrative expenses	3,202	1,374	7,131	4,342

Services Agreement

Valero L.P. previously received certain corporate services such as legal, accounting, treasury, engineering, information technology and other corporate functions from Valero Energy under the provisions of a services agreement (Services Agreement) entered into in July of 2000 for an annual fee of \$5.2 million. Due to the significant growth of Valero L.P. over the past three years and the increased levels of service provided by Valero Energy for Valero L.P., Valero L.P. and Valero Energy amended the terms of the Services Agreement, effective April 1, 2004, to change the annual services fee.

Under the terms of the amended Services Agreement, Valero L.P. reimburses Valero Energy for the cost of corporate employees dedicated to Valero L.P. and pays an annual services fee of \$1.2 million. Each year over the next four years, the annual services fee will be increased by \$1.2 million and by Valero Energy's average percentage increase in salaries. The annual services fee may also be adjusted to account for changed service levels due to Valero L.P.'s acquisition, sale or construction of assets. The Services Agreement also requires Valero L.P. to reimburse Valero Energy for various recurring costs, including salary, wage and benefit costs of operational employees who work exclusively within the pipeline, terminalling and storage operations and for certain other costs incurred by Valero Energy relating solely to Valero L.P. The conflicts committee of the board of directors of Valero GP, LLC, the general partner of Riverwalk Logistics, L.P., approved the amendment to the Services Agreement in March 2004.

Crude Oil Storage Tanks Agreement

Effective January 1, 2004, Valero Energy and Valero L.P. entered into a one-year shell barrel capacity lease agreement whereby Valero Energy agreed to lease 1.6 million barrels of storage capacity at Valero L.P.'s Corpus Christi North Beach storage facility for an annual fee of \$5.8 million, payable monthly.

NOTE 5: Employee Benefit Expenses

Valero L.P.'s share of allocated Valero Energy employee benefit plan expenses, excluding compensation expense related to restricted common units and unit options, was \$3.2 million and \$1.2 million for the three months ended September 30, 2004 and 2003, respectively, and was \$8.4 million and \$2.8 million for the nine months ended September 30, 2004 and 2003, respectively. These employee benefit plan expenses and the related payroll costs are included in operating expenses and general and administrative expenses.

NOTE 6: Partners' Equity

Outstanding Equity

As of September 30, 2004, Valero L.P.'s outstanding partners' equity consisted of 13,442,072 common units (of which 614,572 were held by UDS Logistics, LLC and 40,421 were held by Valero GP, LLC), 9,599,322 subordinated units held by UDS Logistics, LLC and a 2% general partner interest held by Riverwalk Logistics, L.P.

Valero L.P. has identified the general partner interest and the subordinated units as participating securities and uses the two-class method when calculating the net income per unit applicable to limited partners, which is based on the weighted-average number of common and subordinated units outstanding during the period. Net income per unit applicable to limited partners is computed by dividing net income applicable to limited partners, after deducting the general partner's 2% interest and incentive distributions, by the weighted-average number of limited partnership units outstanding. Basic and diluted net income per unit applicable to limited partners are the same because Valero L.P. has no potentially dilutive securities outstanding.

Effective March 11, 2004, Valero L.P.'s partnership agreement was amended to reduce the percentage of the vote required to remove Valero L.P.'s general partner from 58% to a simple majority of units entitled to vote, which excludes the units held by the general partner and its affiliates.

Cash Distributions

Effective March 11, 2004, Valero L.P.'s partnership agreement was amended to lower the general partner's incentive distribution rights with respect to distributions of available cash from 48% to 23% of the amount of any quarterly distribution that exceeds \$0.90 per unit. The general partner will continue to receive a 2% distribution with respect to its general partner interest. The general partner's incentive distribution allocation for the three months ended September 30, 2004 and 2003 was \$1.1 million and \$0.8 million, respectively, and for the nine months ended September 30, 2004 and 2003 was \$3.3 million and \$1.9 million, respectively. Valero L.P. generated sufficient net income such that the amount of net income allocated to common units was equal to the amount allocated to the subordinated units. On July 26, 2004, Valero L.P. declared a quarterly distribution of \$0.80 per unit paid on August 13, 2004 to unitholders of record on August 6, 2004. On November 1, 2004, Valero L.P. declared a quarterly distribution of \$0.80 per unit to be paid on November 12, 2004 to unitholders of record on November 8, 2004.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands, except per unit data)			
General partner interest	\$ 399	\$ 369	\$ 1,197	\$ 1,036
General partner incentive distribution	1,112	759	3,336	1,861
Total general partner distribution	1,511	1,128	4,533	2,897
Limited partners' distribution	18,433	17,280	55,299	48,898
Total cash distributions	\$ 19,944	\$ 18,408	\$ 59,832	\$ 51,795
Cash distributions per unit applicable to limited partners	\$ 0.80	\$ 0.75	\$ 2.40	\$ 2.20

NOTE 7: Segment Information

Segment information for Valero L.P.'s four reportable segments was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(in thousands)			
Revenues:				
Crude oil pipelines	\$ 13,231	\$ 14,166	\$ 39,462	\$ 38,707
Refined product pipelines	22,324	20,819	63,764	51,439
Refined product terminals	11,150	8,438	30,259	22,614
Crude oil storage tanks	11,370	8,272	32,621	18,293
Total revenues	\$ 58,075	\$ 51,695	\$ 166,106	\$ 131,053
Operating expenses:				
Crude oil pipelines	\$ 4,225	\$ 4,173	\$ 11,825	\$ 11,827
Refined product pipelines	10,493	8,885	28,360	21,163
Refined product terminals	4,677	4,553	13,930	11,020
Crude oil storage tanks	2,231	1,834	5,631	3,431
Total operating expenses	\$ 21,626	\$ 19,445	\$ 59,746	\$ 47,441
Operating income:				
Crude oil pipelines	\$ 7,870	\$ 8,766	\$ 24,269	\$ 22,797
Refined product pipelines	8,141	8,529	24,426	21,461
Refined product terminals	4,753	3,032	11,736	9,122
Crude oil storage tanks	7,272	4,788	21,393	11,545
Total segment operating income	28,036	25,115	81,824	64,925
Less general and administrative expenses	3,588	1,588	8,233	5,102
Total operating income	\$ 24,448	\$ 23,527	\$ 73,591	\$ 59,823

Total assets by reportable segment were as follows:

	September 30, 2004	December 31, 2003
	(in thousands)	
Crude oil pipelines	\$ 127,571	\$ 146,338
Refined product pipelines	349,225	358,257
Refined product terminals	147,897	102,854
Crude oil storage tanks	211,332	198,191
Total segment assets	836,025	805,640
General partnership assets (including current assets and other noncurrent assets)	22,853	21,917
Total consolidated assets	\$ 858,878	\$ 827,557

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

NOTE 8: Subsequent Event

On November 1, 2004, Valero L.P. announced a proposed merger with Kaneb Services LLC (Kaneb Services) and Kaneb Pipe Line Partners, L.P. (Kaneb Partners). The boards of directors of the respective entities have approved the terms of the proposed transaction. The completion of the merger is subject to the approval of the unitholders of Valero L.P. and Kaneb Partners and the shareholders of Kaneb Services as well as customary regulatory approvals. The transaction is expected to close in the first quarter of 2005.

Under the terms of the merger agreement, Valero L.P. will acquire all of the equity securities of Kaneb Services for \$525 million in cash. In addition, each unitholder of Kaneb Partners will exchange their common units for a number of newly issued Valero L.P. common units based on an exchange ratio measured over a period prior to closing.

In order to maintain its 2% general partner interest, Riverwalk Logistics, L.P. expects to contribute approximately \$28 million to Valero L.P. Valero L.P. furnished a copy of its press release together with additional investor information for the proposed transaction in its Current Report on Form 8-K dated November 1, 2004.

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

Cautionary Statement Regarding Forward-Looking Information

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

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

If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, Valero L.P.'s actual results may vary materially from those described in any forward-looking statement. Valero L.P. does not intend to update its forward-looking statements unless it is required by the securities laws to do so, and it undertakes no obligation to publicly release the results 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.

Results of Operations

Overview

Valero L.P.'s operations provide transportation and storage services to Valero Energy and other unrelated customers. Valero L.P. provides these services with its crude oil and refined product pipelines, refined product terminals and crude oil storage tanks located near or connected to eight of Valero Energy's refineries. As a result of the significant relationship with Valero Energy, the operating results of Valero L.P. are affected by factors affecting the business of Valero Energy, including refinery utilization rates, refinery maintenance turnarounds, crude oil prices, the demand for refined products and industry refining capacity.

During 2003, Valero L.P. completed the following acquisitions, which significantly increased the size and scope of its operations:

- o Effective January 7, 2003, Valero L.P. acquired an asphalt terminal located in Pittsburg, California from Telfer Oil Company (Telfer) for \$15.3 million;
- o On March 18, 2003, Valero L.P. acquired Valero Energy's South Texas pipeline system (South Texas Pipelines and Terminals), which is composed of the Corpus Christi to Houston refined product pipeline and four refined product terminals (one of which is idle), the Corpus Christi to Edinburg refined product pipeline and one refined product terminal, the Pettus to San Antonio refined product pipeline and one refined product terminal and the Pettus to Corpus Christi refined product pipeline, for \$150.1 million;
- o On March 18, 2003, Valero L.P. acquired 58 crude oil and intermediate feedstock storage tanks and related assets with an aggregate storage capacity of 11.0 million barrels (Crude Oil Storage Tanks) from Valero Energy for \$200.2 million;
- o On May 1, 2003, Valero L.P. acquired Shell Pipeline Company, L.P.'s (Shell) 28% undivided interest in the Amarillo to Abernathy refined product pipeline and Shell's 46% undivided interest in the Abernathy to Lubbock refined product pipeline for \$1.6 million;
- o Effective August 1, 2003, Valero L.P. acquired the McKee to Southlake refined product pipeline from Valero Energy for \$29.9 million; and
- o On September 3, 2003, Valero L.P. acquired a refined product terminal in Paulsboro, New Jersey, next to Valero Energy's Paulsboro refinery, from ExxonMobil Oil Corporation for \$14.1 million.

To fund certain of these acquisitions as well as the redemption from Valero Energy of 3,809,750 common units in March 2003, for \$136.9 million, including the related general partner interest, Valero L.P. completed the following debt and equity offerings:

- o Valero Logistics issued \$250.0 million of 6.05% senior notes on March 18, 2003;
- o On March 18, 2003, Valero L.P. issued 5,750,000 common units for net proceeds of \$204.6 million, including the general partner contribution;
- o On April 16, 2003, Valero L.P. closed on the exercise of a portion of the underwriters' over-allotment option, by selling 581,000 common units for net proceeds of \$20.9 million, including the general partner contribution; and
- o On August 11, 2003, Valero L.P. issued 1,236,250 common units, which included 161,250 common units pursuant to the underwriter's exercise of its over-allotment option, to the public for net proceeds of \$48.6 million. In order to maintain its 2% general partner interest, Riverwalk Logistics, L.P. made a cash contribution to Valero L.P. of \$1.0 million.

On February 20, 2004, Valero L.P. acquired two asphalt terminals, one in Catoosa, Oklahoma near Tulsa and one in Rosario, New Mexico near Santa Fe, from Royal Trading for \$28.1 million. Valero L.P. funded this acquisition with proceeds from borrowings under Valero Logistics' \$175.0 million revolving credit facility.

These acquisitions improved Valero L.P.'s results of operations in 2004 by contributing \$2.8 million and \$12.2 million, respectively, to the increase in operating income for the three and nine months ended September 30, 2004, compared to the corresponding periods in 2003.

Three Months Ended September 30, 2004 Compared to Three Months Ended September 30, 2003

The results of operations for the three months ended September 30, 2004, presented in the following table, are derived from the unaudited consolidated statement of income for Valero L.P. and subsidiaries for the three months ended September 30, 2004, which include the results of operations of the Royal Trading asphalt terminals for the full quarter. The results of operations for the three months ended September 30, 2003, presented in the following table, are derived from the unaudited consolidated statement of income for Valero L.P. and subsidiaries for the three months ended September 30, 2003, which include the results of operations of the South Texas Pipelines and Terminals, the Crude Oil Storage Tanks, the Telfer asphalt terminal and the Shell pipeline undivided interests for the full quarter, in addition to the results of operations of the McKee to Southlake refined product pipeline from August 1, 2003 through September 30, 2003 and the Paulsboro refined product terminal from September 4, 2003 through September 30, 2003.

	Three Months Ended September 30,	
	2004	2003
	(in thousands)	
Statement of Income Data:		
Revenues	\$ 58,075	\$ 51,695
Costs and expenses:		
Operating expenses	21,626	19,445
General and administrative expenses	3,588	1,588
Depreciation and amortization	8,413	7,135
Total costs and expenses	33,627	28,168
Operating income	24,448	23,527
Equity income from Skelly-Belvieu Pipeline Company	372	657
Interest and other expense, net	(5,433)	(4,504)
Net income	19,387	19,680
Less net income applicable to general partner	(1,478)	(1,138)
Net income applicable to the limited partners' interest	\$ 17,909	\$ 18,542
Net income per unit applicable to limited partners	\$ 0.78	\$ 0.82
Weighted average number of limited partnership units outstanding	23,041,394	22,477,019
Earnings before interest, taxes and depreciation and amortization (EBITDA) (a)	\$ 33,233	\$ 31,319
Distributable cash flow applicable to limited partners	\$ 22,738	\$ 21,274
Distributable cash flow applicable to general partner	2,946	2,815
Distributable cash flow (a)	\$ 25,684	\$ 24,089
	September 30,	December 31,
	2004	2003
	(unaudited)	
Balance Sheet Data:		
Long-term debt, including current portion (1)	\$ 395,599	\$ 354,192
Partners' equity (2)	438,903	438,163
Debt-to-capitalization ratio (1) / ((1)+(2))	47.4 %	44.7%

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

	Three Months Ended September 30,	
	2004	2003
	(in thousands)	
Net income	\$ 19,387	\$ 19,680
Plus interest and other expense, net	5,433	4,504
Plus depreciation and amortization	8,413	7,135
EBITDA	33,233	31,319
Less equity income from Skelly-Belview Pipeline Company	(372)	(657)
Less interest and other expense, net	(5,433)	(4,504)
Less reliability capital expenditures	(1,992)	(2,664)
Plus distributions from Skelly-Belview Pipeline Company	248	595
Distributable cash flow	25,684	24,089
Distributable cash flow applicable to general partner .	(2,946)	(2,815)
Distributable cash flow applicable to limited partners	\$ 22,738	\$ 21,274

The amount of distributable cash flow allocated to the general partner includes the general partner's 2% interest in distributions plus the amount of incentive distributions that would be allocated to the general partner assuming 100% of the distributable cash flow is distributed.

