VALERO L P
Form 424B3
June 10, 2003

Filed pursuant to Rule 424(b)(3)
Registration No. 333-105744
Registration No. 333-105744-01

(VALERO L.P. LOGO)

VALERO LOGISTICS OPERATIONS, L.P.

OFFER TO EXCHANGE UP TO $250,000,000 OF
6.05% SENIOR NOTES DUE 2013 THAT
HAVE BEEN REGISTERED UNDER THE
SECURITIES ACT OF 1933
FOR $250,000,000 OF 6.05% SENIOR NOTES
DUE 2013 THAT HAVE NOT BEEN REGISTERED
UNDER THE SECURITIES ACT OF 1933.

THIS EXCHANGE OFFER WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME ON JULY 8, 2003 UNLESS WE EXTEND THE DATE.

If you decide to participate in this exchange offer, you will receive exchange notes that will be the same as the outstanding notes, except the exchange notes will be registered with the Securities and Exchange Commission. This is beneficial to you since your notes are not registered with the Securities and Exchange Commission and you may not offer or sell the notes without registration or an exemption from registration under federal securities laws. However, following the exchange offer, some holders may still not be able to sell their exchange notes without registering them and delivering a prospectus.

There is no public market for the outstanding notes or the exchange notes.

The exchange notes will rank equally in contractual right of payment with all of our other material indebtedness.

PLEASE READ "RISK FACTORS" BEGINNING ON PAGE 23 FOR A DISCUSSION OF FACTORS YOU SHOULD CONSIDER BEFORE PARTICIPATING IN THE EXCHANGE OFFER.

Neither the Securities and Exchange Commission nor any State Securities Commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is June 9, 2003.

This prospectus is part of a registration statement we filed with the Securities and Exchange Commission (also referred to herein as the Commission, or the SEC). In making your decision to participate in the exchange offer, you should rely only on the information contained in this prospectus and in the accompanying letter of transmittal included in this prospectus as Annex A. We have not authorized anyone to provide you with any other information. If you receive any unauthorized information, you must not rely on it. We are not making an offer to sell these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus, or the documents incorporated by reference into this prospectus, is accurate as of any date other than the date on the front cover of this prospectus or the date of such document, as the case may be.

THIS PROSPECTUS INCORPORATES BY REFERENCE IMPORTANT BUSINESS AND FINANCIAL INFORMATION ABOUT OUR PARTNERSHIP THAT HAS NOT BEEN INCLUDED IN OR DELIVERED WITH THIS PROSPECTUS. WE WILL PROVIDE WITHOUT CHARGE TO EACH PERSON TO WHOM THIS PROSPECTUS IS DELIVERED, UPON WRITTEN OR ORAL REQUEST, A COPY OF ANY DOCUMENT INCORPORATED BY REFERENCE IN THIS PROSPECTUS. REQUESTS FOR SUCH COPIES SHOULD BE DIRECTED TO INVESTOR RELATIONS, VALERO L.P., ONE VALERO PLACE, SAN ANTONIO, TEXAS 78212; TELEPHONE NUMBER: (210) 370-2000. TO OBTAIN TIMELY DELIVERY, YOU SHOULD REQUEST THE DOCUMENTS AND INFORMATION NO LATER THAN JUNE 30, 2003.

TABLE OF CONTENTS

PAGE

Our parent, Valero L.P., is a publicly traded limited partnership that conducts all of its business through us. Unless the context otherwise indicates, references in this prospectus to the terms "Valero Logistics" and "we," "us," "our" and similar terms mean Valero Logistics Operations, L.P. When we are referring to "Valero L.P." or "guarantor," we are referring to Valero L.P., the guarantor of the outstanding notes and the exchange notes. The term "Valero Energy" means, depending on the context, Valero Energy Corporation, one or more of its consolidated subsidiaries or all of them taken as a whole, but excluding us and Valero L.P.

SUMMARY

The summary highlights information contained elsewhere in this prospectus. It does not contain all of the information that you should consider before deciding to participate in the exchange offer. You should read the entire prospectus carefully, including the historical financial statements and notes to those financial statements included in this prospectus. Please read "Risk factors" beginning on page 23 for more information about important risks that you should consider before making an investment decision.

VALERO LOGISTICS OPERATIONS, L.P.

We are a Delaware limited partnership formed in 1999 and a 100%-owned direct and indirect subsidiary of Valero L.P., a publicly traded Delaware limited partnership. Our operations are controlled and managed by our general partner, a wholly owned subsidiary of Valero L.P. Valero L.P. is controlled and managed by its general partner, an indirect wholly owned subsidiary of Valero Energy, a publicly traded Delaware corporation.

We own and operate most of the crude oil and refined product pipeline, terminalling and storage assets located in Texas, Oklahoma, New Mexico and Colorado that support Valero Energy's McKee, Three Rivers and Ardmore refineries. We transport crude oil and other feedstocks to these refineries and transport refined products from these refineries to our terminals or to interconnections with third party pipelines for further distribution to Valero Energy's company-operated convenience stores or wholesale customers located in Texas, Oklahoma, Colorado, New Mexico, Arizona and other midcontinent states. On March 18, 2003, Valero Energy contributed to us 58 crude oil storage and intermediate storage tanks located at Valero Energy's Corpus Christi, Texas, Texas City, Texas and Benicia, California refineries and the South Texas pipeline system for an aggregate of $350 million. The South Texas pipeline system consists of the Houston, Valley and San Antonio pipeline systems, which connect the Corpus Christi refinery to the Houston and Rio Grande Valley, Texas markets and the Three Rivers refinery to the San Antonio, Texas market and to Valero Energy's Corpus Christi refinery. Following these contributions, our pipeline, terminalling and storage assets consist of:

- approximately 783 miles of crude oil pipelines, including approximately 31 miles jointly owned with third parties, and five major crude oil storage facilities with a total storage capacity of approximately 3.3 million barrels;

- approximately 3,314 miles of refined product pipelines, including approximately 1,996 miles jointly owned with third parties, and 18 refined product terminals (including two asphalt terminals and one idle terminal), one of which is jointly owned, with a total storage capacity of approximately 3.9 million barrels;

- 58 crude oil and intermediate feedstock storage tanks located at Valero Energy's Corpus Christi (West plant), Texas City, and Benicia refineries, with a total storage capacity of 11.0 million barrels; and

- a 25-mile crude hydrogen pipeline connected to Valero Energy's Texas City refinery.

We generate revenues by charging tariffs for transporting crude oil and refined products through our pipelines and by charging a fee for use of our terminals and the services provided by our storage tanks. We do not own any of the crude oil or refined products transported through our pipelines or stored in our terminals or storage tanks, and we do not engage in the trading of crude oil or refined products. As a result, we are not directly exposed to any risks

associated with fluctuating commodity prices, although these risks indirectly influence our activities and results of operations.

During the year ended December 31, 2002, we transported an average of 348,023 barrels per day through our crude oil pipelines and an average of 295,456 barrels per day through our refined product pipelines, and we handled an average of 175,559 barrels per day in our refined product terminals. Our revenues for the year ended December 31, 2002 were $118.5 million, a 20% increase from our revenues for the year ended December 31, 2001 of $98.8 million. Operating income for the year ended December 31, 2002 was $57.2 million, a 23% increase from our operating income for the year ended December 31, 2001 of $46.5 million.

During the quarter ended March 31, 2003, we transported an average of 332,760 barrels per day through our crude oil pipelines, an average of 296,816 barrels per day through our refined product pipelines, an average of 77,458 barrels per day through our crude oil storage tanks and we handled an average of 176,797 barrels per day in our refined product terminals. Our revenues for the quarter ended March 31, 2003 were $31.8 million, representing a 22% increase from our revenues of $26.0 million for the first quarter ended March 31, 2002.

BUSINESS STRATEGIES

The primary objective of our business strategies is to increase our distributions to Valero L.P. to enable Valero L.P. to increase the cash available for distribution to its unitholders. We intend to achieve this primary objective by:

- sustaining high levels of volumes in our pipeline, terminalling and storage tank assets;

- increasing volumes in our existing pipelines and shifting volumes to higher tariff pipelines;

- increasing our pipeline and terminal capacity through expansions and new construction;

- pursuing selective strategic and accretive acquisitions that complement our existing asset base; and

- continuing to improve our operating efficiency.

COMPETITIVE STRENGTHS

We believe we are well positioned to successfully execute our business strategies due to the following competitive strengths:

- Our pipelines provide the principal access to and from Valero Energy's McKee, Three Rivers and Corpus Christi refineries in Texas and Valero Energy's Ardmore refinery in Oklahoma.

- Our refined product pipelines serve Valero Energy's marketing operations in South Texas as well as the southwestern and Rocky Mountain regions of the United States. These operations are concentrated in fast-growing metropolitan areas in the states of Texas, Colorado, New Mexico, Arizona and other mid-continent states.

- We believe our pipeline, terminalling and storage tank assets are modern, efficient and well maintained.

- Our pipelines have available capacity that provides us the opportunity to increase volumes and cash available for distribution to Valero L.P. from existing assets.

- Our revolving credit facility, coupled with Valero L.P.'s ability to issue new partnership units, provides us with financial flexibility to pursue expansion and acquisition opportunities.

OUR RELATIONSHIP WITH VALERO ENERGY

Our operations are strategically located within Valero Energy's refining and marketing supply chain for Texas, Oklahoma, California, Colorado, New Mexico, Arizona and other mid-continent states of the United States, but we do not own or operate any refining or marketing operations. Valero Energy is dependent upon us to provide transportation and storage services that support the refining and marketing operations in the markets served by Valero Energy's Corpus Christi, Texas City, Benicia, McKee, Three Rivers and Ardmore refineries. At the same time, we are dependent on the continued use of our pipelines, terminals and storage tanks by Valero Energy and the ability of Valero Energy's refineries to maintain their production of refined products. Valero Energy accounted for 99% of our revenues for the year ended December 31, 2002 and the quarter ended March 31, 2003. Although we intend to pursue third party business as opportunities may arise, we expect to continue to derive most of our revenues from Valero Energy for the foreseeable future. Valero Energy has advised us that it currently does not intend to close or dispose of the refineries currently served by our pipelines, terminals and storage tank assets or to cause any changes that would have a material adverse effect on these refineries' operations.

