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VALERO L P
Form S-3
October 02, 2003

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON OCTOBER 2, 2003

REGISTRATION NO. 333-

REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM S-3
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

ISSUER OF COMMON UNITS AND GUARANTOR OF DEBT SECURITIES REGISTERED HEREBY:

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

DELAWARE
(State or other jurisdiction of
incorporation or organization)

ISSUER OF DEBT SECURITIES REGISTERED HEREBY:

VALERO LOGISTICS OPERATIONS, L.P.
(Exact name of Registrant
as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

ONE VALERO PLACE
SAN ANTONIO, TEXAS 78212
(210) 370-2000
(Address, including zip code, and telephone number,
including
area code, of Registrants' principal executive offices)

CURTIS V. ANASTAS
PRESIDENT AND CHIEF EXECUTIVE OFFICER
VALERO GP, L.P.
ONE VALERO PLACE
SAN ANTONIO, TEXAS
(210) 370-2000
(Name, address, including zip code,
including area code, of agent)

COPIES TO:
ANDREWS KURTH LLP
600 TRAVIS STREET, SUITE 4200
HOUSTON, TEXAS 77002
(713) 220-4200
ATTN: GISLAR DONNENBERG

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: From time
to time after this Registration Statement becomes effective, as determined by

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market conditions.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. []

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. [X]

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. []

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. []

CALCULATION OF REGISTRATION FEE

| TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED | PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (1) (2) | AMOUNT OF REGISTRATION |
|---|---|------------------------|
| Common Units representing limited partner interests(3)..... | | |
| Debt Securities(4)..... | | |
| Guarantees of Debt Securities(5)..... | (5) | (5) |
| Total(6)..... | \$750,000,000 | \$60,675(7) |

(1) The proposed maximum offering price per unit will be determined from time to time by the registrants in connection with the issuance by the registrants of the securities registered hereunder.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) of the Securities Act of 1933.

(3) Subject to Note 6 below, an indeterminate amount of Common Units as may be sold from time to time by Valero L.P. is being registered hereunder.

(4) Subject to Note 6 below, an indeterminate amount of Debt Securities as may be sold from time to time by Valero Logistics Operations, L.P. is being registered hereunder.

(5) Valero L.P. has agreed to guarantee the obligations of Valero Logistics Operations, L.P. under the Debt Securities; no separate consideration will be paid in respect of the guarantees; accordingly, pursuant to Rule 457(n)

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of the Securities Act of 1933, no separate filing fee is required.

- (6) In no event will the aggregate offering price of all securities issued from time to time pursuant to this Registration Statement exceed \$750,000,000.
- (7) Valero L.P. and Valero Logistics Operations, L.P. previously filed with the Securities and Exchange Commission on June 6, 2002, a registration statement on Form S-3 (Registration No. 333-89978) for the registration of \$500,000,000 of securities. Unsold securities in the aggregate amount of \$116,464,062 remain under such registration statement. The filing fee paid by the Registrants in connection with the remaining unsold securities under such prior registration statement is offset, pursuant to Rule 457(p) under the Securities Act, against the filing fee due in connection with this Registration Statement, resulting in a net paid filing fee of \$49,961.

THE REGISTRANTS HEREBY AMEND THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANTS SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES, AND IT IS NOT SOLICITING ANY OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED OCTOBER 2, 2003
PROSPECTUS

\$750,000,000

(VALERO LOGO)

COMMON UNITS
REPRESENTING LIMITED PARTNER INTERESTS

VALERO LOGISTICS OPERATIONS, L.P.

DEBT SECURITIES

FULLY AND UNCONDITIONALLY GUARANTEED BY VALERO L.P.

Valero L.P. may, in one or more offerings, offer and sell common units representing limited partner interests in Valero L.P.

Valero Logistics Operations, L.P. may, in one or more offerings, offer and sell its debt securities, which will be fully and unconditionally guaranteed by Valero L.P.

The aggregate initial offering price of the securities that we offer by this prospectus will not exceed \$750,000,000. We will offer the securities in amounts, at prices and on terms to be determined by market conditions at the time of our offerings. We will provide the specific terms of the securities in

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supplements to this prospectus. The applicable prospectus supplement may also add, update or change information contained in this prospectus.

You should read this prospectus and any applicable prospectus supplement carefully before you invest in any of our securities. This prospectus may not be used to consummate sales of our securities unless it is accompanied by a prospectus supplement.

Valero L.P. common units are listed for trading on The New York Stock Exchange under the symbol "VLI."

SEE "RISK FACTORS" ON PAGE 4 TO READ ABOUT IMPORTANT RISKS THAT YOU SHOULD CONSIDER BEFORE BUYING OUR SECURITIES.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED WHETHER THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is _____, 2003.

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ABOUT VALERO L.P. AND VALERO LOGISTICS OPERATIONS, L.P.

Valero L.P. is a publicly traded Delaware limited partnership formed in 1999 that owns 100% of Valero Logistics Operations, L.P. (Valero Logistics), a Delaware limited partnership. Valero L.P. is controlled and managed by its general partner, an indirect wholly owned subsidiary of Valero Energy Corporation, a publicly traded Delaware corporation. As used in this prospectus, "we," "us," "our" and similar terms refer to Valero L.P. and its subsidiaries, including Valero Logistics, on a combined basis.

We own crude oil and refined products pipeline, terminalling and storage assets in Texas, Oklahoma, New Mexico, Colorado, California and New Jersey. Our assets support eight of Valero Energy's refineries, including the McKee, Three Rivers, Texas City, Corpus Christi East and Corpus Christi West refineries located in Texas, the Paulsboro refinery located in New Jersey, the Ardmore refinery located in Oklahoma and the Benicia refinery located in California.

Our network includes:

- approximately 783 miles of crude oil pipelines, including approximately 31 miles jointly owned with third parties, and five major associated crude oil storage facilities with a total storage capacity of approximately 3.3 million barrels;
- approximately 3,704 miles of refined product pipelines, including approximately 1,996 miles jointly owned with third parties, and 19 refined product terminals (including two asphalt terminals and one idle

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terminal), one of which is jointly owned, with a total storage capacity of approximately 4.0 million barrels;

- 58 crude oil and intermediate feedstock storage tanks located at Valero Energy's Corpus Christi West, 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.

Our principal executive offices are located at One Valero Place, San Antonio, Texas 78212, and our phone number is (210) 370-2000.

ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission using a "shelf" registration process. Under this shelf registration process, we may sell up to \$750,000,000 in total offering amount of the common units of Valero L.P. or debt securities of Valero Logistics described in this prospectus in one or more offerings. This prospectus generally describes us and the common units of Valero L.P. and debt securities of Valero Logistics. Each time we sell common units or debt securities with this prospectus, we will provide a prospectus supplement that will contain specific information about the terms of that offering and the securities offered by us in that offering. The prospectus supplement may also add to, update or change information in this prospectus. The information in this prospectus is accurate as of its date. You should carefully read both this prospectus and any prospectus supplement and the additional information described below under the heading "Where You Can Find More Information."

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WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement with the SEC under the Securities Act of 1933 that registers the securities offered by this prospectus. The registration statement, including the attached exhibits, contains additional relevant information about us. The rules and regulations of the SEC allow us to omit some information included in the registration statement from this prospectus.

In addition, Valero L.P. files annual, quarterly and other reports and other information with the SEC. You may read and copy any document we file at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the SEC's public reference room. Our SEC filings are also available at the SEC's website at <http://www.sec.gov>. You may also obtain information about us through the New York Stock Exchange, 20 Broad Street, New York, New York 10005, on which Valero L.P.'s common units are listed.

The SEC allows us to "incorporate by reference" the information Valero L.P. has filed with the SEC. This means that we can disclose important information to

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you without actually including the specific information in this prospectus by referring you to another document filed separately with the SEC. The information incorporated by reference is an important part of this prospectus. Information that Valero L.P. files later with the SEC will automatically update and may replace information in this prospectus and information previously filed with the SEC.

We incorporate by reference the documents listed below that Valero L.P. has previously filed with the SEC (File No. 1-16417). They contain important information about us, our financial condition and results of operations. Some of these documents have been amended by later filings, which are also listed.

- Valero L.P.'s Annual Report on Form 10-K for the year ended December 31, 2002;
- Valero L.P.'s Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2003 and June 30, 2003;
- Valero L.P.'s Current Reports on Form 8-K filed on March 14, 2003, March 17, 2003, April 2, 2003 and August 6, 2003;
- the description of our common units contained in our registration statement on Form 8-A, filed on March 30, 2001; and
- any future filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 (excluding any information furnished pursuant to Item 9 or Item 12 on any Current Report on Form 8-K) subsequent to the date of this prospectus and until all of the securities offered by this prospectus have been sold.

We also incorporate by reference any future filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (excluding any information furnished pursuant to Item 9 or Item 12 on any Current Report on Form 8-K) subsequent to the date of the initial registration statement and prior to effectiveness of the registration statement.

You may obtain any of the documents incorporated by reference in this document through us or from the SEC through the SEC's website at the address provided above. Documents incorporated by reference are available from us without charge, excluding any exhibits to those documents, unless the exhibit is specifically incorporated by reference in this document, by requesting them in writing or by telephone from us at the following address:

Investor Relations
Valero L.P.
One Valero Place
San Antonio, Texas 78212
Telephone: (210) 370-2000

You may also obtain these documents through our website at www.valerolp.com.

FORWARD-LOOKING STATEMENTS

Some of the information included in this prospectus, any accompanying prospectus supplement and the documents we incorporate by reference contain "forward-looking" statements regarding future events and our future financial performance. All forward-looking statements are based on our beliefs as well as assumptions made by and information currently available to us. Words such as

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"believe", "expect", "intend", "forecast", "project" and similar expressions, identify forward-looking statements within the meaning of the Securities Litigation Reform Act of 1995. These statements reflect our current views with respect to future events and are subject to various risks, uncertainties and assumptions including:

- Any reduction in the quantities of crude oil and refined products transported in our pipelines and handled at our terminals and storage tanks;
- Any significant decrease in the demand for refined products in the markets served by our pipelines;
- Any material decline in production by any of Valero Energy's McKee, Three Rivers, Corpus Christi West, Corpus Christi East, Texas City, Benicia or Ardmore refineries;
- Any downward pressure on market prices caused by new competing refined product pipelines that could cause Valero Energy to decrease the volumes transported in our pipelines;
- Any challenges to our tariff rates;
- Any material decrease in the supply of or material increase in the price of crude oil available for transport through our pipelines and storage tanks;
- Inability to expand our business and acquire new assets as well as to attract third party shippers;
- Conflicts of interest with Valero Energy;
- Any inability to borrow additional funds;
- Any substantial costs related to environmental and safety risks, including increased costs of compliance;
- Any change in the credit rating assigned to our indebtedness;
- Any change in the credit rating assigned to Valero Energy's indebtedness;
- Any reductions in space allocated to us in interconnecting third party pipelines;
- Any material increase in the price of natural gas;
- Terrorist attacks, threats of war or terrorist attacks or political or other disruptions that limit crude oil production; and
- Valero L.P.'s former use of Arthur Andersen LLP as its independent public accountants.

