

NuStar Energy L.P.  
Form S-3ASR  
May 18, 2007  
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As filed with the Securities and Exchange Commission on May 18, 2007

Registration No. 333-

Registration No. 333- -01

Registration No. 333- -02

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM S-3**  
**REGISTRATION STATEMENT**

*UNDER*

*THE SECURITIES ACT OF 1933*

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**NuStar Energy L.P.**

(and the subsidiaries identified in footnote (\*) below)

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of incorporation or organization)*

**2330 N. Loop 1604 West**

**San Antonio, Texas 78248**

**(210) 918-2000**

**74-2956831**  
*(I.R.S. Employer Identification Number)*

**Bradley C. Barron**

**Senior Vice President and General Counsel**

**NuStar GP, LLC**

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2330 N. Loop 1604 West

San Antonio, Texas 78248

(210) 918-2000

*(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)*

*(Name, address, including zip code, and telephone number including area code, of agent for service)*

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*Copies to:*

**Gislar Donnenberg**

**Andrews Kurth LLP**

**600 Travis, Suite 4200**

**Houston, Texas 77002**

**(713) 220-4200**

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**Approximate date of commencement of proposed sale to the public:** From time to time after the effective date of this Registration Statement.

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

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

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

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

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. x

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ..

**CALCULATION OF REGISTRATION FEE**

Title of each class of securities to be registered	Amount to be registered <sup>(1)</sup>	Proposal maximum aggregate offering price per unit	Proposed maximum aggregate offering price	Amount of registration fee <sup>(1)</sup>
Common Units representing limited partner interests <sup>(2)</sup>				
Senior Debt Securities <sup>(3)</sup>				
Subordinated Debt Securities <sup>(3)</sup>				
Guarantees of Debt Securities <sup>(4)</sup>				

- (1) An unspecified aggregate initial offering price or principal amount or number of the securities of each identified class is being registered as may from time to time be issued at indeterminate prices, with an aggregate public offering price not to exceed \$3,000,000,000, or if any debt securities are issued at any original issuance discount, such greater amount as shall result in net proceeds of \$3,000,000,000 to the registrant, or upon conversion, exchange or exercise of securities registered hereunder to the extent any such securities are, by their terms, convertible into, or exchangeable or exercisable for, such securities. Separate consideration may or may not be received for securities that are issuable on exercise, conversion or exchange of other securities. Any securities registered hereunder may be sold separately or as units with other securities registered hereunder. In accordance with Rules 456(b) and 457(r) under the Securities Act of 1933, as amended, the registrant is deferring payment of all of the registration fee.
- (2) An unspecified amount of Common Units as may be sold from time to time by NuStar Energy L.P. is being registered hereunder.
- (3) An unspecified amount of Debt Securities as may be sold from time to time by each of NuStar Logistics, L.P. and Kaneb Pipe Line Operating Partnership, L.P. is being registered hereunder.
- (4) NuStar Energy L.P. has agreed to guarantee the obligations of each of NuStar Logistics, L.P. and Kaneb Pipe Line Operating Partnership, L.P. ( KPOP ) under the Debt Securities. Also, NuStar Logistics, L.P. has agreed to guarantee the obligations of KPOP under the Debt Securities and KPOP has agreed to guarantee the obligations of NuStar Logistics, L.P. under the Debt Securities. No separate consideration will be paid in respect of any such guarantees. Pursuant to Rule 457(n) under the Securities Act of 1933, as amended, no separate fee is payable with respect to the guarantees of the debt securities.

\* Each of the following is a co-registrant that may issue some or all of the securities:

**NUSTAR LOGISTICS, L.P.**

*(Exact name of registrant as specified in its charter)*

**Delaware**  
*(State or other jurisdiction of incorporation or organization)*

**74-2958817**  
*(I.R.S. Employer Identification Number)*

**KANEB PIPE LINE OPERATING PARTNERSHIP, L.P.**

*(Exact name of registrant as specified in its charter)*

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**Delaware**

*(State or other jurisdiction of incorporation or organization)*

**75-2287673**

*(I.R.S. Employer Identification Number)*

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**PROSPECTUS**

**\$3,000,000,000**

**NUSTAR ENERGY L.P.**

**Common Units Representing Limited Partner Interests**

**NUSTAR LOGISTICS, L.P.**

**Debt Securities**

**KANEB PIPE LINE OPERATING PARTNERSHIP, L.P.**

**Debt Securities**

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We may from time to time offer and sell common units representing limited partner interests in NuStar Energy L.P. and debt securities of each of NuStar Logistics, L.P. and Kaneb Pipe Line Operating Partnership, L.P. NuStar Energy L.P. may guarantee the debt securities of each of NuStar Logistics, L.P. and Kaneb Pipe Line Operating Partnership, L.P. The Securities will have a maximum aggregate offering price of \$3,000,000,000. We may offer and sell these securities to or through one or more underwriters, dealers and agents, or directly to purchasers, on a continuous or delayed basis. This prospectus describes the general terms of these securities. The specific terms of any securities and the specific manner in which we will offer them will be included in a supplement to this prospectus relating to that offering.