Description of Valero Energy's Business. Valero Energy is one of the top three U.S. refining companies in terms of refining capacity. Valero Energy owns and operates 12 refineries, six of which are served by our pipelines, terminals and storage tanks:

- the Corpus Christi (West Plant) refinery, which has a current total capacity to process 225,000 barrels per day of crude oil and other feedstocks;

- the Texas City refinery, which has a current total capacity to process 243,000 barrels per day of crude oil and other feedstocks;

- the Benicia refinery, which has a current total capacity to process 180,000 barrels per day of crude oil and other feedstocks;

- the McKee refinery, which has a current total capacity to process 170,000 barrels per day of crude oil and other feedstocks;

- the Three Rivers refinery, which has a current total capacity to process 98,000 barrels per day of crude oil and other feedstocks; and

- the Ardmore refinery, which has a current total capacity to process 85,000 barrels per day of crude oil and other feedstocks.

The Corpus Christi refinery consists of two plants, the West plant and the East plant, with a combined total capacity to process 340,000 barrels per day of crude oil and other feedstocks. Since June 1, 2001 (the date Valero Energy began operating the East plant), Valero Energy has operated both plants as one refinery. Unless otherwise indicated, references to the Corpus Christi refinery include both the West and the East plants.

Valero Energy markets the refined products produced by these refineries primarily in Texas, Oklahoma, California, Colorado, New Mexico, Arizona and other mid-continent states through a network of company-operated and dealer-operated convenience stores, as well as through other wholesale and spot market sales and exchange agreements.

Our Pipelines and Terminals Usage Agreement with Valero Energy. Under the terms of the Pipelines and Terminals Usage Agreement, Valero Energy has agreed to transport, until April 1, 2008, at least 75% of the aggregate volumes of crude oil shipped to, and at least 75% of the aggregate volumes of refined products shipped from, the McKee, Three Rivers and Ardmore refineries in our crude oil pipelines and refined product pipelines, respectively, and to use our refined product terminals for terminalling services for at least 50% of the refined products shipped from these refineries. For the year ended December 31, 2002, Valero Energy used our pipelines to transport 97% of its crude oil and other feedstocks shipped to, and 80% of the refined products shipped from, the McKee, Three Rivers and Ardmore refineries, and used our terminalling services for 59% of all refined products shipped from these refineries. In addition, Valero Energy has agreed, until April 1, 2008, to remain the shipper for its crude oil and other feedstocks and refined products transported in these pipelines, and not to challenge the tariff rates for the transportation of crude oil and refined products in these pipelines.

Valero Energy's obligation to use these pipelines and terminals will be suspended if Valero Energy ceases to own the McKee, Three Rivers or Ardmore refineries, if material changes in market conditions occur that have a material adverse effect on Valero Energy or if we are unable to handle the volumes due to operational difficulties with our pipelines or terminals.

Tank Asset Handling and Throughput Agreement. In connection with the recent contribution of the crude oil and intermediate feedstock storage tanks at Valero Energy's Texas City, Corpus Christi (West Plant) and Benicia refineries, Valero Energy has agreed to pay us a fee for an initial period of ten years for 100% of specified feedstocks delivered to each of these refineries and to use our services for handling all deliveries to these refineries as long as we are able to provide the handling and throughput services. Please read "Business--Crude oil storage tank contribution" on page 77 of this prospectus.

Throughput Commitment Agreement and Terminalling Agreements. In connection with the recent South Texas pipeline system contribution, Valero Energy committed, for an initial period of seven years with respect to gasoline, distillate and raffinate only, to transport in these pipelines specified percentages of refined product production and to use the related terminals for specified percentages of throughput in these pipelines. Please read "Business--South Texas pipeline system contribution" on page 81 of this prospectus.

Valero Energy owns Valero L.P.'s general partner. We are a 100%-owned direct and indirect subsidiary of Valero L.P. Valero Energy owns and controls Riverwalk Logistics, L.P., which serves as the general partner of Valero L.P. with a 2% general partner interest. Valero Energy also indirectly owns an aggregate 46.2% limited partner interest in Valero L.P.

As a result of Valero Energy's ownership of Valero L.P.'s general partner, conflicts of interest are inherent in our relationship with Valero Energy. Please read "Risk factors--Risks inherent in our business--Valero Energy and its affiliates have conflicts of interest and limited fiduciary responsibilities, which may permit them to favor their own interests to the detriment of holders of our notes" on page 33 of this prospectus.

Omnibus Agreement. At the closing of Valero L.P.'s initial public offering, we entered into an omnibus agreement with Valero Energy that governs potential competition between us and

4

Valero Energy. Valero Energy has agreed, for so long as it controls Valero L.P.'s general partner, not to engage in, whether by acquisition or otherwise, the business of transporting crude oil and other feedstocks or refined products, including petrochemicals, or operating crude oil storage or refined product terminalling assets in the United States. This restriction does not apply to:

- any business retained by Ultramar Diamond Shamrock Corporation (and now part of Valero Energy) at the closing of the initial public offering of Valero L.P. or any business owned by Valero Energy at the date of its acquisition of Ultramar Diamond Shamrock on December 31, 2001;

- any business with a fair market value of less than $10 million;

- any business acquired by Valero Energy in the future that constitutes less than 50% of the fair market value of a larger acquisition, provided that Valero L.P. has been offered and declined the opportunity to purchase this business; or

- any newly constructed pipeline, terminalling or storage assets that Valero L.P. has not offered to purchase within one year of construction at fair market value.

Also under the Omnibus Agreement, Valero Energy has agreed to indemnify us for environmental liabilities related to assets transferred to us in connection with Valero L.P.'s initial public offering that arose prior to April 16, 2001 and are discovered within 10 years after April 16, 2001, excluding liabilities resulting from any changes in law after April 16, 2001.

In connection with the South Texas pipeline system contribution, Valero Energy has agreed to indemnify us from environmental liabilities that are known as of March 18, 2003 or are discovered within 10 years after March 18, 2003 related to:

- the South Texas pipelines and terminals that arose as a result of events occurring or conditions existing prior to March 18, 2003; and

- any real or personal property on which the South Texas pipelines and terminals are located that arose prior to March 18, 2003.

In connection with the crude oil storage tank contribution, Valero Energy has agreed to indemnify us from environmental liabilities related to:

- the crude oil storage tanks that arose as a result of events occurring or conditions existing prior to March 18, 2003;

- any real or personal property on which the crude oil storage tanks are located that arose prior to March 18, 2003; and

- any actions taken by Valero Energy before, on or after March 18, 2003, in connection with the ownership, use or operation of the West plant of the Corpus Christi refinery, the Texas City refinery and the Benicia refinery or the property on which the crude oil storage tanks are located, or any accident or occurrence in connection therewith.

RECENT DEVELOPMENTS

CRUDE OIL STORAGE TANK AND SOUTH TEXAS PIPELINE SYSTEM CONTRIBUTIONS

On March 18, 2003, Valero Energy contributed 58 crude oil and intermediate feedstock storage tanks and related assets with approximately 11.0 million barrels (aggregate) of storage capacity to us for $200 million. The tank assets consist of all of the tank shells, foundations, tank valves,

tank gauges, pressure equipment, temperature equipment, corrosion protection, leak detection, tank lighting and related equipment and appurtenances associated with the specified crude oil storage tanks and intermediate feedstock storage tanks located at the West plant of Valero Energy's Corpus Christi refinery, and its Texas City and Benicia refineries.

Valero Energy also contributed the South Texas pipeline system, comprised of the Houston pipeline system, the San Antonio pipeline system and the Valley pipeline system and related terminalling assets, to us for $150 million. The three pipeline systems that make up the South Texas pipeline system are intrastate common carrier refined product pipelines that connect Valero Energy's Corpus Christi and Three Rivers refineries to the Houston, San Antonio and Rio Grande Valley, Texas markets.

For a more detailed discussion of the crude oil storage tank and South Texas pipeline system contributions, please read "Business--Crude oil storage tank contribution" and "Business--South Texas pipeline system contribution" beginning on pages 77 and 81 of this prospectus.

VALERO L.P. COMMON UNIT OFFERING

Concurrently with the offering of the outstanding notes on March 18, 2003, Valero L.P. issued and sold 5,750,000 common units in a public offering and on April 16, 2003, Valero L.P. issued and sold an additional 581,000 common units pursuant to the underwriters' overallotment option, for aggregate net proceeds to Valero L.P., before offering expenses, of $223 million. Riverwalk Logistics made a $4.7 million capital contribution to Valero L.P. to maintain its 2% general partner interest.

REDEMPTION OF COMMON UNITS OWNED BY VALERO ENERGY AND AMENDMENT TO VALERO L.P.'S PARTNERSHIP AGREEMENT

Common Unit Redemption. Immediately following Valero L.P.'s common unit offering and our offering of the outstanding notes, Valero L.P. redeemed from Valero Energy 3,809,750 common units for approximately $134.1 million or $35.19 per unit, which is equal to the net proceeds per unit, before expenses, received by Valero L.P. in its public offering of common units. Immediately following the redemption, Valero L.P. canceled the common units redeemed from Valero Energy. Valero L.P. also redeemed the corresponding portion of Valero Energy's general partner interest so that it maintained its 2% general partner interest for $2.9 million.

Amendment to Partnership Agreement. Immediately upon the closing of the offerings, Valero L.P. amended its partnership agreement to reduce the percentage of the vote of holders of Valero L.P.'s outstanding common units and subordinated units necessary to remove the general partner from 66 2/3% to 58%. The amendment also excludes the common units and subordinated units held by affiliates of Valero L.P.'s general partner from the removal vote. Previously, Valero Energy and its affiliates were allowed to vote their units and thus effectively block removal of the general partner. Valero L.P. also amended its partnership agreement to provide that the election of a successor general partner upon any such removal be approved by the holders of a majority of the common units, excluding the common units held by affiliates of Valero L.P.'s general partner.

For a more detailed discussion of the common unit redemption and partnership agreement amendment, please read "Redemption of common units owned by Valero Energy and amendment to Valero L.P.'s partnership agreement" beginning on page 88 of this prospectus.

CONFLICTS COMMITTEE APPROVAL

The conflicts committee of the board of directors of Valero GP, LLC, the general partner of Valero L.P.'s general partner, approved the crude oil storage tank and the South Texas pipeline system contributions based in part on an opinion from its independent financial advisor that the consideration to be paid pursuant to the transaction agreements related to each of the contributions was fair from a financial point of view to Valero L.P. and its public unitholders. The conflicts committee also concluded that the pricing mechanism in the common unit offering would produce a fair price for the redemption.

