

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

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

NUSTAR ENERGY 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.)

2330 Loop 1604 West
San Antonio, Texas
(Address of principal executive offices)
78248
(Zip Code)

Telephone number: (210) 918-2000
(Registrant's telephone number, including area code)

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

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

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

The number of common units outstanding as of August 1, 2007 was 46,809,749.

NUSTAR ENERGY L.P. AND SUBSIDIARIES
FORM 10-Q

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

[Item 1. Financial Statements:](#)

[Consolidated Balance Sheets as of June 30, 2007 and December 31, 2006](#)

[Consolidated Statements of Income for the Three and Six Months Ended June 30, 2007 and 2006](#)

[Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2007 and 2006](#)

[Condensed Notes to Consolidated Financial Statements](#)

[Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations](#)

[Item 3. Quantitative and Qualitative Disclosures About Market Risk](#)

[Item 4. Controls and Procedures](#)

[PART II - OTHER INFORMATION](#)

[Item 1A. Risk Factors](#)

[Item 6. Exhibits](#)

[SIGNATURES](#)

PART I – FINANCIAL INFORMATION**Item 1. Financial Statements****NUSTAR ENERGY L.P. AND SUBSIDIARIES**
CONSOLIDATED BALANCE SHEETS
(Thousands of Dollars, Except Unit Data)

	June 30,	December 31,
	2007	2006
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 64,225	\$ 68,838
Accounts receivable, net of allowance for doubtful accounts of \$850 and \$1,220 as of June 30, 2007 and December 31, 2006, respectively	106,091	105,976
Inventories	12,921	16,979
Other current assets	<u>32,327</u>	<u>21,205</u>
Total current assets	<u>215,564</u>	<u>212,998</u>
Property and equipment, at cost	2,798,100	2,694,358
Accumulated depreciation and amortization	<u>(399,813)</u>	<u>(349,223)</u>
Property and equipment, net	2,398,287	2,345,135
Intangible assets, net	51,506	53,532
Goodwill	786,244	774,441
Investment in joint ventures	76,890	74,077
Deferred income tax asset	11,998	11,342
Deferred charges and other assets, net	<u>21,010</u>	<u>22,683</u>
Total assets	<u>\$ 3,561,499</u>	<u>\$ 3,494,208</u>
Liabilities and Partners' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 614	\$ 647
Payable to related party	4,410	2,315
Notes payable	3,096	-
Accounts payable	75,851	86,307
Accrued interest payable	16,889	17,528
Accrued liabilities	31,441	37,651
Taxes other than income taxes	9,993	10,219
Income taxes payable	<u>578</u>	<u>2,068</u>
Total current liabilities	<u>142,872</u>	<u>156,735</u>
Long-term debt, less current portion	1,442,334	1,353,720
Long-term payable to related party	5,717	5,749
Deferred income tax liability	35,897	32,926
Other long-term liabilities	72,206	69,397
Commitments and contingencies (Note 5)		
Partners' equity:		
Limited partners (46,809,749 common units outstanding as of June 30, 2007 and December 31, 2006)	1,805,633	1,830,047
General partner	38,659	38,815
Accumulated other comprehensive income	<u>18,181</u>	<u>6,819</u>
Total partners' equity	<u>1,862,473</u>	<u>1,875,681</u>
Total liabilities and partners' equity	<u>\$ 3,561,499</u>	<u>\$ 3,494,208</u>

See Condensed Notes to Consolidated Financial Statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Revenues:				
Services revenues:				
Third parties	\$ 160,060	\$ 87,676	\$ 317,342	\$ 174,934
Related party	-	64,418	-	125,089
Total services revenues	160,060	152,094	317,342	300,023
Product sales	160,446	127,874	299,988	253,949
Total revenues	320,506	279,968	617,330	553,972
Costs and expenses:				
Cost of product sales	148,061	118,283	275,988	232,501
Operating expenses:				
Third parties	63,060	55,802	122,939	106,415
Related party	22,384	23,353	43,717	43,810
Total operating expenses	85,444	79,155	166,656	150,225
General and administrative expenses:				
Third parties	8,366	3,271	13,468	6,131
Related party	9,215	7,104	19,021	12,804
Total general and administrative expenses	17,581	10,375	32,489	18,935
Depreciation and amortization expense	27,860	24,839	55,202	49,028
Total costs and expenses	278,946	232,652	530,335	450,689
Operating income	41,560	47,316	86,995	103,283
Equity earnings from joint ventures	1,746	1,844	3,357	3,050
Interest expense, net	(19,452)	(16,604)	(38,306)	(32,300)
Other income (expense), net	17,626	(272)	24,249	(41)
Income from continuing operations before income tax expense	41,480	32,284	76,295	73,992
Income tax expense	1,783	492	5,475	2,611
Income from continuing operations	39,697	31,792	70,820	71,381
Loss from discontinued operations, net of income tax	-	(239)	-	(377)
Net income	39,697	31,553	70,820	71,004
Less net income applicable to general partner	(5,118)	(4,041)	(9,572)	(8,240)
Net income applicable to limited partners	\$ 34,579	\$ 27,512	\$ 61,248	\$ 62,764
Weighted average number of basic units outstanding				
	46,809,749	46,809,749	46,809,749	46,809,749
Income (loss) per unit applicable to limited partners:				
Continuing operations	\$ 0.74	\$ 0.60	\$ 1.31	\$ 1.35
Discontinued operations	-	(0.01)	-	(0.01)
Net income	\$ 0.74	\$ 0.59	\$ 1.31	\$ 1.34
Cash distributions per unit applicable to limited partners				
	\$ 0.950	\$ 0.885	\$ 1.865	\$ 1.770

See Condensed Notes to Consolidated Financial Statements.

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

	<u>Six Months Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Cash Flows from Operating Activities:		
Net income	\$ 70,820	\$ 71,004
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	55,202	49,028
Equity earnings from joint ventures	(3,357)	(3,137)
Distributions from joint ventures	544	2,561
Changes in current assets and current liabilities	(11,314)	(8,494)
Other, net	(4,458)	(3,579)
Net cash provided by operating activities	<u>107,437</u>	<u>107,383</u>
Cash Flows from Investing Activities:		
Reliability capital expenditures	(11,957)	(15,156)
Strategic and other capital expenditures	(101,776)	(27,701)
Acquisition	—	(12,827)
Investment in other noncurrent assets	(64)	(8,066)
Proceeds from sale of assets	1,342	70,078
Proceeds from insurance settlement	250	3,661
Other	—	912
Net cash (used in) provided by investing activities	<u>(112,205)</u>	<u>10,901</u>
Cash Flows from Financing Activities:		
Long-term debt borrowings	266,462	34,000
Long-term debt repayments	(172,567)	(38,480)
Repayments of notes payable	(4,257)	—
Decrease in cash book overdrafts	(134)	(6,894)
Distributions to unitholders and general partner	(95,390)	(89,773)
Other	(12)	(359)
Net cash used in financing activities	<u>(5,898)</u>	<u>(101,506)</u>
Effect of foreign exchange rate changes on cash	<u>6,053</u>	<u>(292)</u>
Net (decrease) increase in cash and cash equivalents	(4,613)	16,486
Cash and cash equivalents at the beginning of the period	<u>68,838</u>	<u>36,054</u>
Cash and cash equivalents at the end of the period	<u>\$ 64,225</u>	<u>\$ 52,540</u>

See Condensed Notes to Consolidated Financial Statements.

1. ORGANIZATION, OPERATIONS AND ACCOUNTING PRONOUNCEMENTS

Organization

NuStar Energy L.P. is a publicly traded Delaware limited partnership primarily engaged in the crude oil and refined product transportation, terminalling and storage business in the United States, the Netherland Antilles, Canada, Mexico, the Netherlands and the United Kingdom.

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

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

These unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934. Accordingly, they do not include all of the information and notes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature unless disclosed otherwise. Financial information for the three and six months ended June 30, 2007 and 2006 included in these Condensed Notes to Consolidated Financial Statements is derived from our unaudited consolidated financial statements. Operating results for the three and six months ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

The consolidated balance sheet as of December 31, 2006 has been derived from the audited consolidated financial statements as of that date. You should read these consolidated financial statements in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2006.

NuStar GP Holdings, LLC (NuStar GP Holdings), a publicly held Delaware limited liability company, owns our general partner, which is represented by a 2% general partner interest. NuStar GP Holdings, through various affiliates, also owns an approximate 21.4% limited partner interest, resulting in a combined partnership ownership of 23.4%. The remaining 76.6% limited partnership interests are held by public unitholders.

Operations

Our operations are managed by NuStar GP, LLC, a wholly owned subsidiary of NuStar GP Holdings.

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

New Accounting Pronouncements

FASB Statement 159

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities.” Statement No. 159 creates a fair value option under which an entity may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities on an instrument-by-instrument basis, with changes in fair value recognized in earnings as those changes occur. The adoption of Statement No. 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the effect of Statement No. 159.

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

FASB Interpretation No. 48

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" (FIN 48). FIN 48 clarifies the accounting for uncertain income tax positions recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes," by defining a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. An enterprise recognizes a tax position if it is more-likely-than-not that the tax position will be sustained, based on the technical merits of the position, upon examination. An uncertain tax position is measured in the financial statements at the largest amount of benefit that is more-likely-than-not to be realized. We adopted FIN 48 effective January 1, 2007, which did not affect our financial position or results of operations. We had no unrecognized tax benefits as of January 1, 2007 or June 30, 2007.

NuStar Energy L.P. or certain of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. For U.S. federal and state purposes, tax years subject to examination are 2002 through 2006 and for our major non-U.S. jurisdictions, tax years subject to examination are 2000 through 2006.

EITF Issue No. 06-3

In June 2006, the FASB ratified its consensus on EITF Issue No. 06-3, "How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement" (EITF No. 06-3). EITF No. 06-3 includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include sales, use, value added, and some excise taxes. These taxes should be presented on either a gross or a net basis, and if reported on a gross basis, a company should disclose amounts of those taxes in interim and annual financial statements for each period for which an income statement is presented. We present taxes on a net basis in our consolidated financial statements. We adopted EITF No. 06-3 effective January 1, 2007, which had no impact on our financial position or results of operations.

Reclassifications

Certain previously reported amounts in the 2006 consolidated financial statements have been reclassified to conform to the 2007 presentation.

2. ACQUISITIONS

St. James Crude Oil Storage Facility

On December 1, 2006, we acquired a crude oil storage and blending facility in St. James, Louisiana from Koch Supply and Trading, L.P. for approximately \$141.7 million (the St. James Acquisition). The facility includes 17 crude oil tanks with a total capacity of approximately 3.3 million barrels. Additionally, the facility has three docks with barge and ship access. The facility is located on the west bank of the Mississippi River approximately 60 miles west of New Orleans. We funded the acquisition with borrowings under our revolving credit agreement. The results of operations are included in the refined product terminal segment.

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

The acquisition of the St. James crude facility was accounted for using the purchase method. The purchase price and purchase price allocation were as follows (in thousands):

Cash paid for St. James Terminal	\$ 140,900
Transaction costs	<u>759</u>
Total	<u>\$ 141,659</u>

Current assets	\$ 53
Property and equipment	126,258
Goodwill	13,898
Intangible assets	<u>1,450</u>
Total	<u>\$ 141,659</u>

Since the effect of the St. James Acquisition was not significant, we have not presented pro forma financial information for the three and six months ended June 30, 2006 giving effect to the St. James Acquisition as of January 1, 2006.

3. PRODUCT IMBALANCES

Product imbalances occur when customers deliver more or less refined product volumes into our pipelines than they are entitled to receive. We value assets and liabilities related to product imbalances at current market prices. Included in “Other current assets” on the consolidated balance sheets are \$11.9 million and \$9.9 million of product imbalance assets as of June 30, 2007 and December 31, 2006, respectively. Included in “Accrued liabilities” on the consolidated balance sheets are \$10.1 million and \$7.8 million of product imbalance liabilities as of June 30, 2007 and December 31, 2006, respectively.

4. LONG-TERM DEBT

Extension of Maturity Date

In accordance with the terms of our \$600 Million Revolving Credit Agreement (Revolving Credit Agreement) and \$525 Million Term Loan Agreement (Term Loan Agreement), we requested a one-year extension to the maturity dates of those instruments. In June 2007, the lenders consented to our request resulting in the extension of the maturity dates of our Revolving Credit Agreement and our Term Loan Agreement to May 31, 2012.

Revolving Credit Agreement

During the six months ended June 30, 2007, we borrowed \$266.5 million under our Revolving Credit Agreement to fund a portion of our capital expenditures. Additionally, we repaid \$152.5 million during the six months ended June 30, 2007. The Revolving Credit Agreement bears interest based on either an alternative base rate or LIBOR, which was 6.0% as of June 30, 2007. As of June 30, 2007, we had \$293.9 million available for borrowing under our Revolving Credit Agreement.

Interest Rate Swaps

As of June 30, 2007, the weighted-average interest rate for our interest rate swaps was 7.2%. As of June 30, 2007 and December 31, 2006, the aggregate estimated fair value of the interest rate swaps included in other long-term liabilities on our consolidated balance sheets was \$8.5 million and \$4.9 million, respectively.

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

5. COMMITMENTS AND CONTINGENCIES

Litigation and Environmental Matters

We have contingent liabilities resulting from various litigation, claims and commitments, the most significant of which are discussed below. We record accruals for loss contingencies when losses are considered probable and can be reasonably estimated. Legal fees associated with defending the Partnership in legal matters are expensed as incurred. As of June 30, 2007, we have accrued \$1.3 million related to settled matters and \$48.7 million related to contingent losses. The actual payment of any amounts accrued and the timing of such payments ultimately made is uncertain. We believe that should we be unable to successfully defend ourselves in any of these matters, the ultimate payment of any or all of the amounts accrued would not have a material adverse effect on our financial position or liquidity. However, if any actual losses ultimately exceed the amounts accrued, there could be a material adverse effect on our results of operations.

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

In 2000, the court entered final judgment that: (i) Grace Energy could not recover its own remediation costs of \$3.5 million, (ii) Kaneb owned the Otis AFB pipeline and its related environmental liabilities and (iii) Grace Energy was awarded \$1.8 million in attorney costs. Both Kaneb and Grace Energy appealed the trial court's final judgment to the Texas Court of Appeals in Dallas. In 2001, Grace Energy filed a petition in bankruptcy, which created an automatic stay of actions against Grace Energy. Once that stay is lifted, we intend to resume vigorous prosecution of the appeal.

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

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

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

EPA Investigation. On November 14, 2006, agents of the U.S. Environmental Protection Agency (the EPA) presented a search warrant issued by a U.S. District Court at one of our terminals. Since then, the U.S. District Court has also served us with four subpoenas. The search warrant and subpoenas all seek information regarding allegations of potential illegal conduct by us, certain of our subsidiaries and/or our employees concerning compliance with certain environmental and safety laws and regulations. We are cooperating fully with the EPA in producing documents in response to the subpoenas. We have no information as to when the EPA will conclude their investigation, and we are also conducting an internal investigation of any possible noncompliance. At this time, the EPA has not suggested any fines or penalties. There can be no assurances that the conclusion of the EPA's investigation will not result in a determination that we violated applicable laws. If we are found to have violated such laws, we could be subject to fines, civil penalties and criminal penalties. A final determination that we violated applicable laws could, among other things, result in our debarment from future federal government contracts. Because of the preliminary nature of the investigation, we are not able to estimate a loss or range of loss, if any. However, if any of the consequences described above ultimately occur, it is reasonably possible that the effects could be material to our results of operations in the period in which we would be required to record a liability, and could be material to our cash flows in the periods in which we would be required to pay such liability.

