

VALERO L P
 Form 424B5
 August 05, 2003

WE WILL AMEND AND COMPLETE THE INFORMATION IN THIS PROSPECTUS SUPPLEMENT. THIS PRELIMINARY PROSPECTUS SUPPLEMENT AND THE PROSPECTUS ARE PART OF AN EFFECTIVE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THIS PRELIMINARY PROSPECTUS SUPPLEMENT AND THE PROSPECTUS ARE NOT OFFERS TO SELL NOR SOLICITATIONS OF OFFERS TO BUY THESE SECURITIES IN ANY JURISDICTION WHERE SUCH OFFER OR SALE IS NOT PERMITTED.

Filed Pursuant to Rule 424(b)(5)
 Registration No. 333-89978
 Registration No. 333-89978-01

Subject to Completion, dated August 4, 2003

PROSPECTUS SUPPLEMENT
 (To Prospectus dated June 17, 2002)

(VALERO LP LOGO)

1,000,000 COMMON UNITS
 REPRESENTING LIMITED PARTNER INTERESTS

 We are offering to sell up to 1,000,000 common units representing limited partner interests in Valero L.P. Our common units are listed on the New York Stock Exchange under the symbol "VLI." The last reported sale price of our common units on the New York Stock Exchange on August 4, 2003 was \$41.70 per unit.

Investing in the common units involves risk. "Risk Factors" begin on page S-11 of this prospectus supplement and on page 4 of the accompanying prospectus.

| | PER COMMON UNIT | TOTAL |
|--|-----------------|-------|
| | ----- | ----- |
| Public offering price..... | \$ | \$ |
| Underwriting discount..... | \$ | \$ |
| Proceeds to Valero L.P. (before expenses)..... | \$ | \$ |

We have granted the underwriter a 30-day option to purchase up to 150,000 common units on the same terms and conditions as set forth above to cover over-allotments, if any.

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

Lehman Brothers expects to deliver the common units on or about August , 2003.

 LEHMAN BROTHERS

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, 2003

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this common unit offering. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to this common unit offering. If the description of the common unit offering varies between the prospectus supplement and the accompanying prospectus, you should rely on the information in the prospectus supplement. The sections captioned "Where You Can Find More Information" and "Validity of the Securities" in the accompanying prospectus are superseded in their entirety by the similarly titled sections included in this prospectus supplement.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with additional or different information. If anyone provides you with additional, different or inconsistent information, you should not rely on it. We are offering to sell the common units, and seeking offers to buy the common units, only in jurisdictions where offers and sales are permitted. You should not assume that the information we have included in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the dates shown in these documents or that any information we have incorporated by reference is accurate as of any date other than the date of the document incorporated by reference. Our business, financial condition, results of operations and prospects may have changed since that date.

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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 common units offered by this prospectus supplement. 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 supplement.

In addition, we file 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>.

The SEC allows us to "incorporate by reference" the information we have filed with the SEC. This means that we can disclose important information to you without actually including the specific information in this prospectus supplement by referring you to another document filed separately with the SEC. The information incorporated by reference is an important part of this prospectus supplement. Information that we file later with the SEC will automatically update and may replace information in this prospectus supplement and information previously filed with the SEC.

We incorporate by reference the documents listed below that we have previously filed with the SEC. They contain important information about us, our financial condition and results of operations.

- Our Annual Report on Form 10-K for the year ended December 31, 2002.
- Our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003.
- Our Current Reports on Form 8-K filed on March 14, 2003, March 17, 2003 and April 2, 2003.
- The description of our common units contained in our registration statement on Form 8-A, filed on March 30, 2001.
- 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 supplement and until all

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of the securities offered by this prospectus supplement have been sold.

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 address below. You may also obtain these documents through our website at www.valerolp.com. Other information on our website is not incorporated by reference in this prospectus supplement or the accompanying prospectus.

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

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SUMMARY

The summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus. It does not contain all of the information that you should consider before making an investment decision. You should read carefully the entire prospectus supplement, the accompanying prospectus, the documents incorporated by reference and the other documents to which we refer. Please read "Risk Factors" beginning on page S-11 of this prospectus supplement and beginning on page 4 of the accompanying prospectus for more information about important risks that you should consider before buying our common units. In this prospectus supplement, unless the context otherwise indicates, the terms "Valero L.P." and "we," "us," "our" and similar terms mean Valero L.P., together with our operating subsidiary, Valero Logistics Operations, L.P.

VALERO L.P.

We are a publicly traded Delaware limited partnership that owns crude oil and refined products pipeline, terminalling and storage assets in Texas, Oklahoma, New Mexico, Colorado and California. Our assets support seven of Valero Energy Corporation's refineries, including the McKee, Three Rivers, Texas City, Corpus Christi East and Corpus Christi West refineries located in Texas, 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 3,314 miles of refined product pipelines, including approximately 1,996 miles jointly owned with third parties, and 18 refined product terminals (including two asphalt terminals and one idle terminal), one of which is jointly owned, with a total storage capacity of approximately 3.9 million barrels;
- 58 crude oil and intermediate feedstock storage tanks located at Valero Energy's Corpus Christi West, Texas City and Benicia refineries, with a total storage capacity of 11.0 million barrels; and

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- 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 refined product terminals and the services provided by our crude oil 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.

BUSINESS STRATEGIES

The primary objective of our business strategies is to increase our cash available for distribution to unitholders. We intend to achieve this primary objective by:

- sustaining high levels of volumes in our pipelines, terminals and storage assets;
- increasing volumes in our existing pipelines and shifting volumes to higher tariff pipelines;
- increasing our pipeline, terminal and storage capacity through expansions and new construction;
- pursuing selective strategic and accretive acquisitions that complement our existing asset base; and
- continuing to improve our operating efficiency.

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COMPETITIVE STRENGTHS

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

- Our pipelines provide the principal access to and from Valero Energy's McKee and Three Rivers refineries in Texas and its Ardmore refinery in Oklahoma, and provide a major outlet for refined products from Valero Energy's Corpus Christi East and West refineries.
- Our refined product pipelines serve Valero Energy's marketing operations in South Texas as well as in the southwestern and Rocky Mountain regions of the United States. These operations are concentrated in fast-growing metropolitan areas in the states of Texas, Colorado, New Mexico, Arizona and other mid-continent states.
- Our crude oil storage tanks provide most of the crude oil storage capacity at Valero Energy's Corpus Christi West, Texas City and Benicia refineries.
- We believe our pipeline, terminalling and storage assets are modern, efficient and well maintained.
- Our pipelines have available capacity that provides us the opportunity to increase volumes and cash available for distribution to unitholders from

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existing assets.

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

OUR RELATIONSHIP WITH VALERO ENERGY

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

Description of Valero Energy's Business. Valero Energy is one of the top three U.S. refining companies in terms of refining capacity. Valero Energy owns and operates 14 refineries, seven of which are served by our pipelines, terminals and storage assets. The current total capacity of each of those seven refineries to process crude oil and other feedstocks is as follows:

| REFINERY ----- | TOTAL CAPACITY ----- (BARRELS/DAY) |
|---------------------------------|--|
| Texas City, Texas..... | 243,000 |
| Corpus Christi West, Texas..... | 225,000 |
| Benicia, California..... | 180,000 |
| McKee, Texas..... | 170,000 |
| Corpus Christi East, Texas..... | 115,000 |
| Three Rivers, Texas..... | 98,000 |
| Ardmore, Oklahoma..... | 85,000 |

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

RECENT DEVELOPMENTS

CRUDE OIL STORAGE TANK AND SOUTH TEXAS PIPELINE SYSTEM CONTRIBUTIONS

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On March 18, 2003, Valero Energy contributed 58 crude oil and intermediate feedstock storage tanks and related assets with an aggregate storage capacity of approximately 11.0 million barrels to us for \$200 million. The tank assets consist of all of the tank shells, foundations, tank valves, tank gauges, pressure equipment, temperature equipment, corrosion protection, leak detection, tank lighting and related equipment and appurtenances associated with the specified crude oil storage tanks and intermediate feedstock storage tanks located at Valero Energy's Corpus Christi West, Texas City and Benicia refineries.