EXPECTED CASH AVAILABLE FOR DISTRIBUTION

Management expects that the crude oil storage tank and the South Texas pipeline system contributions in connection with the common unit redemption and the adjustment to terminalling fees discussed below will result in an increase in cash available for distribution that we believe will be sufficient to enable management to make a recommendation to the board of directors of Valero GP, LLC to increase the Valero L.P. quarterly distribution to $0.75 per unit commencing with the distribution with respect to the second quarter of 2003 which will be payable in August 2003. However, any increase in the cash distribution to Valero L.P.'s unitholders must be approved by the board of directors of Valero GP, LLC based on the actual amount of cash available for distribution at the time. Management's expectations with respect to cash available for distribution and distribution levels are based on the following assumptions:

- Average daily throughput volumes for 2003 for the crude oil storage tanks will be 7% higher than average daily throughput volumes for those assets in 2002 due to higher refining margins and no turnarounds at the related refineries;

- Average daily throughput volumes for 2003 in the South Texas pipelines and terminals will be 4% higher than average daily throughput volumes for those assets in 2002 as a result of the October 2002 expansion of the Corpus Christi to Houston refined product pipeline;

- The tariffs and terminalling fees charged for services related to the crude oil storage tanks and South Texas pipelines and terminals will be at least those set forth in the contractual arrangements with Valero Energy;

- Annual operating expenses related to the crude oil storage tanks will be equal to the $4.2 million in service and leasing fees that we have agreed to pay Valero Energy plus $6.3 million of additional expenses, including maintenance capital expenditures;

- Annual operating and general and administrative expenses related to the South Texas pipelines and terminals will be approximately $2 million less than those for the year ended December 31, 2002, mainly as a result of the exclusion of volumetric gains and losses and allocation of overhead;

- Average daily throughput volumes in, and annual operating expenses related to, our existing assets will be substantially similar to those for the year ended December 31, 2002; and

- Our business will not be materially adversely affected by refinery shutdowns, labor disturbances, general economic conditions, terrorist actions, environmental releases, changes in laws, accidents or similar factors.

7

While management believes these assumptions are reasonable in light of management's current beliefs concerning future events, these assumptions are inherently uncertain and are subject to significant business, economic, regulatory and competitive risks and uncertainties that could cause actual results to differ materially from those management anticipates. If our assumptions are not realized, then actual cash available for distribution could be insufficient to enable Valero L.P. to increase its distribution. Consequently, any statements about cash available for distribution or distribution levels should not be regarded as a representation by us that we will have sufficient cash available for distribution to make these distributions or that Valero L.P. will increase its current distribution levels to its unitholders.

ADJUSTMENT TO TERMINALLING FEES

In conjunction with the crude oil storage tank and South Texas pipeline system contributions, we reviewed our existing pipeline tariff rates and terminalling fees, including the additive blending fee that we charge for blending additives into gasoline and diesel fuel. Based on this review, we reached agreement with Valero Energy, effective January 1, 2003, to increase the additive blending fee that we charge for blending additives into gasoline and diesel fuel at our 12 refined product terminals included in the Pipelines and Terminals Usage Agreement to $0.12 per barrel for the remaining term of that agreement. Assuming that this additional additive blending fee had been in effect during the year ended December 31, 2002, and assuming no change in the number of barrels of refined product that we blended, we would have generated an additional $1.5 million in operating income.

ACQUISITION OF THE TELFER ASPHALT TERMINAL

In January 2003, we purchased an asphalt terminal in Pittsburg, California from Telfer Oil Company for $15.1 million. The asphalt terminal assets include two storage tanks with a combined storage capacity of 350,000 barrels, six 5,000-barrel polymer modified asphalt tanks, a truck rack, rail facilities and various other tanks and equipment. In conjunction with the Telfer acquisition, we entered into a six-year terminal storage and throughput agreement with Valero Energy. The agreement includes an exclusive lease by Valero Energy of the asphalt storage tanks and related equipment for a monthly fee per barrel of storage capacity, Valero Energy's right to move asphalt through the terminal for a per barrel throughput fee with a guaranteed minimum annual throughput of 280,000 barrels, and Valero Energy's reimbursement to us of related costs, including utilities.

RATING AGENCY ACTION

On March 6, 2003, Moody's Investors Service downgraded our 6.875% senior notes due 2012 from Baa2 to Baa3, with a stable outlook. The downgrade was prompted by Moody's downgrade of the ratings of Valero Energy's debt from Baa2 to Baa3 on the same date. Moody's stated that our ratings were tied to Valero Energy's ratings because of Valero Energy's ownership interest in and control of us and Valero L.P., the strong operational links between Valero Energy and us and our reliance on Valero Energy for over 90% of our revenues. On March 7, 2003, Standard & Poor's affirmed the debt rating of our 6.875% senior notes at BBB, with a negative outlook.

AMENDED REVOLVING CREDIT FACILITY

On March 6, 2003, we entered into an amended revolving credit facility for up to $175 million with JPMorgan Chase Bank and other lenders. The amended revolving credit facility is currently

scheduled to expire January 15, 2006. As of April 30, 2003, there was $5.0 million outstanding under the revolving credit facility.

Borrowings under the credit facility may be used for working capital and general partnership purposes. The revolving credit facility also allows us to issue letters of credit for an aggregate amount of $75 million.

For a more detailed description of our amended revolving credit facility, please read "Management's discussion and analysis of financial condition and results of operations--Liquidity and capital resources" beginning on page 54 of this prospectus.

PARTNERSHIP STRUCTURE AND MANAGEMENT

We are a 100%-owned direct and indirect subsidiary of Valero L.P. Valero Energy owns and controls Riverwalk Logistics, which serves as the general partner of Valero L.P. Valero Energy also currently indirectly owns an aggregate 48.2% ownership interest in Valero L.P. and us.

- Valero L.P. currently owns a 99.99% limited partner interest in us and 100% of Valero GP, Inc., which is our sole general partner with a 0.01% general partner interest. Valero GP, Inc. performs all management and operating functions for us;

- Riverwalk Logistics, the general partner of Valero L.P. and an indirect wholly owned subsidiary of Valero Energy, currently owns a 2% general partner interest in Valero L.P. and the incentive distribution rights pursuant to Valero L.P.'s partnership agreement;

- UDS Logistics, the sole limited partner of Riverwalk Logistics and an indirect wholly owned subsidiary of Valero Energy, owns an aggregate 45.9% limited partner interest in Valero L.P.; and

- Valero GP, LLC, an indirect wholly owned subsidiary of Valero Energy, is the general partner of Riverwalk Logistics and currently owns a 0.3% non-voting limited partner interest in Valero L.P. Valero GP, LLC performs all management and operating functions for Valero L.P.

The chart on the following page depicts our organization and ownership structure.

(Valero Logistics Operations Chart)

Ownership of Valero L.P.	
Public Common Units..................	51.8%
Valero Energy's Common Units	3.1%
Valero Energy's Subordinated Units...	43.1%
Valero Energy's General Partner Interest........................	2.0%
TOTAL.........................	100.0%

```
                    --------------------------------
                    |         Valero Energy        |
                    |           and its            |
                    |   wholly owned subsidiaries  |
                    --------------------------------
                     |                            |
                     |   100% Indirect Ownership  |
                     |                            |
                     |                            |
      ------------------------             ---------------------------------
      |  Valero GP, LLC(1)   |             |       UDS Logistics, LLC      |
      | 73,319 Common Units  |             |  9,599,322 Subordinated Units |
      ------------------------             |      614,572 Common Units     |
          |           |                    ---------------------------------
          |           |       0.1% General       |             |
          |           |       Partner Interest   |             |
          |           |                          |    99.9%    |    45.9%
0.3%      |        ---------------------------------  Limited  |    Limited
Limited   |        |   Riverwalk Logistics, L.P.   |  Partner  |    Partner
Partner   |        |     (the General Partner      |  Interest |    Interest
Interest  |        |      of the Partnership)      |           |
          |        | Incentive Distribution Rights |           |
          |        ---------------------------------           |
          |                       |                            |
          |                       | 2.0% General Partner       |
          |                       | Interest                   |
          |                       |                            |
          |        ----------------------------------          | --------------
          |        |                                |----------  |  Public     |
          |--------|           Valero L.P.          |------------|Unitholders  |
```

```
                    |     (Issuer of Guarantees)      |  51.8%     |11,517,931  |
                    ----------------------------------  Limited    |Common Units|
                         |          |                   Partner    --------------
                         |          |                   Interest
                  100%   |          |
                         |          |
  --------------------------        |
  |     Valero GP, Inc.    |        |   99.99%
  |  (the General Partner  |        |   Limited
  |    of the Operating    |        |   Partner
  |      Partnership)      |        |   Interest
  --------------------------        |
              |                     |
              |     0.01%           |
              |     General         |
              |     Partner         |
              |     Interest        |
              ----------------------------------
              |         VALERO LOGISTICS       |
              |       OPERATIONS, L.P.(2)      |
              |   (Issuer of Exchange Notes)   |
              ----------------------------------
```

---

(1) Valero GP, LLC does not have voting rights with respect to these 73,319 common units.

(2) Valero Logistics Operations, L.P. owns a 50% interest in Skelly-Belvieu Pipeline Company, L.L.C. The remaining 50% interest is owned by ConocoPhillips.

EXCHANGE OFFER

On March 18, 2003, we sold $250 million aggregate principal amount of our 6.05% senior notes due 2013, which we refer to as the outstanding notes. As part of the private offering, we entered into a registration rights agreement with the initial purchasers of the outstanding notes in which we agreed, among other things, to deliver this prospectus to you and to use our best efforts to complete the exchange offer within 210 days of the issue date of the outstanding notes. The following is a summary of the exchange offer.

EXCHANGE OFFER..........We are offering the exchange notes for outstanding notes.

EXPIRATION DATE.........The exchange offer will expire at 5:00 p.m., New York City time, on July 8, 2003, unless we decide to extend it.

CONDITIONS TO THE EXCHANGE OFFER..........The registration rights agreement does not require us to accept outstanding notes for exchange if the exchange offer or the making of any exchange by a holder of outstanding notes would violate any applicable law or interpretation of the staff of the Securities and Exchange Commission. A minimum aggregate principal amount of outstanding notes being tendered is not a condition to the exchange offer.

PROCEDURES FOR TENDERING

OUTSTANDING NOTES.......	To participate in the exchange offer, you must follow the automatic tender offer program, or ATOP, procedures established by The Depositary Trust Company, or DTC, for tendering outstanding notes held in book-entry form. The ATOP procedures require that the exchange agent receive, prior to the expiration date of the exchange offer, a computer generated message known as an "agent's message" that is transmitted through ATOP and that DTC confirm that: - DTC has received instructions to exchange your outstanding notes; and - you agree to be bound by the terms of the letter of transmittal. For more details, please read "Exchange offer--Terms of the exchange offer" and "Exchange offer--Procedures for tendering."
GUARANTEED DELIVERY PROCEDURES..............	None.
WITHDRAWAL OF TENDERS.................	You may withdraw your tender of outstanding notes at any time prior to the expiration date. To withdraw, you must submit a notice of withdrawal to the exchange agent using ATOP procedures before 5:00 p.m., New York City time, on the expiration date of the exchange offer. Please read "Exchange offer--Withdrawal of tenders."