Valero L.P. utilizes two financial measures, EBITDA and distributable cash flow, which are not defined in GAAP. Management uses these financial measures because they are widely accepted financial indicators used by investors to compare partnership performance. In addition, management believes that these measures provide investors an enhanced perspective of the operating performance of Valero L.P.'s assets and the cash flow the business is generating. Neither EBITDA nor distributable cash flow are intended to represent cash flows for the period, nor are they presented as an alternative to net income. They should not be considered in isolation or as substitutes for a measure of performance prepared in accordance with GAAP.

Segment Operating Data for the Three Months Ended September 30, 2004 and 2003

The following table reflects the results of operations for each of Valero L.P.'s operating segments and a reconciliation of the combined segments to the consolidated statements of income.

	Three Months Ended September 30,	
	2004	2003
	(in thousands, except barrels/day information)	
Crude Oil Pipelines:		
Throughput (barrels/day)	380,395	385,181
Revenues	\$ 13,231	\$ 14,166
Operating expenses	4,225	4,173
Depreciation and amortization	1,136	1,227
Segment operating income	<u>\$ 7,870</u>	<u>\$ 8,766</u>
Refined Product Pipelines:		
Throughput (barrels/day)	433,695	432,885
Revenues	\$ 22,324	\$ 20,819
Operating expenses	10,493	8,885
Depreciation and amortization	3,690	3,405
Segment operating income	<u>\$ 8,141</u>	<u>\$ 8,529</u>
Refined Product Terminals:		
Throughput (barrels/day)	260,440	236,440
Revenues	\$ 11,150	\$ 8,438
Operating expenses	4,677	4,553
Depreciation and amortization	1,720	853
Segment operating income	<u>\$ 4,753</u>	<u>\$ 3,032</u>
Crude Oil Storage Tanks:		
Throughput (barrels/day)	517,135	433,921
Revenues	\$ 11,370	\$ 8,272
Operating expenses	2,231	1,834
Depreciation and amortization	1,867	1,650
Segment operating income	<u>\$ 7,272</u>	<u>\$ 4,788</u>
Consolidated Information:		
Revenues	\$ 58,075	\$ 51,695
Operating expenses	21,626	19,445
Depreciation and amortization	8,413	7,135
Total segment operating income	<u>28,036</u>	<u>25,115</u>
Less general and administrative expenses	3,588	1,588
Consolidated operating income	<u>\$ 24,448</u>	<u>\$ 23,527</u>

Net income applicable to limited partners decreased \$0.6 million for the third quarter of 2004 compared to the third quarter of 2003. Earnings per limited partner unit were \$0.78 for the third quarter of 2004 and \$0.82 for the third quarter of 2003. Net income applicable to the general partner for the third quarter of 2004 includes the effect of \$1.1 million of incentive distributions compared to \$0.8 million of incentive distributions for the third quarter of 2003.

Crude Oil Pipelines

Revenues for the crude oil pipelines segment decreased \$0.9 million for the third quarter of 2004 compared to the third quarter of 2003 due primarily to a 7% decrease in combined throughput for the crude oil pipelines feeding Valero Energy's McKee refinery system. A unit at the McKee refinery experienced an unplanned outage in the third quarter of 2004 resulting in lower throughputs and revenues.

Operating expenses for the third quarter of 2004 increased compared to the third quarter of 2003 as a result of higher power costs and higher regulatory inspection and repair costs primarily associated with the Wichita Falls crude oil pipeline and increased employee benefit costs related to higher accruals for incentive compensation. This increase in operating expenses is almost entirely offset by the transfer of the Corpus Christi North Beach storage facility to the crude oil storage tanks segment effective January 1, 2004.

Depreciation and amortization expense for the crude oil pipelines segment decreased for the third quarter of 2004 compared to the third quarter of 2003 due to the transfer of the Corpus Christi North Beach storage facility to the crude oil storage tanks segment effective January 1, 2004.

Refined Product Pipelines

Revenues for the refined product pipelines segment increased \$1.5 million or 7% for the third quarter of 2004 compared to the third quarter of 2003. The Dos Laredos pipeline system, which started operations on June 1, 2004 ships propane to the Nuevo Laredo, Mexico propane terminal, and contributed revenues of \$1.1 million to the third quarter of 2004. The increase in revenues is also due to the Southlake refined product pipeline acquisition on August 1, 2003, which contributed \$1.6 million to revenues during the third quarter of 2004 compared to \$1.4 million during the period from August 1, 2003 to September 30, 2003.

The August crude unit outage at Valero Energy's McKee refinery resulted in a 14% decrease in combined throughput for the refined product pipelines related to the McKee refinery system for the third quarter of 2004 compared to the third quarter of 2003. This decrease is offset by increasing throughputs on the McKee to Colorado Springs to Denver and the McKee to Denver refined product pipelines which had experienced lower throughputs in the third quarter of 2003.

Operating expenses for the refined product pipelines segment increased \$1.6 million or 18% for the third quarter of 2004 compared to the third quarter of 2003 due to the following:

- o expenses associated with the operations of the Southlake refined product pipeline acquired on August 1, 2003 and the Dos Laredos pipeline system, which started operations on June 1, 2004;
- o higher power costs;
- o increased employee benefit costs related to higher accruals for incentive compensation; and
- o increased maintenance costs due primarily to the increased number of pipeline integrity inspections and repairs in 2004.

Refined Product Terminals

Revenues for the refined product terminals segment increased \$2.7 million or 32% for the third quarter of 2004 compared to the third quarter of 2003 due primarily to the acquisitions of the Paulsboro refined product terminal on September 3, 2003 and the Royal Trading asphalt terminals on February 20, 2004. Revenues for these acquired terminals were \$2.7 million for the third quarter of 2004. During the third quarter of 2003, revenues for the Paulsboro refined product terminal were \$0.1 million, which included operations for the period from September 4, 2003 to September 30, 2003.

Operating expenses for the refined product terminals segment increased \$0.1 million or 3% for the third quarter of 2004 compared to the third quarter of 2003 due to expenses associated with the operations of the Paulsboro refined product terminal and the Royal Trading asphalt terminals, which was partially offset by lower maintenance costs in the third quarter of 2004 as compared to the third quarter of 2003.

Depreciation and amortization expense for the refined product terminals segment increased \$0.9 million for the third quarter of 2004 compared to the third quarter of 2003 due to the acquisitions completed in 2003 and early 2004.

Crude Oil Storage Tanks

Revenues for the crude oil storage tanks segment increased \$3.1 million or 37% for the third quarter of 2004 compared to the third quarter of 2003 due primarily to an increase in the throughput at the Texas City crude oil storage tanks and the operations of the Corpus Christi North Beach storage facility. The increase in throughput at Valero Energy's Texas City refinery was partially due to a new crude unit added in the fourth quarter of 2003, which allows the refinery to process more throughput. In addition, throughput was lower in 2003 due to several planned and unplanned crude unit outages at the Texas City refinery which lowered the amount of throughput processed in 2003.

Effective January 1, 2004, Valero L.P. transferred the operations of the Corpus Christi North Beach storage facility to the crude oil storage tanks segment from the crude oil pipelines segment. Valero L.P. and Valero Energy entered into a one-year shell barrel capacity lease agreement for the 1.6 million barrels of capacity at the facility. Revenues for the third quarter of 2004 for the Corpus Christi North Beach storage facility totaled \$1.9 million, which included \$1.4 million of rental income and \$0.5 million of dockage and wharfage fees. The use of this storage facility was previously included as a part of the crude oil pipeline tariff for the Corpus Christi to Three Rivers crude oil pipeline.

Operating expenses for the crude oil storage tanks segment increased \$0.4 million for the third quarter of 2004 compared to the third quarter of 2003 due primarily to the inclusion of the Corpus Christi North Beach storage facility in this segment in 2004.

Depreciation and amortization expense for the crude oil storage tanks segment increased \$0.2 million for the third quarter of 2004 compared to the third quarter of 2003 due to the inclusion of the Corpus Christi North Beach storage facility in this segment in 2004.

Other

General and administrative expenses increased \$2.0 million for the third quarter of 2004 compared to the third quarter of 2003 partially due to the revision to the Services Agreement, effective April 1, 2004, between Valero L.P. and Valero Energy for services rendered by Valero Energy corporate employees. In addition, general and administrative expenses in 2004 were higher due to increased external public company expenses and increased headcount. These higher costs have been offset by higher revenues resulting from increased tariff rates and the Corpus Christi North Beach storage facility lease agreement.

Equity income from Skelly-Belvieu Pipeline Company for the third quarter of 2004 decreased by \$0.3 million compared to the third quarter of 2003 primarily due to a 25% decline in throughput barrels in the Skellytown to Mont Belvieu refined product pipeline.

Interest and other expense for the third quarter of 2004 was \$5.4 million, net of investment income and capitalized interest of \$0.1 million and interest income related to interest rate swaps of \$0.8 million. Interest expense for the third quarter of 2003 was \$4.5 million, net of investment income and capitalized interest of \$0.1 million and interest income related to interest rate swaps of \$1.6 million. Interest expense was higher in 2004 due primarily to interest expense related to the \$43.0 million of borrowings during the first quarter of 2004 under Valero Logistics' \$175.0 million revolving credit facility to fund the acquisition of the Royal Trading asphalt terminals and to fund a portion of the construction costs related to the Nuevo Laredo, Mexico propane terminal and related pipelines.

Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

The results of operations for the nine months ended September 30, 2004 presented in the following table are derived from the unaudited consolidated statement of income for Valero L.P. and subsidiaries for the nine months ended September 30, 2004, which include the results of operations of the Royal Trading asphalt terminals for the period February 20, 2004 through September 30, 2004. The results of operations for the nine months ended September 30, 2003 presented in the following table are derived from the unaudited consolidated statement of income for Valero L.P. and subsidiaries for the nine months ended September 30, 2003, which include the results of operations of the South Texas Pipelines and Terminals and the Crude Oil Storage Tanks for the period from March 19, 2003 through September 30, 2003, the Telfer asphalt terminal from January 7, 2003 through September 30, 2003, the Shell pipeline undivided interests from May 1, 2003 through September 30, 2003, the McKee to Southlake refined product pipeline from August 1, 2003 through September 30, 2003 and the Paulsboro refined product terminal from September 4, 2003 through September 30, 2003.

	Nine Months Ended September 30,	
	2004	2003
(in thousands)		
Statement of Income Data:		
Revenues	\$ 166,106	\$ 131,053
Costs and expenses:		
Operating expenses	59,746	47,441
General and administrative expenses	8,233	5,102
Depreciation and amortization	24,536	18,687
Total costs and expenses	92,515	71,230
Operating income	73,591	59,823
Equity income from Skelly-Belvieu Pipeline Company	1,102	1,988
Interest and other expense, net	(15,630)	(11,617)
Net income	59,063	50,194
Less net income applicable to general partner	(4,451)	(2,828)
Net income applicable to the limited partners' interest	\$ 54,612	\$ 47,366
Net income per unit applicable to limited partners	\$ 2.37	\$ 2.23
Weighted average number of limited partnership units outstanding	23,041,394	21,256,196
Earnings before interest, taxes and depreciation and amortization (EBITDA) (a)	\$ 99,229	\$ 80,498
Distributable cash flow applicable to limited partners	\$ 67,942	\$ 57,031
Distributable cash flow applicable to general partner	8,748	6,782
Distributable cash flow (a)	\$ 76,690	\$ 63,813
	September 30,	December 31,
	2004	2003
(unaudited)		
Balance Sheet Data:		
Long-term debt, including current portion (1)	\$ 395,599	\$ 354,192
Partners' equity (2)	438,903	438,163
Debt-to-capitalization ratio (1) / ((1)+(2))	47.4 %	44.7%

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

	Nine Months Ended September 30,	
	2004	2003
	(in thousands)	
Net income	\$ 59,063	\$ 50,194
Plus interest and other expense, net	15,630	11,617
Plus depreciation and amortization	24,536	18,687
	<u>99,229</u>	<u>80,498</u>
EBITDA	99,229	80,498
Less equity income from Skelly-Belvieu Pipeline		
Company	(1,102)	(1,988)
Less interest and other expense, net	(15,630)	(11,617)
Less reliability capital expenditures	(7,030)	(5,302)
Plus distributions from Skelly-Belvieu Pipeline		
Company	1,223	2,222
	<u>76,690</u>	<u>63,813</u>
Distributable cash flow	76,690	63,813
Distributable cash flow applicable to general partner .	(8,748)	(6,782)
	<u>\$ 67,942</u>	<u>\$ 57,031</u>

The amount of distributable cash flow allocated to the general partner includes the general partner's 2% interest in distributions plus the amount of incentive distributions that would be allocated to the general partner assuming 100% of the distributable cash flow is distributed.

Valero L.P. utilizes two financial measures, EBITDA and distributable cash flow, which are not defined in GAAP. Management uses these financial measures because they are widely accepted financial indicators used by investors to compare partnership performance. In addition, management believes that these measures provide investors an enhanced perspective of the operating performance of Valero L.P.'s assets and the cash flow the business is generating. Neither EBITDA nor distributable cash flow are intended to represent cash flows for the period, nor are they presented as an alternative to net income. They should not be considered in isolation or as substitutes for a measure of performance prepared in accordance with GAAP.

Segment Operating Data for the Nine Months Ended September 30, 2004 and 2003

The following table reflects the results of operations for each of Valero L.P.'s operating segments and a reconciliation of the combined segments to the consolidated statements of income.