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

VALERO L.P. COMMON UNIT OFFERING AND VALERO LOGISTICS SENIOR NOTES OFFERING

On March 18, 2003, we issued and sold 5,750,000 common units in a public offering and on April 16, 2003, we issued and sold an additional 581,000 common units pursuant to the underwriters' over-allotment option, for aggregate net proceeds, before offering expenses, of \$223 million. Our general partner made an aggregate \$4.7 million capital contribution to us to maintain its 2% general partner interest. Also on March 18, 2003, Valero Logistics issued and sold \$250 million of 6.05% Senior Notes due 2013 in a private placement to institutional investors.

REDEMPTION OF COMMON UNITS OWNED BY VALERO ENERGY AND AMENDMENT TO OUR PARTNERSHIP AGREEMENT

Common Unit Redemption. Immediately following our common unit offering and the offering by Valero Logistics of its 6.05% senior notes, we redeemed from Valero Energy 3,809,750 common units for approximately \$134.1 million, or \$35.19 per unit, which is equal to the net proceeds per unit, before expenses, received by us in the public offering of our common units on March 18, 2003. Immediately following this redemption, we canceled the common units redeemed from Valero Energy and redeemed a corresponding portion of Valero Energy's general partner interest for \$2.9 million so that it maintained its 2% general partner interest.

Amendment to Partnership Agreement. Also on March 18, 2003, immediately upon the closing of the offerings, we amended our partnership agreement to reduce the percentage of the vote of holders of our outstanding common units and subordinated units necessary to remove our general partner from 66 2/3% to 58%. The amendment also excludes the common units and subordinated units held by affiliates of our general partner from the removal vote. Prior to this amendment, Valero Energy and its affiliates were allowed to vote their units and thus effectively block removal of the general partner. We further amended our partnership agreement to provide that the election of a successor general partner upon any such removal be approved by the holders of a majority of the common units, excluding the common units held by affiliates of our general partner.

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DOS LAREDOS PROJECT

On June 25, 2003, Valero Energy announced that it had entered into a

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five-year supply agreement with MGI Supply Limited, a subsidiary of Pemex-Gas y Petroquimica Basica, to supply 5,000 barrels per day of propane to Northern Mexico beginning in the first quarter of 2004. Valero Energy and Valero L.P. intend to enter into a five-year throughput agreement for the shipment of these 5,000 barrels per day in Valero L.P.'s pipelines to MGI Supply Limited. In addition to using its existing pipeline infrastructure to ship these volumes, Valero L.P. intends to:

- acquire and activate 59 miles of currently idle pipeline from Odem, Texas to Three Rivers, Texas from Valero Energy;
- construct approximately 25 miles of new pipeline, including a 10-mile segment to connect the Odem pipeline to the Corpus Christi West and East refineries and an 11-mile cross-border pipeline underneath the Rio Grande River; and
- build a new propane terminal in Nuevo Laredo, Mexico.

The aggregate cost of the project is expected to be approximately \$20 million.

INCREASE IN QUARTERLY CASH DISTRIBUTION

On July 28, 2003, we declared an increased cash distribution for the second quarter of 2003 of \$0.75 per unit payable August 14, 2003 to holders of record as of August 5, 2003. This distribution represents an increase of \$0.05 per unit over the distribution for the first quarter of 2003 paid in May 2003 and is the third \$0.05 per unit increase in the quarterly distribution since we went public in April 2001. None of the common units sold in this offering are eligible to receive this distribution for the second quarter of 2003.

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SECOND QUARTER RESULTS

On July 28, 2003, we announced financial results for the three and six months ended June 30, 2003. Set forth below is the unaudited consolidated financial information for the three and six month periods ended June 30, 2003 and 2002.

| | THREE MONTHS ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, | |
|--|---|-----------|---------------------------|-----------|
| | 2003 | 2002 | 2003 | 2002 |
| | (IN THOUSANDS, EXCEPT PER UNIT DATA AND BARREL/DAY INFORMATION) | | | |
| STATEMENT OF INCOME DATA: | | | | |
| Revenues..... | \$ 47,542 | \$ 30,030 | \$ 79,358 | \$ 49,358 |
| Costs and expenses: | | | | |
| Operating expenses..... | 16,335 | 9,565 | 27,996 | 15,139 |
| General and administrative expenses.... | 1,670 | 1,698 | 3,514 | 3,514 |
| Depreciation and amortization expense..... | 7,269 | 3,876 | 11,552 | 11,552 |
| Total costs and expenses..... | 25,274 | 15,139 | 43,062 | 29,215 |
| Operating income..... | 22,268 | 14,891 | 36,296 | 20,143 |
| Equity income from Skelly-Belvieu | | | | |

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| | | | | |
|---|------------|------------|------------|-------|
| Pipeline Company..... | 600 | 844 | 1,331 | |
| Interest expense, net..... | (4,736) | (796) | (7,113) | |
| | ----- | ----- | ----- | ----- |
| Income before income tax expense..... | 18,132 | 14,939 | 30,514 | |
| Income tax expense..... | -- | -- | -- | |
| | ----- | ----- | ----- | ----- |
| Net income..... | 18,132 | 14,939 | 30,514 | |
| | ----- | ----- | ----- | ----- |
| Net income applicable to general partner including incentive distributions..... | (1,066) | (299) | (1,690) | |
| | ----- | ----- | ----- | ----- |
| Net income applicable to limited partners..... | \$ 17,066 | \$ 14,640 | \$ 28,824 | \$ |
| | ===== | ===== | ===== | ===== |
| Net income per unit applicable to limited partners..... | \$ 0.79 | \$ 0.76 | \$ 1.40 | \$ |
| Weighted average number of limited partnership units outstanding..... | 21,702,990 | 19,253,894 | 20,635,667 | 19 |
| EBITDA(1)..... | \$ 30,137 | \$ 19,611 | \$ 49,179 | \$ |
| Distributable cash flow(1)..... | 24,234 | 18,081 | 39,724 | |
| OPERATING DATA (BARRELS/DAY): | | | | |
| Crude oil pipeline throughput..... | 348,390 | 360,558 | 340,619 | |
| Refined product pipeline throughput.... | 396,639 | 303,654 | 347,000 | |
| Refined product terminal throughput.... | 233,881 | 179,915 | 205,495 | |
| Crude oil and intermediate feedstock storage tank throughput..... | 475,280 | -- | 277,468 | |

JUNE 30, DECEMBER 31,
2003 2002

(IN THOUSANDS)

BALANCE SHEET DATA:

| | | |
|--|-----------|-----------|
| Long-term debt, including current portion..... | \$365,231 | \$109,658 |
| Partners' equity..... | 385,636 | 293,895 |
| Debt-to-capitalization ratio..... | 48.6% | 27.2% |

(1) See page S-7 for a reconciliation of EBITDA and distributable cash flow to income before income tax expense.

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The increase in net income for the second quarter of 2003 was primarily related to the benefit from the South Texas pipeline system and the crude oil storage tanks acquired March 18, 2003 from Valero Energy. The increase was partially offset by the effect of reduced throughput volumes related to unplanned refinery outages at Valero Energy's Benicia, Texas City and Ardmore refineries during the quarter.