If one or more of these risks or uncertainties materialize, or if the underlying assumptions prove incorrect, actual results may vary materially from those described in the forward-looking statement. Readers are cautioned not to place undue reliance on this forward-looking information, which is as of the date of this prospectus, and we undertake no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise. When reviewing forward-looking information, please review carefully the risk factors described under "Risk Factors" in this prospectus.

RISK FACTORS

Limited partnerships are inherently different from corporations. You should carefully consider the following risk factors together with all of the other information included and incorporated by reference in this prospectus in evaluating an investment in our securities.

If any of the following risks were actually to occur, our business, financial condition, or results of operations could be materially adversely affected. In that case, the trading price of our securities could decline and you could lose all or part of your investment.

RISKS INHERENT IN OUR BUSINESS

WE MAY NOT BE ABLE TO GENERATE SUFFICIENT CASH FROM OPERATIONS TO ENABLE US TO PAY THE REQUIRED PAYMENTS TO OUR DEBT HOLDERS OR THE MINIMUM QUARTERLY DISTRIBUTION ON THE COMMON UNITS EVERY QUARTER.

The amount of cash we are able to pay as interest or principal repayment to our debt holders or distribute on the common units 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. 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 and stored in our terminals and storage facilities, the tariff rates, terminalling and storage 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:

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

Cash distributions to equity holders and payments to debt holders 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 cash distributions during periods when we record losses and may not make cash distributions during periods when we record net income.

COST REIMBURSEMENTS PAID TO AND FEES DUE VALERO ENERGY AND ITS AFFILIATES ARE SUBSTANTIAL, REDUCE OUR CASH AVAILABLE FOR DISTRIBUTION AND COULD ADVERSELY AFFECT OUR ABILITY TO MAKE CASH DISTRIBUTIONS TO UNIT HOLDERS AND PAYMENTS TO DEBT HOLDERS.

We have agreed to pay Valero Energy and its affiliates aggregate annual fees in the amount of \$8.7 million in addition to reimbursements for direct

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expenses incurred by affiliates of Valero Energy on our behalf. Under our services agreement, we currently pay an annual administrative fee of \$5.2 million for corporate, general and administrative services. Valero Energy may increase the annual administrative fee by up to 1.5% each year, as further adjusted for inflation, and may require further increases in connection with expansions of our operations. In addition, pursuant to the crude oil storage tank services and secondment agreements entered into on March 18, 2003, we have agreed to pay Valero Energy an annual fee of \$3.5 million, which may be increased by Valero Energy based on increases in the consumer price index. After an initial period of five years, the services and secondment fee may be adjusted to reflect the actual costs to Valero Energy for services provided to us. Additionally, Valero Energy and its affiliates are entitled to reimbursement for expenses incurred in connection with all other services they provide to us, such as salaries and benefits for pipeline operations personnel. For the year ended December 31, 2002 and

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the six months ended June 30, 2003, we reimbursed Valero Energy and its affiliates for approximately \$13.8 million and \$9.2 million, respectively, of direct expenses. The amount of reimburseable expenses is determined by Valero L.P.'s general partner in its sole discretion.

WE DEPEND UPON VALERO ENERGY FOR MOST OF THE CRUDE OIL AND REFINED PRODUCTS TRANSPORTED IN OUR PIPELINES AND HANDLED AT OUR TERMINALS AND STORAGE FACILITIES, AND ANY REDUCTION IN THOSE QUANTITIES COULD REDUCE OUR ABILITY TO MAKE CASH DISTRIBUTIONS TO OUR UNITHOLDERS OR PAYMENTS TO OUR DEBT HOLDERS.

Because of the geographic location of our pipelines, terminals and storage facilities, we depend almost exclusively upon Valero Energy to provide throughput for our pipelines, terminals and storage facilities. Any decrease in throughput would cause our revenues to decline and adversely affect our ability to make cash distributions to our unitholders or payments to our debt holders. A decrease in throughput could result from a temporary or permanent decline in the amount of crude oil transported to or refined products produced by the refineries we serve. Factors that could result in such a decline include:

- a material decrease in the supply of crude oil;
- a material increase in the price of crude oil;
- adverse market conditions;
- unexpected turnarounds or shutdowns; or
- a decision by Valero Energy to sell one or more of the refineries we serve to a purchaser that elects not to use our pipelines and terminals.

OUR GROWTH MAY BE LIMITED IF WE ARE NOT SUCCESSFUL IN ACQUIRING, EXPANDING OR CONSTRUCTING PIPELINES AND TERMINALLING AND STORAGE ASSETS OR ATTRACTING SHIPPERS IN ADDITION TO VALERO ENERGY.

We intend to grow our business in part through selective acquisitions, expansions or construction of 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 and thus our growth may be limited.

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

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satisfactory terms or at all. Valero Energy is also under no obligation to sell to us any pipeline, terminalling or storage assets it owns.

Acquisitions involve numerous risks, including future results that could be lower than expected, difficulties in the assimilation of the operations, technologies, and services of the acquired companies or business segments, the diversion of management's attention from other business concerns, and the potential loss of key employees of the acquired businesses. As a result, our business could be adversely affected by an acquisition.

The construction of a new pipeline or the expansion of an existing pipeline, by adding additional horsepower or pump stations or by adding a second pipeline along an existing pipeline, involves numerous regulatory, environmental, political, and legal uncertainties beyond our control. These projects may not be completed on schedule or at all or at the budgeted cost. Moreover, our revenues may not increase immediately upon the expenditure of funds on a particular project. For instance, if we build a new pipeline, the construction will occur over an extended period of time and we will not receive any material increases in revenues until after completion of the project. This could have an adverse affect on our ability to distribute cash to unitholders or make payments to debt holders.

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Once we increase our capacity through acquisitions, construction of new pipelines, or expansion of existing pipelines, we may not be able to obtain or sustain throughput to utilize the newly available capacity. The underutilization of a recently acquired, constructed, or expanded pipeline could adversely affect our ability to distribute cash to unitholders or make payments to debt holders.

We also plan to seek volumes of crude oil or refined products to transport on behalf of shippers other than Valero Energy. However, volumes transported by us for third parties have been very limited historically and because of our lack of geographic relationship or interconnections with other refineries, we may not be able to obtain material third party volumes.

CONTINUED HIGH NATURAL GAS PRICES COULD ADVERSELY AFFECT OUR ABILITY TO MAKE DISTRIBUTIONS TO OUR COMMON UNITHOLDERS OR PAYMENTS TO DEBT HOLDERS.

Power costs constitute a significant portion of our operating expenses. Power costs represented approximately 29% of our operating expenses for the year ended December 31, 2002 and approximately 26% of our operating expenses for the six months ended June 30, 2003. 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 distributions to our unitholders and payments to debt holders.

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.

On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope, and the United States and others instituted military action in response. 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. These developments subject energy-related operations to

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increased risks and may cause disruptions in the supply of crude oil and thus adversely impact the throughput levels in our pipelines.

In addition, political uncertainties and unrest in crude oil producing countries 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, which could adversely impact the throughput levels in our pipelines, terminals and storage tanks and thus our results of operations.

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 in Texas, New Mexico, Arizona and Utah that, if or when undertaken and completed, could adversely impact some of the most significant markets we serve. 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 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 DEBT HOLDERS OR DISTRIBUTIONS TO UNITHOLDERS 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

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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 distribution to unitholders or payment to debt holders could be materially reduced by a successful challenge to our rates.

ANY REDUCTION IN THE CAPACITY OF, OR THE ALLOCATIONS TO, OUR SHIPPERS IN INTERCONNECTING THIRD PARTY PIPELINES COULD CAUSE A REDUCTION OF VOLUMES TRANSPORTED IN OUR PIPELINES AND COULD NEGATIVELY AFFECT OUR ABILITY TO MAKE PAYMENTS TO DEBT HOLDERS OR DISTRIBUTIONS TO UNITHOLDERS.

Valero Energy and the other shippers in our pipelines are dependent upon connections to third party pipelines both to receive crude oil from the Texas Gulf Coast, the Permian Basin, and other areas and to deliver refined products to outlying market areas in Arizona, the midwestern United States, and the Rocky

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Mountain region of the United States. Any reduction of capacities in these interconnecting pipelines due to testing, line repair, reduced operating pressures, or other causes could result in reduced volumes transported in our pipelines. Similarly, any reduction in the allocations to our shippers in these interconnecting pipelines because additional shippers begin transporting volumes in the pipelines could also result in reduced volumes transported in our pipelines. Any reduction in volumes transported in our pipelines could adversely affect our revenues and cash flows.

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 OUR SECURITY HOLDERS.