Other

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

Commitments

In the first quarter of 2007, we entered into a three-year agreement to purchase a minimum of 4.5 million barrels of inventory at market prices for resale to our customers. We estimated the value of this commitment to be approximately \$203.0 million, which will fluctuate with market prices.

The building lease for our new headquarters became effective in the first quarter of 2007. We have a minimum commitment of approximately \$13.5 million over almost 11 years.

6. RELATED PARTY TRANSACTIONS

Since we do not have any employees, we rely upon employees of NuStar GP, LLC, a wholly owned subsidiary of NuStar GP Holdings. We reimburse NuStar GP, LLC for all employee-related costs. The amount of employee benefit plan expenses we reimbursed to NuStar GP, LLC, including compensation expense related to grants of our restricted common units and unit options, was \$11.6 million and \$9.0 million for the three months ended June 30, 2007 and 2006, respectively, and \$24.1 million and \$16.4 million for the six months ended June 30, 2007 and 2006, respectively. These employee benefit plan expenses and the related payroll costs are included in operating expenses and general and administrative expenses. As of June 30, 2007 and December 31, 2006, we had a payable to NuStar GP, LLC of \$4.4 million and \$2.3 million, respectively, with both amounts representing payroll and related benefit plan costs for employees. We also had a long-term payable as of June 30, 2007 and December 31, 2006 of \$5.7 million to NuStar GP, LLC related to amounts payable for retiree medical benefits and other post-employment benefits.

For the three and six months ended June 30, 2006, we have presented transactions with Valero Energy Corporation (Valero Energy) for pipeline tariff, terminalling fee and crude oil storage tank fee revenues, certain employee costs, insurance costs, administrative costs and lease expense in the consolidated statement of income as related party transactions. Under the terms of various services agreements with Valero Energy, we reimbursed Valero Energy for payroll costs of employees working on our behalf. Additionally, Valero Energy charged us an administrative service fee. Due to Valero Energy's sale of its interest in NuStar GP Holdings on December 22, 2006, we ceased reporting these transactions with Valero Energy as related party transactions.

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

The following table summarizes information pertaining to related party transactions with NuStar GP, LLC for the three and six months ended June 30, 2007 and with Valero Energy for the three and six months ended June 30, 2006:

	<u>Three Months Ended June</u>		<u>Six Months Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(Thousands of Dollars)			
Revenues	\$ -	\$ 64,418	\$ -	\$ 125,089
Operating expenses	22,384	23,353	43,717	43,810
General and administrative expenses	9,215	7,104	19,021	12,804

Services Agreement

Prior to our separation from Valero Energy, the employees of NuStar GP, LLC were provided to us under the terms of various services agreements between us and Valero Energy. The terms of these services agreements generally provided that the costs of employees who performed services directly on our behalf, including salaries, wages and employee benefits, were charged directly to us. In addition, Valero Energy charged us an administrative services fee, which was \$0.4 million and \$0.9 million for the three and six months ended June 30, 2006, respectively.

Although Valero Energy no longer provides employees that work directly on our behalf, Valero Energy continues to provide certain services to us under the terms of a services agreement dated December 22, 2006 (the 2007 Services Agreement). Beginning January 1, 2007, under the 2007 Services Agreement, we paid Valero Energy approximately \$97,000 per month for administrative services (primarily information system services and human resource services) and approximately \$93,000 per month for telecommunication services.

On April 16, 2007, Valero Energy exercised its option to terminate the 2007 Services Agreement. As a result, Valero Energy will cease providing services according to the terms of the 2007 Services Agreement. Generally, these services will discontinue over a period of time sufficient to allow us to assume those functions. Additionally, since Valero Energy elected to terminate the 2007 Services Agreement prior to December 31, 2010, they paid us a termination fee of \$13.0 million in May 2007.

7. PARTNERS' EQUITY

Allocation of Income and Income Per Unit

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

We identified our general partner interest as a participating security and we use the two-class method when calculating "income per unit applicable to limited partners," which is based on the weighted-average number of common units outstanding during the period. Basic and diluted net income per unit applicable to limited partners is the same because we have no potentially dilutive securities outstanding.

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
	(Thousands of Dollars)			
Net income applicable to general partner and limited partners' interest	\$ 39,697	\$ 31,553	\$ 70,820	\$ 71,004
Less general partner incentive distribution	<u>4,413</u>	<u>3,480</u>	<u>8,323</u>	<u>6,960</u>
Net income after general partner incentive distribution	35,284	28,073	62,497	64,044
General partner interest	<u>2%</u>	<u>2%</u>	<u>2%</u>	<u>2%</u>
General partner allocation of net income after general partner incentive distribution	705	561	1,249	1,280
General partner incentive distribution	<u>4,413</u>	<u>3,480</u>	<u>8,323</u>	<u>6,960</u>
Net income applicable to general partner	\$ <u>5,118</u>	\$ <u>4,041</u>	\$ <u>9,572</u>	\$ <u>8,240</u>

Cash Distributions

On April 24, 2007, we declared a quarterly cash distribution of \$0.915 per unit paid on May 14, 2007 to unitholders of record on May 7, 2007, which totaled \$47.7 million. On July 26, 2007, we declared a quarterly cash distribution of \$0.950 per unit to be paid on August 14, 2007 to unitholders of record on August 7, 2007, which will total \$49.9 million.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(Thousands of Dollars)			
General partner interest	\$ 997	\$ 916	\$ 1,951	\$ 1,832
General partner incentive distribution	<u>4,413</u>	<u>3,480</u>	<u>8,323</u>	<u>6,960</u>
Total general partner distribution	5,410	4,396	10,274	8,792
Limited partners' distribution	<u>44,469</u>	<u>41,427</u>	<u>87,300</u>	<u>82,854</u>
Total cash distributions	\$ <u>49,879</u>	\$ <u>45,823</u>	\$ <u>97,574</u>	\$ <u>91,646</u>
Cash distributions per unit applicable to limited partners	\$ <u>0.950</u>	\$ <u>0.885</u>	\$ <u>1.865</u>	\$ <u>1.770</u>

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

Comprehensive Income

The difference between our net income and our comprehensive income resulted from foreign currency translation adjustments. Our total comprehensive income was as follows:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(Thousands of Dollars)			
Net income	\$ 39,697	\$ 31,553	\$ 70,820	\$ 71,004
Foreign currency translation adjustment	<u>10,352</u>	<u>6,865</u>	<u>11,362</u>	<u>9,066</u>
Comprehensive income	<u>\$ 50,049</u>	<u>\$ 38,418</u>	<u>\$ 82,182</u>	<u>\$ 80,070</u>

Shelf Registration

On May 18, 2007, the SEC declared effective our shelf registration statement on Form S-3, which will permit us to offer and sell various types of securities, including NuStar Energy L.P. common units and debt securities of each NuStar Logistics and KPOP, having an aggregate value of up to \$3.0 billion.

8. OTHER INCOME

Other income consisted of the following:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(Thousands of Dollars)			
2007 Services Agreement termination fee (see Note 6)	\$ 13,000	\$ —	\$ 13,000	\$ —
Business interruption insurance	7,092	—	7,092	—
Legal settlements	—	—	5,508	—
Foreign exchange losses	(2,971)	(280)	(3,372)	(26)
Other	<u>505</u>	<u>8</u>	<u>2,021</u>	<u>(15)</u>
Other income (expense), net	<u>\$ 17,626</u>	<u>\$ (272)</u>	<u>\$ 24,249</u>	<u>\$ (41)</u>

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

9. STATEMENTS OF CASH FLOWS

Changes in current assets and current liabilities were as follows:

	Six Months Ended June 30,	
	2007	2006
	(Thousands of Dollars)	
Decrease (increase) in current assets:		
Receivable from related party	\$ -	\$ 1,599
Accounts receivable	1,920	30,364
Inventories	4,119	(1,299)
Other current assets	(408)	(443)
Increase (decrease) in current liabilities:		
Payable to related party	2,095	(1,923)
Accrued interest payable	(644)	364
Accounts payable, other accrued liabilities and income taxes payable	(18,165)	(38,445)
Taxes other than income taxes	<u>(231)</u>	<u>1,289</u>
Changes in current assets and current liabilities	<u>\$ (11,314)</u>	<u>\$ (8,494)</u>

Cash flows related to interest and income taxes were as follows:

	Six Months Ended June 30,	
	2007	2006
	(Thousands of Dollars)	
Cash paid for interest	\$ <u>44,127</u>	\$ <u>36,854</u>
Cash paid for income taxes, net of tax refunds received	\$ <u>5,776</u>	\$ <u>2,735</u>

Non-cash investing and financing activities for the six months ended June 30, 2007 included:

- adjustments to property and equipment, goodwill and intangible assets resulting from adjustments to the purchase price allocations related to the St. James crude oil storage facility acquisition.
- acquisition of other current assets in exchange for a note payable.

Non-cash investing activities for the six months ended June 30, 2006 included adjustments to property and equipment, goodwill and other balance sheet accounts resulting from adjustments to the purchase price allocations related to the 2005 acquisition of Kaneb Pipe Line Partners, L.P. and Kaneb Services, LLC.

10. SEGMENT INFORMATION

Our operating segments consist of refined product terminals, refined product pipelines, crude oil pipelines, crude oil storage tanks and an other segment. These reportable segments are strategic business units that offer different services and performance is evaluated based on operating income, before general and administrative expenses. General and administrative expenses are not allocated to the operating segments since those expenses relate primarily to the overall management at the entity level. Our principal services include providing pipeline transportation services, terminalling services, storage lease services and crude oil storage handling services. Our product sales primarily consist of the sale of bunker fuel to marine vessels. Revenues included in the other segment, which began in the second quarter of 2007, relate to the resale of heavy fuel oil and asphalt purchased from third parties.

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

Results of operations for the reportable segments were as follows:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
(Thousands of Dollars)				
Revenues:				
Refined product terminals:				
Third party revenues	\$ 241,153	\$ 201,243	\$ 461,391	\$ 397,391
Intersegment revenues	<u>544</u>	<u>—</u>	<u>544</u>	<u>—</u>
Total refined product terminals	241,697	201,243	461,935	397,391
Refined product pipelines	57,102	52,201	110,526	104,247
Crude oil pipelines	10,116	14,868	22,465	28,917
Crude oil storage tanks	11,589	11,656	22,402	23,417
Other	<u>546</u>	<u>—</u>	<u>546</u>	<u>—</u>
Total segment revenues	\$ 321,050	\$ 279,968	\$ 617,874	\$ 553,972
Less intersegment eliminations	<u>544</u>	<u>—</u>	<u>544</u>	<u>—</u>
Total revenues	\$ <u><u>320,506</u></u>	\$ <u><u>279,968</u></u>	\$ <u><u>617,330</u></u>	\$ <u><u>553,972</u></u>
Operating income (loss):				
Refined product terminals	\$ 29,134	\$ 21,827	\$ 57,264	\$ 48,872
Refined product pipelines	18,944	17,862	37,284	39,967
Crude oil pipelines	5,204	9,295	12,947	18,398
Crude oil storage tanks	6,701	8,707	12,831	14,981
Other	<u>(842)</u>	<u>—</u>	<u>(842)</u>	<u>—</u>
Total segment operating income	\$ 59,141	\$ 57,691	\$ 119,484	\$ 122,218
Less general and administrative expenses	<u>17,581</u>	<u>10,375</u>	<u>32,489</u>	<u>18,935</u>
Total operating income	\$ <u><u>41,560</u></u>	\$ <u><u>47,316</u></u>	\$ <u><u>86,995</u></u>	\$ <u><u>103,283</u></u>

Total assets by reportable segment were as follows:

	<u>June 30,</u>	<u>December 31,</u>
	<u>2007</u>	<u>2006</u>
(Thousands of Dollars)		
Refined product terminals	\$ 1,894,147	\$ 1,830,584
Refined product pipelines	1,250,908	1,250,466
Crude oil pipelines	129,483	132,407
Crude oil storage tanks	194,693	197,902
Other segment	<u>2,526</u>	<u>—</u>
Total segment assets	3,471,757	3,411,359
Other partnership assets	<u>89,742</u>	<u>82,849</u>
Total consolidated assets	\$ <u><u>3,561,499</u></u>	\$ <u><u>3,494,208</u></u>

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

11. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

NuStar Energy L.P. has no operations and its assets consist mainly of its investments in NuStar Logistics and KPOP. NuStar Logistics and KPOP own and operate pipelines, terminals and storage tanks and are issuers of publicly traded senior notes. The senior notes issued by NuStar Logistics and KPOP are fully and unconditionally guaranteed by NuStar Energy L.P. In addition, both NuStar Logistics and KPOP fully and unconditionally guaranteed the outstanding senior notes of the other.

As a result, the following condensed consolidating financial statements are presented for 2007 and 2006 as an alternative to providing separate financial statements for NuStar Logistics and KPOP.

Condensed Consolidating Balance Sheet						
June 30, 2007						
(Thousands of Dollars)						
	NuStar Energy L.P.	NuStar Logistics	KPOP	Non- Guarantor Subsidiaries (a)	Eliminations	Consolidated
Assets						
Current assets	\$ 163	\$ 140,000	\$ 663,573	\$ 343,364	\$ (931,536)	\$ 215,564
Property and equipment, net	-	928,353	668,742	801,192	-	2,398,287
Intangible assets, net	-	4,348	-	47,158	-	51,506
Goodwill	-	18,613	170,652	596,979	-	786,244
Investment in wholly owned subsidiaries	2,348,252	12,751	702,960	1,391,561	(4,455,524)	-
Investments in joint ventures	-	16,456	-	60,434	-	76,890
Deferred charges and other assets, net	-	14,950	493	17,565	-	33,008
Total assets	\$ 2,348,415	\$ 1,135,471	\$ 2,206,420	\$ 3,258,253	\$ (5,387,060)	\$ 3,561,499
Liabilities and Partners' Equity						
Current liabilities	\$ 504,123	\$ 44,125	\$ 27,506	\$ 498,654	\$ (931,536)	\$ 142,872
Long-term debt, less current portion	-	857,847	542,316	42,171	-	1,442,334
Long-term payable to related party	-	-	-	5,717	-	5,717
Deferred income tax liability	-	-	-	35,897	-	35,897
Other long-term liabilities	-	12,406	1,927	57,873	-	72,206
Partners' equity	1,844,292	221,093	1,634,671	2,617,941	(4,455,524)	1,862,473
Total liabilities and partners' equity	\$ 2,348,415	\$ 1,135,471	\$ 2,206,420	\$ 3,258,253	\$ (5,387,060)	\$ 3,561,499

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

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

Condensed Consolidating Balance Sheet
December 31, 2006
(Thousands of Dollars)

	NuStar Energy L.P.	NuStar Logistics	KPOP	Non- Guarantor Subsidiaries (a)	Eliminations	Consolidated
Assets						
Current assets	\$ 403	\$ 115,210	\$ 653,221	\$ 145,807	\$ (701,643)	\$ 212,998
Property and equipment, net	-	935,109	676,494	733,532	-	2,345,135
Intangible assets, net	-	3,427	-	50,105	-	53,532
Goodwill	-	4,715	172,116	597,610	-	774,441
Investment in wholly owned subsidiaries	2,372,469	24,172	668,796	1,345,791	(4,411,228)	-
Investments in joint ventures	-	15,902	-	58,175	-	74,077
Deferred charges and other assets, net	<u>228</u>	<u>5,807</u>	<u>604</u>	<u>27,386</u>	<u>-</u>	<u>34,025</u>
Total assets	<u>\$ 2,373,100</u>	<u>\$ 1,104,342</u>	<u>\$ 2,171,231</u>	<u>\$ 2,958,406</u>	<u>\$ (5,112,871)</u>	<u>\$ 3,494,208</u>
Liabilities and Partners' Equity						
Current liabilities	\$ 504,238	\$ 44,397	\$ 29,385	\$ 280,358	\$ (701,643)	\$ 156,735
Long-term debt, less current portion	-	767,031	545,571	41,118	-	1,353,720
Long-term payable to related party	-	-	-	5,749	-	5,749
Deferred income tax liability	-	-	-	32,926	-	32,926
Other long-term liabilities	-	5,797	3,517	60,083	-	69,397
Partners' equity	<u>1,868,862</u>	<u>287,117</u>	<u>1,592,758</u>	<u>2,538,172</u>	<u>(4,411,228)</u>	<u>1,875,681</u>
Total liabilities and partners' equity	<u>\$ 2,373,100</u>	<u>\$ 1,104,342</u>	<u>\$ 2,171,231</u>	<u>\$ 2,958,406</u>	<u>\$ (5,112,871)</u>	<u>\$ 3,494,208</u>

