

NuStar Energy L.P.  
Form 10-Q  
August 09, 2007

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

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended June 30, 2007**

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-16417

**NUSTAR ENERGY L.P.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

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

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

**Yes  No**

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

**NUSTAR ENERGY L.P. AND SUBSIDIARIES**

**FORM 10-Q**

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**PART I – FINANCIAL INFORMATION**

## Item 1. Financial Statements

NUSTAR ENERGY L.P. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

(Thousands of Dollars, Except Unit Data)

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

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Limited partners (46,809,749 common units outstanding as of June 30, 2007 and December 31, 2006)	1,805,633	1,830,047
General partner	38,659	38,815
Accumulated other comprehensive income	<u>18,181</u>	<u>6,819</u>
Total partners' equity	<u>1,862,473</u>	<u>1,875,681</u>
Total liabilities and partners' equity	\$ 3,561,499	\$ 3,494,208

See Condensed Notes to Consolidated Financial Statements.

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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

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

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

**Income (loss) per unit applicable to limited partners:**

Continuing operations	\$ 0.74	\$ 0.60	\$ 1.31	\$ 1.35
Discontinued operations	<u>-</u>	<u>(0.01)</u>	<u>-</u>	<u>(0.01)</u>
Net income	\$ 0.74	\$ 0.59	\$ 1.31	\$ 1.34

**Cash distributions per unit applicable to limited partners**

	\$ 0.950	\$ 0.885	\$ 1.865	\$ 1.770
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See Condensed Notes to Consolidated Financial Statements.

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## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, Thousands of Dollars)

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

See Condensed Notes to Consolidated Financial Statements.





**NUSTAR ENERGY L.P. AND SUBSIDIARIES**  
**CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. ORGANIZATION, OPERATIONS AND ACCOUNTING PRONOUNCEMENTS**

***Organization***

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

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

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

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

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

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

***Operations***

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

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

***New Accounting Pronouncements***

***FASB Statement 159***

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

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

***FASB Interpretation No. 48***

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

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

***EITF Issue No. 06-3***

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

***Reclassifications***

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

**2. ACQUISITIONS**

***St. James Crude Oil Storage Facility***

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



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

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

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

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

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

### 3. PRODUCT IMBALANCES

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

### 4. LONG-TERM DEBT

#### *Extension of Maturity Date*

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

#### *Revolving Credit Agreement*

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

***Interest Rate Swaps***

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

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

**5. COMMITMENTS AND CONTINGENCIES**

*Litigation and Environmental Matters*

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

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

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

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

*Port of Vancouver Matter.* We own a chemical and refined products terminal on property owned by the Port of Vancouver, and we lease the land under the terminal from the Port of Vancouver. Under an Agreed Order entered into with the Washington Department of Ecology when Kaneb purchased the terminal in 1998, Kaneb agreed to investigate and remediate groundwater contamination by the previous owner and operator of the terminal originating from the terminal. Investigation and remediation at the terminal are ongoing, in compliance with the Agreed Order. In April 2006, the Washington Department of Ecology commented on our site investigation work plan and asserted that the groundwater contamination at the terminal was commingled with a groundwater contamination plume under other



property owned by the Port of Vancouver. We dispute this assertion. No lawsuits have been filed against us in this matter, and we have not made any payments toward remediation of the allegedly commingled plume. Factors that could affect estimated remediation costs include whether Kaneb will be found to have ultimate responsibility for some portion of the allegedly commingled plume, the Port of Vancouver's contribution to the remediation effort and the amount the Port of Vancouver actually receives from other potentially responsible parties.

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

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

***Other***

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

***Commitments***

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

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

**6. RELATED PARTY TRANSACTIONS**

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

For the three and six months ended June 30, 2006, we have presented transactions with Valero Energy Corporation

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

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

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

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

### *Services Agreement*

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

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

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

## **7. PARTNERS' EQUITY**

### *Allocation of Income and Income Per Unit*

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

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

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

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

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

### ***Cash Distributions***

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

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

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



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

**Comprehensive Income**

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

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

**Shelf Registration**

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

**8. OTHER INCOME**

Other income consisted of the following:

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



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

**9. STATEMENTS OF CASH FLOWS**

Changes in current assets and current liabilities were as follows:

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

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

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

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

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

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

**10. SEGMENT INFORMATION**

Our operating segments consist of refined product terminals, refined product pipelines, crude oil pipelines, crude oil storage tanks and an other segment. These reportable segments are strategic business units that offer different services and performance is evaluated based on operating income, before general and administrative expenses. General and administrative expenses are not allocated to the operating segments since those expenses relate primarily to the overall

management at the entity level. Our principal services include providing pipeline transportation services, terminalling services, storage lease services and crude oil storage handling services. Our product sales primarily consist of the sale of bunker fuel to marine vessels. Revenues included in the other segment, which began in the second quarter of 2007, relate to the resale of heavy fuel oil and asphalt purchased from third parties.

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

Results of operations for the reportable segments were as follows:

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

Total assets by reportable segment were as follows:

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





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

**11. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS**

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

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

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

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Deferred income tax liability	-	-	-	35,897	-	35,897
Other long-term liabilities	-	12,406	1,927	57,873	-	72,206
Partners' equity	<u>1,844,292</u>	<u>221,093</u>	<u>1,634,671</u>	<u>2,617,941</u>	<u>(4,455,524)</u>	<u>1,862,473</u>
Total liabilities and partners' equity	\$ 2,348,415	\$ 1,135,471	\$ 2,206,420	\$ 3,258,253	\$ (5,387,060)	\$ 3,561,499

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

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

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

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

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





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

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

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

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

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

**Condensed Consolidating Statements of Income**

For the Three Months Ended June 30, 2006

(Thousands of Dollars)

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

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

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

**Condensed Consolidating Statements of Income**

For the Six Months Ended June 30, 2007

(Thousands of Dollars)

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

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

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

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

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

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



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

<b>Condensed Consolidating Statement of Cash Flows</b>						
<b>For the Six Months Ended June 30, 2007</b>						
<b>(Thousands of Dollars)</b>						
	<b>NuStar Energy L.P.</b>	<b>NuStar Logistics</b>	<b>KPOP</b>	<b>Non-Guarantor Subsidiaries (a)</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Cash flows from operating activities:</b>						
Net income	\$ 70,820	\$ 29,282	\$ 41,912	\$ 74,643	\$ (145,837)	\$ 70,820
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and						
amortization	-	22,269	12,496	20,437	-	55,202
Equity earnings, net of distributions	24,217	916	(34,219)	(44,164)	50,437	(2,813)
Changes in operating assets and liabilities and other	<u>(526)</u>	<u>2,000</u>	<u>(5,274)</u>	<u>(11,972)</u>	<u>-</u>	<u>(15,772)</u>
<b>Net cash provided by (used in) operating activities</b>	<b><u>94,511</u></b>	<b><u>54,467</u></b>	<b><u>14,915</u></b>	<b><u>38,944</u></b>	<b><u>(95,400)</u></b>	<b><u>107,437</u></b>
<b>Cash flows from investing activities:</b>						
Capital expenditures	-	(29,308)	(4,730)	(79,695)	-	(113,733)
Proceeds from sale of assets	-	-	7	1,335	-	1,342
Acquisition and investment in noncurrent assets	-	(60)	-	(4)	-	(64)
Other	<u>-</u>	<u>-</u>	<u>55</u>	<u>195</u>	<u>-</u>	<u>250</u>
<b>Cash flows used in investing activities</b>	<b><u>-</u></b>	<b><u>(29,368)</u></b>	<b><u>(4,668)</u></b>	<b><u>(78,169)</u></b>	<b><u>-</u></b>	<b><u>(112,205)</u></b>
<b>Cash flows from financing activities:</b>						
Distributions	(95,390)	(95,390)	-	(10)	95,400	(95,390)
Repayments of notes payable	-	(4,257)	-	-	-	(4,257)
Long-term debt borrowings	-	266,462	-	-	-	266,462
Long-term debt repayments	-	(172,567)	-	-	-	(172,567)