You should read this prospectus and the applicable prospectus supplement and the documents incorporated by reference herein and therein carefully before you invest in our securities. This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

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

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*Investing in these securities involves a high degree of risk. Limited partnerships are inherently different from corporations. For a discussion of the factors you should consider before deciding to purchase these securities, please see Risk Factors, beginning on page 3 of this prospectus.*

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Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is May 18, 2007

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You should rely only on the information contained in this prospectus, any prospectus supplement and the documents we have incorporated by reference. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus or any prospectus supplement, as well as the information we previously filed with the Securities and Exchange Commission that is incorporated by reference herein, is accurate as of any date other than its respective date.

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**ABOUT THIS PROSPECTUS**

The information contained in this prospectus is not complete and may be changed. You should rely only on the information provided in or incorporated by reference in this prospectus, any prospectus supplement, or documents to which we otherwise refer you. We have not authorized anyone else to provide you with different information. We are not making an offer of any securities in any jurisdiction where the offer is not permitted. You should not assume that the information in this prospectus, any prospectus supplement or any document incorporated by reference is accurate as of any date other than the date of the document in which such information is contained or such other date referred to in such document, regardless of the time of any sale or issuance of a security.

This prospectus is part of a registration statement that we have filed with the Securities and Exchange Commission, or SEC, utilizing a shelf registration process. Under this shelf process, we may sell up to an aggregate of \$3,000,000,000 of the different types of securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering and the securities offered by us in that offering. The prospectus supplement may also add, update or change information in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described under the headings *Where You Can Find More Information* and *Incorporation by Reference*.

This prospectus contains summaries of certain provisions contained in some of the documents described herein, but reference is made to the actual documents for complete information. All of the summaries are qualified in their entirety by reference to the actual documents. Copies of some of the documents referred to herein have been filed or will be filed or incorporated by reference as exhibits to the registration statement of which this prospectus is a part, and you may obtain copies of those documents as described below in the section entitled *Where You Can Find More Information*.

In this prospectus, references to *NuStar Energy*, *we*, *us* and *our* mean NuStar Energy L.P. and its consolidated subsidiaries, unless otherwise noted. References to *NuStar Logistics* mean NuStar Logistics, L.P. References to *KPOP* mean Kaneb Pipe Line Operating Partnership, L.P.

**ABOUT NUSTAR ENERGY L.P.**

NuStar Energy is a publicly traded Delaware limited partnership based in San Antonio, Texas engaged in the crude oil and refined product transportation, terminaling and storage business.

Our principal executive offices are located at 2330 N. Loop 1604 West, San Antonio, Texas 78248, and our telephone number is (210) 918-2000. Our website is located at <http://www.nustarenergy.com>.

Our operations are managed by NuStar GP, LLC, the general partner of Riverwalk Logistics, L.P., our general partner. NuStar GP, LLC is a wholly owned subsidiary of NuStar GP Holdings, LLC, a publicly traded limited liability company (NYSE: NSH).

**ABOUT NUSTAR LOGISTICS, L.P. AND**

**KANE PIPE LINE OPERATING PARTNERSHIP, L.P.**

We conduct our operations through our wholly owned subsidiaries, primarily NuStar Logistics and KPOP.

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**WHERE YOU CAN FIND MORE INFORMATION**

We have filed a registration statement on Form S-3 with the SEC under the Securities Act of 1933, as amended (the Securities Act), that registers the securities offered by this prospectus. The registration statement, including the attached exhibits, contains additional relevant information about us. The rules and regulations of the SEC allow us to omit from this prospectus some information included in the registration statement.

We file annual, quarterly, and other reports and other information with the SEC under the Securities Exchange Act of 1934, as amended (the Exchange Act). You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. The SEC maintains an Internet website at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC. General information about us, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, is available free of charge through our website at <http://www.nustarenergy.com> as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. Information on our website is not incorporated into this prospectus or our other securities filings and is not a part of these filings.

