

NuStar GP Holdings, LLC  
Form 10-K  
February 27, 2009  
Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

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

**For the fiscal year ended December 31, 2008**

**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 1-32940**

**NUSTAR GP HOLDINGS, LLC**

(Exact name of registrant as specified in its charter)

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

**85-0470977**  
(I.R.S. Employer  
Identification No.)

**2330 North Loop 1604 West**

**San Antonio, Texas**  
(Address of principal executive offices)

**78248**  
(Zip Code)

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

**Securities registered pursuant to Section 12(b) of the Act:** Units representing limited liability company membership interests listed on the New York Stock Exchange.

**Securities registered pursuant to 12(g) of the Act:** None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

Yes  No

The aggregate market value of units held by non-affiliates was approximately \$789 million based on the last sales price quoted as of June 30, 2008, the last business day of the registrant's most recently completed second quarter.

The number of units outstanding as of February 1, 2009 was 42,548,871.

**Table of Contents**

**TABLE OF CONTENTS**

**PART I**

Items 1., 1A. and 2.	<u>Business, Risk Factors And Properties</u>	3
	<u>Overview</u>	3
	<u>Recent Developments</u>	4
	<u>Organizational History And Structure</u>	4
	<u>Employees</u>	6
	<u>Environmental And Safety Regulation</u>	6
	<u>Properties</u>	6
	<u>Risk Factors</u>	6
Item 1B.	<u>Unresolved Staff Comments</u>	21
Item 3.	<u>Legal Proceedings</u>	22
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	24
Item X.	<u>Executive Officers of the Registrant</u>	24

**PART II**

Item 5.	<u>Market For Registrant's Common Units, Related Unitholder Matters and Issuer Purchases of Common Units</u>	25
Item 6.	<u>Selected Financial Data</u>	27
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	40
Item 8.	<u>Financial Statements and Supplementary Data</u>	40
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	118
Item 9A.	<u>Controls and Procedures</u>	118
Item 9B.	<u>Other Information</u>	118

**PART III**

Item 10.	<u>Directors and Executive Officers of the Registrant</u>	119
Item 11.	<u>Executive Compensation</u>	119
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Unitholder Matters</u>	119
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	119
Item 14.	<u>Principal Accountant Fees and Services</u>	119

**PART IV**

Item 15.	<u>Exhibits and Financial Statement Schedules</u>	119
	<u>Signatures</u>	130



---

**Table of Contents**

**PART I**

Unless otherwise indicated, the terms NuStar GP Holdings, LLC, NuStar GP Holdings, we, our and us are used in this report to refer to NuStar GP Holdings, LLC, to one or more of our consolidated subsidiaries or to all of them taken as a whole. In the following Items 1., 1A. and 2., Business, Risk Factors and Properties, we make certain forward-looking statements, including statements regarding our plans, strategies, objectives, expectations, intentions and resources. The words forecasts, intends, believes, expects, plans, scheduled, goal, may, estimates and similar expressions identify forward-looking statements. We do not undertake to update, revise or correct any of the forward-looking information. You are cautioned that such forward-looking statements should be read in conjunction with our disclosures beginning on page 29 of this report under the heading: CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION.

**ITEMS 1., 1A. and 2. BUSINESS, RISK FACTORS AND PROPERTIES**

**OVERVIEW**

NuStar GP Holdings, LLC (NuStar GP Holdings), a Delaware limited liability company, was formed in June 2000. Our units are traded on the New York Stock Exchange (NYSE) under the symbol NSH. Our principal executive offices are located at 2330 North Loop 1604 West, San Antonio, Texas 78248 and our telephone number is (210) 918-2000.

Our only cash generating assets are our ownership interests in NuStar Energy L.P. (NuStar Energy), a publicly traded Delaware limited partnership (NYSE: NS). NuStar Energy is engaged in the terminalling and storage of petroleum products, the transportation of petroleum products and anhydrous ammonia and asphalt and fuels marketing. NuStar Energy has terminal facilities in the United States, the Netherlands Antilles, Canada, Mexico, the Netherlands and the United Kingdom. As of December 31, 2008, our aggregate ownership interests in NuStar Energy consisted of the following:

the 2% general partner interest;

100% of the incentive distribution rights issued by NuStar Energy, which entitle us to receive increasing percentages of the cash distributed by NuStar Energy, currently at the maximum percentage of 23%; and

10,250,054 common units of NuStar Energy representing an 18.5% limited partner interest.

Our primary objective is to increase per unit distributions to our unitholders by actively supporting NuStar Energy in executing its business strategy, which includes continued growth through expansion projects and strategic acquisitions. We may facilitate NuStar Energy's growth through the use of our capital resources, which could involve capital contributions, loans or other forms of financial support.

NuStar Energy is required by its partnership agreement to distribute all of its available cash at the end of each quarter, less reserves established by its general partner in its sole discretion to provide for the proper conduct of NuStar Energy's business or to provide funds for future distributions. Similarly, we are required by our limited liability company agreement to distribute all of our available cash at the end of each quarter, less reserves established by our board of directors. However, unlike NuStar Energy, we do not have a general partner or incentive distribution rights. Therefore, all of our distributions are made on our units, which are our only class of securities outstanding.

Our internet website address is <http://www.nustargpholdings.com>. Information contained on our website is not part of this report on Form 10-K. Our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K filed with (or furnished to) the Securities and Exchange Commission (SEC) are available on our internet website (in the Investor Relations section), free of charge, as soon as reasonably practicable after we file or furnish such material. We also post our corporate governance guidelines, code of business conduct and ethics, code of ethics for senior financial officers and the charters of our board's committees in the same website location. Our governance documents are available in print to any unitholder that makes a written request to Corporate Secretary, NuStar GP Holdings, LLC, 2330 North Loop 1604 West, San Antonio, Texas 78248.

**Table of Contents**

**RECENT DEVELOPMENTS**

On March 20, 2008, NuStar Energy acquired CITGO Asphalt Refining Company's asphalt operations and assets (the East Coast Asphalt Operations) for approximately \$838.5 million. The East Coast Asphalt Operations include a 74,000 barrels-per-day (BPD) asphalt refinery in Paulsboro, New Jersey, a 30,000 BPD asphalt refinery in Savannah, Georgia and three asphalt terminals. The terminals located in Paulsboro, New Jersey, Savannah, Georgia and Wilmington, North Carolina have storage capacities of 3.5 million barrels, 1.2 million barrels, and 0.2 million barrels, respectively.

In April 2008, NuStar Energy issued 5,050,800 common units representing limited partner interests at a price of \$48.75 per unit. NuStar Energy received proceeds of \$236.2 million, net of issuance cost. In April 2008, we borrowed \$5.0 million under our credit facility to fund our \$5.0 million contribution to NuStar Energy in order to maintain our 2% general partner interest. Following NuStar Energy's issuance of common units, our ownership in NuStar Energy was reduced from 22.3% at December 31, 2007 to 20.4%. Our ownership in NuStar Energy at December 31, 2008 was 20.5%.

**ORGANIZATIONAL HISTORY AND STRUCTURE**

Valero GP Holdings, LLC was formed in June 2000 as UDS Logistics, LLC (UDS Logistics). Valero Energy Corporation (Valero Energy) (NYSE: VLO), acquired UDS Logistics in connection with its December 31, 2001 acquisition (The UDS Acquisition) of Ultramar Diamond Shamrock Corporation (UDS). UDS Logistics changed its name to Valero GP Holdings, LLC in January 2006 and then to NuStar GP Holdings, LLC in April 2007. Prior to April 2007, our units were traded on the NYSE under the symbol VEH and the common units of NuStar Energy were traded under the symbol VLI.

On June 28, 2006, we issued 10,000,000 units to our members in proportion to their membership interests. In connection with our initial public offering on July 19, 2006, a 4.25-for-1 unit split was effected, resulting in 42,500,000 total units outstanding, all of which were owned by Valero Energy and its subsidiaries, maintaining their pre-split ownership percentages. Prior to June 28, 2006, we had no units outstanding.

In two separate public offerings in 2006, Valero Energy sold their ownership interest in NuStar GP Holdings. We did not receive any proceeds from either public offering, and Valero Energy's ownership interest in NuStar GP Holdings was reduced to zero.

**Table of Contents**

The following chart depicts our organizational structure and relationship with NuStar Energy as of December 31, 2008:

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**Table of Contents**

**EMPLOYEES**

Our wholly owned subsidiary, NuStar GP, LLC, provides administrative services to us. Employees of NuStar GP, LLC also provide services to NuStar Energy pursuant to the GP Services Agreement (defined in Note 5 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data ). As of December 31, 2008, NuStar GP, LLC had 1,340 employees. We believe that NuStar GP, LLC's relationship with these employees is satisfactory.

**ENVIRONMENTAL AND SAFETY REGULATION**

Our only cash generating assets are our indirect ownership interests in NuStar Energy. We have no independent operations.

**PROPERTIES**

Our only cash generating assets are our indirect ownership interests in NuStar Energy. We have no independent operations.

**RISK FACTORS**

***RISKS INHERENT IN AN INVESTMENT IN US***

***Our only cash generating assets are our ownership interests in NuStar Energy. Our cash flow and ability to make distributions is therefore completely dependent upon the ability of NuStar Energy to make cash distributions to its partners, including us. If NuStar Energy does not make cash distributions or reduces the level of cash distributions to its partners, we may not have sufficient cash to pay distributions.***

Our operating cash flow is currently completely dependent upon NuStar Energy making cash distributions to its partners, including us. The amount of cash that NuStar Energy can distribute to its partners each quarter principally depends upon the amount of cash it generates from its operations, which will fluctuate from quarter to quarter based on, among other things:

- the amount of crude oil, refined product and anhydrous ammonia transported in its pipelines;
- throughput volumes in its terminals and storage facilities;
- tariff rates and fees it charges and the returns it realizes for its services;
- the results of its marketing, trading and hedging activities, which fluctuate depending upon the relationship between refined product prices and prices of crude oil and other feedstocks;
- demand for crude oil, refined products and anhydrous ammonia;
- the effect of worldwide energy conservation measures;
- its operating costs;
- weather conditions;
- domestic and foreign governmental regulations and taxes; and
- prevailing economic conditions.

In addition, the amount of cash that NuStar Energy will have available for distribution will depend on other factors, including:

- its debt service requirements and restrictions on distributions contained in its current or future debt agreements;
- the sources of cash used to fund its acquisitions;
- its capital expenditures;
- fluctuations in its working capital needs;
- issuances of debt and equity securities; and
- adjustments in cash reserves made by NuStar Energy's general partner, in its discretion.

Because of these factors, NuStar Energy may not have sufficient available cash each quarter to continue paying distributions at its current level or at all. Furthermore, cash distributions to NuStar Energy unitholders depend primarily upon cash flow, and not solely on profitability, which is affected by non-cash items. Therefore, NuStar





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**Table of Contents**

Energy may make cash distributions during periods when it records losses and may not make cash distributions during periods when it records net income.

*In the future, we may not have sufficient cash to pay distributions at our current quarterly distribution level or to increase distributions.*

Because our only source of operating cash flow consists of cash distributions from NuStar Energy, the amount of distributions we are able to make to our unitholders may fluctuate based on the level of distributions NuStar Energy makes to its unitholders, including us. We cannot assure you that NuStar Energy will continue to make quarterly distributions at its current level of \$1.0575 per unit, or any other amount, or increase its quarterly distributions in the future. In addition, while we would expect to increase or decrease distributions to our unitholders if NuStar Energy increases or decreases distributions to us, the timing and amount of such changes in distributions, if any, will not necessarily be comparable to the timing and amount of any changes in distributions made by NuStar Energy to us. Our ability to distribute cash received from NuStar Energy to our unitholders is limited by a number of factors, including:

- interest expense and principal payments on any indebtedness we may incur;
- restrictions on distributions contained in any future debt agreements;
- our general and administrative expenses, including expenses we incur as a public company;
- expenses of our subsidiaries, including tax liabilities of our corporate subsidiaries;
- reserves necessary for us to make the necessary capital contributions to maintain our 2% general partner interest in NuStar Energy, as required by the partnership agreement of NuStar Energy upon the issuance of additional partnership securities by NuStar Energy; and
- reserves our board of directors believes prudent for us to maintain for the proper conduct of our business or to provide for future distributions.

We cannot guarantee that in the future we will be able to pay distributions or that any distributions NuStar Energy pays to us will allow us to pay distributions at or above our current quarterly distribution of \$0.43 per unit. The actual amount of cash that is available for distribution to our unitholders will depend on numerous factors, many of which are beyond our control or the control of NuStar Energy. Therefore, a reduction in the amount of cash distributed by NuStar Energy per unit or on the incentive distribution rights, or an increase in our expenses, may result in our not being able to pay our current quarterly distribution of \$0.43 per unit.

*NuStar Energy's unitholders, excluding the owner of NuStar Energy's general partner, have the right to remove NuStar Energy's general partner by a simple majority vote, which would cause us to divest our general partner interest and incentive distribution rights in NuStar Energy in exchange for cash or common units of NuStar Energy and cause us to lose our ability to manage NuStar Energy.*

We currently manage NuStar Energy through Riverwalk Logistics, L.P., NuStar Energy's general partner and our indirect, wholly owned subsidiary. NuStar Energy's partnership agreement, however, gives unitholders of NuStar Energy the right to remove the general partner of NuStar Energy upon the affirmative vote of holders of a majority of outstanding NuStar Energy common units, excluding the common units owned by us. We own an 18.5% limited partner interest in NuStar Energy, and the public unitholders own 79.5%. If Riverwalk Logistics, L.P. were removed as the general partner of NuStar Energy, it would receive cash or common units in exchange for its 2% general partner interest and its incentive distribution rights and would lose its ability to manage NuStar Energy. While the common units or cash that Riverwalk Logistics, L.P. would receive are intended under the terms of NuStar Energy's partnership agreement to fully compensate it in the event it is removed as general partner, these common units or the investments made with the cash over time may not provide us with as much distributable cash as or be as valuable as the 2% general partner interest and incentive distribution rights had we retained them.

*NuStar Energy's general partner, with our consent, may limit or modify the incentive distributions we are entitled to receive in order to facilitate the growth strategy of NuStar Energy. Our board of directors can give this consent without a vote of our unitholders.*

We indirectly own NuStar Energy's general partner, which owns the incentive distribution rights in NuStar Energy that entitle us to receive increasing percentages, up to a maximum of 23%, of any cash distributed by NuStar Energy as it exceeds a distribution of \$0.60 per NuStar Energy common unit in any quarter. A substantial portion of the cash flows we receive from NuStar Energy is provided by these incentive distributions. Our limited liability company agreement provides that our board of directors may consent to the elimination, reduction or modification of the incentive distribution rights without our unitholders' approval if our board determines that the elimination, reduction or modification will not adversely affect our unitholders in any material respect.

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**Table of Contents**

***Restrictions in our credit facility limit our ability to make distributions to our unitholders; credit facility matures in July 2009.***

Our credit facility contains covenants limiting our ability to incur indebtedness, grant liens, engage in transactions with affiliates and make distributions to our unitholders. The credit facility also contains covenants requiring NuStar Energy to maintain certain financial ratios. Our and NuStar Energy's ability to comply with any restrictions and covenants may be affected by events beyond our control, including prevailing economic, financial and industry conditions. If we or NuStar Energy are unable to comply with these restrictions and covenants, a significant portion of any indebtedness under our credit facility may become immediately due and payable, and our lenders' commitment to make loans to us under our credit facility may terminate. We might not have, or be able to obtain, sufficient funds to make these accelerated payments.

Our payment of principal and interest on any future indebtedness will reduce our cash available for distribution on our units. Our credit facility limits our ability to pay distributions to our unitholders during an event of default or if an event of default would result from the distribution.

In addition, this and any future levels of indebtedness may:

- adversely affect our ability to obtain additional financing for future operations or capital needs;
- limit our ability to pursue acquisitions and other business opportunities; or
- make our results of operations more susceptible to adverse economic or operating conditions.

Our revolving credit facility matures in July 2009. We are discussing renewal of our credit facility with the two lenders under the credit facility. However, our lenders may not agree to renew the credit facility or only agree to renew it at substantially less favorable terms. If our credit facility is renewed on substantially less favorable terms, or if our credit facility is not renewed and we must enter into alternative financing arrangements, various limitations in these financing agreements may reduce our ability to incur additional indebtedness, to engage in some transactions or to capitalize on business opportunities. In the event we are unable to obtain adequate financing and NuStar Energy issues additional units, we may not be able to make contributions to NuStar Energy necessary to maintain our 2% general partner interest.

***Our ability to sell our ownership interests in NuStar Energy may be limited by securities laws restrictions and liquidity constraints.***

All of the units of NuStar Energy that we own are unregistered, restricted securities, within the meaning of Rule 144 under the Securities Act of 1933. Unless we exercise our registration rights with respect to these units, we are limited to selling into the market in any three-month period an amount of NuStar Energy common units that does not exceed the greater of 1% of the total number of common units outstanding or the average weekly reported trading volume of the common units for the four calendar weeks prior to the sale. We face contractual limitations on our ability to sell our 2% general partner interest and incentive distribution rights, and the market for such interests is illiquid.

***The market price of our units could be adversely affected by sales of substantial amounts of our units into public markets, including sales by our existing unitholders.***

Sales by us or any of our existing unitholders, including William E. Greehey, Chairman of the Boards of Directors of NuStar GP Holdings and NuStar GP, LLC, of a substantial number of our units in the public markets, or the perception that such sales might occur, could have a material adverse effect on the price of our units or could impair our ability to obtain capital through an offering of equity securities. Mr. Greehey currently owns 16% of our outstanding units.

***Distributions on our incentive distribution rights in NuStar Energy are more uncertain than distributions on the common units we hold.***

Our indirect ownership of the incentive distribution rights in NuStar Energy entitles us to receive our pro rata share of specified percentages of total cash distributions made by NuStar Energy with respect to any particular quarter only in the event that NuStar Energy distributes more than \$0.60 per unit for such quarter. As a result, the holders of NuStar Energy's common units have a priority over the holders of NuStar Energy's incentive distribution rights to the extent of cash distributions by NuStar Energy up to and including \$0.60 per unit for any quarter.

Our incentive distribution rights entitle us to receive increasing percentages, up to 23%, of all cash distributed by NuStar Energy. Because the incentive distribution rights currently participate at the maximum 23% target cash

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## **Table of Contents**

distribution level in all distributions made by NuStar Energy at or above the current distribution level, future growth in distributions we receive from NuStar Energy will not result from an increase in the target cash distribution level associated with the incentive distribution rights.

Furthermore, a decrease in the amount of distributions by NuStar Energy to less than \$0.66 per common unit per quarter would reduce our percentage of the incremental cash distributions above \$0.60 per common unit per quarter from 23% to 8%. As a result, any such reduction in quarterly cash distributions from NuStar Energy would have the effect of disproportionately reducing the amount of all distributions that we receive from NuStar Energy based on our ownership interest in the incentive distribution rights in NuStar Energy as compared to cash distributions we receive from NuStar Energy on our 2% general partner interest in NuStar Energy and our NuStar Energy common units.

***If NuStar Energy's general partner is not fully reimbursed or indemnified for obligations and liabilities it incurs in managing the business and affairs of NuStar Energy, it may not be able to satisfy its obligations and its cash flows will be reduced.***

The general partner of NuStar Energy and its affiliates may make expenditures on behalf of NuStar Energy for which they will seek reimbursement from NuStar Energy. In addition, under Delaware law, the general partner, in its capacity as the general partner of NuStar Energy, has unlimited liability for the obligations of NuStar Energy, such as its debts and environmental liabilities, except for those contractual obligations of NuStar Energy that are expressly made without recourse to the general partner. To the extent Riverwalk Logistics, L.P. incurs obligations on behalf of NuStar Energy, it is entitled to be reimbursed or indemnified by NuStar Energy. If NuStar Energy does not reimburse or indemnify its general partner, Riverwalk Logistics, L.P. may be unable to satisfy these liabilities or obligations, which would reduce its cash flows. In turn, Riverwalk Logistics, L.P. would have less cash to distribute to us.

***If distributions on our units are not paid with respect to any fiscal quarter, our unitholders will not be entitled to receive such payments in the future.***

Our distributions to our unitholders are not cumulative. Consequently, if distributions on our units are not paid with respect to any fiscal quarter at the current distribution rate, our unitholders will not be entitled to receive such payments in the future.

***Our cash distribution policy limits our growth because we do not retain earnings to reinvest in any acquisitions or growth capital expenditures, and NuStar Energy's distribution policy may limit NuStar Energy's growth.***

Because we distribute all of our available cash, our growth may not be as fast as businesses that reinvest their available cash to expand ongoing operations. In fact, our growth is currently completely dependent upon NuStar Energy's ability to increase its quarterly distributions because our only cash-generating assets are indirect ownership interests in NuStar Energy. If we issue additional units or incur debt to fund acquisitions and growth capital expenditures, the payment of distributions on those additional units or interest on that debt could increase the risk that we will be unable to maintain or increase our per unit distribution level.

Consistent with the terms of its partnership agreement, NuStar Energy distributes to its partners its available cash each quarter. In determining the amount of cash available for distribution, NuStar Energy sets aside cash reserves, which it uses to fund its growth capital expenditures. Additionally, it has relied upon external financing sources, including commercial borrowings and other debt and equity issuances, to fund its acquisition capital expenditures. Accordingly, to the extent NuStar Energy does not have sufficient cash reserves or is unable to finance growth externally, its cash distribution policy will significantly impair its ability to grow. In addition, to the extent NuStar Energy issues additional units in connection with any acquisitions or growth capital expenditures, the payment of distributions on those additional units may increase the risk that NuStar Energy will be unable to maintain or increase its per unit distribution level, which in turn may impact the available cash that we have to distribute to our unitholders. The incurrence of additional debt to finance its growth strategy would result in increased interest expense to NuStar Energy, which in turn may impact the available cash that we have to distribute to our unitholders.

***If in the future we cease to manage NuStar Energy, we may be deemed to be an investment company under the Investment Company Act of 1940, which would cause us either have to register as an investment company, obtain exemptive relief from the SEC, or modify our organizational structure or our contract rights.***

If we cease to manage NuStar Energy as a consequence of Riverwalk Logistics, L.P.'s removal or withdrawal as NuStar Energy's general partner or otherwise, and are deemed to be an investment company under the Investment Company Act of 1940 because of our ownership of NuStar Energy partnership interests, we would either have to register as an investment company under the Investment Company Act, obtain exemptive relief from the SEC, or



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## **Table of Contents**

modify our organizational structure or our contract rights to fall outside the definition of an investment company. Registering as an investment company could, among other things, materially limit our ability to engage in transactions with affiliates, including the sale and purchase of certain securities or other property to or from our affiliates, restrict our ability to borrow funds or engage in other transactions involving leverage.

*An increase in interest rates may cause the market price of our units to decline resulting in the loss of a portion of your investment in us.*

As interest rates rise, the ability of investors to obtain higher risk-adjusted rates of return by purchasing government-backed debt securities may cause a corresponding decline in demand for riskier investments generally, including yield-based equity investments such as limited liability company membership interests. Reduced demand for our units resulting from investors seeking other more favorable investment opportunities may cause the trading price of our units to decline. As a result, you may lose a portion of your investment in us.

*We may issue an unlimited number of additional securities without the consent of our unitholders, which will dilute your ownership interest in us and may increase the risk that we will not have sufficient available cash to maintain or increase our per unit distribution level.*

At any time we may issue an unlimited number of additional securities without the approval of our unitholders on terms and conditions determined by our board of directors. The issuance by us of additional units or other equity securities of equal or senior rank will have the following effects:

our unitholders' proportionate ownership interest in us will decrease;  
the amount of cash available for distribution on each unit may decrease;  
the relative voting strength of each previously outstanding unit may be diminished;  
the ratio of taxable income to distributions may increase; and  
the market price of the units may decline.

*NuStar Energy may issue additional NuStar Energy units, which may increase the risk that NuStar Energy will not have sufficient available cash to maintain or increase its per unit cash distribution level and that we will have to make a capital contribution to NuStar Energy.*

NuStar Energy may issue additional NuStar Energy units, including units that rank senior to the NuStar Energy common units and the incentive distribution rights as to quarterly cash distributions, on the terms and conditions established by its general partner. Additionally, we are required to make additional capital contributions to NuStar Energy upon NuStar Energy's issuance of additional units in order to maintain our 2% general partner interest in NuStar Energy. Furthermore, to the extent NuStar Energy issues units that are senior to the NuStar Energy common units and the incentive distribution rights, their issuance will render more uncertain the payment of distributions on the common units and the incentive distribution rights. Neither the common units nor the incentive distribution rights are entitled to any arrearages from prior quarters. The payment of distributions on any additional NuStar Energy units may increase the risk that NuStar Energy will be unable to maintain or increase its per unit cash distribution level and the requirement that we make capital contributions to NuStar Energy to maintain our 2% general partner interest may impact the available cash that we have to distribute to our unitholders.

*Anti-takeover provisions in our limited liability company agreement may make an acquisition of us more complicated and the removal and replacement of our directors and executive officers more difficult.*

Our limited liability company agreement contains provisions that may delay or prevent a change in control. These provisions may also make it difficult for unitholders to remove and replace our board of directors and executive officers.

*Section 203.* Our limited liability company agreement effectively adopts Section 203 of the Delaware General Corporation Law (DGCL). Section 203 of the DGCL, as it applies to us, prevents an interested unitholder, defined as a person who owns 15% or more of our outstanding units, from engaging in business combinations with us for three years following the time such person becomes an interested unitholder. Section 203 broadly defines "business combination" to encompass a wide variety of transactions with or caused by an interested unitholder, including mergers, asset sales and other transactions in which the interested unitholder receives a benefit on other than a pro rata basis with other unitholders. This provision of our limited liability company agreement could have an anti-takeover effect with respect to transactions not approved in advance by our board of directors, including discouraging takeover attempts that might result in a premium over the market price for our units.



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## **Table of Contents**

*Limited Voting Rights.* Our limited liability company agreement provides that if any person or group other than our affiliates acquires beneficial ownership of 20% or more of any class of units, that person or group loses voting rights on all of its units. This loss of voting rights does not apply to any person or group that acquires all of its units from our affiliates or any transferees of that person or group approved by our board of directors or to any person or group who acquires the units with the prior approval of our board of directors.

*Staggered Board.* In addition, our limited liability company agreement divides our board of directors into two classes serving staggered two-year terms and permits the board to be divided into three classes serving staggered three-year terms upon the election of a fifth director to our board. This provision, when coupled with the provision of our limited liability company agreement authorizing only the board of directors to fill vacant or newly created directorships or increase the size of the board of directors and the provision providing that directors may only be removed at a meeting of unitholders and cannot be done by written consent, may deter a unitholder from gaining control of our board of directors by removing incumbent directors or increasing the number of directorships and simultaneously filling the vacancies or newly created directorships with its own nominees.

*Preferred Unit Purchase Rights.* On July 19, 2006, we entered into a rights agreement with Computershare Investor Services, LLC, as amended effective February 28, 2008, under which our board of directors declared a distribution of one preferred unit purchase right for each of our outstanding units. The rights become exercisable under specified circumstances, including any person or group (an acquiring person) becoming the beneficial owner of 15% or more of our outstanding units, subject to specified exceptions. If events specified in the rights agreement occur, each holder of rights, other than an acquiring person, can exercise their rights. When a holder exercises a right, the holder will be entitled to receive units valued at some multiple of the exercise price of the right. In some cases, the holder will receive cash, property or other securities instead of units. We may redeem the rights prior to a person or group becoming an acquiring person.

These provisions may delay or prevent a third party from acquiring us and any such delay or prevention could cause the market price of our units to decline.

***NuStar Energy's unitholders may not have limited liability if a court finds that limited partner actions constitute control of NuStar Energy's business and may therefore become liable for certain of NuStar Energy's obligations, which may impact the cash we have available to make distributions.***

Under Delaware law, unitholders could be held liable for NuStar Energy's obligations to the same extent as a general partner if a court determined that actions of a unitholder constituted participation in the control of NuStar Energy's business.

Under Delaware law, the general partner generally has unlimited liability for the obligations of the partnership, such as its debts and environmental liabilities, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner. In addition, Section 17-607 of the Delaware Revised Uniform Limited Partnership Act provides that, under some circumstances, a limited partner may be liable to NuStar Energy for the amount of a distribution for a period of three years from the date of the distribution.

### ***RISKS RELATED TO CONFLICTS OF INTEREST***

***Although we manage NuStar Energy through our indirect ownership of its general partner, NuStar Energy's general partner owes fiduciary duties to NuStar Energy and NuStar Energy's unitholders, which may conflict with our interests.***

Conflicts of interest exist and may arise in the future as a result of the relationships between us and our affiliates, including NuStar Energy's general partner, on the one hand, and NuStar Energy and its limited partners, on the other hand. The directors and officers of NuStar GP, LLC have fiduciary duties to manage NuStar Energy's business in a manner beneficial to us, its owner. At the same time, NuStar GP, LLC has a fiduciary duty to manage NuStar Energy in a manner beneficial to NuStar Energy and its unitholders. The board of directors of NuStar GP, LLC or its conflicts committee will resolve any such conflict and have broad latitude to consider the interests of all parties to the conflict. Our independent directors will not be the same as the independent directors who serve on the conflicts committee of NuStar GP, LLC. The resolution of these conflicts may not always be in our best interest or that of our unitholders.



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## **Table of Contents**

For example, conflicts of interest may arise in the following situations:

- the allocation of shared overhead expenses to NuStar Energy and us;
- the determination and timing of the amount of cash to be distributed to NuStar Energy's partners and the amount of cash to be reserved for the future conduct of NuStar Energy's business;
- any proposal by NuStar GP, LLC to eliminate, reduce or modify the incentive distribution rights;
- the decision whether NuStar Energy should make acquisitions, and on what terms;
- the determination of whether NuStar Energy should use cash on hand, borrow or issue equity to raise cash to finance acquisitions or expansion capital projects, repay indebtedness, meet working capital needs, pay distributions to NuStar Energy's partners or otherwise; and
- any decision we make in the future to engage in business activities independent of, or in competition with, NuStar Energy.

***Our limited liability agreement limits and modifies our directors' fiduciary duties and the fiduciary duties of our officers and directors may conflict with those of the general partner of NuStar Energy's general partner's officers and directors.***

Our limited liability company agreement contains provisions that modify and limit our directors' fiduciary duties to our unitholders. For example, our limited liability company agreement provides that:

- our directors will not have any liability to us or our unitholders for decisions made in good faith, meaning they believed the decision was in our best interests; and
- our board of directors will not be liable for monetary damages to us or our unitholders for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that the board of directors acted in bad faith or engaged in fraud or willful misconduct or, in the case of a criminal matter, acted with knowledge that such conduct was unlawful.

Our directors and officers have fiduciary duties to manage our business in a manner beneficial to us and our unitholders. Simultaneously, three of our directors and all of our officers are also directors and officers of NuStar GP, LLC, the general partner of NuStar Energy's general partner, and have fiduciary duties to manage the business of NuStar Energy in a manner beneficial to NuStar Energy and its unitholders. For instance, William E. Greehey is our Chairman of the Board as well as the Chairman of the Board of NuStar GP, LLC. Consequently, these directors and officers may encounter situations in which their fiduciary obligations to NuStar Energy, on the one hand, and us, on the other hand, are in conflict. The resolution of these conflicts may not always be in our best interest or that of our unitholders. For example, we share certain executive officers and administrative personnel with NuStar GP, LLC to operate both our business and NuStar Energy's business. Our executive officers, who are also the executive officers of NuStar GP, LLC, will allocate, in their reasonable and sole discretion, their time spent on our behalf and on behalf of NuStar Energy. These allocations may not be the result of arms-length negotiations between NuStar GP, LLC and us, and therefore the allocations may not exactly match the actual time and overhead spent.

### ***RISKS RELATED TO NUSTAR ENERGY'S BUSINESS***

***Reduced demand for refined products, including asphalt, or anhydrous ammonia could affect NuStar Energy's results of operations and ability to make distributions to its partners, including us.***

Any sustained decrease in demand for refined products, including asphalt, in the markets served by NuStar Energy's pipelines, terminals or refineries could result in a significant reduction in throughputs in its pipelines, storage in its terminals or sales of asphalt and other refined products, which would reduce NuStar Energy's cash flow and its ability to make distributions to its partners, including us. Factors that could lead to a decrease in market demand include:

- a recession or other adverse economic condition that results in lower spending by consumers on gasoline, diesel, and travel;
- higher fuel taxes or other governmental or regulatory actions that increase, directly or indirectly, the cost of gasoline;
- a decrease in spending by federal or state governments on road paving and maintenance;
- an increase in automotive engine fuel economy, whether as a result of a shift by consumers to more fuel-efficient vehicles or technological advances by manufacturers;

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an increase in the market price of crude oil that leads to higher refined product prices, including asphalt prices, which may reduce demand for refined products and drive demand for alternative products. Market prices for

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**Table of Contents**

crude oil and refined products, including asphalt, are subject to wide fluctuation in response to changes in global and regional supply that are beyond NuStar Energy's control, and increases in the price of crude oil may result in a lower demand for refined products, including asphalt;

a decrease in corn acres planted, which may reduce demand for anhydrous ammonia; and

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

***A decrease in throughputs would cause NuStar Energy's revenues to decline and could adversely affect NuStar Energy's ability to make cash distributions to its unitholders, including us.***

A decrease in throughputs would cause NuStar Energy's revenues to decline and could adversely affect NuStar Energy's ability to make cash distributions to its unitholders, including us. A decrease in throughputs could result from a temporary or permanent decline in the amount of crude oil transported to and stored at or refined products stored at and transported from the refineries NuStar Energy serves and owns. Factors that could result in such a decline include:

a material decrease in the supply of crude oil;

a material decrease in demand for refined products in the markets served by NuStar Energy's pipelines, terminals and refineries;

scheduled refinery turnarounds or unscheduled refinery maintenance;

operational problems or catastrophic events at a refinery;

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

a decision by NuStar Energy's current customers to redirect refined products transported in NuStar Energy's pipelines to markets not served by NuStar Energy's pipelines or to transport crude oil or refined products by means other than NuStar Energy's pipelines;

increasingly stringent environmental regulations; or

a decision by NuStar Energy's current customers to sell one or more of the refineries NuStar Energy serves to a purchaser that elects not to use NuStar Energy's pipelines and terminals.