12

ACCEPTANCE OF OUTSTANDING NOTES AND DELIVERY OF EXCHANGE NOTES..................	If you fulfill all conditions required for proper acceptance of outstanding notes, we will accept any and all outstanding notes that you properly tender in the exchange offer on or before 5:00 p.m., New York City time, on the expiration date. We will return any outstanding note that we do not accept for exchange to you without expense promptly after the expiration date. We will deliver the exchange notes promptly after the expiration date and acceptance of the outstanding notes for exchange. Please read "Exchange offer--Terms of the exchange offer."
FEES AND EXPENSES.......	We will bear all expenses related to the exchange offer. Please read "Exchange offer--Fees and expenses."
USE OF PROCEEDS.........	The issuance of the exchange notes will not provide us with any new proceeds. We are making this exchange offer solely to satisfy our obligations under the registration rights agreement.
CONSEQUENCES OF FAILURE TO EXCHANGE OUTSTANDING NOTES..................	If you do not exchange your outstanding notes in this exchange offer, you will no longer be able to require us to register the outstanding notes under the Securities Act, except in the limited circumstances provided under

the registration rights agreement. In addition, you will not be able to resell, offer to resell or otherwise transfer the outstanding notes unless we have registered the outstanding notes under the Securities Act, or unless you resell, offer to resell or otherwise transfer them under an exemption from the registration requirements of, or in a transaction not subject to, the Securities Act.

U.S. FEDERAL INCOME TAX CONSEQUENCES............The exchange of exchange notes for outstanding notes in the exchange offer will not be a taxable event for U.S. federal income tax purposes. Please read "Material federal income tax consequences."

EXCHANGE AGENT..........We have appointed The Bank of New York as exchange agent for the exchange offer. You should direct questions and requests for assistance and requests for additional copies of this prospectus (including the letter of transmittal) to the exchange agent addressed as follows:

The Bank of New York

Attn: Carolle Montreuil

Corporate Trust Operations
Reorganization Unit
101 Barclay Street--7 East
New York, NY 10286

Telephone: 212-815-5920

Eligible institutions may make requests by facsimile at 212-298-1915.

TERMS OF THE EXCHANGE NOTES

The exchange notes will be identical to the outstanding notes, except that the exchange notes are registered under the Securities Act and will not have restrictions on transfer, registration rights or provisions for additional interest. The exchange notes will evidence the same debt as the outstanding notes, and the same indenture will govern the exchange notes and the outstanding notes.

The following is a summary of the terms of the exchange notes. It may not contain all the information that is important to you. For a more detailed description of the exchange notes, please read "Description of the exchange notes and the guarantees" on page 106 of this prospectus.

ISSUER..................Valero Logistics Operations, L.P.

SECURITIES OFFERED......$250 million principal amount of 6.05% Exchange Notes due 2013.

INTEREST PAYMENT DATES...................Interest on the exchange notes will be paid semi-annually in arrears on March 15 and September 15 of each year, beginning on September 15, 2003.

MATURITY................March 15, 2013.

GUARANTEE............... Valero L.P. will fully and unconditionally guarantee the payment of all principal and interest under the exchange notes.

OPTIONAL REDEMPTION..... We may redeem some or all of the exchange notes at any time, at a redemption price which includes a make-whole premium, plus accrued and unpaid interest, if any, to the redemption date. Please read "Description of the exchange notes and the guarantees--optional redemption."

RANKING................. The exchange notes will be our senior unsecured obligations and will rank equally with all of our other existing and future senior unsecured indebtedness, including indebtedness under our revolving credit facility and our existing 6.875% senior notes due 2012. The guarantee by Valero L.P. will rank equally with all of Valero L.P.'s unsecured senior obligations. Valero L.P. currently has no outstanding indebtedness for borrowed money.

The indenture does not limit the amount of unsecured debt we may incur. The indenture contains restrictions on our ability to incur secured indebtedness unless the same security is also provided for the benefit of the holders of the exchange notes.

CERTAIN COVENANTS....... We issued the outstanding notes, and we will issue the exchange notes under an indenture with The Bank of New York, as trustee. The indenture contains limitations on, among other things, our ability to:

- incur indebtedness secured by certain liens; and

- engage in certain sale-leaseback transactions.

14

Each covenant is subject to a number of important exceptions, limitations and qualifications that are described under "Description of the exchange notes and the guarantees--Covenants."

The indenture provides for certain events of default, including default on certain other indebtedness. Please read "Description of the exchange notes and the guarantees--Covenants."

ABSENCE OF A PUBLIC MARKET FOR THE EXCHANGE NOTES................... The exchange notes will be freely transferable, but will also be new issues of securities for which there is no established market. Accordingly, there can be no assurance that a market for the exchange notes will develop or as to the liquidity of any market that may develop. The initial purchasers have advised us that they currently intend to make a market in the exchange notes. However, they are not obligated to do so, and any market making with respect to the exchange notes may be discontinued without notice.

FORM OF EXCHANGE

NOTES..................	The exchange notes will be represented by one global note. The global exchange note will be deposited with the trustee, as custodian for DTC. The global exchange note will be shown on, and transfers of such global exchange note will be effected only through, records maintained in book-entry form by DTC and its direct and indirect participants.
SAME-DAY SETTLEMENT.....	The exchange notes will trade in DTC's Same Day Funds Settlement System until maturity or redemption. Therefore, secondary market trading activity in the exchange notes will be settled in immediately available funds.
TRADING.................	We do not expect to list the exchange notes for trading on any securities exchange.
TRUSTEE, REGISTRAR AND EXCHANGE AGENT.........	The Bank of New York
GOVERNING LAW..........	The exchange notes and the indenture will be governed by, and construed in accordance with, the laws of the State of New York.

RISK FACTORS

Please read "Risk factors" beginning on page 23 of this prospectus for a discussion of factors you should consider carefully before participating in the exchange offer.

SUMMARY FINANCIAL AND OPERATING DATA

The following table provides selected financial data and operating data of Valero L.P. and subsidiaries from July 1, 2000 through March 31, 2003. The selected financial data and operating data from January 1, 1998 through June 30, 2000 relates to the Ultramar Diamond Shamrock Logistics Business, the predecessor to Valero L.P. and subsidiaries. The following table should be read together with, and is qualified in its entirety by reference to, the historical financial statements and the accompanying notes included elsewhere in this prospectus. The table should be read together with "Management's discussion and analysis of financial condition and results of operations."

Prior to July 1, 2000, our pipeline, terminalling and storage assets were owned and operated by Ultramar Diamond Shamrock Corporation (now Valero Energy), and such assets serviced Ultramar Diamond Shamrock's McKee and Three Rivers refineries located in Texas, and the Ardmore refinery located in Oklahoma. These assets and their related operations were referred to as the Ultramar Diamond Shamrock Logistics Business. Effective July 1, 2000, Ultramar Diamond Shamrock Corporation transferred the Ultramar Diamond Shamrock Logistics Business, along with certain liabilities, to Shamrock Logistics Operations, L.P. (now Valero Logistics Operations, L.P.), a wholly owned subsidiary of Shamrock Logistics, L.P. (now Valero L.P.). We were wholly owned by Ultramar Diamond Shamrock. Data in the following table prior to the July 1, 2000 transfer is indicated as "Predecessor" and data subsequent thereto is indicated as "Successor." On April 16, 2001, Valero L.P. closed on its initial public offering of common units, which represented 26.4% of its outstanding partnership interests.

On May 7, 2001, Valero Energy announced that it had entered into an Agreement and Plan of Merger with Ultramar Diamond Shamrock whereby Ultramar Diamond

Shamrock agreed to be acquired by Valero Energy for total consideration of approximately $4.3 billion and the assumption of approximately $2.0 billion of debt. The acquisition of Ultramar Diamond Shamrock by Valero Energy became effective on December 31, 2001. This acquisition included the acquisition of Ultramar Diamond Shamrock's majority ownership interest in us. Valero L.P.'s consolidated balance sheet as of December 31, 2001 was not adjusted to fair value due to the significant level of public ownership interest in Valero L.P. Effective January 1, 2002, we changed our name to Valero Logistics Operations, L.P., and Shamrock Logistics, L.P. changed its name to Valero L.P.

On February 1, 2002, we acquired the Wichita Falls Business from Valero Energy for $64 million.

On January 7, 2003, we acquired an asphalt terminal from Telfer Oil Company for $15.1 million.

On March 18, 2003, Valero Energy contributed 58 crude oil storage tanks and the South Texas pipelines and terminals to us for an aggregate amount of $350.0 million. In conjunction with the contributions, Valero L.P. consummated a public offering of 5,750,000 common units for net proceeds of $204.7 million (including the general partner interest contribution) and we issued in a private placement $250.0 million of 6.05% senior notes for net proceeds of $247.8 million and borrowed $25.0 million under our revolving credit facility.

Also on March 18, 2003, subsequent to Valero L.P.'s common unit offering and our private placement of 6.05% senior notes, Valero L.P. redeemed from UDS Logistics, LLC, 3,809,750 common units and a portion of Riverwalk Logistics' general partner interest for $137.0 million. As a result of these common unit transactions, Valero Energy's aggregate ownership interest in Valero L.P. was reduced to 49.5%. In April of 2003, Valero Energy's aggregate ownership in

16

Valero L.P. was further reduced to 48.2% as a result of the exercise by the underwriters of a portion of the overallotment option.

The selected financial data and operating data for the years ended December 31, 1998 and 1999, and for the six months ended June 30, 2000, reflect the operations of the Ultramar Diamond Shamrock Logistics Business (the predecessor to Valero Logistics) as if it had existed as a single separate entity from Ultramar Diamond Shamrock. The transfer of the Ultramar Diamond Shamrock Logistics Business to Valero Logistics represented a reorganization of entities under common control and was recorded at historical cost. The selected financial data and operating data for the six months ended December 31, 2000, and for the years ended December 31, 2001 and 2002, represent the consolidated operations of Valero L.P. and subsidiaries. The selected financial data as of December 31, 2001, includes the acquisition of the Wichita Falls Business because we and the Wichita Falls Business came under the common control of Valero Energy commencing on December 31, 2001, and thus, represented a reorganization of entities under common control. The selected financial data and operating data for the year ended December 31, 2002, reflects the operations of the Wichita Falls Business for the entire year.