**INCORPORATION BY REFERENCE**

The SEC allows us to incorporate by reference information into this document. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this prospectus, and information that we file later with the SEC will automatically update and supersede the previously filed information. We incorporate by reference the documents listed below and any future filings made by us with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, other than any portions of the respective filings that were furnished, pursuant to Item 2.02 or Item 7.01 of Current Reports on Form 8-K (including exhibits related thereto) or other applicable SEC rules, rather than filed, prior to the termination of the offerings under this prospectus:

Registration Statement on Form 8-A (File No. 001-16417) filed on March 30, 2001;

Annual Report on Form 10-K (File No. 001-16417) for the year ended December 31, 2006, filed on February 28, 2007;

Quarterly Report on Form 10-Q (File No. 001-16417) for the quarter ended March 31, 2007, filed on May 9, 2007; and

Current Reports on Form 8-K (File No. 001-16417) filed on January 31, 2007, March 27, 2007 and May 14, 2007.

Each of these documents is available from the SEC's website and public reference rooms described above. Through our website, <http://www.nustarenergy.com>, you can access electronic copies of documents we file with the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and any amendments to those reports. Information on our website is not incorporated by reference in this prospectus. Access to those electronic filings is available as soon as practical after filing with the SEC. You may also request a copy of those filings, excluding exhibits, at no cost by writing or telephoning Investor Relations, NuStar Energy L.P., at our principal executive office, which is: 2330 N. Loop 1604 West, San Antonio, Texas 78248; Telephone (210) 918-2000.



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**RISK FACTORS**

*Limited partner interests are inherently different from the capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. Before you invest in our securities, you should carefully consider the risk factors included in our most-recent annual report on Form 10-K and in our quarterly reports on Form 10-Q that are incorporated herein by reference and those that may be included in the applicable prospectus supplement, together with all of the other information included in this prospectus, any prospectus supplement and the documents we incorporate by reference.*

*If any of the risks discussed in the foregoing documents were actually to occur, our business, financial condition, results of operations, or cash flow could be materially adversely affected. In that case, our ability to make distributions to our unitholders or pay interest on, or the principal of, any debt securities, may be reduced, the trading price of our securities could decline and you could lose all or part of your investment.*

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**FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISKS**

Some of the information contained in or incorporated by reference in this prospectus may contain forward-looking statements. These statements can be identified by the use of forward-looking terminology including may, believe, will, expect, anticipate, estimate, continue, or other words. These statements discuss future expectations, contain projections of results of operations or of financial condition, or state other forward-looking information. These forward-looking statements involve risks and uncertainties. When considering these forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this prospectus or incorporated by reference herein, including those described in the Risk Factors section of our most recent annual report on Form 10-K and, to the extent applicable, our quarterly reports on Form 10-Q and any prospectus supplement. The risk factors and other factors noted in this prospectus or incorporated by reference herein could cause our actual results to differ materially from those contained in any forward-looking statement. Investors are cautioned that certain statements contained in or incorporated by reference in this prospectus as well as some statements in periodic press releases and some oral statements made by our officials and our subsidiaries during presentations about us, are forward-looking statements. Forward-looking statements are based on current expectations and projections about future events and are inherently subject to a variety of risks and uncertainties, many of which are beyond our control, that could cause actual results to differ materially from those anticipated or projected.

Forward-looking statements speak only as of the date of this prospectus or, in the case of forward-looking statements contained in any document incorporated by reference, the date of such document and we expressly disclaim any obligation or undertaking to update these statements to reflect any change in our expectations or beliefs or any change in events, conditions or circumstances on which any forward-looking statement is based.

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**RATIO OF EARNINGS TO FIXED CHARGES**

The following table sets forth our ratios of earnings to fixed charges for the periods indicated.

	Fiscal Years					Three Months ended March 31,
	2002	2003	2004	2005	2006	2007
Ratio of earnings to fixed charges	11.1x	5.3x	4.6x	3.5x	3.0x	2.5x

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

fixed charges represent interest expense (including amounts capitalized and amortization of debt costs) and the portion of rental expense representing the interest factor; and

earnings represent the aggregate of pre-tax income from continuing operations (before adjustment for income from equity investees), fixed charges, amortization of capitalized interest and distributions from equity investees, less capitalized interest.

**USE OF PROCEEDS**

Unless otherwise indicated in an accompanying prospectus supplement, NuStar Energy, NuStar Logistics and KPOP expect to use the net proceeds from the sale of NuStar Energy common units and NuStar Logistics and KPOP debt securities, as the case may be, for general partnership purposes, which may include, among other things:

the repayment of outstanding indebtedness;

working capital;

capital expenditures; and

acquisitions.