***NuStar Energy may not be able to effectively integrate the East Coast Asphalt Operations.***

NuStar Energy continues to face certain challenges as it works to integrate the asphalt operations into its business. In particular, the acquisition of the East Coast Asphalt Operations, by adding two refineries, expanded NuStar Energy's operations, geographic scope and the types of businesses in which it engages, thereby presenting NuStar Energy with significant challenges as it works to manage the increase in scale resulting from the acquisition. Further, the asphalt operations may not perform in accordance with NuStar Energy's expectations, and its expectations with regards to integration and synergies may not be fully realized. NuStar Energy's failure to realize the anticipated benefits of the acquisition, could adversely affect its operating and financial results.

***The East Coast Asphalt Operations are dependent upon a steady supply of crude oil from Petróleos de Venezuela S.A. (PDVSA), the national oil company of Venezuela, and decisions of the Organization of Petroleum Exporting Countries (OPEC) to decrease production of crude oil, as well as the Venezuelan economic and political environment, may disrupt NuStar Energy's supply of crude oil.***

The terms of the acquisition of the East Coast Asphalt Operations include commitments, over a minimum seven-year period, to purchase from PDVSA an annual average of 75,000 barrels per day of crude oil and provide NuStar Energy with a right of first offer to purchase up to 4,000,000 barrels of paving grade asphalt and 4,750,000 barrels of roofing flux asphalt each year for marketing and sale. In December 2008, OPEC, which includes Venezuela, agreed to decrease production by 2.2 million barrels of crude oil per day and NuStar Energy received notice from PDVSA that it would cut two 300,000 barrel Boscán cargoes in February 2009 and two in March. To date, these production decreases have not had a material impact on NuStar Energy's financial results. Additional OPEC cuts, coupled with Venezuela's recent political, economic and social turmoil could have a severe impact on PDVSA's production or delivery of crude oil. In the event PDVSA further reduces its production or delivery of Boscán or Bachaquero BCF-13, the crude oil for which our refineries are currently optimized, NuStar Energy will be forced to replace all or a portion of the crude oil it would normally have purchased under its PDVSA crude oil supply contract with purchases of crude oil on the spot market, potentially at a price less favorable than it would have obtained under the PDVSA crude oil supply contract. While NuStar Energy has found satisfactory replacement crudes for the February and March 2009 cuts, it is possible that processing a more significant proportion of alternate crudes could result in reduced refinery run rates, significantly

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**Table of Contents**

reduced production and additional capital expenditures, which could be material. Accordingly, any major disruption of NuStar Energy's supply of crude oil from Venezuela could result in substantially lower revenues and additional volatility in its earnings and cash flow.

***NuStar Energy's operations are subject to operational hazards and unforeseen interruptions, and NuStar Energy does not insure against all potential losses. Therefore, NuStar Energy could be seriously harmed by unexpected liabilities.***

NuStar Energy's operations are subject to operational hazards and unforeseen interruptions such as natural disasters, adverse weather, accidents, fires, explosions, hazardous materials releases, mechanical failures and other events beyond its control. These events might result in a loss of equipment or life, injury or extensive property damage, as well as an interruption in NuStar Energy's operations. In the event any of NuStar Energy's facilities are forced to shut down for a significant period of time, it may have a material adverse effect on NuStar Energy's earnings, its other results of operations and its financial condition as a whole.

NuStar Energy may not be able to maintain or obtain insurance of the type and amount it desires at reasonable rates. As a result of market conditions, premiums and deductibles for certain of NuStar Energy's insurance policies have increased substantially and could escalate further. Certain insurance coverage could become unavailable or available only for reduced amounts of coverage and at higher rates. For example, NuStar Energy's insurance carriers require broad exclusions for losses due to terrorist acts. If NuStar Energy were to incur a significant liability for which it is not fully insured, such a liability could have a material adverse effect on NuStar Energy's financial position and its ability to make distributions to our unitholders, including us, and to meet its debt service requirements.

***NuStar Energy's financial results are affected by volatile asphalt and intermediate product refining margins.***

A large portion of NuStar Energy's earnings subsequent to acquiring the East Coast Asphalt Operations are affected by the relationship, or margin, between asphalt and other intermediate product prices and the prices for crude oil and other feedstocks. NuStar Energy's cost to acquire feedstocks and the price at which it can ultimately sell asphalt and other intermediate products depend upon several factors beyond its control, including regional and global supply of and demand for crude oil, asphalt and other feedstocks and intermediate and refined products. These in turn depend on, among other things, the availability and quantity of imports, the production levels of domestic and foreign suppliers, levels of intermediate and refined product inventories, U.S. relationships with foreign governments, political affairs, and the extent of governmental regulation.

Additionally, crude oil prices and prices for the asphalt and intermediate products produced by the East Coast Asphalt Operations may not fluctuate consistently. Typically, increases in the prices of asphalt and intermediate products lag behind increases in the price of crude oil. Furthermore, much of the asphalt produced by the East Coast Asphalt Operations is marketed to satisfy governmental contracts. The governmental agencies with which NuStar Energy or its customers contract may have budgetary constraints that limit their ability to absorb higher asphalt prices. NuStar Energy's results of operations in its asphalt and fuels marketing segment will suffer if the market prices of asphalt and intermediate products do not increase to the same degree as the price of crude oil. NuStar Energy's increased exposure to unstable commodity prices will increase the volatility of its earnings.

***The price volatility of crude oil and refined products can reduce NuStar Energy's revenues and ability to make distributions to its unitholders, including us.***

Revenues from the East Coast Asphalt Operations result from the refining of crude oil into asphalt and other products and the sale of those products. The price and market value of crude oil and refined products is volatile. NuStar Energy's revenues will be adversely affected by this volatility during periods of decreasing prices because of the reduction in the value and resale price of NuStar Energy's inventory. Future price volatility could have an adverse impact on NuStar Energy's results of operations, cash flow and ability to make distributions to its unitholders, including us.

***NuStar Energy's marketing and trading of refined products may expose NuStar Energy to trading losses and hedging losses, and non-compliance with NuStar Energy's related risk management policies could result in significant financial losses.***

NuStar Energy's marketing and trading of refined products may expose NuStar Energy to price volatility risk for the purchase and sale of crude oil and petroleum products, including gasoline, distillates, fuel oil and asphalt. NuStar Energy attempts to mitigate this volatility risk through hedging, but it is still exposed to basis risk. NuStar Energy may also be exposed to inventory and financial liquidity risk due to the inability to trade certain products on demand or



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**Table of Contents**

rising costs of carrying some inventories. Further, NuStar Energy's marketing and trading activities, including any hedging activities, may cause volatility in NuStar Energy's earnings. In addition, NuStar Energy will be exposed to credit risk in the event of non-performance by counterparties.

NuStar Energy's risk management policies may not eliminate all price risk since open trading positions will expose it to price volatility. Further, there is a risk that NuStar Energy's risk management policies will not be complied with. Although NuStar Energy has designed procedures to anticipate and detect non-compliance, there are no assurances these steps will detect and prevent all violations of NuStar Energy's trading policies and procedures, particularly if deception and other intentional misconduct are involved.

As a result of the risks described above, the activities associated with NuStar Energy's marketing and trading business may expose NuStar Energy to volatility in earnings and financial losses, which may adversely affect its financial condition and ability to distribute cash to unitholders, including us.

***Hedging transactions may limit NuStar Energy's potential gains or result in significant financial losses.***

In order to manage NuStar Energy's exposure to commodity price fluctuations associated with its refining and marketing segment, including the East Coast Asphalt Operations, NuStar Energy may engage in crude oil and refined product hedges, typically exchange-traded futures contracts. While intended to reduce the effects of volatile crude oil and refined product prices, such transactions, depending on the hedging instrument used, may limit NuStar Energy's potential gains if crude oil and refined product prices were to rise substantially over the price established by the hedge. In addition, such transactions may expose NuStar Energy to the risk of financial loss in certain circumstances, including instances in which:

- production is substantially less than expected;
- the counterparties to NuStar Energy's futures contracts fail to perform under the contracts; or
- there is a change in the expected differential between the underlying price in the hedging agreement and the actual prices received.

The accounting standards regarding hedge accounting are complex, and even when NuStar Energy engages in hedging transactions that are effective economically, these transactions may not be considered effective for accounting purposes. Accordingly, NuStar Energy's financial statements will reflect increased volatility due to these hedges, even when there is no underlying economic impact at that point. In addition, it is not always possible for NuStar Energy to engage in a hedging transaction that completely mitigates its exposure to commodity prices. NuStar Energy's financial statements may reflect a gain or loss arising from an exposure to commodity prices for which NuStar Energy is unable to enter into an effective hedge.

***The operating results for the East Coast Asphalt Operations are seasonal and generally lower in the first and fourth quarters of the year.***

The selling prices of asphalt products NuStar Energy produces are seasonal. Asphalt demand is generally lower in the first and fourth quarters of the year as compared to the second and third quarters due to the seasonality of road construction. In addition, NuStar Energy's natural gas costs can be higher during the winter months. NuStar Energy's operating results for the first and fourth calendar quarters may be lower than those for the second and third calendar quarters of each year as a result of this seasonality.

***NuStar Energy could be subject to damages based on claims brought against it by its customers or lose customers as a result of the failure of its products to meet certain quality specifications.***

NuStar Energy's specialty asphalt products are produced to precise customer specifications. If a product fails to perform in a manner consistent with the detailed quality specifications required by the customer, the customer could seek replacement of the product or damages for costs incurred as a result of the product failing to perform as guaranteed. A successful claim or series of claims against us could result in a loss of one or more customers and diminish NuStar Energy's ability to make distributions to unitholders, including us.

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**Table of Contents**

*NuStar Energy may have liabilities from its refining assets that pre-exist NuStar Energy's acquisition of the East Coast Asphalt Operations, but that may not be covered by indemnification rights NuStar Energy will have against the sellers of the assets.*

Some of the assets included in the East Coast Asphalt Operations have been used for many years to refine and store asphalt products. Releases may have occurred in the past which could require costly future remediation. If a significant release or event occurred in the past, the liability for which was not retained by the seller, or for which indemnification from the seller is not available, it could adversely affect NuStar Energy's financial position and results of operations.

*Competition in the asphalt industry is intense, and such competition in the markets in which NuStar Energy sells its asphalt products could adversely affect NuStar Energy's earnings and ability to make distributions to its unitholders, including us.*

The East Coast Asphalt Operations compete with other refiners and with regional and national asphalt marketing companies. Many of these competitors are larger, more diverse companies with greater resources, providing them advantages in obtaining crude oil and other blendstocks and in competing through bidding process for asphalt supply contracts.

*NuStar Energy's future financial and operating flexibility may be adversely affected by its significant leverage, the significant working capital needs associated with the East Coast Asphalt Operations, restrictions in its debt agreements and recent disruptions in the financial markets.*

As of December 31, 2008, NuStar Energy's consolidated debt was \$1.9 billion. Among other things, this significant leverage may be viewed negatively by credit rating agencies, which could result in increased costs for NuStar Energy to access the capital markets. NuStar Logistics, L.P. (NuStar Logistics) and NuStar Pipeline Operating Partnership L.P. have senior unsecured ratings of Baa3 with Moody's Investor Service and BBB minus with Standard & Poors and Fitch, all with a negative outlook. The negative outlook was assigned by the credit rating agencies as a result of NuStar Energy's acquisition of the East Coast Asphalt Operations. Any future downgrade of the debt issued by these wholly owned subsidiaries could significantly increase NuStar Energy's capital costs and adversely affect its ability to raise capital in the future. Additionally, any further ratings downgrade on the debt issued by NuStar Logistics could result in an adjustment to the interest rates on the bonds issued by NuStar Logistics in April 2008, which would significantly increase NuStar Energy's capital costs and adversely affect NuStar Energy's ability to raise capital in the future.

NuStar Energy requires significant amounts of working capital to operate the East Coast Asphalt Operations. In particular, NuStar Energy uses working capital to make purchases of crude oil and maintain necessary seasonal inventories at the East Coast Asphalt Operations. NuStar Energy believes that its current sources of capital are adequate to meet its working capital needs. However, if NuStar Energy's working capital needs increase more than anticipated, it may be forced to seek additional sources of capital, which may not be available on commercially reasonable terms. In addition, in the event NuStar Energy's access to capital resources is significantly reduced, NuStar Energy's may not be able to adequately fund its working capital needs for those assets.

NuStar Energy's five-year revolving credit agreement (the 2007 Revolving Credit Agreement) contains restrictive covenants, including a requirement that, as of the end of each rolling period, which consists of any period of four consecutive fiscal quarters, NuStar Energy maintains a consolidated debt coverage ratio (consolidated indebtedness to consolidated EBITDA, as defined in the 2007 Revolving Credit Agreement) not to exceed 5.00-to-1.00. Failure to comply with any of the restrictive covenants in the 2007 Revolving Credit Agreement will result in a default under the terms of this credit agreement and could result in acceleration of this indebtedness. NuStar Energy believes that it is in compliance with all ratios and covenants in the 2007 Revolving Credit Agreement as of December 31, 2008.

Debt service obligations, restrictive covenants in NuStar Energy's credit facilities and the indentures governing its outstanding senior notes and maturities resulting from this leverage may adversely affect NuStar Energy's ability to finance future operations, pursue acquisitions and fund other capital needs and its ability to pay cash distributions to unitholders, including us. In addition, this leverage may make NuStar Energy's results of operations more susceptible to adverse economic or operating conditions. For example, during an event of default under any of NuStar Energy's debt agreements, NuStar Energy would be prohibited from making cash distributions to its unitholders.

As of December 31, 2008, NuStar Energy had \$610.7 million available for borrowing under the 2007 Revolving Credit Agreement, which assumes no remaining available commitment from Lehman Brothers Bank, FSB (LB Bank), a subsidiary of Lehman Brothers Holdings Inc. (Lehman). As a result of Lehman's bankruptcy filing, LB Bank has elected not to fund its pro rata share of any future borrowings NuStar Energy requests, which reduces the total





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**Table of Contents**

commitment under the 2007 Revolving Credit Agreement to approximately \$1.2 billion. If other lenders under the 2007 Revolving Credit Agreement file for bankruptcy or experience severe financial hardship due to recent disruptions and steep declines in the global financial markets and generally severely tightening credit supply, they may not honor their pro rata share of NuStar Energy's borrowing requests, which may significantly reduce its available borrowing capacity and, as a result, materially adversely affect NuStar Energy's financial condition and ability to pay distributions to unitholders, including us.

Additionally, NuStar Energy may not be able to access the capital markets in the future at economically attractive terms, which may adversely affect its future financial and operating flexibility and its ability to pay cash distributions at current levels.

***Increases in interest rates could adversely affect NuStar Energy's business and the trading price of NuStar Energy's units.***

NuStar Energy has significant exposure to increases in interest rates. As of December 31, 2008, NuStar Energy had approximately \$1.9 billion of consolidated debt, of which \$1.1 billion was at fixed interest rates and \$0.8 billion was at variable interest rates after giving effect to interest rate swap agreements. NuStar Energy's results of operations, cash flows and financial position could be materially adversely affected by significant increases in interest rates above current levels. Further, the trading price of NuStar Energy's common units is sensitive to changes in interest rates and any rise in interest rates could adversely impact such trading price.

***NuStar Energy may not be able to integrate effectively and efficiently with future businesses or operations it may acquire. Any future acquisitions may substantially increase the levels of NuStar Energy's indebtedness and contingent liabilities.***

Part of NuStar Energy's business strategy includes acquiring additional assets that complement NuStar Energy's existing asset base and distribution capabilities or provide entry into new markets. NuStar Energy may not be able to identify suitable acquisitions, or it may not be able to purchase or finance any acquisitions on terms that it finds acceptable. Additionally, NuStar Energy competes against other companies for acquisitions, and NuStar Energy may not be successful in the acquisition of any assets or businesses appropriate for its growth strategy. NuStar Energy's capitalization and results of operations may change significantly as a result of future acquisitions, and you will not have the opportunity to evaluate the economic, financial and other relevant information that NuStar Energy will consider in connection with any future acquisitions. Unexpected costs or challenges may arise whenever businesses with different operations and management are combined. For example, the incurrence of substantial unforeseen environmental and other liabilities, including liabilities arising from the operation of an acquired business or asset prior to NuStar Energy's acquisition for which it is not indemnified or for which indemnity is inadequate, may adversely affect NuStar Energy's ability to realize the anticipated benefit from an acquisition. Inefficiencies and difficulties may arise because of unfamiliarity with new assets and new geographic areas of any acquired businesses. Successful business combinations will require NuStar Energy's management and other personnel to devote significant amounts of time to integrating the acquired businesses with NuStar Energy's existing operations. These efforts may temporarily distract their attention from day-to-day business, the development or acquisition of new properties and other business opportunities. If NuStar Energy does not successfully integrate any past or future acquisitions, or if there is any significant delay in achieving such integration, NuStar Energy's business and financial condition could be adversely affected.

***NuStar Energy's operations are subject to federal, state and local laws and regulations relating to environmental protection and operational safety that could require NuStar Energy to make substantial expenditures.***

NuStar Energy's operations are subject to increasingly stringent environmental and safety laws and regulations. Refining petroleum and transporting and storing petroleum and other products, such as specialty liquids, produces a risk that these products may be released into the environment, potentially causing substantial expenditures for a response action, significant government penalties, liability to government agencies for natural resources damages, personal injury or property damages to private parties and significant business interruption. NuStar Energy owns or leases a number of properties that have been used to store or distribute refined products for many years. Many of these properties were operated by third parties whose handling, disposal or release of hydrocarbons and other wastes was not under NuStar Energy's control.

If NuStar Energy were to incur a significant liability pursuant to environmental or safety laws or regulations, such a liability could have a material adverse effect on its financial position and its ability to make distributions to its unitholders, including us, and its ability to meet its debt service requirements.

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## **Table of Contents**

### ***Some of NuStar Energy's pipelines are interstate common carrier pipelines, subject to regulation by the Federal Energy Regulatory Commission (FERC) under the Interstate Commerce Act (ICA).***

Under the ICA, common carrier pipelines must maintain tariffs on file with the FERC. These tariffs include the rates NuStar Energy charges for providing transportation services on its common carrier pipelines as well as the rules and regulations governing these services. The ICA requires, among other things, that such rates on interstate common carrier pipelines be just and reasonable and nondiscriminatory.

The 1992 Energy Policy Act (EPAct), among other things, deems just and reasonable, within the meaning of the ICA, any oil pipeline rate in effect for the 365-day period ending on the date of the enactment of EPAct if the rate in effect was not subject to protest, investigation or complaint during such 365-day period. Essentially, any such rates are grandfathered in by the EPAct. The EPAct further protects any rate meeting this requirement from complaint unless the complainant can show a substantial change occurred after the enactment of EPAct in the economic circumstances of the oil pipeline that were the basis or in the nature of the services provided that were bases for the rate.

The ICA permits persons with a substantial economic interest in any new tariff filing to challenge a tariff publication. The FERC will determine whether to suspend the tariff for a period of up to seven months and initiate a formal investigation. If, upon completion of an investigation, the FERC finds that the new or changed rate is unlawful, it is authorized to require the carrier to refund the revenues in excess of the prior tariff collected during the pendency of the investigation. The FERC may also investigate, upon complaint or on its own motion, rates that are already in effect and order a carrier to change its rates prospectively. Upon an appropriate showing, a shipper may obtain reparations for damages sustained during the two years prior to the filing of a complaint.

NuStar Energy uses various FERC-authorized rate change methodologies for its interstate pipelines, including indexing, cost-of-service rates, market-based rates and settlement rates. Typically, NuStar Energy annually adjusts its rates in accordance with FERC indexing methodology, which currently allows a pipeline to change their rates within prescribed ceiling levels that are tied to an inflation index. The current index (which runs through June 30, 2011) is measured by the year-over-year change in the Bureau of Labor's producer price index for finished goods, plus 1.3%. Shippers may protest rate increases made within the ceiling levels, but such protests must show that the portion of the rate increase resulting from application of the index is substantially in excess of the pipeline's increase in costs from the previous year. However, if the index results in a negative adjustment, NuStar Energy will typically be required to reduce any rates that exceed the new maximum allowable rate. In addition, changes in the index might not be large enough to fully reflect actual increases in NuStar Energy's costs. If the FERC's rate-making methodologies change, any such change or new methodologies could result in rates that generate lower revenues and cash flow and could adversely affect NuStar Energy's ability to make distributions to its unitholders, including us, and to meet its debt service requirements. Additionally, competition constrains NuStar Energy's rates in various markets. As a result, NuStar Energy may from time to time be forced to reduce some of its rates to remain competitive.

### ***Changes to FERC rate-making principles could have an adverse impact on its ability to recover the full cost of operating its pipeline facilities and NuStar Energy's ability to make distributions to its unitholders, including us.***

In May 2005, the FERC issued a statement of general policy stating it will permit pipelines to include in cost of service a tax allowance to reflect actual or potential tax liability on their public utility income attributable to all partnership or limited liability company interests, if the ultimate owner of the interest has an actual or potential income tax liability on such income. Whether a pipeline's owners have such actual or potential income tax liability will be reviewed by the FERC on a case-by-case basis. Although the new policy is generally favorable for pipelines that are organized as pass-through entities, it still entails rate risk due to the case-by-case review requirement. The new tax allowance policy and the FERC's application of that policy were appealed to the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Court), and, on May 29, 2007, the D.C. Court issued an opinion upholding the FERC's tax allowance policy. Because the extent to which an interstate oil pipeline is entitled to an income tax allowance is subject to a case-by-case review at the FERC, the level of income tax allowance to which NuStar Energy will ultimately be entitled is not certain. If the FERC were to disallow a substantial portion of NuStar Energy's income tax allowance, it is possible that the maximum rates that could be charged could decrease from current levels.

### ***The rates that NuStar Energy may charge on its interstate ammonia pipeline are subject to regulation by the Surface Transportation Board (STB).***

The STB, a part of the U.S. Department of Transportation, has jurisdiction over interstate pipeline transportation and rate regulations of anhydrous ammonia. Transportation rates must be reasonable, and a pipeline carrier may not unreasonably discriminate among its shippers. If the STB finds that a carrier's rates violate these statutory commands,



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## **Table of Contents**

it may prescribe a reasonable rate. In determining a reasonable rate, the STB will consider, among other factors, the effect of the rate on the volumes transported by that carrier, the carrier's revenue needs and the availability of other economic transportation alternatives. The STB does not provide rate relief unless shippers lack effective competitive alternatives. If the STB determines that effective competitive alternatives are not available and NuStar Energy holds market power, then it may be required to show that its rates are reasonable.

***Increases in natural gas and power prices could adversely affect NuStar Energy's ability to make distributions to its unitholders, including us.***

Power costs constitute a significant portion of NuStar Energy's operating expenses. For the year ended December 31, 2008, NuStar Energy's power costs equaled approximately \$61.9 million, or 14.0% of NuStar Energy's operating expenses for the year. In addition, \$31.3 million of power costs were capitalized into inventory related to NuStar Energy's asphalt refineries, which will be expensed into cost of product sales as the inventory is sold. NuStar Energy uses mainly electric power at its pipeline pump stations, terminals and refineries, and such electric power is furnished by various utility companies that use natural gas to generate electricity. Accordingly, NuStar Energy's power costs typically fluctuate with natural gas prices. Increases in natural gas prices may cause NuStar Energy's power costs to increase further. If natural gas prices increase, NuStar Energy's cash flows may be adversely affected, which could adversely affect NuStar Energy's ability to make distributions to NuStar Energy's unitholders, including us.

***Terrorist attacks and the threat of terrorist attacks have resulted in increased costs to NuStar Energy's business. Continued hostilities in the Middle East or other sustained military campaigns may adversely impact NuStar Energy's results of operations.***

Increased security measures taken by NuStar Energy as a precaution against possible terrorist attacks have resulted in increased costs to its business. Uncertainty surrounding continued hostilities in the Middle East or other sustained military campaigns may affect NuStar Energy's operations in unpredictable ways, including disruptions of crude oil supplies and markets for refined products, and the possibility that infrastructure facilities could be direct targets of, or indirect casualties of, an act of terror or instability in the financial markets that could restrict NuStar Energy's ability to raise capital.

## **TAX RISKS TO OUR UNITHOLDERS**

***If we or NuStar Energy were treated as a corporation for federal or state income tax purposes, then our cash available for distribution to you would be substantially reduced.***

The anticipated after-tax benefit of an investment in our units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this matter. The value of our investment in NuStar Energy depends largely on NuStar Energy being treated as a partnership for federal income tax purposes.

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our taxable income at the corporate tax rate, which is currently a maximum of 35%. Distributions to unitholders would generally be taxed again as corporate distributions, and no income, gains, losses, deductions or credits would flow through to unitholders. Thus, treatment of us as a corporation would result in a material reduction in our anticipated cash flow and after-tax return to unitholders, likely causing a substantial reduction in the value of our units.

If NuStar Energy were treated as a corporation for federal income tax purposes, it would pay federal income tax on its taxable income at the corporate tax rate. Distributions to us would generally be taxed again as corporate distributions, and no income, gains, losses, deductions or credits would flow through to us. As a result, there would be a material reduction in our anticipated cash flow, likely causing a substantial reduction in the value of our units.

Current law may change, causing us or NuStar Energy to be treated as a corporation for federal income tax purposes or otherwise subjecting us or NuStar Energy to entity level taxation. In addition, because of widespread state budget deficits, and other reasons, several states are evaluating ways to subject partnerships to entity level taxation through the imposition of state income, franchise or other forms of taxation. For example, the State of New Jersey imposes a state level tax which NuStar Energy currently pays at the maximum amount of \$250,000. Partnerships and limited liability companies, unless specifically exempted, are also subject to a state level tax imposed on Texas source revenues. Specifically, the Texas margin tax is imposed at a maximum effective tax rate of 0.7% of our gross revenue or 1% of our gross margin that is apportioned to Texas. Imposition of an entity level tax on us or NuStar Energy by Texas, or additional states, will reduce the cash available for distribution to our unitholders.



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## **Table of Contents**

***A successful IRS contest of the federal income tax positions we or NuStar Energy take may adversely impact the market for our or NuStar Energy's units, and the costs of any contest will reduce cash available for distribution to our unitholders.***

The IRS may adopt positions that differ from the positions we or NuStar Energy take, even positions taken with the advice of counsel. It may be necessary to resort to administrative or court proceedings to sustain some or all of the positions we or NuStar Energy take. A court may not agree with all of the positions we or NuStar Energy take. Any contest with the IRS may materially and adversely impact the market for our or NuStar Energy's units and the prices at which they trade. In addition, the costs of any contest between NuStar Energy and the IRS will result in a reduction in cash available for distribution to NuStar Energy unitholders and thus will be borne indirectly by us, as a unitholder and as the owner of the general partner of NuStar Energy, and by the other unitholders of NuStar Energy. Moreover, the costs of any contest between us and the IRS will result in a reduction in cash available for distribution to our unitholders and thus will be borne indirectly by our unitholders.

***Even if unitholders do not receive any cash distributions from us, unitholders will be required to pay taxes on their respective share of our taxable income.***

Unitholders will be required to pay federal income taxes and, in some cases, state and local income taxes on their respective share of our taxable income, whether or not the unitholders receive cash distributions from us. Unitholders may not receive cash distributions from us equal to their respective share of our taxable income or even equal to the actual tax liability that results from their respective share of our taxable income.

***The sale or exchange of 50% or more of our or NuStar Energy's capital and profits interests, within a twelve-month period, will result in the termination of our or NuStar Energy's partnership for federal income tax purposes.***

A termination would, among other things, result in the closing of our taxable year for all unitholders and would result in a deferral of depreciation and cost recovery deductions allowable in computing our taxable income. If our partnership were terminated for federal income tax purposes, each of our unitholders would be allocated an increased amount of federal taxable income for the year in which the partnership is considered terminated and the subsequent years as a percentage of the cash distributed to the unitholder with respect to that period.

***Tax gain or loss on the disposition of our units could be different than expected.***

If a unitholder sells units, the selling unitholder will recognize gain or loss equal to the difference between the amount realized and the unitholder's tax basis in those units. Prior distributions to the selling unitholder in excess of the total net taxable income the unitholder was allocated for a unit, which decreased the unitholder's tax basis in that unit, will, in effect, become taxable income to the selling unitholder if the unit is sold at a price greater than the unitholder's tax basis in that unit, even if the price the unitholder receives is less than the unit's original cost. A substantial portion of the amount realized, whether or not representing gain, may be ordinary income to the selling unitholder.

***Tax-exempt entities and foreign persons face unique tax issues from owning units that may result in adverse tax consequences to them.***

Investment in units by tax-exempt entities, such as individual retirement accounts (known as IRAs) and non-U.S. persons raises issues unique to them. For example, virtually all of our income allocated to organizations exempt from federal income tax, including individual retirement accounts and other retirement plans, will be unrelated business taxable income and will be taxable to them. Distributions to non-U.S. persons will be reduced by withholding taxes at the highest applicable effective tax rate, and non-U.S. persons will be required to file U.S. federal income tax returns and pay tax on their share of our taxable income.

***We will treat each purchaser of our units as having the same tax benefits without regard to the units purchased. The IRS may challenge this treatment, which could adversely affect the value of our units.***

Because we cannot match transferors and transferees of units, we will adopt depreciation and amortization positions that may not conform with all aspects of existing U.S. Department of Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to you. It also could affect the timing of these tax benefits or the amount of gain from a unitholder's sale of units and could have a negative impact on the value of our units or result in audit adjustments to the unitholder's tax returns.

***Unitholders will likely be subject to state and local taxes and return filing requirements as a result of investing in our units.***

In addition to federal income taxes, unitholders will likely be subject to other taxes, such as state and local income taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various



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**Table of Contents**

jurisdictions in which we or NuStar Energy do business or own property. Unitholders will likely be required to file state and local income tax returns and pay state and local income taxes in some or all of these various jurisdictions. Further, unitholders may be subject to penalties for failure to comply with those requirements. We or NuStar Energy may own property or conduct business in other states or foreign countries in the future. It is each unitholder's responsibility to file all federal, state and local tax returns.

*NuStar Energy has adopted certain valuation methodologies that may result in a shift of income, gain, loss and deduction between us and the public unitholders of NuStar Energy. The IRS may challenge this treatment, which could adversely affect the value of NuStar Energy's common units and our common units.*

When we or NuStar Energy issue additional units or engage in certain other transactions, NuStar Energy determines the fair market value of its assets and allocates any unrealized gains or losses attributable to such assets to the capital accounts of NuStar Energy's public unitholders and us. NuStar Energy's methodology may be viewed as understating the value of NuStar Energy's assets. In that case, there may be a shift of income, gain, loss and deduction between certain NuStar Energy public unitholders and us, which may be unfavorable to such NuStar Energy unitholders. Moreover, under our current valuation methods, subsequent purchasers of our common units may have a greater portion of their Internal Revenue Code Section 743(b) adjustment allocated to NuStar Energy's intangible assets and a lesser portion allocated to NuStar Energy's tangible assets. The IRS may challenge NuStar Energy's valuation methods, our methods, or NuStar Energy's allocation of the Section 743(b) adjustment attributable to NuStar Energy's tangible and intangible assets, and allocations of income, gain, loss and deduction between us and certain of NuStar Energy's public 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 or the NuStar Energy unitholders. It also could affect the amount of gain on the sale of common units by our unitholders or NuStar Energy's unitholders and could have a negative impact on the value of our common units or those of NuStar Energy or result in audit adjustments to our or NuStar Energy's unitholders' tax returns without the benefit of additional deductions.

*We expect that our ratio of taxable income to cash distributions will be higher than the ratio applicable to holders of common units in NuStar Energy.*

We expect that our ratio of taxable income to cash distributions will be higher than the ratio applicable to holders of common units in NuStar Energy. Other holders of common units in NuStar Energy will receive remedial allocations of deductions from NuStar Energy. Any remedial allocations of deductions to us from NuStar Energy will be very limited. In addition, our ownership of NuStar Energy incentive distribution rights will cause more taxable income to be allocated to us from NuStar Energy. If NuStar Energy is successful in increasing its distributions over time, our income allocations from our NuStar Energy incentive distribution rights will increase, and, therefore, our ratio of taxable income to cash distributions will increase.

*Items of our income, gain, loss and deduction will be allocated among our unitholders to account for the difference between the fair market value and tax basis of our assets at the time of an offering.*

Specified items of income, gain, loss and deduction will be allocated to us from NuStar Energy and among our unitholders to account for the difference between the fair market value and tax basis of NuStar Energy's assets and our assets at the time the assets were contributed to NuStar Energy (or its predecessors) or at any other offering. The effect of these allocations will be to allocate to us from NuStar Energy and to our unitholders, gains attributable to our share of the difference between the fair market value and the tax basis of NuStar Energy's assets at these times (including gain attributable to our ownership of the incentive distribution rights). The effect of these allocations to a unitholder purchasing units will be essentially the same as if the tax basis of our and NuStar Energy's assets were equal to their fair market values at the time of the purchase, with the result that a unitholder purchasing units will not bear the federal income tax burden associated with any existing difference between the fair market value and tax basis of our or NuStar Energy's assets. The federal income tax burden associated with the difference between the fair market value and tax basis of our assets immediately prior to purchasing units will be borne by our existing unitholders as of that time.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.



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**Table of Contents**

**ITEM 3. LEGAL PROCEEDINGS**

We are not currently a party to any material legal proceedings. We are insured against various business risks to the extent we believe is prudent; however, there can be no assurance that the nature and amount of such insurance will be adequate, in every case, to indemnify us against liabilities arising from future legal proceedings as a result of our ordinary business activity.