Valero Energy and its affiliates currently have an aggregate 43.8% limited partner interest in us and own and control Valero L.P.'s general partner. Valero L.P. controls Valero Logistics' general partner. Conflicts of interest may arise between Valero Energy and its affiliates, including Valero L.P.'s general partner, on the one hand, and Valero L.P. and its limited partners, on the other hand. As a result of these conflicts, the general partner may favor its own interests and the interests of its affiliates over the interests of the unitholders. These conflicts include, among others, the following situations:

- Valero Energy, as the primary shipper in our pipelines, has an economic incentive to seek lower tariff rates for our pipelines, lower terminalling fees and lower storage fees;
- Some officers of Valero Energy, who provide services to us, also devote significant time to the businesses of Valero Energy and are compensated by Valero Energy for the services rendered by them;
- Neither of the respective partnership agreements nor any other agreement requires Valero Energy to pursue a business strategy that favors us or utilizes our assets, including any increase in refinery production or pursuing or growing markets linked to our assets. Valero Energy's directors and officers have a fiduciary duty to make these decisions in the best interests of the stockholders of Valero Energy;
- Valero Energy and its affiliates may engage in limited competition with us;
- Valero Energy may use other transportation methods or providers for up to 25% of the crude oil processed and refined products produced at the Ardmore, McKee, and Three Rivers refineries and is not required to use our pipelines if there is a material change in the market conditions for the transportation of crude oil and refined products, or in the markets for refined products served by these refineries, that has a material adverse effect on Valero Energy;

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- For some of the refined product pipelines and terminals connected to Valero Energy's Corpus Christi East, Corpus Christi West and Three Rivers refineries, Valero Energy has agreed to specified minimum commitment percentages for certain pipelines and terminals, which generally represent approximately 75% of 2002 historical volumes, but may use other transportation and storage methods and providers for any volumes exceeding such minimum commitments;
- Valero L.P.'s general partner is allowed to take into account the interests of parties other than us, such as Valero Energy, in resolving conflicts of interest, which has the effect of limiting its fiduciary

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duty to the unitholders;

- Valero L.P.'s general partner may limit its liability and reduce its fiduciary duties, while also restricting the remedies available to unitholders. As a result of purchasing common units, holders consent to some actions and conflicts of interest that might otherwise constitute a breach of fiduciary or other duties under applicable state law;
- Valero L.P.'s general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuance of additional limited partner interests and reserves, each of which can affect the amount of cash that is paid to holders of our securities;
- Valero L.P.'s general partner determines in its sole discretion which costs incurred by Valero Energy and its affiliates are reimbursable by us;
- Valero L.P.'s general partner may cause us to pay the general partner or its affiliates for any services rendered on terms that are fair and reasonable to us or enter into additional contractual arrangements with any of these entities on our behalf;
- Valero L.P.'s general partner controls the enforcement of obligations owed to us by Valero Energy and its affiliates, including under the storage tank asset handling and throughput agreement, the throughput commitment agreement, the terminalling agreements and the pipelines and terminals usage agreement with Valero Energy;
- Valero L.P.'s general partner decides whether to retain separate counsel, accountants, or others to perform services for us; and
- In some instances, Valero L.P.'s general partner may cause us to borrow funds in order to permit the payment of distributions, even if the purpose or effect of the borrowing is to make a distribution on the subordinated units or to make incentive distributions or to hasten the expiration of the subordination period.

Valero L.P.'s partnership agreement gives the general partner broad discretion in establishing financial reserves for the proper conduct of our business including interest payments. These reserves also will affect the amount of cash available for distribution. The general partner may establish reserves for distributions on the subordinated units, but only if those reserves will not prevent us from distributing the full minimum quarterly distribution, plus any arrearages, on the common units for the following four quarters.

OUR FUTURE FINANCIAL AND OPERATING FLEXIBILITY MAY BE ADVERSELY AFFECTED BY RESTRICTIONS IN OUR DEBT AGREEMENTS AND BY OUR LEVERAGE.

Debt service obligations, restrictive covenants in our revolving credit facility and the indentures governing our outstanding notes 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. For example, 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 by Valero Logistics or equity offerings by Valero L.P. We cannot guarantee that we will be able to access the capital markets in the future at economically attractive terms, which may adversely affect our future financial and operating flexibility.

THE TRANSPORTATION AND STORAGE OF CRUDE OIL AND REFINED PRODUCTS IS SUBJECT TO FEDERAL AND STATE LAWS RELATING TO ENVIRONMENTAL PROTECTION AND OPERATIONAL SAFETY AND RESULTS IN A RISK THAT CRUDE OIL AND OTHER HYDROCARBONS MAY BE RELEASED INTO THE ENVIRONMENT, POTENTIALLY CAUSING SUBSTANTIAL EXPENDITURES THAT COULD LIMIT OUR ABILITY TO MAKE DISTRIBUTIONS TO UNITHOLDERS OR PAYMENTS TO DEBT HOLDERS.

Our operations are subject to federal and state laws and regulations relating to environmental protection and operational safety. Risks of substantial costs and liabilities are inherent in pipeline, storage, and terminalling operations, and we may incur these costs and liabilities in the future. The transportation and storage of crude oil and refined products results in a risk of a sudden or gradual release of crude oil or refined products into the environment, potentially causing substantial expenditures for a response action, significant government penalties, liability for natural resources damages to government agencies, personal injury, or property damages to private parties and significant business interruption.

OUR FORMER USE OF ARTHUR ANDERSEN LLP AS OUR INDEPENDENT PUBLIC ACCOUNTANTS MAY LIMIT YOUR ABILITY TO SEEK POTENTIAL RECOVERIES FROM THEM RELATED TO THEIR WORK.

Arthur Andersen LLP, independent public accountants, audited our financial statements as of December 31, 2000 and for the years ended December 31, 2000 and 2001 incorporated by reference in this prospectus. On March 22, 2002, we dismissed Arthur Andersen and engaged Ernst & Young LLP. In June 2002, Arthur Andersen was convicted on a federal obstruction of justice charge.

Moreover, Arthur Andersen has ceased operations. As a result, you may not be able to recover from Arthur Andersen for claims that you may assert related to the financial statements audited by Arthur Andersen, including under Section 11 of the Securities Act for material misstatements or omissions, if any, in this prospectus.

RISKS INHERENT IN AN INVESTMENT IN VALERO L.P.

UNITHOLDERS HAVE LIMITED VOTING RIGHTS.

Unitholders have only limited voting rights on matters affecting our business. Unitholders have no right to elect Valero L.P.'s general partner or its directors. Removal of Valero L.P.'s general partner requires the vote of the holders of at least 58% of the then outstanding common units and subordinated units, excluding the units held by Valero Energy and its affiliates, and the approval of a successor general partner by the holders of a majority of the then outstanding common units and subordinated units, excluding the units held by Valero Energy and its affiliates.

In addition, Valero L.P.'s partnership agreement provides that:

- if Valero L.P.'s general partner is removed without cause, all remaining subordinated units (all of which are currently owned by Valero Energy and its affiliates) will automatically convert into common units and will share distributions with the existing common units pro rata, any then existing arrearages on the common units will be extinguished, and the common units will no longer be entitled to arrearages if we fail to pay the minimum quarterly distribution in any quarter. Cause is narrowly defined to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding the general partner liable for

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actual fraud, gross negligence, or willful or wanton misconduct in its capacity as general partner;

- any units held by a person that owns 20% or more of any class of units then outstanding, other than Valero L.P.'s general partner and its affiliates, cannot be voted on any matter; and
- Valero L.P.'s unitholders are limited in their ability to call meetings or to acquire information about our operations, as well as to influence the manner or direction of management.

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WE MAY ISSUE ADDITIONAL COMMON UNITS WITHOUT UNITHOLDER APPROVAL, WHICH MAY DILUTE EXISTING UNITHOLDERS' INTERESTS.

During the subordination period, Valero L.P.'s general partner, without the approval of the unitholders, may cause us to issue common units in a number of circumstances, such as the conversion of the general partner interest and the incentive distribution rights into common units, as a result of the withdrawal of Valero L.P.'s general partner.

The issuance of additional common units or other equity securities of equal or senior rank will have the following effects:

- your proportionate ownership interest in Valero L.P. will decrease;
- the amount of cash available for distribution on each unit may decrease;
- since a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by the common unitholders will increase;
- the relative voting strength of each previously outstanding unit may be diminished; and
- the market price of the common units may decline.

Subject to the restrictions under the New York Stock Exchange rules, after the end of the subordination period, we may issue an unlimited number of limited partner interests of any type without the approval of the unitholders. Valero L.P.'s partnership agreement does not give the unitholders the right to approve our issuance of equity securities ranking junior to the common units at any time.

THE GENERAL PARTNER OF VALERO L.P. HAS A LIMITED CALL RIGHT THAT MAY REQUIRE A UNITHOLDER TO SELL ITS COMMON UNITS AT AN UNDESIRABLE TIME OR PRICE.

If at any time Valero L.P.'s general partner and its affiliates own 80% or more of the common units, Valero L.P.'s general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the remaining common units held by unaffiliated persons at a price not less than their then-current market price. As a result, at such time, a unitholder may be required to sell its common units at an undesirable time or price and may therefore not receive any return on its investment. A unitholder may also incur a tax liability upon a sale of its units.

A UNITHOLDER MAY NOT HAVE LIMITED LIABILITY IF A STATE OR COURT FINDS THAT WE ARE NOT IN COMPLIANCE WITH THE APPLICABLE STATUTES OR THAT UNITHOLDER ACTION CONSTITUTES CONTROL OF OUR BUSINESS.

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As a limited partner in a partnership organized under Delaware law, you could be held liable for our obligations to the same extent as a general partner if you participate in the "control" of our business. Our general partner generally has unlimited liability for the obligations of the partnership, such as its debts and environmental liabilities, except for those contractual obligations of the partnership that are expressly made without recourse to our general partner. In addition, Section 17-607 of the Delaware Revised Uniform Limited Partnership Act provides that, under some circumstances, a unitholder may be liable to us for the amount of a distribution for a period of three years from the date of the distribution. The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some of the other states in which we do business.

CHANGES IN FEDERAL INCOME TAX LAW COULD AFFECT THE VALUE OF THE COMMON UNITS.

Recently enacted legislation has reduced the rate of federal income tax applicable to qualified dividend income of individuals. Qualified dividend income includes dividends received from domestic corporations and certain foreign corporations. This legislation will not affect our ability to make quarterly distributions, but may affect the attractiveness of an investment in our common units and, as a result, the trading price of our common units.

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TAX RISKS TO UNITHOLDERS

For a discussion of all of the expected material federal income tax consequences of owning and disposing of common units, please read "Tax Considerations."

THE IRS COULD TREAT US AS A CORPORATION, WHICH WOULD SUBSTANTIALLY REDUCE THE CASH AVAILABLE FOR DISTRIBUTION TO UNITHOLDERS.

The federal income tax benefit of an investment in us depends largely on our classification as a partnership for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this or any other matter affecting us. We have, however, received an opinion of counsel that, based on current law, we have been and will be classified as a partnership for federal income tax purposes. Opinions of counsel are based on specified factual assumptions and are not binding on the IRS or any court.