The actual application of proceeds we receive from the sale of any particular offering of securities using this prospectus will be described in the applicable prospectus supplement relating to such offering.

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**DESCRIPTION OF NUSTAR ENERGY COMMON UNITS**

**Number of Units**

We currently have 46,809,749 common units outstanding, of which 36,308,566 are held by the public and 10,501,183 are held by our general partner and its affiliates. The common units represent an aggregate 98% limited partner interest in NuStar Energy and the general partner has a 2% general partner interest in NuStar Energy.

Under our partnership agreement we may issue, without further unitholder action, an unlimited number of additional limited partner interests and other equity securities with such rights, preferences and privileges as may be established by our general partner in its sole discretion.

**Voting**

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

Removal of our general partner requires:

a vote of not less than a majority of all outstanding common units, excluding the common units held by affiliates of our general partner; and

the election of a successor general partner by the holders of a majority of the outstanding common units, excluding the units held by affiliates of our general partner.

**Listing**

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

**Transfer Agent and Registrar**

Our transfer agent and registrar for the common units is Computershare, LLC.

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**CASH DISTRIBUTIONS**

**Distributions of Available Cash**

***General***

Within 45 days after the end of each quarter, NuStar Energy will distribute all of its available cash to its partners of record on the applicable record date.

***Definition of Available Cash***

Available cash is defined in NuStar Energy's partnership agreement and generally means, with respect to any fiscal quarter, the sum of all cash and cash equivalents on hand at the end of such quarter, plus any working capital borrowings made subsequent to the end of such quarter, less the amount of any cash reserves that NuStar Energy's general partner deems necessary or appropriate to:

provide for the proper conduct of NuStar Energy's business, including reserves for future capital expenditures and anticipated credit needs;

comply with applicable law or any debt instrument or other agreement or obligation; or

provide funds for distributions with respect to any one or more of the next four fiscal quarters.

***Intent to Distribute the Minimum Quarterly Distribution***

NuStar Energy's policy is, to the extent it has sufficient available cash from operating surplus, as defined below, to distribute to each common unit at least the minimum quarterly distribution of \$0.60 per quarter or \$2.40 per year. However, there is no guarantee that NuStar Energy will pay the minimum quarterly distribution on the common units in any quarter and NuStar Energy may be prohibited from making any distributions to unitholders if it would cause an event of default under the terms of NuStar Energy's indebtedness.

**Operating Surplus and Capital Surplus**

***General***

Cash distributions are characterized as distributions from either operating surplus or capital surplus. NuStar Energy distributes available cash from operating surplus differently than available cash from capital surplus.

***Definition of Operating Surplus***

Operating surplus is defined in NuStar Energy's partnership agreement and generally means, with respect to any period ending prior to the dissolution of NuStar Energy:

\$10 million plus all cash and cash equivalents on hand as of the close of business on April 16, 2001, the closing date of its initial public offering of its common units;

plus all cash receipts since April 16, 2001, other than from interim capital transactions such as borrowings that are not working capital borrowings, sales of equity and debt securities and sales or other dispositions of assets for cash, other than inventory, accounts receivable and other assets sold in the ordinary course of business or as part of normal retirements or replacements of

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assets;

*plus* all cash receipts resulting from working capital borrowings after the end of such period but on or before the date of determination of the operating surplus for such period;

*less* all operating expenditures since April 16, 2001; and

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less the amount of cash reserves that NuStar Energy's general partner deems necessary or advisable to provide funds for future operating expenditures.

***Definition of Capital Surplus***

Capital surplus of NuStar Energy will generally be generated only by:

borrowings other than working capital borrowings;

sales of debt and equity securities; and

sales or other dispositions of assets for cash, other than inventory, accounts receivable and other current assets sold in the ordinary course of business or as part of normal retirements or replacements of assets.

***Characterization of Cash Distributions***

To avoid the difficulty of trying to determine whether the available cash that NuStar Energy distributes is from operating surplus or from capital surplus, all available cash that NuStar Energy distributes on any date from any source is treated as a distribution of cash from operating surplus until the sum of all available cash theretofore distributed equals the operating surplus calculated as of the end of the fiscal quarter with respect to which such distribution is being made. Any remaining amounts of available cash distributed on such date will be treated as cash from capital surplus and will be distributed accordingly.