NuStar Energy is named as a defendant in litigation relating to NuStar Energy's normal business operations, including regulatory and environmental matters. NuStar Energy is also insured against various business risks to the extent its management believes is prudent; however, NuStar Energy cannot be assured that the nature and amount of such insurance will be adequate, in every case, to protect it against liabilities arising from future legal proceedings as a result of its ordinary business activity.

***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 final judgment of the trial court 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. In September 2008, Grace Energy filed its Joint Plan of Reorganization and Disclosure Statement. NuStar Energy has sought relief from the bankruptcy stay in order to pursue its appellate rights.

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 final judgment of the Texas state court assigning ownership of the Otis AFB pipeline to Kaneb, the U.S. Department of Justice (the DOJ) advised Kaneb in 2001 that it intends to seek reimbursement from Kaneb for the remediation costs associated with the two plumes. In November 2008, the DOJ forwarded information to NuStar Energy indicating that the past and estimated future remediation expenses associated with one plume are \$71.9 million. The DOJ has indicated that they will not seek recovery of remediation costs for the second plume. The DOJ has not filed a lawsuit against NuStar Energy related to this matter and NuStar Energy has not made any payments toward costs incurred by the DOJ.

***ERES MATTER***

In August 2008, Eres N.V. (Eres) forwarded a demand for arbitration to CITGO Asphalt Refining Company (CARCO), CITGO Petroleum Corporation (CITGO), NuStar Asphalt Refining, LLC (NuStar Asphalt) and NuStar Marketing LLC (NuStar Marketing, and together with CARCO, CITGO and NuStar Asphalt, the Defendants) contending that the Defendants are in breach of a tanker voyage charter party agreement, dated November 2004, between Eres and CARCO (the Charter Agreement). The Charter Agreement provides for CARCO's use of Eres' vessels for the shipment of asphalt. Eres contends that NuStar Asphalt and/or NuStar Marketing assumed the Charter Agreement when NuStar Asphalt purchased the CARCO assets, and that the Defendants have failed to perform under the Charter Agreement since January 1, 2008. CARCO has demanded that NuStar Asphalt and NuStar Marketing defend and indemnify it against Eres' claims and has filed a lawsuit in the Harris County District Court, Harris County, Texas, seeking to recover on its indemnity claim. This lawsuit has been removed and is currently pending in the U.S. District Court for the Southern District of Texas. In connection with the demand for arbitration, Eres filed a complaint in the U.S. District Court for the Southern District of New York (SDNY) seeking to require the Defendants to arbitrate the dispute and seeking to attach the banking funds of CARCO and NuStar Asphalt (including cash,

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**Table of Contents**

escrow funds, credits, debts, wire transfers, electronic funds transfers, accounts, letters of credit, freights and charter hire) within the SDNY in amounts of approximately \$78.1 million pending resolution of arbitration between Eres and the Defendants. To date, no funds of NuStar Asphalt have been attached. NuStar Energy intends to vigorously defend against these claims.

***ENVIRONMENTAL AND SAFETY COMPLIANCE MATTERS***

With respect to the environmental proceedings listed below, if any one or more of them were decided against NuStar Energy, we believe that it would not have a material effect on its consolidated financial position. However, it is not possible to predict the ultimate outcome of any of these proceedings or whether such ultimate outcome may have a material effect on its consolidated financial position. We report these proceedings to comply with Securities and Exchange Commission regulations, which require us to disclose proceedings arising under federal, state or local provisions regulating the discharge of materials into the environment or protecting the environment if we reasonably believe that such proceedings will result in monetary sanctions of \$100,000 or more.

In particular, in September 2008, the Illinois State Attorney General's Office proposed penalties totaling \$240,000 related to a leak at a storage terminal in Chillicothe, Illinois that NuStar Energy previously owned through a joint venture with Center Oil Company until NuStar Energy sold its interest in October 2006. The leak was originally discovered and reported to the Illinois Emergency Management Agency (IEMA) in 2002. NuStar Energy is currently in settlement negotiations with IEMA to resolve this matter.

In December 2005, the U.S. Department of Transportation, Office of Pipeline Safety (OPS) proposed penalties totaling \$255,000 based on alleged violations of various pipeline safety requirements in the McKee System. NuStar Energy is currently in settlement negotiations with OPS to resolve this matter.

In November 2006, agents of the U.S. Environmental Protection Agency (the EPA) presented a search warrant issued by a U.S. District Court at a terminal owned by Shore Terminals, LLC (Shore), a wholly owned subsidiary of NuStar Pipeline Operating Partnership L.P. (NuPOP). Since then, NuStar Energy and Shore have been served with additional subpoenas. The search warrant and subpoenas all sought information regarding allegations of potential illegal conduct by Shore, certain of its affiliates and/or its employees concerning compliance with certain environmental and safety laws and regulations. NuStar Energy has cooperated fully with the U.S. Attorney and the EPA in producing documents in response to the subpoenas. Although the U.S. Attorney has indicated that they intend to seek criminal penalties and fines as a result of alleged violations of environmental laws at the terminal, NuStar Energy is currently in negotiations with the U.S. Attorney and the EPA to resolve this matter. There can be no assurances that the conclusion of the U.S. Attorney's and the EPA's investigation will not result in a determination that Shore violated applicable laws. If Shore is found to have violated such laws, NuStar Energy could be subject to fines, civil penalties and criminal penalties. A final determination that Shore violated applicable laws could, among other things, result in debarment from future federal government contracts.

In February 2008, the DOJ advised NuStar Energy that the EPA has requested that the DOJ initiate a lawsuit against NuPOP for violations of the Clean Water Act for (a) failing to prepare adequate Facility Response Plans, as required by Section 311(j)(5) of the Clean Water Act, 33 U.S.C. §1321(j), for certain of its pipeline terminals located in Region VII by August 30, 1994, and (b) maintaining Spill Prevention, Control and Countermeasure (SPCC) plans at the terminal that deviate from the SPCC regulations, 40 C.F.R. §112.3. A Facility Response Plan is a plan for responding to a worst case discharge, and to a substantial threat of such a discharge, of oil or hazardous substances. The SPCC rule requires specific facilities to prepare, amend and implement plans to prevent, prepare and respond to oil discharges to navigable waters and adjoining shorelines. NuStar Energy is currently in settlement negotiations with the DOJ to resolve these matters.

NuStar Energy is also a party to additional claims and legal proceedings arising in the ordinary course of its business. 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 NuStar Energy's results of operations, financial position or liquidity. It is possible that if one or more of the matters described above were decided against NuStar Energy, the effects could be material to its results of operations in the period in which it would be required to record or adjust the related liability and could also be material to its cash flows in the periods it would be required to pay such liability.

**Table of Contents****ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of the unitholders, through solicitation of proxies or otherwise, during the fourth quarter of the year ended December 31, 2008.

**ITEM X. EXECUTIVE OFFICERS OF THE REGISTRANT**

Name	Age	Position Held with NuStar GP, LLC
<b>William E. Greehey</b>	<b>72</b>	<b>Chairman of the Board</b>
<b>Curtis V. Anastasio</b>	<b>52</b>	<b>President, Chief Executive Officer and Director</b>
<b>Bradley C. Barron</b>	<b>43</b>	<b>Senior Vice President, General Counsel and Secretary</b>
<b>Steven A. Blank</b>	<b>54</b>	<b>Senior Vice President, Chief Financial Officer and Treasurer</b>
<b>Thomas R. Shoaf</b>	<b>50</b>	<b>Vice President and Controller</b>

**Mr. Greehey** became the Chairman of the board of directors of NuStar GP Holdings, LLC in March 2006. He has also been the Chairman of the board of directors of NuStar GP, LLC since January 2002. Mr. Greehey served as Chairman of the board of directors of Valero Energy from 1979 through January 2007. Mr. Greehey was Chief Executive Officer of Valero Energy Corporation from 1979 through December 2005, and President of Valero Energy from 1998 until January 2003.

**Mr. Anastasio** became President and Chief Executive Officer of NuStar GP Holdings, LLC in March 2006, and has been a director of NuStar GP Holdings, LLC since January 2007. Mr. Anastasio has also served as the President and a director of NuStar GP, LLC since December 1999. He became its Chief Executive Officer in June 2000.

**Mr. Barron** became Senior Vice President, General Counsel and Secretary of NuStar GP Holdings, LLC and NuStar GP, LLC in April 2007. Mr. Barron served as Vice President, General Counsel and Secretary of NuStar GP Holdings, LLC from March 2006 to April 2007. Mr. Barron served as Vice President, General Counsel and Secretary of NuStar GP, LLC from January 2006 until his promotion in April 2007. He served as Managing Counsel and Corporate Secretary of NuStar GP, LLC from July 2003 until January 2006. From January 2001 until July 2003, he served as Counsel, and then Senior Counsel, to Valero Energy.

**Mr. Blank** became Senior Vice President, Chief Financial Officer and Treasurer of NuStar GP Holdings, LLC in March 2006. He has also served as Senior Vice President and Chief Financial Officer of NuStar GP, LLC since January 2002, and he became NuStar GP, LLC's Treasurer in July 2005. From December 1999 until January 2002, he was Chief Accounting and Financial Officer and a director of NuStar GP, LLC. He served as Vice President and Treasurer of Ultramar Diamond Shamrock Corporation from December 1996 until January 2002.

**Mr. Shoaf** became Vice President and Controller of NuStar GP Holdings, LLC in March 2006. He has also served as Vice President and Controller of NuStar GP, LLC since July 2005. Mr. Shoaf served as Vice President-Structured Finance of Valero Corporate Services Company, a subsidiary of Valero Energy, from 2001 until his appointment with NuStar GP, LLC.

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON UNITS, RELATED UNITHOLDER MATTERS AND ISSUER PURCHASES OF COMMON UNITS****Market Information, Holders and Distributions**

Our common units are listed and traded on the New York Stock Exchange under the symbol NSH. At the close of business on February 5, 2009, we had 33 holders of record of our common units. The high and low sales prices (composite transactions) by quarter for the years ended December 31, 2008 and 2007 were as follows:

	Price Range of Common Unit	
	High	Low
<b><u>Year 2008</u></b>		
4th Quarter	\$ 20.66	\$ 12.16
3rd Quarter	\$ 22.31	\$ 16.52
2nd Quarter	\$ 27.98	\$ 21.59
1st Quarter	\$ 29.89	\$ 22.25
<b><u>Year 2007</u></b>		
4th Quarter	\$ 35.35	\$ 27.47
3rd Quarter	\$ 38.79	\$ 30.01
2nd Quarter	\$ 38.64	\$ 27.00
1st Quarter	\$ 28.74	\$ 22.40

We are required by our limited liability company agreement to distribute all of our available cash at the end of each quarter, less reserves established by our board of directors. All of our distributions are made on our common units, which are the only class of security outstanding.

The cash distributions applicable to each of the quarters in the years ended December 31, 2008 and 2007 were as follows:

	Record Date	Payment Date	Amount Per Unit
<b><u>Year 2008</u></b>			
4th Quarter	February 5, 2009	February 17, 2009	\$ 0.43
3rd Quarter	November 5, 2008	November 14, 2008	\$ 0.43
2nd Quarter	August 6, 2008	August 15, 2008	\$ 0.36
1st Quarter	May 7, 2008	May 16, 2008	\$ 0.36
<b><u>Year 2007</u></b>			
4th Quarter	February 7, 2008	February 19, 2008	\$ 0.36
3rd Quarter	November 8, 2007	November 16, 2007	\$ 0.36
2nd Quarter	August 7, 2007	August 16, 2007	\$ 0.34
1st Quarter	May 7, 2007	May 16, 2007	\$ 0.32

**Table of Contents**

*The following Performance Graph is not soliciting material, is not deemed filed with the SEC, and is not to be incorporated by reference into any of NuStar GP Holdings, LLC's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, as amended, respectively.*

The following line graph compares the cumulative total return\* on an investment in our units against the cumulative total returns of the S&P 500 Composite Index, the New York Stock Exchange (NYSE) Composite Index and the Alerian MLP Index for the period commencing July 19, 2006, the date of our initial public offering, and ending December 31, 2008.

In our Annual Report for the year ended December 31, 2007, we included a Performance Graph comparing an investment in our units against the cumulative total returns of the S&P 500 Composite Index and the Alerian MLP Index. Going forward, we will use the NYSE Composite Index instead of the S&P 500 Composite Index. Because our units are traded on the NYSE and we are not currently a member of the S&P 500, we believe that this comparison is more useful to our unitholders.

	7/06	9/06	12/06	3/07	6/07	9/07	12/07	3/08	6/08	9/08	12/08
<b>NuStar GP Holdings, LLC</b>	100.00	86.03	111.37	126.05	175.43	143.95	133.66	119.98	104.11	85.68	88.48
<b>S&amp;P 500 Composite Index</b>	100.00	105.67	112.74	113.47	120.59	123.04	118.94	107.70	104.77	96.00	74.93
<b>NYSE Composite Index</b>	100.00	104.19	112.97	115.04	123.47	126.13	122.99	111.76	110.83	96.98	74.71
<b>Alerian MLP Index</b>	100.00	105.61	117.31	132.50	142.59	127.36	130.91	120.40	124.64	103.10	82.98

**Table of Contents**

This Performance Graph and the related textual information are based on historical data and are not indicative of future performance.

\* Assumes that the value of the investment in our common units and each index (including reinvestment of dividends) was \$100 on July 19, 2006. Cumulative total return is based on unit price appreciation plus reinvestment of distributions from July 19, 2006 through December 31, 2008.

**ITEM 6. SELECTED FINANCIAL DATA**

The following table sets forth, for the periods and at the dates indicated, selected historical financial data for NuStar GP Holdings. On June 1, 2006, Valero Energy contributed its ownership interest in NuStar GP, LLC to NuStar GP Holdings. Therefore, the consolidated financial statements of NuStar GP Holdings include NuStar GP, LLC, Riverwalk Logistics, L.P., and Riverwalk Holdings, LLC.

	Year Ended December 31,				
	2008	2007	2006	2005	2004
(Thousands of Dollars, Except Per Unit Data)					
<b>Statement of Income Data:</b>					
Equity in earnings of NuStar Energy L.P.	\$ 69,622	\$ 46,176	\$ 42,983	\$ 37,646	\$ 35,314
Net income	66,296	43,340	30,718	20,293	18,447
Basic and diluted earnings per unit (a)	1.56	1.02	0.72	0.48	0.43
Cash distributions per unit (b)	1.58	1.38	0.58	-	-
<b>Other Financial Data:</b>					
Distributions received from NuStar Energy L.P.	\$ 69,449	\$ 59,579	\$ 53,764	\$ 44,745	\$ 37,964
	December 31,				
	2008	2007	2006	2005	2004
(Thousands of Dollars)					
<b>Balance Sheet Data:</b>					
Total assets	\$ 572,833	\$ 573,831	\$ 570,493	\$ 410,314	\$ 388,991
Total debt (c)	6,500	3,000	-	265,961	270,597
Members' equity (d)	543,450	553,786	555,643	141,780	113,975

- (a) On June 28, 2006, our existing membership interests were represented by 10,000,000 units. In conjunction with our initial public offering, we effected a 4.25-for-1 split, resulting in total outstanding units of 42,500,000. Prior to June 28, 2006, we had no units outstanding. Our earnings per unit amounts assume that 42,500,000 units were outstanding for all periods presented prior to June 28, 2006.
- (b) The reported distribution per unit for the period between the closing of our initial public offering on July 19, 2006 and December 31, 2006 is prorated based on the actual number of days we were public and distributions of \$0.64 per unit. For the period from July 1 - July 18, 2006, Valero Energy received 100% of our distributions. NuStar GP Holdings did not declare cash distributions on a per unit basis prior to the third quarter of 2006.
- (c) Total debt as of December 31, 2004 and 2005 represents notes payable by NuStar GP Holdings to subsidiaries of Valero Energy. On July 19, 2006, subsidiaries of Valero Energy made a capital contribution to us in the form of notes issued by us and held by those Valero Energy subsidiaries.
- (d) Members' equity as of December 31, 2006 is significantly higher than prior periods in the historical balance sheet due to the capital contribution of notes from Valero Energy subsidiaries discussed in footnote (c) above and the recognition of \$158.0 million in SAB 51 credits upon the conversion of our NuStar Energy L.P. subordinated units to common units.



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**Table of Contents**

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following review of our results of operations and financial condition should be read in conjunction with Items 1., 1A. and 2. Business, Risk Factors and Properties, and Item 8. Financial Statements and Supplementary Data, included in this report.

***CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION***

*This Form 10-K 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 Item 1A. Risk Factors for a discussion of certain of those risks.*

*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-K. 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 GP Holdings, LLC (NuStar GP Holdings) is a Delaware limited liability company. Our units are traded on the New York Stock Exchange (NYSE) under the symbol NSH. Unless otherwise indicated, the terms NuStar GP Holdings, LLC, NuStar GP Holdings, we, our us are used in this report to refer to NuStar GP Holdings, LLC, to one or more of our consolidated subsidiaries or to all of them taken as a whole.

Our only cash generating assets are our ownership interests in NuStar Energy L.P. (NuStar Energy), a publicly traded Delaware limited partnership (NYSE: NS). As of December 31, 2008, our aggregate ownership interests in NuStar Energy consisted of the following:

the 2% general partner interest;

100% of the incentive distribution rights (IDR) issued by NuStar Energy, which entitle us to receive increasing percentages of the cash distributed by NuStar Energy, currently at the maximum percentage of 23%; and

10,250,054 common units of NuStar Energy representing an 18.5% limited partner interest.

We account for our ownership interest in NuStar Energy using the equity method. Therefore, our financial results reflect a portion of NuStar Energy's net income based on our ownership interest. We have no separate operating activities apart from those conducted by NuStar Energy and therefore generate no revenues from operations.

NuStar Energy is engaged in the terminalling and storage of petroleum products, the transportation of petroleum products and anhydrous ammonia and asphalt and fuels marketing. NuStar Energy has terminal facilities in the United States, the Netherlands Antilles, Canada, Mexico, the Netherlands and the United Kingdom.



**Table of Contents**

NuStar Energy is required by its partnership agreement to distribute all of its available cash at the end of each quarter, less reserves established by its general partner, in its sole discretion, to provide for the proper conduct of NuStar Energy's business or to provide funds for future distributions. Similarly, we are required by our limited liability company agreement to distribute all of our available cash at the end of each quarter, less reserves established by our board of directors.

In two separate public offerings in 2006, Valero Energy sold their ownership interest in NuStar GP Holdings, LLC. We did not receive any proceeds from either public offering, and Valero Energy's ownership interest in NuStar GP Holdings, LLC was reduced to zero.

**Recent Developments**

On March 20, 2008, NuStar Energy acquired CITGO Asphalt Refining Company's asphalt operations and assets (the East Coast Asphalt Operations) for approximately \$838.5 million. The East Coast Asphalt Operations include a 74,000 barrels-per-day (BPD) asphalt refinery in Paulsboro, New Jersey, a 30,000 BPD asphalt refinery in Savannah, Georgia and three asphalt terminals. The facilities located in Paulsboro, New Jersey, Savannah, Georgia and Wilmington, North Carolina have storage capacities of 3.5 million barrels, 1.2 million barrels and 0.2 million barrels, respectively.

In April 2008, NuStar Energy issued 5,050,800 common units representing limited partner interests at a price of \$48.75 per unit. NuStar Energy received proceeds of \$236.2 million, net of issuance cost. In April 2008, we borrowed \$5.0 million under our credit facility to fund our \$5.0 million contribution to NuStar Energy in order to maintain our 2% general partner interest. Following NuStar Energy's issuance of common units, our ownership in NuStar Energy was reduced from 22.3% at December 31, 2007 to 20.4%. Our ownership in NuStar Energy at December 31, 2008 was 20.5%.

**Results of Operations**

As discussed above, we account for our investment in NuStar Energy using the equity method. As a result, our equity in earnings of NuStar Energy, our only source of income, directly fluctuates with the amount of NuStar Energy's distributions, which determines the amount of our incentive distribution earnings, and NuStar Energy's results of operations, which determine the amounts of earnings attributable to our general partner and limited partner interests.

**Year Ended December 31, 2008 Compared to Year Ended December 31, 2007****Financial Highlights**

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

	2008	Year Ended December 31, 2007	Change
Equity in earnings of NuStar Energy	\$ 69,622	\$ 46,176	\$ 23,446
General and administrative expenses	(2,831)	(2,897)	66
Other (expense) income, net	(379)	16	(395)
Interest (expense) income, net	(214)	23	(237)
Income before income tax benefit	66,198	43,318	22,880
Income tax benefit	98	22	76
Net income	\$ 66,296	\$ 43,340	\$ 22,956
Basic net income per unit	\$ 1.56	\$ 1.02	\$ 0.54
	42,501,586	42,500,355	1,231

Weighted average number of basic units  
outstanding

**Table of Contents**

The following table summarizes NuStar Energy's results of operations for the years ended December 31, 2008 and 2007:

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>Change</b>
(Thousands of Dollars, Except Per Unit Data)			
<b>NuStar Energy Statement of</b>			
<b>Income Data:</b>			
Revenues	\$ 4,828,770	\$ 1,475,014	\$ 3,353,756
Cost of product sales	3,864,310	742,972	3,121,338
Operating expenses	442,248	357,235	85,013
Depreciation and amortization expense	135,709	114,293	21,416
Segment operating income	386,503	260,514	125,989
General and administrative expenses	76,430	67,915	8,515
Operating income	\$ 310,073	\$ 192,599	\$ 117,474
Net income	\$ 254,018	\$ 150,298	\$ 103,720
Net income per unit applicable to limited partners	\$ 4.22	\$ 2.74	\$ 1.48
Cash distributions per unit applicable to limited partners	\$ 4.085	\$ 3.835	\$ 0.250

NuStar Energy's net income increased \$103.7 million for the year ended December 31, 2008, compared to the year ended December 31, 2007, primarily due to an increase in segment operating income, partially offset by increases in interest expense, net and general and administrative expenses. NuStar Energy's segment operating income increased \$126.0 million for the year ended December 31, 2008, compared to the year ended December 31, 2007, primarily due to a \$91.4 million increase in operating income for the asphalt and fuels marketing segment, a \$26.4 million increase in operating income for the storage segment and an \$8.6 million increase in operating income for the transportation segment.

NuStar Energy's segment operating income increased during the year ended December 31, 2008 primarily due to the acquisition of the East Coast Asphalt Operations. In addition, NuStar Energy's throughputs and earnings increased in 2008 due to a fire at the Valero Energy McKee refinery in February 2007, which shut down the refinery until mid-April 2007 and negatively impacted its transportation and storage segments during the year ended December 31, 2007. Finally, NuStar Energy's 2008 earnings improved due to the leasing of additional storage capacity to customers from completed tank expansion projects.

The earnings of NuStar Energy's asphalt and fuels marketing segment were negatively impacted by a hedging loss of \$61.0 million in the second quarter of 2008 associated with certain crude oil futures contracts entered into concurrently with the acquisition of the East Coast Asphalt Operations.

**Table of Contents**

The following table summarizes our equity in earnings of NuStar Energy for the years ended December 31, 2008 and 2007:

	Year Ended December 31,		
	2008	2007	Change
(Thousands of Dollars)			
<b>NuStar GP Holdings Equity in Earnings of NuStar Energy:</b>			
General partner interest	\$ 4,586	\$ 2,637	\$ 1,949
General partner incentive distribution (a)	24,764	18,426	6,338
General partner's interest in earnings and incentive distributions of NuStar Energy	29,350	21,063	8,287
NuStar GP Holdings limited partner interest in earnings of NuStar Energy	43,156	27,997	15,159
Amortization of step-up in basis related to NuStar Energy's assets and liabilities	(2,884)	(2,884)	-
<b>NuStar GP Holdings equity in earnings of NuStar Energy</b>	<b>\$ 69,622</b>	<b>\$ 46,176</b>	<b>\$ 23,446</b>

- (a) For the first quarter of 2008, NuStar Energy's net income allocation to general and limited partners reflected a total cash distribution based on the partnership interests outstanding as of March 31, 2008. NuStar Energy issued approximately 5.1 million common units in April 2008. Actual distribution payments are made within 45 days after the end of each quarter as of a record date that is set after the end of each quarter. As such, our portion of the actual distribution made with respect to the first quarter of 2008, including the IDR, was greater than the net income allocation to us.

Higher earnings at NuStar Energy for the year ended December 31, 2008 increased our equity earnings related to our general and limited partner interests in NuStar Energy for the year ended December 31, 2008, compared to the year ended December 31, 2007.

NuStar Energy's per unit quarterly distributions for the year ended December 31, 2008 also increased compared to the year ended December 31, 2007, to \$4.085 from \$3.835. That increase, coupled with an increase in the number of NuStar Energy units outstanding resulting from the issuance of units in the fourth quarter of 2007 and the second quarter of 2008, resulted in NuStar Energy increasing its total cash distributions. Because our IDR in NuStar Energy entitle us to an increasing amount of NuStar Energy's cash distributions, our equity in earnings of NuStar Energy related to our IDR also increased for the period.

**Table of Contents****Year Ended December 31, 2007 Compared to Year Ended December 31, 2006****Financial Highlights**

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

	<b>Year Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>Change</b>
Equity in earnings of NuStar Energy L.P.	\$ 46,176	\$ 42,983	\$ 3,193
General and administrative expenses	(2,897)	(1,562)	(1,335)
Other income (expense), net	16	(82)	98
Interest expense, net affiliated	-	(10,315)	10,315
Interest income (expense), net	23	(16)	39
Income before income tax benefit (expense)	43,318	31,008	12,310
Income tax benefit (expense)	22	(290)	312
Net income	\$ 43,340	\$ 30,718	\$ 12,622
Basic net income per unit	\$ 1.02	\$ 0.72	\$ 0.30
Weighted average number of basic units outstanding	42,500,355	42,500,000	355

The following table summarizes NuStar Energy's results of operations for the years ended December 31, 2007 and 2006:

	<b>Year Ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>Change</b>
(Thousands of Dollars, Except Per Unit Data)			
<b>NuStar Energy Statement of Income Data:</b>			
Revenues	\$ 1,475,014	\$ 1,137,261	\$ 337,753
Cost of product sales	742,972	466,276	276,696
Operating expenses	357,235	312,604	44,631
Depreciation and amortization expense	114,293	100,266	14,027
Segment operating income	260,514	258,115	2,399
General and administrative expenses	67,915	45,216	22,699
Operating income	\$ 192,599	\$ 212,899	\$ (20,300)
Net income	\$ 150,298	\$ 149,530	\$ 768
Net income per unit applicable to limited partners	\$ 2.74	\$ 2.83	\$ (0.09)
Cash distributions per unit applicable to limited partners	\$ 3.835	\$ 3.600	\$ 0.235

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NuStar Energy's net income for the year ended December 31, 2007 increased \$0.8 million compared to the year ended December 31, 2006 primarily due to a significant increase in other income and slightly higher segment operating income, partially offset by increased general and administrative expense, interest expense and income tax expense.

**Table of Contents**

The following table summarizes our equity in earnings of NuStar Energy for the years ended December 31, 2007 and 2006:

	Year Ended December 31,		
	2007	2006	Change
	(Thousands of Dollars)		
<b>NuStar GP Holdings Equity in Earnings of NuStar Energy:</b>			
General partner interest	\$ 2,637	\$ 2,707	\$ (70)
General partner incentive distribution	18,426	14,778	3,648
Direct charges to NuStar GP Holdings, LLC	-	(575)	575
General partner's interest in earnings and incentive distributions of NuStar Energy	21,063	16,910	4,153
NuStar GP Holdings' limited partner interest in earnings of NuStar Energy	27,997	28,957	(960)
Amortization of step-up in basis related to NuStar Energy's assets and liabilities	(2,884)	(2,884)	-
NuStar GP Holdings' equity in earnings of NuStar Energy	\$ 46,176	\$ 42,983	\$ 3,193

Despite slightly higher earnings at NuStar Energy for the year ended December 31, 2007, compared to the year ended December 31, 2006, our equity earnings related to our general partner interest decreased due to increased incentive distributions. NuStar Energy's partnership agreement requires that earnings be allocated to the general partner and limited partner interests after allocation of the incentive distributions. Due to our incentive distributions increasing by more than the increase in NuStar Energy's net income, the amount of earnings allocated to our general partner interest was lower in 2007 compared to 2006.

NuStar Energy's per unit distributions for the year ended December 31, 2007 increased compared to the same period of 2006 to \$3.835 from \$3.600. That increase coupled with an increase in the number of NuStar Energy units outstanding resulting from the issuance of units in the fourth quarter of 2007 resulted in NuStar Energy increasing its total cash distributions. Because our IDR entitle us to an increasing amount of NuStar Energy's cash distributions, our equity in earnings of NuStar Energy related to our IDR also increased for that period.

Our equity in earnings of NuStar Energy related to our limited partner units decreased for the year ended December 31, 2007 compared to the year ended December 31, 2006 due to a decrease in NuStar Energy's net income per unit during that period.

General and administrative expenses increased \$1.3 million, for the year ended December 31, 2007, compared to the same period in 2006, due to the costs we incurred as a separate publicly traded company for a full year in 2007 compared to six months in 2006. For the period prior to our initial public offering on July 19, 2006, no corporate costs were allocated to us by Valero Energy as management determined that no such corporate costs were incurred specifically on our behalf.

Affiliated interest expense decreased \$10.3 million, for the year ended December 31, 2007, compared to the same period in 2006, due to Valero Energy's capital contribution to us of the outstanding balance of the notes payable to Valero Energy affiliates effective July 19, 2006.

**Outlook***NuStar Energy's Transportation Segment*

For the first quarter of 2009, NuStar Energy expects a heavy planned refinery maintenance schedule, primarily at the Valero Energy refineries it serves, to negatively affect its pipeline throughputs. Revenues generated from NuStar Energy's pipelines depend upon the amount of throughputs. When refineries undergo maintenance, generally they also curtail production, which lowers throughputs for crude oil and refined products causing NuStar Energy's throughputs and revenues to decline. For the full year of 2009, NuStar Energy expects a lighter refinery maintenance schedule, additional shippers and the completion of a pipeline expansion project that will offset the effects of the recession and the weak first quarter. Thus, barring any major unplanned turnaround activity, NuStar Energy expects overall pipeline throughputs in 2009 to be comparable to 2008. Additionally, NuStar Energy expects to increase the tariffs on its pipelines effective July 1, 2009, which should have a positive effect on

its revenues and results of operations.



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**Table of Contents**

*NuStar Energy's Storage Segment*

For the first quarter of 2009, NuStar Energy expects its terminal throughputs to decline due to heavy planned refinery maintenance primarily at the Valero Energy refineries it serves. Several of the assets included in the storage segment store crude oil and refined products for refineries owned by Valero Energy. Revenues for these assets depend upon throughputs rather than fixed rental fees, so when the refineries undergo maintenance, NuStar Energy's throughputs and related revenues decline. However, NuStar Energy does not expect these lower throughputs to significantly impact its revenues or results of operations for the full year of 2009 because most of its revenues result from long-term storage lease contracts, which are not throughput dependent. Of NuStar Energy's storage lease contracts, approximately 70% have remaining terms between one and ten years. For the 30% of NuStar Energy's storage contracts expiring within the next year, NuStar Energy believes it can renew these contracts at similar or better terms provided the present contango markets continue to drive demand for storage. Additionally, NuStar Energy expects its revenues and results of operations for 2009 to benefit from annual index increases to storage fee rates on most of its multi-year contracts and a full year's contribution of key terminal expansion projects completed in 2008 and 2009.

*NuStar Energy's Asphalt and Fuels Marketing Segment*

The earnings of NuStar Energy's asphalt and fuels marketing segment largely depend upon the margin earned by the East Coast Asphalt Operations. NuStar Energy's margin results from the difference between the sales prices of its products and the purchase prices of its raw materials, principally crude oil. The prices of crude oil and the products produced by the East Coast Asphalt Operations fluctuate in response to many factors, such as changes in supply, demand, seasonality, market uncertainties and other factors.

In the first quarter of 2009, NuStar Energy expects its asphalt sales and margins to remain low due to typical seasonal factors including decreased road construction during colder months. For the full year of 2009, NuStar Energy expects its results to be higher than 2008. Last year asphalt demand remained below 2007 levels; however, lower supply resulting from fewer imports and reduced domestic production more than offset the effects of lower demand and resulted in higher prices and higher margins. NuStar Energy expects many of the same factors present in 2008 that contributed positively to its results of operations to continue in 2009. Additionally, on February 17, 2009, The American Recovery and Reinvestment Act of 2009 was signed into law, which includes funding for transportation infrastructure that could increase asphalt demand in 2009 and beyond. Longer term, NuStar Energy believes additional refinery coker expansions will continue to tighten asphalt markets resulting in better-than-historic margins.

In recent months, the Organization of the Petroleum Exporting Countries announced its intention to reduce crude oil production in response to dramatically lower demand for refined products. As a result, NuStar Energy received notice in January 2009 that its scheduled deliveries of Boscan crude oil would be reduced by 600,000 barrels in February and March from the amounts specified in its crude supply agreement with an affiliate of Petroleos de Venezuela S.A (PDVSA). To date, NuStar Energy has replaced the volumes lost from PDVSA with alternative grades of crude oil purchased on the spot market. NuStar Energy has not received notification of any further supply reductions from PDVSA. If the supply reductions extend beyond March at their current levels, NuStar Energy believes it can continue to replace that supply with other asphaltic crudes without a material impact to its results of operations. However, in the event PDVSA further reduces the deliveries of Boscan crude oil, NuStar Energy may experience reduced refinery run rates and reduced production that could negatively impact its results of operations and its cash flows.

Overall, NuStar Energy expects its results for the full year of 2009 to improve compared to 2008. However, depending on the severity and duration of this recession, or other adverse economic conditions, its operations could be negatively impacted.