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Net intercompany borrowings (repayments)	879	(30,958)	(10,651)	40,730	-	-
Other	-	6	-	(152)	-	(146)
Cash flows provided by (used in) financing activities	<u>(94,511)</u>	<u>(36,704)</u>	<u>(10,651)</u>	<u>40,568</u>	<u>95,400</u>	<u>(5,898)</u>
Effect of foreign exchange rate changes on cash	-	350	-	5,703	-	6,053
Net increase (decrease) in cash and cash equivalents	-	(11,255)	(404)	7,046	-	(4,613)
Cash and cash equivalents at the beginning of the period	<u>137</u>	<u>12,345</u>	<u>992</u>	<u>55,364</u>	-	<u>68,838</u>
Cash and cash equivalents at the end of the period	\$ 137	\$ 1,090	\$ 588	\$ 62,410	\$ -	\$ 64,225

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

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

<b>Condensed Consolidating Statement of Cash Flows</b>						
<b>For the Six Months Ended June 30, 2006</b>						
<b>(Thousands of Dollars)</b>						
	<b>NuStar Energy L.P.</b>	<b>NuStar Logistics</b>	<b>KPOP</b>	<b>Non-Guarantor Subsidiaries (a)</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Cash flows from operating activities:</b>						
Net income	\$ 71,004	\$ 40,997	\$ 31,197	\$ 64,487	\$ (136,681)	\$ 71,004
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	-	18,437	12,288	18,303	-	49,028
Equity earnings, net of distributions	17,764	(379)	(33,237)	(31,623)	46,899	(576)
Changes in operating assets and liabilities and other	<u>(2,932)</u>	<u>(9,156)</u>	<u>(7,642)</u>	<u>7,657</u>	<u>-</u>	<u>(12,073)</u>
<b>Net cash provided by (used in) operating activities</b>	<b><u>85,836</u></b>	<b><u>49,899</u></b>	<b><u>2,606</u></b>	<b><u>58,824</u></b>	<b><u>(89,782)</u></b>	<b><u>107,383</u></b>
<b>Cash flows from investing activities:</b>						
Capital expenditures	-	(20,793)	(4,118)	(17,946)	-	(42,857)
Proceeds from sale of assets	-	-	-	70,078	-	70,078
Acquisition and investment in noncurrent assets	-	(12,827)	-	(8,066)	-	(20,893)
Other	<u>(77)</u>	<u>(5,250)</u>	<u>26,604</u>	<u>(22,149)</u>	<u>5,445</u>	<u>4,573</u>
<b>Cash flows provided by (used in) investing activities</b>	<b><u>(77)</u></b>	<b><u>(38,870)</u></b>	<b><u>22,486</u></b>	<b><u>21,917</u></b>	<b><u>5,445</u></b>	<b><u>10,901</u></b>
<b>Cash flows from financing activities:</b>						
Distributions	(89,773)	(89,773)	-	(9)	89,782	(89,773)
Long-term debt borrowings	-	34,000	-	-	-	34,000
Long-term debt repayments	-	(38,480)	-	-	-	(38,480)
Net intercompany borrowings (repayments)						

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4,133      95,686      (24,828)      (74,991)      -

Other	<u>16</u>	<u>(6,115)</u>	<u>-</u>	<u>4,291</u>	<u>(5,445)</u>	<u>(7,253)</u>
Cash flows provided by (used in) financing activities	<u>(85,624)</u>	<u>(4,682)</u>	<u>(24,828)</u>	<u>(70,709)</u>	<u>84,337</u>	<u>(101,506)</u>
Effect of foreign exchange rate changes on cash	-	-	-	(292)	-	(292)
Net increase in cash and cash equivalents	135	6,347	264	9,740	-	16,486
Cash and cash equivalents at the beginning of the period	<u>10</u>	<u>1,590</u>	<u>114</u>	<u>34,340</u>	<u>-</u>	<u>36,054</u>
Cash and cash equivalents at the end of the period	\$ 145	\$ 7,937	\$ 378	\$ 44,080	\$ -	\$ 52,540

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

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

### FORWARD-LOOKING STATEMENTS

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

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

#### **Overview**

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

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

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

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

*Refined Product Pipelines.* We own common carrier pipelines in Texas, Oklahoma, Colorado, New Mexico, Kansas, Nebraska, Iowa, South Dakota, North Dakota and Minnesota covering approximately 6,259 miles. The Central West System is connected to Valero Energy Corporation (Valero Energy) refineries in Texas and Oklahoma, the North

Pipeline is connected to Tesoro's Mandan refinery in North Dakota, and the East Pipeline is connected to various refineries in the midwest. In addition, we own a 2,000 mile anhydrous ammonia pipeline located in Louisiana, Arkansas, Missouri, Illinois, Indiana, Iowa and Nebraska.