	Nine Months Ended September 30,	
	2004	2003
	(in thousands, except barrels/day information)	
Crude Oil Pipelines:		
Throughput (barrels/day)	384,643	355,636
Revenues	\$ 39,462	\$ 38,707
Operating expenses	11,825	11,827
Depreciation and amortization	3,368	4,083
Segment operating income	<u>\$ 24,269</u>	<u>\$ 22,797</u>
Refined Product Pipelines:		
Throughput (barrels/day)(b)	440,853	375,945
Revenues	\$ 63,764	\$ 51,439
Operating expenses	28,360	21,163
Depreciation and amortization	10,978	8,815
Segment operating income	<u>\$ 24,426</u>	<u>\$ 21,461</u>
Refined Product Terminals:		
Throughput (barrels/day)(b)	256,291	215,925
Revenues	\$ 30,259	\$ 22,614
Operating expenses	13,930	11,020
Depreciation and amortization	4,593	2,472
Segment operating income	<u>\$ 11,736</u>	<u>\$ 9,122</u>
Crude Oil Storage Tanks:		
Throughput (barrels/day)(b)	490,190	330,192
Revenues	\$ 32,621	\$ 18,293
Operating expenses	5,631	3,431
Depreciation and amortization	5,597	3,317
Segment operating income	<u>\$ 21,393</u>	<u>\$ 11,545</u>
Consolidated Information:		
Revenues	\$ 166,106	\$ 131,053
Operating expenses	59,746	47,441
Depreciation and amortization	24,536	18,687
Total segment operating income	81,824	64,925
Less general and administrative expenses	8,233	5,102
Consolidated operating income	<u>\$ 73,591</u>	<u>\$ 59,823</u>

(b) During the first nine months of 2004 and 2003, Valero L.P. completed several acquisitions as discussed above under the caption "Results of Operations – Overview." The throughput related to these acquisitions included in the table above is calculated based on throughput from the date of acquisition through the end of the period divided by the number of days in the period.

Net income applicable to limited partners increased \$7.2 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003 due primarily to acquisitions completed during 2003 and early 2004. Earnings per limited partner unit were \$2.37 for the nine months ended September 30, 2004 and \$2.23 for the nine months ended September 30, 2003. Net income applicable to the general partner for the nine months ended September 30, 2004 includes the effect of \$3.3 million of incentive distributions compared to \$1.9 million of incentive distributions for the nine months ended September 30, 2003.

Crude Oil Pipelines

Revenues for the crude oil pipelines segment increased \$0.8 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003 due primarily to a 21% increase in combined revenues for the Ardmore crude oil pipelines. During the second quarter of 2003, Valero Energy's Ardmore refinery was shut down for a major refinery turnaround for most of April, resulting in lower throughput and revenues in the Ringgold to Wasson to Ardmore crude oil pipelines.

Throughput for the crude oil pipelines that supply Valero Energy's McKee refinery increased slightly for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003 due to lower throughputs during the first quarter of 2003, as Valero Energy had initiated economic-based refinery production cuts at its McKee refinery, which resulted in lower throughput in the Wichita Falls pipeline in 2003. Offsetting the increase mentioned above are lower throughputs in the crude oil pipelines that supply the McKee refinery during the second and third quarters of 2004, as the McKee refinery had a crude unit down for a portion of each quarter.

Although the operating expenses for the crude oil pipelines segment were comparable for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003, operating expenses for the nine months ended September 30, 2004 increased as a result of higher power costs primarily associated with the Wichita Falls crude oil pipeline and increased employee benefit costs related to higher accruals for incentive compensation. This increase in operating expenses is offset by the transfer of the Corpus Christi North Beach storage facility to the crude oil storage tanks segment effective January 1, 2004.

Depreciation and amortization expense for the crude oil pipelines segment decreased by \$0.7 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003 due to the transfer of the Corpus Christi North Beach storage facility to the crude oil storage tanks segment effective January 1, 2004.

Refined Product Pipelines

Revenues for the refined product pipelines segment increased \$12.3 million or 24% for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003 due to a 17% increase in throughput resulting primarily from Valero L.P.'s acquisition of the South Texas Pipelines on March 18, 2003 and the Southlake refined product pipeline on August 1, 2003. Revenues for the South Texas Pipelines were \$17.8 million for the nine months ended September 30, 2004 compared to revenue of \$13.1 million for the period from March 19, 2003 through September 30, 2003. In addition, revenues for the Southlake refined product pipeline were \$5.6 million for the nine months ended September 30, 2004 compared to revenue of \$1.4 million for the period from August 1, 2003 through September 30, 2003.

Operating expenses for the refined product pipelines segment increased \$7.2 million or 34% for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003 primarily due to expenses associated with the operations of the South Texas Pipelines acquired on March 18, 2003 and the Southlake refined product pipeline acquired on August 1, 2003, higher power costs and increased employee benefit costs related to higher accruals for incentive compensation.

Depreciation and amortization expense for the refined product pipelines segment increased \$2.2 million or 25% for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003 due to the acquisition of the South Texas Pipelines on March 18, 2003 and the Southlake refined product pipeline effective August 1, 2003.

Refined Product Terminals

Revenues for the refined product terminals segment increased \$7.6 million or 34% for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003 due primarily to the acquisitions of the South Texas Terminals on March 18, 2003, the Paulsboro refined product terminal on September 3, 2003 and the Royal Trading asphalt terminals on February 20, 2004. Revenues for the South Texas Terminals were \$6.5 million for the nine months ended September 30, 2004 compared to revenues of \$4.1 million for the period from March 19, 2003 through September 30, 2003. Revenues for the Paulsboro refined product terminal were \$1.9 million for the nine months ended September 30, 2004 compared to revenues of \$0.1 million for the period from September 4, 2003 through September 30, 2003. In addition, revenues for the Royal Trading asphalt terminals were \$3.5 million for the period from February 20, 2004 through September 30, 2004.

Operating expenses for the refined product terminals segment increased \$2.9 million or 26% for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003 due primarily to expenses associated with the 2003 and 2004 acquisitions as follows:

- o Operating expenses for the South Texas Terminals were \$0.9 million higher due to being owned by Valero L.P. for only 196 days during the nine months ended September 30, 2003 as compared to 274 days in the nine months ended September 30, 2004;
- o Operating expenses for the Paulsboro refined products terminal were \$0.7 million for the nine months ended September 30, 2004 compared to \$0.1 million for the period from September 4, 2003 through September 30, 2003; and
- o Operating expenses for the Royal Trading asphalt terminals were \$1.0 million for the nine months ended September 30, 2004.

In addition, employee benefit costs were \$0.5 million higher due to increased incentive compensation costs for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003.

Depreciation and amortization expense for the refined product terminals segment increased \$2.1 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003 due to the acquisitions completed in 2003 along with the acquisition of the Royal Trading asphalt terminals during the first quarter of 2004.

Crude Oil Storage Tanks

Revenues for the crude oil storage tanks segment increased \$14.3 million or 78% for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003 due to a 48% increase in throughput attributable to the following:

- o The crude oil storage tanks being owned by Valero L.P. for only 196 days during the nine months ended September 30, 2003 as compared to 274 days in the nine months ended September 30, 2004; and
- o An increase in throughput at Valero Energy's Texas City refinery due to a new crude unit being added in the fourth quarter of 2003, which allows the refinery to process more throughput in addition to several planned and unplanned crude unit outages at the Texas City refinery in 2003 which lowered the amount of throughput processed in 2003.

In addition, effective January 1, 2004, Valero L.P. transferred the operations of its Corpus Christi North Beach storage facility to the crude oil storage tanks segment from the crude oil pipelines segment. The use of this storage facility was previously included as a part of the crude oil pipeline tariff for the Corpus Christi to Three Rivers crude oil pipeline. Valero L.P. and Valero Energy entered into a one-year shell barrel capacity lease agreement for the 1.6 million barrels of capacity at the facility and raised the dockage and wharfage fees. Revenues for the nine months ended September 30, 2004 for the Corpus Christi North Beach storage facility totaled \$5.8 million, which included \$4.3 million of rental income and \$1.5 million of dockage and wharfage fees.

Operating expenses along with depreciation and amortization expense for the crude oil storage tanks segment both increased by \$2.2 million and \$2.3 million, respectively, due to the ownership of the crude oil storage tanks acquired from Valero Energy for the full nine months of 2004 and the inclusion of the Corpus Christi North Beach storage facility for the nine months ended September 30, 2004.

Other

General and administrative expenses increased \$3.1 million for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003 partially due to the revision to the Services Agreement, effective April 1, 2004, between Valero L.P. and Valero Energy for services rendered by Valero Energy corporate employees. In addition, general and administrative expenses in 2004 were higher due to increased third party expenses and increased headcount. These higher costs have been offset by higher revenues resulting from increased tariff rates and the Corpus Christi North Beach storage facility lease agreement.

Equity income from Skelly-Belvieu Pipeline Company for the nine months ended September 30, 2004 decreased by \$0.9 million compared to the nine months ended September 30, 2003 due primarily to a 17% decline in throughput barrels in the Skellytown to Mont Belvieu refined product pipeline in addition to higher maintenance expenses associated with pipeline integrity inspection costs.

Interest and other expense for the nine months ended September 30, 2004 was \$15.6 million, net of investment income and capitalized interest of \$0.2 million and interest income related to interest rate swaps of \$2.8 million. Interest and other expense for the nine months ended September 30, 2003 was \$11.6 million, net of investment income and capitalized interest of \$0.2 million and interest income related to interest rate swaps of \$3.1 million. Interest expense was higher in 2004 due primarily to interest expense related to the \$250.0 million of 6.05% senior notes issued on March 18, 2003 and borrowings of \$43.0 million under Valero Logistics' \$175.0 million revolving credit facility during the first quarter of 2004 to fund the acquisition of the Royal Trading asphalt terminals and to fund a portion of the construction costs related to the Nuevo Laredo, Mexico propane terminal and related pipelines.

Liquidity and Capital Resources

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

Revolving Credit Facility

As of September 30, 2004, Valero Logistics had \$137.0 million of available borrowing capacity under its \$175.0 million revolving credit facility. During the nine months ended September 30, 2004, Valero Logistics borrowed \$28.0 million under the revolving credit facility to fund the purchase of the Royal Trading asphalt terminals and borrowed an additional \$15.0 million to partially fund construction of the Nuevo Laredo, Mexico propane terminal and related pipelines. Valero Logistics repaid \$5.0 million of the borrowings under the revolving credit facility in the nine months ended September 30, 2004. The revolving credit facility expires on January 15, 2006. At Valero Logistics' option, borrowings under the revolving credit facility bear interest based on either an alternative base rate or LIBOR, which was 2.8% as of September 30, 2004. Valero Logistics also incurs a facility fee on the aggregate commitments of lenders under the revolving credit facility, whether used or unused. The revolving credit facility requires Valero Logistics to maintain certain financial ratios and includes other restrictive covenants. If Valero Logistics defaults, as defined by the revolving credit facility, distributions by Valero Logistics to Valero L.P. are prohibited.

Senior Notes

Valero Logistics' \$250.0 million of 6.05% senior notes are due March 15, 2013 with interest payable on March 15 and September 15 of each year. Valero Logistics' \$100.0 million of 6.875% senior notes are due July 15, 2012 with interest payable on January 15 and July 15 of each year. The senior notes are redeemable at the option of Valero Logistics and do not have sinking fund requirements. The senior notes rank equally with all other existing senior unsecured indebtedness of Valero Logistics, including indebtedness under its revolving credit facility.

Other Long-term Debt

During the nine months ended September 30, 2004, Valero Logistics repaid \$0.5 million on the note payable to the Port of Corpus Christi Authority of Nueces County, Texas. The note payable is due in annual installments of \$1.2 million through December 31, 2015 and is collateralized by the crude oil storage facility.

Shelf Registration Statement

As of September 30, 2004, Valero L.P. and Valero Logistics have outstanding a \$750.0 million universal shelf registration statement that has been declared effective by the Securities and Exchange Commission covering the issuance of an unspecified amount of common units or debt securities or a combination thereof. Valero L.P. may, in one or more offerings, offer and sell common units representing limited partner interests in Valero L.P. Valero Logistics may, in one or more offerings, offer and sell its debt securities, which would be fully and unconditionally guaranteed by Valero L.P. The full balance of the \$750.0 million universal shelf registration statement is available as of September 30, 2004.

Distributions

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

Total cash distributions applicable to the nine months ended September 30, 2004 were \$59.8 million or \$2.40 per unit, of which \$4.5 million related to the general partner. Total cash distributions applicable to the nine months ended September 30, 2003 were \$51.8 million or \$2.20 per unit, of which \$2.9 million related to the general partner. In August 2004, Valero L.P. paid the quarterly cash distribution applicable to the second quarter of 2004 of \$19.9 million or \$0.80 per unit, of which \$1.5 million related to the general partner. On November 1, 2004, Valero L.P. declared a quarterly distribution of \$0.80 per unit to be paid on November 12, 2004 to unitholders of record on November 8, 2004.

Capital Requirements

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

- o reliability capital expenditures, such as those required to maintain equipment reliability and safety and to address environmental and safety regulations; and
- o expansion capital expenditures, such as those related to pipeline capacity and to construct new pipelines, terminals and storage tanks. In addition, expansion capital expenditures may include acquisitions of pipelines, terminals or storage tank assets.

During the nine months ended September 30, 2004, Valero L.P. incurred reliability capital expenditures of \$7.0 million primarily related to tank and pipeline pump station improvements at numerous locations. Expansion capital expenditures of \$18.0 million during the nine months ended September 30, 2004 were primarily related to the construction of the Nuevo Laredo, Mexico propane terminal and related pipelines and the expansion of Valero L.P.'s Corpus Christi to Edinburg refined product pipeline. Also during the nine months ended September 30, 2004, Valero L.P. acquired two asphalt terminals, one in Catoosa, Oklahoma near Tulsa and one in Rosario, New Mexico near Santa Fe, from Royal Trading for \$28.1 million.

For the fourth quarter of 2004, Valero L.P. expects to incur approximately \$7.3 million of capital expenditures including approximately \$5.2 million for reliability capital expenditures, and approximately \$2.1 million for expansion capital expenditures.