**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES****General**

Our cash flows consist of distributions from NuStar Energy on our partnership interests, including all of the IDR that we own. Due to our ownership of NuStar Energy's IDR, our portion of NuStar Energy's total distributions may exceed our percentage ownership interest of 20.5%. Our primary cash requirements are for distributions to members, capital contributions to maintain our 2% general partner interest in NuStar Energy in the event NuStar Energy issues additional units, debt service requirements, if any, benefit plan funding and general and administrative expenses. In addition, because NuStar GP, LLC elected to be treated as a taxable entity, we may be required to pay income taxes, depending upon the taxable income of NuStar GP, LLC. These tax payments may exceed the amount of tax expense recorded on the Consolidated Financial Statements. We expect to fund our cash requirements primarily with the quarterly cash distributions we receive from NuStar Energy and borrowings on our three-year revolving credit facility, if necessary. Additionally, NuStar Energy reimburses us for the costs incurred on their behalf, primarily employee related costs.

NuStar Energy pays declared quarterly distributions within 45 days following the end of each quarter based on the partnership interests outstanding as of a record date that is set after the end of each quarter. The table set forth below shows the cash distributions earned for the periods shown with respect to our ownership interests in NuStar Energy and IDR:

	Year Ended December 31,		
	2008	2007	2006
	(Thousands of Dollars, Except Per Unit Data)		
Cash distributions per unit	\$ 4.085	\$ 3.835	\$ 3.600
Total cash distributions made by NuStar Energy to all partners	\$ 252,822	\$ 204,594	\$ 187,035
Cash distributions we received from NuStar Energy:			
Distributions on our general partner interest	\$ 5,058	\$ 4,092	\$ 3,742
Distributions on our IDR	25,294	18,426	14,778
Distributions on our limited partnership interests	41,827	39,205	36,794
<b>Total cash distributions to us</b>	<b>\$ 72,179</b>	<b>\$ 61,723</b>	<b>\$ 55,314</b>
Distributions to us as a percentage of total cash distributions	28.5%	30.2%	29.6%

**Cash Flows for the Year Ended December 31, 2008, 2007 and 2006**

Cash distributions received from NuStar Energy were \$69.4 million for the year ended December 31, 2008, which we used principally to fund distributions to our unitholders totaling \$64.2 million. We borrowed \$5.0 million for the year ended December 31, 2008 to fund our contribution to NuStar Energy in order to maintain our 2% general partner interest following its issuance of common units in April 2008.

Cash distributions received from NuStar Energy were \$59.6 million for the year ended December 31, 2007, which we used principally to fund distributions to our unitholders totaling \$57.0 million. We borrowed \$3.0 million for the year ended December 31, 2007 to fund our contribution to NuStar Energy in order to maintain our 2% general partner interest following its issuance of common units in November 2007.

Cash distributions received from NuStar Energy were \$53.8 million for the year ended December 31, 2006, which we used principally to fund distributions to Valero Energy and our unitholders totaling \$43.2 million.

**Investment in NuStar Energy**

In April 2008, NuStar Energy issued approximately 5.1 million common units representing limited partner interests at a price of \$48.75 per unit resulting in total proceeds of \$236.2 million, net of issuance costs. In November 2007, NuStar Energy issued 2.6 million common units representing limited partner interests at a price of \$57.20 per unit resulting in total proceeds of \$143.1 million, net of issuance costs. In order to maintain our 2% general partner interest, we contributed \$5.0 million and \$3.0 million to NuStar Energy in 2008 and 2007, respectively.



**Table of Contents****Cash Distributions**

Our limited liability company agreement requires that, within 50 days after the end of each quarter, we distribute all of our available cash to the holders of record of our units on the applicable record date. Available cash is defined as all cash on hand at the end of any calendar quarter less the amount of cash reserves necessary or appropriate, as determined in good faith by our board of directors, to fund debt we may incur, if any, general and administrative expenses, future distributions and other miscellaneous uses of cash. The table set forth below shows our cash distributions to be paid related to the periods shown:

	Year Ended December 31,		
	2008	2007	2006 (a)
	(Thousands of Dollars, Except Per Unit Data)		
Cash distributions per unit	\$ 1.58	\$ 1.38	\$ 0.58
Total cash distributions	\$ 67,153	\$ 58,650	\$ 27,200

- (a) The reported distribution per unit for the period between the closing of our initial public offering on July 19, 2006 and December 31, 2006 is prorated based on the actual number of days we were public and distributions of \$0.64 per unit. For the period from July 1 July 18, 2006, Valero Energy received 100% of our distributions. NuStar GP Holdings did not declare cash distributions on a per unit basis prior to the third quarter of 2006.

**Pension and Other Postretirement Benefit Funded Status**

During 2008, we contributed \$8.0 million to our pension and postretirement benefit plans. We anticipate that funding of our pension and postretirement benefit plans in 2009 will approximate \$9.1 million, which principally represents contributions either required by regulations or laws or, with respect to unfunded plans, necessary to fund current benefits. We have not disclosed pension and postretirement funding beyond 2009 as the funding can vary from year to year based upon changes in the fair value of the plan assets and actuarial assumptions. Since costs incurred by us related to our pension and other retirement benefit plans are reimbursed by NuStar Energy, funding for these plans will primarily be provided by NuStar Energy.

**Long-Term Contractual Obligations****Credit Facility**

On July 19, 2006, we entered into a three-year revolving credit facility maturing on July 19, 2009 with a borrowing capacity of up to \$20 million (the Credit Facility). We fund capital contributions to NuStar Energy to maintain our 2% general partner interest as NuStar Energy issues additional units and meet other liquidity and capital resource requirements through borrowings under the Credit Facility.

Under the terms of the Credit Facility, NuStar Energy must maintain a total debt-to-EBITDA ratio of less than 5.0 to 1.0 for any four consecutive quarters, subject to adjustment following certain acquisitions. We are also required to receive cash distributions of at least \$25.0 million in respect to our ownership interests in NuStar Energy for the preceding four fiscal quarters ending on the last day of each fiscal quarter. Our management believes that we are in compliance with the ratio and covenants as of December 31, 2008.

In April 2008, we borrowed \$5.0 million under the Credit Facility to fund our contributions to NuStar Energy in order to maintain our 2% general partner interest following NuStar Energy's issuance of common units. In the third quarter of 2008, we repaid \$1.5 million. As of December 31, 2008, we had outstanding borrowings of \$6.5 million and availability of \$13.5 million under the Credit Facility. The weighted average interest rate related to borrowings under the Credit Facility for the year ended December 31, 2008 was 3.2%.

We are discussing renewal of our Credit Facility with the two lenders under the Credit Facility.

**Other**

As of December 31, 2008, our future minimum payments applicable to noncancellable purchase obligations and interest payments on the Credit Facility totaled \$0.2 and \$0.1 million, respectively, for 2009.



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## **Table of Contents**

### ***Related Party Agreements and Employee Benefits***

#### *Agreements with NuStar Energy*

On April 24, 2008, the boards of directors of each of NuStar GP, LLC and NuStar GP Holdings approved (i) the termination of the administration agreement, dated July 16, 2006, between NuStar GP Holdings and NuStar GP, LLC and (ii) the adoption of a services agreement between NuStar GP, LLC and NuStar Energy. On July 19, 2006, we entered into a non-compete agreement with NuStar Energy. Please refer to Note 5 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data for a more detailed discussion of agreements with NuStar Energy.

#### *Agreements with Valero Energy*

Prior to our separation from Valero Energy, the employees of NuStar GP, LLC were provided to NuStar Energy under the terms of various services agreements between us, NuStar Energy and Valero Energy. Valero Energy continued to provide certain services to NuStar Energy for all of 2007 under the terms of a services agreement dated December 22, 2006 (the 2007 Services Agreement).

Prior to July 1, 2006, the employees of NuStar GP, LLC were included in the various employee benefit plans of Valero Energy. Effective July 1, 2006, we entered into an Employee Benefits Transition Agreement with Valero Energy (the Transition Agreement). In accordance with the Transition Agreement and in connection with the IPO on July 19, 2006, employees of NuStar GP, LLC began participating in newly enacted, comparable plans sponsored by NuStar GP, LLC.

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

Please refer to Note 5 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data for a more detailed discussion of agreements with Valero Energy.

#### *Employee Benefits*

As of December 31, 2008 we sponsored the following employee benefit plans:

The NuStar GP, LLC Thrift Plan, a qualified employee profit-sharing plan;

The NuStar Pension Plan, a qualified non-contributory defined benefit plan;

The NuStar GP, LLC Excess Thrift Plan, the NuStar GP, LLC Excess Pension Plan and the NuStar GP, LLC Supplemental Executive Retirement Plan, benefit plans to a select group of management or other highly compensated employees; and

The NuStar GP, LLC Retiree Benefits Plan, a post retirement medical benefits plan.

Please refer to Note 12 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data for a more detailed discussion of Employee Benefit Plans.

As of December 31, 2008, we had the following long-term incentive plans:

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The Second Amended and Restated 2000 Long-Term Incentive Plan (the 2000 LTIP), under which NuStar GP, LLC may award up to 1,500,000 NuStar Energy (NS) common units. Awards under the 2000 LTIP can include NS unit options, restricted units, performance awards, distribution equivalent rights (DERs) and contractual rights to receive common units.

The 2002 Unit Option Plan (the UOP) under which NuStar GP, LLC may award up to 200,000 NS unit options to officers and directors of NuStar GP, LLC or its affiliates.

**Table of Contents**

The 2003 Employee Unit Incentive Plan (the UIP) under which NuStar GP, LLC may award up to 500,000 NS common units to employees of NuStar GP, LLC or its affiliates, excluding officers and directors of NuStar GP, LLC and its affiliates. Awards under the UIP can include NS unit options, restricted units and distribution equivalent rights (DERs).

The 2006 Long-Term Incentive Plan (the 2006 LTIP) under which NuStar GP Holdings may award up to 2,000,000 NuStar GP Holdings (NSH) units to our employees, consultants and directors who perform services for us or our affiliates. Awards under the 2006 LTIP can include NSH unit options, performance units, restricted units, phantom units, unit grants and unit appreciation rights. NuStar Energy reimburses all costs incurred by us related to employee benefit plans at cost and long-term incentive plan compensation expenses resulting from NS and NSH awards to employees and directors of NuStar GP, LLC. Expenses resulting from NuStar GP Holdings awards to our non-employee directors are included in General and administrative expenses on our consolidated statements of income. Our current liabilities related to the long-term incentive plans and employee benefits are included in Accrued compensation expense and our noncurrent liabilities for employee benefits are included in Employee benefit plan liabilities on our consolidated balance sheets.

The following table summarizes information pertaining to employee benefit plan and long-term incentive plan compensation expenses:

	Year Ended December 31,		
	2008	2007	2006
	(Thousands of Dollars)		
Long-term incentive plan compensation expense charged to NuStar Energy	\$ 5,254	\$ 3,833	\$ 2,404
Expenses resulting from NuStar GP Holdings awards to non-employee directors	392	28	60
Expenses for payroll and related benefit plans charged to NuStar Energy	\$ 155,237	\$ 127,299	\$ 113,763
<b>Contingencies</b>			

As previously discussed, our only cash-generating assets are our indirect ownership interests in NuStar Energy. NuStar Energy is subject to certain loss contingencies, the outcome of which could have a material effect on NuStar Energy's results of operations and cash flows. Please refer to [Note 10 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data](#) for a more detailed discussion of contingencies.

**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. The following summary provides further information about our critical accounting policies that involve critical accounting estimates, and should be read in conjunction with [Note 2 of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data](#), which summarizes our significant accounting policies. The following accounting policies involve estimates that are considered critical due to the level of sensitivity and judgment involved, as well as the impact on our consolidated financial position and results of operations. We believe that all of our estimates are reasonable.

***Investment in NuStar Energy***

We evaluate our investment in NuStar Energy for impairment if and when there is evidence that we may not be able to recover the carrying amount of our investment or that NuStar Energy is unable to sustain an earnings capacity that justifies the carrying amount. A loss in the value of our investment that is other than a temporary decline is recognized currently in earnings based on the difference between the estimated current fair value of the investment and our carrying amount. In order to determine fair value, our management must make certain estimates and assumptions



**Table of Contents**

regarding NuStar Energy's operations, including, among other things, an assessment of market conditions, projected cash flows, interest rates and growth rates that could significantly impact the fair value of our investment. Due to the significant subjectivity of the assumptions used to determine fair value, changes in market conditions and/or changes in assumptions could result in significant impairment charges in the future, thus affecting our earnings. We believe that the carrying amount of our investment in NuStar Energy, as of December 31, 2008, is recoverable.

**Unit-Based Compensation**

We account for awards of NS unit options and restricted units to employees and directors of NuStar GP, LLC at fair value in accordance with Emerging Issues Task Force Issue No. 02-08, Accounting for Options Granted to Employee in Unrestricted, Publicly Traded Shares of an Unrelated Entity (EITF 02-08). EITF 02-08 requires a company that grants its employees equity of an unrelated entity to account for such awards as a derivative, whereby a liability for the award is recorded at inception. Subsequent changes in the fair value of the award are included in the determination of net income. The fair value of NS unit options is determined using the Black-Scholes model at each reporting date. The fair value of NS restricted units equals the market price of NS common units at each reporting date. We record compensation expense each reporting period such that the cumulative compensation expense equals the portion of the award's current fair value that has vested. We record compensation expense related to NS unit options until such options are exercised, and we record compensation expense for NS restricted units until the date of vesting.

We account for awards of NSH unit options granted to employees of NuStar GP, LLC and our directors according to Financial Accounting Standards Board (FASB) Statement No. 123 (revised 2004), Share-Based Payment. (SFAS No. 123R). The fair value of NSH unit options is determined using the Black-Scholes model at the grant date. Compensation expense for NSH unit options is recognized ratably over the vesting period based on the fair value of the units at the grant date.

We make certain assumptions to determine the fair value of NS and NSH unit options related to the expected life of the option, volatility of the related units, expected dividend yield and risk-free interest rate. Changes in these assumptions impact the amount of expense associated with the award and the amount of our liability.

**Pension and Other Postretirement Benefit Obligations**

We have significant pension and postretirement benefit liabilities and costs that are developed from actuarial valuations. Inherent in these valuations are key assumptions including discount rates, expected return on plan assets, future compensation increases and health care cost trend rates. Changes in these assumptions are primarily influenced by factors outside our control. For example, the discount rate assumption is based on a hypothetical yield curve represented by a series of annualized individual discount rates. Each bond issue underlying the hypothetical yield curve required a minimum rating of AA or better by Moody Investor Service, Inc. or a rating of AA or better by Standard & Poor's. The resulting discount rate was 7.1% as of December 31, 2008. These assumptions can have a significant effect on the amounts reported in our consolidated financial statements. For example, a 0.25% decrease in the discount rate or expected return on plan assets or a 0.25% increase in the rate of compensation increase would have the following effects (in thousands):

	Pension Benefits	Other Postretirement Benefits
Increase in projected benefit obligation as of December 31, 2008 from:		
Discount rate decrease	\$ 1,016	\$ 402
Compensation rate increase	493	n/a
Increase in net periodic benefit cost for the year ending December 31, 2009 resulting from:		
Discount rate decrease	\$ 441	\$ 33
Expected return on plan assets decrease	54	n/a
Compensation rate increase	284	n/a

**Table of Contents**

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

None.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our management assessed the effectiveness of NuStar GP Holdings, LLC's internal control over financial reporting as of December 31, 2008. In its evaluation, management used the criteria set forth by the Committee of Sponsoring Organization of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on this assessment, management believes that, as of December 31, 2008, our internal control over financial reporting was effective based on those criteria.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The effectiveness of internal control over financial reporting as of December 31, 2008 has been audited by KPMG, the independent registered public accounting firm who audited our consolidated financial statements included in this Form 10-K. KPMG's attestation on the effectiveness of our internal control over financial reporting appears on page 42.

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Members

of NuStar GP Holdings, LLC:

We have audited the accompanying consolidated balance sheets of NuStar GP Holdings, LLC (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of income, members' equity, and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NuStar GP Holdings, LLC as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), NuStar GP Holdings, LLC's internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

San Antonio, Texas

February 27, 2009

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**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Members

of NuStar GP Holdings, LLC:

We have audited NuStar GP Holdings, LLC's (the Company) internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, NuStar GP Holdings, LLC maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of NuStar GP Holdings, LLC as of December 31, 2008 and 2007, and the related consolidated statements of income, partners equity and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated February 27, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

San Antonio, Texas

February 27, 2009

**Table of Contents**

**NUSTAR GP HOLDINGS, LLC**  
**CONSOLIDATED BALANCE SHEETS**

(Thousands of Dollars)

	December 31,	
	2008	2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,791	\$ 3,240
Accounts receivable	771	90
Receivable from NuStar Energy L.P.	3,441	-
Income tax receivable	722	2,870
Prepaid expenses	219	231
Deferred income tax assets, net	1,860	985
<b>Total current assets</b>	<b>8,804</b>	<b>7,416</b>
Investment in NuStar Energy L.P.	553,921	556,987
Long-term receivable from NuStar Energy L.P.	6,645	5,684
Deferred income tax assets, net	3,463	540
Other assets	-	3,204
<b>Total assets</b>	<b>\$ 572,833</b>	<b>\$ 573,831</b>
<b>Liabilities and Members' Equity</b>		
Current liabilities:		
Current portion of long-term debt	\$ 6,500	\$ -
Accounts payable	340	171
Payable to NuStar Energy L.P.	-	786
Accrued compensation expense	6,445	3,897
Accrued liabilities	727	888
Taxes other than income taxes	908	1,111
<b>Total current liabilities</b>	<b>14,920</b>	<b>6,853</b>
Long-term debt	-	3,000
Employee benefit plan liabilities	14,463	10,192
Commitments and contingencies ( <a href="#">Note 10</a> )		
Members' equity	549,236	546,753
Accumulated other comprehensive income:		
Share of NuStar Energy L.P.'s other comprehensive income	(2,907)	5,985
Pension adjustment, net of tax	(2,879)	1,048
<b>Total accumulated other comprehensive income</b>	<b>(5,786)</b>	<b>7,033</b>
<b>Total members' equity</b>	<b>543,450</b>	<b>553,786</b>
<b>Total liabilities and members' equity</b>	<b>\$ 572,833</b>	<b>\$ 573,831</b>

See Notes to Consolidated Financial Statements.

**Table of Contents****NUSTAR GP HOLDINGS, LLC****CONSOLIDATED STATEMENTS OF INCOME****(Thousands of Dollars, Except Unit and Per Unit Data)**

	2008	Year Ended December 31, 2007	2006
Equity in earnings of NuStar Energy L.P.	\$ 69,622	\$ 46,176	\$ 42,983
General and administrative expenses	(2,831)	(2,897)	(1,562)
Other (expense) income, net	(379)	16	(82)
Interest expense, net affiliated	-	-	(10,315)
Interest (expense) income, net	(214)	23	(16)
Income before income tax benefit (expense)	66,198	43,318	31,008
Income tax benefit (expense)	98	22	(290)
Net income	\$ 66,296	\$ 43,340	\$ 30,718
Basic net income per unit	\$ 1.56	\$ 1.02	\$ 0.72
Weighted average number of basic units outstanding	42,501,586	42,500,355	42,500,000
Diluted net income per unit	\$ 1.56	\$ 1.02	\$ 0.72
Weighted average number of diluted units outstanding	42,509,214	42,502,067	42,500,581

See Notes to Consolidated Financial Statements.

**Table of Contents****NUSTAR GP HOLDINGS, LLC****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Thousands of Dollars)

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ 66,296	\$ 43,340	\$ 30,718
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in earnings of NuStar Energy L.P.	(69,622)	(46,176)	(42,983)
Distributions of equity income from NuStar Energy L.P.	69,449	46,176	42,983
(Benefit) provision for deferred income taxes	(1,525)	79	(897)
Increase in employee benefit plan liabilities	1,953	612	1,089
Changes in current assets and liabilities ( <u>Note 8</u> )	259	2,846	1,225
Other, net	(793)	(915)	144
<b>Net cash provided by operating activities</b>	<b>66,017</b>	<b>45,962</b>	<b>32,279</b>
<b>Cash Flows from Investing Activities:</b>			
Distributions in excess of equity in earnings from NuStar Energy L.P.	-	13,403	10,781
Investment in NuStar Energy L.P.	(8,236)	(5,945)	(2,160)
Proceeds from sale of NuStar Energy L.P. units in connection with employee benefit plans	1,526	2,664	2,608
Other, net	(80)	-	-
<b>Net cash (used in) provided by investing activities</b>	<b>(6,790)</b>	<b>10,122</b>	<b>11,229</b>
<b>Cash Flows from Financing Activities:</b>			
Increase in notes payable to affiliates	-	-	689
Long-term debt borrowings	5,000	3,000	1,000
Repayment of long-term debt	(1,500)	-	(1,000)
Distributions to Valero Energy	-	-	(38,771)
Distributions to unitholders	(64,176)	(56,951)	(4,440)
<b>Net cash used in financing activities</b>	<b>(60,676)</b>	<b>(53,951)</b>	<b>(42,522)</b>
Net (decrease) increase in cash and cash equivalents	(1,449)	2,133	986
Cash and cash equivalents at the beginning of the period	3,240	1,107	121
Cash and cash equivalents at the end of the period	\$ 1,791	\$ 3,240	\$ 1,107

See Notes to Consolidated Financial Statements.



**Table of Contents****NUSTAR GP HOLDINGS, LLC****CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY**

(Thousands of Dollars, Except Unit Data)

	Units	Members Equity	Accumulated Other Comprehensive Income	Total
Balance as of January 1, 2006	-	\$ 141,780	\$ -	\$ 141,780
Net income	-	30,718	-	30,718
<b>Other Comprehensive Income:</b>				
Share of NuStar Energy L.P.'s other comprehensive income	-	-	1,594	1,594
<b>Total comprehensive income</b>	-	<b>30,718</b>	<b>1,594</b>	<b>32,312</b>
Adjustment to initially apply SFAS No. 158, net of tax benefit of \$534	-	-	(835)	(835)
Member interests converted into units	42,500,000	-	-	-
Contributions from Valero Energy	-	267,417	-	267,417
Distributions to Valero Energy	-	(38,771)	-	(38,771)
Distributions to unitholders	-	(4,440)	-	(4,440)
SAB 51 credits	-	158,170	-	158,170
Other	-	10	-	10
<b>Balance as of December 31, 2006</b>	<b>42,500,000</b>	<b>554,884</b>	<b>759</b>	<b>555,643</b>
Net Income	-	43,340	-	43,340
<b>Other Comprehensive Income:</b>				
Share of NuStar Energy L.P.'s other comprehensive income	-	-	4,391	4,391
Pension adjustment, net of tax expense of \$1,102	-	-	1,862	1,862
Other	-	-	21	21
<b>Total comprehensive income</b>	-	<b>43,340</b>	<b>6,274</b>	<b>49,614</b>
Distributions to unitholders	-	(56,951)	-	(56,951)
SAB 51 credits	-	4,929	-	4,929
Unit-based compensation	990	551	-	551
<b>Balance as of December 31, 2007</b>	<b>42,500,990</b>	<b>546,753</b>	<b>7,033</b>	<b>553,786</b>
Net Income	-	66,296	-	66,296
<b>Other Comprehensive Income:</b>				
Share of NuStar Energy L.P.'s other comprehensive loss	-	-	(8,892)	(8,892)
Pension adjustment, net of tax benefit of \$2,273	-	-	(3,944)	(3,944)
Other	-	-	17	17

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Total comprehensive income	-	66,296	(12,819)	53,477
Distributions to unitholders	-	(64,176)	-	(64,176)
SAB 51 charges	-	(757)	-	(757)
Unit-based compensation	2,794	1,120	-	1,120
Balance as of December 31, 2008	42,503,784	\$ 549,236	\$ (5,786)	\$ 543,450

See Notes to Consolidated Financial Statements.

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**Table of Contents**

**NUSTAR GP HOLDINGS, LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2008, 2007, and 2006**

**1. ORGANIZATION, BASIS OF PRESENTATION, AND PRINCIPLES OF CONSOLIDATION**

***Organization***

NuStar GP Holdings, LLC (NuStar GP Holdings) (NYSE: NSH), a publicly held Delaware limited liability company, was formed in June 2000 as UDS Logistics, LLC (UDS Logistics). Valero Energy Corporation (Valero Energy) (NYSE: VLO), a publicly held independent refining and marketing company, acquired UDS Logistics in connection with its December 31, 2001 acquisition (UDS Acquisition) of Ultramar Diamond Shamrock Corporation (UDS). UDS Logistics changed its name to Valero GP Holdings, LLC in January 2006 and then to NuStar GP Holdings, LLC in April 2007. Prior to April 2007, our units were traded on the NYSE under the symbol VEH and the common units of NuStar Energy L.P. were traded under the symbol VLI.

Unless otherwise indicated, the terms NuStar GP Holdings, LLC, NuStar GP Holdings, we, our and us are used in this report to refer to NuStar GP Holdings, LLC, to one or more of our consolidated subsidiaries or to all of them taken as a whole.

In two separate public offerings in 2006, Valero Energy sold their ownership interest in NuStar GP Holdings. We did not receive any proceeds from either public offering, and Valero Energy's ownership interest in NuStar GP Holdings was reduced to zero.

Our unitholders have no liability under our limited liability company agreement, or for any of our debts, obligations or liabilities, in their capacity as a unitholder.

We have no operations or sources of income or cash flows other than our investment in NuStar Energy L.P. (NuStar Energy) (NYSE: NS). On December 31, 2008, we owned approximately 20.5% of NuStar Energy, consisting of the following:

the 2% general partner interest;

100% of the incentive distribution rights (IDR) issued by NuStar Energy, which entitle us to receive increasing percentages of the cash distributed by NuStar Energy, currently at the maximum percentage of 23%; and

10,250,054 common units of NuStar Energy representing an 18.5% limited partner interest.

NuStar Energy is a publicly held Delaware limited partnership engaged in the terminalling and storage of petroleum products, the transportation of petroleum products and anhydrous ammonia and asphalt and fuels marketing. NuStar Energy has terminal facilities in the United States, the Netherlands Antilles, Canada, Mexico, the Netherlands and the United Kingdom.

On March 20, 2008, NuStar Energy acquired CITGO Asphalt Refining Company's asphalt operations and assets (the East Coast Asphalt Operations) for approximately \$838.5 million. The East Coast Asphalt Operations include a 74,000 barrels-per-day (BPD) asphalt refinery in Paulsboro, New Jersey, a 30,000 BPD asphalt refinery in Savannah, Georgia and three asphalt terminals. The facilities located in Paulsboro, New Jersey, Savannah, Georgia and Wilmington, North Carolina have storage capacities of 3.5 million barrels, 1.2 million barrels and 0.2 million barrels, respectively.

***Basis of Presentation and Principles of Consolidation***

These consolidated financial statements include the accounts of NuStar GP Holdings and subsidiaries in which it has a controlling interest. Intercompany balances and transactions have been eliminated in consolidation. On June 1, 2006, Valero Energy contributed its ownership interest in NuStar GP, LLC to NuStar GP Holdings in exchange for an additional ownership interest in NuStar GP Holdings. The contribution

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was accounted for as a transaction between entities under common control. Therefore, the consolidated financial statements include the financial position and results of operations of NuStar GP, LLC for all periods presented. Such amounts are included at their historical balances.

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**Table of Contents**

**NUSTAR GP HOLDINGS, LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Use of Estimates*

The preparation of financial statements in conformity 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. On an ongoing basis, management reviews its estimates based on currently available information. Changes in facts and circumstances may result in revised estimates.

*Cash and Cash Equivalents*

Cash equivalents are all highly liquid investments with an original maturity of three months or less when acquired.

*Investment in NuStar Energy*

We account for our investment in NuStar Energy using the equity method. We evaluate our investment in NuStar Energy for impairment when there is evidence that we may not be able to recover the carrying amount of our investment or that the investee is unable to sustain an earnings capacity that justifies the carrying amount. We recognize a loss in the value of our investment that is other than a temporary decline currently in earnings based on the difference between the estimated current fair value of the investment and our carrying amount. We believe that the carrying amount of our investment in NuStar Energy as of December 31, 2008 is recoverable.

*Accounting for Sales of Units by NuStar Energy*

Securities and Exchange Commission (SEC) Staff Accounting Bulletin No. 51, Accounting for Sales of Stock by a Subsidiary (SAB 51), provides guidance on accounting for the effect of issuances of a subsidiary's stock on the parent's investment in that subsidiary. SAB 51 allows registrants to elect an accounting policy of recording such increases or decreases in a parent's investment (SAB 51 credits or charges, respectively) either in income or in equity. We record such SAB 51 credits or charges directly to members' equity.

*Income Taxes*

On August 14, 2006, NuStar GP, LLC made an entity classification election to be treated as a corporation for federal income tax purposes under Treasury Regulation §301.7701-3(a). We account for income taxes under the asset and liability method. Under this method, we recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. We measure deferred taxes using enacted tax rates expected to apply to taxable income in the year those temporary differences are expected to be recovered or settled.

Income tax expense includes federal and state income and withholding taxes currently payable and deferred federal and state income taxes resulting from temporary differences between financial statement and tax bases of assets and liabilities when such differences exist.

We recognize 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. We record uncertain tax positions in the financial statements at the largest amount of benefit that is more-likely-than-not to be realized. We had no unrecognized tax benefits as of December 31, 2008 and 2007.

We are a limited liability company taxed as a partnership and generally are not subject to federal or state income taxes. Accordingly, our taxable income or loss, which may vary substantially from income or loss reported for financial reporting purposes, is generally included in the federal and state income tax returns of our unitholders. For transfers of publicly held units subsequent to our initial public offering, we have made an election permitted by Section 754 of the Internal Revenue Code to adjust the common unit purchaser's tax basis in our underlying assets to reflect the purchase price of the units. This results in an allocation of taxable income and expenses to the purchaser of the common units, including depreciation deductions and gains and losses on sales of assets, based upon the new unitholder's purchase price for the common units.

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NuStar GP Holdings or certain of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state jurisdictions. For U.S. federal and state purposes, tax years subject to examination are 2004 through 2008.

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**Table of Contents**

**NUSTAR GP HOLDINGS, LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Financial Instruments***

NuStar GP Holdings' financial instruments include cash, receivables and payables. The estimated fair values of these financial instruments approximate their carrying amounts as reflected in the consolidated balance sheets.

***Unit-Based Compensation***

We account for awards of NS unit options, performance awards and restricted units to employees and directors of NuStar GP, LLC at fair value in accordance with Emerging Issues Task Force Issue No. 02-08, *Accounting for Options Granted to Employee in Unrestricted, Publicly Traded Shares of an Unrelated Entity* (EITF 02-08). EITF 02-08 requires a company that grants its employees equity of an unrelated entity to account for such awards as a derivative, whereby a liability for the award is recorded at inception. Subsequent changes in the fair value of the award are included in the determination of net income. The fair value of NS unit options is determined using the Black-Scholes model at each reporting date. The fair value of NS restricted units equals the market price of NS common units at each reporting date. We record compensation expense each reporting period such that the cumulative compensation expense equals the portion of the award's current fair value that has vested. We record compensation expense related to NS unit options until such options are exercised, and we record compensation expense for NS restricted units and performance awards until the date of vesting. NS performance awards vest only upon NuStar Energy's achievement of an objective performance measure.

We account for awards of NSH restricted units and unit options granted to employees of NuStar GP, LLC and our directors according to Financial Accounting Standards Board (FASB) Statement No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R). The fair value of NSH unit options is determined using the Black-Scholes model at the grant date and the fair value of the NSH restricted unit equals the market price of NSH common units at the grant date. Compensation expense for NSH restricted units and unit options is recognized ratably over the vesting period based on the fair value of the units at the grant date.

The liability for awards of NS unit options, performance awards and restricted units is included in *Accrued compensation expense* on our consolidated balance sheets. NuStar Energy reimburses us completely for the expenses resulting from NS awards and for expenses resulting from NSH awards to employees providing services to NuStar Energy. Expenses resulting from NSH awards to non-employee directors are included in *General and administrative expenses* on our consolidated statements of income.

According to SFAS No. 123R and the Securities and Exchange Commission's (SEC) amended Rule 4-01(a) of Regulation S-X, we recognize compensation expense using the non-substantive vesting period approach. Under the non-substantive vesting period approach, compensation expense is recognized immediately for awards granted to retirement-eligible employees or over the period from the grant date to the date retirement eligibility is achieved if that date is expected to occur during the nominal vesting period.

***Pension and Other Postretirement Benefits***

We account for pension and other postretirement benefits in accordance with FASB Statement No. 158, *Employers' Accounting for Defined Benefit and Other Postretirement Plans*. Statement No. 158 requires us to recognize the overfunded or underfunded status of our defined benefit pension or postretirement plans as an asset or a liability and recognize changes in the funded status through comprehensive income in the year the changes occur. This statement also requires us to measure the funded status of a plan as of the balance sheet dates.

***Reclassifications***

Certain previously reported amounts in the 2007 and 2006 consolidated financial statements have been reclassified to conform to 2008 presentation.

**3. NEW ACCOUNTING PRONOUNCEMENTS**

***FASB Staff Position No. FAS 132(R)-1***

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In December 2008, the Financial Accounting Standards Board (FASB) issued Staff Position No. FAS 132(R)-1 (FSP 132(R)-1), Employer's Disclosures about Postretirement Benefit Plan Assets. FSP 132(R)-1 offers additional guidance on an employer's disclosures about plan assets of a defined pension or other postretirement plan, and amends FASB Statement No. 132 (revised 2003), Employers' Disclosures about Pensions and Other Postretirement Benefits. FSP 132(R)-1 provides for additional disclosures about investment policies and strategies, categories of plan assets, significant concentrations of risk and inputs and valuation techniques used to develop fair value measurements of plan



**Table of Contents****NUSTAR GP HOLDINGS, LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

assets. FSP 132(R)-1 applies to disclosures about plan assets for fiscal years ending after December 15, 2009. Upon initial application, the provisions of FSP 132(R)-1 are not required for earlier periods that are presented for comparative purposes. Earlier adoption is permitted. We will not adopt the disclosure requirements of FSP 132(R)-1 until December 31, 2009.