The statement of income for the three months ended June 30, 2003, includes \$8.5 million of operating income related to the crude oil storage tanks and the South Texas pipeline system and \$0.4 million of operating income related to the Telfer asphalt terminal in Pittsburg, California, which Valero L.P. acquired for \$15.1 million effective January 7, 2003. The statement of income for the six

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months ended June 30, 2003, includes \$10.4 million of operating income related to the crude oil storage tanks and the South Texas pipeline system for the period from March 19, 2003 through June 30, 2003, and \$0.9 million of operating income related to the Telfer asphalt terminal. Partially offsetting the increase in operating income resulting from the acquisitions is an increase in net interest expense due to additional borrowings to partially fund the redemption of common units and these acquisitions.

Interest expense increased for the three and six months ended June 30, 2003 as compared to the three and six months ended June 30, 2002 primarily due to interest expense related to \$250.0 million of 6.05% senior notes issued on March 18, 2003 and \$100.0 million of 6.875% senior notes issued in July of 2002. A portion of the proceeds from the 6.875% senior note offering were used to repay borrowings under the variable-rate revolving credit facility. The private placement of the 6.05% senior notes and \$25.0 million of borrowings under the revolving credit facility were used to fund a portion of the crude oil storage tank and South Texas pipeline system acquisitions and the redemption of common units. During the six months ended June 30, 2003, Valero Logistics entered into various interest rate swaps, which effectively convert \$167.5 million of fixed rate debt to variable rate debt.

Net income is allocated between limited partners and the general partner's interests. Then such apportioned net income applicable to the limited partners is divided by the weighted average number of limited partnership units outstanding for such class. Net income per unit applicable to limited partners for the three months ended June 30, 2003 was impacted by the net increase in common units outstanding as a result of the March 2003 common unit offering and redemption and the April 2003 overallotment option exercise. As a result, the sum of the net income per unit applicable to limited partners for the first and second quarters of 2003 does not equal the year-to-date 2003 per unit amount.

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

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The following is a reconciliation of EBITDA and distributable cash flow to income before income tax expense:

| THREE MONTHS ENDED JUNE 30, | | SIX MONTHS ENDED JUNE 30, | |
|--------------------------------|------|------------------------------|------|
| 2003 | 2002 | 2003 | 2002 |
| (UNAUDITED, IN THOUSANDS) | | | |

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| | | | | |
|---|----------|----------|----------|----------|
| Income before income tax expense..... | \$18,132 | \$14,939 | \$30,514 | \$25,757 |
| Plus interest expense, net..... | 4,736 | 796 | 7,113 | 1,352 |
| Plus depreciation and amortization expense... | 7,269 | 3,876 | 11,552 | 8,231 |
| | ----- | ----- | ----- | ----- |
| EBITDA..... | 30,137 | 19,611 | 49,179 | 35,340 |
| Less equity income from Skelly-Belvieu | | | | |
| Pipeline Company..... | (600) | (844) | (1,331) | (1,522) |
| Less interest expense, net..... | (4,736) | (796) | (7,113) | (1,352) |
| Less reliability capital expenditures..... | (1,446) | (741) | (2,638) | (1,530) |
| Plus distributions from Skelly-Belvieu | | | | |
| Pipeline Company..... | 879 | 851 | 1,627 | 1,622 |
| | ----- | ----- | ----- | ----- |
| DISTRIBUTABLE CASH FLOW..... | \$24,234 | \$18,081 | \$39,724 | \$32,558 |
| | ===== | ===== | ===== | ===== |

PARTNERSHIP STRUCTURE AND MANAGEMENT

Valero Energy owns and controls Riverwalk Logistics, L.P., which serves as our general partner with a 2% general partner interest. Valero Energy also indirectly owns an aggregate 46.2% limited partner interest in us. Giving effect to this common unit offering, Valero Energy will own a 44.2% limited partner interest in us.

As a result of Valero Energy's ownership of our general partner, conflicts of interest are inherent in our relationship with Valero Energy. Please read "Risk Factors -- Risks Inherent in Our Business -- Valero Energy and its affiliates have conflicts of interest and limited fiduciary responsibilities, which may permit them to favor their own interests to the detriment of our security holders" on page 10 of the accompanying prospectus.

- Riverwalk Logistics, our general partner and an indirect wholly owned subsidiary of Valero Energy, currently owns and will own after this common unit offering, a 2% general partner interest in us and the incentive distribution rights pursuant to our partnership agreement;
- UDS Logistics LLC, the sole limited partner of Riverwalk Logistics and an indirect wholly owned subsidiary of Valero Energy, currently owns an aggregate 45.9% limited partner interest in us and will own an aggregate 43.9% limited partner interest in us after this common unit offering;
- Valero GP, LLC, an indirect wholly owned subsidiary of Valero Energy, is the general partner of Riverwalk Logistics and currently owns and will own after this common unit offering, a 0.3% non-voting limited partner interest in us. Valero GP, LLC performs all management and operating functions for us; and
- We currently own and will continue to own, a 99.99% limited partner interest in Valero Logistics and 100% of Valero GP, Inc., which is the sole general partner of Valero Logistics with a 0.01% general partner interest. Valero GP, Inc. performs all management and operating functions for Valero Logistics.

The chart on the following page depicts our organization and ownership structure after giving effect to this common unit offering.

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(Valero Logistics Operations Chart)

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| | |
|---|--------|
| Ownership of Valero L.P. | |
| Public Common Units..... | 53.8% |
| Valero Energy's Common Units | 3.0% |
| Valero Energy's Subordinated Units... | 41.2% |
| Valero Energy's General Partner Interest..... | 2.0% |
| TOTAL..... | 100.0% |

| |
|---|
| Valero Energy and its wholly owned subsidiaries |
| 100% Indirect Ownership |

| | | | | |
|-------------------|---------------------|--------------------|------------------------------|----------------------|
| Valero GP, LLC(1) | 73,319 Common Units | UDS Logistics, LLC | 9,599,322 Subordinated Units | 614,572 Common Units |
|-------------------|---------------------|--------------------|------------------------------|----------------------|

| | | | |
|-------------------------------|--|--------------------------------|--|
| 0.3% Limited Partner Interest | 0.1% General Partner Interest | 99.9% Limited Partner Interest | 43.9% Limited Partner Interest |
| | Riverwalk Logistics, L.P. (the General Partner of the Partnership) | | |
| | Incentive Distribution Rights | | |
| | 2.0% General Partner Interest | | |
| 100% | Valero L.P. (Issuer) | 53.8% Limited Partner Interest | Public Unitholders 12,517,931 Common Units |

| | |
|--|---------------------------------|
| Valero GP, Inc. (the General Partner of the Operating Partnership) | 99.99% Limited Partner Interest |
|--|---------------------------------|

| |
|--------------------------------|
| 0.01% General Partner Interest |
|--------------------------------|

| |
|---------------------------------------|
| Valero Logistics Operations, L.P. (2) |
|---------------------------------------|

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- (1) Valero GP, LLC has relinquished voting rights with respect to these 73,319 common units.
- (2) Valero Logistics Operations, L.P. owns a 50% interest in Skelly-Belvieu Pipeline Company, L.L.C. The remaining 50% interest is owned by ConocoPhillips.