The selected financial data and operating data as of and for the years ended December 31, 1998 and 1999 and as of and for the six months ended June 30, 2000 was derived from the audited financial statements of the Ultramar Diamond Shamrock Logistics Business. The selected financial data and operating data as of and for the six months ended December 31, 2000 and as of and for the years ended December 31, 2001 and 2002 were derived from the audited consolidated financial statements of Valero L.P. and subsidiaries. The selected financial data and operating data as of March 31, 2002 and 2003 and for the three months ended March 31, 2002 and 2003 was derived from the unaudited consolidated financial statements of Valero L.P. and subsidiaries.

(IN THOUSANDS, EXCEPT PER UNIT DATA AND BARREL/DAY INFORMATION)	PREDECESSOR				
	YEARS ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	SIX MONTHS ENDED DECEMBER 31,	
	1998	1999	2000	2000	2
STATEMENT OF INCOME DATA:					
Revenues(1)	$ 97,883	$109,773	$ 44,503	$ 47,550	$ 98,
Costs and expenses:					
Operating expenses	32,179	29,013	17,912	15,593	33,
General and administrative expenses	4,552	4,698	2,590	2,549	5,
Depreciation and amortization	12,451	12,318	6,336	5,924	13,
Total costs and expenses	49,182	46,029	26,838	24,066	52,
Gain on sale of property, plant and equipment(2)	7,005	2,478	--	--	
Operating income	55,706	66,222	17,665	23,484	46,
Equity income from Skelly-Belvieu Pipeline Company	3,896	3,874	1,926	1,951	3,
Interest expense, net	(796)	(777)	(433)	(4,748)	(3,
Income before income tax expense (benefit)	58,806	69,319	19,158	20,687	45,
Income tax expense (benefit)(3)	22,517	26,521	(30,812)	--	
Net income	$ 36,289	$ 42,798	$ 49,970	$ 20,687	$ 45,
Basic and diluted net income per unit applicable to limited partners(4)					$ 1
Cash distributions per unit applicable to limited partners					$ 1
OTHER FINANCIAL DATA:					
EBITDA(5)	$ 72,053	$ 82,414	$ 25,927	$ 31,359	$ 63,
Distributable cash flow(5)	62,258	77,841	25,091	26,393	56,
Distributions from Skelly-Belvieu Pipeline Company	3,692	4,238	2,306	2,352	2,
Net cash provided by operating activities	48,642	54,054	20,247	1,870	77,
Net cash provided by (used in) investing activities	14,703	2,787	(4,505)	(1,736)	(17,
Net cash provided by (used in) financing activities	(63,345)	(56,841)	(15,742)	(133)	(51,
Maintenance capital expenditures	2,345	2,060	1,699	619	2,
Expansion capital expenditures	9,952	7,313	3,186	1,518	4,
Acquisitions	--	--	--	--	10,
Total capital expenditures	12,297	9,373	4,885	2,137	17,
OPERATING DATA (barrels/day):					
Crude oil pipeline throughput	265,243	280,041	294,037	295,524	303,

Refined product pipeline throughput...	268,064	297,397	312,759	306,877	308,
Refined product terminal throughput...	144,093	161,340	168,433	162,904	176,

	PREDECESSOR		SUCCESSOR		
	DECEMBER 31,		DECEMBER 31,		
(IN THOUSANDS)	1998	1999	2000	2001	2002
BALANCE SHEET DATA:					
Property, plant and equipment, net..	$297,121	$284,954	$280,017	$349,012	$349,276
Total assets......................	321,002	308,214	329,484	387,070	415,508
Long-term debt, including current portion and debt due to parent...	11,455	11,102	118,360	26,122	109,658
Partners' equity/net parent investment(6)...................	268,497	254,807	204,838	342,166	293,895

	THREE MONTHS ENDED MARCH 31,	
(UNAUDITED, IN THOUSANDS, EXCEPT PER UNIT DATA)	2002	2003
STATEMENT OF INCOME DATA:		
Revenues..	$26,024	$ 31,816
Costs and expenses:		
Operating expenses....................................	9,184	11,661
General and administrative expenses.....................	1,788	1,844
Depreciation and amortization...........................	4,356	4,283
Total costs and expenses.........................	15,328	17,788
Operating income......................................	10,696	14,028
Equity income from Skelly-Belvieu Pipeline Company..........	678	731
Interest expense, net..................................	(556)	(2,377)
Income before income tax expense........................	10,818	12,382
Income tax expense(3)..................................	395	--
Net income..	$10,423	$ 12,382
Basic and diluted net income per unit applicable to limited partners(4)...	$ 0.50	$ 0.60
Cash distributions per unit applicable to limited partners...	$ 0.65	$ 0.70

(UNAUDITED, IN THOUSANDS, EXCEPT BARREL/DAY INFORMATION)	THREE MONTHS ENDED MARCH 31, 2002	2003
OTHER FINANCIAL DATA:		
EBITDA(5)	$15,730	$ 19,042
Distributable cash flow(5)	14,478	15,490
Distributions from Skelly-Belvieu Pipeline Company	771	748
Net cash provided by operating activities	14,037	20,298
Net cash used in investing activities	(65,798)	(366,922)
Net cash provided by financing activities	51,654	326,133
Maintenance capital expenditures	789	1,192
Expansion capital expenditures	1,009	940
Acquisitions	64,000	364,807
Total capital expenditures	65,798	366,939
OPERATING DATA (barrels/day):		
Crude oil pipeline throughput	312,387	332,760
Refined product pipeline throughput(7)	262,872	296,816
Refined product terminal throughput(7)	175,816	176,797
Crude oil storage tanks throughput(7)	--	77,458

(UNAUDITED, IN THOUSANDS)	MARCH 31, 2002	2003
BALANCE SHEET DATA:		
Property, plant and equipment, net	$346,455	$711,481
Total assets	385,025	764,933
Long-term debt, including current portion	90,076	383,891
Partners' equity	289,652	362,590

(1) Effective January 1, 2000, the Ultramar Diamond Shamrock Logistics Business (predecessor) filed revised tariff rates on many of its crude oil and refined product pipelines to reflect the total cost of the pipeline, the current throughput capacity, the current throughput utilization and other market conditions. Prior to 1999, the Ultramar Diamond Shamrock Logistics Business did not charge a separate terminalling fee for terminalling services at its refined product terminals. These costs were charged back to the related refinery. Beginning January 1, 1999, the Ultramar Diamond Shamrock Logistics Business began charging a separate terminalling fee at its refined product terminals. If the revised tariff rates and the terminalling fee had been implemented effective January 1, 1998, revenues would have been as follows for the years presented. The revised tariff rates and terminalling fee were in effect throughout the years ended December 31, 2000, 2001 and

2002 and the three months ended March 31, 2003.

(IN THOUSANDS)	YEARS ENDED DECEMBER 31, 1998	1999
Revenues--historical	$ 97,883	$109,773
Decrease in tariff revenues	(17,067)	(21,892)
Increase in terminalling revenues	1,649	--
Net decrease	(15,418)	(21,892)
Revenues--as adjusted	$ 82,465	$ 87,881

(2) In March 1998, the Ultramar Diamond Shamrock Logistics Business recognized a gain on the sale of a 25% interest in the McKee to El Paso refined product pipeline and the El Paso refined product terminal to ConocoPhillips (previously Phillips Petroleum Company). In August 1999, the Ultramar Diamond Shamrock Logistics Business recognized a gain on the sale of an additional 8.33% interest in the McKee to El Paso refined product pipeline and terminal to ConocoPhillips.

(3) Effective July 1, 2000, Ultramar Diamond Shamrock transferred the Ultramar Diamond Shamrock Logistics Business (predecessor) to Valero Logistics. As a limited partnership, Valero Logistics is not subject to federal or state income taxes. Due to this change in tax status, the deferred income tax liability of $38,217,000 as of June 30, 2000 was written off in the statement of income of the Ultramar Diamond Shamrock Logistics Business for the six months ended June 30, 2000. The resulting income tax benefit of $30,812,000 for the six months ended June 30, 2000, includes the write-off of the deferred income tax liability less the provision for income tax expense of $7,405,000 for the six months ended June 30, 2000. The income tax expense for periods prior to July 1, 2000 was based on the effective income tax rate for the Ultramar Diamond Shamrock Logistics Business of 38%. The effective income tax rate exceeds the U.S. federal statutory income tax rate due to state income taxes.

Income tax expense for the year ended December 31, 2002 represents income tax expense incurred by the Wichita Falls Business during the month ended January 31, 2002, prior to the acquisition of the Wichita Falls Business by us on February 1, 2002.

(4) Net income per unit applicable to limited partners is computed by dividing net income applicable to limited partners, after deduction of the general partner's 2% interest and incentive distributions, by the weighted average number of limited partnership units outstanding for each class of unitholder. Basic and diluted net income per unit applicable to limited partners is the same. Net income per unit applicable to limited partners for the periods prior to April 16, 2001 is not shown as units had not been issued.

(IN THOUSANDS, EXCEPT PER UNIT DATA)	FOR THE PERIOD APRIL 16, 2001 THROUGH DECEMBER 31, 2001	YEAR ENDED DECEMBER 31, 2002
Net income..	$ 45,873	$ 55,143
Less net income applicable to the period from January 1, 2001 through April 15, 2001..........	(10,126)	--
Less net income applicable to the Wichita Falls Business for the month ended January 31, 2002...	--	(650)
Less net income applicable to general partner's interest, including incentive distributions.....	(715)	(2,187)
Net income applicable to limited partners' interest......................................	$ 35,032	$ 52,306
Basic and diluted net income per unit applicable to limited partners..............................	$ 1.82	$ 2.72
Weighted average number of units outstanding, basic and diluted..................................	19,198,644	19,250,867

21

(5) The following is a reconciliation of income before income tax expense (benefit) to EBITDA and distributable cash flow. Beginning July 1, 2000, the impact of volumetric expansions, contractions and measurement discrepancies in the pipelines has been borne by the shippers in our pipelines and is therefore not reflected in operating expenses subsequent to July 1, 2000. The effect of volumetric expansions, contractions and measurement discrepancies in the pipelines was a net reduction to income before income tax expense (benefit).