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

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

Condensed Consolidating Statements of Income

For the Three Months Ended June 30, 2007

(Thousands of Dollars)

	NuStar Energy L.P.	NuStar Logistics	KPOP	Non- Guarantor Subsidiaries (a)	Eliminations	Consolidated
Revenues	\$ —	\$ 58,800	\$36,569	\$ 225,392	\$ (255)	\$ 320,506
Costs and expenses	240	43,712	24,503	210,746	(255)	278,946
Operating income	(240)	15,088	12,066	14,646	—	41,560
Equity earnings in subsidiaries	39,937	(1,511)	13,406	19,161	(70,993)	—
Equity earnings from joint ventures	—	275	—	1,471	—	1,746
Interest expense, net	—	(13,251)	(6,357)	156	—	(19,452)
Other income (expense), net	—	20,503	43	(2,920)	—	17,626
Income before income tax expense	39,697	21,104	19,158	32,514	(70,993)	41,480
Income tax expense	—	272	—	1,511	—	1,783
Net income	\$ 39,697	\$ 20,832	\$19,158	\$ 31,003	\$ (70,993)	\$ 39,697

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

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

Condensed Consolidating Statements of Income

For the Three Months Ended June 30, 2006

(Thousands of Dollars)

	NuStar Energy L.P.	NuStar Logistics	KPOP	Non- Guarantor Subsidiaries (a)	Eliminations	Consolidated
Revenues	\$ -	\$ 64,695	\$ 26,908	\$ 188,601	\$ (236)	\$ 279,968
Costs and expenses	<u>555</u>	<u>34,567</u>	<u>22,703</u>	<u>175,063</u>	<u>(236)</u>	<u>232,652</u>
Operating income	(555)	30,128	4,205	13,538	-	47,316
Equity earnings in subsidiaries	32,108	(52)	13,898	11,179	(57,133)	-
Equity earnings in joint ventures	-	130	-	1,714	-	1,844
Interest expense, net	-	(9,200)	(7,020)	(384)	-	(16,604)
Other income (expense), net	<u>-</u>	<u>35</u>	<u>1</u>	<u>(308)</u>	<u>-</u>	<u>(272)</u>
Income from continuing operations before income tax expense	31,553	21,041	11,084	25,739	(57,133)	32,284
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>492</u>	<u>-</u>	<u>492</u>
Income from continuing operations	31,553	21,041	11,084	25,247	(57,133)	31,792
Income (loss) from discontinued operations, net of income tax	<u>-</u>	<u>-</u>	<u>19</u>	<u>(258)</u>	<u>-</u>	<u>(239)</u>
Net income	<u>\$ 31,553</u>	<u>\$ 21,041</u>	<u>\$ 11,103</u>	<u>\$ 24,989</u>	<u>\$ (57,133)</u>	<u>\$ 31,553</u>

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

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

Condensed Consolidating Statements of Income
For the Six Months Ended June 30, 2007
(Thousands of Dollars)

	NuStar Energy L.P.	NuStar Logistics	KPOP	Non- Guarantor Subsidiaries (a)	Eliminations	Consolidated
Revenues	\$ -	\$ 120,318	\$ 68,232	\$ 429,324	\$ (544)	\$ 617,330
Costs and expenses	<u>353</u>	<u>84,339</u>	<u>47,778</u>	<u>398,409</u>	<u>(544)</u>	<u>530,335</u>
Operating income	(353)	35,979	20,454	30,915	-	86,995
Equity earnings in subsidiaries	71,173	(1,470)	34,219	41,915	(145,837)	-
Equity earnings in joint ventures	-	554	-	2,803	-	3,357
Interest expense, net	-	(25,870)	(12,815)	379	-	(38,306)
Other income (expense), net	<u>-</u>	<u>20,650</u>	<u>54</u>	<u>3,545</u>	<u>-</u>	<u>24,249</u>
Income before income tax expense	70,820	29,843	41,912	79,557	(145,837)	76,295
Income tax expense	<u>-</u>	<u>561</u>	<u>-</u>	<u>4,914</u>	<u>-</u>	<u>5,475</u>
Net income	<u>\$ 70,820</u>	<u>\$ 29,282</u>	<u>\$ 41,912</u>	<u>\$ 74,643</u>	<u>\$ (145,837)</u>	<u>\$ 70,820</u>

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

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

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

	NuStar Energy L.P.	NuStar Logistics	KPOP	Non- Guarantor Subsidiaries (a)	Eliminations	Consolidated
Revenues	\$ -	\$ 125,378	\$ 54,108	\$ 374,972	\$ (486)	\$ 553,972
Costs and expenses	<u>1,005</u>	<u>67,965</u>	<u>42,432</u>	<u>339,773</u>	<u>(486)</u>	<u>450,689</u>
Operating income	(1,005)	57,413	11,676	35,199	-	103,283
Equity earnings in subsidiaries	72,009	234	33,237	31,201	(136,681)	-
Equity earnings in joint ventures	-	145	-	2,905	-	3,050
Interest expense, net	-	(16,842)	(14,035)	(1,423)	-	(32,300)
Other income (expense), net	<u>-</u>	<u>47</u>	<u>2</u>	<u>(90)</u>	<u>-</u>	<u>(41)</u>
Income from continuing operations before income tax expense	71,004	40,997	30,880	67,792	(136,681)	73,992
Income tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,611</u>	<u>-</u>	<u>2,611</u>
Income from continuing operations	71,004	40,997	30,880	65,181	(136,681)	71,381
Income (loss) from discontinued operations, net of income tax	<u>-</u>	<u>-</u>	<u>317</u>	<u>(694)</u>	<u>-</u>	<u>(377)</u>
Net income	<u>\$ 71,004</u>	<u>\$ 40,997</u>	<u>\$ 31,197</u>	<u>\$ 64,487</u>	<u>\$ (136,681)</u>	<u>\$ 71,004</u>

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

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

Condensed Consolidating Statement of Cash Flows

For the Six Months Ended June 30, 2007

(Thousands of Dollars)

	NuStar Energy L.P.	NuStar Logistics	KPOP	Non- Guarantor Subsidiaries (a)	Eliminations	Consolidated
Cash flows from operating activities:						
Net income	\$ 70,820	\$ 29,282	\$ 41,912	\$ 74,643	\$ (145,837)	\$ 70,820
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	-	22,269	12,496	20,437	-	55,202
Equity earnings, net of distributions	24,217	916	(34,219)	(44,164)	50,437	(2,813)
Changes in operating assets and liabilities and other	(526)	2,000	(5,274)	(11,972)	-	(15,772)
Net cash provided by (used in) operating activities	<u>94,511</u>	<u>54,467</u>	<u>14,915</u>	<u>38,944</u>	<u>(95,400)</u>	<u>107,437</u>
Cash flows from investing activities:						
Capital expenditures	-	(29,308)	(4,730)	(79,695)	-	(113,733)
Proceeds from sale of assets	-	-	7	1,335	-	1,342
Acquisition and investment in noncurrent assets	-	(60)	-	(4)	-	(64)
Other	-	-	55	195	-	250
Cash flows used in investing activities	<u>-</u>	<u>(29,368)</u>	<u>(4,668)</u>	<u>(78,169)</u>	<u>-</u>	<u>(112,205)</u>
Cash flows from financing activities:						
Distributions	(95,390)	(95,390)	-	(10)	95,400	(95,390)
Repayments of notes payable	-	(4,257)	-	-	-	(4,257)
Long-term debt borrowings	-	266,462	-	-	-	266,462
Long-term debt repayments	-	(172,567)	-	-	-	(172,567)
Net intercompany borrowings (repayments)	879	(30,958)	(10,651)	40,730	-	-
Other	-	6	-	(152)	-	(146)
Cash flows provided by (used in) financing activities	<u>(94,511)</u>	<u>(36,704)</u>	<u>(10,651)</u>	<u>40,568</u>	<u>95,400</u>	<u>(5,898)</u>
Effect of foreign exchange rate changes on cash	-	350	-	5,703	-	6,053
Net increase (decrease) in cash and cash equivalents	-	(11,255)	(404)	7,046	-	(4,613)
Cash and cash equivalents at the beginning of the period	<u>137</u>	<u>12,345</u>	<u>992</u>	<u>55,364</u>	<u>-</u>	<u>68,838</u>
Cash and cash equivalents at the end of the period	<u>\$ 137</u>	<u>\$ 1,090</u>	<u>\$ 588</u>	<u>\$ 62,410</u>	<u>\$ -</u>	<u>\$ 64,225</u>

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

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

Condensed Consolidating Statement of Cash Flows

For the Six Months Ended June 30, 2006

(Thousands of Dollars)

	NuStar Energy L.P.	NuStar Logistics	KPOP	Non- Guarantor Subsidiaries (a)	Eliminations	Consolidated
Cash flows from operating activities:						
Net income	\$ 71,004	\$ 40,997	\$ 31,197	\$ 64,487	\$ (136,681)	\$ 71,004
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	-	18,437	12,288	18,303	-	49,028
Equity earnings, net of distributions	17,764	(379)	(33,237)	(31,623)	46,899	(576)
Changes in operating assets and liabilities and other	(2,932)	(9,156)	(7,642)	7,657	-	(12,073)
Net cash provided by (used in) operating activities	<u>85,836</u>	<u>49,899</u>	<u>2,606</u>	<u>58,824</u>	<u>(89,782)</u>	<u>107,383</u>
Cash flows from investing activities:						
Capital expenditures	-	(20,793)	(4,118)	(17,946)	-	(42,857)
Proceeds from sale of assets	-	-	-	70,078	-	70,078
Acquisition and investment in noncurrent assets	-	(12,827)	-	(8,066)	-	(20,893)
Other	(77)	(5,250)	26,604	(22,149)	5,445	4,573
Cash flows provided by (used in) investing activities	<u>(77)</u>	<u>(38,870)</u>	<u>22,486</u>	<u>21,917</u>	<u>5,445</u>	<u>10,901</u>
Cash flows from financing activities:						
Distributions	(89,773)	(89,773)	-	(9)	89,782	(89,773)
Long-term debt borrowings	-	34,000	-	-	-	34,000
Long-term debt repayments	-	(38,480)	-	-	-	(38,480)
Net intercompany borrowings (repayments)	4,133	95,686	(24,828)	(74,991)	-	-
Other	16	(6,115)	-	4,291	(5,445)	(7,253)
Cash flows provided by (used in) financing activities	<u>(85,624)</u>	<u>(4,682)</u>	<u>(24,828)</u>	<u>(70,709)</u>	<u>84,337</u>	<u>(101,506)</u>
Effect of foreign exchange rate changes on cash	-	-	-	(292)	-	(292)
Net increase in cash and cash equivalents	135	6,347	264	9,740	-	16,486
Cash and cash equivalents at the beginning of the period	<u>10</u>	<u>1,590</u>	<u>114</u>	<u>34,340</u>	<u>-</u>	<u>36,054</u>
Cash and cash equivalents at the end of the period	<u>\$ 145</u>	<u>\$ 7,937</u>	<u>\$ 378</u>	<u>\$ 44,080</u>	<u>\$ -</u>	<u>\$ 52,540</u>

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

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

FORWARD-LOOKING STATEMENTS

This Form 10-Q contains certain estimates, predictions, projections, assumptions and other forward-looking statements that involve various risks and uncertainties. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions or other future performance suggested in this report. These forward-looking statements can generally be identified by the words "anticipates," "believes," "expects," "plans," "intends," "estimates," "forecasts," "budgets," "projects," "will," "could," "should," "may" and similar expressions. These statements reflect our current views with regard to future events and are subject to various risks, uncertainties and assumptions. Please read our Annual Report on Form 10-K for the year ended December 31, 2006, Part I, Item 1A "Risk Factors," as well as our subsequent quarterly reports on Form 10-Q, Part II, Item 1A "Risk Factors," for a discussion of certain of those risks, uncertainties and assumptions.

If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, our actual results may vary materially from those described in any forward-looking statement. Other unknown or unpredictable factors could also have material adverse effects on our future results. Readers are cautioned not to place undue reliance on this forward-looking information, which is as of the date of the Form 10-Q. We do not intend to update these statements unless it is required by the securities laws to do so, and we undertake no obligation to publicly release the result of any revisions to any such forward-looking statements that may be made to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

Overview

NuStar Energy L.P. is a publicly traded Delaware limited partnership formed in 1999 engaged in the crude oil and refined product transportation, terminalling and storage business. NuStar Energy L.P. has terminal facilities in 28 U.S. states, the Netherlands Antilles, Canada, Mexico, the Netherlands and the United Kingdom.

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

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

Refined Product Terminals. We own 55 terminals in the United States that provide storage and handling services on a fee basis for petroleum products, specialty chemicals and other liquids, including crude oil and other feedstocks. We also own international terminal operations on the island of St. Eustatius in the Caribbean, Point Tupper in Nova Scotia, Canada, the United Kingdom, the Netherlands and in Nuevo Laredo, Mexico.

Refined Product Pipelines. We own common carrier pipelines in Texas, Oklahoma, Colorado, New Mexico, Kansas, Nebraska, Iowa, South Dakota, North Dakota and Minnesota covering approximately 6,259 miles. The Central West System is connected to Valero Energy Corporation (Valero Energy) refineries in Texas and Oklahoma, the North Pipeline is connected to Tesoro's Mandan refinery in North Dakota, and the East Pipeline is connected to various refineries in the midwest. In addition, we own a 2,000 mile anhydrous ammonia pipeline located in Louisiana, Arkansas, Missouri, Illinois, Indiana, Iowa and Nebraska.

Crude Oil Pipelines. We own 797 miles of crude oil pipelines which transport crude oil and other feedstocks, such as gas oil, from various points in Texas, Oklahoma, Kansas and Colorado to Valero Energy's McKee, Three Rivers and Ardmore refineries as well as associated crude oil storage facilities in Texas and Oklahoma that are located along the crude oil pipelines. We also own 57 miles of crude oil pipeline in Illinois, which serves ConocoPhillips' Wood River refinery.

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

Other. The other segment consists of our product marketing and trading business. Revenues included in other segment, which began in the second quarter of 2007, relate to the sale of heavy fuel oil and asphalt purchased from third parties.