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THE OFFERING

| | |
|---|--|
| Common units offered by Valero L.P. | 1,000,000 common units |
| Units to be outstanding after this offering..... | 13,205,822 common units 9,599,322 subordinated units. |
| Use of proceeds..... | We estimate that we will receive net proceeds from this common unit offering of approximately \$39.6 million, or approximately \$45.5 million if the underwriters' over-allotment option is exercised in full. We plan to use net proceeds from this common unit offering for working capital and general partnership purposes, including future acquisitions and expansion capital projects. |
| Distribution policy..... | <p>Under our partnership agreement, we must distribute all of our cash on hand as of the end of each quarter, less reserves established by our general partner. We refer to this cash as "available cash," and we define its meaning in our partnership agreement.</p> <p>On May 15, 2003, we paid a quarterly cash distribution for the first quarter of 2003 of \$0.70 per unit or \$2.80 per unit on an annualized basis.</p> <p>On July 28, 2003, we declared a cash distribution for the second quarter of 2003 of \$0.75 per unit, payable on August 14, 2003 to holders of record as of August 5, 2003. None of the common units sold in this offering are eligible to receive this distribution for the second quarter of 2003.</p> <p>When quarterly cash distributions exceed \$0.60 per unit in any quarter, our general partner receives a higher percentage of the cash distributed in excess of that amount, in increasing percentages up to 50% if the quarterly cash distributions exceed \$0.90 per unit. For a description of our cash distribution policy, please read "Cash Distributions" in the accompanying prospectus.</p> |
| Estimated ratio of taxable income to distributions..... | We estimate that if you own the common units you purchase in this common unit offering |

through the record date for the distribution with respect to the fourth calendar quarter of 2006, you will be allocated, on a cumulative basis, an amount of federal taxable income for the period 2003 through 2006 that will be less than 20% of the cash distributed to you with respect to that period. Please read "Tax Considerations" beginning on page S-17 of this prospectus supplement for the basis of this estimate.

Subordination period..... The subordination period will end once we meet the financial tests in the partnership agreement, but it generally cannot end before March 31, 2006. There is no provision in our partnership agreement for early conversion of a portion of the subordinated units.

When the subordination period ends, all subordinated units will convert into common units on a one-for-one basis, and the common units will no longer be entitled to arrearages.

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Risk factors..... An investment in our common units involves risks. Please read "Risk Factors" beginning on page S-11 of this prospectus supplement and page 4 of the accompanying prospectus.

New York Stock Exchange
symbol..... VLI

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RISK FACTORS

You should read carefully the discussion of the material risks relating to our business under the caption "Risk Factors" beginning on page 4 of the accompanying prospectus. In addition, please read carefully the following risks relating to our business.

WE DEPEND ON VALERO ENERGY FOR SUBSTANTIALLY ALL OF THE CRUDE OIL AND REFINED PRODUCT THROUGHPUT HANDLED BY THE CRUDE OIL STORAGE TANKS AND THE SOUTH TEXAS PIPELINE SYSTEM, AND IF THERE IS ANY REDUCTION IN THIS THROUGHPUT, OUR REVENUES WILL BE REDUCED AND THEREFORE OUR ABILITY TO MAKE CASH DISTRIBUTIONS TO OUR UNITHOLDERS MAY BE ADVERSELY AFFECTED.

Because of the geographic location of the crude oil storage tanks and the South Texas pipeline system, which serve Valero Energy's Corpus Christi East, Corpus Christi West, Three Rivers, Texas City and Benicia refineries, we depend upon Valero Energy to provide substantially all of the throughput for these assets. If Valero Energy were to decrease the throughput of crude oil and/or refined products in these assets for any reason, including as a result of reduced refinery utilization, we would have great difficulty in finding other sources of throughput. Because our operating costs are primarily fixed, a reduction in throughput would result in not only a reduction of revenues but also in a decline in net income and cash flow of similar or greater magnitude, which would reduce our ability to make cash distributions to our unitholders.

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The crude oil storage tanks and the South Texas pipeline system are subject to the same business risks applicable to our other pipeline, terminalling and storage assets, such as disruptions in refinery production, changes in market conditions, competing refined product pipelines, reductions in tariff rates and adverse changes in the price of crude oil. Please see "Risk Factors -- Risks Inherent in Our Business" beginning on page 4 of the accompanying prospectus for a discussion of these business risks.

Valero Energy does not have an obligation to utilize our assets for a fixed amount of volumes under the various terminalling and throughput agreements with us. Rather, the throughput commitments are generally a function of production levels at the refineries. Accordingly, if refinery throughput is suspended or reduced for any reason, Valero Energy's throughput commitments to us with respect to our assets that serve that refinery will be suspended or proportionately reduced, which could have a material adverse effect on us and on our ability to make distributions to unitholders. Operations at a refinery could be partially or completely shut down, temporarily or permanently, as a result of a number of circumstances, none of which are within our control.

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

Our leverage is significant in relation to our consolidated partners' equity. Our total outstanding debt as of June 30, 2003 is \$365.2 million, which represents approximately 46% of our total capitalization, after giving effect to this common unit offering.

Debt service obligations, restrictive covenants in Valero Logistics' revolving credit facility and the indentures governing Valero Logistics' \$100 million 6.875% senior notes due 2012 and \$250 million 6.05% senior notes due 2013 and maturities resulting from this leverage may adversely affect our ability to finance future operations, pursue acquisitions, fund other capital needs and pay cash distributions to unitholders, and may make our results of operations more susceptible to adverse economic or operating conditions. We are prohibited from making cash distributions to our 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 equity or debt offerings. However, our ability to access the capital markets for future offerings may be limited by adverse market conditions resulting from, among other things, general economic conditions, contingencies and uncertainties, which are difficult to predict and beyond our control. If we were unable to access the capital markets for future offerings, we might be forced to seek extensions for some of our short-term maturities or to refinance

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some of our debt obligations through bank credit, as opposed to long-term public debt securities or equity securities. The price and terms upon which we might receive such extensions or additional bank credit could be more onerous than those contained in our existing debt agreements. Any such arrangement could, in turn, increase the risk that our leverage may adversely affect our future financial and operating flexibility.

Valero Logistics' revolving credit facility contains restrictive covenants that limit its ability to incur additional debt and to engage in some types of transactions. These limitations could reduce our ability to capitalize on business opportunities that arise. Any subsequent refinancing of Valero

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Logistics' current indebtedness or any new indebtedness could have similar or greater restrictions.

Valero Logistics' revolving credit facility and the indentures governing the 6.875% senior notes and the 6.05% senior notes contain provisions relating to changes in ownership. If these provisions are triggered, the outstanding debt may become due. If that happens, we may not be able to pay the debt. Our general partner and its direct and indirect owners are not prohibited by the partnership agreement from entering into a transaction that would trigger these change-in-ownership provisions.

Further, if one or more credit rating agencies were to downgrade the outstanding indebtedness of Valero Energy, we could experience a similar downgrade of our outstanding indebtedness, an increase in our borrowing costs, difficulty accessing capital markets or a reduction in the market price of our common units. Such a development could adversely affect our ability to finance acquisitions, refinance existing indebtedness and make cash distributions to our unitholders.

CONTINUED HIGH NATURAL GAS PRICES COULD ADVERSELY AFFECT OUR ABILITY TO MAKE CASH DISTRIBUTIONS TO OUR UNITHOLDERS.

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 25% of our operating expenses for the three months ended March 31, 2003. We use mainly electric power at our pipeline pump stations and at our terminals and this 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 cash distributions to our unitholders.

COST REIMBURSEMENTS AND FEES DUE OUR GENERAL PARTNER AND ITS AFFILIATES ARE SUBSTANTIAL AND REDUCE OUR CASH AVAILABLE FOR DISTRIBUTION TO UNITHOLDERS.

Prior to making any distribution on the common units, we have agreed to pay Valero Energy and its affiliates aggregate annual fees for various administrative services in the current amount of \$5.2 million in addition to reimbursements for direct expenses incurred by affiliates of Valero Energy on our behalf. For the year ended December 31, 2002 and the three months ended March 31, 2003, we reimbursed to Valero Energy and its affiliates approximately \$13.8 million and \$4.1 million, respectively, of direct expenses. The amount of reimbursable expenses is determined by our general partner in its sole discretion. Further, we have agreed to pay Valero Energy an annual fee in the current amount of \$3.5 million for services provided in connection with the crude oil storage tanks. The payment of these fees and the reimbursement of these expenses to Valero Energy and its affiliates could adversely affect our ability to make cash distributions to unitholders.

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 increased risks, are likely to cause continued volatility in the energy markets

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

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terminals and storage tanks and our results of operations, financial condition and ability to make cash distributions to unitholders.