Valero L.P. believes it generates sufficient cash from its current operations to fund day-to-day operating and general and administrative expenses and reliability capital expenditures. Valero L.P. also has available borrowing capacity under Valero Logistics' \$175.0 million revolving credit facility and, to the extent necessary, can raise additional funds through equity or debt offerings under its \$750.0 million universal shelf registration statement. However, there can be no assurance regarding the availability of any future financings or whether such financings can be made available on terms acceptable to Valero L.P.

Other

Environmental, Health and Safety

Valero L.P. is subject to extensive federal, state and local environmental and safety laws and regulations, including those relating to the discharge of materials into the environment, waste management, pollution prevention measures, pipeline integrity and operator qualifications. 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. As of September 30, 2004, Valero L.P. has accrued \$0.2 million for environmental matters, which is expected to be spent over the next two years.

Critical Accounting Policies

The preparation of consolidated financial statements in accordance with GAAP 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. Valero L.P.'s critical accounting policies were disclosed in its Annual Report on Form 10-K for the year ended December 31, 2003 and such policies have not changed during the nine months ended September 30, 2004.

Subsequent Event

On November 1, 2004, Valero L.P. announced a proposed merger with Kaneb Services LLC (Kaneb Services) and Kaneb Pipe Line Partners, L.P. (Kaneb Partners). The boards of directors of the respective entities have approved the terms of the proposed transaction. The completion of the merger is subject to the approval of the unitholders of Valero L.P. and Kaneb Partners and the shareholders of Kaneb Services as well as customary regulatory approvals. The transaction is expected to close in the first quarter of 2005.

Under the terms of the merger agreement, Valero L.P. will acquire all of the equity securities of Kaneb Services for \$525 million in cash. In addition, each unitholder of Kaneb Partners will exchange their common units for a number of newly issued Valero L.P. common units based on an exchange ratio measured over a period prior to closing.

In order to maintain its 2% general partner interest, Riverwalk Logistics, L.P. expects to contribute approximately \$28 million to Valero L.P. Valero L.P. furnished a copy of its press release together with additional investor information for the proposed transaction in its Current Report on Form 8-K dated November 1, 2004.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Borrowings under its \$175.0 million revolving credit facility expose Valero Logistics to increases in the benchmark interest rate underlying its variable-rate revolving credit facility. As of September 30, 2004 and December 31, 2003, Valero Logistics' fixed-rate debt consisted of \$250.0 million of 6.05% senior notes, \$100.0 million of 6.875% senior notes and an 8.0% Port of Corpus Christi Authority note payable.

The following table provides information about Valero Logistics' 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, 2004

	Expected Maturity Dates						Total	Fair Value
	2004	2005	2006	2007	2008	There-after		
	(in thousands, except interest rates)							
Long-term Debt:								
Fixed rate	\$ 485	\$ 524	\$ 566	\$ 611	\$ 660	\$ 356,365	\$ 359,211	\$ 387,598
Average interest rate	8.0%	8.0%	8.0%	8.0%	8.0%	6.3%	6.3%	
Variable rate	\$ —	\$ —	\$ 38,000	\$ —	\$ —	\$ —	\$ 38,000	\$ 38,000
Average interest rate	—	—	2.8%	—	—	—	2.8%	
Interest Rate Swaps								
Fixed to Variable:								
Notional amount	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 167,500	\$ 167,500	\$ (773)
Average pay rate	4.4%	4.8%	5.6%	6.0%	6.4%	7.1%	6.2%	
Average receive rate	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	6.3%	

December 31, 2003

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

Item 4. Controls and Procedures

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

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

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

There has been no change in Valero L.P.'s internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) that occurred during Valero L.P.'s last fiscal quarter that has materially affected, or is reasonably likely to materially affect, Valero L.P.'s internal control over financial reporting.

PART II — OTHER INFORMATION

Item 6. Exhibits

- [Exhibit 2.1](#) [Agreement and Plan of Merger, dated as of October 31, 2004, by and among Valero L.P., Riverwalk Logistics, L.P., Valero GP, LLC, VLI Sub A LLC and Kaneb Services LLC, incorporated by reference to Exhibit 99.1 to Valero L.P.'s Current Report on Form 8-K dated October 31, 2004 and filed November 4, 2004.](#)
- [Exhibit 2.2](#) [Agreement and Plan of Merger, dated as of October 31, 2004, by and among Valero L.P., Riverwalk Logistics, L.P., Valero GP, LLC, VLI Sub B LLC, Kaneb Pipe Line Partners, L.P. and Kaneb Pipe Line Company LLC, dated as of October 31, 2004, incorporated by reference to Exhibit 99.2 to Valero L.P.'s Current Report on Form 8-K dated October 31, 2004 and filed November 4, 2004.](#)
- [Exhibit 10.1](#) [Valero GP, LLC Amended and Restated 2000 Long-Term Incentive Plan](#)
- [Exhibit 10.2](#) [Valero GP, LLC Amended and Restated 2002 Unit Option Plan](#)
- [Exhibit 10.3](#) [Valero GP, LLC Amended and Restated 2003 Employee Unit Incentive Plan](#)
- [Exhibit 10.4](#) [Form of Restricted Unit Award Agreement under the Valero GP, LLC Amended and Restated 2000 Long-Term Incentive Plan](#)
- [Exhibit 10.5](#) [Schedule of Restricted Unit Awards dated October 28, 2004](#)
- [Exhibit 10.6](#) [Form of Unit Option Award Agreement under the Valero GP, LLC Amended and Restated 2000 Long-Term Incentive Plan](#)
- [Exhibit 10.7](#) [Schedule of Unit Option Awards dated October 28, 2004](#)
- [Exhibit 12.1](#) [Statement of Computation of Ratio of Earnings to Fixed Charges](#)
- [Exhibit 31.1](#) [Rule 13a-14\(a\) Certifications \(under Section 302 of the Sarbanes-Oxley Act of 2002\).](#)
- [Exhibit 32.1](#) [Section 1350 Certifications \(as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002\).](#)

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, 2004

By: /s/Steven A. Blank

Steven A. Blank

Senior Vice President and Chief Financial Officer

November 8, 2004

By: /s/Clayton E. Killinger

Clayton E. Killinger

Vice President and Controller

November 8, 2004

**VALERO GP, LLC
AMENDED AND RESTATED
2000 LONG-TERM INCENTIVE PLAN**

Amended and Restated as of October 11, 2004

SECTION 1. Purpose of the Plan.

The Valero GP, LLC 2000 Long-Term Incentive Plan (the "Plan") is intended to promote the interests of Valero L.P., a Delaware limited partnership (the "Partnership"), by providing to employees and directors of Valero GP, LLC, a Delaware limited liability company (the "Company"), and its Affiliates who perform services for the Partnership and its subsidiaries incentive awards for superior performance that are based on Units. The Plan is also intended to enhance the Company's and its Affiliates' ability to attract and retain employees whose services are key to the growth and profitability of the Partnership, and to encourage them to devote their best efforts to the business of the Partnership, thereby advancing the Partnership's interests.

SECTION 2. Definitions.

As used in the Plan, the following terms shall have the meanings set forth below:

- 2.1 "Affiliate" means, with respect to any Person, any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by or is under common control with, the Person in question. As used herein, the term "*control*" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.
- 2.2 "Award" means a grant of one or more Options or Restricted Units pursuant to the Plan, and any tandem DERs granted with respect to such Award.
- 2.3 "Board" means the Board of Directors of the Company.
- 2.4 "Cause" means:
- (i) fraud or embezzlement on the part of the Participant;
 - (ii) conviction of or the entry of a plea of *nolo contendere* by the Participant to any felony;
 - (iii) gross insubordination or a material breach of, or the willful failure or refusal by the Participant to perform and discharge his duties, responsibilities or obligations (other than by reason of disability or death) that is not corrected within 30 days following written notice thereof to the Participant, such notice to state with specificity the nature of the breach, failure or refusal; or
 - (iv) any act of willful misconduct by the Participant that (a) is intended to result in substantial personal enrichment of the Participant at the expense of the Partnership, the Company or any of their Affiliates, or (b) has a material adverse impact on the business or reputation of the Partnership, the Company or any of their Affiliates (such determination to be made by the Partnership, the Company or any of their Affiliates in the good faith exercise of its reasonable judgment).

- 2.5 “Change of Control” means, and shall be deemed to have occurred upon the occurrence of one or more of the following events: (i) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company or the Partnership to any Person or its Affiliates, unless immediately following such sale, lease, exchange or other transfer such assets are owned, directly or indirectly, by Valero Energy Corporation and its Affiliates or the Company; (ii) the consolidation or merger of the Partnership or the Company with or into another Person pursuant to a transaction in which the outstanding voting interests of the Company is changed into or exchanged for cash, securities or other property, other than any such transaction where, in the case of the Company, (a) all outstanding voting interest of the Company is changed into or exchanged for voting stock or interests of the surviving corporation or entity or its parent and (b) the holders of the voting interests of the Company immediately prior to such transaction own, directly or indirectly, not less than a majority of the voting stock or interests of the surviving corporation or entity or its parent immediately after such transaction and, in the case of the Partnership, Valero Energy Corporation retains operational control, whether by way of holding a general partner interest, managing member interest or a majority of the outstanding voting interests of the surviving corporation or entity or its parent; or (iii) a “person” or “group” (within the meaning of Sections 13(d) or 14(d)(2) of the Exchange Act) being or becoming the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Exchange Act) of more than 50% of all voting interests of the Company then outstanding, other than (a) in a merger or consolidation which would not constitute a Change of Control under clause (ii) above and (b) Valero Energy Corporation and its Affiliates.
- 2.6 “Committee” means the Compensation Committee of the Board or such other committee of the Board appointed to administer the Plan.
- 2.7 “DER” means a contingent right, granted in tandem with a specific Restricted Unit, to receive an amount in cash equal to the cash distributions made by the Partnership with respect to a Unit during the period such Restricted Unit is outstanding.
- 2.8 “Director” means a “non-employee director” of the Company, as defined in Rule 16b-3.
- 2.9 “Employee” means any employee of the Company or an Affiliate, as determined by the Committee.
- 2.10 “Exchange Act” means the Securities Exchange Act of 1934, as amended.
- 2.11 “Fair Market Value” means the closing sales price of a Unit on the New York Stock Exchange on the applicable date (or if there is no trading in the Units on such date, on the next preceding date on which there was trading). If Units are not publicly traded at the time a determination of fair market value is required to be made hereunder, the determination of fair market value shall be made in good faith by the Committee.
- 2.12 “Good Reason” means:
- (i) a reduction in the Participant’s annual base salary;
 - (ii) failure to pay the Participant any compensation due under an employment agreement, if any;

- (iii) failure to continue to provide benefits substantially similar to those then enjoyed by the Participant unless the Partnership, the Company or their Affiliates provide aggregate benefits equivalent to those then in effect; or
- (iv) failure to continue a compensation plan or to continue the Participant's participation in a plan on a basis not materially less favorable to the Participant, subject to the power of the Partnership, the Company or their Affiliates to amend such plans in their reasonable discretion
- (v) the Partnership, the Company or their Affiliates purported termination of the Participant's employment for Cause or disability not pursuant to a procedure indicating the specific provision of the definition of Cause contained in this Plan as the basis for such termination of employment;

The Participant may not terminate for Good Reason unless he has given written notice delivered to the Partnership, the Company or their Affiliates, as appropriate, of the action or inaction giving rise to Good Reason, and if such action or inaction is not corrected within thirty (30) days thereafter, such notice to state with specificity the nature of the breach, failure or refusal.

- 2.13 "Option" means an option to purchase Units as described in Section 6.1.
- 2.14 "Participant" means any Employee or Director granted an Award under the Plan.
- 2.15 [reserved]
- 2.16 "Person" means an individual or a corporation, limited liability company, partnership, joint venture, trust, unincorporated organization, association, government agency or political subdivision thereof or other entity.
- 2.17 "Restricted Period" means the period established by the Committee with respect to the vesting of an Award during which the Award either remains subject to forfeiture or is not exercisable by the Participant.
- 2.18 "Restricted Unit" means a phantom unit granted under the Plan which is equivalent in value and in divided and interest rights to a Unit, and which upon or following vesting entitles the Participant to receive a Unit .
- 2.19 "Rule 16b-3" means Rule 16b-3 promulgated by the SEC under the Exchange Act, or any successor rule or regulation thereof as in effect from time to time.
- 2.20 "SEC" means the Securities and Exchange Commission.
- 2.21 "Unit" means a common unit of the Partnership.

SECTION 3. Administration.

Annual grant levels for Participants will be recommended by the Chief Executive Officer of the Company, subject to the review and approval of the Committee. The Plan shall be administered by the Committee. A majority of the Committee shall constitute a quorum, and the acts of the members of the Committee who are present at any meeting thereof at which a quorum is present, or acts unanimously approved by the members of the Committee in writing, shall be the acts of the Committee. Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Committee by the Plan, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to a Participant; (iii) determine the number of Units to be covered by Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and under what circumstances Awards may be settled, exercised, canceled, or forfeited; (vi) interpret and administer the Plan and any instrument or agreement relating to an Award made under the Plan; (vii) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (viii) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive, and binding upon all Persons, including the Company, the Partnership, any Affiliate, any Participant, and any beneficiary of any Award.

SECTION 4. Units Available for Awards.

- 4.1 Units Available. Subject to adjustment as provided in Section 4.3, the number of Units with respect to which Awards may be granted under the Plan is 250,000. If any Award is forfeited or otherwise terminates or is canceled without the delivery of Units, then the Units covered by such Award, to the extent of such forfeiture, termination, or cancellation, shall again be Units with respect to which Awards may be granted.
- 4.2 Sources of Units Deliverable Under Awards. Any Units delivered pursuant to an Award shall consist, in whole or in part, of Units acquired in the open market, from any Affiliate, the Partnership or any other Person, or any combination of the foregoing, as determined by the Committee in its discretion.
- 4.3 Adjustments. If the Committee determines that any distribution (whether in the form of cash, Units, other securities, or other property), recapitalization, split, reverse split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Units or other securities of the Partnership, issuance of warrants or other rights to purchase Units or other securities of the Partnership, or other similar transaction or event affects the Units such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Units (or other securities or property) with respect to which Awards may be granted, (ii) the number and type of Units (or other securities or property) subject to outstanding Awards, and (iii) if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award; provided, that the number of Units subject to any Award shall always be a whole number.