We provide transportation, storage services and ancillary services to our customers. The following factors affect the results of our operations:

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

Results of Operations

Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006

Financial Highlights

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

Three Months Ended June 30,

2007 2006 Change

Statement of Income Data:

Revenues:

Services revenues	\$ 160,060	\$ 152,094	\$ 7,966
Product sales	<u>160,446</u>	<u>127,874</u>	<u>32,572</u>
Total revenues	<u>320,506</u>	<u>279,968</u>	<u>40,538</u>

Costs and expenses:

Cost of product sales	148,061	118,283	29,778
Operating expenses	85,444	79,155	6,289
General and administrative expenses	17,581	10,375	7,206
Depreciation and amortization	<u>27,860</u>	<u>24,839</u>	<u>3,021</u>
Total costs and expenses	<u>278,946</u>	<u>232,652</u>	<u>46,294</u>

Operating income	41,560	47,316	(5,756)
Equity earnings from joint ventures	1,746	1,844	(98)
Interest expense, net	(19,452)	(16,604)	(2,848)
Other income, net	<u>17,626</u>	<u>(272)</u>	<u>17,898</u>

Income from continuing operations before

income tax expense	41,480	32,284	9,196
Income tax expense	<u>1,783</u>	<u>492</u>	<u>1,291</u>
Income from continuing operations	39,697	31,792	7,905

Loss from discontinued operations, net of income tax	<u>-</u>	<u>(239)</u>	<u>239</u>
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Net income	39,697	31,553	8,144
Less net income applicable to general partner	<u>(5,118)</u>	<u>(4,041)</u>	<u>(1,077)</u>
Net income applicable to limited partners	\$ <u>34,579</u>	\$ <u>27,512</u>	\$ <u>7,067</u>

Weighted-average number of basic units outstanding	<u>46,809,749</u>	<u>46,809,749</u>	<u>-</u>
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Income (loss) per unit applicable to limited partners:

Continuing operations	\$ 0.74	\$ 0.60	\$ 0.14
Discontinued operations	<u>-</u>	<u>(0.01)</u>	<u>0.01</u>
Net income	\$ <u>0.74</u>	\$ <u>0.59</u>	\$ <u>0.15</u>

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

Three Months Ended June 30,

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Refined Product Terminals:			
Throughput (barrels/day)	227,953	265,277	(37,324)
Throughput revenues	\$ 11,852	\$ 12,876	\$ (1,024)
Storage lease revenues	71,908	60,493	11,415
Product sales (bunkering)	<u>157,937</u>	<u>127,874</u>	<u>30,063</u>
Total revenues	241,697	201,243	40,454
Cost of product sales	146,636	118,283	28,353
Operating expenses	52,529	50,092	2,437
Depreciation and amortization	<u>13,398</u>	<u>11,041</u>	<u>2,357</u>
Segment operating income	\$ <u>29,134</u>	\$ <u>21,827</u>	\$ <u>7,307</u>
Refined Product Pipelines:			
Throughput (barrels/day)	647,887	709,480	(61,593)
Throughput revenues	\$ 55,139	\$ 52,201	\$ 2,938
Product sales	<u>1,963</u>	-	<u>1,963</u>
Total revenues	57,102	52,201	4,901
Cost of product sales	1,062	-	1,062
Operating expenses	25,832	23,736	2,096
Depreciation and amortization	<u>11,264</u>	<u>10,603</u>	<u>661</u>
Segment operating income	\$ <u>18,944</u>	\$ <u>17,862</u>	\$ <u>1,082</u>
Crude Oil Pipelines:			
Throughput (barrels/day)	348,482	440,691	(92,209)
Throughput revenues	\$ 10,116	\$ 14,868	\$ (4,752)
Operating expenses	3,651	4,290	(639)
Depreciation and amortization	<u>1,261</u>	<u>1,283</u>	<u>(22)</u>
Segment operating income	\$ <u>5,204</u>	\$ <u>9,295</u>	\$ <u>(4,091)</u>
Crude Oil Storage Tanks:			
Throughput (barrels/day)	564,588	484,322	80,266
Throughput revenues	\$ 11,589	\$ 11,656	\$ (67)
Operating expenses	2,951	1,037	1,914
Depreciation and amortization	<u>1,937</u>	<u>1,912</u>	<u>25</u>
Segment operating income	\$ <u>6,701</u>	\$ <u>8,707</u>	\$ <u>(2,006)</u>
Other:			
Product sales	\$ 546	\$ -	\$ 546
Cost of product sales	370	-	370
Operating expenses	<u>1,018</u>	-	<u>1,018</u>
Segment operating income	\$ <u>(842)</u>	\$ -	\$ <u>(842)</u>
Intersegment Eliminations:			
Revenues	\$ (544)	\$ -	\$ (544)
Cost of product sales	(7)	-	(7)
Operating expenses	<u>(537)</u>	-	<u>(537)</u>
Total	\$ -	\$ -	\$ -

Segment Operating Highlights – (Continued)

(Thousands of Dollars, Except Barrels/Day Information)

Three Months Ended June 30,

	<u>2007</u>	<u>2006</u>	<u>Change</u>
Consolidated Information:			
Revenues	\$ 320,506	\$ 279,968	\$ 40,538
Cost of product sales	148,061	118,283	29,778
Operating expenses	85,444	79,155	6,289
Depreciation and amortization	<u>27,860</u>	<u>24,839</u>	<u>3,021</u>
Segment operating income	59,141	57,691	1,450
General and administrative expenses	<u>17,581</u>	<u>10,375</u>	<u>7,206</u>
Consolidated operating income	\$ <u>41,560</u>	\$ <u>47,316</u>	\$ <u>(5,756)</u>

Highlights

Net income for the three months ended June 30, 2007 increased \$8.1 million, compared to the three months ended June 30, 2006, due to higher segmental operating income and an increase in other income, partially offset by increased general and administrative expense, interest expense and income tax expense.

Total segment operating income for the three months ended June 30, 2007 increased \$1.5 million, compared to the three months ended June 30, 2006, primarily due to a \$7.3 million increase in operating income for the refined product terminals segment, a \$1.1 million increase in operating income for the refined product pipelines segment, partially offset by \$4.1 million decrease in operating income for the crude oil pipelines segment and a \$2.0 million decrease in operating income for the crude oil storage tanks segment.

The throughputs on the refined product pipelines, the refined product terminals and the crude oil pipelines segments were affected by a fire at Valero Energy's McKee refinery in February 2007, which shut down the refinery through mid-April. After the refinery restarted in mid-April, its throughputs increased throughout the second quarter.

Refined Product Terminals

Revenues increased by \$40.5 million for the three months ended June 30, 2007, compared to the three months ended June 30, 2006, primarily due to the following:

- an increase in product sales of \$33.1 million relating to bunker fuel due to increased vessel calls at our St. Eustatius facility, partially offset by a decrease in product sales of \$3.0 million relating to decreased vessel calls at our Point Tupper facility;
- the St. James terminal acquisition in December 2006 resulted in additional revenues of \$5.2 million; and
- an increase in storage lease revenues of \$6.2 million due to additional customers, increased storage utilization and contract extensions by current customers.

Partially offsetting the increases above were lower revenues related to our terminals serving the McKee refinery.

Cost of product sales increased \$28.4 million for the three months ended June 30, 2007, compared to the three months ended June 30, 2006, consistent with the increase in product sales revenues. Cost of product sales reflects the cost of bunker fuel sold to marine vessels at our facilities at St. Eustatius in the Caribbean and Point Tupper in Nova Scotia, Canada.

Operating expenses increased \$2.4 million for the three months ended June 30, 2007, compared to the three months ended June 30, 2006, primarily due to the acquisition of the St. James terminal in December 2006. Operating expenses also increased due to higher salaries and wages, expenses related to repairing a warehouse damaged at our Vancouver terminal and increased insurance premiums at several terminals primarily for marine liability.

Depreciation and amortization expense increased \$2.4 million for the three months ended June 30, 2007, compared to the three months ended June 30, 2006, due to the acquisition of the St. James terminal in December 2006 and the completion of various capital projects, including the first phase of the St. Eustatius tank expansion.

Refined Product Pipelines

Throughputs decreased for the three months ended June 30, 2007, compared to the three months ended June 30, 2006, primarily due to the impact of the McKee refinery fire. Despite lower throughputs, revenues increased by \$4.9 million for the three months ended June 30, 2007, compared to the three months ended June 30, 2006, primarily due to increased throughputs in the East Pipeline, North Pipeline and Ammonia Pipeline and the completion of the Burgos Pipeline project in the third quarter of 2006. The East Pipeline benefited from the closing of one of Magellan Midstream Partners L.P.'s terminals in the second quarter of 2007 and increased volumes through the North Platte, Nebraska terminal to supply the Colorado market.

Operating expenses increased \$2.1 million for the three months ended June 30, 2007, compared to the three months ended June 30, 2006, primarily due to higher maintenance and environmental costs, partially offset by lower power costs as a result of decreased throughputs as a consequence of the McKee refinery fire.

Depreciation and amortization expense increased by \$0.7 million for the three months ended June 30, 2007, compared to the three months ended June 30, 2006, mainly due to the completion of the Burgos Pipeline project and various other capital projects.

Crude Oil Pipelines

Throughputs and revenues decreased for the three months ended June 30, 2007, compared to the three months ended June 30, 2006, primarily due to the impact of the McKee refinery fire.

Crude Oil Storage Tanks

Throughputs increased for the three months ended June 30, 2007, compared to the three months ended June 30, 2006, primarily due to a change in the Corpus Christi (North Beach) crude oil storage tank agreement from a storage lease to a throughput fee agreement effective January 1, 2007. Throughputs for the Corpus Christi (North Beach) crude oil storage tanks were not reported prior to January 1, 2007. However, revenues decreased by \$0.1 million for the three months ended June 30, 2007, compared to the three months ended June 30, 2006, primarily due to a turnaround at Valero Energy's Benicia refinery in the second quarter of 2007.

Operating expenses increased by \$1.9 million for the three months ended June 30, 2007, compared to the three months ended June 30, 2006, primarily due to increased maintenance expenses related to the inspection, cleaning and repair of certain tanks at the Benicia and Corpus Christi facilities.

Other

Product sales, which began in the second quarter of 2007, consist of the resale of heavy fuel oil and asphalt we purchased from third parties. Operating expenses primarily consist of salaries and wages.

General

General and administrative expenses increased by \$7.2 million for the three months ended June 30, 2007, compared to the three months ended June 30, 2006, primarily due to the following:

- increased expenses associated with unit option and restricted unit compensation expense as a result of the increase in the NuStar Energy L.P. unit price and an increase in the number of awards outstanding;
- increased headcount resulting from a reduction in administrative services received from Valero Energy and increased information systems costs as a result of the separation from Valero Energy; and
- increased rent expense due to our new headquarters.

Interest expense increased by \$2.8 million for the three months ended June 30, 2007, compared to the three months ended June 30, 2006, primarily due to higher average debt balances arising from borrowings used primarily to fund the acquisition of the St. James crude oil storage facility in December 2006 and various terminal expansion projects combined with higher interest rates.

Other income, net increased by \$17.9 million for the three months ended June 30, 2007, compared to the three months ended June 30, 2006, primarily due to a \$13.0 million payment from Valero Energy for exercising its option to terminate the 2007 Services Agreement and business interruption insurance income of \$7.1 million associated with the McKee refinery fire. Partially offsetting these increases are foreign exchange losses totaling approximately \$3.0 million.

Income tax expense increased \$1.3 million for the three months ended June 30, 2007, compared to the three months ended June 30, 2006. Income tax expense was higher in 2007 primarily due to higher taxable income in our taxable entities and the impact of the Texas margin tax effective January 1, 2007.

Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006

Financial Highlights

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

Six Months Ended June 30,

2007 2006 Change

Statement of Income Data:

Revenues:

Services revenues	\$ 317,342	\$ 300,023	\$ 17,319
Product sales	<u>299,988</u>	<u>253,949</u>	<u>46,039</u>
Total revenues	<u>617,330</u>	<u>553,972</u>	<u>63,358</u>

Costs and expenses:

Cost of product sales	275,988	232,501	43,487
Operating expenses	166,656	150,225	16,431
General and administrative expenses	32,489	18,935	13,554
Depreciation and amortization	<u>55,202</u>	<u>49,028</u>	<u>6,174</u>
Total costs and expenses	<u>530,335</u>	<u>450,689</u>	<u>79,646</u>

Operating income

	86,995	103,283	(16,288)
Equity earnings from joint ventures	3,357	3,050	307
Interest expense, net	(38,306)	(32,300)	(6,006)
Other income, net	<u>24,249</u>	<u>(41)</u>	<u>24,290</u>

Income from continuing operations before

income tax expense	76,295	73,992	2,303
Income tax expense	<u>5,475</u>	<u>2,611</u>	<u>2,864</u>

Income from continuing operations 70,820 71,381 (561)

Loss from discontinued operations, net of income tax - (377) 377

Net income 70,820 71,004 (184)

Less net income applicable to general partner (9,572) (8,240) (1,332)

Net income applicable to limited partners \$ 61,248 \$ 62,764 \$ (1,516)

Weighted-average number of basic units outstanding 46,809,749 46,809,749 -

Income (loss) per unit applicable to limited partners:

Continuing operations	\$ 1.31	\$ 1.35	\$ (0.04)
Discontinued operations	-	(0.01)	0.01
Net income	<u>\$ 1.31</u>	<u>\$ 1.34</u>	<u>\$ (0.03)</u>

Segment Operating Highlights

(Thousands of Dollars, Except Barrels/Day Information)

Six Months Ended June 30,			
	2007	2006	Change
Refined Product Terminals:			
Throughput (barrels/day)	229,360	258,811	(29,451)
Throughput revenues	\$ 23,300	\$ 23,416	\$ (116)
Storage lease revenues	141,156	120,026	21,130
Product sales (bunkering)	<u>297,479</u>	<u>253,949</u>	<u>43,530</u>
Total revenues	461,935	397,391	64,544
Cost of product sales	274,563	232,501	42,062
Operating expenses	103,522	94,071	9,451
Depreciation and amortization	<u>26,586</u>	<u>21,947</u>	<u>4,639</u>
Segment operating income	<u>\$ 57,264</u>	<u>\$ 48,872</u>	<u>\$ 8,392</u>
Refined Product Pipelines:			
Throughput (barrels/day)	632,393	705,248	(72,855)
Revenues	\$ 108,563	\$ 104,247	\$ 4,316
Product sales	<u>1,963</u>	-	<u>1,963</u>
Total revenues	110,526	104,247	6,279
Cost of product sales	1,062	-	1,062
Operating expenses	49,908	43,538	6,370
Depreciation and amortization	<u>22,272</u>	<u>20,742</u>	<u>1,530</u>
Segment operating income	<u>\$ 37,284</u>	<u>\$ 39,967</u>	<u>\$ (2,683)</u>
Crude Oil Pipelines:			
Throughput (barrels/day)	348,052	434,219	(86,167)
Revenues	\$ 22,465	\$ 28,917	\$ (6,452)
Operating expenses	7,024	7,987	(963)
Depreciation and amortization	<u>2,494</u>	<u>2,532</u>	<u>_(38)</u>
Segment operating income	<u>\$ 12,947</u>	<u>\$ 18,398</u>	<u>\$ (5,451)</u>
Crude Oil Storage Tanks:			
Throughput (barrels/day)	551,971	498,618	53,353
Revenues	\$ 22,402	\$ 23,417	\$ (1,015)
Operating expenses	5,721	4,629	1,092
Depreciation and amortization	<u>3,850</u>	<u>3,807</u>	<u>43</u>
Segment operating income	<u>\$ 12,831</u>	<u>\$ 14,981</u>	<u>\$ (2,150)</u>
Other:			
Product sales	\$ 546	\$ -	\$ 546
Cost of product sales	370	-	370
Operating expenses	<u>1,018</u>	-	<u>1,018</u>
Segment operating income	<u>\$ (842)</u>	<u>\$ -</u>	<u>\$ (842)</u>
Intersegment Eliminations:			
Revenues	\$ (544)	\$ -	\$ (544)
Cost of product sales	(7)	-	(7)
Operating expenses	<u>(537)</u>	-	<u>(537)</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Segment Operating Highlights – (Continued)

(Thousands of Dollars, Except Barrels/Day Information)

Six Months Ended June 30,			
	2007	2006	Change
Consolidated Information:			
Revenues	\$ 617,330	\$ 553,972	\$ 63,358
Cost of product sales	275,988	232,501	43,487
Operating expenses	166,656	150,225	16,431
Depreciation and amortization	<u>55,202</u>	<u>49,028</u>	<u>6,174</u>
Segment operating income	119,484	122,218	(2,734)
General and administrative expenses	<u>32,489</u>	<u>18,935</u>	<u>13,554</u>
Consolidated operating income	<u>\$ 86,995</u>	<u>\$ 103,283</u>	<u>\$ (16,288)</u>

Highlights

Net income for the six months ended June 30, 2007 decreased \$0.2 million, compared to the six months ended June 30, 2006, due to lower segmental operating income and increased general and administrative expense, interest expense and income tax expense, partially offset by an increase in other income.