If we were classified as a corporation for federal income tax purposes, we would pay tax on our income at corporate rates, currently 35%, distributions would generally be taxed again to you as corporate distributions, and no income, gains, losses, or deductions would flow through to you. Because a tax would be imposed upon us as an entity, the cash available for distribution to unitholders would be substantially reduced. Treatment of us as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to you and thus would likely result in a substantial reduction in the value of the common units.

Current law may change so as to cause Valero L.P. to be taxable as a corporation for federal income tax purposes or otherwise to be subject to entity-level taxation. Because of widespread state budget deficits, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise or other forms of taxation. If any state were to impose a tax upon Valero L.P. as an entity, the cash available for distribution to unitholders would be reduced. Valero L.P.'s partnership agreement provides that, if a law is enacted or existing law is modified or

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interpreted in a manner that subjects Valero L.P. to taxation as a corporation or otherwise subjects Valero L.P. to entity-level taxation for federal, state or local income tax purposes, then distributions will be decreased to reflect the impact of that law on Valero L.P.

A SUCCESSFUL IRS CONTEST OF THE FEDERAL INCOME TAX POSITIONS WE TAKE MAY ADVERSELY IMPACT THE MARKET FOR COMMON UNITS AND THE COSTS OF ANY CONTEST WILL BE BORNE BY SOME OR ALL OF THE UNITHOLDERS.

We have not requested any ruling from the IRS with respect to Valero L.P.'s classification as a partnership for federal income tax purposes or any other matter affecting us. The IRS may adopt positions that differ from counsel's conclusions expressed in this prospectus. It may be necessary to resort to administrative or court proceedings in an effort to sustain some or all of counsel's conclusions or positions we take. A court may not concur with some or all of our conclusions. Any contest with the IRS may materially and adversely impact the market for the common units and the prices at which common units trade. In addition, the costs of any contest with the IRS will be borne directly or indirectly by some or all of the unitholders and the general partner.

YOU MAY BE REQUIRED TO PAY TAXES ON INCOME FROM US EVEN IF YOU DO NOT RECEIVE ANY CASH DISTRIBUTIONS.

You will be required to pay federal income taxes and, in some cases, state and local income taxes on your share of our taxable income, whether or not you receive cash distributions from us. You may not receive cash distributions equal to your allocable share of our taxable income or even the tax liability that results from that income. Further, you may incur a tax liability, in excess of the amount of cash you receive, upon the sale of your common units.

TAX GAIN OR LOSS ON THE DISPOSITION OF COMMON UNITS COULD BE DIFFERENT THAN EXPECTED.

Upon a sale of common units, you will recognize gain or loss equal to the difference between the amount realized and your adjusted tax basis in those common units. Prior distributions from us in excess of the total net taxable income you were allocated for a common unit which decreased your tax basis in the common unit will, in effect, become taxable income if the common unit is sold at a price greater than

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your tax basis in the common unit, even if the price is less than your original cost. A portion of the amount realized, whether or not representing gain, will likely be ordinary income. Furthermore, should the IRS successfully contest some conventions we use, you could realize more gain on the sale of common units than would be the case under those conventions without the benefit of decreased income in prior years.

INVESTORS, OTHER THAN INDIVIDUALS WHO ARE U.S. RESIDENTS, MAY HAVE ADVERSE TAX CONSEQUENCES FROM OWNING COMMON UNITS.

Investment in common units by some tax-exempt entities, regulated investment companies, and foreign persons raises issues unique to these persons. For example, virtually all of the taxable income derived by most organizations exempt from federal income tax, including individual retirement accounts and other retirement plans, from the ownership of a common unit will be unrelated business income and thus will be taxable to the unitholder. Very little of our income will be qualifying income to a regulated investment company. Distributions to foreign persons will be reduced by withholding taxes. Foreign persons will be required to file federal income tax returns and pay taxes on

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their share of our taxable income.

WE HAVE REGISTERED AS A "TAX SHELTER" WITH THE SECRETARY OF THE TREASURY. THIS MAY INCREASE THE RISK OF AN IRS AUDIT OF US OR A UNITHOLDER.

We have registered as a "tax shelter" with the Secretary of the Treasury. As a result, we may be audited by the IRS and tax adjustments could be made. The rights of a unitholder owning less than a 1% interest in us to participate in the income tax audit process are very limited. Further, any adjustments in our tax returns will lead to adjustments in your tax returns and may lead to audits of your tax returns and adjustments of items unrelated to us. You would bear the cost of any expenses incurred in connection with an examination of your personal tax return.

WE TREAT A PURCHASER OF COMMON UNITS AS HAVING THE SAME TAX BENEFITS AS THE SELLER. A SUCCESSFUL IRS CHALLENGE COULD ADVERSELY AFFECT THE VALUE OF THE COMMON UNITS.

Because we cannot match transferors and transferees of common units, we have adopted certain depreciation conventions that do not conform with all aspects of final Treasury Regulations. A successful IRS challenge to those conventions could adversely affect the amount of tax benefits available to you or could affect the timing of these tax benefits or the amount of gain from the sale of common units and could have a negative impact on the value of the common units or result in audit adjustments to your tax returns.

YOU WILL LIKELY BE SUBJECT TO STATE AND LOCAL TAXES AND RETURN FILING REQUIREMENTS AS A RESULT OF AN INVESTMENT IN COMMON UNITS.

In addition to federal income taxes, unitholders will likely be subject to other taxes, such as state and local taxes, unincorporated business taxes and estate, inheritance, or intangible taxes that are imposed by the various jurisdictions in which we do business or own property. You will likely be required to file state and local income tax returns and pay state and local income taxes in some or all of the various jurisdictions in which we do business or own property and may be subject to penalties for failure to comply with those requirements. We own property and conduct business in Texas, California, Colorado, New Mexico, Kansas, New Jersey and Oklahoma. Of these states, California, Colorado, New Mexico, Kansas, New Jersey and Oklahoma currently impose a personal income tax. It is the responsibility of each unitholder to file all federal, state, and local tax returns that may be required of the unitholder. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in the common units.

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USE OF PROCEEDS

Except as otherwise provided in the applicable prospectus supplement, we will use the net proceeds we receive from the sale of the securities offered by this prospectus for general partnership purposes. These general partnership purposes may include, among other things:

- repayment of debt;
- working capital;
- capital expenditures; and
- future acquisitions, which may consist of acquisitions of businesses or discrete assets.

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The actual application of proceeds from the sale of any particular tranche of securities issued using this prospectus will be described in the applicable prospectus supplement relating to that tranche of securities. The precise amount and timing of the application of these proceeds will depend upon our funding requirements and the availability and cost of other funds.

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges for each of the periods indicated is as follows:

| | TWELVE MONTHS ENDED DECEMBER 31, | | | | | SIX MONTHS ENDED JUNE 30, 2003 |
|---|----------------------------------|-------|------|-------|-------|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | |
| Ratio of Earnings to Fixed Charges..... | 59.5x | 70.8x | 8.7x | 11.8x | 11.1x | 5.2x |

For purposes of calculating the ratio of earnings to fixed charges:

- "fixed charges" represent interest expense (including amounts capitalized and amortization of debt costs) and the portion of rental expense representing the interest factor; and
- "earnings" represent the aggregate of pre-tax income from continuing operations (before adjustment for income from equity investees), fixed charges, amortization of capitalized interest and distributions from equity investees, less capitalized interest.

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DESCRIPTION OF COMMON UNITS

References in this "Description of Common Units" to "we," "us" and "our" mean Valero L.P.

NUMBER OF UNITS

We currently have 13,442,072 common units outstanding, of which 12,754,181 are held by the public and 687,891 are held by affiliates of our general partner. We also have 9,599,322 subordinated units outstanding, all of which are held by an affiliate of our general partner, for which there is no established public trading market. The common units and the subordinated units represent an aggregate 98% limited partner interest in Valero L.P. and the general partner has a 2% general partner interest in Valero L.P.

Under our partnership agreement we may issue, without further unitholder action, an unlimited number of additional limited partner interests and other equity securities with such rights, preferences and privileges as may be established by our general partner in its sole discretion. However, during the subordination period, we may not issue equity securities senior to the common units or an aggregate of more than 4,462,161 common units or other units having rights to distributions or in liquidation ranking on a parity with the common units without the prior approval of at least a majority of the outstanding common units voting as a class and at least a majority of the outstanding subordinated units voting as a class; provided that, we may issue an unlimited

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number of additional common units or parity securities prior to the end of the subordination period and without unitholder approval for acquisitions which increase cash flow from operations per unit on a pro forma basis.

VOTING

Each holder of common units is entitled to one vote for each common unit on all matters submitted to a vote of the unitholders; provided that, if at any time any person or group, except our general partner, owns beneficially 20% or more of all common units, the common units so owned may not be voted on any matter and may not be considered to be outstanding when sending notices of a meeting of unitholders (unless otherwise required by law), calculating required votes, determining the presence of a quorum or for other similar purposes under our partnership agreement.

Holders of subordinated units will sometimes vote as a single class together with the common units and sometimes vote as a class separate from the holders of common units and, as in the case of holders of common units, will have very limited voting rights. During the subordination period, common units and subordinated units each vote separately as a class on the following matters:

- a sale or exchange of all or substantially all of our assets;
- the election of a successor general partner in connection with the removal of our general partner;
- dissolution or reconstitution of Valero L.P.;
- a merger of Valero L.P.;
- issuance of limited partner interests in some circumstances; and
- specified amendments to our partnership agreement, including any amendment that would cause us to be treated as an association taxable as a corporation.

The subordinated units are not entitled to vote on approval of the withdrawal of our general partner or the transfer by our general partner of its general partner interest or incentive distribution rights under some circumstances. Removal of our general partner requires:

- a vote of 58% of all outstanding common units and subordinated units, excluding the common units and subordinated units held by affiliates of our general partner; and
- the election of a successor general partner by the holders of a majority of the outstanding common units and subordinated units, voting as separate classes and in each case excluding the units held by affiliates of our general partner.

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LISTING

Our outstanding common units are listed on The New York Stock Exchange under the symbol "VLI". Any additional common units we issue will also be listed on the NYSE.

TRANSFER AGENT AND REGISTRAR

Our transfer agent and registrar for the common units is Mellon Investor

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Services, LLC.

CASH DISTRIBUTIONS

References in this "Cash Distributions" section to "we," "us" and "our" mean Valero L.P.