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, financial condition and ability to make cash distributions to unitholders.

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 supplement. 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 the registration statement and prospectus.

CHANGES IN FEDERAL INCOME TAX LAW COULD AFFECT THE VALUE OF OUR 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 value of our common units.

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USE OF PROCEEDS

We estimate that the net proceeds that we will receive from this common unit offering will be approximately \$39.6 million (assuming an offering price of \$41.70 per unit, the last reported sale price of our common units on August 4, 2003), after deducting underwriting discounts and commissions and offering expenses. We anticipate using the net proceeds from this offering and from the related capital contribution of our general partner of approximately \$0.8 million for working capital and general partnership purposes, including future acquisitions and expansion capital projects. We are continuing to evaluate potential acquisitions of various logistics assets from third parties as well as Valero Energy, including, but not limited to, the Southlake refined products pipeline from Valero Energy. We cannot predict when or whether we will be able to reach any agreements to purchase any of these assets on terms acceptable to us. Pending application of the net proceeds, we will invest the proceeds in short-term, investment grade, interest-bearing securities.

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CAPITALIZATION

The following table shows:

- our historical capitalization as of March 31, 2003; and
- our as adjusted capitalization as of March 31, 2003, adjusted to reflect this common unit offering and the application of the net proceeds we receive in this offering in the manner described under "Use of Proceeds."

This table should be read together with our consolidated financial statements and the accompanying notes incorporated by reference into this prospectus supplement.

| | AS OF MARCH 31, 2003 | |
|---|----------------------|-------------|
| | ACTUAL | AS ADJUSTED |
| (IN THOUSANDS) | | |
| Revolving credit facility..... | \$ 25,000 | \$ 25,000 |
| 8.0% Note payable, including current portion..... | 9,660 | 9,660 |
| 6 7/8% Senior Notes due 2012..... | 99,624 | 99,624 |
| 6.05% Senior Notes due 2013..... | 249,607 | 249,607 |
| | ----- | ----- |
| Total debt..... | 383,891 | 383,891 |
| | ----- | ----- |
| Partners' Equity: | | |
| Common units..... | 238,886 | 278,460 |
| Subordinated units..... | 116,048 | 116,048 |
| General partner's equity..... | 7,656 | 8,490 |
| | ----- | ----- |
| Total partners' equity..... | 362,590 | 402,998 |
| | ----- | ----- |
| Total capitalization..... | \$746,481 | \$786,889 |
| | ===== | ===== |

This table does not give effect to the issuance on April 16, 2003, of an additional 581,000 common units pursuant to the underwriters' over-allotment option. We used the net proceeds of approximately \$20 million to pay down amounts outstanding under our revolving credit facility.

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PRICE RANGE OF COMMON UNITS AND DISTRIBUTIONS

Our initial public offering was completed on April 16, 2001. As of June 30, 2003, there were 12,205,822 common units outstanding, held by approximately 65 holders, including common units held in street name. The common units are traded on the New York Stock Exchange under the symbol VLI. In addition, as of June 30, 2003, we have 9,599,322 subordinated units outstanding. The subordinated units are held by an affiliate of our general partner and are not publicly traded.

The following table sets forth, for the periods indicated, the high and low closing prices for the common units, as reported on the New York Stock Exchange Composite Transactions Tape, and quarterly cash distributions paid to our unitholders. The last reported sale price of common units on the New York Stock

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Exchange on August 4, 2003 was \$41.70 per unit.

| | PRICE RANGE | | CASH DISTRIBUTIONS PER UNIT (1) |
|---|-------------|---------|------------------------------------|
| | HIGH | LOW | |
| YEAR ENDED 2003 | | | |
| Third Quarter (through August 4, 2003)..... | \$44.58 | \$41.70 | \$ -- |
| Second Quarter..... | 43.46 | 36.69 | 0.75 |
| First Quarter..... | 40.64 | 36.03 | 0.70 |
| YEAR ENDED 2002 | | | |
| Fourth Quarter..... | \$39.75 | \$35.10 | \$0.70 |
| Third Quarter..... | 37.48 | 33.15 | 0.70 |
| Second Quarter..... | 39.50 | 36.10 | 0.70 |
| First Quarter..... | 42.10 | 37.00 | 0.65 |
| YEAR ENDED 2001 | | | |
| Fourth Quarter..... | \$40.40 | \$33.10 | \$0.60 |
| Third Quarter..... | 35.60 | 30.00 | 0.60 |
| Second Quarter..... | 31.95 | 27.66 | 0.50 |

(1) Represents cash distributions attributable to the quarter and declared and paid within 45 days after quarter-end. The \$0.75 per unit cash distribution for the second quarter of 2003 will be paid on August 14, 2003 to holders of record on August 5, 2003. None of the common units sold in this offering are eligible to receive this distribution for the second quarter of 2003. We paid an identical cash distribution to the holders of our subordinated units for each period shown in this table. We paid cash distributions to our general partner which totaled \$2.2 million and \$0.7 million for the year ended December 31, 2002 and the three months ended March 31, 2003, respectively. Included in the general partner cash distribution for the year ended December 31, 2002 and the three months ended March 31, 2003 are \$1.1 million and \$0.4 million, respectively, of incentive distributions.

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TAX CONSIDERATIONS

The tax consequences to you of an investment in our common units will depend in part on your own tax circumstances. For a discussion of the principal federal income tax considerations associated with our operations and the purchase, ownership and disposition of common units, please read "Tax Considerations" beginning on page 37 of the accompanying prospectus. You are urged to consult your own tax advisor about the federal, state, foreign and local tax consequences peculiar to your circumstances.

We estimate that if you purchase a common unit in this offering and hold the common unit through the record date for the distribution with respect to the fourth calendar quarter of 2006, you will be allocated, on a cumulative basis, an amount of federal taxable income for the period 2003 through 2006 that will be less than 20% of the amount of cash distributed to you with respect to that period.

This estimate is based upon many assumptions regarding our business and operations, including assumptions with respect to capital expenditures, cash flows and anticipated cash distributions. This estimate and our assumptions are

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subject to, among other things, numerous business, economic, regulatory, competitive and political uncertainties beyond our control. Further, this estimate is based on current tax law and tax reporting positions that we have adopted and with which the Internal Revenue Service might disagree. Accordingly, we cannot assure you that this estimate will be correct. The actual percentage of distributions that will constitute taxable income could be higher or lower, and any differences could materially affect the value of the common units.

Ownership of common units by tax-exempt entities, regulated investment companies and foreign investors raises issues unique to such persons. Please read "Tax Considerations -- Tax-Exempt Organizations and Other Investors" in the accompanying prospectus.

Recently issued final regulations require taxpayers to report certain information on Internal Revenue Service Form 8886 if they participate in a "reportable transaction." A transaction may be a reportable transaction based upon any of several factors, including the existence of book-tax differences common to financial transactions, one or more of which may be present with respect to your investment in our common units. The Internal Revenue Service has issued a list of items that are excepted from these disclosure requirements. You should consult your own tax advisor concerning the application of any of these factors to your investment in our common units. Congress is considering legislative proposals that, if enacted, would impose significant penalties for failure to comply with these disclosure requirements. The new regulations also impose obligations on "material advisors" that organize, manage, or sell interests in registered "tax shelters." As described in the accompanying prospectus, we have registered as a tax shelter, and, thus, one of our material advisors will be required to maintain a list with specific information, including your name and tax identification number, and to furnish this information to the Internal Revenue Service upon request. Investors should consult their own tax advisors concerning any possible disclosure obligation with respect to their investment and should be aware that we and our material advisors intend to comply with the list and disclosure requirements.