Total segment operating income for the six months ended June 30, 2007 decreased \$2.7 million, compared to the six months ended June 30, 2006, primarily due to a \$5.5 million decrease in operating income for the crude

oil pipelines segment, a \$2.7 million decrease in operating income for the refined product pipelines segment, and a \$2.2 million decrease in operating income for the crude oil tank storage segment. Partially offsetting these declines was an \$8.4 million increase in operating income for the refined product terminals segment.

The throughputs on the refined product pipelines, the refined product terminals and the crude oil pipelines segments were affected by a fire at Valero Energy's McKee refinery in February 2007, which shut down the refinery through mid-April. After the refinery restarted in mid-April, its throughputs increased throughout the second quarter.

Refined Product Terminals

Revenues increased by \$64.5 million for the six months ended June 30, 2007, compared to the six months ended June 30, 2006, primarily due to the following:

- an increase in product sales of \$54.5 million relating to bunker fuel due to increased vessel calls at our St. Eustatius facility, partially offset by a decrease in product sales of \$11.0 million at our Point Tupper facility due to decreased vessel calls;
- the St. James terminal acquisition in December 2006 resulted in additional revenues of \$10.4 million; and
- an increase in storage lease revenues of \$10.7 million due to additional customers, increased storage utilization and contract extensions by current customers and the effect of foreign exchange rates.

Partially offsetting the increases above were lower revenues related to our terminals serving the McKee refinery.

Cost of product sales increased \$42.1 million for the six months ended June 30, 2007, compared to the six months ended June 30, 2006, consistent with the increase in product sales revenues. Cost of product sales reflects the cost of bunker fuel sold to marine vessels at our facilities at St. Eustatius in the Caribbean and Point Tupper in Nova Scotia, Canada.

Operating expenses increased \$9.5 million for the six months ended June 30, 2007, compared to the six months ended June 30, 2006, primarily due to the acquisition of the St. James terminal in December 2006, higher salaries and wages, expenses related to repairing a warehouse damaged at our Vancouver terminal and increased insurance premiums at several terminals primarily for marine liability.

Depreciation and amortization expense increased \$4.6 million for the six months ended June 30, 2007, compared to the six months ended June 30, 2006, due to the acquisition of the St. James terminal in December 2006 and the completion of various capital projects, including the first phase of the St. Eustatius tank expansion.

Refined Product Pipelines

Throughputs decreased for the six months ended June 30, 2007, compared to the six months ended June 30, 2006, primarily due to the impact of the McKee refinery fire. Despite lower throughputs, revenues increased by \$6.3 million for the six months ended June 30, 2007, compared to the six months ended June 30, 2006, primarily due to increased throughputs in the East Pipeline, North Pipeline and Ammonia Pipeline, increase in tariffs effective July 1, 2006 and the completion of the Burgos Pipeline project in the third quarter of 2006. The East Pipeline benefited from the closing of one of Magellan Midstream Partners L.P.'s terminals in the second quarter of 2007 and increased volumes through the North Platte, Nebraska terminal to supply the Colorado market.

Operating expenses increased \$6.4 million for the six months ended June 30, 2007, compared to the six months ended June 30, 2006, primarily due to higher salaries and wages and higher maintenance and environmental costs, partially offset by lower power costs as a result of decreased throughputs as a consequence of the McKee refinery fire.

Depreciation and amortization expense increased by \$1.5 million for the six months ended June 30, 2007, compared to the six months ended June 30, 2006, mainly due to the completion of the Burgos Pipeline project and various other capital projects.

Crude Oil Pipelines

Throughputs and revenues decreased for the six months ended June 30, 2007, compared to the six months ended June 30, 2006, primarily due to the impact of the McKee refinery fire.

Crude Oil Storage Tanks

Throughputs increased for the six months ended June 30, 2007, compared to the six months ended June 30, 2006, primarily due to a change in the Corpus Christi (North Beach) crude oil storage tank agreement from a storage lease to a throughput fee agreement effective January 1, 2007. Throughputs for the Corpus Christi (North Beach) crude oil storage tanks were not reported prior to January 1, 2007. However, revenues decreased by \$1.0 million for the six months ended June 30, 2007, compared to the six months ended June 30, 2006, primarily due to turnarounds at Valero Energy's Benicia, Three Rivers and Corpus Christi refineries and operating issues at Valero Energy's Texas City refinery in January 2007. The Corpus Christi refinery further experienced multiple operating issues during the six months ended June 30, 2007.

Operating expenses increased by \$1.1 million for the six months ended June 30, 2007, compared to the six months ended June 30, 2006, primarily due to increased wharfage and dockage expenses at the Corpus Christi (North Beach) facility.

Other

Product sales, which began in the second quarter of 2007, consist of the resale of heavy fuel oil and asphalt we purchased from third parties. Operating expenses primarily consist of salaries and wages.

General

General and administrative expenses increased by \$13.6 million for the six months ended June 30, 2007, compared to the six months ended June 30, 2006, primarily due to the following:

- increased expenses associated with unit option and restricted unit compensation expense as a result of the increase in the NuStar Energy L.P. unit price and an increase in the number of awards outstanding;
- increased headcount resulting from a reduction in administrative services received from Valero Energy and increased information systems costs as a result of the separation from Valero Energy; and
- increased rent expense due to our new headquarters.

Interest expense increased by \$6.0 million for the six months ended June 30, 2007, compared to the six months ended June 30, 2006, primarily due to higher average debt balances arising from borrowings used to fund the acquisition of the St. James crude oil storage facility in December 2006 and various terminal expansion projects combined with higher interest rates.

Other income, net increased by \$24.3 million for the six months ended June 30, 2007, compared to the six months ended June 30, 2006, primarily due to a \$13.0 million payment from Valero Energy for exercising its option to terminate the 2007 Services Agreement, business interruption insurance income of \$7.1 million associated with the McKee refinery fire, and a gain of \$5.2 million related to a settlement for the dock damage at our Westwego terminal. Partially offsetting these increases are foreign exchange losses totaling approximately \$3.4 million.

Income tax expense increased \$2.9 million for the six months ended June 30, 2007, compared to the six months ended June 30, 2006. Income tax expense was higher in 2007 primarily due to higher taxable income in our taxable entities and the impact of the Texas margin tax effective January 1, 2007.

Related Party Transactions

Services Agreement

Prior to our separation from Valero Energy, the employees of NuStar GP, LLC were provided to us under the terms of various services agreements between us and Valero Energy. The terms of these services agreements generally provided that the costs of employees who performed services directly on our behalf, including salaries, wages and employee benefits, were charged directly to us. In addition, Valero Energy charged us an administrative services fee, which was \$0.4 million and \$0.9 million for the three and six months ended June 30, 2006, respectively.

Although Valero Energy no longer provides employees that work directly on our behalf, Valero Energy continues to provide certain services to us under the terms of a services agreement dated December 22, 2006 (the 2007 Services Agreement). Beginning January 1, 2007, under the 2007 Services Agreement, we pay Valero Energy approximately \$97,000 per month for administrative services (primarily information system services and human resource services) and approximately \$93,000 per month for telecommunication services.

On April 16, 2007, Valero Energy exercised its option to terminate the 2007 Services Agreement. As a result, Valero Energy will cease providing services according to the terms of the 2007 Services Agreement. Generally, these services will discontinue over a period of time sufficient to allow us to assume those functions. Additionally, since Valero Energy elected to terminate the 2007 Services Agreement prior to December 31, 2010, they paid us a termination fee of \$13.0 million in May 2007.

Outlook

We expect Valero Energy's McKee refinery fire to have a minimal effect on our operations in the second half of 2007, as the refinery is currently running at or near capacity. Even though we believe we have adequate insurance to cover the amount of losses resulting from the McKee refinery fire, we cannot precisely predict the timing or amounts of insurance proceeds we will receive. As a result, the timing of receiving insurance proceeds will affect our earnings and cash flows in any particular quarter over the next few quarters until we finalize the insurance claim.

We expect results for the second half of 2007 to benefit from several of our terminal expansion projects coming on-line, increases in our pipeline tariffs effective July 1 and fewer turnarounds at the refineries we serve.

Additionally, we have created a new product marketing and trading business to capitalize on opportunities to optimize the use and profitability of our assets, to manage our risk as we diversify our business and to enhance our competitive position when pursuing acquisitions. We may experience additional volatility in our earnings

and cash flows, which should not be significant in 2007. Further, we will be exposed to commodity price risk related to the product marketing and trading business.

LIQUIDITY AND CAPITAL RESOURCES

General

Our primary cash requirements are for distributions to partners, debt service, reliability and strategic and other capital expenditures, acquisitions and normal operating expenses. We typically generate sufficient cash from our current operations to fund day-to-day operating and general and administrative expenses, reliability capital expenditures and distribution requirements. We also have available borrowing capacity under our existing revolving credit facility and, to the extent necessary, we may raise additional funds through equity or debt offerings under our \$3.0 billion shelf registration statement to fund strategic capital expenditures or other cash requirements not funded from operations. However, there can be no assurance regarding the availability of any additional funds or whether such additional funds can be provided on terms acceptable to us.

Cash Flows for the Six Months Ended June 30, 2007 and 2006

Net cash provided by operating activities was \$107.4 million for the six months ended June 30, 2007 and June 30, 2006. Net cash provided by operating activities for the six months ended June 30, 2007, combined with available cash on hand, was used to fund distributions to unitholders and the general partner in the amount of \$95.4 million. The proceeds from long-term debt borrowings, net of repayments, were used to fund capital expenditures, primarily related to various terminal expansion projects.

Net cash provided by operating activities for the six months ended June 30, 2006 was \$107.4 million. The net cash provided by operations, combined with available cash on hand, was used primarily to fund distributions to unitholders and the general partner in the amount of \$89.8 million. The proceeds from long-term debt borrowings totaling \$34.0 million were used to fund the purchase of the Capwood pipeline and a portion of our capital expenditures. The proceeds from the sale of the Australia and New Zealand subsidiaries totaling \$70.1 million were used for working capital purposes, including paying down outstanding debt.

Partners' Equity

Cash Distributions. On April 24, 2007, we declared a quarterly cash distribution of \$0.915 per unit to be paid on May 14, 2007 to unitholders of record on May 7, 2007, which totaled \$47.7 million. On July 26, 2007, we declared a quarterly cash distribution of \$0.950 per unit to be paid on August 14, 2007 to unitholders of record on August 7, 2007, which will total \$49.9 million.

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

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
	(Thousands of Dollars)			
General partner interest	\$ 997	\$ 916	\$ 1,951	\$ 1,832
General partner incentive distribution	4,413	3,480	8,323	6,960
Total general partner distribution	5,410	4,396	10,274	8,792
Limited partners' distribution	44,469	41,427	87,300	82,854
Total cash distributions	\$ <u>49,879</u>	\$ <u>45,823</u>	\$ <u>97,574</u>	\$ <u>91,646</u>
Cash distributions per unit applicable to limited partners	\$ <u>0.950</u>	\$ <u>0.885</u>	\$ <u>1.865</u>	\$ <u>1.770</u>

Shelf Registration. On May 18, 2007, the SEC declared effective our shelf registration statement on Form S-3, which will permit us to offer and sell various types of securities, including NuStar Energy L.P. common units and debt securities of each NuStar Logistics and KPOP, having an aggregate value of up to \$3.0 billion. We filed the registration statement to gain additional flexibility in accessing capital markets for, among other things, the repayment of outstanding indebtedness, working capital, capital expenditures and acquisitions. This registration statement replaces our 2003 shelf registration statement.

Capital Requirements

The petroleum pipeline and terminalling industry is capital intensive, requiring significant investments to maintain, upgrade or enhance existing operations and to comply with environmental and safety laws and regulations.

Our capital expenditures consist primarily of:

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

During the six months ended June 30, 2007, we incurred reliability capital expenditures of \$12.0 million, primarily related to system automation and maintenance upgrade projects at our terminals and pipelines. Strategic and other capital expenditures of \$101.8 million during the six months ended June 30, 2007, primarily related to the Amsterdam, St. Eustatius and St. James tank expansions and other terminal expansion projects, as well as expenditures required as a result of our separation from Valero Energy, such as separating our information systems and improvements made to our new headquarters.

For the full year of 2007, we expect to incur approximately \$295.0 million of capital expenditures, including \$45.0 million for reliability capital projects and \$250.0 million for strategic and other capital projects, including \$12.0 million for capital expenditures required as a result of our separation from Valero Energy. We continuously evaluate our capital budget and make changes as economic conditions warrant. If conditions warrant, our actual capital expenditures for 2007 may exceed the budgeted amounts. We believe cash generated from operations combined with other sources of liquidity will be sufficient to fund our capital expenditures in 2007.

Long-Term Contractual Obligations

Extension of Maturity Date

In accordance with the terms of our \$600 Million Revolving Credit Agreement (Revolving Credit Agreement) and \$525 Million Term Loan Agreement (Term Loan Agreement), we requested a one-year extension to the maturity dates of those instruments. In June 2007, the lenders consented to our request resulting in the extension of the maturity dates of our Revolving Credit Agreement and our Term Loan Agreement to May 31, 2012.

Revolving Credit Agreement

The Revolving Credit Agreement bears interest based on either an alternative base rate or LIBOR, which was 6.0% as of June 30, 2007. As of June 30, 2007, we had \$293.9 million available for borrowing under our Revolving Credit Agreement.

Interest Rate Swaps

As of June 30, 2007, the weighted-average interest rate for our interest rate swaps was 7.2%. As of June 30, 2007 and December 31, 2006, the aggregate estimated fair value of the interest rate swaps included in other long-term liabilities in our consolidated balance sheets was \$8.5 million and \$4.9 million, respectively.

Environmental, Health and Safety

We are subject to extensive federal, state and local environmental and safety laws and regulations, including those relating to the discharge of materials into the environment, waste management, pollution prevention measures, pipeline integrity and operator qualifications, among others. Because environmental and safety laws and regulations are becoming more complex and stringent and new environmental and safety laws and regulations are continuously being enacted or proposed, the level of future expenditures required for environmental, health and safety matters is expected to increase.

Other Contingencies

We are subject to certain loss contingencies, the outcome of which could have an effect on our cash flows and results of operations. Specifically, we may be required to make substantial payments to the U.S. Department of Justice for certain remediation costs as further disclosed in Note 5 of Condensed Notes to Consolidated Financial Statements.

Commitments

In the first quarter of 2007, we entered into a three-year agreement to purchase a minimum of 4.5 million barrels of inventory at market prices for resale to our customers. We estimated the value of this commitment to be approximately \$203.0 million, which will fluctuate with market prices.

The building lease for our new headquarters became effective in the first quarter of 2007. We have a minimum commitment of approximately \$13.5 million over almost 11 years.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in accordance with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Our critical accounting policies are disclosed in our Annual Report on Form 10-K for the year ended December 31, 2006.

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 we are exposed is interest rate risk on our debt. Additionally, we are exposed to exchange rate fluctuations on transactions related to our foreign operations.