	PREDECESSOR					
	YEARS ENDED DECEMBER 31,		SIX MONTHS ENDED JUNE 30,	SIX MONTHS ENDED DECEMBER 31,	YEARS E DECEMBER	
(IN THOUSANDS)	1998	1999	2000	2000	2001	
Income before income tax expense (benefit)..........	$58,806	$69,319	$ 19,158	$ 20,687	$45,873	$55
Plus interest expense, net....	796	777	433	4,748	3,811	4
Plus depreciation and amortization..............	12,451	12,318	6,336	5,924	13,390	16
EBITDA........................	72,053	82,414	25,927	31,359	63,074	76
Less equity income from Skelly-Belvieu Pipeline Company................	(3,896)	(3,874)	(1,926)	(1,951)	(3,179)	(3
Less interest expense, net....................	(796)	(777)	(433)	(4,748)	(3,811)	(4

Less maintenance capital expenditures............	(2,345)	(2,060)	(1,699)	(619)	(2,786)	(3
Less gain on sale of property, plant and equipment...............	(7,005)	(2,478)	--	--	--	
Plus distributions from Skelly-Belvieu Pipeline Company.................	3,692	4,238	2,306	2,352	2,874	3
Plus impact of volumetric variances...............	555	378	916	--	--	
Distributable cash flow.......	$62,258	$77,841	$ 25,091	$ 26,393	$56,172	$68

We utilize two financial measures, earnings before interest, income taxes, depreciation and amortization (EBITDA) and distributable cash flow, which are not defined in United States generally accepted accounting principles. Management presents both EBITDA and distributable cash flow in our filings under the Securities Exchange Act of 1934. Management uses these financial measures because they are widely accepted financial indicators used by some investors and analysts to analyze and compare partnerships on the basis of operating performance. In addition, distributable cash flow is used to determine the amount of cash distributions to Valero L.P.'s unitholders. Neither EBITDA nor distributable cash flow are intended to represent cash flows for the period, nor are they presented as an alternative to operating income or income before income tax expense (benefit). They should not be considered in isolation or as substitutes for a measure of performance prepared in accordance with United States generally accepted accounting principles. Our method of computation for both EBITDA and distributable cash flow may or may not be comparable to other similarly titled measures used by other partnerships.

(6) The partners' equity amount as of December 31, 2001 includes $50,631,000 of net parent investment resulting from our acquisition of the Wichita Falls Business on February 1, 2002, which represented a transfer between entities under common control and therefore required a restatement of our December 31, 2001 consolidated balance sheet to include the Wichita Falls Business as if it had been combined with us as of December 31, 2001. Upon execution of the acquisition on February 1, 2002, partners' equity/net parent investment was reduced by $51,281,000.

(7) On March 18, 2003, we acquired the South Texas pipeline system and the crude oil storage tanks from Valero Energy. The throughput related to these newly acquired assets is included in the barrel per day throughput amounts and is calculated based on throughput for the period from March 19, 2003 to March 31, 2003 divided by the 90 days in the quarter.

22

RISK FACTORS

Before you decide to participate in the exchange offer, you should read carefully the following risks, uncertainties and factors relating to our notes and our business along with "Management's discussion and analysis of financial condition and results of operations" beginning on page 40 of this prospectus.

RISKS RELATED TO THE EXCHANGE

YOU MAY HAVE DIFFICULTY SELLING THE NOTES WHICH YOU DO NOT EXCHANGE, SINCE OUTSTANDING NOTES WILL CONTINUE TO HAVE RESTRICTIONS ON TRANSFER AND CANNOT BE SOLD WITHOUT REGISTRATION UNDER SECURITIES LAWS OR EXEMPTIONS FROM REGISTRATION.

If a large number of outstanding notes are exchanged for exchange notes issued in the exchange offer, it may be difficult for holders of outstanding notes that are not exchanged in the exchange offer to sell their notes, since those outstanding notes may not be offered or sold unless they are registered or there are exemptions from registration requirements under the Securities Act or state laws that apply to them. In addition, if there are only a small number of notes outstanding, there may not be a very liquid market in those notes. There may be few investors that will purchase unregistered securities in which there is not a liquid market.

In addition, if you do not tender your outstanding notes or if we do not accept some outstanding notes, those notes will continue to be subject to the transfer and exchange provisions of the indenture and the existing transfer restrictions of the notes that are described in the legend on the notes and in the prospectus relating to the notes.

IF YOU EXCHANGE YOUR OUTSTANDING NOTES, YOU MAY NOT BE ABLE TO RESELL THE EXCHANGE NOTES YOU RECEIVE IN THE EXCHANGE OFFER WITHOUT REGISTERING THEM AND DELIVERING A PROSPECTUS.

You may not be able to resell exchange notes you receive in the exchange offer without registering those exchange notes or delivering a prospectus. Based on interpretations by the Commission in no-action letters, we believe, with respect to exchange notes issued in the exchange offer, that:

- holders who are not our "affiliates" within the meaning of Rule 405 of the Securities Act;

- holders who acquire their exchange notes in the ordinary course of business; and

- holders who do not engage in, intend to engage in, or have arrangements to participate in a distribution (within the meaning of the Securities Act) of the exchange notes;

do not have to comply with the registration and prospectus delivery requirements of the Securities Act.

Holders described in the preceding sentence must tell us in writing at our request that they meet these criteria. Holders that do not meet these criteria could not rely on interpretations of the Commission in no-action letters, and would have to register the exchange notes they receive in the exchange offer and deliver a prospectus for them. In addition, holders that are broker-dealers may be deemed "underwriters" within the meaning of the Securities Act in connection with any resale of exchange notes acquired in the exchange offer. Holders that are broker-dealers must acknowledge that they acquired their outstanding exchange notes in

market-making activities or other trading activities and must deliver a prospectus when they resell notes they acquire in the exchange offer in order not to be deemed an underwriter.

RISKS RELATED TO THE NOTES

WE MAY NOT BE ABLE TO REPURCHASE THE NOTES UPON A CHANGE OF CONTROL.

If Valero Energy or an investment grade entity owns less than 51% of the general partner of Valero L.P. or if Valero L.P. or an investment grade entity owns less than all of our general partner or less than all of the limited partner interest in us, a change of control will occur under the indenture and we must offer to repurchase the notes. The same conditions will also cause a change of control under the indenture for our existing 6.875% senior notes due 2012, requiring us to offer to repurchase the $100 million aggregate principal amount of the 6.875% senior notes. We may not have sufficient funds at the time of the change of control to make the required repurchases of the notes and the 6.875% senior notes. Additionally, it is a change of control under our revolving credit facility if Valero Energy ceases to own at least 51% of Valero L.P.'s general partner or Valero Energy and/or Valero L.P. cease to own at least 100% of the general partner interest in us or at least 100% of the limited partner interest in us or a third party owns 20% or more of the outstanding units of Valero L.P. Any of these change of control events would cause an event of default under our revolving credit facility that would, should it occur, permit the lenders to accelerate the debt outstanding under our revolving credit facility, which in turn would cause an event of default under the indenture for the notes and the 6.875% senior notes.

RISKS INHERENT IN OUR BUSINESS

OUR FUTURE FINANCIAL AND OPERATING FLEXIBILITY MAY BE ADVERSELY AFFECTED BY RESTRICTIONS IN OUR CREDIT AGREEMENT AND BY OUR LEVERAGE AND VALERO ENERGY'S LEVERAGE.

Our leverage is significant in relation to our consolidated partners' equity. Our total outstanding debt as of March 31, 2003 was $383.9 million, representing approximately 51.4% of our total capitalization.

Debt service obligations, restrictive covenants in our debt agreements and maturities resulting from this leverage may adversely affect our ability to finance future operations, pursue acquisitions and fund other capital needs and Valero L.P.'s ability to pay cash distributions to unitholders, and may make our results of operations more susceptible to adverse economic or operating conditions. Our ability to repay, extend or refinance our existing debt obligations and to obtain future credit will depend primarily on our operating performance, which will be affected by general economic, financial, competitive, legislative, regulatory, business and other factors, many of which are beyond our control. Valero L.P. is prohibited from making cash distributions to its unitholders during an event of default under any of our debt agreements.

We currently expect to meet our anticipated future cash requirements, including scheduled debt repayments, through operating cash flows and the proceeds of one or more future debt offerings or equity offerings by Valero L.P. However, our ability to access the capital markets for future offerings may be limited by adverse market conditions resulting from, among other things, general economic conditions, contingencies and uncertainties, which are difficult to predict and beyond our control. If we were unable to access the capital markets for future offerings, we might be forced to seek extensions for some of our short-term maturities or to refinance some of our debt obligations through bank credit, as opposed to long-term public debt securities or equity securities of Valero L.P. The price and terms upon which we might

receive such extensions or additional bank credit could be more onerous than those contained in our existing debt agreements. Any such arrangement could, in turn, increase the risk that our leverage may adversely affect our future financial and operating flexibility.

Our revolving credit facility contains restrictive covenants that limit our ability to incur additional debt and to engage in some types of transactions.

These limitations could reduce our ability to capitalize on business opportunities that arise. Any subsequent refinancing of our current indebtedness or any new indebtedness could have similar or greater restrictions.

Our revolving credit facility contains provisions relating to changes in ownership. If these provisions are triggered, the outstanding debt may become due. If that happens, we may not be able to pay the debt. Valero L.P.'s general partner and its direct and indirect owners are not prohibited by the partnership agreement from entering into a transaction that would trigger these change-in-ownership provisions.

On March 6, 2003 Moody's Investors Service downgraded our 6.875% senior notes due 2012 from Baa2 to Baa3, with a stable outlook. The downgrade was prompted by Moody's downgrade of the ratings of Valero Energy's debt from Baa2 to Baa3 on the same date. Moody's stated that our ratings were tied to Valero Energy's ratings because of Valero Energy's ownership interest in and control of us and Valero L.P., the strong operational links between Valero Energy and us and our reliance on Valero Energy for over 90% of our revenues. On March 7, 2003, Standard and Poor's affirmed the debt rating of our 6.875% senior notes at BBB, with a negative outlook.

If one or more credit rating agencies were to further downgrade the outstanding indebtedness of Valero Energy, we could experience a similar downgrade of our outstanding indebtedness, an increase in our borrowing costs or difficulty accessing capital markets. Such a development could adversely affect our ability to finance acquisitions and refinance existing indebtedness.

WE MAY NOT BE ABLE TO GENERATE SUFFICIENT CASH FROM OPERATIONS TO ENABLE US TO PAY THE REQUIRED PAYMENTS TO HOLDERS OF OUR NOTES.

Because the amount of cash we are able to pay to holders of our notes is principally dependent on the amount of cash we are able to generate from operations, which will fluctuate from quarter to quarter based on our performance, we may not be able to pay all our debt for each quarter. The amount of cash flow we generate from operations is in turn principally dependent on the average daily volumes of crude oil and refined products transported through our pipelines, the tariff rates, terminalling and storage tank fees we charge, and the level of operating costs we incur.