If at any time (i) a hypothetical holder of a common unit acquired on April 16, 2001 has received distributions of available cash from capital surplus in an aggregate amount equal to the \$24.50 initial public offering price of the common units, and (ii) each common unit then outstanding has received an amount equal to any cumulative arrearage existing with respect to the common units, then the distinction between operating surplus and capital surplus will cease, and all subsequent distributions of available cash will be treated as distributions of cash from operating surplus and will be distributed accordingly. To date there have been no distributions from capital surplus, and NuStar Energy does not anticipate that there will be significant distributions from capital surplus in the future.

**Distributions of Available Cash from Operating Surplus**

NuStar Energy will make distributions of available cash from operating surplus as follows:

*First*, 98% to the unitholders, pro rata, and 2% to the general partner, until NuStar Energy has distributed for each outstanding unit an amount equal to the minimum quarterly distribution of \$0.60 for that quarter;

*Second*, 90% to all unitholders, pro rata, 8% to the holders of the incentive distribution rights, and 2% to the general partner, until NuStar Energy has distributed with respect to each unit then outstanding an amount equal to the excess of the first target distribution (\$0.66 per unit) over the minimum quarterly distribution; and

*Thereafter*, 75% to all unitholders, pro rata, 23% to the holders of the incentive distribution rights, and 2% to the general partner. If the minimum quarterly distribution and the first target distribution have been reduced to zero under the terms of the partnership agreement, then any distribution of available cash from operating surplus will be made solely in accordance with the final bullet point above.

The minimum quarterly distribution and the first target distribution are subject to adjustment as described below in **Adjustment of the Minimum Quarterly Distribution and Target Distribution Levels**.





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### **Distributions of Available Cash from Capital Surplus**

#### ***How Distributions from Capital Surplus are Made***

NuStar Energy makes distributions of available cash from capital surplus in the following manner:

*First*, 98% to all unitholders, pro rata, and 2% to the general partner, until a hypothetical holder of a common unit acquired on April 16, 2001 has received an aggregate amount equal to the \$24.50 initial public offering price of the common units;

*Second*, 98% to the common unitholders, pro rata, and 2% to the general partner, until there has been distributed with respect to each common unit then outstanding an amount equal to any cumulative arrearage existing with respect to the common units; and

*Thereafter*, all distributions of available cash from capital surplus will be distributed as if they were from operating surplus.

#### ***Effect of a Distribution from Capital Surplus***

NuStar Energy's partnership agreement treats a distribution of cash from capital surplus on a common unit as the repayment of the initial public offering price of such common unit, which is a return of capital. The initial public offering price less any distributions of cash from capital surplus per common unit is referred to as unrecovered initial unit price or unrecovered capital. Each time a distribution of cash from capital surplus is made on a common unit, the minimum quarterly distribution and the first target distribution for all units will be reduced in the same proportion as the corresponding reduction in the unrecovered capital. Because distributions of cash from capital surplus will reduce the minimum quarterly distribution, after any of these distributions are made, it may be easier for NuStar Energy's general partner to receive incentive distributions. However, any distribution by NuStar Energy of capital surplus before the unrecovered capital is reduced to zero cannot be applied to the payment of the minimum quarterly distribution or any arrearages.

If at any time NuStar Energy makes a distribution of cash from capital surplus in an amount equal to the then current unrecovered capital, the minimum quarterly distribution and the first target distribution will be reduced to zero. As a result, all future distributions will be made from operating surplus, with 75% being paid to all unitholders, pro rata, 23% to the general partner as the holder of incentive distribution rights, pro rata, and 2% to the general partner.

### **Incentive Distribution Rights**

Incentive distribution rights are non-voting limited partner interests that were issued to NuStar Energy's general partner in connection with the transfer of its general partnership interest in the operating partnership to NuStar Energy. Incentive distribution rights represent the right to receive an increasing percentage of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution has been achieved. The general partner as the holder of incentive distribution rights is paid in the manner described in Distributions of Available Cash from Operating Surplus above.

Prior to March 31, 2011, the general partner may not transfer (other than to affiliates, in a merger or the sale of all assets) the incentive distribution rights without the approval of the majority of the common units (excluding the general partner's common units).

### **Adjustment of the Minimum Quarterly Distribution and Target Distribution Levels**

NuStar Energy's minimum quarterly distribution is \$0.60 per unit, subject to adjustment. NuStar Energy's first target distribution is \$0.66 per unit, subject to adjustment. NuStar Energy has no other target distribution levels.