***FASB EITF 08-6***

In November 2008, the FASB ratified its consensus on EITF 08-6, *Equity Method Investment Accounting Considerations* (EITF 08-6). EITF 08-6 addresses certain provisions of FASB Statement No. 141 (Revised 2007), *Business Combinations*, FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, and certain amendments to Accounting Principles Board Opinion No. 18, *The Equity Method of Accounting* that relate to the application of equity method accounting. EITF 08-6 provides equity method investment guidance for the initial carrying value, allocation of the investor's share of equity, impairment assessments of an underlying indefinite-lived intangible asset, issuance of shares, and a change in an investment from the equity method to the cost method. According to EITF 08-6, an equity method investor should account for a share issuance by an investee as if the investor had sold a proportionate share of its investment, such that any gain or loss to the investor be recognized in earnings. EITF 08-6 is effective on a prospective basis in fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. Accordingly, we adopted EITF 08-6 effective January 1, 2009. Prior to the adoption of EITF 08-6, we accounted for increases or decreases in our investment in NuStar Energy through members' equity following NuStar Energy's issuance of common units, in accordance with SEC Staff Accounting Bulletin No. 51, *Accounting for Sales of Stock by a Subsidiary*. Effective January 1, 2009, any gain or loss attributable to future issuances of common units by NuStar Energy will be recognized in earnings.

***FASB Staff Position EITF 03-6-1***

In June 2008, the FASB issued Staff Position No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* (EITF 03-6-1). According to EITF 03-6-1, unvested share-based payment awards are considered participating securities if they contain nonforfeitable rights to dividends or dividend equivalents and are therefore included in the earnings allocation in computing basic earnings per share pursuant to the two-class method. EITF 03-6-1 applies retroactively for fiscal years beginning after December 15, 2008 and interim periods within those years. We adopted EITF 03-6-1 effective January 1, 2009 and do not expect it to materially affect our computation of earnings per unit.

***FASB Statement No. 141R***

In December 2007, the FASB issued Statement No. 141 (Revised 2007), *Business Combinations* (Statement No. 141R). Statement No. 141R will significantly change the accounting for business combinations. Under Statement No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. Statement No. 141R will change the accounting treatment for certain specific items, such as acquisition costs, acquired contingent liabilities, restructuring costs, changes in deferred tax asset valuation allowances and other items. Statement No. 141R also includes a substantial number of new disclosure requirements. Statement No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. We adopted of Statement No. 141R effective January 1, 2009 and do not expect it to materially affect our financial position or results of operations.

**4. INVESTMENT IN NUSTAR ENERGY**

In April 2008, NuStar Energy issued 5,050,800 common units representing limited partner interests at a price of \$48.75 per unit, which reduced our ownership from 22.3% at December 31, 2007 to 20.4%. This issuance resulted in a decrease in the value of our proportionate share of NuStar Energy's capital totaling \$0.8 million (SAB 51 charge). NuStar Energy received proceeds of \$236.2 million, net of issuance cost, and we contributed \$5.0 million to NuStar Energy in order to maintain our 2% general partner interest. Our ownership in NuStar Energy at December 31, 2008 was 20.5%.

In November 2007, NuStar Energy issued 2,600,000 common units representing limited partner interests at a price of \$57.20 per unit, which reduced our ownership from 23.4% at December 31, 2006 to 22.3%. This issuance resulted in an increase in the value of our proportionate share of NuStar Energy's capital totaling \$4.9 million (SAB 51 credit). NuStar Energy received proceeds of \$146.1 million, net of issuance cost, and

we contributed \$3.0 million to NuStar Energy in order to maintain our 2% general partner interest.

**Table of Contents****NUSTAR GP HOLDINGS, LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Summary Financial Information**

Condensed financial information reported by NuStar Energy is summarized below:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(Thousands of Dollars)	
<b>Balance Sheet Information:</b>		
Current assets	\$ 486,486	\$ 347,134
Property, plant and equipment, net	2,941,824	2,492,086
Goodwill	806,330	785,019
Other long-term assets, net	224,957	158,848
 Total assets	 \$ 4,459,597	 \$ 3,783,087
 Current liabilities	 \$ 252,024	 \$ 242,485
Long-term debt, less current portion	1,872,015	1,445,626
Other long-term liabilities	128,561	100,144
 Total liabilities	 2,252,600	 1,788,255
Partners' equity	2,206,997	1,994,832
 Total liabilities and partners' equity	 \$ 4,459,597	 \$ 3,783,087

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	(Thousands of Dollars)		
<b>Statement of Income Information:</b>			
Revenues	\$ 4,828,770	\$ 1,475,014	\$ 1,137,261
Operating income	310,073	192,599	212,899
Net income	254,018	150,298	149,530

**Other**

Our investment in NuStar Energy reconciles to NuStar Energy's total partners' equity as follows:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(Thousands of Dollars)	
NuStar Energy's total partners' equity	\$ 2,206,997	\$ 1,994,832
NuStar GP Holdings' ownership interest in NuStar Energy	20.5%	22.3%

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NuStar GP Holdings' share of NuStar Energy's partners' equity	452,434	444,848
Step-up in basis related to NuStar Energy's assets and liabilities, including equity method goodwill, and other	101,487	112,139
<b>Investment in NuStar Energy</b>	<b>\$ 553,921</b>	<b>\$ 556,987</b>

The step-up in basis related to NuStar Energy's assets and liabilities, including equity method goodwill, reflected in the table above relates to purchase accounting adjustments resulting from Valero Energy's UDS Acquisition. The amount represents the unamortized excess of the fair value over carrying amount applicable to Valero Energy's proportionate 73.6% interest in NuStar Energy's identifiable assets and liabilities as of December 31, 2001 of which \$81.8 million is being amortized into expense over approximately 28 years. This amount also includes the portion of goodwill resulting from the UDS Acquisition that was attributed to our investment in NuStar Energy. Since 26.4% of the equity interest in NuStar Energy was owned by public unitholders as of the date of the UDS Acquisition, a significant portion of the total ownership interest in NuStar Energy was deemed to be held by the public under United States generally accepted

**Table of Contents****NUSTAR GP HOLDINGS, LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

accounting principles, thereby precluding the inclusion of these fair value adjustments in the reported financial statements of NuStar Energy.

The following table summarizes our equity in earnings of NuStar Energy:

	Year Ended December 31,		
	2008	2007	2006
	(Thousands of Dollars)		
<b>NuStar GP Holdings' Equity in Earnings of NuStar Energy:</b>			
General partner interest	\$ 4,586	\$ 2,637	\$ 2,707
General partner incentive distribution (a)	24,764	18,426	14,778
Direct charges to NuStar GP Holdings	-	-	(575)
General partner's interest in earnings and incentive distributions of NuStar Energy	29,350	21,063	16,910
NuStar GP Holdings' limited partner interest in earnings of NuStar Energy	43,156	27,997	28,957
Amortization of step-up in basis related to NuStar Energy's assets and liabilities	(2,884)	(2,884)	(2,884)
NuStar GP Holdings' equity in earnings of NuStar Energy	\$ 69,622	\$ 46,176	\$ 42,983

- (a) For the first quarter of 2008, NuStar Energy's net income allocation to general and limited partners reflected a total cash distribution based on the partnership interests outstanding as of March 31, 2008. NuStar Energy issued approximately 5.1 million common units in April 2008. Actual distribution payments are made within 45 days after the end of each quarter as of a record date that is set after the end of each quarter. As such, our portion of the actual distribution made with respect to the first quarter of 2008, including the IDR, was greater than the net income allocation to us.

**5. RELATED PARTY TRANSACTIONS****General**

We manage NuStar Energy through our ownership of NuStar GP, LLC and Riverwalk Holdings, LLC, which own Riverwalk Logistics L.P., the general partner of NuStar Energy. Our officers are also officers of NuStar GP, LLC. The Chairman of our Board of Directors, William E. Greehey, is also the Chairman of the Board of Directors of NuStar GP, LLC. The Board of Directors of NuStar GP, LLC is responsible for overseeing NuStar GP, LLC's role as the general partner of the general partner of NuStar Energy, and we, as the sole owner of NuStar GP, LLC, must also approve matters that have or would reasonably be expected to have a material effect on our interests as the sole owner of NuStar GP, LLC.

We had a receivable from NuStar Energy of \$3.4 million and a payable to NuStar Energy of \$0.8 million, as of December 31, 2008 and December 31, 2007, respectively, with both amounts representing payroll and plan benefits, net of payments made to us. We also had a long-term receivable of \$6.6 million and \$5.7 million from NuStar Energy as of December 31, 2008 and December 31, 2007, respectively, related to amounts payable for retiree medical benefits and other post-employment benefits. Expenses for payroll and related benefit plans and for unit-based compensation charged by us to NuStar Energy were \$160.5 million, \$131.1 million and \$116.2 million for the years ended December 31, 2008, 2007 and 2006, respectively.

***GP Services Agreement***

On April 24, 2008, the boards of directors of each of NuStar GP, LLC and NuStar GP Holdings approved (i) the termination of the administration agreement, dated July 16, 2006, between NuStar GP Holdings and NuStar GP, LLC (the Administration Agreement) and (ii) the adoption of a services agreement between NuStar GP, LLC and NuStar Energy (the GP Services Agreement). All employees providing services to both NuStar GP Holdings and NuStar Energy are employed by NuStar GP, LLC.

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**Table of Contents**

**NUSTAR GP HOLDINGS, LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Under the Administration Agreement, we paid annual charges of \$500,000, subject to certain adjustments, to NuStar GP, LLC in return for NuStar GP, LLC's provision of all executive management, accounting, legal, cash management, corporate finance and other administrative services to us. We also reimbursed NuStar GP, LLC for all direct public company costs and any other direct costs, such as outside legal and accounting fees, that NuStar GP, LLC incurred while providing services to us.

In connection with the termination of the Administration Agreement, NuStar Energy and NuStar GP, LLC entered into the GP Services Agreement, effective as of January 1, 2008. The GP Services Agreement provides that NuStar GP, LLC will furnish all administrative services necessary for the conduct of the business of NuStar Energy and NuStar Energy will reimburse NuStar GP, LLC for all costs, other than the expenses allocated to us (the Holdco Administrative Services Expense). For 2008, the Holdco Administrative Services Expense equaled \$750,000 plus 1.0% of NuStar GP, LLC's domestic bonus and unit compensation expense. The GP Services Agreement will terminate on December 31, 2012, with automatic two-year renewals unless terminated by either party upon six months' prior written notice. The aggregate amounts we incurred related to the Administration Agreement and the GP Services Agreement were \$0.9 million, \$0.5 million and \$0.3 million for the years ended December 31, 2008, 2007 and 2006, respectively.

***Services Agreement***

Prior to our separation from Valero Energy, the employees of NuStar GP, LLC were provided to NuStar Energy under the terms of various services agreements between us, NuStar Energy and Valero Energy. Valero Energy continued to provide certain services to NuStar Energy for all of 2007 under the terms of a services agreement dated December 22, 2006 (the 2007 Services Agreement). On April 16, 2007, Valero Energy exercised its option to terminate the 2007 Services Agreement. As a result, Valero Energy ceased providing services over a period of time sufficient to allow NuStar Energy to assume those functions in 2007. Additionally, since Valero Energy elected to terminate the 2007 Services Agreement prior to December 31, 2010, they paid NuStar Energy a termination fee of \$13.0 million in May 2007.

***Non-Compete Agreement***

On July 19, 2006, in connection with our IPO, we entered into a non-compete agreement with NuStar Energy (the Non-Compete Agreement). Under the Non-Compete Agreement, we will have a right of first refusal with respect to the potential acquisition of general partner and other equity interests in publicly traded partnerships under common ownership with the general partner interest. NuStar Energy has a right of first refusal with respect to the potential acquisition of assets that relate to the transportation, storage or terminalling of crude oil, feedstocks or refined petroleum products (including petrochemicals) in the United States and internationally. With respect to any other business opportunities, neither we nor NuStar Energy are prohibited from engaging in any business, even if we and NuStar Energy would have a conflict of interest with respect to such other business opportunity. The Non-Compete Agreement remains in effect for so long as we or any of our affiliates own 20% or more of NuStar GP, LLC or Riverwalk Logistics, L.P.

***Employee Benefits Transition Agreement***

Prior to July 1, 2006, the employees of NuStar GP, LLC were included in the various employee benefit plans of Valero Energy. These plans included a defined benefit pension plan, a retiree welfare benefit plan, a health and welfare benefit plan, a defined contribution retirement plan, equity incentive plans and nonqualified deferred compensation plans. Effective July 1, 2006, we entered into an Employee Benefits Transition Agreement with Valero Energy (the Transition Agreement). In accordance with the Transition Agreement and in connection with the IPO on July 19, 2006, employees of NuStar GP, LLC began participating in newly enacted, comparable plans sponsored by NuStar GP, LLC.

In connection with this transition, Valero Energy and certain of its subsidiaries transferred related liabilities and assets totaling \$7.9 million to NuStar GP, LLC. Under the Transition Agreement, Valero Energy agreed to provide the transition services and arrangements described therein until their respective completion or until specified cut-off dates in 2007.

**Table of Contents****NUSTAR GP HOLDINGS, LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. DISTRIBUTIONS FROM NUSTAR ENERGY**

NuStar Energy's partnership agreement, as amended, determines the amount and priority of cash distributions that NuStar Energy's common unitholders and general partner may receive. We, as NuStar Energy's general partner, are entitled to incentive distributions if the amount NuStar Energy distributes with respect to any quarter exceeds \$0.60 per unit, with the maximum percentage of 23% of the amount of any quarterly distribution in excess of \$0.66 per unit. We also receive a 2% distribution with respect to our general partner interest.

The following table reflects the allocation of NuStar Energy's cash distributions earned for the period indicated among its general and limited partners:

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	(Thousands of Dollars, Except Per Unit Data)		
General partner interest	\$ 5,058	\$ 4,092	\$ 3,742
General partner incentive distribution	25,294	18,426	14,778
<b>Total general partner distribution</b>	<b>30,352</b>	<b>22,518</b>	<b>18,520</b>
Limited partner distribution	41,827	39,205	36,794
<b>Total distributions to NuStar GP Holdings</b>	<b>72,179</b>	<b>61,723</b>	<b>55,314</b>
Public unitholders' distributions	180,643	142,871	131,721
<b>Total cash distributions</b>	<b>\$ 252,822</b>	<b>\$ 204,594</b>	<b>\$ 187,035</b>
Cash distributions per unit applicable to limited partners	\$ 4.085	\$ 3.835	\$ 3.600

In January 2009, NuStar Energy declared a quarterly cash distribution of \$1.0575 which was paid on February 12, 2009 to unitholders of record on February 5, 2009. This distribution related to the fourth quarter of 2008 and totaled \$65.8 million.

**7. FAIR VALUE MEASUREMENTS**

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements. Statement No. 157, as amended, defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measures. The FASB deferred the effective date of Statement No. 157 for one year for all nonfinancial assets and liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We have applied the recognition and disclosure provisions of Statement No. 157 for financial assets and liabilities and for nonfinancial assets and liabilities that are re-measured at least annually as of January 1, 2008.

Statement No. 157 establishes a fair value hierarchy, which segregates the inputs used in measuring fair value into three levels: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists.

The following liabilities are measured at fair value on a recurring basis as of December 31, 2008:



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	Level 1	Level 2	Level 3	Total
	(Thousands of Dollars)			
Accrued compensation expense:				
NuStar Energy restricted units	\$ 4,486	\$ -	\$ -	\$ 4,486
NuStar Energy unit options	-	1,556	-	1,556
Total	\$ 4,486	\$ 1,556	\$ -	\$ 6,042

The fair value of our liability for NuStar Energy restricted units is determined using the NuStar Energy unit price at the reporting date. The fair value of our liability for NuStar Energy unit option grants is determined using the Black-Scholes

**Table of Contents****NUSTAR GP HOLDINGS, LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

option-pricing model on the reporting date based on the expected life of options granted, expected volatility, expected dividend yield and the risk-free interest rate. As of December 31, 2007, accrued compensation expense related to NuStar Energy restricted units and unit options totaled \$3.7 million.

**8. CONSOLIDATED STATEMENTS OF CASH FLOWS**

Changes in current assets and liabilities were as follows:

	Year Ended December 31,		
	2008	2007	2006
	(Thousands of Dollars)		
Decrease (increase) in current assets:			
Accounts receivable	\$ (681)	\$ 534	\$ 1,214
Receivable from NuStar Energy	(3,441)	2,315	(1,741)
Income tax receivable	2,148	(2,870)	-
Prepaid expenses	12	(21)	(210)
Increase (decrease) in current liabilities:			
Accounts payable	169	171	(2)
Payable to NuStar Energy	(56)	1,337	-
Income taxes payable	-	(811)	800
Accrued compensation expense	2,472	896	727
Accrued liabilities	(161)	184	437
Taxes other than income taxes	(203)	1,111	-
<b>Changes in current assets and liabilities</b>	<b>\$ 259</b>	<b>\$ 2,846</b>	<b>\$ 1,225</b>

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

	Year Ended December 31,		
	2008	2007	2006
	(Thousands of Dollars)		
Cash paid for interest	\$ 230	\$ 38	\$ 10,390
Cash (refunded) paid for income taxes, net	(718)	3,581	37

Non-cash activities for the years ended December 31, 2008, 2007 and 2006 included:

SAB 51 credits/charges recognized in conjunction with NuStar Energy's issuance of common units;

Adjustments to our Investment in NuStar Energy and accumulated other comprehensive income through recognition of our proportionate share of NuStar Energy's accumulated other comprehensive income; and

Pension funding adjustments recognized in accumulated other comprehensive income.

**9. CREDIT FACILITY**

On July 19, 2006, we entered into a three-year revolving credit facility maturing on July 19, 2009 with a borrowing capacity of up to \$20 million (the Credit Facility). We fund capital contributions to NuStar Energy to maintain our 2% general partner interest as NuStar Energy issues additional units and meet other liquidity and capital resource requirements through borrowings under the Credit Facility.

The Credit Facility maintains that \$10 million may be available for letters of credit. Our obligations under the Credit Facility are unsecured. The Credit Facility contains customary covenants and provisions including limitations on indebtedness, liens, dispositions of material property, mergers and asset transfers. Borrowings under the Credit Facility bear interest, at our option, at either an alternative base rate or a LIBOR based rate, which was 1.8% as of December 31, 2008.

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**Table of Contents**

**NUSTAR GP HOLDINGS, LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Additionally, the Credit Facility contains customary events of default, including a change in control, that could result in the acceleration of all amounts and cancellation of all commitments outstanding under the Credit Facility. A change in control is defined to mean any of the following events: (i) we cease, indirectly or directly, to own all of the issued and outstanding equity interests of the general partner(s) of NuStar Energy, or we no longer have the power, directly or indirectly, to direct or to cause the direction of the management or the policies of NuStar Energy; or (ii) the occurrence of any transaction that results in any person or group, other than an entity with unsecured senior debt with an investment grade rating, becoming the beneficial owner of more than 50% of our equity interests.

On December 18, 2007, we amended the Credit Facility to conform to NuStar Energy's \$1.2 billion five-year revolving credit agreement dated December 10, 2007. Under the terms of the amended Credit Facility, NuStar Energy must maintain a total debt-to-EBITDA ratio of less than 5.0 to 1.0 for any four consecutive quarters, subject to adjustment following certain acquisitions. We are also required to receive cash distributions of at least \$25.0 million in respect of our ownership interests in NuStar Energy for the preceding four fiscal quarters ending on the last day of each fiscal quarter. Our management believes that we are in compliance with the ratio and covenants as of December 31, 2008.

In April 2008, we borrowed \$5.0 under the Credit Facility to fund our contribution to NuStar Energy in order to maintain our 2% general partner interest following NuStar Energy's issuance of common units. In the third quarter of 2008, we repaid \$1.5 million. As of December 31, 2008, we had outstanding borrowings of \$6.5 million and availability of \$13.5 million under the Credit Facility. The weighted average interest rate related to borrowings under the Credit Facility for the year ended December 31, 2008 was 3.2%.

We are discussing renewal of our Credit Facility with the two lenders under the Credit Facility.

**10. COMMITMENTS AND CONTINGENCIES**

***Litigation and Environmental Matters***

We are not currently a party to any material legal proceedings. However, NuStar Energy is subject to certain loss contingencies, the outcome of which could have an effect on NuStar Energy's results of operations and ability to pay distributions, which would impact our results of operations and ability to pay distributions. NuStar Energy's material contingent liabilities resulting from various litigation, claims and commitments are discussed below.

*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 final judgment of the trial court 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. In September 2008, Grace Energy filed its Joint Plan of Reorganization and Disclosure Statement. NuStar Energy has sought relief from the bankruptcy stay in order to pursue its appellate rights.

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 final judgment of the Texas state court assigning ownership of the Otis AFB pipeline to Kaneb, the U.S. Department of Justice (the DOJ) advised Kaneb in 2001 that it intends to seek reimbursement from Kaneb for the remediation costs associated with the two plumes. In November 2008, the DOJ forwarded information to NuStar Energy indicating that the past and estimated future remediation expenses associated with one plume are \$71.9 million. The DOJ has indicated that they will not seek recovery of remediation costs for the second plume. The DOJ has not filed a lawsuit against NuStar Energy related to this matter and NuStar Energy has not made any payments toward costs

incurred by the DOJ.

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**Table of Contents**

**NUSTAR GP HOLDINGS, LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Eres Matter.* In August 2008, Eres N.V. (Eres) forwarded a demand for arbitration to CITGO Asphalt Refining Company (CARCO), CITGO Petroleum Corporation (CITGO), NuStar Asphalt Refining, LLC (NuStar Asphalt) and NuStar Marketing LLC (NuStar Marketing, and together with CARCO, CITGO and NuStar Asphalt, the Defendants) contending that the Defendants are in breach of a tanker voyage charter party agreement, dated November 2004, between Eres and CARCO (the Charter Agreement). The Charter Agreement provides for CARCO's use of Eres' vessels for the shipment of asphalt. Eres contends that NuStar Asphalt and/or NuStar Marketing assumed the Charter Agreement when NuStar Asphalt purchased the CARCO assets, and that the Defendants have failed to perform under the Charter Agreement since January 1, 2008. CARCO has demanded that NuStar Asphalt and NuStar Marketing defend and indemnify it against Eres' claims and has filed a lawsuit in the Harris County District Court, Harris County, Texas, seeking to recover on its indemnity claim. This lawsuit has been removed and is currently pending in the U.S. District Court for the Southern District of Texas. In connection with the demand for arbitration, Eres filed a complaint in the U.S. District Court for the Southern District of New York (SDNY) seeking to require the Defendants to arbitrate the dispute and seeking to attach the banking funds of CARCO and NuStar Asphalt (including cash, escrow funds, credits, debts, wire transfers, electronic funds transfers, accounts, letters of credit, freights and charter hire) within the SDNY in amounts of approximately \$78.1 million pending resolution of arbitration between Eres and the Defendants. To date, no funds of NuStar Asphalt have been attached. NuStar Energy intends to vigorously defend against these claims.

*Department of Justice Matter.* In February 2008, the DOJ advised NuStar Energy that the EPA has requested that the DOJ initiate a lawsuit against NuStar Pipeline Operating Partnership L.P. (NuPOP) for violations of the Clean Water Act for (a) failing to prepare adequate Facility Response Plans, as required by Section 311(j)(5) of the Clean Water Act, 33 U.S.C. §1321(j), for certain of its pipeline terminals located in Region VII by August 30, 1994, and (b) maintaining Spill Prevention, Control and Countermeasure (SPCC) plans at the terminal that deviate from the SPCC regulations, 40 C.F.R. §112.3. A Facility Response Plan is a plan for responding to a worst case discharge, and to a substantial threat of such a discharge, of oil or hazardous substances. The SPCC rule requires specific facilities to prepare, amend and implement plans to prevent, prepare and respond to oil discharges to navigable waters and adjoining shorelines. NuStar Energy is currently in settlement negotiations with the DOJ to resolve these matters.

*EPA Investigation.* In November 2006, agents of the U.S. Environmental Protection Agency (the EPA) presented a search warrant issued by a U.S. District Court at a terminal owned by Shore Terminals, LLC (Shore), a wholly owned subsidiary of NuPOP. Since then, NuStar Energy and Shore have been served with additional subpoenas. The search warrant and subpoenas all sought information regarding allegations of potential illegal conduct by Shore, certain of its affiliates and/or its employees concerning compliance with certain environmental and safety laws and regulations. NuStar Energy has cooperated fully with the U.S. Attorney and the EPA in producing documents in response to the subpoenas. Although the U.S. Attorney has indicated that they intend to seek criminal penalties and fines as a result of alleged violations of environmental laws at the terminal, NuStar Energy is currently in negotiations with the U.S. Attorney and the EPA to resolve this matter. There can be no assurances that the conclusion of the U.S. Attorney's and the EPA's investigation will not result in a determination that Shore violated applicable laws. If Shore is found to have violated such laws, NuStar Energy could be subject to fines, civil penalties and criminal penalties. A final determination that Shore violated applicable laws could, among other things, result in debarment from future federal government contracts.

NuStar Energy is also a party to additional claims and legal proceedings arising in the ordinary course of its business. 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 NuStar Energy's results of operations, financial position or liquidity. It is possible that if one or more of the matters described above were decided against NuStar Energy, the effects could be material to its results of operations in the period in which it would be required to record or adjust the related liability and could also be material to its cash flows in the periods it would be required to pay such liability.

***Commitments***

As of December 31, 2008, our future minimum payments applicable to noncancellable purchase obligations are \$0.2 million for 2009. Our purchase obligations relate to usage fees for payroll and other employee related systems. We have no future minimum rental payments applicable to noncancellable operating leases as of December 31, 2008.

**Table of Contents****NUSTAR GP HOLDINGS, LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. MEMBERS EQUITY AND NET INCOME PER UNIT**

On June 28, 2006, our existing membership interests were represented by 10,000,000 units. In connection with our IPO on July 19, 2006, a 4.25-for-1 unit split was effected, resulting in total outstanding units of 42,500,000, with the members of NuStar GP Holdings maintaining their ownership percentages after the unit split. Prior to June 28, 2006, we had no outstanding units. Our net income per unit amounts assume that 42,500,000 units were outstanding for all periods prior to June 28, 2006.

We calculate basic net income per unit by dividing net income by the weighted average number of units outstanding for the period. Diluted net income per unit is calculated by dividing net income by the weighted average number of units outstanding and the effect of unit options and non-vested restricted units granted under the NuStar GP Holdings 2006 Long-Term Incentive Plan calculated using the treasury stock method. Net income per unit amounts were computed as follows:

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	(Thousands of Dollars, Except Unit and Per Unit data)		
<b>Basic Net Income per Unit:</b>			
Net income	\$ 66,296	\$ 43,340	\$ 30,718
Weighted average number of basic units outstanding	42,501,586	42,500,355	42,500,000
Basic net income per unit	\$ 1.56	\$ 1.02	\$ 0.72
<b>Diluted Net Income per Unit:</b>			
Net income	\$ 66,296	\$ 43,340	\$ 30,718
Weighted average number of basic units outstanding	42,501,586	42,500,355	42,500,000
Effect of dilutive securities	7,628	1,712	581
Weighted average number of diluted units outstanding	42,509,214	42,502,067	42,500,581
Diluted net income per unit	\$ 1.56	\$ 1.02	\$ 0.72

During the year ended December 31, 2008, 2,794 units vested related to restricted unit grants held by our non-employee board of directors.

The computation of diluted net income per unit for the years ended December 31, 2008 and 2007 excludes 324,100 unit options outstanding with an exercise price above market, as their effect would be anti-dilutive. No unit options were granted prior to the fourth quarter of 2007.

**Cash Distributions**

Our limited liability company agreement requires that, within 50 days after the end of each quarter, we distribute all of our available cash to the holders of record of our units on the applicable record date. Available cash is defined as all cash on hand at the end of any calendar quarter less

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the amount of cash reserves necessary or appropriate, as determined in good faith by our board of directors. The table set forth below shows our cash distributions paid related to the periods shown:

	Year Ended December 31,		
	2008	2007	2006 (a)
	(Thousands of Dollars, Except Per Unit Data)		
Cash distributions per unit	\$ 1.58	\$ 1.38	\$ 0.58
Total cash distributions	\$ 67,153	\$ 58,650	\$ 27,200



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**Table of Contents**

**NUSTAR GP HOLDINGS, LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- (a) The reported distribution per unit for the period between the closing of our initial public offering on July 19, 2006 and December 31, 2006 is prorated based on the actual number of days we were public and distributions of \$0.64 per unit. For the period from July 1 to July 18, 2006, Valero Energy received 100% of our distributions. NuStar GP Holdings did not declare cash distributions on a per unit basis prior to the third quarter of 2006.

In January 2009, our board of directors declared a quarterly cash distribution of \$0.43 per unit related to the fourth quarter of 2008. This distribution was paid on February 17, 2009 to unitholders of record on February 5, 2009 and totaled \$18.3 million.

***Second Amended and Restated Limited Liability Company Agreement***

On July 19, 2006, in connection with our IPO, we amended and restated our limited liability company agreement (the Second Amended and Restated Limited Liability Company Agreement). The material provisions of the Second Amended and Restated Limited Liability Company Agreement include the distributions of available cash, rights of unitholders, the election of members of our board of directors and allocations of taxable income and other matters.

***Rights Agreement***

On July 19, 2006, we entered into a rights agreement with Computershare Investor Services, LLC, as amended effective February 28, 2008 (the Rights Agreement), under which one preferred unit purchase right (a Right) is attached to each of our outstanding units. The Rights become exercisable under specified circumstances, including if any person or group (an acquiring person) becomes the beneficial owner of 15% or more of our outstanding units, subject to specified exceptions. Each Right entitles the registered holder to purchase from us one one-hundredth of a unit of junior participating preferred units, series I, (Preferred Units) at an exercise price of \$100, subject to adjustment under specified circumstances. If events specified in the Rights Agreement occur, each holder of Rights other than the acquiring person can exercise their Rights. When a holder exercises a Right, the holder will be entitled to receive units valued at a multiple of the exercise price of the Right specified in the Rights Agreement. In some cases, the holder will receive cash, property or other securities instead of units. We may redeem the Rights for \$0.001 per Right at any time prior to the tenth day after a person or group becomes an acquiring person.

The Rights will expire on June 30, 2016, unless extended or earlier redeemed or exchanged, and are protected by customary anti-dilution provisions. Preferred Units purchasable upon exercise of the Rights will not be redeemable. Each Preferred Unit will be entitled to share in our distributions of available cash pro rata with the units. In the event of liquidation, the holders of the Preferred Units will be entitled to a minimum preferential liquidation payment of \$100 per unit. Each Preferred Unit will have 100 votes, voting together with the units. Finally, in the event of any merger, consolidation or other transaction in which units are exchanged, each Preferred Unit will be entitled to receive 100 times the amount received per unit.

**12. EMPLOYEE BENEFIT PLANS AND UNIT-BASED COMPENSATION**

***The NuStar GP, LLC Thrift Plan***

The NuStar GP, LLC Thrift Plan (the Thrift Plan) is a qualified employee profit-sharing plan that became effective June 26, 2006. Participation in the Thrift Plan is voluntary and is open to substantially all of NuStar GP, LLC employees who become eligible to participate upon date of hire. Thrift Plan participants can make basic contributions from 1% up to 30% of their total annual compensation. The maximum match by NuStar GP, LLC is 75% of each participant's basic contributions up to 8% based on the participant's total annual compensation. Effective January 1, 2008, the Thrift Plan was amended to comply with changes to Internal Revenue Code Section 409A (Section 409A) and change the maximum match by NuStar GP, LLC to 100% of each participant's total contribution up to 6% based on the participant's total annual compensation. Our contribution to the Thrift Plan for the years ended December 31, 2008, 2007 and 2006 totaled \$4.7 million, \$3.5 million and \$1.5 million, respectively. The Thrift Plan was further amended effective January 1, 2009 to require temporary employees to complete one year of service in order to participate in the Thrift Plan (temporary employees and year of service, each as defined in the Thrift Plan).

NuStar GP, LLC also has an excess thrift plan (the Excess Thrift Plan) which became effective July 1, 2006 and provides benefits to a select group of management or other highly compensated employees. The Excess Thrift Plan provides benefits to those employees of NuStar GP, LLC whose annual additions under the Thrift Plan are subject to the limitations under the Internal Revenue Code (Code). The Excess Thrift Plan was

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amended effective January 1, 2008 to comply with changes to Section 409A.

**Table of Contents**

**NUSTAR GP HOLDINGS, LLC**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Pension and Other Postretirement Benefits***

The NuStar Pension Plan (the Pension Plan) is a qualified non-contributory defined benefit plan that became effective July 1, 2006. The Pension Plan covers substantially all of NuStar GP, LLC's employees and generally provides eligible employees with retirement income based on years of service and compensation during the period of service. Employees may become eligible to receive benefits after five years of service, which includes service recognized by Valero Energy for vesting purposes under the Valero Energy pension plan. All benefit obligations associated with service for certain employees who were participants in the Valero Energy pension plan through June 30, 2006, including the effect of future salary increases, are the responsibility of Valero Energy. All benefit obligations related to service by NuStar GP, LLC employees on or after July 1, 2006 will be covered by the Pension Plan. Effective January 1, 2008, the plan was amended to change the name of the plan and to comply with changes to Section 409A. The Pension Plan was further amended effective January 1, 2009 to require employees to complete one year of service, as defined in the Pension Plan, in order to participate in the Pension Plan.

NuStar GP, LLC also has an excess pension plan (the Excess Pension Plan) and a supplemental executive retirement plan (the SERP) that provide benefits to a select group of management or other highly compensated employees of NuStar GP, LLC. The Excess Pension Plan and SERP were each amended effective January 1, 2008 to comply with changes to Section 409A.

None of the Excess Thrift Plan, the Excess Pension Plan or the SERP is intended to constitute either a qualified plan under the provisions of Section 401 of the Code or a funded plan subject to ERISA.

NuStar GP, LLC also provides a post retirement medical benefits plan for retired employees, referred to as other postretirement benefits.