SECTION 5. Eligibility.

Any Employee and Director shall be eligible to be designated a Participant.

- 6.1 Options. The Committee shall have the authority to determine the Employees and Directors to whom Options shall be granted, the number of Units to be covered by each Option, the purchase price therefor and the conditions and limitations applicable to the exercise of the Option, including the following terms and conditions and such additional terms and conditions, as the Committee shall determine, that are not inconsistent with the provisions of the Plan.
- (i) Exercise Price. The purchase price per Unit purchasable under an Option shall be determined by the Committee at the time the Option is granted but shall not be less than its Fair Market Value as of the date of grant.
 - (ii) Time and Method of Exercise. The Committee shall determine the Restricted Period (*i.e.*, the time or times at which an Option may be exercised in whole or in part) and the method or methods by which payment of the exercise price with respect thereto may be made or deemed to have been made which may include, without limitation, cash, check acceptable to the Company, a “cash-broker” exercise (through procedures approved by the Company), other securities or other property, a note from the Participant (in a form acceptable to the Company), or any combination thereof, having a Fair Market Value on the exercise date equal to the relevant exercise price.
 - (iii) Term. Subject to earlier termination as provided in the grant agreement or the Plan, each Option shall expire on the 10th anniversary of its date of grant.
 - (iv) Forfeiture. Except as otherwise provided in this Plan, in the terms of an Award agreement, or in a written employment agreement (if any) between the Participant and the Company or one of its Affiliates, upon termination of a Participant’s employment with the Company or its Affiliates for any reason (other than for retirement, death or disability of the Participant (see Section 6.3(ix) below)) during the applicable Restricted Period, all Options which remain unexercised, whether vested or unvested, shall be forfeited by the Participant at the close of business on the date of the Participant’s termination of employment. The Committee or the Chief Executive Officer may waive in whole or in part such forfeiture with respect to a Participant’s Options.
- 6.2 Restricted Units. The Committee shall have the authority to determine the Employees and Directors to whom Restricted Units shall be granted, the number of Restricted Units to be granted to each such Participant, the duration of the Restrict Period (if any), the conditions under which the Restricted Units may become vested (which may be immediate upon grant) or forfeited, and such other terms and conditions as the Committee may establish respecting such Awards, including whether DERs are granted with respect to such Restricted Units.

- (i) DERs. To the extent provided by the Committee, in its discretion, a grant of Restricted Units may include a tandem DER grant, which may provide that such DERs shall be paid directly to the Participant, be credited to a bookkeeping account (with or without interest in the discretion of the Committee) subject to the same restrictions as the tandem Award, or be subject to such other provisions or restrictions as determined by the Committee in its discretion.
- (ii) Forfeiture. Except as otherwise provided in this Plan, in the terms of an Award agreement, or in a written employment agreement (if any) between the Participant and the Company or one of its Affiliates, upon termination of a Participant's employment with the Company or its Affiliates for any reason (other than for retirement, death or disability of the Participant (see Section 6.3(ix) below)) during the applicable Restricted Period, all Restricted Units shall be forfeited by the Participant at the close of business on the date of the Participant's termination of employment. The Committee or the Chief Executive Officer may waive in whole or in part such forfeiture with respect to a Participant's Restricted Units.
- (iii) Lapse of Restrictions. Upon the vesting of each Restricted Unit, the Participant shall be entitled to receive from the Company one Unit subject to the provisions of Section 8.2.

6.3 General.

- (i) Awards May be Granted Separately or Together. Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution for any other Award granted under the Plan or any award granted under any other plan of the Company or any Affiliate, including the Annual Incentive Plan or the Intermediate Incentive Compensation Plan. Awards granted in addition to or in tandem with other Awards or awards granted under any other plan of the Company or any Affiliate may be granted either at the same time as or at a different time from the grant of such other Awards or awards.
- (ii) Limits on Transfer of Awards. No Award and no right under any such Award may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a Participant otherwise than by will or by the laws of descent and distribution and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate.
- (iii) Terms of Awards. The term of each Award shall be for such period as may be determined by the Committee.

- (iv) Unit Certificates. All certificates for Units or other securities of the Partnership delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the SEC, any stock exchange upon which such Units or other securities are then listed, and any applicable federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.
- (v) Consideration for Grants. Awards may be granted for no cash consideration or for such consideration as the Committee determines including, without limitation, such minimal cash consideration as may be required by applicable law.
- (vi) Delivery of Units or other Securities and Payment by Participant of Consideration. Notwithstanding anything in the Plan or any grant agreement to the contrary, delivery of Units pursuant to the exercise or vesting of an Award may be deferred for any period during which, in the good faith determination of the Committee, the Company is not reasonably able to obtain Units to deliver pursuant to such Award without violating the rules or regulations of any applicable law or securities exchange. No Units or other securities shall be delivered pursuant to any Award until payment in full of any amount required to be paid pursuant to the Plan or the applicable Award Agreement (including, without limitation, any exercise price or any tax withholding) is receivable by the Company. Such payment may be made by such method or methods and in such form or forms as the Committee shall determine, including, without limitation, cash, other Awards, withholding of Units, or any combination thereof; provided that the combined value, as determined by the Committee, of all cash and cash equivalent and the Fair Market Value of any such Units or other property so tendered to the Company, as of the date of such tender, is at least equal to the full amount required to be paid to the Company pursuant to the Plan or the applicable Award agreement.
- (vii) Change of Control. Upon a Change of Control, all Awards shall automatically vest and become payable or exercisable, as the case may be, in full. In this regard, all Restricted Periods shall terminate and all performance criteria, if any, shall be deemed to have been achieved at the maximum level.
- (viii) Sale of Significant Assets. In the event the Company or the Partnership sells or otherwise disposes of a significant portion of the assets under its control, (such significance to be determined by action of the Board of the Company in its sole discretion) and as a consequence of such disposition (a) a Participant's employment is terminated by the Partnership, the Company or their affiliates without Cause or by the Participant for Good Reason or (b) as a result of such sale or disposition, the Participant's employer shall no longer be the Partnership, the Company or one of their Affiliates, then all of such Participant's Awards shall automatically vest and become payable or exercisable, as the case may be, in full. In this regard, all Restricted Periods shall terminate and all performance criteria, if any, shall be deemed to have been achieved at the maximum level.

- (ix) Retirement, Death, Disability. Except as otherwise determined by the Committee and included in the Participant's Award agreement, if a Participant's employment is terminated because of retirement, death or disability (with the determination of disability to be made within the sole discretion of the Committee), any Award held by the Participant shall remain outstanding and vest or become exercisable according to the Award's original terms, provided, however, that any Restricted Units held by such Participant which remain unvested as of the date of retirement, death or disability shall immediately vest and become non-forfeitable as of such date.

SECTION 7. Amendment and Termination.

Except to the extent prohibited by applicable law and unless otherwise expressly provided in an Award agreement or in the Plan.

- (i) Amendments to the Plan. Except as required by applicable law or the rules of the principal securities exchange on which the Units are traded and subject to Section 7(ii) below, the Board or the Committee may amend, alter, suspend, discontinue, or terminate the Plan in any manner, including increasing the number of Units available for Awards under the Plan, without the consent of any partner, Participant, other holder or beneficiary of an Award, or other Person.
- (ii) Amendments to Awards. The Committee may waive any conditions or rights under, amend any terms of, or alter any Award therefore granted, provided no change, other than pursuant to Section 7(iii), in any Award shall materially reduce the benefit to Participant without the consent of such Participant.
- (iii) Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. The Committee is hereby authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 4.3 of the Plan) affecting the Partnership or the financial statements of the Partnership, or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

SECTION 8. General Provisions.

- 8.1 No Rights to Awards. No Person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Participants. The terms and conditions of Awards need not be the same with respect to each Participant.
- 8.2 Withholding. The Company or any Affiliate is authorized to withhold from any Award, from any payment due or transfer made under any Award or from any compensation or other amount owing to a Participant the amount (in cash, Units, other securities, Units that would otherwise be issued pursuant to such Award or other property) of any applicable taxes payable in respect of the grant of an Award, the lapse of restrictions thereon, or any payment or transfer under an Award or under the Plan and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes.

- 8.3 No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of the Company or any Affiliate or to remain on the Board, as applicable. Further, the Company or an Affiliate may at any time dismiss a Participant from employment, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award agreement.
- 8.4 Governing Law. The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Delaware and applicable federal law.
- 8.5 Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award and the remainder of the Plan and any such Award shall remain in full force and effect.
- 8.6 Other Laws. The Committee may refuse to issue or transfer any Units or other consideration under an Award if, in its sole discretion, it determines that the issuance or transfer of such Units or such other consideration might violate any applicable law or regulation, the rules of the principal securities exchange on which the Units are then traded, or entitle the Partnership or an Affiliate to recover the entire then Fair Market Value thereof under Section 16(b) of the Exchange Act, and any payment tendered to the Company by a Participant, other holder or beneficiary in connection with the exercise of such Award shall be promptly refunded to the relevant Participant, holder or beneficiary.
- 8.7 No Trust or Fund Created. Neither the Plan nor the Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any general unsecured creditor of the Company or any Affiliate.
- 8.8 No Fractional Units. No fractional Units shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash, other securities, or other property shall be paid or transferred in lieu of any fractional Units or whether such fractional Units or any rights thereto shall be canceled, terminated, or otherwise eliminated.

8.9 Headings. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

8.10 Gender and Number. Words in the masculine gender shall include the feminine gender, the plural shall include the singular and the singular shall include the plural.

SECTION 9. Term of the Plan.

The Plan shall be effective on the date of its approval by the Board and shall continue under the date terminated by the Board or Units are no longer available for grants of Awards under the Plan, whichever occurs first, provided, however, that notwithstanding the foregoing, no Award shall be made under the Plan after the tenth anniversary of the Effective Date. However, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award granted prior to such termination, and the authority of the Board or the Committee to amend, alter, adjust, suspend, discontinue, or terminate any such Award or to waive any conditions or rights under such Award, shall extend beyond such termination date.

**VALERO GP, LLC
AMENDED AND RESTATED
2002 UNIT OPTION PLAN**

Amended and Restated as of October 11, 2004

I. Plan Purpose

The Valero GP, LLC 2002 Unit Option Plan (the "Plan") is intended to promote the interests of Valero L.P., a Delaware limited partnership (the "Partnership"), by providing to employees and directors of Valero GP, LLC, a Delaware limited liability company (the "Company"), and its Affiliates who perform services for the Partnership and its subsidiaries the incentive to acquire Units through the grant of Options to purchase such Units as described herein. The Plan is intended to assist the Company and its Affiliates in the attraction, motivation, and retention of employees who are vital to the growth and financial success of the Partnership and to align employees' interests with those of other Unit holders of the Partnership.

II. Definitions

In this Plan, except where the context indicates otherwise, the following definitions apply:

- (a) "Affiliate" means an entity that controls, is controlled by, or is under common control with the Company, as defined in Sections 424(e) and (f) of the Code (but substituting "the Company" for "employer corporation"), including entities which become such after adoption of the Plan.
- (b) "Agreement" means a written agreement granting an Option that is executed by the Company and the Optionee.
- (c) "Award" means a grant of one or more Options pursuant to the Plan.
- (d) "Beneficiary" means the person or persons described in Section XI(j).
- (e) "Board" means the Board of Directors of the Company.
- (f) "Cause" means:
 - (i) fraud or embezzlement on the part of the Participant (such determination to be made by the Committee in the good faith exercise of its reasonable judgment);
 - (ii) conviction of or the entry of a plea of *nolo contendere* by the Participant to any felony;
 - (iii) gross insubordination or a material breach of, or the willful failure or refusal by the Participant to perform and discharge his duties, responsibilities or obligations (other than by reason of disability or death) that is not corrected within 30 days following written notice thereof to the Participant, such notice to state with specificity the nature of the breach, failure or refusal; or
 - (iv) any act of willful misconduct by the Participant that (a) is intended to result in substantial personal enrichment of the Participant at the expense of the Partnership, the Company or any of their Affiliates, or (b) has a material adverse impact on the business or reputation of the Partnership, the Company or any of their Affiliates (such determination to be made by the Partnership, the Company or any of their Affiliates in the good faith exercise of their reasonable judgment).

- (g) “Code” means the Internal Revenue Code of 1986, as amended.
- (h) “Committee” means the Compensation Committee of the Board, the committee appointed by the Board to administer the Plan.
- (i) “Company” means Valero GP, LLC, a Delaware limited liability company.
- (j) “Date of Exercise” means the date on which the Company receives notice of the exercise of an Option in accordance with Section VI(c) of the Plan.
- (k) “Date of Grant” means the date on which an Option is granted under the Plan.
- (l) “Director” means a member of the Board of Directors of the Company or any Affiliate.
- (m) “Employee” means any employee of the Company or an Affiliate, as determined by the Committee.
- (n) “Exchange Act” means the Securities Exchange Act of 1934, as amended.
- (o) “Fair Market Value” means the closing price of a Unit on the New York Stock Exchange on the applicable date (or if there is no trading in the Units on such date, on the next preceding date on which there was trading). If Units are not publicly traded at the time a determination of fair market value is required to be made hereunder, the determination of fair market value shall be made in good faith by the Committee.
- (p) “Option” means an option to purchase Units granted under the Plan. Such Options will be nonqualified unit options and are not intended to be Incentive Stock Options as defined in Section 422 of the Code.
- (q) “Option Period” means the period during which an Option may be exercised.
- (r) “Optionee” means a Participant to whom an Option has been granted.
- (s) “Participant” means any Employee or Director granted an Award under the Plan.
- (t) “Partnership” means Valero L.P., a Delaware limited partnership.
- (u) “Plan” means the Valero GP, LLC 2002 Unit Option Plan as set forth herein.
- (v) “Unit” means a common unit of the Partnership.