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In addition to reductions of the minimum quarterly distribution and first target distribution level made upon a distribution of available cash from capital surplus, as described above, if NuStar Energy distributes units to its unitholders, combines its units into fewer units or subdivides its units into a greater number of units, NuStar Energy will proportionately adjust:

the minimum quarterly distribution;

the first target distribution level;

any common unit arrearage;

any cumulative common unit arrearage; and

the unrecovered capital.

For example, in the event of a two-for-one split of the common units (assuming no prior adjustments), the minimum quarterly distribution, the first target distribution level, any common unit arrearage, any cumulative common unit arrearage and the unrecovered capital of the common units would each be reduced to 50% of its initial level.

In addition, if legislation is enacted or if existing law is modified or interpreted in a manner that causes NuStar Energy and/or the operating partnership to become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes, then NuStar Energy will reduce the then-applicable minimum quarterly distribution and the first target distribution level by multiplying the same by one minus the sum of (a) the highest marginal federal corporate (or other) income tax rate that could apply plus (b) any increase in the effective overall state and local income tax rates. For example, if NuStar Energy became subject to a maximum effective federal, state and local income tax rate of 35%, then the minimum quarterly distribution and the first target distribution level would each be reduced to 65% of their previous levels.

### **Distributions of Cash upon Liquidation**

If NuStar Energy dissolves in accordance with its partnership agreement, it will sell or otherwise dispose of its assets in a process called a liquidation, and the partner's capital account balances will be adjusted to reflect any resulting gain or loss. NuStar Energy will first apply the proceeds of liquidation to the payment of its creditors (including partners) in the order of priority provided in the partnership agreement and by law and, thereafter, it will distribute any remaining proceeds to its partners in accordance with, and to the extent of, the positive balances in their respective capital accounts, as adjusted. The manner of adjustment of capital accounts is set forth in NuStar Energy's partnership agreement.

### ***Manner of Adjustments for Gain***

Upon its liquidation, NuStar Energy will allocate any net gain (or unrealized gain attributable to assets distributed in kind to the partners) in the following manner:

*first*, to each partner having a negative balance in its capital account, in the proportion that such negative balance bears to the total negative balances of all partners, until each partner has been allocated net gain equal to its negative balance;

*second*, 98% to the common unitholders, pro rata, and 2% to the general partner, until the capital account for each common unit then outstanding is equal to the sum of:

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the unrecovered capital with respect to such common unit;

the amount of any unpaid minimum quarterly distribution for the quarter during which the liquidation occurs; and

the amount of any cumulative arrearage existing with respect to the common units;

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*third*, 90% to all unitholders, pro rata, 8% to the holders of the incentive distribution rights, pro rata, and 2% to the general partner, until the capital account for each common unit then outstanding is equal to the sum of:

the unrecovered capital with respect to each common unit;

the amount of any unpaid minimum quarterly distribution for the quarter during which the liquidation occurs;

the amount of any cumulative arrearage existing with respect to the common units; and

the excess of (a) the first target distribution less the minimum quarterly distribution for each quarter of the partnership's existence, over (b) the cumulative per unit amount of any distributions of available cash from operating surplus that were distributed 90% to all unitholders, pro rata, 8% to the holders of incentive distribution rights, pro rata, and 2% to the general partner; and

*thereafter*, 75% to all unitholders, pro rata, 23% to the holders of incentive distribution rights, pro rata, and 2% to the general partner.

***Manner of Adjustments for Losses***

Upon its liquidation, NuStar Energy will allocate any loss in the following manner:

*first*, 98% to the common unitholders, pro rata, and 2% to the general partner, until the capital account for each common unit has been reduced to zero; and

*thereafter*, 100% to the general partner.

***Adjustments to Capital Accounts***

In addition, interim adjustments to capital accounts will be made at the time NuStar Energy issues additional partnership interests or makes distributions of property. Such adjustments will be based on the fair market value of the partnership interests or the property distributed and any gain or loss resulting therefrom will be allocated to the partners in the same manner as gain or loss is allocated upon liquidation. In the event that positive interim adjustments are made to the capital accounts, any subsequent negative adjustments to the capital accounts resulting from the issuance of additional partnership interests in NuStar Energy, distributions of property by NuStar Energy, or upon NuStar Energy's liquidation, will be allocated in a manner which results, to the extent possible, in the capital account balances of the general partner equaling the amount that would have been the general partner's capital account balances if no prior positive adjustments to the capital accounts had been made.