We manage our debt considering various financing alternatives available in the market and we manage our exposure to changing interest rates principally through the use of a combination of fixed-rate debt and variable-rate debt. In addition, we utilize interest rate swap agreements to manage a portion of the exposure to changing interest rates by converting certain fixed-rate debt to variable-rate debt. Borrowings under the Revolving Credit Agreement and Term Loan Agreement expose us to increases in the benchmark interest rate underlying these variable rate debt instruments.

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

June 30, 2007								
Expected Maturity Dates								
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>There- after</u>	<u>Total</u>	<u>Fair Value</u>
(Thousands of Dollars, Except Interest Rates)								
Long-term Debt:								
Fixed rate	\$ 3,710	\$ 660	\$ 713	\$ 770	\$ 43,002	\$833,981	\$882,836	\$906,702
Average interest rate	6.2%	8.0%	8.0%	8.0%	6.7%	6.6%	6.6%	
Variable rate	\$ -	\$ -	\$ -	\$ -	\$ -	\$529,873	\$529,873	\$529,873
Average interest rate	-	-	-	-	-	6.0%	6.0%	
Interest Rate Swaps								
Fixed to Variable:								
Notional amount	\$ -	\$ -	\$ -	\$ -	\$ -	\$167,500	\$167,500	\$ (8,454)
Average pay rate	7.2%	7.1%	7.2%	7.3%	7.5%	7.4%	7.3%	
Average receive rate	6.3%	6.3%	6.3%	6.3%	6.3%	6.2%	6.3%	
December 31, 2006								
Expected Maturity Dates								
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>There- after</u>	<u>Total</u>	<u>Fair Value</u>
(Thousands of Dollars, Except Interest Rates)								
Long-term Debt:								
Fixed rate	\$ 647	\$ 660	\$ 713	\$ 770	\$ 41,950	\$ 854,049	\$ 898,789	\$ 939,191
Average interest rate	8.0%	8.0%	8.0%	8.0%	6.7%	6.6%	6.6%	
Variable rate	\$ -	\$ -	\$ -	\$ -	\$ 415,526	\$ -	\$ 415,526	\$ 415,526
Average interest rate	-	-	-	-	6.1%	-	6.1%	
Interest Rate Swaps								
Fixed to Variable:								
Notional amount	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 167,500	\$ 167,500	\$ (4,908)
Average pay rate	7.0%	6.7%	6.7%	6.8%	6.9%	6.8%	6.8%	
Average receive rate	6.3%	6.3%	6.3%	6.3%	6.3%	6.2%	6.3%	

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

Our management has evaluated, with the participation of the principal executive officer and principal financial officer of NuStar GP, LLC, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report, and has concluded that our disclosure controls and procedures were effective as of June 30, 2007.

(b) Changes in internal control over financial reporting.

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

Item 1A. Risk Factors

We have adopted certain valuation methodologies that may result in a shift of income, gain, loss and deduction between the general partner and the unitholders. The Internal Revenue Service (“IRS”) may challenge this treatment, which could adversely affect the value of our common units.

When we issue additional units or engage in certain other transactions, we determine the fair market value of our assets and allocate any unrealized gain or loss attributable to our assets to the capital accounts of our unitholders and our general partner. Our methodology may be viewed as understating the value of our assets. In that case, there may be a shift of income, gain, loss and deduction between certain unitholders and the general partner, which may be unfavorable to such unitholders. Moreover, under our current valuation methods, subsequent purchasers of common units may have a greater portion of their Internal Revenue Code Section 743(b) adjustment allocated to our tangible assets and a lesser portion allocated to our intangible assets. The IRS may challenge our valuation methods, or our allocation of the Section 743(b) adjustment attributable to our tangible and intangible assets, and allocations of income, gain, loss and deduction between the general partner and certain of our unitholders.

A successful IRS challenge to these methods or allocations could adversely affect the amount of taxable income or loss being allocated to our unitholders. It also could affect the amount of gain from our unitholders’ sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to our unitholders’ tax returns without the benefit of additional deductions.

Item 6. Exhibits

- +* [Exhibit 10.01](#) NuStar GP, LLC Second Amended and Restated 2000 Long-Term Incentive Plan, amended and restated as of April 1, 2007.
- +* [Exhibit 10.02](#) NuStar GP, LLC Amended and Restated 2002 Unit Option Plan, amended and restated as of April 1, 2007.
- +* [Exhibit 10.03](#) NuStar GP, LLC Amended and Restated 2003 Employee Unit Option Plan.
- * [Exhibit 12.01](#) Statement of Computation of Ratio of Earnings to Fixed Charges.
- * [Exhibit 31.01](#) Rule 13a-14(a) Certifications (under Section 302 of the Sarbanes-Oxley Act of 2002).
- * [Exhibit 32.01](#) Section 1350 Certifications (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002).

* Filed herewith.

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

SIGNATURES

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

NUSTAR ENERGY L.P.
(Registrant)

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

By: /s/ Curtis V. Anastasio

Curtis V. Anastasio
President and Chief Executive Officer
August 9, 2007

By: /s/ Steven A. Blank

Steven A. Blank
Senior Vice President, Chief Financial Officer and Treasurer
August 9, 2007

By: /s/ Thomas R. Shoaf

Thomas R. Shoaf
Vice President and Controller
August 9, 2007

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

Amended and Restated as of April 1, 2007

SECTION 1. Purpose of the Plan.

The NuStar GP, LLC 2000 Long-Term Incentive Plan (the "Plan") is intended to promote the interests of NuStar Energy L.P., a Delaware limited partnership (the "Partnership"), by providing to employees and directors of NuStar GP, LLC, a Delaware limited liability company (the "Company"), and its Affiliates who perform services for the Partnership and its subsidiaries Unit-based incentive awards for superior performance. 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. Notwithstanding the immediately preceding two sentences, to the extent that Section 409A of the Code applies to Options or other equity-based Awards granted under the Plan, the term "Affiliate" means all persons with whom the Company could be considered a single employer under Section 414(b) or Section (c) of the Code, substituting (for the purpose of determining whether Options or other equity-based Awards that may be subject to Section 409A of the Code are derived in respect of Units of the service recipient in order to comply with any applicable requirements of Section 1.409A-1(b)(5)(iii) of the proposed regulations issued under Section 409A of the Code or any successor regulation or other regulatory guidance relating thereto) "20 percent" in place of "80 percent" in determining a controlled group under Section 414(b) of the Code and in determining trades or businesses that are under common control for purposes of Section 414(c) of the Code.
- 2.2 "Award" means a grant of one or more Options, Performance Units, Performance Cash 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" shall mean the (i) conviction of the Participant by a state or federal court of a felony involving moral turpitude, (ii) conviction of the Participant by a state or federal court of embezzlement or misappropriation of funds of the Company, (iii) the Company's (or applicable Affiliate's) reasonable determination that the Participant has committed an act of fraud, embezzlement, theft, or misappropriation of funds in connection with such Participant's duties in the course of his or her employment with the Company (or applicable Affiliate), (iv) the Company's (or its applicable Affiliate's) reasonable determination that the Participant has engaged in gross mismanagement, negligence or misconduct which causes or could potentially cause material loss, damage or injury to the Company, any of its Affiliates or their respective employees, or (v) the Company's (or applicable Affiliate's) reasonable determination that (a) the Participant has violated any policy of the Company (or applicable Affiliate), including but not limited to, policies regarding sexual harassment, insider trading, confidentiality, substance abuse and/or conflicts of interest, which violation could result in the termination of the Participant's employment or service as a non-employee Director of the Company (or applicable Affiliate), or (b) the Participant has failed to satisfactorily perform the material duties of Participant's position with the Company or any of its Affiliates.
- 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 NuStar GP Holdings, LLC 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 are 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 interests of the Company are changed into or exchanged for voting stock or interests of the surviving corporation or entity or its parent and (b) the holders of the voting interests of 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, NuStar GP Holdings, LLC 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; NuStar GP Holdings, LLC 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 NuStar GP Holdings, LLC or the Company then outstanding, other than, in the case of the Company, (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; or (iv) in the case of NuStar GP Holdings, LLC, the consummation of a reorganization, merger, consolidation or other form of business transaction or series of business transactions, in each case, with respect to which more than 50% of the voting power of the outstanding equity interests in NuStar GP Holdings, LLC cease to be owned by the persons who owned such interests immediately prior to such reorganization, merger, consolidation or other form of business transaction or series of business transactions.

Solely with respect to any Award that is subject to Section 409A of the Code and to the extent that the definition of change of control under Section 409A applies to limited liability companies, this definition is intended to comply with the definition of change of control under Section 409A of the Code and, to the extent that the above definition does not so comply, such definition shall be void and of no effect and, to the extent required to ensure that this definition complies with the requirements of Section 409A of the Code, the definition of such term set forth in regulations or other regulatory guidance issued under Section 409A of the Code by the appropriate governmental authority is hereby incorporated by reference into and shall form part of this Plan as fully as if

set forth herein verbatim and the Plan shall be operated in accordance with the above definition of Change of Control as modified to the extent necessary to ensure that the above definition complies with the definition prescribed in such regulations or other regulatory guidance insofar as the definition relates to any Award that is subject to Section 409A of the Code.

- 2.6 “Code” means the Internal Revenue Code of 1986, as amended.
- 2.7 “Committee” means the Compensation Committee of the Board or such other committee of the Board appointed to administer the Plan.
- 2.8 “Covered Participants” means a Participant who is a “covered employee” as defined in Section 162(m)(3) of the Code, and the regulations promulgated thereunder, and any individual the Committee determines should be treated like such a covered employee.
- 2.9 “Date of Grant” means the effective date on which an Award is made to a Participant as set forth in the applicable Award Agreement.

- 2.10 “DER” means a contingent right, granted in tandem with a specific Award, to receive an amount in cash equal to the cash distributions made by the Partnership with respect to a Unit during the period such Award is outstanding.
- 2.11 “Director” means a “non-employee director” of the Company, as defined in Rule 16b-3.
- 2.12 “Employee” means any employee of the Company or an Affiliate, as determined by the Committee.
- 2.13 “Exchange Act” means the Securities Exchange Act of 1934, as amended.
- 2.14 “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.
- 2.15 “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; or
 - (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.
- 2.16 “Option” means an option to purchase Units as described in Section 6.1.
- 2.17 “Participant” means any Employee or Director granted an Award under the Plan.
- 2.18 “Performance Award” means an Award made pursuant to this Plan to a Participant which Award is subject to the attainment of one or more Performance Goals. Performance Awards may be in the form of either Performance Units, Performance Cash or DERs.
- 2.19 “Performance Cash” means an Award, designated as Performance Cash and denominated in cash, granted to a Participant pursuant to Section 6.4 hereof, the value of which is conditioned, in whole

or in part, by the attainment of Performance Goals in a manner deemed appropriate by the Committee and described in the Award agreement.

- 2.20 “Performance Criteria” or “Performance Goals” or “Performance Measures” mean the objectives established by the Committee for a Performance Period, for the purpose of determining when an Award subject to such objectives is earned.
- 2.21 “Performance Period” means the time period designated by the Committee during which performance goals must be met.
- 2.22 “Performance Unit” means an Award, designated as a Performance Unit in the form of Units or other securities of the Company, granted to a Participant pursuant to Section 6.4 hereof, the value of which is determined, in whole or in part, by the value of Units and/or conditioned on the attainment of Performance Goals in a manner deemed appropriate by the Committee and described in the Award agreement.
- 2.23 “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.
- 2.24 “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.
- 2.25 “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.
- 2.26 “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.
- 2.27 “SEC” means the Securities and Exchange Commission.
- 2.28 “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 (including but not limited to performance requirements for such 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 1,500,000. If any Award expires, is canceled, exercised, paid or otherwise terminates without the delivery of Units, then the Units covered by such Award, to the extent of such expiration, cancellation, exercise, payment or termination, shall again be Units with respect to which Awards may be granted. In the event that Units issued under the Plan are reacquired by the Partnership or the Company pursuant to any forfeiture provision, such Units shall again be available for the purposes of the Plan. In the event a Participant pays for any Award through the delivery of previously acquired Units, the number of Units available shall be increased by the number of Units delivered by the Participant.
- 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 or Director shall be eligible to be designated a Participant.

SECTION 6. Awards.

- 6.1 Options. The Committee shall have the authority to determine the Employees and Directors to whom Options shall be granted, the number of Units to be covered by each Option, the purchase price therefor and the conditions and limitations applicable to the exercise of the Option, including the following terms and conditions and such additional terms and conditions, as the Committee shall determine, that are not inconsistent with the provisions of the Plan.
- (i) Exercise Price. The purchase price per Unit purchasable under an Option shall be determined by the Committee at the time the Option is granted but shall not be less than its Fair Market Value as of the date of grant.
- (ii) Time and Method of Exercise. The Committee shall determine the Restricted Period (i.e., the time or times at which an Option may be exercised in whole or in part) and the method or methods by which payment of the exercise price with respect thereto may be made or deemed to have been made which may include, without limitation, cash, check acceptable to the Company, a "cashless-broker" exercise (through procedures approved by the Company), other securities or other property, a note from the Participant (in a form acceptable to the Company), or any combination thereof, having a value on the exercise date equal to the relevant exercise price.

- (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 or membership on the Board of the Company or its Affiliates, whichever is applicable, involuntarily for Cause or on a voluntary basis (other than for retirement, death or disability of the Participant (see Section 6.3(ix) below)) during the applicable Restricted Period, (i) that portion of any Option that has not vested on or prior to such date of termination shall automatically lapse and be forfeited by the Participant at the close of business on the date of the Participant's termination and (ii) all vested but unexercised Options previously granted shall automatically lapse and be forfeited by the Participant at the close of business on the 30th day following the date of such Participant's termination, unless an Option expires earlier according to its original terms. If a Participant's employment or service as a Director is involuntarily terminated by the Company other than for Cause: (i) that portion of any Option that has not vested on or prior to such date of termination shall automatically lapse and be forfeited by the Participant at the close of business on the date of the Participant's termination and (ii) all vested but unexercised Options previously granted shall automatically lapse and be forfeited by the Participant at the close of business on last day of the twelfth month following the date of such Participant's termination, unless an Option expires earlier according to its original terms. The Committee or the Chief Executive Officer may waive in whole or in part such forfeiture with respect to a Participant's Options.
- (v) In connection with the sale by Valero Energy Corporation ("VEC") of its ownership interest in NuStar GP Holdings, LLC to public unitholders in a series of public offerings, VEC ceased to be an Affiliate of the Company effective December 22, 2006. Employees of VEC were deemed to have experienced a termination of employment as a result of the loss of the Affiliate relationship. However, notwithstanding the provisions in Section 6.1(iv) above, immediately prior to the closing of the public offering of the Units on December 22, 2006, all Options that (a) were granted under the Plan and are held by VEC Employees, and (b) are in full force and effect on December 22, 2006, shall remain outstanding, shall be fully vested and shall not be subject to lapse and forfeiture as provided in Section 6.1(iv) above. Such Options shall remain outstanding and in full force and shall expire on the close of business on December 22, 2007.

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.
- (iv) As described in Section 6.1(v) above, Employees of VEC were deemed to have experienced a termination of employment as a result of the loss of the Affiliate relationship with VEC in connection with the sale by VEC of its ownership interest in NuStar GP Holdings, LLC. However, notwithstanding the provisions in Section 6.2(ii) above, any Restricted Unit granted under the terms of the Plan to, and held by, any VEC Employee which remains unvested as of December 22, 2006 shall immediately vest and become non-forfeitable as of December 22, 2006.