UNDERWRITING

Under the underwriting agreement, which we will file as an exhibit to our current report on Form 8-K relating to this common unit offering, Lehman Brothers Inc. has agreed to purchase from us, and we have agreed to sell to the underwriter, all 1,000,000 common units that are being sold in this offering.

The underwriting agreement provides that the underwriter is obligated to purchase, subject to certain conditions, all of the common units in the offering if any are purchased, other than those covered by the over-

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allotment option described below. The conditions contained in the underwriting agreement include requirements that:

- the representations and warranties made by us to the underwriter are true;
- there has been no material adverse change in our financial condition or in the financial markets; and
- we deliver the customary closing documents to the underwriter.

OVER-ALLOTMENT OPTION

We have granted the underwriter a 30-day option after the date of the

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underwriting agreement to purchase, in whole or part, up to an aggregate of 150,000 additional common units at the public offering price less the underwriting discounts and commissions. Such option may be exercised to cover over-allotments, if any, made in connection with the common unit offering.

COMMISSION AND EXPENSES

We have been advised by the underwriter that they propose to offer the common units directly to the public at the price to the public set forth on the cover page of this prospectus supplement and to selected dealers (who may include the underwriter) at the offering price less a selling concession not in excess of \$ per unit. The underwriter may allow, and the selected dealers may reallow, a discount from the concession not in excess of \$ per unit to other dealers. After the common unit offering, the underwriter may change the offering price and other selling terms.

The following table shows the underwriting discounts and commissions we will pay to the underwriter. These amounts are shown assuming both no exercise and full exercise of the underwriter's over-allotment option to purchase additional common units. The underwriting fee is the difference between the public offering price and the amount the underwriter pays to us to purchase the common units from us.

| | NO EXERCISE ----- | FULL EXERCISE ----- |
|---------------|----------------------|------------------------|
| Per Unit..... | | |
| Total..... | | |

We estimate that the total expense of the offering, excluding underwriting discounts and commissions, will be approximately \$250,000.

STABILIZATION, SHORT POSITIONS AND PENALTY BIDS

In connection with this offering, the underwriter may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions, and penalty bids or purchases for the purpose of pegging, fixing or maintaining the price of the common units in accordance with Regulation M under the Exchange Act.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Over-allotment transactions involve sales by the underwriter of the common units in excess of the number of common units the underwriter is obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of common units over-allotted by the underwriter is not greater than the number of common units that they may purchase in the over-allotment option. In a naked short position, the number of common units involved is greater than the number of common units in the over-allotment option. The underwriter may close out any short position by either exercising their over-allotment option and/or purchasing the common units in the open market.
- Syndicate covering transactions involve purchases of the common units in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of the common units to close out the short position, the underwriter will consider,

among other things,

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the price of common units available for purchase in the open market as compared to the price at which they may purchase common units through the over-allotment option. If the underwriter sells more common units than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying common units in the open market. A naked short position is more likely to be created if the underwriter is concerned that there could be downward pressure on the price of the common units in the open market after pricing that could adversely affect investors who purchase in the offering.

- Penalty bids permit the underwriter to reclaim a selling concession from another broker-dealer when the common units originally sold by the syndicate member are purchased in a stabilizing or syndicate covering transaction to cover a syndicate short position.

These stabilizing transactions, syndicate covering transactions and penalty bids may have the effect of raising or maintaining the market price of our common units or preventing or retarding a decline in the market price of the common units. As a result, the price of the common units may be higher than the price that might otherwise exist in the open market. These transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

Neither we nor the underwriter makes any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common units. In addition, neither we nor the underwriter makes any representation that the underwriter will engage in these stabilizing transactions or that any transaction, once commenced, will not be discontinued without notice.

LOCK-UP AGREEMENTS

We, our affiliates that own common units and the executive officers and directors of the general partner of our general partner have agreed that we and they will not, subject to limited exceptions, directly or indirectly, sell, offer, pledge or otherwise dispose of any common units or any securities convertible into or exchangeable or exercisable for common units or enter into any derivative transaction with similar effect as a sale of common units for a period of 90 days after the date of this prospectus supplement without the prior written consent of the underwriter. This agreement does not apply to any existing employee benefit plans.

The underwriter, in its discretion, may release the common units subject to lock-up agreements in whole or in part at any time with or without notice. When determining whether or not to release common units from lock-up agreements, the underwriter will consider, among other factors, the unitholders' reasons for requesting the release, the number of common units for which the release is being requested, and market conditions at the time.

LISTING

Our common units are traded on the New York Stock Exchange under the symbol "VLI".

INDEMNIFICATION

We, our general partner and Valero Logistics have agreed to indemnify the

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underwriter against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments that may be required to be made in respect of these liabilities.

AFFILIATIONS

The underwriter has performed investment banking, commercial banking and advisory services for us from time to time for which they have received customary fees and expenses. The underwriter may, from time to time in the future, engage in transactions with and perform services for us in the ordinary course of their business.

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NASD CONDUCT RULES

The compensation received by the underwriter in connection with this common unit offering does not exceed 10% of the gross proceeds from this common unit offering and 0.5% for due diligence.

Because the NASD views the common units offered hereby as interest in a direct participation program, the offering is being made in compliance with Rule 2810 of the NASD Conduct Rules. Investor suitability with respect to the common units should be judged similarly to the suitability with respect to other securities that are listed for trading on a national securities exchange.

DISCRETIONARY SALES

No sales to accounts over which the underwriter has discretionary authority may be made without the prior written approval of the customer.

ELECTRONIC DISTRIBUTION

A prospectus in electronic format may be made available on the Internet sites or through other online services maintained by one or more of the underwriter and/or selling group members participating in this common unit offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the particular underwriter or selling group member, prospective investors may be allowed to place orders online. The underwriter may agree with us to allocate a specific number of common units for sale to online brokerage account holders. Any such allocation for online distributions will be made by the representatives on the same basis as other allocations.

Other than the prospectus in electronic format, the information on the underwriter's or selling group members' website and any information contained in any other website maintained by the underwriter or selling group member is not part of the prospectus or the registration statement of which this prospectus supplement forms a part, has not been approved and/or endorsed by us or the underwriter in its capacity as underwriter and should not be relied upon by investors.

NOTICE TO CANADIAN RESIDENTS

RESALE RESTRICTIONS

The distribution of the common units, also referred to in this section as the securities, in Canada is being made only on a private placements basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of the securities are made. Any resale of the securities in Canada must be made under

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applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the securities.

REPRESENTATIONS OF PURCHASERS

By purchasing the securities in Canada and accepting a purchase confirmation a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the securities without the benefit of a prospectus qualified under those securities laws;
- where required by law, the purchaser is purchasing as principal and not as agent; and
- the purchaser has reviewed the text above under Resale Restrictions.

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RIGHTS OF ACTION -- ONTARIO PURCHASERS

Under Ontario securities legislation, a purchaser who purchases a security offered by this prospectus during the period of distribution will have a statutory right of action for damages, or while still the owner of the shares, for rescission against us in the event that this prospectus contains a misrepresentation. A purchaser will be deemed to have relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date on which payment is made for the securities. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us. In no case will the amount recoverable in any action exceed the price at which the securities were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we will have no liability. In the case of an action for damages, we will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the securities as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

ENFORCEMENT OF LEGAL RIGHTS

All of our directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

VALIDITY OF THE SECURITIES

The validity of the common units and certain federal income tax matters related to the common units will be passed upon for Valero L.P. by Andrews & Kurth L.L.P., Houston, Texas. Certain legal matters in connection with the

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common units offered by this prospectus supplement will be passed upon for Lehman Brothers by Baker Botts L.L.P., Houston, Texas. Baker Botts L.L.P. has, from time to time, performed legal services for Valero Energy.