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

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

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

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

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



## Results of Operations

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

Financial Highlights			
(Unaudited, Thousands of Dollars, Except Unit and Per Unit Data )			
	<u>Three Months Ended June</u>		
	<u>30,</u>		
	<u>2007</u>	<u>2006</u>	<u>Change</u>
<b>Statement of Income Data:</b>			
<b>Revenues:</b>			
Services revenues	\$ 160,060	\$ 152,094	\$ 7,966
Product sales	<u>160,446</u>	<u>127,874</u>	<u>32,572</u>
<b>Total revenues</b>	<u>320,506</u>	<u>279,968</u>	<u>40,538</u>
<b>Costs and expenses:</b>			
Cost of product sales	148,061	118,283	29,778
Operating expenses	85,444	79,155	6,289
General and administrative expenses	17,581	10,375	7,206
Depreciation and amortization	<u>27,860</u>	<u>24,839</u>	<u>3,021</u>
<b>Total costs and expenses</b>	<u>278,946</u>	<u>232,652</u>	<u>46,294</u>
<b>Operating income</b>	41,560	47,316	(5,756)
Equity earnings from joint ventures	1,746	1,844	(98)
Interest expense, net	(19,452)	(16,604)	(2,848)
Other income, net	<u>17,626</u>	<u>( 272)</u>	<u>17,898</u>
<b>Income from continuing operations before income tax expense</b>	41,480	32,284	9,196
Income tax expense	<u>1,783</u>	<u>492</u>	<u>1,291</u>
<b>Income from continuing operations</b>	39,697	31,792	7,905
<b>Loss from discontinued operations, net of income tax</b>	—	(239)	239
<b>Net income</b>	39,697	31,553	8,144
Less net income applicable to general partner	<u>(5,118)</u>	<u>(4,041)</u>	<u>(1,077)</u>
<b>Net income applicable to limited partners</b>	\$ 34,579	\$ 27,512	\$ 7,067
<b>Weighted-average number of basic units outstanding</b>	46,809,749	46,809,749	-
<b>Income (loss) per unit applicable to limited partners:</b>			
Continuing operations	\$ 0.74	\$ 0.60	\$ 0.14
Discontinued operations	<u>—</u>	<u>(0.01)</u>	<u>0.01</u>
<b>Net income</b>	\$ 0.74	\$ 0.59	\$ 0.15

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Segment Operating Highlights

(Thousands of Dollars, Except Barrels/Day Information)

Three Months Ended June 30,

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



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

**Three Months Ended June 30,**

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

***Highlights***

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

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

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

***Refined Product Terminals***

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

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

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

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

Canada.

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

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

### ***Refined Product Pipelines***

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

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

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

### ***Crude Oil Pipelines***

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

### ***Crude Oil Storage Tanks***

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

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

### ***Other***

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

**General**

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

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

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

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

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

**Six Months Ended June 30, 2007 Compared to Six Months Ended June 30, 2006****Financial Highlights**

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

	<b>Six Months Ended June</b>		
	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>Change</u></b>
<b>Statement of Income Data:</b>			
<b>Revenues:</b>			
Services revenues	\$ 317,342	\$ 300,023	\$ 17,319
Product sales	<u>299,988</u>	<u>253,949</u>	<u>46,039</u>
<b>Total revenues</b>	<b><u>617,330</u></b>	<b><u>553,972</u></b>	<b><u>63,358</u></b>
<b>Costs and expenses:</b>			
Cost of product sales	275,988	232,501	43,487
Operating expenses	166,656	150,225	16,431
General and administrative expenses	32,489	18,935	13,554
Depreciation and amortization	<u>55,202</u>	<u>49,028</u>	<u>6,174</u>
<b>Total costs and expenses</b>	<b><u>530,335</u></b>	<b><u>450,689</u></b>	<b><u>79,646</u></b>
<b>Operating income</b>	86,995	103,283	(16,288)
Equity earnings from joint ventures	3,357	3,050	307
Interest expense, net	(38,306)	(32,300)	(6,006)