DISTRIBUTIONS OF AVAILABLE CASH

General. Within approximately 45 days after the end of each quarter, we will distribute all of our available cash to unitholders of record on the applicable record date and to our general partner.

Definition of Available Cash. Available cash generally means, for each fiscal quarter, all cash on hand at the end of the quarter:

- less the amount of cash that our general partner determines in its reasonable discretion is necessary or appropriate to:
 - provide for the proper conduct of our business;
 - comply with applicable law, any of our debt instruments, or other agreements; or
 - provide funds for distributions to our unitholders and to our general partner for any one or more of the next four quarters;
- plus all cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter. Working capital borrowings are generally borrowings that are made under our revolving credit facility and in all cases are used solely for working capital purposes or to pay distributions to partners.

Intent to Distribute the Minimum Quarterly Distribution. We intend to distribute to holders of common units and subordinated units on a quarterly basis at least the minimum quarterly distribution of \$0.60 per quarter or \$2.40 per year to the extent we have sufficient cash from our operations after the establishment of reserves and the payment of fees and expenses, including payments to our general partner. However, there is no guarantee that we will pay the minimum quarterly distribution on the common units in any quarter.

Event of Default under the Credit Facility. We will be prohibited from making any distributions to unitholders if it would cause an event of default, or if an event of default is existing, under Valero Logistics' revolving credit facility.

Increase in Quarterly Distribution. On April 19, 2002, we announced an increase in the quarterly distribution from \$0.60 per unit to \$0.65 per unit for the 2002 first quarter cash distribution, which was paid on May 15, 2002. On July 19, 2002, we announced an increase in the quarterly distribution to \$0.70 per unit for the second quarter of 2002, which was paid on August 14, 2002. On July 28, 2003, we announced a further increase in the quarterly distribution to \$0.75 per unit, which was paid on August 14, 2003 to holders of record as of August 5, 2003.

OPERATING SURPLUS, CAPITAL SURPLUS AND ADJUSTED OPERATING SURPLUS

General. All cash distributed to unitholders will be characterized either as operating surplus or capital surplus. We distribute available cash from operating surplus differently than available cash from capital surplus.

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Definition of Operating Surplus. For any period, operating surplus generally means:

- our cash balance on the closing date of our initial public offering; plus
- \$10 million; plus
- all of our cash receipts since the closing of our initial public offering, excluding cash from borrowings that are not working capital borrowings, sales of equity and debt securities and sales or other dispositions of assets outside the ordinary course of business; plus
- working capital borrowings made after the end of a quarter but before the date of determination of operating surplus for the quarter; less
- all of our operating expenditures since the closing of our initial public offering, including the repayment of working capital borrowings, but not the repayment of other borrowings, and including maintenance capital expenditures; less
- the amount of reserves that our general partner deems necessary or advisable to provide funds for future operating expenditures.

Definition of Capital Surplus. Capital surplus will generally be generated only by:

- borrowings other than working capital borrowings;
- sales of debt and equity securities; and
- sales or other dispositions of assets for cash, other than inventory, accounts receivable and other current assets sold in the ordinary course of business or as part of normal retirements or replacements of assets.

Characterization of Cash Distributions. We will treat all available cash distributed as coming from operating surplus until the sum of all available cash distributed since we began operations equals the operating surplus as of the most recent date of determination of available cash. We will treat any amount distributed in excess of operating surplus, regardless of its source, as capital surplus. We do not anticipate that we will make any distributions from capital surplus.

Definition of Adjusted Operating Surplus. Adjusted operating surplus is intended to reflect the cash generated from operations during a particular period and therefore excludes net increases in working capital borrowings and net drawdowns of reserves of cash generated in prior periods.

Adjusted operating surplus for any period generally means:

- operating surplus generated with respect to that period; less
- any net increase in working capital borrowings with respect to that period; less
- any net reduction in reserves for operating expenditures with respect to that period not relating to an operating expenditure made with respect to that period; plus
- any net decrease in working capital borrowings with respect to that period; plus

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- any net increase in reserves for operating expenditures with respect to that period required by any debt instrument for the repayment of principal, interest or premium.

SUBORDINATION PERIOD

General. During the subordination period, the common units have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of \$0.60 per unit, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units. The purpose of the subordinated units is to increase the likelihood that during the subordination period there will be available cash to be distributed on the common units.

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Definition of Subordination Period. The subordination period will extend until the first day of any quarter beginning after March 31, 2006 that each of the following tests are met:

- distributions of available cash from operating surplus on each of the outstanding common units and subordinated units equaled or exceeded the minimum quarterly distribution for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;
- the adjusted operating surplus generated during each of the three immediately preceding non-overlapping four-quarter periods equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units and subordinated units during those periods on a fully diluted basis and the related distribution on the 2% general partner interest during those periods; and
- there are no arrearages in payment of the minimum quarterly distribution on the common units.

Effect of Expiration of the Subordination Period. Upon expiration of the subordination period, each outstanding subordinated unit will convert into one common unit and will then participate pro rata with the other common units in distributions of available cash. In addition, if the unitholders remove our general partner other than for cause and units held by our general partner and its affiliates are not voted in favor of this removal:

- the subordination period will end and each subordinated unit will immediately convert into one common unit;
- any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished; and
- our general partner will have the right to convert its general partner interest and its incentive distribution rights into common units or to receive cash in exchange for those interests.

DISTRIBUTIONS OF AVAILABLE CASH FROM OPERATING SURPLUS DURING THE SUBORDINATION PERIOD

We will make distributions of available cash from operating surplus for any quarter during the subordination period in the following manner:

- First, 98% to the common unitholders, pro rata, and 2% to our general

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partner until we distribute for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter;

- Second, 98% to the common unitholders, pro rata, and 2% to our general partner until we distribute for each outstanding common unit an amount equal to any arrearages in payment of the minimum quarterly distribution on the common units for any prior quarters during the subordination period;
- Third, 98% to the subordinated unitholders, pro rata, and 2% to our general partner until we distribute for each subordinated unit an amount equal to the minimum quarterly distribution for that quarter; and
- Thereafter, in the manner described in "-- Incentive Distribution Rights" below.

DISTRIBUTIONS OF AVAILABLE CASH FROM OPERATING SURPLUS AFTER THE SUBORDINATION PERIOD

We will make distributions of available cash from operating surplus for any quarter after the subordination period in the following manner:

- First, 98% to all unitholders, pro rata, and 2% to our general partner until we distribute for each outstanding unit an amount equal to the minimum quarterly distribution for that quarter; and
- Thereafter, in the manner described in "-- Incentive Distribution Rights" below.

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INCENTIVE DISTRIBUTION RIGHTS

Incentive distribution rights represent the right to receive an increasing percentage of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution and the target distribution levels have been achieved. Our general partner currently holds the incentive distribution rights, but may transfer these rights separately from its general partner interest, subject to restrictions in the partnership agreement.

If for any quarter:

- we have distributed available cash from operating surplus to the common and subordinated unitholders in an amount equal to the minimum quarterly distribution; and
- we have distributed available cash from operating surplus on outstanding common units in an amount necessary to eliminate any cumulative arrearages in payment of the minimum quarterly distribution;

then, we will distribute any additional available cash from operating surplus for that quarter among the unitholders and our general partner in the following manner:

- First, 90% to all unitholders, pro rata, 8% to the holders of the incentive distribution rights, and 2% to our general partner, until each unitholder receives a total of \$0.66 per unit for that quarter (the "first target distribution");
- Second, 75% to all unitholders, pro rata, 23% to the holders of the incentive distribution rights, and 2% to our general partner, until each

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unitholder receives a total of \$0.90 per unit for that quarter (the "second target distribution"); and

- Thereafter, 50% to all unitholders, pro rata, 48% to the holders of the incentive distribution rights, and 2% to our general partner.

In each case, the amount of the target distribution set forth above is exclusive of any distributions to common unitholders to eliminate any cumulative arrearages in payment of the minimum quarterly distribution.

PERCENTAGE ALLOCATIONS OF AVAILABLE CASH FROM OPERATING SURPLUS

The following table illustrates the percentage allocations of the additional available cash from operating surplus between the unitholders and our general partner up to the various target distribution levels. The amounts set forth under "Marginal Percentage Interest in Distributions" are the percentage interests of our general partner and the unitholders in any available cash from operating surplus we distribute up to and including the corresponding amount in the column "Total Quarterly Distribution Target Amount," until available cash from operating surplus we distribute reaches the next target distribution level, if any. The percentage interests shown for the unitholders and our general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution.

| TARGET DISTRIBUTION ----- | TOTAL QUARTERLY DISTRIBUTION TARGET AMOUNT ----- | MARGINAL PERCENTAGE INTEREST IN DISTRIBUTIONS | |
|-------------------------------------|---|--|--------------------------|
| | | UNITHOLDERS ----- | GENERAL PARTNER ----- |
| Minimum Quarterly Distribution..... | \$0.60 | 98% | 2% |
| First Target Distribution..... | 0.66 | 90% | 10% |
| Second Target Distribution..... | 0.90 | 75% | 25% |
| Thereafter..... | above 0.90 | 50% | 50% |

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DISTRIBUTIONS FROM CAPITAL SURPLUS

How Distributions from Capital Surplus Will Be Made. We will make distributions of available cash from capital surplus in the following manner:

- First, 98% to all unitholders, pro rata, and 2% to our general partner, until we distribute for each common unit, an amount of available cash from capital surplus equal to the initial public offering price;
- Second, 98% to the common unitholders, pro rata, and 2% to our general partner, until we distribute for each common unit that was issued in the offering, an amount of available cash from capital surplus equal to any unpaid arrearages in payment of the minimum quarterly distribution on the common units; and
- Thereafter, we will make all distributions of available cash from capital surplus as if they were from operating surplus.

Effect of a Distribution from Capital Surplus. The partnership agreement treats a distribution of capital surplus as the repayment of the unit price from our initial public offering, which is a return of capital. The initial public

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offering price less any distributions of capital surplus per unit is referred to as the unrecovered initial unit price. Each time a distribution of capital surplus is made, the minimum quarterly distribution and the target distribution levels will be reduced in the same proportion as the corresponding reduction in the unrecovered initial unit price. Because distributions of capital surplus will reduce the minimum quarterly distribution, after any of these distributions are made, it may be easier for our general partner to receive incentive distributions and for the subordinated units to convert into common units. However, any distribution of capital surplus before the unrecovered initial unit price is reduced to zero cannot be applied to the payment of the minimum quarterly distribution or any arrearages.