EXPERTS

The consolidated balance sheets of Valero L.P. and its subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, cash flows and partners' equity for the year ended December 31, 2002, and the balance sheet of the Valero South Texas Pipeline and Terminal Business as of December 31, 2002, and the related statements of income, cash flows and changes in net parent investment for the year then ended, incorporated by reference in this prospectus supplement have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports thereon incorporated by reference into this prospectus supplement, and are incorporated by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

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PROSPECTUS

\$500,000,000

VALERO L.P.

COMMON UNITS

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 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 \$500,000,000. 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 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 the 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

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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 June 17, 2002.

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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, through its 100%-owned operating subsidiary, Valero Logistics Operations, L.P. (Valero Logistics), most of the crude oil and refined product pipeline, terminalling, and storage assets located in Texas, Oklahoma, New Mexico and Colorado that support Valero Energy Corporation's McKee, Three Rivers, and Ardmore refineries located in Texas and Oklahoma. We transport crude oil to these refineries and transport refined products from these refineries to our terminals for further distribution to Valero Energy's company-operated convenience stores or wholesale customers located in Texas, Oklahoma, Colorado, New Mexico, and Arizona.

The general partner of Valero L.P., Riverwalk Logistics, L.P. (Riverwalk Logistics), holds no assets other than its investment in Valero L.P. Riverwalk Logistics is an indirect wholly owned subsidiary of Valero Energy, a publicly held company whose annual and quarterly financial statements are filed with the Securities and Exchange Commission. The financial information of Riverwalk Logistics is included in the consolidated financial statements of Valero Energy.

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 \$500,000,000 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

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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."

As used in this prospectus, "we," "us," and "our" and similar terms mean either or both of Valero L.P. and Valero Logistics, except that those terms, when used in this prospectus in connection with

- the common units described herein mean Valero L.P. and
- the debt securities described herein mean Valero Logistics,

unless the context indicates otherwise.

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 web site at <http://www.sec.gov>.

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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 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. 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, 2001 (as amended on April 4, 2002);
- Valero L.P.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2002;
- Valero L.P.'s Current Report on Form 8-K dated February 1, 2002 (as amended on April 16, 2002);
- Valero L.P.'s Current Report on Form 8-K dated May 15, 2002;
- Valero L.P.'s Current Report on Form 8-K dated May 30, 2002;
- Valero L.P.'s Current Report on Form 8-K dated June 6, 2002;

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- 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 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 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

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FORWARD-LOOKING STATEMENTS

Some of the information included in this prospectus, the accompanying prospectus supplement and the documents we incorporate by reference contain "forward-looking" statements as such term is defined in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, and information relating to us that is based on the beliefs of our management as well as assumptions made by and information currently available to management. The words "anticipate," "believe," "estimate," "expect," and "intend" and words or phrases or similar expressions, as they relate to us or our management, identify forward-looking statements. These statements reflect the current views of management with respect to future events and are subject to certain risks, uncertainties and assumptions relating to the operations and results of operations, including as a result of:

- competitive factors such as competing pipelines;
- pricing pressures and changes in market conditions;
- reductions in production at the refineries that we supply with crude oil and whose refined products we transport;
- inability to acquire additional nonaffiliated pipeline entities;
- reductions in space allocated to us in interconnecting third party pipelines;
- shifts in market demand;
- general economic conditions; and
- other factors.

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Should one or more of these risks or uncertainties materialize, or should any underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein as anticipated, believed, estimated, expected or intended.

Finally, our future results will depend upon various other risks and uncertainties, including, but not limited to, those detailed in Valero L.P.'s other filings with the SEC. For additional information regarding risks and uncertainties, please read Valero L.P.'s other current filings with the SEC under the Exchange Act and the Securities Act, particularly under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Valero L.P.'s Current Report on Form 8-K dated May 15, 2002.

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RISK FACTORS

Limited partner interests are inherently different from the capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. You should carefully consider the following risk factors together with all of the other information included 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.

Because the amount of cash we are able to pay 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, we may not be able to pay all our debt or the minimum quarterly distribution on the common units for each quarter. The amount of cash flow we generate from operations is in turn principally dependent on the average daily volumes of crude oil and refined products transported through our pipelines, the tariff rates and terminalling fees we charge, and the level of operating costs we incur.

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

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

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Cash distributions to debt and equity 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.

YOU MAY RECEIVE LESS THAN YOUR DEBT PAYMENTS OR THE MINIMUM QUARTERLY DISTRIBUTION BECAUSE FEES AND COST REIMBURSEMENTS DUE TO VALERO ENERGY AND ITS AFFILIATES MAY BE SUBSTANTIAL AND WILL REDUCE OUR CASH AVAILABLE FOR DISTRIBUTION.

Prior to making any distribution on the common units, we have agreed to pay Valero Energy and its affiliates an administrative fee that currently equals \$5.2 million on an annualized basis in exchange for providing corporate, general and administrative services to us. Valero L.P.'s general partner, with approval and consent of the conflicts committee of its general partner, will have the right to increase the annual administrative fee by up to 1.5% each year, as further adjusted for inflation, during the eight-year term of the services agreement and may agree to further increases in connection with expansions of our operations through the acquisition or construction of new logistics assets that require additional administrative services. Additionally, we reimburse Valero Energy and its affiliates for direct expenses it incurs to provide all other services to us (for example, salaries for pipeline operations personnel). The direct expenses we reimbursed to Valero Energy and its affiliates were approximately \$12 million in 2001. The payment of the

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annual administrative fee and the reimbursement of direct expenses could adversely affect our ability to make cash distributions to our unitholders.

WE DEPEND UPON VALERO ENERGY FOR 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 and terminals. If Valero Energy were to decrease the throughput of crude oil and/or refined products transported in our pipelines for any reason, we would experience great difficulty in replacing those lost barrels. For example, during January and February of 2002, Valero Energy initiated economic-based refinery production cuts as a result of significantly lower refining margins industry-wide, resulting in a decrease in throughput barrels and revenues from some of our pipelines. Because our operating costs are primarily fixed, a reduction in throughput would result in not only a reduction of revenues but a decline in net income and cash flow of similar or greater magnitude, which would reduce our ability to make cash distributions to our unitholders or payments to our debt holders.

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

- a decrease in demand for refined products in the markets served by our pipelines;
- a temporary or permanent decline in the ability of the McKee, Three

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Rivers, or Ardmore refineries to produce refined products;

- a decision by Valero Energy to redirect refined products transported in our pipelines to markets not served by our pipelines or to transport crude oil by means other than our pipelines;
- a decision by Valero Energy to sell one or more of the McKee, Three Rivers, or Ardmore refineries to a purchaser that elects not to use our pipelines to deliver crude oil to, or transport refined products from, the refinery;
- a loss of customers by Valero Energy in the markets served by our pipelines or a failure to gain additional customers in growing markets; and
- the completion of competing refined product pipelines in the western, southwestern, and Rocky Mountain market regions.

DISTRIBUTIONS TO UNITHOLDERS OR PAYMENTS TO OUR DEBT HOLDERS COULD BE ADVERSELY AFFECTED BY A SIGNIFICANT DECREASE IN DEMAND FOR REFINED PRODUCTS IN THE MARKETS SERVED BY OUR PIPELINES.

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

- a recession or other adverse economic condition that results in lower spending by consumers on gasoline, diesel, and travel;
- higher fuel taxes or other governmental or regulatory actions that increase, directly or indirectly, the cost of gasoline or diesel;
- an increase in fuel economy, whether as a result of a shift by consumers to more fuel-efficient vehicles or technological advances by manufacturers. Pending legislation in the U.S. Congress, such as the National Fuel Savings and Security Act of 2002 and the Fuel Economy and Security Act of 2002, may mandate such increases in fuel economy in the future;

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- an increase in the market price of crude oil that leads to higher refined product prices, which may reduce demand for gasoline or diesel. Market prices for crude oil and refined products are subject to wide fluctuation in response to changes in global and regional supply over which neither we nor Valero Energy have any control, and recent significant increases in the price of crude oil may result in a lower demand for refined products; and
- the increased use of alternative fuel sources, such as battery-powered engines. Several state and federal initiatives mandate this increased use. For example, the Energy Policy Act of 1992 requires 75% of all new vehicles purchased by federal agencies since 1999, 75% of all new vehicles purchased by state governments since 2000, and 70% of all new vehicles purchased for private fleets in 2006 and thereafter to use alternative fuels. Additionally, California has enacted a regulation requiring that by the year 2003, 10% of all fleets delivered to California for sale be zero-emissions vehicles.