Other factors affecting the actual amount of cash that we will have available include the following:

- required principal and interest payments on our debt;
- the costs of acquisitions;
- restrictions contained in our debt instruments;
- issuances of debt securities;
- fluctuations in working capital;
- capital expenditures; and
- adjustments in reserves made by the general partner in its discretion.

Payments to holders of our notes are dependent primarily on cash flow, including cash flow from financial reserves and working capital borrowings, and not solely on profitability, which is affected by non-cash items. Therefore, we may make payments during periods when we record losses and may not make payments during periods when we record net income.

COST REIMBURSEMENTS AND FEES DUE THE GENERAL PARTNER OF VALERO L.P. AND ITS AFFILIATES WILL BE SUBSTANTIAL AND COULD ADVERSELY AFFECT OUR ABILITY TO MAKE PAYMENTS TO HOLDERS OF OUR NOTES.

We have agreed to pay Valero Energy an administrative fee that currently equals $5.2 million on an annualized basis in exchange for providing corporate, general and administrative services to us. Valero L.P.'s general partner, with approval and consent of the conflicts committee of its general partner, will have the right to increase the annual administrative fee by up to 1.5% each year, as further adjusted for inflation, during the eight-year term of the services agreement and may agree to further increases in connection with expansions of our operations through the acquisition or construction of new logistics assets that require additional administrative services. In addition to the administrative fee, we have agreed to pay Valero Energy $3.5 million on an annualized basis for services provided under the services and secondment agreements we entered into in connection with the crude oil storage tank contribution. During the first five years of these services and secondment agreements, these fees may be increased by Valero Energy based on increases in the consumer price index. After five years, these fees may be increased or decreased to more accurately reflect the actual costs to Valero Energy for the services being provided at that time. Additionally, we reimburse Valero Energy for direct expenses it incurs to provide all other services to us (for example, salaries for pipeline operations personnel). The direct expenses we reimbursed to Valero Energy were approximately $13.8 million in 2002. The payment of the annual administrative fee, the fees under the services and secondment agreements and the reimbursement of direct expenses could adversely affect our ability to make payments to holders of our notes.

WE DEPEND UPON VALERO ENERGY FOR THE CRUDE OIL AND REFINED PRODUCT TRANSPORTED IN OUR PIPELINES AND HANDLED AT OUR TERMINALS AND STORAGE TANKS, AND ANY REDUCTION IN THOSE QUANTITIES COULD REDUCE OUR ABILITY TO MAKE PAYMENTS TO HOLDERS OF OUR NOTES.

Because of the geographic location of our pipelines, terminals, and storage tanks, we depend almost exclusively upon Valero Energy to provide throughput for our pipelines, terminals and storage tanks. If Valero Energy were to decrease the throughput of crude oil and/or refined products for these assets for any reason, we would experience great difficulty in replacing those lost barrels. For example, during January and February of 2002, Valero Energy initiated economic-based refinery production cuts as a result of significantly lower refining margins industry-wide, resulting in a decrease in throughput barrels and revenues for some of our pipelines. Because our operating costs are primarily fixed, a reduction in throughput would result in not only a reduction of revenues but a decline in net income and cash flow of similar or greater magnitude, which would reduce our ability to make payments to holders of our notes.

Valero Energy may reduce throughput in our pipelines and utilization of our terminals and storage tanks either because of market conditions that affect refineries generally or because of factors that specifically affect Valero Energy. These conditions and factors include the following:

- a decrease in demand for refined products in the markets served by our pipelines;

- a temporary or permanent decline in the ability of the Corpus Christi, Texas City, Benicia, McKee, Three Rivers or Ardmore refineries to produce refined products;

- a decision by Valero Energy to redirect refined products transported in our pipelines to markets not served by our pipelines or to transport crude oil by means other than our pipelines;

- a decision by Valero Energy to sell one or more of the Corpus Christi, Texas City, Benicia, McKee, Three Rivers or Ardmore refineries to a purchaser that elects not to use our assets that serve these refineries;

- a loss of customers by Valero Energy in the markets served by our pipelines or a failure to gain additional customers in growing markets; and

- the completion of competing refined product pipelines in the western, southwestern, and Rocky Mountain market regions.

Valero Energy does not have an obligation to utilize our assets for a fixed amount of volumes under either the existing throughput agreements or the throughput agreements for the storage tank assets and South Texas pipelines and terminals. Rather, the throughput commitments are generally a function of production levels at the refineries. Accordingly, if refinery throughput is suspended or reduced for any reason, Valero Energy's throughput commitments to us with respect to our assets that serve that refinery will be suspended or proportionately reduced. If, as a result, Valero Energy suspends or reduces its usage of any of our assets, that could have a material adverse effect on us and on our ability to make payments to holders of our notes. Operations at a refinery could be partially or completely shut down, temporarily or permanently, as a result of a number of circumstances, none of which are within our control.

PAYMENTS TO HOLDERS OF OUR NOTES COULD BE ADVERSELY AFFECTED BY A SIGNIFICANT DECREASE IN DEMAND FOR REFINED PRODUCTS IN THE MARKETS SERVED BY OUR PIPELINES.

Any sustained decrease in demand for refined products in the markets served by our pipelines could result in a significant reduction in throughput in our crude oil and refined product pipelines and therefore in our cash flow, reducing our ability to make payments to holders of our notes. Factors that could lead to a decrease in market demand include:

- a recession or other adverse economic condition that results in lower spending by consumers on gasoline, diesel, and travel;

- higher fuel taxes or other governmental or regulatory actions that increase, directly or indirectly, the cost of gasoline or diesel;

- an increase in fuel economy, whether as a result of a shift by consumers to more fuel-efficient vehicles or technological advances by manufacturers;

- an increase in the market price of crude oil that leads to higher refined product prices, which may reduce demand for gasoline or diesel. Market prices for crude oil and refined products are subject to wide fluctuation in response to changes in global and regional supply over which neither we nor Valero Energy have any control, and recent significant increases in the price of crude oil may result in a lower demand for refined products; and

- the increased use of alternative fuel sources, such as battery-powered engines. Several state and federal initiatives mandate this increased use. For example, the Energy Policy Act of 1992 requires 75% of all new vehicles purchased by federal agencies since 1999, 75% of all new vehicles purchased by state governments since 2000, and 70% of all new vehicles purchased for private fleets in 2006 and thereafter to use alternative

fuels. Additionally, California has enacted a regulation requiring that by the year 2003, 10% of all fleets delivered to California for sale be zero-emissions vehicles.

OUR ABILITY TO MAKE PAYMENTS TO HOLDERS OF OUR NOTES COULD BE REDUCED BY A MATERIAL DECLINE IN PRODUCTION BY ANY OF VALERO ENERGY'S REFINERIES THAT ARE SERVED BY US.

Any significant curtailing of production at the Corpus Christi, Texas City, Benicia, McKee, Three Rivers or Ardmore refineries could, by reducing throughput in our pipelines, terminals and storage tanks, result in us realizing materially lower levels of revenues and cash flow for the duration of the shutdown. Operations at a refinery could be partially or completely shut down, temporarily or permanently, as the result of a number of circumstances, none of which are within our control, such as:

- scheduled turnarounds or unscheduled maintenance or catastrophic events at a refinery;

- labor difficulties that result in a work stoppage or slowdown at a refinery;

- environmental proceedings or other litigation that compel the cessation of all or a portion of the operations at a refinery;

- increasingly stringent environmental regulations, such as the Environmental Protection Agency's Gasoline Sulfur Control Requirements and Diesel Fuel Sulfur Control Requirements which limit the concentration of sulfur in gasoline and diesel;

- a disruption in the supply of crude oil to a refinery; and

- a governmental ban or other limitation on the use of an important product of a refinery.

The magnitude of the effect on us of any shutdown will depend on the length of the shutdown and the extent of the refinery operations affected by the shutdown. Furthermore, we have no control over the factors that may lead to a shutdown or the measures Valero Energy may take in response to a shutdown. Valero Energy will make all decisions at the refineries concerning levels of production, regulatory compliance, refinery turnarounds, labor relations, environmental remediation, and capital expenditures.

VALERO ENERGY'S SEVEN-YEAR AGREEMENT TO USE OUR PIPELINES AND TERMINALS WILL BE SUSPENDED IF MATERIAL CHANGES IN MARKET CONDITIONS OCCUR THAT HAVE A MATERIAL ADVERSE EFFECT ON VALERO ENERGY, WHICH COULD ADVERSELY AFFECT OUR ABILITY TO MAKE PAYMENTS TO HOLDERS OF OUR NOTES.

If market conditions with respect to the transportation of crude oil or refined products or with respect to the end markets in which Valero Energy sells refined products change in a material manner such that Valero Energy would suffer a material adverse effect if it were to continue to use our pipelines and terminals at the required levels, Valero Energy's obligation to us will be suspended during the period of the change in market conditions to the extent required to avoid the material adverse effect. Any suspension of Valero Energy's obligation could adversely affect throughput in our pipelines and terminals and therefore our ability to make payments to holders of our notes.

The concepts of a material change in market conditions and material adverse effect on Valero Energy are not defined in the agreement. However, situations that might constitute a material change in market conditions having a material adverse effect on Valero Energy include the cost of transporting crude oil or refined products by our pipelines becoming materially more

expensive than transporting crude oil or refined products by other means or a material change in refinery profit that makes it materially more advantageous for Valero Energy to shift large volumes of refined products from markets served by our pipelines to pipelines retained by Valero Energy or owned by third parties. Valero Energy may suspend obligations by presenting a certificate from its chief financial officer that there has been a material change in market conditions having a material adverse effect on Valero Energy. If we disagree with Valero Energy, we have the right to refer the matter to an independent accounting firm for resolution.

ANY LOSS BY VALERO ENERGY OF CUSTOMERS IN THE MARKETS SERVED BY OUR REFINED PRODUCT PIPELINES MAY ADVERSELY AFFECT OUR ABILITY TO MAKE PAYMENTS TO HOLDERS OF OUR NOTES.

Should Valero Energy's retail marketing efforts become unsuccessful and result in declining or stagnant sales of its refined products, Valero Energy would have to find other end-users for its refined products. It may not choose or be able to replace lost branded retail sales through wholesale, spot, and exchange sales. Any failure by Valero Energy to replace lost branded retail sales could adversely affect throughput in our pipelines and, therefore, our cash flow and ability to make payments to holders of our notes.

CONTINUED HIGH NATURAL GAS PRICES COULD ADVERSELY AFFECT OUR ABILITY TO MAKE PAYMENTS TO HOLDERS OF OUR NOTES.