Once we distribute capital surplus on a unit issued in this offering in an amount equal to the initial unit price, we will reduce the minimum quarterly distribution and the target distribution levels to zero and we will make all future distributions from operating surplus, with 50% being paid to the holders of units, 48% to the holders of the incentive distribution rights and 2% to our general partner.

ADJUSTMENT TO THE MINIMUM QUARTERLY DISTRIBUTION AND TARGET DISTRIBUTION LEVELS

In addition to adjusting the minimum quarterly distribution and target distribution levels to reflect a distribution of capital surplus, if we combine our units into fewer units or subdivide our units into a greater number of units, we will proportionately adjust:

- the minimum quarterly distribution;
- target distribution levels;
- unrecovered initial unit price;
- the number of common units issuable during the subordination period without a unitholder vote; and
- the number of common units into which a subordinated unit is convertible.

For example, if a two-for-one split of the common units should occur, the minimum quarterly distribution, the target distribution levels and the unrecovered initial unit price would each be reduced to 50% of its initial level. We will not make any adjustment by reason of the issuance of additional units for cash or property.

In addition, if legislation is enacted or if existing law is modified or interpreted in a manner that causes us to become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes, we will reduce the minimum quarterly distribution and the target distribution levels by multiplying the same by one minus the sum of the highest marginal federal corporate income tax rate that could apply and any increase in the effective overall state and local income tax rates. For

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example, if we became subject to a maximum marginal federal and effective state and local income tax rate of 38%, then the minimum quarterly distribution and the target distribution levels would each be reduced to 62% of their previous levels.

DISTRIBUTIONS OF CASH UPON LIQUIDATION

If we dissolve in accordance with the partnership agreement, we will sell

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or otherwise dispose of our assets in a process called a liquidation. We will first apply the proceeds of liquidation to the payment of our creditors. We will distribute any remaining proceeds to the unitholders and our general partner, in accordance with their capital account balances, as adjusted to reflect any gain or loss upon the sale or other disposition of our assets in liquidation.

The allocations of gain and loss upon liquidation are intended, to the extent possible, to entitle the holders of outstanding common units to a preference over the holders of outstanding subordinated units upon the liquidation of Valero L.P., to the extent required to permit common unitholders to receive their unrecovered initial unit price plus the minimum quarterly distribution for the quarter during which liquidation occurs plus any unpaid arrearages in payment of the minimum quarterly distribution on the common units. However, there may not be sufficient gain upon liquidation of Valero L.P. to enable the holder of common units to fully recover all of these amounts, even though there may be cash available for distribution to the holders of subordinated units. Any further net gain recognized upon liquidation will be allocated in a manner that takes into account the incentive distribution rights of our general partner.

Manner of Adjustments for Gain. The manner of the adjustment is set forth in the partnership agreement. If our liquidation occurs before the end of the subordination period, we will allocate any gain to the partners in the following manner:

- First, to our general partner and the holders of units who have negative balances in their capital accounts to the extent of and in proportion to those negative balances;
- Second, 98% to the common unitholders, pro rata, and 2% to our general partner, until the capital account for each common unit is equal to the sum of:
 - (1) the unrecovered initial unit price for that common unit; plus
 - (2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs; plus
 - (3) any unpaid arrearages in payment of the minimum quarterly distribution on that common unit;
- Third, 98% to the subordinated unitholders, pro rata, and 2% to our general partner, until the capital account for each subordinated unit is equal to the sum of:
 - (1) the unrecovered initial unit price on that subordinated unit; and
 - (2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs;
- Fourth, 90% to all unitholders, pro rata, 8% to the holders of the incentive distribution rights, and 2% to our general partner, pro rata, until we allocate under this paragraph an amount per unit equal to:
 - (1) the sum of the excess of the first target distribution per unit over the minimum quarterly distribution per unit for each quarter of our existence; less
 - (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the minimum quarterly distribution per unit that we distributed 90% to the units, pro rata, and 10% to our general partner, pro rata, for each quarter of

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our existence;

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- Fifth, 75% to all unitholders, pro rata, 23% to the holders of the incentive distribution rights, and 2% to our general partner, until we allocate under this paragraph an amount per unit equal to:
 - (1) the sum of the excess of the second target distribution per unit over the first target distribution per unit for each quarter of our existence; less
 - (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the first target distribution per unit that we distributed 75% to the unitholders, pro rata, 23% to the holders of the incentive distribution rights, and 2% to our general partner for each quarter of our existence;
- Thereafter, 50% to all unitholders, pro rata, 48% to the holders of incentive distribution rights, and 2% to our general partner.

If the liquidation occurs after the end of the subordination period, the distinction between common units and subordinated units will disappear, so that clause (3) of the second bullet point above and all of the third bullet point above will no longer be applicable.

Manner of Adjustments for Losses. Upon our liquidation, we will generally allocate any loss to the general partner and the unitholders in the following manner:

- First, 98% to holders of subordinated units in proportion to the positive balances in their capital accounts and 2% to our general partner until the capital accounts of the holders of the subordinated units have been reduced to zero;
- Second, 98% to the holders of common units in proportion to the positive balances in their capital accounts and 2% to our general partner until the capital accounts of the common unitholders have been reduced to zero; and
- Thereafter, 100% to our general partner.

If the liquidation occurs after the end of the subordination period, the distinction between common units and subordinated units will disappear, so that all of the first bullet point above will no longer be applicable.

Adjustments to Capital Accounts. We will make adjustments to capital accounts upon the issuance of additional units. In doing so, we will allocate any unrealized and, for tax purposes, unrecognized gain or loss resulting from the adjustments to the unitholders and our general partner in the same manner as we allocate gain or loss upon liquidation. In the event that we make positive adjustments to the capital accounts upon the issuance of additional units, we will allocate any later negative adjustments to the capital accounts resulting from the issuance of additional units or upon our liquidation in a manner which results, to the extent possible, in our general partner's capital account balances equaling the amount which they would have been if no earlier positive adjustments to the capital accounts had been made.

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CONFLICTS OF INTEREST AND FIDUCIARY RESPONSIBILITIES

Conflicts of interest. Riverwalk Logistics, L.P., the general partner of Valero L.P., has a legal duty to manage Valero L.P. in a manner beneficial to Valero L.P.'s unitholders. This legal duty originates in statutes and judicial decisions and is commonly referred to as a "fiduciary" duty. However, because Riverwalk Logistics is indirectly owned by Valero Energy, the officers and directors of its general partner, Valero GP, LLC, also have fiduciary duties to manage the business of Riverwalk Logistics in a manner beneficial to Valero Energy and its affiliates. As a result of this relationship, conflicts of interest may arise between Valero L.P.'s general partner and its affiliates, on the one hand, and Valero L.P. and its limited partners, including the public unitholders, on the other hand.

Valero L.P.'s partnership agreement contains provisions that allow the general partner to take into account the interests of parties in addition to Valero L.P. in resolving conflicts of interest. In effect, these provisions limit the general partner's fiduciary duties to the unitholders. The partnership agreement also restricts the remedies available to unitholders for actions taken that might, without those limitations, constitute breaches of fiduciary duty. Whenever a conflict arises between the general partner or its affiliates, on the one hand, and Valero L.P. or any other partner, on the other hand, the general partner will resolve that conflict.

Resolution of conflicts of interest. The general partner will not be in breach of its obligations under the partnership agreement or its duties to Valero L.P. or the unitholders if the resolution of the conflict is considered to be fair and reasonable to Valero L.P. Any resolution is considered to be fair and reasonable to Valero L.P. if that resolution is:

- approved by a conflicts committee consisting of three independent directors of Valero GP, LLC, although no party is obligated to seek approval and the general partner may adopt a resolution or course of action that has not received approval;
- on terms no less favorable to Valero L.P. than those generally being provided to or available from unrelated third parties; or
- fair to Valero L.P., taking into account the totality of the relationships between the parties involved, including other transactions that may be particularly favorable or advantageous to Valero L.P.

In resolving a conflict, the general partner may, unless the resolution is specifically provided for in the partnership agreement, consider:

- the relative interests of the parties involved in the conflict or affected by the action;
- any customary or accepted industry practices or historical dealings with a particular person or entity; and
- generally accepted accounting principles and other factors it considers relevant, if applicable.

Conflicts of interest could arise in the situations described below, among others.

ACTIONS TAKEN BY THE GENERAL PARTNER MAY AFFECT THE AMOUNT OF CASH AVAILABLE FOR DISTRIBUTION TO UNITHOLDERS OR ACCELERATE THE RIGHT TO CONVERT SUBORDINATED UNITS.

The amount of cash that is available for distribution to unitholders is

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affected by decisions of the general partner regarding:

- amount and timing of asset purchases and sales;
- cash expenditures;
- borrowings;
- issuance of additional units; and
- the creation, decrease or increase of reserves in any quarter.

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In addition, borrowings by Valero L.P. do not constitute a breach of any duty owed by the general partner to the unitholders, including borrowings that have the purpose or effect of:

- enabling UDS Logistics, LLC, an indirect wholly owned subsidiary of Valero Energy, to receive distributions on any subordinated units held by it or enabling the general partner to receive distributions or the incentive distribution rights; or
- accelerating the expiration of the subordination period.

The partnership agreement provides that Valero L.P. may borrow funds from the general partner and its affiliates. The general partner and its affiliates may not borrow funds from Valero L.P.

WE DO NOT HAVE ANY EMPLOYEES AND RELY ON THE EMPLOYEES OF THE GENERAL PARTNER AND ITS AFFILIATES.

We do not have any officers or employees and rely solely on officers and employees of Valero GP, LLC, and its affiliates. Affiliates of the general partner conduct businesses and activities of their own in which we have no economic interest. If these separate activities are significantly greater than our activities, there could be material competition for the time and effort of the officers and employees who provide services to the general partner and Valero GP, LLC. The officers of Valero GP, LLC, with the exception of its president and chief executive officer, are not be required to work full time on our affairs. These officers may devote significant time to the affairs of Valero Energy or its affiliates and are compensated by these affiliates for the services rendered to them.

WE REIMBURSE AFFILIATES OF VALERO ENERGY FOR EXPENSES AND COSTS INCURRED ON OUR BEHALF.