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**THE PARTNERSHIP AGREEMENT**

The following is a summary of the material provisions of the NuStar Energy partnership agreement. NuStar Energy's partnership agreement is included as an exhibit to the registration statement of which this prospectus constitutes a part.

**Organization and Duration**

NuStar Energy was organized in December 1999 and will continue until dissolved under the terms of its partnership agreement.

**Purpose**

NuStar Energy's stated purposes under its partnership agreement are to serve as a partner of its operating partnerships and to engage in any business activities that may be engaged in by its operating partnerships or that are approved by the general partner, *provided* that the general partner must reasonably determine that such activity generates or enhances the operations of an activity that generates qualifying income, as this term is defined in Section 7704 of the Internal Revenue Code.

NuStar Energy's general partner is authorized in general to perform all acts deemed necessary to carry out NuStar Energy's purposes and to conduct NuStar Energy's business.

**Power of Attorney**

Each limited partner, and each person who acquires a unit from a unitholder and executes and delivers a transfer application, grants to the general partner and, if appointed, a liquidator, a power of attorney to, among other things, execute and file documents required for the qualification, continuance or dissolution of NuStar Energy. The power of attorney also grants the general partner and the liquidator the authority to amend the partnership agreement, and to make consents and waivers under the partnership agreement.

**Capital Contributions**

NuStar Energy's unitholders are not obligated to make additional capital contributions, except as described below under Limited Liability.

**Limited Liability**

Assuming that a limited partner does not participate in the control of NuStar Energy's business within the meaning of the Delaware Revised Uniform Limited Partnership Act, which we refer to in this prospectus as the Delaware law, and that he otherwise acts in conformity with the provisions of NuStar Energy's partnership agreement, his liability under the Delaware law will be limited, subject to possible exceptions, to the amount of capital he is obligated to contribute to NuStar Energy for his common units plus his share of any undistributed profits and assets. If it were determined, however, that the right or exercise of the right by the NuStar Energy limited partners as a group:

to remove or replace the general partner;

to approve some amendments to the partnership agreement; or

to take other action under the partnership agreement;

constituted participation in the control of NuStar Energy's business for the purposes of the Delaware law, then the limited partners could be held personally liable for NuStar Energy's obligations under the laws of Delaware, to the same extent as the general partner. This liability would extend to persons who transact business with NuStar Energy who reasonably believe that the limited partner is a general partner.

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Neither NuStar Energy's partnership agreement nor the Delaware law specifically provides for legal recourse against the general partner if a limited partner were to lose limited liability through any fault of the general partner. While this does not mean that a limited partner could not seek legal recourse, we know of no precedent for this type of a claim in Delaware case law.

Under the Delaware law, a limited partnership may not make a distribution to a partner if, after the distribution, all liabilities of the limited partnership, other than liabilities to partners on account of their partnership interests and liabilities for which the recourse of creditors is limited to specific property of the partnership, would exceed the fair value of the assets of the limited partnership. For the purpose of determining the fair value of the assets of a limited partnership, the Delaware law provides that the fair value of property subject to liability for which recourse of creditors is limited shall be included in the assets of the limited partnership only to the extent that the fair value of that property exceeds the nonrecourse liability. The Delaware law provides that a limited partner who receives a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware law shall be liable to the limited partnership for the amount of the distribution for three years. Under the Delaware law, an assignee who becomes a substituted limited partner of a limited partnership is liable for the obligations of his assignor to make contributions to the partnership, except the assignee is not obligated for liabilities unknown to him at the time he became a limited partner and that could not be ascertained from the partnership agreement.

NuStar Energy's operating subsidiaries conduct business or own assets in the United States, Canada, Mexico, the Netherland Antilles, the Netherlands and the United Kingdom. Maintenance of NuStar Energy's limited liability as a limited partner or member, respectively, of its operating subsidiaries, may require compliance with legal requirements in the jurisdictions in which the operating subsidiary conducts business. Limitations on the liability of limited partners or members for the obligations of a limited partner or member have not been clearly established in many jurisdictions. If it were determined that NuStar Energy was, by virtue of NuStar Energy's ownership interest in the operating subsidiaries or otherwise, conducting business in any state without compliance with the applicable limited partnership or limited liability company statute, or that the right or exercise of the right by the limited partners as a group to remove or replace NuStar Energy's general partner, to approve some amendments to the partnership agreement, or to take other action under the partnership agreement constituted participation in the control of NuStar Energy's business for purposes of the statutes of any relevant jurisdiction, then the limited partners could be held personally liable for NuStar Energy's obligations under the law of that jurisdiction to the same extent as the general partner under the circumstances. NuStar Energy will operate in a manner that the general partner considers reasonable and necessary or appropriate to preserve the limited liability of the limited partners.