Power costs constitute a significant portion of our operating expenses. Power costs represented approximately 31% of our operating expenses for the year ended December 31, 2001 and 29% of our operating expenses for the year ended December 31, 2002. We use mainly electric power at our pipeline pump stations and at our terminals and such electric power is furnished by various utility companies that use primarily natural gas to generate electricity. Accordingly, our power costs typically fluctuate with natural gas prices. The recent increases in natural gas prices have caused our power costs to increase. If natural gas prices remain high or increase further, our cash flows may be adversely affected, which could adversely affect our ability to make payments to holders of our notes.

TERRORIST ATTACKS, THREATS OF WAR OR TERRORIST ATTACKS OR POLITICAL OR OTHER DISRUPTIONS THAT LIMIT CRUDE OIL PRODUCTION COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS.

The terrorist attacks of September 11, 2001 and subsequent terrorist attacks and unrest, have caused instability in the world's financial and commercial markets and have contributed to volatility in prices for crude oil and natural gas. Threats or rumors of war or other armed conflict may cause further uncertainties and disruption to financial and commercial markets, further increase our energy costs or limit deliveries of foreign crude oil which could cause a reduction in throughput in our pipelines. Any of these conditions could have a material adverse effect on our business and therefore on our ability to make payments to holders of our notes.

In addition, political uncertainties and unrest in crude oil producing countries may adversely impact Valero Energy's refinery production and, as a result, throughput levels in our pipelines, terminals and storage tanks, which may adversely impact our results of operations and financial condition. Events such as the recent oil workers' strike in Venezuela may cause disruptions or shutdowns in crude oil production, adversely impacting the availability of crude oil and other feedstocks and causing crude oil and other feedstock economics to be unfavorable. Primarily as a result of this strike, during January and the first half of February of 2003, Valero Energy reduced production at several of its refineries, including the Corpus Christi, Texas City, McKee,

Three Rivers and Ardmore refineries, by as much as 15%, which had an unfavorable impact on the throughput levels in our pipelines, terminals and storage tanks and our results of operations.

Since the September 11, 2001 terrorist attacks, the United States government has issued warnings that energy assets, including our nation's pipeline infrastructure and refineries, may be a target of future terrorist attacks. A terrorist attack on our pipelines or on one of Valero Energy's refineries could result in the loss of our personnel or assets and curtail or reduce our throughput. As a result of turmoil in the insurance markets and significant premium increases, neither we nor Valero Energy is fully insured against acts of war or terrorism. Terrorist attacks involving assets of ours or Valero Energy's could have a material adverse effect on our operations and result in losses against which we would not be insured.

IF OUR ASSUMPTIONS CONCERNING POPULATION GROWTH ARE INACCURATE OR VALERO ENERGY'S GROWTH STRATEGY IS NOT SUCCESSFUL, OUR ABILITY TO MAKE PAYMENTS TO HOLDERS OF OUR NOTES MAY BE ADVERSELY AFFECTED.

Our growth strategy is dependent upon:

- the accuracy of our assumption that many of the markets that we serve in the southwestern and Rocky Mountain regions of the United States will experience population growth that is higher than the national average; and

- the willingness and ability of Valero Energy to capture a share of this additional demand in its existing markets and to identify and penetrate new markets in the southwestern and Rocky Mountain regions of the United States.

If our assumption about growth in market demand proves incorrect, Valero Energy may not have any incentive to increase refinery capacity and production, shift additional throughput to our pipelines, or shift volumes from our lower tariff pipelines to our higher tariff pipelines, which would adversely affect our growth strategy. Furthermore, Valero Energy is under no obligation to pursue a growth strategy with respect to its business that favors us. If Valero Energy chooses not, or is unable, to gain additional customers in new or existing markets in the southwestern and Rocky Mountain regions of the United States, our growth strategy would be adversely affected.

NEW COMPETING REFINED PRODUCT PIPELINES COULD CAUSE DOWNWARD PRESSURE ON MARKET PRICES, AND AS A RESULT, VALERO ENERGY MIGHT DECREASE THE VOLUMES TRANSPORTED IN OUR PIPELINES.

We are aware of a number of proposals or industry discussions regarding refined product pipeline projects that, if or when undertaken and completed, could adversely impact some of the most significant markets we serve. One of these projects, the Longhorn Pipeline, will transport refined products from the Texas Gulf Coast to El Paso, Texas. Most of the pipeline has been constructed, and it has obtained regulatory approval and is expected to begin operation by the end of 2003. The completion of the Longhorn Pipeline will increase the amount of refined products available in the El Paso, Texas, New Mexico, and Arizona markets, which could put downward pressure on refined product prices in those markets. As a result, Valero Energy might not find it economically attractive to maintain its current market share in those markets and might decrease the throughput in our pipelines to those markets. In addition, two other refined product pipeline projects have been announced, the Williams Pipeline project from northwestern New Mexico to Salt Lake City, Utah and the Shell Pipeline (formerly Equilon) project from Odessa, Texas to Bloomfield, New Mexico. It is uncertain if and when these

proposed pipelines will commence operations. If completed, these proposed pipeline projects could cause downward pressure on market prices in the New Mexico and Arizona markets and could cause Valero Energy to decrease the volumes transported in our pipelines.

IF ONE OR MORE OF OUR TARIFF RATES IS REDUCED, IF FUTURE INCREASES IN OUR TARIFF RATES DO NOT ALLOW US TO RECOVER FUTURE INCREASES IN OUR COSTS, OR IF RATEMAKING METHODOLOGIES ARE ALTERED, OUR ABILITY TO MAKE PAYMENTS TO HOLDERS OF OUR NOTES MAY BE ADVERSELY AFFECTED.

Our interstate pipelines are subject to extensive regulation by the Federal Energy Regulatory Commission under the Interstate Commerce Act. This Act allows the FERC, shippers, and potential shippers to challenge our current rates that are already effective and any proposed changes to those rates, as well as our terms and conditions of service. The FERC may subject any proposed changes to investigation and possible refund or reduce our current rates and order that we pay reparations for overcharges caused by these rates during the two years prior to the beginning of the FERC's investigation. In addition, a state commission could also investigate our intrastate rates or our terms and conditions of service on its own initiative or at the urging of a shipper or other interested parties.

Valero Energy has agreed not to challenge, or cause others to challenge, our tariff rates until 2008. This agreement does not prevent other shippers or future shippers from challenging our tariff rates. At the end of this time, Valero Energy will be free to challenge, or cause other parties to challenge, our tariff rates. If Valero Energy or any third party is successful in challenging our tariff rates, we may not be able to sustain our rates, which may adversely affect our revenues. Cash available for payments to holders of our notes could be materially reduced by a successful challenge to our tariff rates.

Despite Valero Energy's agreement not to challenge tariff rates, adverse market conditions could nevertheless cause us to lower our tariff rates. Valero Energy may find it economically advantageous to reduce the feedstock consumption or the production of refined products at the Corpus Christi, Texas City, Benicia, McKee, Three Rivers or Ardmore refineries or to transport refined products to markets other than those we serve, any of which would have the effect of reducing throughput in our pipelines. If a material change in market conditions occurs, the pipelines and terminals usage agreement allows Valero Energy to reduce throughput in our pipelines. Accordingly, we could be forced to lower our tariff rates in an effort to make transportation through our pipelines economically attractive to Valero Energy in order to maintain throughput volumes. However, even a significant reduction of our tariff rates may not provide enough economic incentive to Valero Energy to maintain historical throughput levels.

Under the FERC's current ratemaking methodology, the maximum rate we may charge with respect to interstate pipelines is adjusted up or down each year by the percentage change in the producer price index for finished goods minus 1%. The FERC's current methodology also allows us, in some circumstances, to change rates based either on our cost of service, or market-based rates, or on a settlement or agreement with all of our shippers, instead of the index-based rate change. Under any of these methodologies, our ability to set rates based on our true costs may be limited or delayed. If for any reason future increases in our tariff rates are not sufficient to allow us to recover increases in our costs, our ability to make payments to holders of our notes may be adversely affected.

Potential changes to current ratemaking methods and procedures of the FERC and state regulatory commissions may impact the federal and state regulations under which we will

operate in the future. In addition, if the FERC's petroleum pipeline ratemaking methodology were reviewed by a federal appeals court and changed, this change could reduce our revenues and reduce cash available for payments to holders of our notes.

A MATERIAL DECREASE IN THE SUPPLY, OR A MATERIAL INCREASE IN THE PRICE, OF CRUDE OIL AVAILABLE FOR TRANSPORT THROUGH OUR PIPELINES AND THROUGH OUR STORAGE TANKS TO VALERO ENERGY'S REFINERIES, COULD MATERIALLY REDUCE OUR ABILITY TO MAKE PAYMENTS TO HOLDERS OF OUR NOTES.

The volume of crude oil we transport in our crude oil pipelines depends on the availability of attractively priced crude oil produced in the areas accessible to our crude oil pipelines, imported to our Corpus Christi storage facilities, and received from common carrier pipelines outside of our areas of operations. If Valero Energy does not replace volumes lost due to a material temporary or permanent decrease in supply from any of these sources with volumes transported in one of our other crude oil pipelines, we would experience an overall decline in volumes of crude oil transported through our pipelines or through our storage tanks and therefore a corresponding reduction in cash flow. Similarly, if there were a material increase in the price of crude oil supplied from any of these sources, either temporary or permanent, which caused Valero Energy to reduce its shipments in the related crude oil pipelines or through our storage tanks, we could experience a decline in volumes of crude oil transported in our pipelines or through our storage tanks and therefore a corresponding reduction in cash flow. Furthermore, a reduction of supply from our pipelines, either because of the unavailability or high price of crude oil, would likely result in reduced production of refined products at the Corpus Christi, McKee, Three Rivers, and Ardmore refineries, causing a reduction in the volumes of refined products we transport and our cash flow. Some of the local gathering systems that supply crude oil that we transport to the McKee and Ardmore refineries are experiencing a decline in production.

IF WE ARE NOT ABLE TO SUCCESSFULLY ACQUIRE, EXPAND AND BUILD PIPELINES AND OTHER LOGISTICS ASSETS OR ATTRACT SHIPPERS IN ADDITION TO VALERO ENERGY, THE GROWTH OF OUR BUSINESS WILL BE LIMITED.

We intend to grow our business in part through selective acquisitions, expansions of pipelines, and construction of new pipelines, as well as by attracting shippers in addition to Valero Energy. Each of these components has uncertainties and risks associated with it, and none of these approaches may be successful.

We may be unable to consummate any acquisitions or identify attractive acquisition candidates in the future, to acquire assets or businesses on economically acceptable terms, or to obtain financing for any acquisition on sa