III. Administration of the Plan

- (a) The Committee shall administer the Plan.
- (b) The Committee shall have full power and authority to interpret the provisions of the Plan and supervise its administration. All decisions and selections made by the Committee pursuant to the provisions of the Plan shall be made by a majority of its members. Any decision reduced to writing and signed by a majority of the members shall be fully effective as if adopted by a majority at a meeting duly held. Subject to the provisions of the Plan, the Committee shall have full and final authority to determine the Participants to whom Options hereunder shall be granted; the number of Units to be covered by each Option; the terms and conditions of any Option, the determination of whether, to what extent, and under what circumstances Options may be settled, exercised, cancelled, or forfeited; the determination of such rules and regulations as deemed proper for the administration of the Plan; and the making of any other determination or actions required for the proper interpretation and administration of the Plan.

- (c) Unless expressly provided in the Plan, all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Award or Option shall be within the sole discretion of the Committee, may be made at any time, and shall be final, conclusive, and binding upon the Company, the Partnership, any Affiliate, any Participant, and any beneficiary of any Award or Option.

IV. Units Available for Awards

- (a) Units Available. Subject to adjustment as provided in Section IV. (c) hereunder, the number of Units with respect to which Awards may be granted under the Plan is 200,000. If any Award is forfeited or otherwise terminates or is canceled without the exercise of such Option grant, then the Units covered by such Award, to the extent of such forfeiture, termination, or cancellation, shall again be Units with respect to which Awards may be granted.
- (b) Sources of Units Deliverable Under Awards. Any Units delivered pursuant to the exercise of an Option shall consist, in whole or in part, of Units acquired in the open market, from any Affiliate, the Partnership or any other person, or any combination of the foregoing, as determined by the Committee in its discretion.
- (c) Adjustments. If the Committee determines that any distribution (whether in the form of cash, Units, other securities, or other property), recapitalization, split, reverse split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Units or other securities of the Partnership, issuance of warrants or other rights to purchase Units or other securities of the Partnership, or other similar transaction or event affects the Units such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and types of Units (or other securities or property) with respect to which Awards may be granted, (ii) the number and type of Units (or other securities or property) subject to outstanding Awards or Options, and (iii) if deemed appropriate, make provision for a cash payment to the holder of an outstanding Option; provided, that the number of Units subject to any Award or Option shall always be a whole number.

V. Eligibility

Any Employee or Director shall be eligible to be designated a Participant.

VI. Awards

The Committee shall have the authority to determine the Employees and Non-Employee Directors to whom Options shall be granted, the number of Units to be covered by each Option, the Date of Grant of the Option, the purchase price therefor and the conditions and limitations applicable to the exercise of the Option, including the following terms and conditions, as the Committee shall determine, that are not inconsistent with the provisions of the Plan.

- (a) Exercise Price. The purchase price per Unit purchasable under an Option shall be determined by the Committee at the time the Option is granted but shall not be less than its Fair Market Value as of the Date of Grant.
- (b) Time and Method of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part, and the method or methods by which payment of the exercise price with respect thereto may be made or deemed to have been made which may include, without limitation, cash, check acceptable to the Company, a “cashless-broker” exercise (through procedures approved by the Company), other securities or other property, a note from the Participant (in a form acceptable to the Company), or any combination thereof, having a Fair Market Value on the exercise date equal to the relevant exercise price. The Participant shall provide written notice to the Company Secretary of his intent to exercise on or before the Date of Exercise.
- (c) Term. Subject to earlier termination as provided in the Agreement or the Plan, each Option shall expire on the tenth (10th) anniversary of its Date of Grant.
- (d) Forfeiture. Except as otherwise provided in this Plan, in the terms of an Award agreement, or in a written employment agreement (if any) between the Participant and the Company or one of its Affiliates, upon termination of a Participant’s (i) employment with the Company or its Affiliates, or (ii) membership on the Board, whichever is applicable, for any reason (other than for retirement, death or disability of the Participant (see Section VI.(h) below)), all Options which remain unexercised, whether vested or unvested, shall be forfeited by the Participant at the close of business on the date of the Participant’s termination of employment or membership on the Board. The Committee or the Chief Executive Officer may waive in whole or in part such forfeiture with respect to a Participant’s Options.
- (e) [Reserved]
- (f) [Reserved]
- (g) [Reserved]
- (h) Except as otherwise determined by the Committee and included in the Participant’s Award agreement, if a Participant’s employment or Board membership is terminated because of retirement, death or disability (with the determination of disability to be made within the sole discretion of the Committee), any Option held by the Participant shall remain outstanding and vest or become exercisable according to the Option’s original terms.
- (i) [Reserved]
- (j) Notwithstanding the other provisions of this Section VI of the Plan, in no event may an Option be exercised after the expiration of 10 years from the Date of Grant.

VII. Assignability of Awards or Options

Options granted under the Plan shall not be assignable or otherwise transferable by the Participant except by will or the laws of descent and distribution. Otherwise, Options granted under this Plan shall be exercisable during the lifetime of the Participant (except as otherwise provided in the Plan or the applicable Agreement) only by the Participant for his or her individual account, and no purported assignment or transfer of such Options thereunder, whether voluntary or involuntary, by operation of law or otherwise, shall vest in the purported assignee or transferee any interest or right therein whatsoever but immediately upon any such purported assignment or transfer, or any attempt to make the same, such Options thereunder shall terminate and become of no further effect.

VIII. Effective Date and Term of the Plan

The Plan was approved and adopted by the Board on March 22, 2002 and has become effective thereon.

IX. Withholding

The Company's obligation to deliver Units or pay any amount pursuant to the terms of any Option shall be subject to the satisfaction of applicable federal, state and local tax withholding requirements. To the extent provided in the applicable Agreement and in accordance with rules prescribed by the Committee, a Participant may satisfy any such withholding tax obligation by any of the following means or by a combination of such means: (i) tendering a cash payment, (ii) authorizing the Company to withhold Units otherwise issuable to the Participant, or (iii) delivering to the Company already owned and unencumbered Units.

X. Amendment and Termination of Awards

- (a) Amendments to Awards. The Committee may waive any conditions or rights under, amend any terms of, or alter any Award or Option theretofore granted, provided no change, other than pursuant to Section X(b) below, in an Award shall materially reduce the benefit to Participant without the consent of such Participant.
- (b) Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. The Committee is hereby authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards and Options in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section IV(c) of the Plan) affecting the Partnership or the financial statements of the Partnership, or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

XI. General

The following general provisions shall be applicable to the Plan:

- (a) No Rights to Awards. No Employee or Director shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Participants. The terms and conditions of Awards need not be the same with respect to each Participant.
- (b) No Right to Employment. The grant of an Award or Option shall not be construed as giving a Participant the right to be retained in the employ of the Company or any Affiliate or to remain on the Board, as applicable. Further, the Company or an Affiliate may at any time dismiss a Participant from employment, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in an Agreement.

- (c) Governing Law. The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Delaware and applicable federal law.
- (d) Severability. If any provision of the Plan or any Award or Option is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any person or Award, or would disqualify the Plan or any Award or any Option under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, person, Award, or Option, and the remainder of the Plan and any such Award or Option shall remain in full force and effect.
- (e) Other Laws. The Committee may refuse to issue or transfer any Units or other consideration under an Award or Option if, in its sole discretion, it determines that the issuance or transfer of such Units or such other consideration might violate any applicable law or regulation, the rules of the principal securities exchange on which the Units are then traded, or entitle the Partnership or an Affiliate to recover the entire then Fair Market Value thereof under Section 16(b) of the Exchange Act, and any payment tendered to the Company by a Participant, other holder or beneficiary in connection with the exercise of such Award or Option shall be promptly refunded to the relevant Participant, holder or beneficiary.
- (f) No Trust or Fund Created. Neither the Plan nor the Award or Option shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award or Option, such right shall be no greater than the right of any general unsecured creditor of the Company or any Affiliate.
- (g) No Fractional Units. No fractional Units shall be issued or delivered pursuant to the Plan or any Award or Option, and the Committee shall determine whether cash, other securities, or other property shall be paid or transferred in lieu of any fractional Units or whether such fractional Units or any rights thereto shall be canceled, terminated, or otherwise eliminated.
- (h) Headings. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.
- (i) Gender and Number. Words in the masculine gender shall include the feminine gender, the plural shall include the singular, and the singular shall include the plural.

- (j) Beneficiary. Each person whose name appears on the signature page of a Participant's Agreement after the caption "Beneficiary" or is otherwise designated by Participant in accordance with the rules established by the Committee and who is Participant's Beneficiary at the time of his or her death shall be recognized under the Plan as the Participant's "Beneficiary" and shall be entitled to exercise the Option, to the extent it is exercisable, after the death of Participant. Any Participant may from time to time revoke or change his or her Beneficiary without the consent of any prior Beneficiary by filing a new designation with the Company. The last such designation received by the Company shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received (within the meaning of such term under Section XI (l) of the Plan) by the Company prior to the Participant's death, and in no event shall any designation be effective as of a date prior to such receipt. If no Beneficiary designation is in effect at the time of the Participant's death, or if no designated Beneficiary survives the Participant or if such designation conflicts with applicable law, each person entitled to the Option under the Participant's last will or, in the absence of any such will, the laws of descent and distribution, shall be deemed to be the Participant's Beneficiary who is entitled to exercise the Option, to the extent it is exercisable after the death of Participant. If the Committee administering the Plan is in doubt as to the right of any person to exercise the Option, the Company may refuse to recognize such exercise, without liability for any interest or distributions on the underlying Units, until the Committee determines the person entitled to exercise the Option, or the Company may apply to any court of appropriate jurisdiction for declaratory or other appropriate relief and such application shall be a complete discharge of the liability of the Company therefore.
- (k) The Company and its Affiliates will pay all expense that may arise in connection to the administration of this Plan.
- (l) Any notice required or permitted to be given under this Plan shall be sufficient if in writing and hand-delivered with appropriate proof of same, or sent by registered or certified mail, return receipt requested, to the Participant, Beneficiary or the Secretary (or equivalent person) of the Company, Affiliate, Partnership, Committee, or other person or entity at the address last furnished by such person or entity. Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.
- (m) No liability whatever shall attach to or be incurred by any past, present or future unitholders, stockholders, members, officers or directors, as such, of the Company and its Affiliates, under or by reason any of the terms, conditions or agreements contained in this Plan or implied therefrom, and any and all liabilities of, and any and all rights and claims against, the Company or its Affiliates, or any unitholder, stockholder, member, officer or director, as such, whether arising at common law or in equity or created by statute or constitution or otherwise, pertaining to this Plan (other than liability for the benefits, if any, provided hereunder), are hereby expressly waived and released by every Participant, as part of the consideration for any benefits provided by the Company and its Affiliates under this Plan.
- (n) Neither the Company nor any Affiliates nor the Committee makes any commitment or guarantee that any federal or state tax treatment will apply or be available to any person participating or eligible to participate in this Plan.

- (o) The provisions of the Plan shall be binding on all successors and assigns of (i) the Company or any Affiliates and (ii) a Participant, including without limitation, the estate of such Participant and the executor, administrator or trustee of such estate, or any receiver or trustee in bankruptcy or representative of the Participant's creditors.
- (p) Except as otherwise provided in any notification or agreement relating to an Award, a Participant shall have no rights as a unitholder of the Partnership until such Participant becomes the holder of record of Units.
- (q) This Plan is not intended by its terms or as a result of surrounding circumstances to provide retirement income or to defer the receipt of payments hereunder to the termination of the Participant's covered employment or beyond. This Plan is strictly a Unit option program and not a pension or welfare benefit plan that is subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). All interpretations and determinations hereunder shall be made on a basis consistent with the status of the Plan as a Unit option program that is not subject to ERISA.

VALERO GP, LLC
AMENDED AND RESTATED
2003 EMPLOYEE UNIT INCENTIVE PLAN

Amended and Restated as of October 11, 2004

SECTION 1. Purpose of the Plan.

The Valero GP, LLC 2003 Employee Unit Incentive Plan (the "Plan") is intended to promote the interests of Valero L.P., a Delaware limited partnership (the "Partnership"), by providing to employees of Valero GP, LLC, a Delaware limited liability company (the "Company"), and its Affiliates who perform services for the Partnership and its subsidiaries incentive awards for superior performance that are based on Units. The Plan is also intended to enhance the Company's and its Affiliates' ability to attract and retain employees whose services are key to the growth and profitability of the Partnership, and to encourage them to devote their best efforts to the business of the Partnership and its subsidiaries, thereby advancing the Partnership's interests.

SECTION 2. Definitions.

As used in the Plan, the following terms shall have the meanings set forth below:

- 2.1 "Affiliate" means, with respect to any Person, any other Person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the Person in question. As used herein, the term "control" means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.
- 2.2 "Award" means a grant of one or more Options or Restricted Units pursuant to the Plan, and any tandem DERs granted with respect to such Award.
- 2.3 "Board" means the Board of Directors of the Company.
- 2.4 "Cause" means:
- (i) fraud or embezzlement on the part of the Participant;
 - (ii) conviction of or the entry of a plea of *nolo contendere* by the Participant to any felony;
 - (iii) gross insubordination or a material breach of, or the willful failure or refusal by the Participant to perform and discharge his duties, responsibilities or obligations (other than by reason of disability or death) that is not corrected within 30 days following written notice thereof to the Participant, such notice to state with specificity the nature of the breach, failure or refusal; or
 - (iv) any act of willful misconduct by the Participant that (a) is intended to result in substantial personal enrichment of the Participant at the expense of the Partnership, the Company or any of their Affiliates, or (b) has a material adverse impact on the business or reputation of the Partnership, the Company or any of their Affiliates (such determination to be made by the Partnership, the Company or any of their Affiliates in the good faith exercise of its reasonable judgment).
- 2.5 "Change of Control" means, and shall be deemed to have occurred upon the occurrence of one or more of the following events: (i) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company or the Partnership to any Person or its Affiliates, unless immediately following such sale, lease, exchange or other transfer such assets are owned, directly or indirectly, by Valero Energy and its Affiliates or the Company; (ii) the consolidation or merger of the Partnership or the Company with or into another Person pursuant to a transaction in which the outstanding voting interests of the Company is changed into or exchanged for cash, securities or other property, other than any such transaction where, in the case of the Company, (a) all outstanding voting interest of the Company is changed into or exchanged for voting stock or interests of the surviving corporation or entity or its parent and (b) the holders of the voting interests of the Company immediately prior to such transaction own, directly or indirectly, not less than a majority of the voting stock or interests of the surviving corporation or entity or its parent immediately after such transaction and, in the case of the Partnership, Valero Energy retains at least a majority of the general partner interest, managing member interest or a majority of the outstanding voting interests of the surviving corporation or entity or its parent; or (iii) a "person" or "group" (within the meaning of Sections 13(d) or 14(d)(2) of the Exchange Act) being or becoming the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Exchange Act) of more than 50% of all voting interests of the Company then outstanding, other than (a) in a merger or consolidation which would not constitute a Change of Control under clause (ii) above and (b) Valero Energy and its Affiliates.
- 2.6 "Committee" means the Compensation Committee of the Board or such other committee of the Board appointed to administer the Plan.
- 2.7 "DER" or "Distribution Equivalent Right" means a contingent right, granted in tandem with a specific Restricted Unit, to receive an amount in cash equal to the cash distributions made by the Partnership with respect to a Unit during the period such Restricted Unit is outstanding.
- 2.8 "Employee" means any employee of the Company or an Affiliate, who performs services for the Partnership, as determined by the Committee, provided, however that employees who are "officers" of the Company or an Affiliate (as such term is defined in Rule 16a-1(f) of the Exchange Act), are not to be "Employees" for purposes of this Plan.
- 2.9 "Exchange Act" means the Securities Exchange Act of 1934, as amended.
- 2.10 "Fair Market Value" means the closing sales price of a Unit on the New York Stock Exchange on the applicable date (or if there is no trading in

the Units on such date, on the next preceding date on which there was trading). If Units are not publicly traded at the time a determination of fair market value is required to be made hereunder, the determination of fair market value shall be made in good faith by the Committee.