6.3 General.

- (i) Awards May be Granted Separately or Together. Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution for any other Award granted under the Plan or any award granted under any other plan of the Company or any Affiliate, including the Annual Incentive Plan or the Intermediate Incentive Compensation Plan. Awards granted in addition to or in tandem with other Awards or awards granted under any other plan of the Company or any Affiliate may be granted either at the same time as or at a different time from the grant of such other Awards or awards.
- (ii) Limits on Transfer of Awards. No Award and no right under any such Award may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a Participant otherwise than by will or by the laws of descent and distribution and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate.
- (iii) Terms of Awards. The term of each Award shall be for such period as may be determined by the Committee.
- (iv) Unit Certificates. All certificates for Units or other securities of the Partnership delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the SEC, any stock exchange upon which such Units or other securities are then listed, and any applicable federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.
- (v) Consideration for Grants. Awards may be granted for no cash consideration or for such consideration as the Committee determines including, without limitation, such minimal cash consideration as may be required by applicable law.
- (vi) Delivery of Units or other Securities and Payment by Participant of Consideration. Notwithstanding anything in the Plan or any grant agreement to the contrary, delivery of Units pursuant to the exercise or vesting of an Award may be deferred for any period during which, in the good faith determination of the Committee, the Company is not reasonably able to obtain Units to deliver pursuant to such Award without violating the rules or regulations of any applicable law or securities exchange. No Units or other securities shall be delivered pursuant to any Award until payment in full of any amount

required to be paid pursuant to the Plan or the applicable Award agreement (including, without limitation, any exercise price or any tax withholding) is receivable by the Company. Such payment may be made by such method or methods and in such form or forms as the Committee shall determine, including, without limitation, cash, other Awards, withholding of Units, or any combination thereof; provided that the combined value, as determined by the Committee, of all cash and cash equivalent and the value of any such Units or other property so tendered to the Company, as of the date of such tender, is at least equal to the full amount required to be paid to the Company pursuant to the Plan or the applicable Award agreement.

- (vii) Change of Control. Upon a Change of Control, all Awards shall automatically vest and become payable or exercisable, as the case may be, in full. In this regard, all Restricted Periods shall terminate and all performance criteria, if any, shall be deemed to have been achieved at the maximum level.
- (viii) Sale of Significant Assets. In the event the Company or the Partnership sells or otherwise disposes of a significant portion of the assets under its control, (such significance to be determined by action of the Board of the Company in its sole discretion) and as a consequence of such disposition (a) a Participant's employment is terminated by the Partnership, the Company or their affiliates without Cause or by the Participant for Good Reason or (b) as a result of such sale or disposition, the Participant's employer shall no longer be the Partnership, the Company or one of their Affiliates, then all of such Participant's Awards shall automatically vest and become payable or exercisable, as the case may be, in full. In this regard, all Restricted Periods shall terminate and all performance criteria, if any, shall be deemed to have been achieved at the maximum level.
- (ix) Retirement, Death, Disability. Except as otherwise determined by the Committee and included in the Participant's Award agreement, if a Participant's employment is terminated because of retirement, death or disability (with the determination of disability to be made within the sole discretion of the Committee), any Award held by the Participant shall remain outstanding and vest or become exercisable according to the Award's original terms, provided, however, that any Restricted Units held by such Participant which remain unvested as of the date of retirement, death or disability shall immediately vest and become non-forfeitable as of such date.

6.4 Performance Based Awards.

- (i) Grant of Performance Awards. The Committee may issue Performance Awards in the form of Performance Units, Performance Cash, or DERs to Participants subject to the Performance Goals and Performance Period as it shall determine. The terms and conditions of each Performance Award will be set forth in the related Award agreement. The Committee shall have complete discretion in determining the number and/or value of Performance Awards granted to each Participant. Any Performance Units granted under the Plan shall have a minimum Restricted Period of one year from the Date of Grant, provided that the Committee may provide for earlier vesting following a Change in Control or upon an Employee's termination of employment by reason of death, disability or retirement. Participants receiving Performance Awards are not required to pay the Company therefor (except for applicable tax withholding) other than the rendering of services.
- (ii) Value of Performance Awards. The Committee shall set Performance Goals in its discretion for each Participant who is granted a Performance Award. Such Performance Goals may be particular to a Participant, may relate to the performance of the Affiliate which employs him or her, may be based on the division which employs him or her, may be based on the performance of the Partnership generally, or a combination of the

foregoing. The Performance Goals may be based on achievement of balance sheet or income statement objectives, or any other objectives established by the Committee. The Performance Goals may be absolute in their terms or measured against or in relationship to other companies comparably, similarly or otherwise situated. The extent to which such Performance Goals are met will determine the number and/or value of the Performance Award to the Participant.

- (iii) Form of Payment. Payment of the amount to which a Participant shall be entitled upon the settlement of a Performance Award shall be made in a lump sum or installments in cash, Units, or a combination thereof as determined by the Committee.

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.

- 7.1 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.
- 7.2 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.
- 7.3 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.
- 8.11 Code Section 409A. Notwithstanding anything in this Plan to the contrary, Awards granted under the Plan shall contain terms that (i) are designed to avoid application of Section 409A of the Code to the Award or (ii) are designed to avoid adverse tax consequences under Section 409A of the Code should that section apply to the Award. If any Plan provision or Award under the Plan would result in the imposition of an applicable tax under Code Section 409A and related regulations and Treasury pronouncements (“Section 409A”), that Plan provision or Award may be reformed to avoid imposition of the applicable tax and no action taken to comply with Section 409A shall be deemed to adversely affect the Participant’s rights to an Award.

SECTION 9. Term of the Plan.

The Plan was amended and restated effective January 26, 2006. The current amendment and restatement was approved by the holders of Units and became effective on October 1, 2006. The Plan 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.

SECTION 10. Special Provisions Applicable to Covered Participants.

Awards subject to Performance Criteria paid to Covered Participants under this Plan shall be governed by the conditions of this Section 10 in addition to the requirements of Section 6.4, above. Should conditions set forth under this Section 10 conflict with the requirements of Section 6.4, the conditions of this Section 10 shall prevail.

- 10.1 Establishment of Performance Measures, Goals or Criteria. All Performance Measures, Goals, or Criteria relating to Covered Participants for a relevant Performance Period shall be established by the Committee in writing prior to the beginning of the Performance Period, or by such other later date for the Performance Period as may be permitted under Section 162(m) of the Code. The Performance Goals may be identical for all Participants or, at the discretion of the Committee, may be different to reflect more appropriate measures of individual performance.
- 10.2 Performance Goals. The Committee shall establish the Performance Goals relating to Covered Participants for a Performance Period in writing. Performance Goals may include alternative and multiple Performance Goals and may be based on one or more business and/or financial criteria. In establishing the Performance Goals for the Performance Period, the Committee in its discretion may include one or any combination of the following criteria in either absolute or relative terms, for the Partnership or any Affiliate:
- (i) Increased revenue;
 - (ii) Net income measures (including but not limited to income after capital costs and income before or after taxes);
 - (iii) Unit price measures (including but not limited to growth measures and total unitholder return);
 - (iv) Market share;
 - (v) Earnings per unit (actual or targeted growth);
 - (vi) Earnings before interest, taxes, depreciation, and amortization ("EBITDA");
 - (vii) Economic value added ("EVA®");
 - (viii) Cash flow measures (including but not limited to net cash flow and net cash flow before financing activities);
 - (ix) Return measures (including but not limited to return on equity, return on average assets, return on capital, risk-adjusted return on capital, return on investors' capital and return on average equity);
 - (x) Operating measures (including operating income, funds from operations, cash from operations, after-tax operating income, sales volumes, production volumes, and production efficiency);
 - (xi) Expense measures (including but not limited to overhead cost and general and administrative expense);
 - (xii) Margins;

- (xiii) Unitholder value;
- (xiv) Total unitholder return;
- (xv) Proceeds from dispositions;
- (xvi) Pipeline and terminal utilization;
- (xvii) Total market value; and
- (xviii) Corporate values measures (including ethics compliance, environmental, and safety).

- 10.3 Compliance with Section 162(m). The Performance Goals must be objective and must satisfy third party “objectivity” standards under Section 162(m) of the Code, and the regulations promulgated thereunder. In interpreting Plan provisions relating to Awards subject to Performance Goals paid to Covered Participants, it is the intent of the Plan to conform with the standards of Section 162(m) of the Code and Treasury Regulation §1.162-27(e)(2)(i), and the Committee in establishing such goals and interpreting the Plan shall be guided by such provisions.
- 10.4 Adjustments. The Committee is authorized to make adjustments in the method of calculating attainment of Performance Goals in recognition of: (i) extraordinary or non-recurring items, (ii) changes in tax laws, (iii) changes in generally accepted accounting principles or changes in accounting principles, (iv) charges related to restructured or discontinued operations, (v) restatement of prior period financial results, and (vi) any other unusual, non-recurring gain or loss that is separately identified and quantified in the Company’s financial statements. Notwithstanding the foregoing, the Committee may, at its sole discretion, reduce the performance results upon which Awards are based under the Plan, to offset any unintended result(s) arising from events not anticipated when the Performance Goals were established, or for any other purpose, provided that such adjustment is permitted by Section 162(m) of the Code.
- 10.5 Discretionary Adjustments. The Performance Goals shall not allow for any discretion by the Committee as to an increase in any Award, but discretion to lower an Award is permissible.
- 10.6 Certification. The Award and payment of any Award under this Plan to a Covered Participant with respect to a relevant Performance Period shall be contingent upon the attainment of the Performance Goals that are applicable to such Covered Participant. The Committee shall certify in writing prior to payment of any such Award that such applicable Performance Goals relating to the Award are satisfied. Approved minutes of the Committee may be used for this purpose.
- 10.7 Other Considerations. All Awards to Covered Participants under this Plan shall be further subject to such other conditions, restrictions, and requirements as the Committee may determine to be necessary to carry out the purpose of this Section 10.

NUSTAR GP, LLC
AMENDED AND RESTATED
2002 UNIT OPTION PLAN

Amended and Restated as of April 1, 2007

I. Plan Purpose

The NuStar GP, LLC 2002 Unit Option Plan (the “Plan”) is intended to promote the interests of NuStar Energy L.P., a Delaware limited partnership (the “Partnership”), by providing to employees and directors of NuStar 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” shall mean the (i) conviction of the Participant by a state or federal court of a felony involving moral turpitude, (ii) conviction of the Participant by a state or federal court of embezzlement or misappropriation of funds of the Company, (iii) the Company’s (or applicable Affiliate’s) reasonable determination that the Participant has committed an act of fraud, embezzlement, theft, or misappropriation of funds in connection with such Participant’s duties in the course of his or her employment with the Company (or applicable Affiliate), (iv) the Company’s (or its applicable Affiliate’s) reasonable determination that the Participant has engaged in gross mismanagement, negligence or misconduct which causes or could potentially cause material loss, damage or injury to the Company, any of its Affiliates or their respective employees, or (v) the Company’s (or applicable Affiliate’s) reasonable determination that (a) the Participant has violated any policy of the Company (or applicable Affiliate), including but not limited to, policies regarding sexual harassment, insider trading, confidentiality, substance abuse and/or conflicts of interest, which violation could result in the termination of the Participant’s employment or service as a non-employee Director of the

Company (or applicable Affiliate), or (b) the Participant has failed to satisfactorily perform the material duties of Participant's position with the Company or any of its Affiliates."

- (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 NuStar 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 NuStar Energy L.P., a Delaware limited partnership.
- (u) "Plan" means the NuStar GP, LLC 2002 Unit Option Plan as set forth herein.
- (v) "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.
- (w) "Unit" means a common unit of the Partnership.

III. Administration of the Plan

- (a) The Committee shall administer the Plan.
- (b) The Committee shall have full power and authority to interpret the provisions of the Plan and supervise its administration. All decisions and selections made by the Committee pursuant to the provisions of the Plan shall be made by a majority of its members. Any decision reduced to writing and signed by a majority of the members shall be fully effective as if adopted by a majority at a meeting duly held. Subject to the provisions of the Plan, the Committee shall have full and final authority to determine the Participants

to whom Options hereunder shall be granted; the number of Units to be covered by each Option; the terms and conditions of any Option, the determination of whether, to what extent, and under what circumstances Options may be settled, exercised, cancelled, or forfeited; the determination of such rules and regulations as deemed proper for the administration of the Plan; and the making of any other determination or actions required for the proper interpretation and administration of the Plan.

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

IV. Units Available for Awards

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

V. Eligibility

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

VI. Awards

The Committee shall have the authority to determine the Employees and Non-Employee Directors to whom Options shall be granted, the number of Units to be covered by each Option, the Date of Grant of

the Option, the purchase price therefor and the conditions and limitations applicable to the exercise of the Option, including the following terms and conditions, as the Committee shall determine, that are not inconsistent with the provisions of the Plan.

- (a) Exercise Price. The purchase price per Unit purchasable under an Option shall be determined by the Committee at the time the Option is granted but shall not be less than its Fair Market Value as of the Date of Grant.
- (b) Time and Method of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part, and the method or methods by which payment of the exercise price with respect thereto may be made or deemed to have been made which may include, without limitation, cash, check acceptable to the Company, a “cashless-broker” exercise (through procedures approved by the Company), other securities or other property, a note from the Participant (in a form acceptable to the Company), or any combination thereof, having a value on the exercise date equal to the relevant exercise price. The Participant shall provide written notice to the Company Secretary of his intent to exercise on or before the Date of Exercise.
- (c) Term. Subject to earlier termination as provided in the Agreement or the Plan, each Option shall expire on the tenth (10th) anniversary of its Date of Grant.
- (d) Forfeiture. Except as otherwise provided in this Plan, in the terms of an Award agreement, or in a written employment agreement (if any) between the Participant and the Company or one of its Affiliates, upon termination of a Participant’s employment with the Company or its Affiliates or membership on the Board of the Company or its Affiliates, whichever is applicable, involuntarily for Cause or on a voluntary basis (other than for retirement, death or disability of the Participant (see Section 6.3(ix) below)) during the applicable Restricted Period, (i) that portion of any Option that has not vested on or prior to such date of termination shall automatically lapse and be forfeited by the Participant at the close of business on the date of the Participant’s termination and (ii) all vested but unexercised Options previously granted shall automatically lapse and be forfeited by the Participant at the close of business on the 30th day following the date of such Participant’s termination, unless an Option expires earlier according to its original terms. If a Participant’s employment or service as a Director is involuntarily terminated by the Company other than for Cause: (i) that portion of any Option that has not vested on or prior to such date of termination shall automatically lapse and be forfeited by the Participant at the close of business on the date of the Participant’s termination and (ii) all vested but unexercised Options previously granted shall automatically lapse and be forfeited by the Participant at the close of business on last day of the twelfth month following the date of such Participant’s termination, unless an Option expires earlier according to its original terms. The Committee or the Chief Executive Officer may waive in whole or in part such forfeiture with respect to a Participant’s Options.
- (e) In connection with the sale by Valero Energy Corporation (“VEC”) of its ownership interest in NuStar GP Holdings, LLC to public unitholders in a series of public offerings, VEC ceased to be an Affiliate of the Company effective December 22, 2006. Employees of VEC were deemed to have experienced a termination of employment as a result of the loss of the Affiliate relationship. However, notwithstanding the provisions in Section IV(d) above, immediately prior to the closing of the public offering of the Units on

December 22, 2006, all Options that (a) were granted under the Plan and are held by VEC Employees, and (b) are in full force and effect on December 22, 2006, shall remain outstanding, shall be fully vested and shall not be subject to lapse and forfeiture as provided in Section IV(d) above. Such Options shall remain outstanding and in full force and shall expire on the close of business on December 22, 2007.

- (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]
- (f) 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.
- (r) Code Section 409A. Notwithstanding anything in this Plan to the contrary, if any Plan provision or Award under the Plan would result in the imposition of an applicable tax under Code Section 409A and related regulations and Treasury pronouncements ("Section 409A"), that Plan provision or Award may be reformed to avoid imposition of the applicable tax and no action taken to comply with Section 409A shall be deemed to adversely affect the Participant's rights to an Award.