Under Valero L.P.'s partnership agreement, we reimburse Valero L.P.'s general partner and its affiliates for costs incurred in managing and operating Valero L.P. and its subsidiaries. The partnership agreement provides that the general partner will determine the expenses that are allocable to it in any reasonable manner determined by the general partner in its sole discretion. Pursuant to our services agreements with affiliates of our general partner, we have agreed to pay affiliates of Valero Energy aggregate annual fees in the current amount of \$8.7 million in addition to reimbursements for direct expenses incurred by affiliates of Valero Energy on our behalf, such as salaries and benefits of pipeline and terminal operations personnel.

For the year ended December 31, 2002 and the six months ended June 30, 2003, we reimbursed the general partner and its affiliates for approximately \$13.8 million and \$9.2 million, respectively, of direct expenses. The amount of

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reimbursable expenses is determined by Valero L.P.'s general partner in its sole discretion.

THE GENERAL PARTNER INTENDS TO LIMIT ITS LIABILITY REGARDING VALERO L.P.'S OBLIGATIONS.

The general partner intends to limit its liability under contractual arrangements so that the other party has recourse only to all or particular assets of Valero L.P., and not against the general partner or its assets. Valero L.P.'s partnership agreement provides that any action taken by the general partner to limit its liability is not a breach of the general partner's fiduciary duties, even if we could have obtained more favorable terms without the limitation on liability.

COMMON UNITHOLDERS WILL HAVE NO RIGHT TO ENFORCE OBLIGATIONS OF THE GENERAL PARTNER AND ITS AFFILIATES UNDER AGREEMENTS WITH VALERO L.P.

Any agreements between Valero L.P. on the one hand, and the general partner and its affiliates, on the other, will not grant to the unitholders, separate and apart from Valero L.P., the right to enforce the obligations of the general partner and its affiliates in favor of Valero L.P. Therefore, the general partner, in its capacity as the general partner of Valero L.P., will be primarily responsible for enforcing these obligations.

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CONTRACTS BETWEEN VALERO L.P., ON THE ONE HAND, AND THE GENERAL PARTNER AND ITS AFFILIATES, ON THE OTHER, ARE NOT THE RESULT OF ARM'S-LENGTH NEGOTIATIONS.

Neither the Valero L.P. partnership agreement nor any of the other agreements, contracts and arrangements between Valero L.P., on the one hand, and the general partner and its affiliates, on the other, are or will be the result of arm's-length negotiations.

COMMON UNITS ARE SUBJECT TO THE GENERAL PARTNER'S LIMITED CALL RIGHT.

The general partner may exercise its right to call and purchase common units as provided in Valero L.P.'s partnership agreement or assign this right to one of its affiliates or to us. The general partner may use its own discretion, free of fiduciary duty restrictions, in determining whether to exercise this right. As a consequence, a common unitholder may have his common units purchased from him at an undesirable time or price.

VALERO ENERGY'S AFFILIATES MAY COMPETE WITH VALERO L.P.

Valero Energy has agreed, and has caused its controlled affiliates to agree, for so long as Valero Energy or its affiliates control the general partner, not to engage in, whether by acquisition or otherwise, the business of transporting crude oil or refined products including operating crude oil storage or refined products terminalling assets in the United States. The 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 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 that constitutes less than 50% of the fair market value of a larger acquisition; provided we have been

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offered and declined (with the concurrence of the conflicts committee) the opportunity to purchase this business; or

- any newly constructed logistics assets that we have not offered to purchase within one year of construction at fair market value.

THE GENERAL PARTNER HAS THE AUTHORITY TO DECREASE OR INCREASE OUR TARIFF RATES AND TERMINAL FEES.

Valero Energy, as the primary shipper in our pipelines and primary user of our terminals and storage facilities, has an economic incentive to seek lower tariff rates and fees for our pipelines and terminals and storage facilities, respectively. Although Valero Energy has agreed not to challenge our tariff rates until 2008, we may decrease our tariff rates and terminalling and storage fees voluntarily at any time in instances where we need to respond to competitive pressure or where increased volumes warrant a decrease of tariff rates or fees. The general partner has the authority to determine if and to what extent tariff rates and fees will be decreased. The general partner also has the authority to determine whether we seek an increase in our tariff rates and fees, and if so, the size of the increase. However, any proposals by Valero L.P.'s general partner to reduce our tariff rates or fees must be submitted to the conflicts committee of Valero L.P.'s general partner for its approval.

FIDUCIARY DUTIES OWED TO UNITHOLDERS BY THE GENERAL PARTNER ARE PRESCRIBED BY LAW AND VALERO L.P.'S PARTNERSHIP AGREEMENT.

The general partner is accountable to Valero L.P. and its unitholders as a fiduciary. These limited fiduciary duties are very different from the more familiar duties of a corporate board of directors, which must always act in the best interests of the corporation and its stockholders.

State law fiduciary standards. Fiduciary duties are generally considered to include an obligation to act with due care and loyalty. The duty of care, in the absence of a provision in a partnership agreement providing otherwise, generally requires a general partner to act for the partnership in the same manner as a

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prudent person would act on his own behalf. The duty of loyalty, in the absence of a provision in a partnership agreement providing otherwise, generally prohibits a general partner from taking any action or engaging in any transaction where a conflict of interest is present. The Delaware Revised Uniform Limited Partnership Act (referred to herein as the Delaware Act) generally provides that a limited partner may institute legal action on a partnership's behalf to recover damages from a third party where a general partner has refused to institute the action or where an effort to cause a general partner to do so is not likely to succeed. In addition, the statutory or case law of some jurisdictions may permit a limited partner to institute legal action on behalf of himself and all other similarly situated limited partners to recover damages from a general partner for violations of its fiduciary duties to the limited partners.

The Delaware Act provides that Delaware limited partnerships may, in their partnership agreements, restrict or expand the fiduciary duties owed by a general partner to limited partners and the partnership.

Fiduciary standards modified by the Valero L.P. partnership agreement. Valero L.P.'s partnership agreement contains various provisions restricting the fiduciary duties that might otherwise be owed by the general partner. The following is a summary of the material restrictions of the fiduciary duties owed

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by the general partner to the limited partners:

The partnership agreement contains provisions that waive or consent to conduct by the general partner and its affiliates that might otherwise raise issues as to compliance with fiduciary duties or applicable law. For example, the partnership agreement permits the general partner to make a number of decisions in its "sole discretion," such as:

- the incurrence of indebtedness;
- the acquisition or disposition of assets, except for the disposition of all of the assets of the partnership which requires unitholder approval;
- the negotiation of any contracts;
- the disposition of partnership cash; and
- the purchase or disposition of partnership securities, other than issuance of securities senior to the common units and the issuance of additional common units in excess of 4,462,161 during the subordination period without the approval of a majority of the unitholders even if this issuance is not in connection with a transaction resulting in the increase in available cash per unit.

Sole discretion entitles the general partner to consider only the interests and factors that it desires and it does not have a duty or obligation to give any consideration to any interest of, or factors affecting, Valero L.P., its affiliates or any limited partner, including the public unitholders. Other provisions of Valero L.P.'s partnership agreement provide that the general partner's actions must be carried out in its reasonable discretion.

The partnership agreement generally provides that affiliated transactions and resolutions of conflicts of interest not involving a required vote of unitholders must be "fair and reasonable" to Valero L.P. under the factors previously set forth. In determining whether a transaction or resolution is "fair and reasonable" the general partner may consider interests of all parties involved, including its own. Unless the general partner has acted in bad faith, the action taken by the general partner will not constitute a breach of its fiduciary duty.

In addition to the other more specific provisions limiting the obligations of the general partner, the partnership agreement further provides that the general partner and the officers and directors of Valero GP, LLC will not be liable for monetary damages to Valero L.P., the limited partners or assignees for errors of judgment or for any acts or omissions if the general partner and those other persons acted in good faith.

Valero L.P. is required to indemnify the general partner and Valero GP, LLC and their officers, directors, employees, affiliates, partners, members, agents and trustees, to the fullest extent permitted by law, against liabilities, costs and expenses incurred by the general partner and Valero GP, LLC or these

other persons. This indemnification is required if the general partner or these persons acted in good faith and in a manner they reasonably believed to be in, or (in the case of a person other than the general partner) not opposed to, the best interests of Valero L.P. Indemnification is required for criminal proceedings if the general partner and Valero GP, LLC or these other persons had no reasonable cause to believe their conduct was unlawful. Thus, the general partner and Valero GP, LLC could be indemnified for their negligent acts if they

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met these requirements concerning good faith and the best interests of Valero L.P.

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DESCRIPTION OF DEBT SECURITIES

The following description sets forth the general terms and provisions that apply to the debt securities. Each prospectus supplement will state the particular terms that will apply to the debt securities included in the supplement.

The debt securities will be either senior debt securities or subordinated debt securities of Valero Logistics. All debt securities will be unsecured. The senior debt securities will have the same rank as all of Valero Logistics' other unsecured and unsubordinated debt, including debt outstanding under its revolving credit facility, its 6.875% senior notes due 2012 and its 6.05% senior notes due 2013. The subordinated debt securities will be subordinated to senior indebtedness as described under "Provisions Only in the Subordinated Indenture -- Subordinated Debt Securities Subordinated to Senior Debt" below.

If Valero Logistics offers senior debt securities, it will issue them under the senior indenture among Valero Logistics, Valero L.P., as guarantor, and the Bank of New York, as trustee, dated as of July 15, 2002, as supplemented by a supplemental indenture. Under its existing indenture, Valero Logistics on July 15, 2002 issued \$100 million of its 6.875% senior notes due 2012 and on March 18, 2003 issued \$250 million of its 6.05% senior notes due 2013. If Valero Logistics offers subordinated debt securities, it will issue them under a subordinated indenture. In addition to the following summary, you should refer to the applicable provisions in the senior indenture and the subordinated indenture for more detailed information. Valero Logistics has filed the senior indenture and a form of the subordinated indenture as exhibits to the registration statement of which this prospectus is a part.

Neither indenture limits the aggregate principal amount of debt securities that Valero Logistics may issue under that indenture. The debt securities may be issued in one or more series as Valero Logistics may authorize from time to time.

PARENT GUARANTEE

Valero Logistics' payment obligations under any series of debt securities will be fully and unconditionally guaranteed by Valero L.P. Valero L.P. will execute a notation of guarantee as further evidence of its guarantee. The applicable prospectus supplement will describe the terms of any guarantee by Valero L.P.