2.11 "Good Reason" means:

- (i) a reduction in the Participant's annual base salary;
- (ii) failure to pay the Participant any compensation due under an employment agreement, if any;
- (iii) failure to continue to provide benefits to the Participant that are substantially similar to those then enjoyed by similarly situated employees unless the Partnership, the Company or their Affiliates provide aggregate benefits equivalent to those then in effect; or
- (iv) the Partnership, the Company or their Affiliates purported termination of the Participant's employment for Cause or disability not pursuant to a procedure indicating the specific provision of the definition of Cause contained in this Plan as the basis for such termination of employment.

The Participant may not terminate for Good Reason unless he has given written notice delivered to the Partnership, the Company or their Affiliates, as appropriate, of the action or inaction giving rise to Good Reason, and such action or inaction is not corrected within thirty (30) days thereafter.

2.12 "Option" means an option to purchase Units as further described in Section 6.1.

2.13 "Participant" means any Employee granted an Award under the Plan.

2.14 [reserved].

2.15 "Person" means an individual or a corporation, limited liability company, partnership, joint venture, trust, unincorporated organization, association, government agency or political subdivision thereof or other entity.

2.16 "Restricted Period" means the period established by the Committee with respect to the vesting of an Award during which the Award either remains subject to forfeiture or is not exercisable by the Participant.

2.17 "Restricted Unit" means a phantom unit granted under the Plan which is equivalent in value and in dividend and interest rights to a Unit, and which upon or following vesting entitles the Participant to receive a Unit or its Fair Market Value in cash, whichever is determined by the Committee.

2.18 "Rule 16b-3" means Rule 16b-3 promulgated by the SEC under the Exchange Act, or any successor rule or regulation thereto as in effect from time to time.

2.19 "SEC" means the Securities and Exchange Commission.

2.20 "Unit" means a common unit of the Partnership.

2.21 "Valero Energy" means Valero Energy Corporation.

SECTION 3. Administration.

Annual grant levels for Participants will be recommended by the Chief Executive Officer of the Company, subject to the review and approval of the Committee. The Plan shall be administered by the Committee. A majority of the Committee shall constitute a quorum, and the acts of the members of the Committee who are present at any meeting thereof at which a quorum is present, or acts unanimously approved by the members of the Committee in writing, shall be the acts of the Committee. Subject to the terms of the Plan and applicable law, and in addition to other express powers and authorizations conferred on the Committee by the Plan, the Committee shall have full power and authority to: (i) designate Participants; (ii) determine the type or types of Awards to be granted to a Participant; (iii) determine the number of Units to be covered by Awards; (iv) determine the terms and conditions of any Award; (v) determine whether, to what extent, and under what circumstances Awards may be settled, exercised, canceled, or forfeited; (vi) interpret and administer the Plan and any instrument or agreement relating to an Award made under the Plan; (vii) establish, amend, suspend, or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan; and (viii) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan. Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations, and other decisions under or with respect to the Plan or any Award shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive, and binding upon all Persons, including the Company, the Partnership, any Affiliate, any Participant, and any beneficiary of any Award.

SECTION 4. Units Available for Awards.

4.1 Units Available. Subject to adjustment as provided in Section 4.3, the number of Units with respect to which Awards may be granted under the Plan is 500,000. If any Award is forfeited or otherwise terminates or is canceled without the delivery of Units, then the Units covered by such Award, to the extent of such forfeiture, termination, or cancellation, shall again be Units with respect to which Awards may be granted.

4.2 Sources of Units Deliverable Under Awards. Any Units delivered pursuant to an Award shall consist, in whole or in part, of Units acquired in the open market, from any Affiliate, the Partnership or any other Person, or any combination of the foregoing, as determined by the Committee in its discretion.

4.3 Adjustments. If the Committee determines that any distribution (whether in the form of cash, Units, other securities, or other property), recapitalization, split, reverse split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Units or

other securities of the Partnership, issuance of warrants or other rights to purchase Units or other securities of the Partnership, or other similar transaction or event affects the Units such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Units (or other securities or property) with respect to which Awards may be granted, (ii) the number and type of Units (or other securities or property) subject to outstanding Awards, and (iii) if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award; provided, that the number of Units subject to any Award shall always be a whole number.

SECTION 5. Eligibility.

Any Employee shall be eligible to be designated a Participant and receive an Award under the Plan.

SECTION 6. Awards.

- 6.1 Options. The Committee shall have the authority to determine the Employees to whom Options shall be granted, the number of Units to be covered by each Option, the purchase price therefor and the conditions and limitations applicable to the exercise of the Option, including the following terms and conditions and such additional terms and conditions, as the Committee shall determine, that are not inconsistent with the provisions of the Plan.
- (i) Exercise Price. The purchase price per Unit purchasable under an Option shall be determined by the Committee at the time the Option is granted but shall not be less than its Fair Market Value as of the date of grant.
 - (ii) Time and Method of Exercise. The Committee shall determine the Restricted Period (*i.e.*, the time or times at which an Option may be exercised in whole or in part), and the method or methods by which payment of the exercise price with respect thereto may be made or deemed to have been made which may include, without limitation, cash, check acceptable to the Company, a “cashless-broker” exercise (through procedures approved by the Company), other securities or other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the relevant exercise price.
 - (iii) Term. Subject to earlier termination as provided in the grant agreement or the Plan, each Option shall expire on the 10th anniversary of its date of grant.
 - (iv) Forfeiture. Except as otherwise provided in this Plan, in the terms of an Award agreement, or in a written employment agreement (if any) between the Participant and the Company or one of its Affiliates, upon termination of a Participant’s employment with the Company or its Affiliates for any reason (other than for retirement, death or disability of the Participant (see Section 6.3(ix) below)) during the applicable Restricted Period, all Options which remain unexercised, whether vested or unvested, shall be forfeited by the Participant at the close of business on the date of the Participant’s termination of employment. The Committee or the Chief Executive Officer may waive in whole or in part such forfeiture with respect to a Participant’s Options.
- 6.2 Restricted Units. The Committee shall have the authority to determine the Employees to whom Restricted Units shall be granted, the number of Restricted Units to be granted to each such Participant, the duration of the Restricted Period (if any), the conditions under which the Restricted Units may become vested (which may be immediate upon grant) or forfeited, and such other terms and conditions as the Committee may establish respecting such Awards, including whether DERs are granted with respect to such Restricted Units.
- (i) DERs. To the extent provided by the Committee, in its discretion, a grant of Restricted Units may include a tandem DER grant, which may provide that such DERs shall be paid directly to the Participant, be credited to a bookkeeping account (with or without interest in the discretion of the Committee) subject to the same restrictions as the tandem Award, or be subject to such other provisions or restrictions as determined by the Committee in its discretion.
 - (ii) Forfeiture. Except as otherwise provided in this Plan, in the terms of an Award agreement, or in a written employment agreement (if any) between the Participant and the Company or one of its Affiliates, upon termination of a Participant’s employment with the Company or its Affiliates for any reason (other than for retirement, death or disability of the Participant (see Section 6.3(ix) below)) during the applicable Restricted Period, all Restricted Units shall be forfeited by the Participant at the close of business on the date of the Participant’s termination of employment. The Committee or the Chief Executive Officer may waive in whole or in part such forfeiture with respect to a Participant’s Restricted Units.
 - (iii) Lapse of Restrictions. Upon the vesting of each Restricted Unit, the Participant shall be entitled to receive from the Company one Unit or its Fair Market Value, as determined by the Committee, subject to the provisions of Section 8.2.
- 6.3 General.
- (i) Awards May Be Granted Separately or Together. Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution for any other Award granted under the Plan or any award granted under any other plan of the Company or any Affiliate. Awards granted in addition to or in tandem with other Awards or awards granted under any other plan of the Company or any Affiliate may be granted either at the same time as or at a different time from the grant of such other Awards or awards.
 - (ii) Limits on Transfer of Awards. No Award and no right under any such Award may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a Participant otherwise than by will or by the laws of descent and distribution and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that an Option may be transferred by a Participant without consideration to immediate family members or related family trusts, limited partnerships or similar entities or on such terms and conditions as the Committee may from time to time establish.

- (iii) Term of Awards. The term of each Award shall be for such period as may be determined by the Committee.
- (iv) Unit Certificates. All certificates for Units or other securities of the Partnership delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the SEC, any stock exchange upon which such Units or other securities are then listed, and any applicable federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.
- (v) Consideration for Grants. Awards may be granted for no cash consideration or for such consideration as the Committee determines including, without limitation, such minimal cash consideration as may be required by applicable law.
- (vi) Delivery of Units or other Securities and Payment by Participant of Consideration. Notwithstanding anything in the Plan or any grant agreement to the contrary, delivery of Units pursuant to the exercise or vesting of an Award may be deferred for any period during which, in the good faith determination of the Committee, the Company is not reasonably able to obtain Units to deliver pursuant to such Award without violating the rules or regulations of any applicable law or securities exchange. No Units or other securities shall be delivered pursuant to any Award until payment in full of any amount required to be paid pursuant to the Plan or the applicable Award agreement (including, without limitation, any exercise price or any tax withholding) is received by the Company. Such payment may be made by such method or methods and in such form or forms as the Committee shall determine, including, without limitation, cash, other Awards, withholding of Units, or any combination thereof; provided that the combined value, as determined by the Committee, of all cash and cash equivalents and the Fair Market Value of any such Units or other property so tendered to the Company, as of the date of such tender, is at least equal to the full amount required to be paid to the Company pursuant to the Plan or the applicable Award agreement.
- (vii) Change of Control. Upon a Change of Control, or such period prior thereto as may be established by the Committee, all Awards shall automatically vest and become payable or exercisable, as the case may be, in full. In this regard, all Restricted Periods shall terminate and all performance criteria, if any, shall be deemed to have been achieved at the maximum level.
- (viii) Sale of Significant Assets. In the event the Company or the Partnership sells or otherwise disposes of, other than to an Affiliate, a significant portion of the assets under its control, (such significance to be determined by action of the Board of the Company in its sole discretion) and as a consequence of such disposition (a) a Participant's employment is terminated by the Partnership, the Company or their affiliates without Cause or by the Participant for Good Reason, provided, however, that in the case of any such termination by the Participant under this subparagraph 6.3(viii), such termination shall not be deemed to be for Good Reason unless the termination occurs within 180 days after the occurrence of the applicable sale or disposition constituting the reason for the termination or (b) as a result of such sale or disposition, the Participant's employer shall no longer be the Partnership, the Company or one of their Affiliates, then all of such Participant's Awards shall automatically vest and become payable or exercisable, as the case may be, in full. In this regard, all Restricted Periods shall terminate and all performance criteria, if any, shall be deemed to have been achieved at the maximum level.
- (ix) Retirement, Death, Disability. Except as otherwise determined by the Committee and included in the Participant's Award agreement, if a Participant's employment is terminated because of retirement, death or disability (with the determination of disability to be made within the sole discretion of the Committee), any Award held by the Participant shall remain outstanding and vest or become exercisable according to the Award's original terms, provided, however, that any Restricted Units held by such Participant which remain unvested as of the date of retirement, death or disability shall immediately vest and become non-forfeitable as of such date.

SECTION 7. Amendment and Termination.

Except to the extent prohibited by applicable law and unless otherwise expressly provided in an Award agreement or in the Plan:

- (i) Amendments to the Plan. Except as required by applicable law or the rules of the principal securities exchange on which the Units are traded and subject to Section 7(ii) below, the Board or the Committee may amend, alter, suspend, discontinue, or terminate the Plan in any manner, without the consent of any partner, Participant, other holder or beneficiary of an Award, or other Person; provided, however, that the Board or the Committee may not increase the number of Units available for Awards under the Plan.
- (ii) Amendments to Awards. The Committee may waive any conditions or rights under, amend any terms of, or alter any Award theretofore granted, provided no change, other than pursuant to Section 7(iii), in any Award shall materially reduce the benefit to Participant without the consent of such Participant.
- (iii) Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events. The Committee is hereby authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 4.3 of the Plan) affecting the Partnership or the financial statements of the Partnership, or of changes in applicable laws, regulations, or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

SECTION 8. General Provisions.

- 8.1 No Rights to Awards. No Person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Participants. The terms and conditions of Awards need not be the same with respect to each Participant.
- 8.2 Withholding. The Company or any Affiliate is authorized to withhold from any Award, from any payment due or transfer made under any Award or from any compensation or other amount owing to a Participant the amount (in cash, Units, other securities, Units that would otherwise be issued pursuant to such Award or other property) of any applicable taxes payable in respect of the grant of an Award, the lapse of restrictions thereon, or any payment or transfer under an Award or under the Plan and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes.