## **Issuance of Additional Securities**

NuStar Energy's partnership agreement authorizes NuStar Energy to issue an unlimited number of additional limited partner interests and other equity securities for the consideration and on the terms and conditions established by the general partner in its sole discretion without the approval of any limited partners.

It is possible that NuStar Energy will fund acquisitions through the issuance of additional common units or other equity securities. Holders of any additional common units NuStar Energy issues will be entitled to share equally with the then-existing holders of common units in NuStar Energy's distributions of available cash. In addition, the issuance of additional partnership interests may dilute the value of the interests of the then-existing holders of common units in NuStar Energy's net assets.

There are no restrictions under the partnership agreement on the ability of the general partner to issue common units or common units junior or senior to the common units.

In accordance with Delaware law and the provisions of the partnership agreement, NuStar Energy may also issue additional partnership securities that, in the sole discretion of the general partner, may have special voting rights to which the common units are not entitled.

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Upon issuance of additional partnership securities, the general partner will be required to make additional capital contributions to the extent necessary to maintain its combined 2% general partner interest in NuStar Energy and NuStar Logistics. Moreover, the general partner will have the right, which it may from time to time assign in whole or in part to any of its affiliates, to purchase common units or other equity securities whenever, and on the same terms that NuStar Energy issues those securities to persons other than the general partner and its affiliates, to the extent necessary to maintain its percentage interest, including its interest represented by common units, that existed immediately prior to each issuance. The holders of common units will not have preemptive rights to acquire additional common units or other partnership interests.

### **Amendment of the Partnership Agreement**

#### ***General***

Amendments to the partnership agreement may be proposed only by or with the consent of the general partner, which consent may be given or withheld in its sole discretion. In order to adopt a proposed amendment, other than the amendments discussed below, the general partner is required to seek written approval of the holders of the number of common units required to approve the amendment or call a meeting of the limited partners to consider and vote upon the proposed amendment. Except as described below, an amendment must be approved by a majority of the common units.

We refer to the voting provision described above as a unit majority.

#### ***Prohibited Amendments***

No amendment may be made that would:

- enlarge the obligations of any limited partner without its consent, unless approved by at least a majority of the type or class of limited partner interests so affected;

- enlarge the obligations of, restrict in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable by NuStar Energy to the general partner or any of its affiliates without the consent of the general partner, which may be given or withheld in its sole discretion;

- change the term of NuStar Energy;

- provide that NuStar Energy is not dissolved upon an election to dissolve NuStar Energy by the general partner that is approved by the holders of a majority of the outstanding common units; or

- give any person the right to dissolve NuStar Energy other than the general partner's right to dissolve NuStar Energy with the approval of the holders of a majority of the outstanding common units.

The provision of the partnership agreement preventing the amendments having the effects described in the five bullets above can be amended upon the approval of the holders of at least 90% of the outstanding common units voting together as a single class.

#### ***No Unitholder Approval***

The general partner may generally make amendments to the partnership agreement without the approval of any limited partner or assignee to reflect:

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a change in the name of NuStar Energy, the location of the principal place of business of NuStar Energy, the registered agent or the registered office of NuStar Energy;

the admission, substitution, withdrawal or removal of partners in accordance with the partnership agreement;



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a change that, in the sole discretion of the general partner, is necessary or advisable to qualify or continue the qualification of NuStar Energy as a limited partnership or a partnership in which the limited partners have limited liability under the laws of any state or to ensure that neither NuStar Energy nor NuStar Logistics will be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes;

an amendment that is necessary, in the opinion of counsel to NuStar Energy, to prevent NuStar Energy, the general partner, NuStar GP, LLC, or any of the directors, officers, agents or trustees of NuStar GP, LLC from in any manner being subjected to the provisions of the Investment Company Act of 1940, the Investment Advisors Act of 1940, or plan asset regulations adopted under ERISA, whether or not substantially similar to plan asset regulations currently applied or proposed;

subject to the limitations on the issuance of additional common units or other limited or general partner interests described above, an amendment that in the discretion of the general partner is necessary or advisable for the authorization of additional limited or general partner interests;

any amendment expressly permitted in the partnership agreement to be made by the general partner acting alone;

an amendment effected, necessitated or contemplated by a merger agreement that has been approved under the terms of the partnership agreement;

any amendment that, in the discretion of the general partner, is necessary or advisable for the formatio