NuStar Energy reimbursed and will continue to reimburse all costs incurred by us related to these employee benefit plans at cost. Our current and noncurrent liabilities for these employee benefits are included in Accrued compensation expense and Employee benefit plan liabilities, respectively, on our consolidated balance sheets. Effective January 1, 2008, in compliance with Section 409A, the Excess Pension Plan and the SERP were amended to provide that all benefits under those plans will be paid in a single lump-sum payment.

The Pension Plan, Excess Pension Plan and SERP are collectively referred to as the Pension Plans in the tables and discussion below. We use December 31 as the measurement date for our pension and other postretirement plans.

**Table of Contents****NUSTAR GP HOLDINGS, LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The changes in the benefit obligation, the changes in fair value of plan assets, the funded status and the amounts recognized in our consolidated balance sheet for our Pension Plans and other postretirement benefit plans as of and for the years ended December 31, 2008 and 2007 were as follows:

	Pension Plans		Other Postretirement Benefit Plans	
	2008	2007	2008	2007
	(Thousands of Dollars)			
<b>Change in benefit obligation:</b>				
Benefit obligation, January 1	\$ 11,152	\$ 5,041	\$ 6,934	\$ 7,142
Service cost	7,293	7,728	593	564
Interest cost	750	286	523	411
Acquisition	-	-	1,025	-
Plan amendments	-	(175)	-	-
Benefits paid	(1,034)	(103)	(5)	-
Participants contributions	-	-	3	-
Actuarial loss (gain)	920	(1,625)	778	(1,183)
Benefit obligation, December 31	\$ 19,081	\$ 11,152	\$ 9,851	\$ 6,934
<b>Change in plan assets:</b>				
Plan assets at fair value, January 1	\$ 11,877	\$ 2,488	\$ -	\$ -
Actual return on plan assets	(3,526)	292	-	-
Company contributions	7,992	9,200	2	-
Benefits paid	(1,034)	(103)	(5)	-
Participants contributions	-	-	3	-
Plan assets, December 31	\$ 15,309	\$ 11,877	\$ -	\$ -
<b>Reconciliation of funded status:</b>				
Fair value of plan assets at December 31	\$ 15,309	\$ 11,877	\$ -	\$ -
Less: Benefit obligation at December 31	19,081	11,152	9,851	6,934
Funded status at December 31	(3,772)	725	(9,851)	(6,934)
Unrecognized net loss (gain)	4,369	(1,052)	214	(564)
Prepaid (accrued) benefit cost	\$ 597	\$ (327)	\$ (9,637)	\$ (7,498)
<b>Amounts recognized in the consolidated balance sheets:</b>				
Other assets	\$ -	\$ 3,204	\$ -	\$ -
Accrued compensation expense	(20)	(28)	(36)	(18)
Employee benefit plan liabilities	(3,752)	(2,451)	(9,815)	(6,916)
Net pension (liability) asset	\$ (3,772)	\$ 725	\$ (9,851)	\$ (6,934)



**Table of Contents****NUSTAR GP HOLDINGS, LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The components of net periodic benefit cost related to our Pension Plans and other postretirement benefit plans, which are reimbursed to us by NuStar Energy, were as follows:

	Pension Plans			Other Postretirement Benefit Plans		
	Year Ended December 31,			Year Ended December 31,		
	2008	2007	2006	2008	2007	2006
(Thousands of Dollars)						
Components of net periodic benefit cost:						
Service cost	\$ 7,293	\$ 7,728	\$ 3,177	\$ 593	\$ 564	\$ 242
Interest cost	750	286	44	523	411	190
Expected return on assets	(992)	(311)	-	-	-	-
Amortization of net loss	17	21	9	-	-	-
Net periodic benefit cost	\$ 7,068	\$ 7,724	\$ 3,230	\$ 1,116	\$ 975	\$ 432

Amounts related to our pension plans and other postretirement benefit plans recorded as a component of accumulated other comprehensive income were as follows:

	Pension Plans			Other Postretirement Benefit Plans		
	December 31,			December 31,		
	2008	2007	2006	2008	2007	2006
(Thousands of Dollars)						
Unrecognized actuarial (loss) gain	\$ (4,526)	\$ 877	\$ (750)	\$ (214)	\$ 564	\$ (619)
Prior service credit	157	175	-	-	-	-
Deferred tax asset (liability)	1,626	(358)	292	78	(210)	242
Accumulated other comprehensive (loss) income, net of tax	\$ (2,743)	\$ 694	\$ (458)	\$ (136)	\$ 354	\$ (377)

As of December 31, 2008, 2007 and 2006, the balance of accumulated other comprehensive income that had not been recognized as a component of net periodic benefit cost related to the respective unrecognized actuarial (loss) gain and prior service credit, net of deferred taxes, is shown in the table above. In 2009, we expect to recognize \$132,000 of the unrecognized actuarial loss and \$18,000 of prior year service credit as components of periodic benefit cost.

The aggregate accumulated benefit obligation for our Pension Plans as of December 31, 2008 and 2007 was \$12.9 million and \$7.3 million, respectively.

The aggregate projected benefit obligation, accumulated benefit obligation and fair value of plan assets for our pension plans with an accumulated benefit obligation in excess of plan assets, were as follows:

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	December 31,	
	2008	2007
Projected benefit obligation	\$ 2,736	\$ 2,479
Accumulated benefit obligation	1,425	1,325
Fair value of plan assets	-	-

**Table of Contents****NUSTAR GP HOLDINGS, LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The allocations of plan assets for the Pension Plan were as follows:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Equity securities	64%	63%
Fixed income securities	35%	37%
Cash equivalent securities	1%	-

There were no plan assets for the Excess Pension Plan, SERP or other postretirement benefit plans as of December 31, 2008 and 2007.

The investment policies and strategies for the assets of our qualified Pension Plan incorporate a well-diversified approach which is expected to earn long-term returns from capital appreciation and a growing stream of current income. This approach recognizes that assets are exposed to risk, and the market value of the Pension Plan's assets may fluctuate from year to year. Risk tolerance is determined based on NuStar Energy's financial ability to withstand risk within the investment program and the willingness to accept return volatility. In line with the investment return objective and risk parameters, the Pension Plan's mix of assets includes a diversified portfolio of equity and fixed-income instruments. The aggregate asset allocation is reviewed on an annual basis and we believe that the allocation as of December 31, 2008 was in line with our target.

The overall expected long-term rate of return on plan assets for the Pension Plan is estimated using models of asset returns. Model assumptions are derived using historical data given the assumption that capital markets are informationally efficient. Three models are used to derive the long-term expected returns for each asset class. Since each method has distinct advantages and disadvantages and differing results, an equal weighted average of the methods' results is used.

During 2008, we contributed \$7.2 million to the Pension Plan. We estimate our minimum required contribution to the Pension Plan during 2009 will be \$9.0 million under the Employee Retirement Income Security Act, which we expect to contribute to the Pension Plan during 2009. Since costs incurred by us related to the Pension Plan and our other postretirement benefit plan are reimbursed by NuStar Energy, funding for these plans will primarily be provided by NuStar Energy.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid for the years ending December 31:

	<b>Pension Plans</b>	<b>Other Postretirement Benefit Plans</b>
	(Thousands of Dollars)	
2009	\$ 476	\$ 36
2010	794	74
2011	1,125	126
2012	1,563	197
2013	1,914	293
Years 2014-2018	23,351	3,987

We do not expect to receive a Medicare Prescription Drug Act subsidy.



**Table of Contents****NUSTAR GP HOLDINGS, LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The weighted average assumptions used to determine the benefit obligations were as follows:

	<b>Other Postretirement</b>			
	<b>Pension Plans</b>		<b>Benefit Plans</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Discount rate	7.13%	6.82%	7.11%	6.80%
Rate of compensation increase	5.46%	5.56%	n/a	n/a

The discount rate assumption used to determine the pension obligations at December 31, 2008 and December 31, 2007 were based on a hypothetical yield curve represented by a series of annualized individual discount rates. Each bond issue underlying the hypothetical yield curve required a minimum rating of AA or better by Moody Investor Service, Inc. or a rating of AA or better by Standard & Poor's. The weighted average assumptions used to determine the net periodic benefit cost were as follows:

	<b>Other Postretirement</b>					
	<b>Pension Plans</b>			<b>Benefit Plans</b>		
	<b>Year Ended December 31,</b>			<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Discount rate	6.82%	5.75%	6.25%	6.80%	5.75%	6.25%
Expected long-term rate of return on plan assets	7.50%	7.50%	7.50%	n/a	n/a	n/a
Rate of compensation increase	5.56%	6.00%	6.00%	n/a	n/a	n/a

The assumed health care cost trend rates were as follows:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Health care cost trend rate assumed for next year	7.93%	8.42%
Rate to which the cost trend rate was assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reached the ultimate trend rate	2015	2015

Assumed health care cost trend rates have a significant effect on the amounts reported for health care plans. We sponsor a contributory postretirement health care plan. The plan has an annual limitation (a cap) on the increase of the employer's share of the cost of covered benefits. The cap on the increase in employer's cost is 2.5% per year. The assumed increase in total health care cost exceeds the 2.5% indexed cap, so increasing or decreasing the health care cost trend rate by 1% does not materially change our obligation or expense for the postretirement health care plan.

**Long-Term Incentive Plans**

As of December 31, 2008, we had the following long-term incentive plans:

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The Second Amended and Restated 2000 Long-Term Incentive Plan (the 2000 LTIP), under which NuStar GP, LLC may award up to 1,500,000 NuStar Energy (NS) common units. Awards under the 2000 LTIP can include NS unit options, restricted units, performance awards, distribution equivalent rights (DERs) and contractual rights to receive common units.

The 2002 Unit Option Plan (the UOP) under which NuStar GP, LLC may award up to 200,000 NS unit options to officers and directors of NuStar GP, LLC or its affiliates.

**Table of Contents****NUSTAR GP HOLDINGS, LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The 2003 Employee Unit Incentive Plan (the UIP) under which NuStar GP, LLC may award up to 500,000 NS common units to employees of NuStar GP, LLC or its affiliates, excluding officers and directors of NuStar GP, LLC and its affiliates. Awards under the UIP can include NS unit options, restricted units and distribution equivalent rights (DERs).

The 2006 Long-Term Incentive Plan (the 2006 LTIP) under which NuStar GP Holdings may award up to 2,000,000 NuStar GP Holdings (NSH) units to our employees, consultants and directors who perform services for us or our affiliates. Awards under the 2006 LTIP can include NSH unit options, performance units, restricted units, phantom units, unit grants and unit appreciation rights. We purchase NuStar Energy (NS) common units as needed to satisfy awards granted under the 2000 LTIP, the UOP and the UIP.

The number of awards granted under the above-noted plans were as follows:

	Year Ended December 31,					
	2008		2007		2006	
	Granted	Vesting	Granted	Vesting	Granted	Vesting
<b>2000 LTIP:</b>						
Performance awards	14,470	(a)	10,840	(a)	8,940	(a)
Unit options	10,670	1/5 per year	204,675	1/5 per year	203,975	1/5 per year
Restricted units	236,868	1/5 per year	117,575	1/5 per year	51,140	1/5 per year
Restricted units (grants to non-employee directors of NuStar GP, LLC)	5,625	1/3 per year	3,510	1/3 per year	2,307	1/3 per year
<b>UIP:</b>						
Unit options	795	1/5 per year			15,200	1/5 per year
Restricted units	13,795	1/5 per year	12,730	1/5 per year	9,740	1/5 per year
<b>2006 LTIP:</b>						
Restricted units	30,300	1/5 per year				
Restricted units (grants to non-employee directors of NuStar GP Holdings) (b)	10,308	1/3 per year	5,489	1/3 per year	2,886	1/3 per year
Unit Options			324,100	(c)		

- (a) Performance awards vest 1/3 per year if certain performance measures are met as defined in the award agreements.
- (b) Expenses resulting from our awards to non-employee directors are not reimbursed by NuStar Energy and are included in general and administrative expenses on our consolidated statements of income.
- (c) Unit options granted at \$31.55 under the 2006 LTIP vest in annual one-third increments beginning on the third anniversary of the grant date, all of which were outstanding as of December 31, 2008.

As of December 31, 2008 and 2007, we had accrued \$6.0 million and \$3.7 million, respectively, for the outstanding awards of NS unit options, performance awards and restricted units in Accrued compensation expense on our consolidated balance sheets. As of December 31, 2008, NS common units that remained available to be awarded totaled 471,117 under the 2000 LTIP and 259,719 under the UIP. Substantially all approved awards under the UOP have been granted as of December 31, 2008. NSH units that remained available totaled 1,627,029 under the 2006 LTIP as of December 31, 2008.

**Table of Contents****NUSTAR GP HOLDINGS, LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes information pertaining to long-term incentive plan compensation expenses:

	Year Ended December 31,		
	2008	2007	2006
	(Thousands of Dollars)		
Long-term incentive plan compensation expense charged to NuStar Energy	\$ 5,254	\$ 3,833	\$ 2,404
Expenses resulting from NuStar GP Holdings awards to non-employee directors	392	28	60

**Unit Options**

Under the terms of our various unit option plans, the exercise price of options granted is not less than the fair market value of our common units on the date of grant. Options become exercisable pursuant to the individual written agreements between the participants and us, usually in five equal annual installments beginning at the date of grant, with unexercised options generally expiring seven to ten years from the date of grant.

The fair value of each unit option grant was estimated using the Black-Scholes option-pricing model on the valuation date for NS unit options and on the grant date for NSH unit options. The expected life of options granted is the period of time from the valuation date for NS unit options and from the grant date for NSH unit options to the date of expected exercise or other expected settlement. Expected volatility for NS unit options is based on closing prices of NuStar Energy's common units for periods corresponding to the life of options granted. Expected volatility for NSH unit options is based on closing prices of NSH common units for periods corresponding to the life of options granted. Expected dividend yield is based on annualized dividends at the valuation date for NS unit options and at the grant date for NSH unit options. The risk-free interest rate used is the implied yield currently available from the U.S. Treasury zero-coupon issues with a remaining term equal to the expected life of the options at the valuation date for NS unit options and at the grant date for NSH unit options.

A summary of the weighted-average assumptions used to determine our liability for NS unit options is presented in the table below:

	NS Unit Options	
	December 31,	
	2008	2007
Expected life in years	6.2	6.2
Expected volatility	46.4%	17.8%
Expected distribution yield	10.0%	7.1%
Risk-free interest rate	0.9%	3.1%

No NSH unit options were granted for the years ended December 31, 2008 and 2006. A summary of the weighted-average assumptions used in our grant date fair value measurements is presented in the table below:

	NSH Unit Options	
	Year Ended December 31,	
	2007	
Expected life in years	5.0	
Expected volatility	35.1%	
Expected distribution yield	4.3%	
Risk-free interest rate	3.3%	



**Table of Contents****NUSTAR GP HOLDINGS, LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. INCOME TAXES**

Components of income tax benefit (expense) were as follows:

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	(Thousands of Dollars)		
<b>Current:</b>			
U.S. federal	\$ (1,362)	\$ 74	\$ (951)
U.S. state	(65)	27	(236)
<b>Total current</b>	<b>(1,427)</b>	<b>101</b>	<b>(1,187)</b>
<b>Deferred:</b>			
U.S. federal	1,456	(5)	1,031
U.S. state	69	(74)	(134)
<b>Total deferred</b>	<b>1,525</b>	<b>(79)</b>	<b>897</b>
<b>Total income tax benefit (expense)</b>	<b>\$ 98</b>	<b>\$ 22</b>	<b>\$ (290)</b>

The difference between income tax expense recorded in our consolidated statements of income and income taxes computed by applying the statutory federal income tax rate (35% for all years presented) to income before income tax expense is due to the fact that the majority all of our income is not subject to federal income tax due to our status as a limited liability company.

The tax effects of significant temporary differences representing deferred income tax assets and liabilities were as follows:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(Thousands of Dollars)	
<b>Deferred income tax assets:</b>		
Share/option compensation	\$ 2,512	\$ 1,464
Pension	1,633	-
Other employee benefits	1,122	437
Other state	264	73
<b>Deferred income tax assets</b>	<b>5,531</b>	<b>1,974</b>
<b>Deferred income tax liabilities:</b>		
Investment in Riverwalk Logistics, L.P. and NuStar Energy	(208)	(204)
Pension	-	(245)
<b>Total net deferred income tax assets</b>	<b>\$ 5,323</b>	<b>\$ 1,525</b>

The realization of deferred income tax assets recorded as of December 31, 2008 is dependent upon our ability to generate future taxable income in the United States. We believe that it is more likely-than-not that the deferred tax assets as of December 31, 2008 will be realized, based upon

expected future taxable income and potential tax planning strategies.

**Table of Contents****NUSTAR GP HOLDINGS, LLC****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****14. QUARTERLY FINANCIAL DATA (UNAUDITED)**

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Total</b>
	(Thousands of Dollars, Except Per Unit Data)				
<b>2008:</b>					
Net income	\$ 15,003	\$ 5,780	\$ 34,810	\$ 10,703	\$ 66,296
Basic and diluted net income per unit	0.35	0.14	0.82	0.25	1.56
Cash distributions per unit applicable to limited partners	0.36	0.36	0.43	0.43	1.58
<b>2007:</b>					
Net income	\$ 8,771	\$ 11,248	\$ 14,084	\$ 9,237	\$ 43,340
Basic and diluted net income per unit	0.21	0.26	0.33	0.22	1.02
Cash distributions per unit applicable to limited partners	0.32	0.34	0.36	0.36	1.38



**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors of

NuStar GP, LLC and Unitholders of NuStar Energy L.P.:

We have audited the accompanying consolidated balance sheets of NuStar Energy L.P. and subsidiaries (a Delaware limited partnership) (the Partnership) as of December 31, 2008 and 2007, and the related consolidated statements of income, partners' equity and cash flows for each of the years in the three-year period ended December 31, 2008. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of NuStar Energy L.P. and subsidiaries as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), NuStar Energy L.P. and subsidiaries' internal control over financial reporting as of December 31, 2008, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2009 expressed an unqualified opinion on the effectiveness of the Partnership's internal control over financial reporting.

/s/ KPMG LLP

San Antonio, Texas

February 27, 2009

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**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors of

NuStar GP, LLC and Unitholders of NuStar Energy L.P.:

We have audited NuStar Energy L.P. and subsidiaries (a Delaware limited partnership) (the Partnership) internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Partnership's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Partnership's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, NuStar Energy L.P. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control - Integrated Framework issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of NuStar Energy L.P. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of income, partners' equity and cash flows for each of the years in the three-year period ended December 31, 2008, and our report dated February 27, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

San Antonio, Texas

February 27, 2009

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Thousands of Dollars, Except Unit Data)

	December 31,	
	2008	2007
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 45,375	\$ 89,838
Accounts receivable, net of allowance for doubtful accounts of \$1,174 and \$365 as of December 31, 2008 and 2007, respectively	178,216	130,354
Receivable from related party	-	786
Inventories	220,574	88,532
Other current assets	42,321	37,624
<b>Total current assets</b>	<b>486,486</b>	<b>347,134</b>
Property, plant and equipment, at cost	3,507,573	2,944,116
Accumulated depreciation and amortization	(565,749)	(452,030)
Property, plant and equipment, net	2,941,824	2,492,086
Intangible assets, net	51,704	47,762
Goodwill	806,330	785,019
Investment in joint ventures	68,813	80,366
Deferred income tax asset	12,427	10,622
Other long-term assets, net	92,013	20,098
<b>Total assets</b>	<b>\$ 4,459,597</b>	<b>\$ 3,783,087</b>
<b>Liabilities and Partners Equity</b>		
Current liabilities:		
Current portion of long-term debt	\$ 713	\$ 663
Accounts payable	145,963	163,309
Payable to related party	3,441	-
Notes payable	22,120	-
Accrued interest payable	22,496	17,725
Accrued liabilities	37,454	47,189
Taxes other than income taxes	15,333	10,157
Income taxes payable	4,504	3,442
<b>Total current liabilities</b>	<b>252,024</b>	<b>242,485</b>
Long-term debt, less current portion	1,872,015	1,445,626
Long-term payable to related party	6,645	5,684
Deferred income tax liability	27,370	34,196
Other long-term liabilities	94,546	60,264
Commitments and contingencies (Note 15)		
Partners equity:		
Limited partners (54,460,549 and 49,409,749 common units outstanding as of December 31, 2008 and 2007, respectively)	2,173,462	1,926,126

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General partner	47,801	41,819
Accumulated other comprehensive income	(14,266)	26,887
Total partners' equity	2,206,997	1,994,832
Total liabilities and partners' equity	\$ 4,459,597	\$ 3,783,087

See Notes to Consolidated Financial Statements.

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME**

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

	Year Ended December 31,		
	2008	2007	2006
<b>Revenues:</b>			
Services revenues:			
Third parties	\$ 740,630	\$ 696,623	\$ 375,174
Related party	-	-	260,980
Total services revenues	740,630	696,623	636,154
Product sales	4,088,140	778,391	501,107
<b>Total revenues</b>	<b>4,828,770</b>	<b>1,475,014</b>	<b>1,137,261</b>
<b>Costs and expenses:</b>			
Cost of product sales	3,864,310	742,972	466,276
Operating expenses:			
Third parties	326,957	264,024	218,017
Related party	115,291	93,211	94,587
Total operating expenses	442,248	357,235	312,604
General and administrative expenses:			
Third parties	31,442	30,213	13,033
Related party	44,988	37,702	32,183
Total general and administrative expenses	76,430	67,915	45,216
Depreciation and amortization expense	135,709	114,293	100,266
<b>Total costs and expenses</b>	<b>4,518,697</b>	<b>1,282,415</b>	<b>924,362</b>
<b>Operating income</b>	<b>310,073</b>	<b>192,599</b>	<b>212,899</b>
Equity earnings from joint ventures	8,030	6,833	5,882
Interest expense, net	(90,818)	(76,516)	(66,266)
Other income, net	37,739	38,830	3,252
<b>Income from continuing operations before income tax expense</b>	<b>265,024</b>	<b>161,746</b>	<b>155,767</b>
Income tax expense	11,006	11,448	5,861
<b>Income from continuing operations</b>	<b>254,018</b>	<b>150,298</b>	<b>149,906</b>
<b>Loss from discontinued operations, net of income tax</b>	<b>-</b>	<b>-</b>	<b>(376)</b>
<b>Net income</b>	<b>254,018</b>	<b>150,298</b>	<b>149,530</b>
Less net income applicable to general partner	(29,350)	(21,063)	(16,910)
<b>Net income applicable to limited partners</b>	<b>\$ 224,668</b>	<b>\$ 129,235</b>	<b>\$ 132,620</b>

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<b>Income (loss) per unit applicable to limited partners:</b>				
Continuing operations	\$	4.22	\$ 2.74	\$ 2.84
Discontinued operations		-	-	(0.01)
Net income	\$	4.22	\$ 2.74	\$ 2.83
Weighted average number of basic units outstanding		53,182,741	47,158,790	46,809,749

See Notes to Consolidated Financial Statements.

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Thousands of Dollars)

	Year Ended December 31,		
	2008	2007	2006
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ 254,018	\$ 150,298	\$ 149,530
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization expense	135,709	114,293	100,266
Amortization of debt related items	(6,447)	(5,516)	(5,210)
Gain on sale or disposition of assets	(26,456)	(8,356)	(388)
Provision (benefit) for deferred income taxes	37	276	(74)
Equity earnings from joint ventures	(8,030)	(6,833)	(5,969)
Distributions of equity earnings from joint ventures	2,835	544	5,155
Changes in current assets and current liabilities (Note 22)	133,017	(21,326)	10,695
Other, net	498	(708)	(3,194)
<b>Net cash provided by operating activities</b>	<b>485,181</b>	<b>222,672</b>	<b>250,811</b>
<b>Cash Flows from Investing Activities:</b>			
Reliability capital expenditures	(55,669)	(40,333)	(33,952)
Strategic and other capital expenditures	(146,474)	(210,918)	(90,070)
East Coast Asphalt Operations acquisition	(803,184)	-	-
Other acquisitions	(7,027)	-	(154,474)
Investment in other long-term assets	-	(62)	(10,820)
Proceeds from sale or disposition of assets	50,813	12,667	71,396
Proceeds from insurance settlement	5,000	250	3,661
Other, net	24	-	1,025
<b>Net cash used in investing activities</b>	<b>(956,517)</b>	<b>(238,396)</b>	<b>(213,234)</b>
<b>Cash Flows from Financing Activities:</b>			
Proceeds from long-term debt borrowings	2,108,775	1,170,302	269,026
Proceeds from short-term debt borrowings	746,800	75,000	-
Proceeds from senior note offering, net of issuance costs	346,224	-	-
Long-term debt repayments	(2,025,784)	(1,077,975)	(83,510)
Short-term debt repayments	(736,037)	(82,353)	-
Proceeds from issuance of common units, net of issuance costs	236,215	143,083	-
Contributions from general partner	5,025	3,035	575
Distributions to unitholders and general partner	(241,940)	(197,333)	(183,290)
Increase (decrease) in cash book overdrafts	945	3,676	(6,305)
Other, net	(160)	(375)	(395)
<b>Net cash provided by (used in) financing activities</b>	<b>440,063</b>	<b>37,060</b>	<b>(3,899)</b>
Effect of foreign exchange rate changes on cash	(13,190)	(336)	(894)
Net (decrease) increase in cash and cash equivalents	(44,463)	21,000	32,784
Cash and cash equivalents as of the beginning of year	89,838	68,838	36,054

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Cash and cash equivalents as of the end of year	\$	45,375	\$	89,838	\$	68,838
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See Notes to Consolidated Financial Statements.



Table of Contents

## NUSTAR ENERGY L.P. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF PARTNERS EQUITY

Years Ended December 31, 2008, 2007 and 2006

(Thousands of Dollars, Except Unit Data)

	Common		Limited Partners Subordinated		General Partner	Accumulated Other Comprehensive Income (Loss)	Total Partners Equity
	Units	Amount	Units	Amount			
<b>Balance as of January 1, 2006</b>	37,210,427	\$ 1,749,007	9,599,322	\$ 114,127	\$ 38,913	\$ (1,268)	\$ 1,900,779
Net income	-	123,180	-	9,440	16,910	-	149,530
Other comprehensive income foreign currency translation	-	-	-	-	-	8,087	8,087
Total comprehensive income	-	123,180	-	9,440	16,910	8,087	157,617
Cash distributions to partners	-	(149,004)	-	(16,703)	(17,583)	-	(183,290)
General partner contribution	-	-	-	-	575	-	575
Conversion of subordinated units to common units on May 8, 2006	9,599,322	106,864	(9,599,322)	(106,864)	-	-	-
<b>Balance as of December 31, 2006</b>	46,809,749	1,830,047	-	-	38,815	6,819	1,875,681
Net income	-	129,235	-	-	21,063	-	150,298
Other comprehensive income foreign currency translation	-	-	-	-	-	20,068	20,068
Total comprehensive income	-	129,235	-	-	21,063	20,068	170,366
Cash distributions to partners	-	(176,239)	-	-	(21,094)	-	(197,333)
Issuance of common units in November 2007 and related contribution from general partner	2,600,000	143,083	-	-	3,035	-	146,118
<b>Balance as of December 31, 2007</b>	49,409,749	1,926,126	-	-	41,819	26,887	1,994,832
Net income	-	224,668	-	-	29,350	-	254,018
Other comprehensive loss foreign currency translation	-	-	-	-	-	(41,153)	(41,153)
Total comprehensive income	-	224,668	-	-	29,350	(41,153)	212,865
Cash distributions to partners	-	(213,547)	-	-	(28,393)	-	(241,940)
Issuance of common units in April 2008 and related contribution from general partner	5,050,800	236,215	-	-	5,025	-	241,240
<b>Balance as of December 31, 2008</b>	54,460,549	\$ 2,173,462	-	\$ -	\$ 47,801	\$ (14,266)	\$ 2,206,997



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**Table of Contents**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Years Ended December 31, 2008, 2007 and 2006**

**1. ORGANIZATION AND OPERATIONS**

***Organization***

NuStar Energy L.P. (NuStar Energy) (NYSE: NS) is engaged in the terminalling and storage of petroleum products, the transportation of petroleum products and anhydrous ammonia and asphalt and fuels marketing. Unless otherwise indicated, the terms NuStar Energy L.P., the Partnership, we, our and us are used in this report to refer to NuStar Energy L.P., to one or more of our consolidated subsidiaries or to all of them taken as a whole. NuStar GP Holdings, LLC (NuStar GP Holdings) (NYSE: NSH) wholly owns our general partner, Riverwalk Logistics, L.P., and owns a 20.5% total interest in us.

***Operations***

We conduct our operations through our subsidiaries, primarily NuStar Logistics, L.P. (NuStar Logistics) and NuStar Pipeline Operating Partnership L.P. (NuPOP) We have three business segments: storage, transportation and asphalt and fuels marketing.

*Storage.* We own refined product terminals in the United States, the Netherland Antilles, Canada, Mexico, the Netherlands and the United Kingdom providing approximately 61.2 million barrels of storage capacity and one crude oil storage facility providing approximately 4.8 million barrels of storage capacity. Our terminals in the United States provide storage and handling services on a fee basis for petroleum products, specialty chemicals and other liquids, including one that provides storage services for crude oil and other feedstocks. We also own 60 crude oil and intermediate feedstock storage tanks and related assets that store and deliver crude oil and intermediate feedstocks to Valero Energy Corporation's (Valero Energy) refineries in California and Texas providing 12.5 million barrels of storage capacity.

*Transportation.* We own common carrier refined product pipelines in Texas, Oklahoma, Colorado, New Mexico, Kansas, Nebraska, Iowa, South Dakota, North Dakota and Minnesota covering approximately 5,679 miles, consisting of the Central West System, the East Pipeline and the North Pipeline. The East and North Pipelines also include 21 terminals providing storage capacity of 4.6 million barrels, and the East Pipeline includes two tank farms providing storage capacity of 1.2 million barrels. In addition, we own a 2,000 mile anhydrous ammonia pipeline located in Louisiana, Arkansas, Missouri, Illinois, Indiana, Iowa and Nebraska. We also own 812 miles of crude oil pipelines in Texas, Oklahoma, Kansas, Colorado and Illinois, as well as associated crude oil storage facilities providing storage capacity of 1.9 million barrels in Texas and Oklahoma that are located along the crude oil pipelines. We charge tariffs on a per barrel basis for transporting refined products, crude oil and other feedstocks in our refined product and crude oil pipelines and on a per ton basis for transporting anhydrous ammonia in our ammonia pipeline.

*Asphalt and Fuels Marketing.* Our asphalt and fuels marketing segment includes our asphalt refining operations and our fuels marketing operations. We refine crude oil to produce asphalt and certain other refined products from our asphalt operations. Our asphalt operations include two asphalt refineries with a combined throughput capacity of 104,000 barrels per day and related terminal facilities. Additionally, we purchase gasoline and other refined petroleum products for resale.

The activities of the asphalt and fuels marketing segment expose us to the risk of fluctuations in commodity prices, which directly impact the results of operations for the asphalt and fuels marketing segment. We enter into derivative contracts to mitigate the effect of commodity price fluctuations.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Consolidation***

The accompanying consolidated financial statements represent the consolidated operations of the Partnership and our subsidiaries. Inter-partnership balances and transactions have been eliminated in consolidation. The operations of certain pipelines and terminals in which we own an undivided interest, are proportionately consolidated in the accompanying consolidated financial statements.



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**Table of Contents**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Use of Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States 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. On an ongoing basis, management reviews their estimates based on currently available information. Changes in facts and circumstances may result in revised estimates.

***Cash and Cash Equivalents***

Cash equivalents are all highly liquid investments with an original maturity of three months or less when acquired.

***Accounts Receivable***

Accounts receivable represent valid claims against non-affiliated customers for products sold or services rendered. We extend credit terms to certain customers after review of various credit indicators, including the customer's credit rating. Outstanding customer receivable balances are regularly reviewed for possible non-payment indicators and allowances for doubtful accounts are recorded based upon management's estimate of collectability at the time of their review.

***Inventories***

Inventories consist of crude oil and refined petroleum products. All inventories are valued at the lower of cost or market and cost is determined using the weighted-average cost method.

***Property, Plant and Equipment***

We record additions to property, plant and equipment, including reliability and strategic capital expenditures, at cost.

Reliability capital expenditures represent capital expenditures to replace partially or fully depreciated assets to maintain the existing operating capacity of existing assets and extend their useful lives. Strategic capital expenditures represent capital expenditures to expand or upgrade the operating capacity, increase efficiency or increase the earnings potential of existing assets, whether through construction or acquisition. Repair and maintenance costs associated with existing assets that are minor in nature and do not extend the useful life of existing assets are charged to operating expenses as incurred.

Depreciation of property, plant and equipment is recorded on a straight-line basis over the estimated useful lives of the related assets. Gains or losses on sales or other dispositions of property are recorded in income and are reported in Other income, net in the consolidated statements of income. When property or equipment is retired or otherwise disposed of, the difference between the carrying value and the net proceeds is recognized in the year retired.

***Goodwill and Intangible Assets***

Goodwill represents the excess of cost of an acquired entity over the fair value of assets acquired less liabilities assumed. Goodwill acquired in a business combination is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate the asset might be impaired. We use October 1 of each year as our annual valuation date for the impairment test. Based on the results of the impairment tests performed as of October 1, 2008, 2007 and 2006, no impairment had occurred.

Intangible assets are assets that lack physical substance (excluding financial assets). Intangible assets with finite useful lives are amortized on a straight-line basis over three to 47 years.

***Investment in Joint Ventures***

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We account for our investments in joint ventures in Skelly-Belvieu Pipeline Company, LLC and ST Linden Terminals, LLC using the equity method of accounting.