- 8.3 No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ of the Company or any Affiliate. Further, the Company or an Affiliate may at any time dismiss a Participant from employment, free from any liability or any claim under the Plan, unless otherwise expressly provided in the Plan or in any Award agreement.
- 8.4 Governing Law. The validity, construction, and effect of the Plan and any rules and regulations relating to the Plan shall be determined in accordance with the laws of the State of Delaware and applicable federal law.
- 8.5 Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Person or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Person or Award and the remainder of the Plan and any such Award shall remain in full force and effect.
- 8.6 Other Laws. The Committee may refuse to issue or transfer any Units or other consideration under an Award if, in its sole discretion, it determines that the issuance or transfer of such Units or such other consideration might violate any applicable law or regulation, the rules of the principal securities exchange on which the Units are then traded, or entitle the Partnership or an Affiliate to recover the entire then Fair Market Value thereof under Section 16(b) of the Exchange Act, and any payment tendered to the Company by a Participant, other holder or beneficiary in connection with the exercise of such Award shall be promptly refunded to the relevant Participant, holder or beneficiary.
- 8.7 No Trust or Fund Created. Neither the Plan nor the Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and a Participant or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any general unsecured creditor of the Company or any Affiliate.
- 8.8 No Fractional Units. No fractional Units shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash, other securities, or other property shall be paid or transferred in lieu of any fractional Units or whether such fractional Units or any rights thereto shall be canceled, terminated, or otherwise eliminated.
- 8.9 Headings. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.
- 8.10 Facility Payment. Any amounts payable hereunder to any person under legal disability or who, in the judgment of the Committee, is unable to properly manage his financial affairs, may be paid to the legal representative of such person, or may be applied for the benefit of such person in any manner which the Committee may select, and the Company shall be relieved of any further liability for payment of such amounts.
- 8.11 Gender and Number. Words in the masculine gender shall include the feminine gender, the plural shall include the singular and the singular shall include the plural.

SECTION 9. Term of the Plan.

The Plan was approved by the Board on June 11, 2003 with an effective date of June 16, 2003, and shall continue until the date terminated by the Board or Units are no longer available for grants of Awards under the Plan, whichever occurs first, provided, however, that notwithstanding the foregoing, no Award shall be made under the Plan after the tenth anniversary of the effective date. However, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award granted prior to such termination, and the authority of the Board or the Committee to amend, alter, adjust, suspend, discontinue, or terminate any such Award or to waive any conditions or rights under such Award, shall extend beyond such termination date.

AWARD AGREEMENT

This Restricted Unit award agreement ("Agreement"), effective as of the date set forth at the end of this Agreement ("Grant Date"), is between Valero GP, LLC (the "Company") and «First_Name» «Middle_Name» «Last_Name» ("Participant"), a participant in the **Valero GP, LLC 2000 Long-Term Incentive Plan**, as amended (the "Plan"). All capitalized terms contained in this Award shall have the same definitions as are set forth in the Plan unless otherwise defined herein. The terms of this grant are set forth below.

1. The Participant is awarded «Shares_Granted» Restricted Units under the Plan. Restricted Units are granted hereunder in tandem with an equal number of Distribution Equivalent Rights ("DERs").
2. The Restricted Units granted hereunder are subject to the following Restricted Periods, and will vest and accrue to Participant in the following increments: **[1/5 Shares Granted]** Units on **[first anniversary of Grant Date]**; **[1/5 Shares Granted]** Units on **[second anniversary of Grant Date]**; **[1/5 Shares Granted]** Units on **[third anniversary of Grant Date]**; **[1/5 Shares Granted]** Units on **[fourth anniversary of Grant Date]**; and **[1/5 Shares Granted]** Units on **[fifth anniversary of Grant Date]**. The restrictions may terminate prior to the expiration of such period as set forth in the Plan. Upon the vesting of each Restricted Unit awarded under this Agreement, the Participant will be entitled to receive an unrestricted common Unit of Valero L.P.
3. DERs with respect to the Restricted Units will be paid to the Participant in cash as of each record payment date during the period such Restricted Units are outstanding. The DERs are subject to the same restrictions as the Restricted Units.
4. If the Participant's employment is terminated because of retirement, death or disability, any Restricted Units held by such Participant which remain unvested as of the date of retirement, death or disability shall immediately vest and become non-forfeitable as of such date.
5. Neither this Award nor any right under this Award may be assigned, alienated, pledged, attached, sold, or otherwise transferred or encumbered by you otherwise than by will or by the laws of descent and distribution.
6. The Company will withhold any taxes due from your compensation as required by law, which, in the sole discretion of the Compensation Committee, may include withholding a number of Restricted Units otherwise payable to you.
7. By accepting this Award, you hereby accept and agree to be bound by all of the terms, provisions, conditions, and limitations of the Plan, as amended by the First Amendment thereto dated October 15, 2002, and any subsequent amendment or amendments, as if it had been set forth verbatim in this Award.
8. This Award shall be binding upon the parties hereto and their respective heirs, legal representatives, and successors.
9. This Award is effective as of **October 28, 2004**.

VALERO GP, LLC

By

Curtis V Anastasio
President and Chief Executive Officer

Accepted:

«First_Name» «Middle_Name» «Last_Name»
«Option_Date»

EXHIBIT 10.5

SCHEDULE OF RESTRICTED UNIT AGREEMENTS
dated October 28, 2004

The following have executed Restricted Unit Agreements substantially in the form of the agreement attached as Exhibit 10.4 (the "Exhibit") to the Valero L.P. Form 10-Q for the quarter ended September 30, 2004.

Curtis V. Anastasio
Steven A. Blank
James R. Bluntzer
Rodney L. Reese
Jerry D. McVicker

The following information sets forth the material details in which the Restricted Unit Agreements described in this Schedule differ from the Exhibit.

<u>Named Executive Officer</u>	<u>Number of Restricted Units</u>
Curtis V. Anastasio	3,850
Steven A. Blank	2,750
James R. Bluntzer	990
Rodney L. Reese	960
Jerry McVicker	875

**Notice of Grant of Unit Option
and Unit Option Agreement**

Valero GP, LLC
ID: 74-2958816
P. O. Box 696000
San Antonio, TX 78269-6000

«First_Name Middle_Name Last_Name »
«Address_Line_1 »
«Address_Line_2 »

Option Number: «Number »
Plan: « Plan »

ID: « ID »

Effective **October 28, 2004**, you have been granted an **Option** to buy [**Shares Granted**] Units of Valero L.P. at [**Option Price**] per Unit.

The total Option price of the Units granted is [**Total Option Price**].

Your Options will vest on the dates shown below.

<u>Units</u>	<u>Grant Date</u>	<u>Vest Type</u>	<u>Full Vest</u>	<u>Expiration</u>
[1/5 Shares Granted]	October 28, 2004	On Vest Date	10/28/2005	10/28/2014
[1/5 Shares Granted]	October 28, 2004	On Vest Date	10/28/2006	10/28/2014
[1/5 Shares Granted]	October 28, 2004	On Vest Date	10/28/2007	10/28/2014
[1/5 Shares Granted]	October 28, 2004	On Vest Date	10/28/2008	10/28/2014
[1/5 Shares Granted]	October 28, 2004	On Vest Date	10/28/2009	10/28/2014

By your signature and the Company's signature below, you and the Company agree that the Option referenced above is granted under and governed by the terms and conditions of the **Valero GP, LLC 2000 Long-Term Incentive Plan**, as amended, and the Unit Option Agreement attached hereto, all of which are made a part of this agreement.

VALERO GP, LLC

<p>By: _____</p> <p>Curtis V. Anastasio President and Chief Executive Officer</p> <p>_____</p> <p>«First_Name»«Middle_Name»«Last_Name» Participant</p>	<p>October 28, 2004</p> <p>_____</p> <p>Date</p> <p>_____</p> <p>Date</p>
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Unit Option Agreement

THIS AGREEMENT is between Valero GP, LLC, a Delaware limited liability company (the "Company") and the person whose signature is set forth on the signature page hereof ("Participant").

RECITALS

WHEREAS, the Company has adopted the **Valero GP, LLC 2000 Long-Term Incentive Plan** (the "Plan") which provides for the grant of Options to certain Employees and Directors; and

WHEREAS, the Company wishes to grant to Participant an Option to purchase Units of Valero L.P. (the "Partnership") on the terms and conditions specified herein;

NOW THEREFORE, the parties agree as follows (any capitalized terms used herein but not defined herein shall have the respective meanings given in the Plan):

1. Option

a. Grant. Subject to the terms and conditions of this Agreement and the Plan, the Company hereby grants to Participant an Option to purchase all or any part of the Units set forth on the signature page hereof, at the exercise price set forth thereon. The Option is not intended to be an incentive stock option within the meaning of Section 422 of the Internal Revenue Code.

b. Term. The term of the Option shall expire at 11:59 p.m. on the tenth anniversary of the Grant Date set forth on the signature page.

2. Exercise. Participant may, subject to the limitations of this Agreement and the Plan, exercise all or any portion of the Option by providing written notice of exercise to the Company specifying the number of Units with respect to which the Option is being exercised and accompanied by payment of the exercise price for such Units. The method or methods by which payment of the exercise price may be made will include any method acceptable to the Company and the Partnership at the time of exercise of the Option.

3. Retirement, Death, Disability. If a Participant's employment is terminated because of retirement, death or disability, any Option held by the Participant shall remain outstanding and vest or become exercisable according to the Option's original terms.

4. Limited Interest.

a. The grant of the Option shall not be construed as giving Participant any interest other than as provided in this Agreement.

b. Participant shall have no rights as a Unit holder as a result of the grant of the Option, until the Option is exercised, the exercise price is paid, and the Units issued thereunder.

c. The grant of the Option shall not affect in any way the right or power of the Company to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in the Company's or the Partnership's capital structure or its business, or any merger, consolidation or business combination of the Company or the Partnership's, or any issuance or modification of any term, condition, or covenant of any bond, debenture, debt, preferred stock or other instrument ahead of or affecting the Units or the rights of the holders thereof, or the dissolution or liquidation of the Company or the Partnership, or any sale or transfer of all or any part of its assets or business or any other act or proceeding of the Company or the Partnership, whether of a similar character or otherwise.

5. Incorporation by Reference. The terms of the Plan to the extent not stated herein are expressly incorporated herein by reference and in the event of any conflict between this Agreement and the Plan, the Plan shall govern.

SCHEDULE OF UNIT OPTION AGREEMENTS
dated October 28, 2004

The following have executed Unit Option Agreements substantially in the form of the agreement attached as Exhibit 10.6 (the "Exhibit") to the Valero L.P. Form 10-Q for the quarter ended September 30, 2004.

Curtis V. Anastasio
Steven A. Blank
James R. Bluntzer
Rodney L. Reese
Jerry D. McVicker

The following information sets forth the material details in which the Unit Option Agreements described in this Schedule differ from the Exhibit.

<u>Named Executive Officer</u>	<u>Number of Options</u>
Curtis V. Anastasio	9,625
Steven A. Blank	6,875
James R. Bluntzer	2,475
Rodney L. Reese	2,400
Jerry D. McVicker	2,400

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

	Nine Months Ended September 30,	Years Ended December 31,				
	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Earnings:						
Income from continuing operations before provision for income taxes and income from equity investees	\$ 57,961	\$ 67,177	\$ 52,350	\$ 42,694	\$ 35,968	\$ 65,445
Add:						
Fixed charges	15,979	16,443	5,492	4,203	5,266	997
Amortization of capitalized interest	42	55	48	39	34	32
Distributions from Skelly-Belvieu Pipeline Company	1,223	2,803	3,590	2,874	4,658	4,238
Less: Interest capitalized	(58)	(123)	(255)	(298)	—	(115)
Total earnings	\$ 75,147	\$ 86,355	\$ 61,225	\$ 49,512	\$ 45,926	\$ 70,597
Fixed charges:						
Interest expense (1)	\$ 15,326	\$ 15,291	\$ 4,968	\$ 3,721	\$ 5,181	\$ 777
Amortization of debt issuance costs	303	740	160	90	—	—
Interest capitalized	58	123	255	298	—	115
Rental expense interest factor (2)	292	289	109	94	85	105
Total fixed charges	\$ 15,979	\$ 16,443	\$ 5,492	\$ 4,203	\$ 5,266	\$ 997
Ratio of earnings to fixed charges	4.7x	5.3x	11.1x	11.8x	8.7x	70.8x

- (1) The "interest expense, net" reported in Valero L.P.'s consolidated statements of income for the nine months ended September 30, 2004 and the years ended December 31, 2003 and 2002 includes investment income of \$146,000, \$171,000 and \$248,000, respectively and includes other expense of \$147,000 for the nine months ended September 30, 2004.
- (2) The interest portion of rental expense represents one-third of rents, which is deemed representative of the interest portion of rental expense.

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Curtis V. Anastasio, the principal executive officer of Valero GP, LLC, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Valero L.P. (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)) 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) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2004

/s/Curtis V. Anastasio

Curtis V. Anastasio

Chief Executive Officer and President

**CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Steven A. Blank, the principal financial officer of Valero GP, LLC, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Valero L.P. (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)) 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) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 8, 2004

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

**CERTIFICATION PURSUANT TO 18 U.S.C.
SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Valero L.P. on Form 10-Q for the quarter ended September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Curtis V. Anastasio, Chief Executive Officer and President of Valero GP, LLC hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Valero L.P.

/s/Curtis V. Anastasio
Curtis V. Anastasio
Chief Executive Officer and President
November 8, 2004

A signed original of the written statement required by Section 906 has been provided to Valero L.P. and will be retained by Valero L.P. and furnished to the Securities and Exchange Commission or its staff upon request.

**CERTIFICATION PURSUANT TO 18 U.S.C.
SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Valero L.P. on Form 10-Q for the quarter ended September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Steven A. Blank, Senior Vice President and Chief Financial Officer of Valero GP, LLC hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Valero L.P.

/s/Steven A. Blank _____

Steven A. Blank

Senior Vice President and Chief Financial Officer

November 8, 2004

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.