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OUR ABILITY TO MAKE PAYMENTS TO DEBT HOLDERS OR DISTRIBUTIONS TO UNITHOLDERS COULD BE REDUCED BY A MATERIAL DECLINE IN PRODUCTION BY ANY OF VALERO ENERGY'S MCKEE, THREE RIVERS, OR ARDMORE REFINERIES.

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

- scheduled turnarounds or unscheduled maintenance or catastrophic events at a refinery;
- labor difficulties that result in a work stoppage or slowdown at a refinery;
- environmental proceedings or other litigation that compel the cessation of all or a portion of the operations at a refinery;
- increasingly stringent environmental regulations, such as the Environmental Protection Agency's Gasoline Sulfur Control Requirements and Diesel Fuel Sulfur Control Requirements which limit the concentration of sulfur in gasoline and diesel fuel;
- a disruption in the supply of crude oil to a refinery; and
- a governmental ban or other limitation on the use of an important product of a refinery.

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

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

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

The concepts of a material change in market conditions and material adverse effect on Valero Energy are not defined in the agreement. However, situations that might constitute a material change in market

conditions having a material adverse effect on Valero Energy include the cost of

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

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

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

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

Our growth strategy is dependent upon:

- the accuracy of our assumption that many of the markets that we serve in the southwestern and Rocky Mountain regions of the United States will experience population growth that is higher than the national average; and
- the willingness and ability of Valero Energy to capture a share of this additional demand in its existing markets and to identify and penetrate new markets in the southwestern and Rocky Mountain regions of the United States.

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

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

We are aware of a number of proposals or industry discussions regarding refined product pipeline projects that, if or when undertaken and completed, could adversely impact some of the most significant markets we serve. One of these projects, the Longhorn Pipeline, will transport refined products from the Texas Gulf Coast to El Paso. Most of the pipeline has been constructed, and it has obtained regulatory approval and is expected to begin operation by the end of 2002. The completion of the Longhorn Pipeline will increase the amount of refined products available in the El Paso, New Mexico, and Arizona markets,

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which could put downward pressure on refined product prices in those markets. As a result, Valero Energy might not find it economically attractive to maintain its current market share in those markets and might decrease the throughput in our pipelines to those markets. In addition, two other refined product pipeline projects have been announced, the Williams Pipeline project from northwestern New Mexico to Salt Lake City, Utah and the Equilon Pipeline project from Odessa, Texas to Bloomfield, New Mexico. It is uncertain if and when these proposed pipelines will commence operations. If completed, these proposed

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pipeline projects could cause downward pressure on market prices in the New Mexico and Arizona markets and could cause Valero Energy to decrease the volumes transported in our pipelines.

IF ONE OR MORE OF OUR TARIFF RATES IS REDUCED, IF FUTURE INCREASES IN OUR TARIFF RATES DO NOT ALLOW US TO RECOVER FUTURE INCREASES IN OUR COSTS, OR IF RATEMAKING METHODOLOGIES ARE ALTERED, OUR ABILITY TO MAKE PAYMENTS TO 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 investigation and possible refund or reduce our current rates and order that we pay reparations for overcharges caused by these rates during the two years prior to the beginning of the FERC's investigation. In addition, a state commission could also investigate our intrastate rates or our terms and conditions of service on its own initiative or at the urging of a shipper or other interested parties.

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

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

Under the FERC's current ratemaking methodology, the maximum rate we may charge with respect to interstate pipelines is adjusted up or down each year by the percentage change in the producer price index for finished goods minus 1%. The FERC's current methodology also allows us, in some circumstances, to change rates based either on our cost of service, or market-based rates, or on a

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settlement or agreement with all of our shippers, instead of the index-based rate change. Under any of these methodologies, our ability to set rates based on our true costs may be limited or delayed. If for any reason future increases in our tariff rates are not sufficient to allow us to recover increases in our costs, our ability to make payments to debt holders or distributions to unitholders may be adversely affected.

Potential changes to current ratemaking methods and procedures of the FERC and state regulatory commissions may impact the federal and state regulations under which we will operate in the future. In addition, if the FERC's petroleum pipeline ratemaking methodology were reviewed by a federal appeals court and changed, this change could reduce our revenues and reduce cash available for payments to debt holders or distribution to our unitholders.

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

The volume of crude oil we transport in our crude oil pipelines depends on the availability of attractively priced crude oil produced in the areas accessible to our crude oil pipelines, imported to our Corpus Christi storage facilities, and received from common carrier pipelines outside of our areas of

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operations. If Valero Energy does not replace volumes lost due to a material temporary or permanent decrease in supply from any of these sources with volumes transported in one of our other crude oil pipelines, we would experience an overall decline in volumes of crude oil transported through our pipelines and therefore a corresponding reduction in cash flow. Similarly, if there were a material increase in the price of crude oil supplied from any of these sources, either temporary or permanent, which caused Valero Energy to reduce its shipments in the related crude oil pipelines, we could experience a decline in volumes of crude oil transported in our pipelines and therefore a corresponding reduction in cash flow. Furthermore, a reduction of supply from our pipelines, either because of the unavailability or high price of crude oil, would likely result in reduced production of refined products at the McKee, Three Rivers, and Ardmore refineries, causing a reduction in the volumes of refined products we transport and our cash flow. Some of the local gathering systems that supply crude oil that we transport to the McKee and Ardmore refineries are experiencing a decline in production. Furthermore, international political and economic uncertainties over which neither we nor Valero Energy have any control may affect imports of crude oil.

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

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

We may be unable to consummate any acquisitions or identify attractive acquisition candidates in the future, to acquire assets or businesses on economically acceptable terms, or to obtain financing for any acquisition on satisfactory terms or at all. Valero Energy may not make any acquisitions that would provide acquisition opportunities to us or, if these opportunities arose, they may not be on terms attractive to us. Moreover, Valero Energy is not

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obligated in all instances to offer to us logistics assets acquired as part of an acquisition by Valero Energy. Valero Energy is also under no obligation to sell to us any pipeline assets it owns.

Acquisitions involve numerous risks, including 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 effect on our ability to make payments to debt holders or distributions to unitholders.

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 make payments to debt holders or distributions to unitholders.

We may not be able to obtain financing of any acquisitions, expansions, and new construction on satisfactory terms or at all. Furthermore, any debt we incur may adversely affect our ability to make payments to debt holders or distributions to unitholders.

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.

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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 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 over 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

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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 71.58% limited partner interest in us and own and control both Valero L.P.'s general partner and Valero Logistics Operations' general partner. Conflicts of interest may arise between Valero Energy and its affiliates, including the general partners, on the one hand, and us, on the other hand. As a result of these conflicts, the general partners may favor their own interests and the interests of their 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 and lower terminalling 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 in 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;
 - 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 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 for actions that might, without the limitations, constitute breaches of fiduciary duty. 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 our holders of securities;
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- Valero L.P.'s general partner determines which costs incurred by Valero Energy and its affiliates are reimbursable by us;

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- Neither partnership agreement restricts Valero L.P.'s general partner from causing us to pay the general partner or its affiliates for any services rendered on terms that are fair and reasonable to us or entering 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 L.P.'s general partner and its affiliates, including 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