### ***Other Long-Term Assets***

Other long-term assets, net primarily include the following:

- asphalt tank heel inventory and linefill on our ammonia pipeline;
- the fair value of our interest rate swap agreements;
- deferred costs incurred in connection with acquiring a customer contract, which is amortized over the life of the contract;
- deferred financing costs amortized over the life of the related debt obligation using the effective interest method;

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**Table of Contents**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

deferred dry-docking costs incurred in connection with major maintenance activities on our marine vessels, which are amortized over the period of time estimated to lapse until the next dry-docking occurs;  
deferred refinery shutdown costs in connection with annual major maintenance on our asphalt production units, which are amortized based on units of production over the following year; and  
the remaining funds held in trust related to the issuance of Gulf Opportunity Zone Revenue Bonds associated with our terminal in St. James, Louisiana.

***Impairment of Long-Lived Assets***

Long-lived assets, including property, plant and equipment and investment in joint ventures, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The evaluation of recoverability is performed using undiscounted estimated net cash flows generated by the related asset. If an asset is deemed to be impaired, the amount of impairment is determined as the amount by which the net carrying value exceeds discounted estimated net cash flows. We believe that the carrying amounts of our long-lived assets as of December 31, 2008 are recoverable.

***Taxes Other than Income Taxes***

Taxes other than income taxes include liabilities for ad valorem taxes, franchise taxes, sales and use taxes, excise fees and taxes and value added taxes.

***Income Taxes***

We are a limited partnership and generally are not subject to federal or state income taxes. Accordingly, the taxable income or loss of the Partnership, which may vary substantially from income or loss reported for financial reporting purposes, is generally included in the federal and state income tax returns of the individual partners. For transfers of publicly held units subsequent to our initial public offering, we have made an election permitted by Section 754 of the Internal Revenue Code to adjust the common unit purchaser's tax basis in our underlying assets to reflect the purchase price of the units. This results in an allocation of taxable income and expenses to the purchaser of the common units, including depreciation deductions and gains and losses on sales of assets, based upon the new unitholder's purchase price for the common units.

We conduct certain of our operations through taxable wholly owned corporate subsidiaries. Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred taxes are measured using enacted tax rates expected to apply to taxable income in the year those temporary differences are expected to be recovered or settled.

We recognize 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. We record uncertain tax positions in the financial statements at the largest amount of benefit that is more-likely-than-not to be realized. We had no unrecognized tax benefits as of December 31, 2008 or December 31, 2007.

NuStar Energy 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 2004 through 2008 and for our major non-U.S. jurisdictions, tax years subject to examination are 2002 through 2008, both according to standard statute of limitations.

***Asset Retirement Obligations***

We record a liability for asset retirement obligations, at the fair value of the estimated costs to retire a tangible long-lived asset at the time we incur that liability, which is generally when the asset is purchased, constructed or leased, when we have a legal obligation to incur costs to retire the asset and when a reasonable estimate of the fair value of the obligation can be made. If a reasonable estimate cannot be made at the time the liability is incurred, we record the liability when sufficient information is available to estimate the fair value.

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We have asset retirement obligations with respect to certain of our assets due to various legal obligations to clean and/or dispose of those assets at the time they are retired. However, these assets can be used for extended and indeterminate period of time as long as they are properly maintained and/or upgraded. It is our practice and current intent to maintain our assets and continue making improvements to those assets based on technological advances. As a result, we believe



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**Table of Contents**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

that our assets have indeterminate lives for purposes of estimating asset retirement obligations because dates or ranges of dates upon which we would retire these assets cannot reasonably be estimated at this time. When a date or range of dates can reasonably be estimated for the retirement of any asset, we estimate the cost of performing the retirement activities and record a liability for the fair value of that cost using established present value techniques.

We also have legal obligations in the form of leases and right-of-way agreements, which require us to remove certain of our assets upon termination of the agreement. However, these lease or right-of-way agreements generally contain automatic renewal provisions that extend our rights indefinitely or we have other legal means available to extend our rights. We have recorded a liability of approximately \$0.6 million and \$0.8 million as of December 31, 2008 and 2007, respectively, which is included in *Other long-term liabilities* in the consolidated balance sheets, for conditional asset retirement obligations related to the retirement of terminal assets with lease and right-of-way agreements.

***Environmental Remediation Costs***

Environmental remediation costs are expensed and an associated accrual established when site restoration and environmental remediation and cleanup obligations are either known or considered probable and can be reasonably estimated. These environmental obligations are based on estimates of probable undiscounted future costs over a 20-year time period using currently available technology and applying current regulations, as well as our own internal environmental policies. The environmental liabilities have not been reduced by possible recoveries from third parties. Environmental costs include initial site surveys, costs for remediation and restoration and ongoing monitoring costs, as well as fines, damages and other costs, when estimable. Adjustments to initial estimates are recorded, from time to time, to reflect changing circumstances and estimates based upon additional information developed in subsequent periods.

***Product Imbalances***

Product imbalances occur within the East Pipeline system as a result of variances in meter readings as product is measured into and out of the pipeline system and volume fluctuations within the pipeline system due to pressure and temperature changes. We value assets and liabilities related to product imbalances by petroleum product at adjusted market prices as of the reporting date. Product imbalance liabilities are included in *Accrued liabilities* and product imbalance assets are included in *Other current assets* in the consolidated balance sheets. In the fourth quarter of 2008, we adjusted the product imbalance asset, the net impact of which increased operating income by \$4.0 million.

***Revenue Recognition***

Revenues for the storage segment include fees for tank storage agreements, whereby a customer agrees to pay for a certain amount of storage in a tank over a period of time (storage lease revenues), and throughput agreements, whereby a customer pays a fee per barrel for volumes moving through our terminals and tanks (throughput revenues). Our terminals also provide blending, handling and filtering services. Our facilities at Point Tupper and St. Eustatius also charge fees to provide ancillary services such as pilotage, tug assistance, line handling, launch service, emergency response services and other ship services. Storage lease revenues are recognized when services are provided to the customer. Throughput revenues are recognized as refined products are received in or delivered out of our terminal and as crude oil and certain other refinery feedstocks are received by the related refinery. Revenues for ancillary services are recognized as those services are provided.

Revenues for the transportation segment are derived from interstate and intrastate pipeline transportation of refined product, crude oil and anhydrous ammonia. Transportation revenues (based on pipeline tariffs) are recognized as the refined product, crude oil or anhydrous ammonia is delivered out of the pipelines.

Revenues from the sale of asphalt and other refined petroleum products, which are included in our asphalt and fuels marketing segment, are recognized when product is delivered to the customer and title and risk pass to the customer. Additionally, the revenues of our asphalt and fuels marketing segment include the mark-to-market impact of certain derivative instruments that are part of our limited trading program.

We collect taxes on certain revenue transactions to be remitted to governmental authorities, which may include sales, use, value added and some excise taxes. These taxes are not included in revenue.



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**Table of Contents**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Income Allocation***

Our net income for each quarterly reporting period is first allocated to the general partner in an amount equal to the general partner's incentive distribution calculated based upon the declared distribution for the respective reporting period. We allocate the remaining net income among the limited and general partners in accordance with their respective 98% and 2% interests.

***Net Income per Unit Applicable to Limited Partners***

We have identified the general partner and the subordinated units as participating securities and use the two-class method when calculating the net income per unit applicable to limited partners, which is based on the weighted-average number of common and subordinated units outstanding during the period. Net income per unit applicable to limited partners is computed by dividing net income applicable to limited partners, after deducting the general partner's 2% interest and incentive distributions, by the weighted-average number of limited partnership units outstanding. Basic and diluted net income per unit applicable to limited partners are the same because we have no potentially dilutive securities outstanding. The amount of net income per unit allocated to subordinated units was equal to the amount allocated to the common units for the periods prior to the conversion of the subordinated units into common units in May 2006.

***Comprehensive Income***

Comprehensive income consists of net income and other gains and losses affecting partners' equity that are excluded from net income, such as foreign currency translation adjustments.

***Derivative Financial Instruments***

We are a party to certain interest rate swap agreements for the purpose of hedging the interest rate risk associated with a portion of our fixed-rate senior notes. We account for the interest rate swaps as fair value hedges and recognize the fair value of each interest rate swap in the consolidated balance sheet as either an asset or liability. The interest rate swap contracts qualify for the shortcut method of accounting prescribed by FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (Statement No. 133). As a result, changes in the fair value of the derivatives completely offset the changes in the fair value of the underlying hedged debt.

We are exposed to commodity price risk with respect to our product inventories and related firm commitments to purchase and/or sell such inventories. We utilize futures contracts and swaps traded on the NYMEX to manage our exposure to changes in the fair value of certain of our product inventories and related firm commitments.

Derivative instruments designated and qualifying as fair value hedges under Statement No. 133 (Fair Value Hedges) are recorded in the consolidated balance sheets as assets or liabilities at fair value, with related mark-to-market adjustments recorded in Cost of product sales. The offsetting gain or loss on the associated hedged physical inventory or firm commitment, together with the resulting hedge ineffectiveness, is recognized concurrently in Cost of product sales. We record derivative instruments that do not qualify for hedge accounting under Statement No. 133 (Economic Hedges) in the consolidated balance sheets as assets or liabilities at fair value with mark-to-market adjustments recorded in Cost of product sales. Fair value is based on quoted market prices.

From time to time, we also enter into derivative commodity instruments based on our analysis of market conditions in order to attempt to profit from market fluctuations. These derivative instruments are financial positions entered into without underlying physical inventory and are not considered hedges. We record these derivatives in the consolidated balance sheets as assets or liabilities at fair value with mark-to-market adjustments recorded in Product sales.

***Operating Leases***

We recognize rent expense on a straight-line basis over the lease term, including the impact of both scheduled rent increases and free or reduced rents (commonly referred to as rent holidays).

*Unit-based Compensation*

NuStar GP, LLC, a wholly owned subsidiary of NuStar GP Holdings, has adopted various long-term incentive plans, which provide the Compensation Committee of the Board of Directors of NuStar GP, LLC with the right to grant employees and directors of NuStar GP, LLC providing services to NuStar Energy the right to receive NS common units. NuStar GP, LLC accounts for awards of NS unit options and restricted units at fair value in accordance with Emerging Issues Task Force Issue No. 02-08, Accounting for Options Granted to Employee in Unrestricted, Publicly Traded Shares of an Unrelated Entity (EITF 02-08). EITF 02-08 requires a company that grants its employees equity of an entity

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**Table of Contents**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

other than the employer to account for such awards as a derivative, whereby a liability for the award is recorded at inception. Subsequent changes in the fair value of the award are included in the determination of net income. NuStar GP, LLC determines the fair value of NS unit options using the Black-Scholes model at each reporting date. NuStar GP, LLC determines the fair value of NS restricted units using the market price of NS common units at each reporting date. NuStar GP, LLC records compensation expense each reporting period such that the cumulative compensation expense recorded equals the current fair value of the percentage of the award that has vested. NuStar GP, LLC records compensation expense related to NS unit options until such options are exercised, and compensation expense related to NS restricted units until the date of vesting.

NuStar GP Holdings has adopted a long-term incentive plan that provides the Compensation Committee of the Board of Directors of NuStar GP Holdings with the right to grant employees, consultants and directors of NuStar GP Holdings and its affiliates, including NuStar GP, LLC, rights to receive NuStar GP Holdings common units. NuStar GP Holdings accounts for awards of NSH restricted units and unit options granted to its directors or employees of NuStar GP, LLC at fair value in accordance with FASB Statement No. 123 (revised 2004), *Share-Based Payment* (Statement No. 123R). The fair value of NSH unit options is determined using the Black-Scholes model at the grant date, and the fair value of the NSH restricted unit equals the market price of NSH common units at the grant date. NuStar GP Holdings recognizes compensation expense for NSH restricted units and unit options ratably over the vesting period based on the fair value of the units at the grant date.

We reimburse our general partner for the expense resulting from NS and NSH awards to employees and directors of NuStar GP, LLC. We include such compensation expense in *General and administrative expenses* on the consolidated statements of income. We do not reimburse our general partner for the expense resulting from NSH awards to non-employee directors of NuStar GP Holdings.

Under these long-term incentive plans, certain awards provide that employees vest in the award when they retire or will continue to vest in the award after retirement over the nominal vesting period established in the award. Through 2005, we accounted for such awards by recognizing compensation expense over the nominal vesting period. By analogy to the transition rules of Statement No. 123R and the Securities and Exchange Commission's (SEC) amended Rule 4-01(a) of Regulation S-X, we changed our method of recognizing compensation expense to the non-substantive vesting period approach for any awards granted after January 1, 2006. Under the non-substantive vesting period approach, compensation expense is recognized immediately for awards granted to retirement-eligible employees or over the period from the grant date to the date retirement eligibility is achieved if that date is expected to occur during the nominal vesting period.

***Margin Deposits***

Margin deposits relate to our exchange-traded derivative contracts and generally vary based on changes in the value of the contracts. Margin deposits are included in *Other current assets* in the consolidated balance sheets.

***New Accounting Pronouncements***

*FASB Statement No. 141R.* In December 2007, the Financial Accounting Standards Board (FASB) issued Statement No. 141 (Revised 2007), *Business Combinations* (Statement No. 141R). Statement No. 141R will significantly change the accounting for business combinations. Under Statement No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value, subject to limited exceptions. Statement No. 141R will change the accounting treatment for certain specific items, such as acquisition costs, acquired contingent liabilities, restructuring costs, changes in deferred tax asset valuation allowances and other items. Statement No. 141R also includes a substantial number of new disclosure requirements. Statement No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We adopted Statement No. 141R effective January 1, 2009.

*FASB Statement No. 161.* In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (Statement No. 161). Statement No. 161 amends and expands the disclosure requirements under Statement No. 133. Statement No. 161 requires enhanced disclosures on how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for and their impact on an entity's financial performance, financial position and cash flows. Statement No. 161 is effective January 1, 2009. Retrospective application for previous periods is encouraged but not required. We adopted Statement No. 161 effective January 1, 2009 and do not expect it to have a material impact on our disclosures.



**Table of Contents**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*EITF 07-4.* In March 2008, the FASB ratified its consensus on EITF Issue No. 07-4, Application of the Two-Class Method under FASB Statement No. 128, Earnings per Share, to Master Limited Partnerships (EITF No. 07-4). EITF No. 07-4 applies to master limited partnerships with incentive distribution rights (IDRs) that are accounted for as equity interests. EITF 07-4 states that IDRs are participating securities under Statement No. 128 and should be allocated earnings in the calculation of earnings per share. This allocation of earnings would be limited to the amounts distributable to the IDR holders in accordance with the partnership agreement. Retrospective application for comparative periods presented is required. We adopted EITF No. 07-4 effective January 1, 2009 and do not expect it to materially affect our computation of earnings per unit.

*FASB Staff Position FAS 142-3.* In April 2008, the FASB issued Staff Position FAS 142-3, Determination of the Useful Life of Intangible Assets (FSP FAS 142-3). FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets. FSP FAS 142-3 improves the consistency between the useful life of a recognized intangible asset under Statement No. 142 and the period of expected cash flows used to measure the fair value of the asset under Statement No. 141R. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We adopted FSP FAS 142-3 effective January 1, 2009 and do not expect it to materially affect our financial position or results of operations.

*FASB Staff Position FAS 157-3.* In October 2008, the FASB issued Staff Position FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active (FSP FAS 157-3). FSP FAS 157-3 clarifies the application of Statement No. 157 in cases where a market is not active. FSP FAS 157-3 was effective upon issuance and did not materially affect our financial position or results of operations.

***Reclassifications***

Certain previously reported amounts in the 2007 and 2006 consolidated financial statements have been reclassified to conform to the 2008 presentation.

**3. ACQUISITIONS**

***CITGO Asphalt Refining Company Asphalt Operations and Assets***

On March 20, 2008, we acquired CITGO Asphalt Refining Company's asphalt operations and assets (the East Coast Asphalt Operations) for approximately \$838.5 million. The East Coast Asphalt Operations include a 74,000 barrels-per-day (BPD) asphalt refinery in Paulsboro, New Jersey, a 30,000 BPD asphalt refinery in Savannah, Georgia and three asphalt terminals. The facilities located in Paulsboro, New Jersey, Savannah, Georgia and Wilmington, North Carolina have storage capacities of 3.5 million barrels, 1.2 million barrels, and 0.2 million barrels, respectively.

We funded the acquisition with proceeds from our common unit offerings in November 2007 and April 2008, related contributions from our general partner to maintain its 2% interest, proceeds from our issuance of \$350.0 million of senior notes and borrowings under our revolving credit agreement. The results of operations for the refineries, including the two related terminals in Paulsboro and Savannah, as well as the associated marketing activities, are included in the asphalt and fuels marketing segment. The results of operations for the Wilmington terminal are included in the storage segment.

The acquisition of the East Coast Asphalt Operations complements our existing asphalt marketing operations, gives us exposure to the largest asphalt market in the United States, diversifies our customer base and expands our geographic presence.

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The acquisition of the East Coast Asphalt Operations was accounted for using the purchase method. The purchase price has been preliminarily allocated based on the estimated fair values of the individual assets acquired and liabilities assumed at the date of acquisition pending completion of an independent appraisal and other evaluations. In the fourth quarter, we adjusted our preliminary purchase price allocation. The adjusted purchase price and preliminary purchase price allocation were as follows (in thousands):

Cash paid for the East Coast Asphalt Operations	\$ 801,686
Transaction costs	1,498
<b>Total cash paid</b>	<b>803,184</b>
Fair value of liabilities assumed	35,307
<b>Purchase price</b>	<b>\$ 838,491</b>
Inventories	\$ 327,312
Other current assets	1,439
Property, plant and equipment	450,310
Goodwill	20,201
Intangible assets	11,510
Other long-term assets	27,719
<b>Purchase price allocation</b>	<b>\$ 838,491</b>

The consolidated statements of income include the results of operations for the East Coast Asphalt Operations commencing on March 20, 2008. The unaudited pro forma financial information presented below combines the historical financial information for the East Coast Asphalt Operations and the Partnership for those periods. This information assumes that we:

completed the acquisition of the East Coast Asphalt Operations on January 1, 2007;  
issued approximately 7.7 million common units for net proceeds of \$379.3 million;  
received a contribution from our general partner of approximately \$8.0 million to maintain its 2% interest;  
issued \$350.0 million of 7.65% senior notes; and  
borrowed approximately \$69.0 million under our revolving credit agreement.

The following unaudited pro forma information is not necessarily indicative of the results of future operations:

	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(Thousands of Dollars, Except Per Unit Data)	
Revenues	\$ 5,008,623	\$ 3,395,379
Operating income	318,626	241,181
Net income	254,539	168,028
Net income per unit applicable to limited partners	\$ 4.13	\$ 2.64

**St. James Crude Facility**



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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 acquisition included 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 existing revolving credit agreement. The financial statements include the results of operations in the storage segment commencing on December 1, 2006.

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The St. James Acquisition 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	759
<b>Total</b>	<b>\$ 141,659</b>
Current assets	\$ 53
Property and equipment	126,258
Goodwill	13,898
Intangible assets	1,450
<b>Total</b>	<b>\$ 141,659</b>

Since the effect of the St. James Acquisition was not significant, we have not presented pro forma financial information for the year ended December 31, 2006 that gives effect to the St. James Acquisition as of January 1, 2006.

***Capwood Pipeline***

Effective January 1, 2006, we purchased a 23.77% interest in Capwood pipeline from Valero Energy for \$12.8 million, which was paid from borrowings under our existing revolving credit agreement. The Capwood pipeline is a 57-mile crude oil pipeline that extends from Patoka, Illinois to Wood River, Illinois. Plains All-American Pipeline L.P., the operator of the Capwood pipeline, owns the remaining 76.23% interest. Our financial statements include the results of operations of our interest in the Capwood pipeline in the transportation segment commencing on January 1, 2006.

**4. DISPOSITIONS*****Sale of Investment in Skelly-Belvieu***

On December 1, 2008, we agreed to dispose of our interest in the Skelly-Belvieu Pipeline Company, LLC (Skelly-Belvieu), which owns a liquefied petroleum gas pipeline in Texas, to Enterprise Products Operating LLC. See Note 10. Investment in Joint Ventures below for further discussion on our investments in joint ventures, including Skelly-Belvieu.

***Sale of Australia and New Zealand Subsidiaries***

On March 30, 2006, we sold our Australia and New Zealand subsidiaries to ANZ Terminals Pty. Ltd., for total proceeds of \$70.1 million. This transaction included the sale of eight terminals with an aggregate storage capacity of approximately 1.1 million barrels. The results of operations for the Australia and New Zealand Subsidiaries for 2006 have been included in income from discontinued operations. Revenues and pre-tax income related to the Australia and New Zealand Subsidiaries, included in income from discontinued operations, were \$5.0 million and \$0.6 million, respectively, for the year ended December 31, 2006. Additionally, the income from discontinued operations includes interest expense of approximately \$0.8 million allocated to the Australia and New Zealand Subsidiaries for the year ended December 31, 2006, which was based upon the expected proceeds and the interest rate applicable to our debt.

**5. ALLOWANCE FOR DOUBTFUL ACCOUNTS**

The changes in the allowance for doubtful accounts consisted of the following:

	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(Thousands of Dollars)	
Balance as of beginning of year	\$ 365	\$ 1,220
Increase (decrease) in allowance	973	(544)
Accounts charged against the allowance, net of recoveries	(119)	(324)
Foreign currency translation	(45)	13
Balance as of end of year	\$ 1,174	\$ 365

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. INVENTORIES**

Inventories consisted of the following:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(Thousands of Dollars)	
Crude oil	\$ 14,912	\$ -
Finished products	205,662	88,532
<b>Total</b>	<b>\$ 220,574</b>	<b>\$ 88,532</b>

We purchase crude oil for the production of asphalt and other refined products. Our Finished products consist of asphalt, intermediates, gasoline, distillates and other petroleum products. We purchase gasoline, distillates and other petroleum products for resale.

**7. OTHER CURRENT ASSETS**

Other current assets consisted of the following:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(Thousands of Dollars)	
Prepaid expenses	\$ 13,882	\$ 7,506
Product imbalances	11,502	13,597
Supplies inventory	9,402	7,645
Derivatives, net	3,610	8,601
Other	3,925	275
<b>Other current assets</b>	<b>\$ 42,321</b>	<b>\$ 37,624</b>

**8. PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment, at cost, consisted of the following:

	<b>Estimated</b>	<b>December 31,</b>	
	<b>Useful</b>	<b>2008</b>	<b>2007</b>
	<b>Lives</b>	(Thousands of Dollars)	
	<b>(Years)</b>		
Land	-	\$ 114,323	\$ 108,216
Land and leasehold improvements	10 - 35	91,843	75,013
Buildings	15 - 40	46,663	39,789
Pipelines, storage and terminals	20 - 35	2,688,198	2,435,381

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Refining equipment	20 - 35	412,549	-
Rights-of-way	20 - 40	102,336	102,217
Construction in progress	-	51,661	183,500
Total		3,507,573	2,944,116
Less accumulated depreciation and amortization		(565,749)	(452,030)
Property, plant and equipment, net		\$ 2,941,824	\$ 2,492,086

Capitalized interest costs included in property, plant and equipment were \$5.1 million, \$6.0 million and \$1.8 million for the years ended December 31, 2008, 2007 and 2006, respectively. Depreciation and amortization expense for property, plant and equipment was \$125.3 million, \$102.8 million and \$92.5 million for the years ended December 31, 2008, 2007 and 2006, respectively.

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. INTANGIBLE ASSETS**

Intangible assets consisted of the following:

	December 31, 2008		December 31, 2007	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
	(Thousands of Dollars)			
<b>Intangible assets subject to amortization:</b>				
Customer relationships	\$ 70,410	\$ (21,476)	\$ 58,900	\$ (14,690)
Non-compete agreements	1,515	(1,464)	1,765	(1,407)
Terminalling agreement	1,000	(667)	1,000	(333)
Other	2,809	(423)	2,809	(282)
<b>Total</b>	<b>\$ 75,734</b>	<b>\$ (24,030)</b>	<b>\$ 64,474</b>	<b>\$ (16,712)</b>

All of our intangible assets are subject to amortization. Amortization expense for intangible assets was \$7.6 million, \$7.2 million and \$6.5 million for the years ended December 31, 2008, 2007 and 2006, respectively. The estimated aggregate amortization expense for the next five years is as follows:

	Amortization Expense (Thousands of Dollars)
2009	\$ 7,567
2010	7,183
2011	7,183
2012	7,093
2013	7,093

**10. INVESTMENT IN JOINT VENTURES**

The following table presents summarized combined unaudited financial information related to our joint ventures as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006:

	December 31,	
	2008 (a)	2007
	(Thousands of Dollars)	
<b>Balance Sheet Information:</b>		
Current assets	\$ 5,098	\$ 10,387
Property, plant and equipment, net	48,068	81,645
<b>Total assets</b>	<b>\$ 53,166</b>	<b>\$ 92,032</b>
<b>Current liabilities</b>	<b>\$ 3,997</b>	<b>\$ 6,328</b>
Members' equity	49,169	85,704

Total liabilities and members equity	\$ 53,166	\$ 92,032
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	Year Ended December 31,		
	2008 (a)	2007	2006
	(Thousands of Dollars)		
<b>Statement of Income Information:</b>			
Revenues	\$ 35,904	\$ 31,502	\$ 28,858
Net income	15,635	13,528	12,355
Our share of net income (b)	8,030	6,833	5,969
Our share of distributions	2,835	544	5,268

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- (a) The balance sheet information above does not include Skelly-Belvieu, and the statement of income information includes Skelly-Belvieu through November 30, 2008.
- (b) Our share of net income shown in the table includes \$0.1 million of income that is included in income from discontinued operations in the consolidated statement of income for the year ended December 31, 2006.

***ST Linden Terminals, LLC***

Formed in 1998, the 44-acre facility provides us with deep-water terminalling capabilities at New York Harbor and primarily stores petroleum products, including gasoline, jet fuel and fuel oils. As part of our acquisition of Kaneb Services LLC (KSL) and Kaneb Pipe Line Partners, L.P. (KPP, and, together with KSL, Kaneb) on July 1, 2005 (the Kaneb Acquisition), we acquired an investment in ST Linden Terminals, LLC (Linden). Linden is owned 50% by the Partnership and 50% by NIC Holding Corp. As part of the final allocation in 2006 of the purchase price of Kaneb, we recorded our investment in Linden at fair value. As a result, the carrying value of our investment in Linden exceeds our 50% share of its members' equity. This excess totaled \$44.2 million and \$44.5 million as of December 31, 2008 and 2007, respectively, of which \$8.0 million is being amortized into expense over the average life of the assets held by Linden, or 25 years. The remaining balance not amortized represents goodwill of Linden.

***Skelly-Belvieu Pipeline Company***

Formed in 1993, the Skelly-Belvieu Pipeline owns a liquefied petroleum gas pipeline that begins in Skellytown, Texas and extends to Mont Belvieu, Texas near Houston. On December 1, 2008, we agreed to dispose of our interest in Skelly-Belvieu. We received proceeds of \$36.0 million and recognized a gain of \$18.9 million in Other income, net in the consolidated statements of income.

**11. ACCRUED LIABILITIES**

Accrued liabilities consisted of the following:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(Thousands of Dollars)	
Employee wages and benefit costs	\$ 16,198	\$ 17,633
Unearned income	2,125	2,401
Environmental costs	3,994	5,435
Product imbalances	2,193	10,513
Deferred insurance proceeds	2,674	-
Other	10,270	11,207
<b>Accrued liabilities</b>	<b>\$ 37,454</b>	<b>\$ 47,189</b>

**12. NOTES PAYABLE*****Term Loan Agreement***

In March 2008, we closed on a \$124.0 million term loan agreement (the Term Loan Agreement), all of which was used to fund a portion of our acquisition of the East Coast Asphalt Operations. The \$124.0 million balance on the Term Loan Agreement was paid in full in April 2008 with the proceeds from our equity offering.

***Lines of Credit***



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During the year ended December 31, 2008, we had three short-term lines of credit with an uncommitted borrowing capacity of up to \$65.0 million. We borrowed \$622.8 million and repaid \$602.8 million during the year ended December 31, 2008 under these uncommitted, short-term lines of credit based on current working capital needs. The interest rates and maturities on these uncommitted, short-term lines of credit vary and are determined at the time of the borrowing. The interest rates for these lines fluctuate with the Federal Funds rate.

As of December 31, 2008, we had one short-term line of credit with an uncommitted borrowing capacity of up to \$20.0 million. Outstanding borrowings on this line of credit totaled \$20.0 million as of December 31, 2008 at an interest rate of 2.1%. The weighted-average interest rate related to outstanding borrowings under this short-term line of credit during the year ended December 31, 2008 was 2.7%.

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. LONG-TERM DEBT**

Long-term debt consisted of the following:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(Thousands of Dollars)	
\$1.2 billion revolving credit agreement	\$ 555,294	\$ 527,976
7.65% senior notes due 2018, net of unamortized discount of (\$661) in 2008	349,339	-
6.05% senior notes due 2013, net of unamortized discount of (\$273) in 2008 and (\$337) in 2007 and a fair value adjustment of \$10,433 in 2008 and \$1,646 in 2007	240,092	231,241
6.875% senior notes due 2012, net of unamortized discount of (\$111) in 2008 and (\$143) in 2007 and a fair value adjustment of \$4,851 in 2008 and \$586 in 2007	104,740	100,444
7.75% senior notes due 2012, including a fair value adjustment of \$22,522 in 2008 and \$28,225 in 2007	272,522	278,225
5.875% senior notes due 2013, including a fair value adjustment of \$8,982 in 2008 and \$10,668 in 2007	258,982	260,668
UK term loan	30,748	41,628
Gulf Opportunity Zone revenue bonds	56,200	-
Port Authority of Corpus Christi note payable	4,811	6,107
<b>Total debt</b>	<b>1,872,728</b>	<b>1,446,289</b>
<b>Less current portion</b>	<b>(713)</b>	<b>(663)</b>
 Long-term debt, less current portion	 \$ 1,872,015	 \$ 1,445,626

The long-term debt repayments are due as follows (in thousands):

2009	\$ 713
2010	770
2011	832
2012	936,941
2013	480,902
Thereafter	406,827
<b>Total repayments</b>	<b>1,826,985</b>
Net fair value adjustment and unamortized discount	45,743
<b>Total debt</b>	<b>\$ 1,872,728</b>

Interest payments totaled \$103.9 million, \$89.5 million and \$75.0 million for the years ended December 31, 2008, 2007 and 2006, respectively.

**NuStar Logistics 7.65%, 6.05% and 6.875% Senior Notes**

On April 4, 2008, NuStar Logistics issued \$350.0 million of 7.65% senior notes under our \$3.0 billion shelf registration statement for net proceeds of \$346.2 million. The net proceeds were used to repay a portion of the outstanding principal balance under our revolving credit

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agreement described below. The interest on the 7.65% senior notes is payable semi-annually in arrears on April 15 and October 15 of each year beginning on October 15, 2008. The notes will mature on April 15, 2018. The interest rate payable on the notes is subject to adjustment if our debt rating is downgraded (or subsequently upgraded) by certain credit rating agencies.

The \$229.9 million of 6.05% senior notes mature in 2013, with interest payable semi-annually in arrears on March 15 and September 15 of each year.

The \$100.0 million of 6.875% senior notes mature in 2012, with interest payable semi-annually in arrears on January 15 and July 15 of each year.

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**Table of Contents**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The 7.65%, 6.05% and the 6.875% senior notes do not have sinking fund requirements. These notes rank equally with existing senior unsecured indebtedness of NuStar Logistics and contain restrictions on NuStar Logistics' ability to incur secured indebtedness unless the same security is also provided for the benefit of holders of the senior notes. In addition, the senior notes limit NuStar Logistics' ability to incur indebtedness secured by certain liens and to engage in certain sale-leaseback transactions.

At the option of NuStar Logistics, the 6.05% and the 6.875% senior notes may be redeemed in whole or in part at any time at a redemption price, which includes a make-whole premium, plus accrued and unpaid interest to the redemption date. Those notes also include a change-in-control provision, which requires that (1) an investment-grade entity own, directly or indirectly, 51% of our general partner interests; and (2) we (or an investment-grade entity) own, directly or indirectly, all of the general partner and limited partner interests in NuStar Logistics.

Valero Energy's December 22, 2006 sale of its remaining interests in NuStar GP Holdings, which does not have an investment grade rating, triggered the change-in-control provision, and NuStar Logistics offered to purchase the senior notes at a price equal to 100% of their outstanding principal balance plus accrued interest through the date of purchase. This offer expired on January 23, 2007, with approximately \$20.1 million of the 6.05% senior notes tendered to us for repurchase. We retired the senior notes that were tendered with borrowings under our then-active \$600 million revolving credit agreement on February 1, 2007. The retirement of those senior notes did not significantly affect either our financial position or results of operations.

***NuPOP's 7.75% and 5.875% Senior Notes***

As a result of the Kaneb Acquisition, we assumed the outstanding senior notes issued by NuPOP, having an aggregate face value of \$500.0 million, and an aggregate fair value of \$555.0 million. We use the effective interest method to amortize the difference between the fair value and the face value of the senior notes as a reduction of interest expense over the remaining lives of the senior notes.

The senior notes were issued in two series, the first of which bears interest at 7.75% annually (due semi-annually on February 15 and August 15) and matures February 15, 2012. The second series bears interest at 5.875% annually (due on June 1 and December 1) and matures June 1, 2013.

The 7.75% and 5.875% senior notes do not contain sinking fund requirements. These notes contain restrictions on our ability to incur indebtedness secured by liens, to engage in certain sale-leaseback transactions, to engage in certain transactions with affiliates, as defined, and to utilize proceeds from the disposition of certain assets. At the option of NuPOP, the 7.75% and 5.875% senior notes may be redeemed in whole or in part at any time at a redemption price, which includes a make-whole premium, plus accrued and unpaid interest to the redemption date.

The senior notes issued by NuStar Logistics are fully and unconditionally guaranteed by NuStar Energy. In connection with the Kaneb Acquisition, NuStar Energy fully and unconditionally guaranteed the outstanding senior notes issued by NuPOP. Additionally, effective July 1, 2005, both NuStar Logistics and NuPOP fully and unconditionally guaranteed the outstanding senior notes of the other. NuPOP will be released from its guarantee of senior notes issued by NuStar Logistics when it no longer guarantees any obligations of NuStar Energy, or any of its subsidiaries, including NuStar Logistics, under any bank facility or public debt instrument.