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Other income, net	<u>24,249</u>	<u>(41)</u>	<u>24,290</u>
<b>Income from continuing operations before income tax expense</b>			
	76,295	73,992	2,303
Income tax expense	<u>5,475</u>	<u>2,611</u>	<u>2,864</u>
<b>Income from continuing operations</b>	70,820	71,381	(561)
<b>Loss from discontinued operations, net of income tax</b>	<u>-</u>	<u>(377)</u>	<u>377</u>
<b>Net income</b>	70,820	71,004	(184)
Less net income applicable to general partner	<u>(9,572)</u>	<u>(8,240)</u>	<u>(1,332)</u>
<b>Net income applicable to limited partners</b>	\$ 61,248	\$ 62,764	\$ (1,516)
<b>Weighted-average number of basic units outstanding</b>	46,809,749	46,809,749	-
<b>Income (loss) per unit applicable to limited partners:</b>			
Continuing operations	\$ 1.31	\$ 1.35	\$ (0.04)
Discontinued operations	<u>-</u>	<u>(0.01)</u>	<u>0.01</u>
Net income	\$ 1.31	\$ 1.34	\$ (0.03)

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Segment Operating Highlights

(Thousands of Dollars, Except Barrels/Day Information)

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

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

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

**Highlights**

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

Total segment operating income for the six months ended June 30, 2007 decreased \$2.7 million, compared to the six months ended June 30, 2006, primarily due to a \$5.5 million decrease in operating income for the crude oil pipelines segment, a \$2.7 million decrease in operating income for the refined product pipelines segment, and a \$2.2 million decrease in operating income for the crude oil tank storage segment. Partially offsetting these declines was an \$8.4 million increase in operating income for the refined product terminals segment.

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

**Refined Product Terminals**

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

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

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

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

Canada.

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

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

### ***Refined Product Pipelines***

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

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

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

### ***Crude Oil Pipelines***

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

### ***Crude Oil Storage Tanks***

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

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

***Other***

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

***General***

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

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

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

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

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

**Related Party Transactions**

***Services Agreement***

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

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



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

### ***Outlook***

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

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

Additionally, we have created a new product marketing and trading business to capitalize on opportunities to optimize the use and profitability of our assets, to manage our risk as we diversify our business and to enhance our competitive position when pursuing acquisitions. We may experience additional volatility in our earnings and cash flows, which should not be significant in 2007. Further, we will be exposed to commodity price risk related to the product marketing and trading business.

## **LIQUIDITY AND CAPITAL RESOURCES**

### ***General***

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

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

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

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

**Partners' Equity**

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

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

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

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

**Capital Requirements**

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

Our capital expenditures consist primarily of:

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

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

our new headquarters.

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

### ***Long-Term Contractual Obligations***

#### ***Extension of Maturity Date***

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

#### ***Revolving Credit Agreement***

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

#### ***Interest Rate Swaps***

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

#### ***Environmental, Health and Safety***

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

#### ***Other Contingencies***

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

#### ***Commitments***

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

approximately \$203.0 million, which will fluctuate with market prices.

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



**CRITICAL ACCOUNTING POLICIES**

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

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The principal market risk (*i.e.*, the risk of loss arising from adverse changes in market rates and prices) to which we are exposed is interest rate risk on our debt. Additionally, we are exposed to exchange rate fluctuations on transactions related to our foreign operations.

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

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

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

**Item 4. Controls and Procedures**

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

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

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

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

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PART II - OTHER INFORMATION

**Item 1A. Risk Factors**

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

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

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

**Item 6. Exhibits**

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

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\* Filed herewith.

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

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**SIGNATURES**

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

**NUSTAR ENERGY L.P.**

**(Registrant)**

**By: Riverwalk Logistics, L.P., its general partner**

**By: NuStar GP, LLC, its general partner**

**By: /s/ Curtis V. Anastasio**

**Curtis V. Anastasio**

**President and Chief Executive Officer**

**August 9, 2007**

**By: /s/ Steven A. Blank**

**Steven A. Blank**

**Senior Vice President, Chief Financial Officer and Treasurer**

**August 9, 2007**

**By: /s/ Thomas R. Shoaf**

**Thomas R. Shoaf**

**Vice President and Controller**

**August 9, 2007**