Pursuant to the parent guarantee, Valero L.P. will guarantee the due and punctual payment of the principal of, and interest and premium, if any, on, the debt securities of a particular series, when the same shall become due, whether by acceleration or otherwise. The parent guarantee will be enforceable against Valero L.P. without any need to first enforce any debt securities against Valero Logistics.

Valero L.P.'s guarantee of the senior debt securities:

- will be Valero L.P.'s unsecured and unsubordinated general obligation;
and
- will rank on a parity with all of Valero L.P.'s other unsecured and unsubordinated indebtedness.

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If a series of subordinated debt securities is guaranteed by Valero L.P., then the guarantee will be subordinated to the senior debt of Valero L.P. to substantially the same extent as the series of subordinated debt securities is subordinated to the senior debt of Valero Logistics.

SPECIFIC TERMS OF EACH SERIES OF DEBT SECURITIES IN THE PROSPECTUS SUPPLEMENT

Valero Logistics will prepare a prospectus supplement and a supplemental indenture or authorizing resolutions relating to any series of debt securities being offered, which will include specific terms relating to such debt securities. These terms will include some or all of the following:

- the form and title of the debt securities;
 - the total principal amount of the debt securities;
 - the date or dates on which the debt securities may be issued;
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- whether the debt securities are senior or subordinated debt securities;
 - the currency or currencies in which principal and interest will be paid, if not U.S. dollars;
 - the portion of the principal amount which will be payable if the maturity of the debt securities is accelerated;
 - any right Valero Logistics may have to defer payments of interest by extending the dates payments are due and whether interest on those deferred amounts will be payable as well;
 - the dates on which the principal of the debt securities will be payable;
 - the interest rate that the debt securities will bear and the interest payment dates for the debt securities;
 - any conversion or exchange provisions;
 - any optional redemption provisions;
 - any sinking fund or other provisions that would obligate Valero Logistics to repurchase or otherwise redeem the debt securities;
 - any changes to or additional events of default or covenants;
 - the subordination, if any, of the debt securities and any changes to the subordination provisions of the subordinated indenture; and
 - any other terms of the debt securities.

PROVISIONS ONLY IN THE SENIOR INDENTURE

SUMMARY

The senior debt securities will rank equally in right of payment with all other senior and unsubordinated debt of Valero Logistics and senior in right of payment to any subordinated debt (including the subordinated debt securities) of Valero Logistics. The senior indenture contains restrictive covenants, including provisions that:

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- limit the ability of Valero Logistics to put liens on any of its property or assets; and
- limit the ability of Valero Logistics to sell and lease back its principal assets.

Subordinated debt securities issued under the subordinated indenture may or may not be subject to similar provisions, as will be specified in the applicable prospectus supplement. Valero Logistics has described below these provisions and some of the defined terms used in them.

LIMITATION ON LIENS

The senior indenture provides that Valero Logistics will not, nor will it permit any subsidiary to, create, assume, incur or suffer to exist any lien upon any property or assets, whether owned or leased on the date of the senior indenture or thereafter acquired, to secure any of its debt or debt of any other person (other than the senior debt securities issued thereunder), without in any such case making effective provision whereby all of the senior debt securities outstanding thereunder shall be secured equally and ratably with, or prior to, such debt so long as such debt shall be so secured.

This restriction does not apply to:

1. Permitted Liens, as defined below;
 2. any lien upon any property or assets of Valero Logistics or any subsidiary in existence on the date the senior debt securities of such series are first issued or created pursuant to an "after-acquired property" clause or similar term or provided for pursuant to agreements existing on such date;
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3. any lien upon any property or assets created at the time of acquisition of such property or assets by Valero Logistics or any subsidiary or within one year after such time to secure all or a portion of the purchase price for such property or assets or debt incurred to finance such purchase price, whether such debt was incurred prior to, at the time of or within one year after the date of such acquisition;
 4. any lien upon any property or assets existing thereon at the time of the acquisition thereof by Valero Logistics or any subsidiary; provided, however, that such lien only encumbers the property or assets so acquired;
 5. any lien upon any property or assets of a person existing thereon at the time such person becomes a subsidiary by acquisition, merger or otherwise; provided, however, that such lien only encumbers the property or assets of such person at the time such person becomes a subsidiary;
 6. any lien upon any property or assets to secure all or part of the cost of construction, development, repair or improvements thereon or to secure debt incurred prior to, at the time of, or within one year after completion of such construction, development, repair or improvements or the commencement of full operations thereof, whichever is later, to provide funds for any such purpose;

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7. liens imposed by law or order as a result of any proceeding before any court or regulatory body that is being contested in good faith, and liens which secure a judgment or other court-ordered award or settlement as to which Valero Logistics or the applicable subsidiary has not exhausted its appellate rights;
8. any lien upon any additions, improvements, replacements, repairs, fixtures, appurtenances or component parts thereof attaching to or required to be attached to property or assets pursuant to the terms of any mortgage, pledge agreement, security agreement or other similar instrument creating a lien upon such property or assets permitted by clauses (1) through (7) above;
9. any extension, renewal, refinancing, refunding or replacement (or successive extensions, renewals, refinancings, refundings or replacements) of any lien, in whole or in part, referred to in clauses (1) through (8), inclusive, above; provided, however, that the principal amount of debt secured thereby shall not exceed the principal amount of debt so secured at the time of such extension, renewal, refinancing, refunding or replacement (plus in each case the aggregate amount of premiums, other payments, costs and expenses required to be paid or incurred in connection with such extension, renewal, refinancing, refunding or replacement); provided, further, however, that such extension, renewal, refinancing, refunding or replacement lien shall be limited to all or a part of the property (including improvements, alterations and repairs on such property) subject to the encumbrance so extended, renewed, refinanced, refunded or replaced (plus improvements, alterations and repairs on such property); or
10. any lien resulting from the deposit of moneys or evidence of indebtedness in trust for the purpose of defeasing debt of Valero Logistics or any subsidiary.

Notwithstanding the foregoing, Valero Logistics may, and may permit any subsidiary to, create, assume, incur, or suffer to exist any lien upon any property or assets to secure its debt or debt of any person (other than the senior debt securities) that is not excepted by clauses (1) through (10), inclusive, above without securing the senior debt securities issued under the senior indenture, provided that the aggregate principal amount of all debt then outstanding secured by such lien and all similar liens, together with all Attributable Indebtedness, as defined below, from Sale-Leaseback Transactions, as defined below (excluding Sale-Leaseback Transactions permitted by clauses (1) through (4), inclusive, of the first paragraph of the restriction on sale-leasebacks covenant described below) does not exceed 10% of Consolidated Net Tangible Assets (as defined below).

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"Permitted Liens" means:

1. Liens upon rights-of-way for pipeline purposes created by a person other than Valero Logistics;
2. any statutory or governmental lien or lien arising by operation of law, or any mechanics', repairmen's, materialmen's, suppliers', carriers', landlords', warehousemen's or similar lien incurred in the ordinary course of business which is not yet due or which is being contested in good faith by appropriate proceedings and any undetermined lien which is incidental to construction, development, improvement or repair;

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3. the right reserved to, or vested in, any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or by any provision of law, to purchase or recapture or to designate a purchaser of, any property;
4. liens of taxes and assessments which are (A) for the then current year, (B) not at the time delinquent, or (C) delinquent but the validity of which is being contested in good faith at the time by Valero Logistics or any subsidiary;
5. liens of, or to secure the performance of, leases, other than capital leases;
6. any lien upon, or deposits of, any assets in favor of any surety company or clerk of court for the purpose of obtaining indemnity or stay of judicial proceedings;
7. any lien upon property or assets acquired or sold by Valero Logistics or any subsidiary resulting from the exercise of any rights arising out of defaults on receivables;
8. any lien incurred in the ordinary course of business in connection with worker's compensation, unemployment insurance, temporary disability, social security, retiree health or similar laws or regulations or to secure obligations imposed by statute or governmental regulations;
9. any lien in favor of Valero Logistics or any subsidiary;
10. any lien in favor of the United States of America or any state thereof, or any department, agency or instrumentality or political subdivision of the United States of America or any state thereof, to secure partial, progress, advance, or other payments pursuant to any contract or statute, or any debt incurred by Valero Logistics or any subsidiary for the purpose of financing all or any part of the purchase price of, or the cost of constructing, developing, repairing or improving, the property or assets subject to such lien;
11. any lien securing industrial development, pollution control or similar revenue bonds;
12. any lien securing debt of Valero Logistics or any subsidiary, all or a portion of the net proceeds of which are used, substantially concurrent with the funding thereof (and for purposes of determining such "substantial concurrence," taking into consideration, among other things, required notices to be given to holders of outstanding senior debt securities under the senior indenture in connection with such refunding, refinancing or repurchase, and the required corresponding durations thereof), to refinance, refund or repurchase all outstanding senior debt securities under the senior indenture including the amount of all accrued interest thereon and reasonable fees and expenses and premium, if any, incurred by Valero Logistics or any subsidiary in connection therewith;
13. liens in favor of any person to secure obligations under the provisions of any letters of credit, bank guarantees, bonds or surety obligations required or requested by any governmental authority in connection with any contract or statute; or
14. any lien upon or deposits of any assets to secure performance of bids, trade contracts, leases or statutory obligations.

"Consolidated Net Tangible Assets" means, at any date of determination, the total amount of assets after deducting therefrom:

- all current liabilities, excluding (A) any current liabilities that by their terms are extendable or renewable at the option of the obligor thereon to a time more than 12 months after the time as of which the amount thereof is being computed, and (B) current maturities of long-term debt, and
- the value, net of any applicable amortization, of all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangible assets,

all as set forth on the consolidated balance sheet of Valero L.P. for its most recently completed fiscal quarter, prepared in accordance with United States generally accepted accounting principles.

RESTRICTIONS ON SALE-LEASEBACKS

The senior indenture provides that Valero Logistics will not, and will not permit any subsidiary to, engage in the sale or transfer by Valero Logistics or any subsidiary of any property or assets to a person (other than Valero Logistics or a subsidiary) and the taking back by Valero Logistics or any subsidiary, as the case may be, of a lease of such property or assets (a "Sale-Leaseback Transaction"), unless:

1. the Sale-Leaseback Transaction occurs within one year from the date of completion of the acquisition of the property or assets subject thereto or the date of the completion of con