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

Amended and Restated as of April 1, 2007

SECTION 1. Purpose of the Plan.

The NuStar GP, LLC 2003 Employee Unit Incentive Plan (the “Plan”) is intended to promote the interests of NuStar Energy L.P., a Delaware limited partnership (the “Partnership”), by providing to employees of NuStar 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 the (i) conviction of the Participant by a state or federal court of a felony involving moral turpitude, (ii) conviction of the Participant by a state or federal court of embezzlement or misappropriation of funds of the Company, (iii) the Company’s (or applicable Affiliate’s) reasonable determination that the Participant has committed an act of fraud, embezzlement, theft, or misappropriation of funds in connection with such Participant’s duties in the course of his or her employment with the Company (or applicable Affiliate), (iv) the Company’s (or its applicable Affiliate’s) reasonable determination that the Participant has engaged in gross mismanagement, negligence or misconduct which causes or could potentially cause material loss, damage or injury to the Company, any of its Affiliates or their respective employees, or (v) the Company’s (or applicable Affiliate’s) reasonable determination that (a) the Participant has violated any policy of the Company (or applicable Affiliate), including but not limited to, policies regarding sexual harassment, insider trading, confidentiality, substance abuse and/or conflicts of interest, which violation could result in the termination of the Participant’s employment, or (b) the Participant has failed to satisfactorily perform the material duties of Participant’s position with the Company or any of its Affiliates.

- (b) **“Change of Control”** 2.1 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 NuStar GP Holdings, LLC 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 are 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 interests of the Company are changed into or exchanged for voting stock or interests of the surviving corporation or entity or its parent and (b) the holders of the voting interests of 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, NuStar GP Holdings, LLC 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; NuStar GP Holdings, LLC 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 NuStar GP Holdings, LLC or the Company then outstanding, other than, in the case of the Company, (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; or (iv) in the case of NuStar GP Holdings, LLC, the consummation of a reorganization, merger, consolidation or other form of business transaction or series of business transactions, in each case, with respect to which more than 50% of the voting power of the outstanding equity interests in NuStar GP Holdings, LLC cease to be owned by the persons who owned such interests immediately prior to such reorganization, merger, consolidation or other form of business transaction or series of business transactions.
- 2.2 **“Committee”** means the Compensation Committee of the Board or such other committee of the Board appointed to administer the Plan.
- 2.3 **“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.
- 2.4 **“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.
- 2.5 **“Exchange Act”** means the Securities Exchange Act of 1934, as amended.
- 2.6 **“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.

2.7 “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.

2.8 “Option” means an option to purchase Units as further described in Section 6.1.

2.9 “Participant” means any Employee granted an Award under the Plan.

2.10 [reserved].

2.11 “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.

2.12 “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.

2.13 “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.

2.14 “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.

2.15 “SEC” means the Securities and Exchange Commission.

2.16 “Unit” means a common unit of the Partnership.

2.17 “Valero Energy” means Valero Energy Corporation.

SECTION 3. Administration.

Annual grant levels for Participants will be recommended by the Chief Executive Officer of the Company, subject to the review and approval of the Committee. The Plan shall be administered by the

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

SECTION 4. Units Available for Awards.

- 4.1 Units Available. Subject to adjustment as provided in Section 4.3, the number of Units with respect to which Awards may be granted under the Plan is 500,000. If any Award is forfeited or otherwise terminates or is canceled without the delivery of Units, then the Units covered by such Award, to the extent of such forfeiture, termination, or cancellation, shall again be Units with respect to which Awards may be granted.
- 4.2 Sources of Units Deliverable Under Awards. Any Units delivered pursuant to an Award shall consist, in whole or in part, of Units acquired in the open market, from any Affiliate, the Partnership or any other Person, or any combination of the foregoing, as determined by the Committee in its discretion.
- 4.3 Adjustments. If the Committee determines that any distribution (whether in the form of cash, Units, other securities, or other property), recapitalization, split, reverse split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Units or other securities of the Partnership, issuance of warrants or other rights to purchase Units or other securities of the Partnership, or other similar transaction or event affects the Units such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of (i) the number and type of Units (or other securities or property) with respect to which Awards may be granted, (ii) the number and type of Units (or other securities or property) subject to outstanding Awards, and (iii) if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award; provided, that the number of Units subject to any Award shall always be a whole number.

SECTION 5. Eligibility.

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

SECTION 6. Awards.

- 6.1 Options. The Committee shall have the authority to determine the Employees to whom Options shall be granted, the number of Units to be covered by each Option, the purchase price therefor and the conditions and limitations applicable to the exercise of the Option, including the following terms and conditions and such additional terms and conditions, as the Committee shall determine, that are not inconsistent with the provisions of the Plan.
- (i) Exercise Price. The purchase price per Unit purchasable under an Option shall be determined by the Committee at the time the Option is granted but shall not be less than its Fair Market Value as of the date of grant.
 - (ii) Time and Method of Exercise. The Committee shall determine the Restricted Period (*i.e.*, the time or times at which an Option may be exercised in whole or in part), and the method or methods by which payment of the exercise price with respect thereto may be made or deemed to have been made which may include, without limitation, cash, check acceptable to the Company, a “cashless-broker” exercise (through procedures approved by the Company), other securities or other property, or any combination thereof, having a value on the exercise date equal to the relevant exercise price.
 - (iii) Term. Subject to earlier termination as provided in the grant agreement or the Plan, each Option shall expire on the 10th anniversary of its date of grant.
 - (iv) Forfeiture. Except as otherwise provided in this Plan, in the terms of an Award agreement, or in a written employment agreement (if any) between the Participant and the Company or one of its Affiliates, upon termination of a Participant’s employment with the Company or its Affiliates involuntarily for Cause or on a voluntary basis (other than for retirement, death or disability of the Participant (see Section 6.3(ix) below)) during the applicable Restricted Period, (i) that portion of any Option that has not vested on or prior to such date of termination shall automatically lapse and be forfeited by the Participant at the close of business on the date of the Participant’s termination of employment and (ii) all vested but unexercised Options previously granted shall automatically lapse and be forfeited by the Participant at the close of business on the 30th day following the date of such Participant’s termination, unless an Option expires earlier according to its original terms. If a Participant’s employment is involuntarily terminated by the Company other than for Cause: (i) that portion of any Option that has not vested on or prior to such date of termination shall automatically lapse and be forfeited by the Participant at the close of business on the date of the Participant’s termination of employment and (ii) all vested but unexercised Options previously granted shall automatically lapse and be forfeited by the Participant at the close of business on the last day of the twelfth month following the date of such Participant’s termination,

unless an Option expires earlier according to its original terms. The Committee or the Chief Executive Officer may waive in whole or in part such forfeiture with respect to a Participant's Options.

- (v) In connection with the sale by Valero Energy of its ownership interest in NuStar GP Holdings, LLC to public unitholders in a series of public offerings, Valero Energy ceased to be an Affiliate of the Company effective December 22, 2006. Employees of Valero Energy were deemed to have experienced a termination of employment as a result of the loss of the Affiliate relationship. However, notwithstanding the provisions in Section 6.1(iv) above, immediately prior to the closing of the public offering of the Units on December 22, 2006, all Options that (a) were granted under the Plan and are held by Valero Energy Employees, and (b) are in full force and effect on December 22, 2006, shall remain outstanding, shall be fully vested and shall not be subject to lapse and forfeiture as provided in Section 6.1(iv) above. Such Options shall remain outstanding and in full force and shall expire on the close of business on December 22, 2007.

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.

- (iv) As described in Section 6.1(v) above, Employees of Valero Energy were deemed to have experienced a termination of employment as a result of the loss of the Affiliate relationship with Valero Energy in connection with the sale by Valero Energy of its ownership interest in NuStar GP Holdings, LLC. However, notwithstanding the provisions in Section 6.2(ii) above, any Restricted Unit granted under the terms of the Plan to, and held by, any Valero Energy Employee which remains unvested as of December 22, 2006 shall immediately vest and become non-forfeitable as of December 22, 2006.

6.3 General.

- (i) Awards May Be Granted Separately or Together. Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution for any other Award granted under the Plan or any award granted under any other plan of the Company or any Affiliate. Awards granted in addition to or in tandem with other Awards or awards granted under any other plan of the Company or any Affiliate may be granted either at the same time as or at a different time from the grant of such other Awards or awards.
- (ii) Limits on Transfer of Awards. No Award and no right under any such Award may be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by a Participant otherwise than by will or by the laws of descent and distribution and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company or any Affiliate; provided that an Option may be transferred by a Participant without consideration to immediate family members or related family trusts, limited partnerships or similar entities or on such terms and conditions as the Committee may from time to time establish.
- (iii) Term of Awards. The term of each Award shall be for such period as may be determined by the Committee.
- (iv) Unit Certificates. All certificates for Units or other securities of the Partnership delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan or the rules, regulations, and other requirements of the SEC, any stock exchange upon which such Units or other securities are then listed, and any applicable federal or state laws, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

- (v) Consideration for Grants. Awards may be granted for no cash consideration or for such consideration as the Committee determines including, without limitation, such minimal cash consideration as may be required by applicable law.
- (vi) Delivery of Units or other Securities and Payment by Participant of Consideration. Notwithstanding anything in the Plan or any grant agreement to the contrary, delivery of Units pursuant to the exercise or vesting of an Award may be deferred for any period during which, in the good faith determination of the Committee, the Company is not reasonably able to obtain Units to deliver pursuant to such Award without violating the rules or regulations of any applicable law or securities exchange. No Units or other securities shall be delivered pursuant to any Award until payment in full of any amount required to be paid pursuant to the Plan or the applicable Award agreement (including, without limitation, any exercise price or any tax withholding) is received by the Company. Such payment may be made by such method or methods and in such form or forms as the Committee shall determine, including, without limitation, cash, other Awards, withholding of Units, or any combination thereof; provided that the combined value, as determined by the Committee, of all cash and cash equivalents and the value of any such Units or other property so tendered to the Company, as of the date of such tender, is at least equal to the full amount required to be paid to the Company pursuant to the Plan or the applicable Award agreement.
- (vii) Change of Control. Upon a Change of Control, or such period prior thereto as may be established by the Committee, all Awards shall automatically vest and become payable or exercisable, as the case may be, in full. In this regard, all Restricted Periods shall terminate and all performance criteria, if any, shall be deemed to have been achieved at the maximum level.
- (viii) Sale of Significant Assets. In the event the Company or the Partnership sells or otherwise disposes of, other than to an Affiliate, a significant portion of the assets under its control, (such significance to be determined by action of the Board of the Company in its sole discretion) and as a consequence of such disposition (a) a Participant's employment is terminated by the Partnership, the Company or their affiliates without Cause or by the Participant for Good Reason, provided, however, that in the case of any such termination by the Participant under this subparagraph 6.3(viii), such termination shall not be deemed to be for Good Reason unless the termination occurs within 180 days after the occurrence of the applicable sale or disposition constituting the reason for the termination or (b) as a result of such sale or disposition, the Participant's employer shall no longer be the Partnership, the Company or one of their Affiliates, then all of such Participant's Awards shall automatically vest and become payable or exercisable, as the case may

be, in full. In this regard, all Restricted Periods shall terminate and all performance criteria, if any, shall be deemed to have been achieved at the maximum level.

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

SECTION 7. Amendment and Termination.

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

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

SECTION 8. General Provisions.

- 8.1 No Rights to Awards. No Person shall have any claim to be granted any Award, and there is no obligation for uniformity of treatment of Participants. The terms and conditions of Awards need not be the same with respect to each Participant.
- 8.2 Withholding. The Company or any Affiliate is authorized to withhold from any Award, from any payment due or transfer made under any Award or from any compensation or other amount owing to a Participant the amount (in cash, Units, other securities, Units

that would otherwise be issued pursuant to such Award or other property) of any applicable taxes payable in respect of the grant of an Award, the lapse of restrictions thereon, or any payment or transfer under an Award or under the Plan and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes.

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

- 8.9 Headings. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.
- 8.10 Facility Payment. Any amounts payable hereunder to any person under legal disability or who, in the judgment of the Committee, is unable to properly manage his financial affairs, may be paid to the legal representative of such person, or may be applied for the benefit of such person in any manner which the Committee may select, and the Company shall be relieved of any further liability for payment of such amounts.
- 8.11 Gender and Number. Words in the masculine gender shall include the feminine gender, the plural shall include the singular and the singular shall include the plural.
- 8.12 Code Section 409A. Notwithstanding anything in this Plan to the contrary, if any Plan provision or Award under the Plan would result in the imposition of an applicable tax under Code Section 409A and related regulations and Treasury pronouncements ("Section 409A"), that Plan provision or Award may be reformed to avoid imposition of the applicable tax and no action taken to comply with Section 409A shall be deemed to adversely affect the Participant's rights to an Award.

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.

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

Six Months Ended June 30,	Year Ended December 31,					
<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	
Earnings:						
Income from continuing operations before provision for income taxes and income from equity investees	\$ 72,938	\$ 149,885	\$ 110,069	\$ 77,074	\$ 67,177	\$ 52,350
Add:						
Fixed charges	44,506	75,829	46,211	21,625	16,443	5,492
Amortization of capitalized						
Interest	96	126	80	60	55	48
Distributions from joint ventures	544	5,268	4,657	1,373	2,803	3,590
Less: Interest capitalized	<u>(2,233)</u>	<u>(1,758)</u>	<u>(1,008)</u>	<u>(192)</u>	<u>(123)</u>	<u>(255)</u>
Total earnings	<u>\$ 115,851</u>	<u>\$ 229,350</u>	<u>\$ 160,009</u>	<u>\$ 99,940</u>	<u>\$ 86,355</u>	<u>\$ 61,225</u>
Fixed charges:						
Interest expense (1)	\$ 38,622	\$ 68,241	\$ 41,616	\$ 20,630	\$ 15,291	\$ 4,968
Amortization of debt issuance costs	495	726	622	407	740	160
Interest capitalized	2,233	1,758	1,008	192	123	255
Rental expense interest factor (2)	3,156	5,104	2,965	396	289	109
Total fixed charges	<u>\$ 44,506</u>	<u>\$ 75,829</u>	<u>\$ 46,211</u>	<u>\$ 21,625</u>	<u>\$ 16,443</u>	<u>\$ 5,492</u>
Ratio of earnings to fixed charges	<u>2.6x</u>	<u>3.0x</u>	<u>3.5x</u>	<u>4.6x</u>	<u>5.3x</u>	<u>11.1x</u>

- (1) The "interest expense, net" reported in NuStar Energy L.P.'s consolidated statement of income for the six months ended June 30, 2007 includes investment income of \$811,000.
- (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, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NuStar Energy L.P. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2007

/s/ Curtis V. Anastasio

Curtis V. Anastasio

President and Chief Executive Officer

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

I, Steven A. Blank, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NuStar Energy L.P. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 9, 2007

/s/ Steven A. Blank

Steven A. Blank

Senior Vice President, Chief Financial Officer and Treasurer

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 NuStar Energy L.P. (the Partnership) on Form 10-Q for the quarter ended June 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Curtis V. Anastasio, President and Chief Executive Officer of NuStar GP, LLC, the general partner of the general partner of the Partnership, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Curtis V. Anastasio

Curtis V. Anastasio

President and Chief Executive Officer

August 9, 2007

A signed original of the written statement required by Section 906 has been provided to NuStar Energy L.P. and will be retained by NuStar Energy 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 NuStar Energy L.P. (the Partnership) on Form 10-Q for the quarter ended June 30, 2007, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Steven A. Blank, Senior Vice President, Chief Financial Officer and Treasurer of NuStar GP, LLC, the general partner of the general partner of the Partnership, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ Steven A. Blank

Steven A. Blank

Senior Vice President, Chief Financial Officer and Treasurer

August 9, 2007

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