***2007 Revolving Credit Agreement***

On December 10, 2007, NuStar Logistics replaced the existing \$600 million revolving credit agreement with the \$1.2 billion five-year revolving credit agreement (the 2007 Revolving Credit Agreement), which includes a Euro sub-limit of \$250 million. Obligations under the 2007 Revolving Credit Agreement are guaranteed by NuStar Energy and NuPOP. NuPOP will be released from its guarantee of the 2007 Revolving Credit Agreement when it no longer guarantees NuStar Logistics' public debt instruments.

The 2007 Revolving Credit Agreement bears interest, at our option, based on either an alternative base rate or a LIBOR based rate, which was 1.9% as of December 31, 2008. The weighted-average interest rate related to borrowings under the 2007 Revolving Credit Agreement during the year ended December 31, 2008 was 3.7%.



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**Table of Contents**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The 2007 Revolving Credit Agreement is diversified with 24 participating banks. However, the participating banks include Lehman Brothers Bank, FSB (LB Bank), a subsidiary of Lehman Brothers Holdings Inc. (Lehman), which filed for bankruptcy protection in October 2008. LB Bank's participation in the 2007 Revolving Credit Agreement totaled \$42.5 million, of which we had \$17.0 million outstanding as of December 31, 2008. As a result of Lehman's bankruptcy filing in October 2008, LB Bank has elected not to fund its pro rata share of any future borrowings we request, which reduces the total commitment under the 2007 Revolving Credit Agreement to approximately \$1.2 billion. Excluding LB Bank's participation, we had \$610.7 million available for borrowing under the 2007 Revolving Credit Agreement as of December 31, 2008. If other lenders under the 2007 Revolving Credit Agreement file for bankruptcy or experience severe financial hardship due to recent disruptions and steep declines in the global financial markets and generally severely tightening credit supply, they may not honor their pro rata share of our borrowing requests.

The 2007 Revolving Credit Agreement includes restrictive covenants, including a prohibition on distributions if any defaults, as defined in the agreements, exist or would result from the distribution. The 2007 Revolving Credit Agreement also requires us to maintain, as of the end of each rolling period, consisting of any period of four consecutive fiscal quarters, a consolidated debt coverage ratio (consolidated indebtedness to consolidated EBITDA, as defined in the 2007 Revolving Credit Agreement) not to exceed 5.00-to-1.00; provided, that if at any time NuStar Energy or any of its restricted subsidiaries consummates an acquisition for an aggregate net consideration of at least \$100 million, then for two rolling periods, the last day of which immediately follows the day on which such acquisition is consummated, the consolidated debt coverage ratio must not exceed 5.50-to-1.00. Management believes that we are in compliance with all ratios and covenants of the 2007 Revolving Credit Agreement as of December 31, 2008.

***UK Term Loan***

NuPOP's UK subsidiary, NuStar Terminals Limited, formerly Kaneb Terminals Limited, is the borrower of £21 million (\$30.7 million and \$41.6 million as of December 31, 2008 and 2007, respectively). This amended and restated term loan agreement (the UK Term Loan) bears interest at 6.65% annually and matures on December 11, 2012.

On December 11, 2007, the UK Term Loan was amended to be consistent with the covenants and provisions of the 2007 Revolving Credit Agreement. Management believes that we are in compliance with all ratios and covenants of the UK Term Loan as of December 31, 2008.

***Gulf Opportunity Zone Revenue Bonds***

On June 26, 2008, the Parish of St. James, where our St. James, Louisiana, terminal is located, issued \$56.2 million of Revenue Bonds (NuStar Logistics, L.P. Project) Series 2008 associated with the St. James terminal expansion. The bonds mature on June 1, 2038. The interest rate is based on a weekly tax-exempt bond market interest rate and is paid monthly. The average interest rate was 2.3% for the year ended December 31, 2008. Following the issuance, the proceeds were deposited with a trustee and will be disbursed to us upon our request for reimbursement of expenditures related to the St. James terminal expansion. As of December 31, 2008, we have received \$52.3 million from the trustee, of which \$0.6 million was used to pay bond issuance costs. As of December 31, 2008, the remaining funds in trust are included in Other long-term assets, net, and the \$56.2 million obligation is included in Long-term debt, less current portion in our consolidated balance sheets.

NuStar Logistics is solely obligated to service the principal and interest payments associated with the bonds. One of the lenders under our 2007 Revolving Credit Agreement issued a letter of credit in the amount of \$56.9 million on our behalf, to guarantee the payment of interest and principal on the bonds. This letter of credit ranks equally with existing senior unsecured indebtedness of NuStar Logistics and was issued under our 2007 Revolving Credit Agreement.

***Port Authority of Corpus Christi Note Payable***

The proceeds from the original \$12.0 million note payable due to the Port of Corpus Christi Authority of Nueces County, Texas (Port Authority of Corpus Christi) were used for the construction of a crude oil storage facility in Corpus Christi, Texas. The note payable is due in annual installments of \$1.2 million through December 31, 2015 and is collateralized by the crude oil storage facility. Interest on the unpaid principal balance accrues at a rate of 8.0% per annum. The land on which the crude oil storage facility was constructed is leased from the Port Authority of Corpus Christi. The wharfage and dockage fees paid to the Port Authority of Corpus Christi in connection with the use of the crude oil storage

facility have exceeded certain limits per the terms of the note, which have accelerated the repayment of the unpaid principal balance.

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****14. HEALTH, SAFETY AND ENVIRONMENTAL MATTERS**

Our operations are subject to extensive federal, state and local environmental 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. Our operations are also subject to extensive federal and state health and safety laws and regulations, including those relating to pipeline safety. The principal environmental and safety risks associated with our operations relate to unauthorized emissions into the air, unauthorized releases into soil, surface water or groundwater, and personal injury and property damage. Compliance with these environmental and safety laws, regulations and permits increases our capital expenditures and our overall cost of business, and violations of these laws, regulations and/or permits can result in significant civil and criminal liabilities, injunctions or other penalties.

The pipelines in the Central West System, the East Pipeline, the North Pipeline and the Ammonia Pipeline are subject to federal regulation by one or more of the following governmental agencies or laws: the Federal Energy Regulatory Commission (the FERC), the Surface Transportation Board (the STB), the Department of Transportation (DOT), the Environmental Protection Agency (EPA), and the Homeland Security Act. Additionally, the operations and integrity of the pipelines are subject to the respective state jurisdictions along the route of the systems.

We have adopted policies, practices and procedures in the areas of pollution control, pipeline integrity, operator qualifications, public relations and education, product safety, process safety, occupational health and the handling, storage, use and disposal of hazardous materials that are designed to prevent material environmental or other damage, to ensure the safety of our pipelines, our employees, the public and the environment and to limit the financial liability that could result from such events. Future governmental action and regulatory initiatives could result in changes to expected operating permits and procedures, additional remedial actions or increased capital expenditures and operating costs that cannot be assessed with certainty at this time. In addition, contamination resulting from spills of petroleum products occurs within the industry. Risks of additional costs and liabilities are inherent within the industry, and there can be no assurances that significant costs and liabilities will not be incurred in the future.

Environmental and safety exposures and liabilities are difficult to assess and estimate due to unknown factors such as the timing and extent of remediation, the determination of our liability in proportion to other parties, improvements in cleanup technologies and the extent to which environmental and safety laws and regulations may change in the future. Although environmental and safety costs may have a significant impact on the results of operations for any single period, we believe that such costs will not have a material adverse effect on our financial position.

The balance of and changes in the accruals for environmental matters were as follows:

	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(Thousands of Dollars)	
Balance as of beginning of year	\$ 11,124	\$ 13,683
Additions to accrual	4,393	3,872
Payments	(4,877)	(6,474)
Foreign currency translation	(370)	43
Balance as of end of year	\$ 10,270	\$ 11,124

Accruals for environmental matters are included in the consolidated balance sheets as follows:

**December 31,**



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	2008	2007
	(Thousands of Dollars)	
Accrued liabilities	\$ 3,994	\$ 5,435
Other long-term liabilities	6,276	5,689
Accruals for environmental matters	\$ 10,270	\$ 11,124

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**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****15. COMMITMENTS AND CONTINGENCIES***Contingencies*

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 December 31, 2008, we have recorded \$0.8 million of accruals related to settled matters and \$80.7 million of accruals for contingent losses. The actual payment of any amounts accrued and the timing of such payments ultimately made is uncertain.

*Grace Energy Corporation Matter.* In 1997, Grace Energy Corporation (Grace Energy) sued subsidiaries of 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 final judgment of the trial court 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. In September 2008, Grace Energy filed its Joint Plan of Reorganization and Disclosure Statement. We have sought relief from the bankruptcy stay in order to pursue our appellate rights.

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 final judgment of the Texas state court assigning ownership of the Otis AFB pipeline to Kaneb, the U.S. Department of Justice (the DOJ) advised Kaneb in 2001 that it intends to seek reimbursement from Kaneb for the remediation costs associated with the two plumes. In November 2008, the DOJ forwarded information to us indicating that the past and estimated future remediation expenses associated with one plume are \$71.9 million. The DOJ has indicated that they will not seek recovery of remediation costs for the second plume. The DOJ has not filed a lawsuit against us related to this matter, and we have not made any payments toward costs incurred by the DOJ.

*Eres Matter.* In August 2008, Eres N.V. (Eres) forwarded a demand for arbitration to CITGO Asphalt Refining Company (CARCO), CITGO Petroleum Corporation (CITGO), NuStar Asphalt Refining, LLC (NuStar Asphalt) and NuStar Marketing LLC (NuStar Marketing, and together with CARCO, CITGO and NuStar Asphalt, the Defendants) contending that the Defendants are in breach of a tanker voyage charter party agreement, dated November 2004, between Eres and CARCO (the Charter Agreement). The Charter Agreement provides for CARCO's use of Eres' vessels for the shipment of asphalt. Eres contends that NuStar Asphalt and/or NuStar Marketing assumed the Charter Agreement when NuStar Asphalt purchased the CARCO assets, and that the Defendants have failed to perform under the Charter Agreement since January 1, 2008. CARCO has demanded that NuStar Asphalt and NuStar Marketing defend and indemnify it against Eres' claims and has filed a lawsuit in the Harris County District Court, Harris County, Texas, seeking to recover on its indemnity claim. This lawsuit has been removed and is currently pending in the U.S. District Court for the Southern District of Texas. In connection with the demand for arbitration, Eres filed a complaint in the U.S. District Court for the Southern District of New York (SDNY) seeking to require the Defendants to arbitrate the dispute and seeking to attach the banking funds of CARCO and NuStar Asphalt (including cash, escrow funds, credits, debts, wire transfers, electronic funds transfers, accounts, letters of credit, freights and charter hire) within the SDNY in amounts of approximately \$78.1 million pending resolution of arbitration between Eres and the Defendants. To date, no funds of NuStar Asphalt have been attached. We intend to vigorously defend against these claims.

*Department of Justice Matter.* In February 2008, the DOJ advised us that the EPA has requested that the DOJ initiate a lawsuit against us for (a) failing to prepare adequate Facility Response Plans, as required by Section 311(j)(5) of the Clean Water Act, 33 U.S.C. §1321(j), for certain of our pipeline terminals located in Region VII by August 30, 1994, and (b)



**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

maintaining Spill Prevention, Control and Countermeasure Plans (SPCC) Plans at the terminal that deviate from the SPCC regulations, 40 C.F.R. §112.3. A Facility Response Plan is a plan for responding to a worst case discharge, and to a substantial threat of such a discharge, of oil or hazardous substances. The SPCC rule requires specific facilities to prepare, amend and implement plans to prevent, prepare and respond to oil discharges to navigable waters and adjoining shorelines. We are currently in settlement negotiations with the DOJ to resolve these matters.

*EPA Investigation.* In November 2006, agents of the EPA presented a search warrant issued by a U.S. District Court at one of our terminals. Since then, we have been served with additional subpoenas. The search warrant and subpoenas all sought 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 have cooperated fully with the U.S. Attorney and the EPA in producing documents in response to the subpoenas. Although the U.S. Attorney has indicated that they intend to seek criminal penalties and fines as a result of alleged violations of environmental laws at the terminal, we are currently in negotiations with the U.S. Attorney and the EPA to resolve this matter. There can be no assurances that the conclusion of the U.S. Attorney's and 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.

We are also a party to additional claims and legal proceedings arising in the ordinary course of business. 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. It is possible that if one or more of the matters described above were decided against us, the effects could be material to our results of operations in the period in which we would be required to record or adjust the related liability and could also be material to our cash flows in the periods we would be required to pay such liability.

**Commitments**

Future minimum rental payments applicable to all noncancellable operating leases and purchase obligations as of December 31, 2008 are as follows:

	Payments Due by Period					There- after	Total
	2009	2010	2011	2012	2013		
	(Thousands of Dollars)						
Operating leases	\$ 40,151	\$ 30,970	\$ 27,428	\$ 23,853	\$ 21,008	\$ 153,403	\$ 296,813
Purchase obligations:							
Crude oil	901,995	901,995	901,995	901,995	901,995	1,127,494	5,637,469
Other purchase obligations	64,224	20,521	16,520	1,398	962	743	104,368

Rental expense for all operating leases totaled \$45.2 million, \$21.0 million and \$15.3 million for the years ended December 31, 2008, 2007 and 2006, respectively. Our operating leases consist primarily of leases for tug and barges utilized at our St. Eustatius facility, leases related to our acquisition of the East Coast Asphalt Operations for storage capacity at third-party terminals and land leases at terminal facilities. In 2008, we entered into a ten-year lease commitment of approximately \$89.0 million for tugs and barges to be utilized at our St. Eustatius facility.

Our crude oil purchase obligations result from a crude supply agreement (CSA) we entered into simultaneously with the acquisition of the East Coast Asphalt Operations. Under the CSA, we committed to purchase an annual average of 75,000 barrels per day of crude oil over a minimum seven-year period from an affiliate of Petróleos de Venezuela S. A. (PDVSA), the national oil company of Venezuela. The value of this commitment fluctuates according to a market-based pricing formula using published market indices, subject to adjustment based on the price of Mexican Maya crude. We estimated the value of the crude oil purchase obligation based on market prices as of December 31, 2008.

In recent months, the Organization of the Petroleum Exporting Countries announced its intention to reduce crude oil production in response to dramatically lower demand for refined products. As a result, we received notice in January 2009 that our scheduled deliveries of Boscan crude oil would be reduced by 600,000 barrels in February and March from



**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the amounts specified in our crude supply agreement with PDVSA. To date, we have replaced the volumes lost from PDVSA with alternative grades of crude oil purchased on the spot market. We have not received notification of any further supply reductions from PDVSA.

We have other purchase obligations mainly related to the purchase of petroleum products for resale to our customers.

**16. FAIR VALUE MEASUREMENTS**

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements. Statement No. 157, as amended, defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measures. The FASB deferred the effective date of Statement No. 157 for one year for all nonfinancial assets and liabilities, except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We have applied the recognition and disclosure provisions of Statement No. 157 for financial assets and liabilities and for nonfinancial assets and liabilities that are re-measured at least annually as of January 1, 2008.

We adopted the recognition and disclosure provisions of Statement No. 157 for nonfinancial assets and liabilities that are not recognized or disclosed at fair value on a recurring basis on January 1, 2009. The adoption of these provisions has not materially affected our financial position or results of operations.

Statement No. 157 establishes a fair value hierarchy, which segregates the inputs used in measuring fair value into three levels: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists.

The following assets and liabilities are measured at fair value on a recurring basis as of December 31, 2008:

	Level 1	Level 2	Level 3	Total
	(Thousands of Dollars)			
Inventory (FAS 133)	\$ (2,441)	\$ -	\$ -	\$ (2,441)
Other current assets:				
Derivatives	8,502	-	-	8,502
Product imbalances	-	11,502	-	11,502
Other long-term assets, net:				
Interest rate swaps	-	15,284	-	15,284
Accrued liabilities:				
Firm commitments	706			706
Product imbalances	-	(2,193)	-	(2,193)
Total	\$ 6,767	\$ 24,593	\$ -	\$ 31,360

**Derivatives**

A portion of our product inventories and related firm commitments qualify for fair value hedge treatment under Statement No. 133. The fair value of the respective hedged items is determined using quoted public spot market prices. As of December 31, 2007, the portion of our product inventory that qualified for fair value hedge treatment under Statement No. 133 was \$1.6 million, and there were no related firm commitments.

Our commodity derivative instruments consist of futures contracts and swaps traded on the NYMEX. Therefore, the fair values of these contracts are based on quoted prices in active markets. We have consistently applied these valuation techniques in all periods presented. As of December 31, 2007, the fair value of our derivative instruments included in Accrued liabilities in our consolidated balance sheets was \$4.6

million.

***Interest Rate Swaps***

The fair value of the interest rate swaps was determined using discounted cash flows, which uses observable inputs such as time to maturity and market interest rates. As of December 31, 2007, the aggregate fair value of our interest rate swaps included in Other long-term assets, net in our consolidated balance sheets was \$2.2 million.

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Product Imbalances**

We value assets and liabilities related to product imbalances by petroleum product at adjusted market prices as of the reporting date. As of December 31, 2007, we had \$13.6 million of product imbalance assets and \$10.5 million of product imbalance liabilities in our consolidated balance sheets.

**17. DERIVATIVES, FINANCIAL INSTRUMENTS AND RISK MANAGEMENT ACTIVITIES**

We utilize various derivative instruments to: (i) manage our exposure to commodity price risk, (ii) engage in a trading program and (iii) manage our exposure to interest rate risk. Our risk management policies and procedures are designed to monitor interest rates, NYMEX and over-the-counter positions, as well as physical volumes, grades, locations and delivery schedules to help ensure that our hedging activities address our market risks. We have a risk management committee that oversees our trading controls and procedures and certain aspects of commodity and trading risk management. Our risk management committee also approves all new commodity and trading risk management strategies in accordance with our Risk Management Policy, as approved by our board of directors.

**Commodity Price Risk**

We are exposed to commodity price risk with respect to our product inventories and related firm commitments to purchase and/or sell such inventories. We utilize futures contracts and swaps traded on the NYMEX to manage our exposure to changes in the fair value of certain of our product inventories and related firm commitments.

The changes in the fair value of inventories and firm commitments designated as hedged items and the resulting ineffectiveness of our fair value hedges were as follows:

	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(Thousands of Dollars)	
(Decrease) increase in the fair value of inventories and firm commitments	\$ (3,344)	\$ 1,608
Ineffectiveness gain	\$ 424	\$ 126

No component of the associated derivative instruments gains or losses was excluded from our assessment of hedge ineffectiveness.

The earnings impact of our derivative activity was as follows:

	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>
	(Thousands of Dollars)	
<b>Commodity price risk hedging gain (loss):</b>		
Mark-to-market, net	\$ 9,784	\$ (3,017)
Settled	(44,650)	(4,519)
Total	\$ (34,866)	\$ (7,536)

**Trading gain (loss):**



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Mark-to-market, net	\$ (3)	\$ 3
Settled	(1,209)	(2,332)
Total	\$ (1,212)	\$ (2,329)

For the year ended December 31, 2008, the commodity price-risk hedging loss includes \$60.7 million associated with certain crude oil and intermediate product futures contracts. We entered into these contracts concurrently with our acquisition of the East Coast Asphalt Operations to limit the volatility from price fluctuations on a portion of the inventory we acquired. However, the price of crude oil increased dramatically from the date we entered into the hedges until May 2008, at which time we terminated the contracts prior to their expiration. As of December 31, 2008, we did not have any derivative contracts related to the inventories of the East Coast Asphalt Operations.

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Interest Rate Risk***

We are a party to interest rate swap agreements to manage our exposure to changes in interest rates. The interest rate swap agreements have an aggregate notional amount of \$167.5 million, of which \$60.0 million is tied to the maturity of the 6.875% senior notes and \$107.5 million is tied to the maturity of the 6.05% senior notes. Under the terms of the interest rate swap agreements, we will receive a fixed rate (6.875% and 6.05% for the \$60.0 million and \$107.5 million of interest rate swap agreements, respectively) and will pay a variable rate based on LIBOR plus a percentage that varies with each agreement. As of December 31, 2008 and 2007, the weighted-average interest rate for our interest rate swaps was 3.0% and 6.1%, respectively.

The estimated fair value of our fixed-rate debt as of December 31, 2008 and 2007 was \$1,157.5 million and \$927.2 million, respectively, as compared to the carrying amount of \$1,261.2 million and \$918.3 million, respectively. These fair values were estimated using discounted cash flow analysis, based on our current incremental borrowing rates for similar types of borrowing arrangements. Interest rates on borrowings under our variable rate debt float with market rates and thus the carrying amount approximates fair value.

***Concentration of Credit Risk***

We are exposed to credit risk on our hedging instruments in the event of nonperformance by counterparties. However, because our hedging activities are transacted only with highly rated institutions, we do not anticipate nonperformance by any of these counterparties.

For the year ended December 31, 2008, no single customer accounted for more than 10% of our consolidated operating revenues. For the years ended December 31, 2007 and 2006 we derived approximately 18% and 23%, respectively, of our revenues from Valero Energy and its subsidiaries, our largest customer, and no other single customer accounted for more than 10% of our consolidated operating revenues.

**18. RELATED PARTY TRANSACTIONS**

Our operations are managed by the general partner of our general partner, NuStar GP, LLC. The employees of NuStar GP, LLC perform services for our U.S. operations. Certain of our wholly owned subsidiaries employ persons who perform services for our international operations. We reimburse NuStar GP, LLC for all costs related to its employees, other than costs associated with NuStar GP Holdings under the services agreement described below. We had a payable of \$3.4 million and a receivable of \$0.8 million, as of December 31, 2008 and 2007, respectively, with both amounts representing payroll and benefit plan costs, net of payments made by us. We also had a long-term payable as of December 31, 2008 and 2007 of \$6.6 million and \$5.7 million, respectively, to NuStar GP, LLC related to amounts payable for retiree medical benefits and other post-employment benefits.

Prior to December 22, 2006, Valero Energy controlled our general partner. We have transactions with Valero Energy for pipeline tariff, terminalling fee and crude oil storage tank fee revenues, certain employee costs, insurance costs, administrative costs and lease expense, which were reported as related party transactions in the consolidated statements of income. Due to Valero Energy's sale of its interest in NuStar GP Holdings on December 22, 2006, we ceased reporting transactions with Valero Energy as related party transactions subsequent to that date.

The following table summarizes information pertaining to related party transactions with NuStar GP, LLC for the years ended December 31, 2008 and 2007 and with Valero Energy for the year ended December 31, 2006:

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
	(Thousands of Dollars)		
Revenues	\$ -	\$ -	\$ 260,980
Operating expenses	115,291	93,211	94,587
General and administrative expenses	44,988	37,702	32,183

***Agreements with NuStar GP Holdings***

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*GP Services Agreement.* In April 2008, the boards of directors of NuStar GP, LLC and NuStar GP Holdings approved (i) the termination of the administration agreement, dated July 16, 2006, between NuStar GP Holdings and NuStar GP,

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**Table of Contents**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

LLC (the Administration Agreement) and (ii) the adoption of a services agreement between NuStar GP, LLC and NuStar Energy (the GP Services Agreement). All employees providing services to both NuStar GP Holdings and NuStar Energy are employed by NuStar GP, LLC.

Under the Administration Agreement, NuStar GP Holdings paid annual charges of \$500,000, subject to certain adjustments, to NuStar GP, LLC in return for NuStar GP, LLC's provision of all executive management, accounting, legal, cash management, corporate finance and other administrative services to NuStar GP Holdings. NuStar GP Holdings also reimbursed NuStar GP, LLC for all direct public company costs and any other direct costs, such as outside legal and accounting fees, that NuStar GP, LLC incurred while providing services to NuStar GP Holdings.

In connection with the termination of the Administration Agreement, NuStar Energy and NuStar GP, LLC entered into the GP Services Agreement, effective as of January 1, 2008. The GP Services Agreement provides that NuStar GP, LLC will furnish all administrative services necessary for the conduct of the business of NuStar Energy, and NuStar Energy will reimburse NuStar GP, LLC for all costs, other than the expenses allocated to NuStar GP Holdings (the Holdco Administrative Services Expense).

For 2008, the Holdco Administrative Services Expense totaled \$750,000, plus 1.0% of NuStar GP, LLC's domestic bonus and unit compensation expense for the 2008 fiscal year and subject to certain other adjustments. The GP Services Agreement will terminate on December 31, 2012, with automatic two-year renewals unless terminated by either party upon six months' prior written notice. The aggregate amounts allocated to NuStar GP Holdings related to the Administration Agreement and the GP Services Agreement were \$0.9 million, \$0.5 million and \$0.3 million for the years ended December 31, 2008, 2007 and 2006, respectively.

*Non-Compete Agreement.* On July 19, 2006, we entered into a non-compete agreement with NuStar GP Holdings, Riverwalk Logistics, L.P., and NuStar GP, LLC (the Non-Compete Agreement). The Non-Compete Agreement became effective on December 22, 2006 when NuStar GP Holdings ceased to be subject to the Amended and Restated Omnibus Agreement, dated March 31, 2006. Under the Non-Compete Agreement, we will have a right of first refusal with respect to the potential acquisition of assets that relate to the transportation, storage or terminalling of crude oil, feedstocks or refined petroleum products (including petrochemicals) in the United States and internationally. NuStar GP Holdings will have a right of first refusal with respect to the potential acquisition of general partner and other equity interests in publicly traded partnerships under common ownership with the general partner interest. With respect to any other business opportunities, neither the Partnership nor NuStar GP Holdings are prohibited from engaging in any business, even if the Partnership and NuStar GP Holdings would have a conflict of interest with respect to such other business opportunity.

***Agreements with Valero Energy***

We are a party to a number of operating agreements with Valero Energy, which was a related party during 2006, that govern the required services provided to and received from Valero Energy. Most of the operating agreements include adjustment provisions, which allow us to increase the handling, storage and throughput fees we charge to Valero Energy based on a consumer price index. In addition, we review our pipeline tariffs, which are adjusted annually based on an inflation index and may also be adjusted to take into consideration additional costs incurred to provide the transportation services. The following summarizes the significant terms of the individual agreements.

*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 a net administrative services fee, which was \$1.8 million for the year ended December 31, 2006.

Although Valero Energy no longer provided employees to work directly on our behalf during 2007, they continued to provide certain services to us under the terms of a services agreement dated December 22, 2006 (the 2007 Services Agreement). Under the 2007 Services Agreement, we paid Valero Energy approximately \$1.1 million for the year ended December 31, 2007 for certain administrative services and telecommunication services. On April 16, 2007, Valero Energy exercised its option to terminate the 2007 Services Agreement. In accordance with the terms of the 2007 Services Agreement, Valero Energy paid us a termination fee of \$13.0 million in May 2007 and continued providing certain services over a period of time sufficient to allow us to assume those functions by the end of 2007.



**Table of Contents**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Omnibus Agreement.* On March 31, 2006, we entered into an amended and restated omnibus agreement (the 2006 Omnibus Agreement) with Valero Energy, NuStar GP, LLC, Riverwalk Logistics, L.P., and NuStar Logistics. The 2006 Omnibus Agreement superseded the Omnibus Agreement among the parties dated effective April 16, 2001. The 2006 Omnibus Agreement governed potential competition between Valero Energy and us. With the closing of NuStar GP Holding's secondary public offering on December 22, 2006, Valero Energy ceased to own 20% or more of us, which allows Valero Energy to compete with us. Also under the 2006 Omnibus Agreement, Valero Energy agreed to indemnify us for environmental liabilities related to the assets transferred to us in connection with our initial public offering, provided that such liabilities arose prior to and are discovered within ten years after that date (excluding liabilities resulting from a change in law after April 16, 2001).

*Pipelines and Terminals Usage Agreement - McKee, Three Rivers and Ardmore.* Under the terms of the Pipelines and Terminals Usage Agreement dated April 16, 2001, we provided transportation services that support Valero Energy's refining and marketing operations relating to the McKee, Three Rivers and Ardmore refineries. Pursuant to the agreement, Valero Energy had agreed through April 2008:

- to transport in our crude oil pipelines at least 75% of the aggregate volumes of crude oil shipped to the McKee, Three Rivers and Ardmore refineries;
- to transport in our refined product pipelines at least 75% of the aggregate volumes of refined products shipped from the McKee, Three Rivers and Ardmore refineries; and
- to use our refined product terminals for terminalling services for at least 50% of all refined products shipped from the McKee, Three Rivers and Ardmore refineries.

In the event Valero Energy did not transport in our pipelines or use our terminals to handle the minimum volume requirements and if its obligation has not been suspended under the terms of the agreement, Valero Energy would have been required to make a cash payment determined by multiplying the shortfall in volume by the applicable weighted average pipeline tariff or terminal fee. For the period from January 1, 2008 through April 15, 2008 and the years ended December 31, 2007 and 2006, Valero Energy exceeded its obligations under the Pipelines and Terminals Usage Agreement. Additionally, Valero Energy had agreed not to challenge, or cause others to challenge, our interstate or intrastate tariffs for the transportation of crude oil and refined products. The Pipelines and Terminals Usage Agreement expired on April 16, 2008.

*Crude Oil Storage Tank Agreements.* In conjunction with the acquisition of the Crude Oil Storage Tanks in March 2003, we entered into the following agreements with Valero Energy:

*Handling and Throughput Agreement,* dated March 2003, pursuant to which Valero Energy agreed to pay us a fee for 100% of crude oil and certain other feedstocks delivered to the Corpus Christi West refinery, the Texas City refinery and the Benicia refinery and to use our logistic assets for handling all deliveries to these refineries. The throughput fees are adjustable annually, generally based on 75% of the regional consumer price index applicable to the location of each refinery. The initial term of the handling and throughput agreement is ten years, which may be extended by Valero Energy for up to an additional five years.

*Services and Secondment Agreements,* dated March 2003, pursuant to which Valero Energy agreed to provide personnel to us who perform operating and routine maintenance services related to the crude oil storage tank operations. The annual reimbursement for those services is an aggregate \$3.5 million. The initial term of the services and secondment agreements is ten years, which we may extend for an additional five years. In addition to the fees we have agreed to pay Valero Energy under the services and secondment agreements, we are responsible for operating expenses and specified capital expenditures related to the tank assets that are not addressed in the services and secondment agreements. These operating expenses and capital expenditures include tank safety inspections, maintenance and repairs, certain environmental expenses, insurance premiums and ad valorem taxes.

*Lease and Access Agreements,* dated March 2003, pursuant to which Valero Energy leases to us the land on which the crude oil storage tanks are located for an aggregate amount of \$0.7 million per year. The initial term of each lease is 25 years, subject to automatic renewal for successive one-year periods thereafter. We may terminate any of these leases upon 30 days notice after the initial term or at the end of a renewal period. In addition, we may terminate any of these leases upon 180 days notice prior to the expiration of the current term if we cease to operate the crude oil storage tanks or cease business operations.

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*South Texas Pipelines and Terminals Agreements.* In conjunction with the acquisition of the South Texas Pipelines and Terminals in March 2003, we entered into the following agreements with Valero Energy:

*Terminalling Agreement*, dated March 2003, pursuant to which Valero Energy agreed, during the initial period of five years, to pay a terminalling fee for each barrel of refined product stored or handled by or on behalf of Valero Energy at the terminals, including an additive fee for gasoline additive blended at the terminals. At the Houston Hobby Airport terminal, Valero Energy agreed to pay a filtering fee for each barrel of jet fuel stored or handled at the terminal.

*Throughput Commitment Agreement*, dated March 2003, pursuant to which Valero Energy agreed, for an initial period of seven years:

- to transport in the Houston and Valley pipeline systems an aggregate of 40% of the Corpus Christi refineries gasoline and distillate production but only if the combined throughput in these pipelines is less than 110,000 barrels per day;
- to transport in the Pettus to San Antonio refined product pipeline 25% of the Three Rivers refinery gasoline and distillate production and in the Pettus to Corpus Christi refined product pipeline 90% of the Three Rivers refinery raffinate production;
- to use the Houston asphalt terminal for an aggregate of 7% of the asphalt production of the Corpus Christi refineries;
- to use the Edinburg refined product terminal for an aggregate of 7% of the gasoline and distillate production of the Corpus Christi refineries, but only if the throughput at this terminal is less than 20,000 barrels per day; and
- to use the San Antonio East terminal for 75% of the throughput in the Pettus to San Antonio refined product pipeline.

In the event Valero Energy does not transport in our pipelines or use our terminals to handle the minimum volume requirements and if its obligation has not been suspended under the terms of the agreement, Valero Energy will be required to make a cash payment determined by multiplying the shortfall in volume by the applicable weighted average pipeline tariff or terminal fee. Valero Energy's obligation to transport 90% of the Three Rivers refinery raffinate production in the Pettus to Corpus Christi refined product pipeline was suspended in the fourth quarter of 2005 due to the temporary idling of the pipeline in the fourth quarter of 2005.

*St. James Terminalling Agreement.* On December 1, 2006, we executed a terminal services agreement with Valero Energy for the St. James, Louisiana crude oil facility (the St. James Terminal Agreement). Pursuant to the St. James Terminal Agreement, we will provide crude oil storage and blending services to Valero Energy for a minimum throughput fee of \$1.175 million per month, plus \$0.08 per barrel throughput in excess of 4 million barrels per month and \$0.03 per barrel blended. The St. James Terminal Agreement has an initial term of five years, with an option to extend for an additional five years, provided that Valero Energy provides notice of its intent to extend the term at least one year prior to the expiration of the initial term.

**19. EMPLOYEE BENEFIT PLANS AND LONG-TERM INCENTIVE PLANS*****Employee Benefit Plans***

We rely on employees of NuStar GP, LLC to provide the necessary services to conduct our U.S. operations. Prior to July 1, 2006, the employees of NuStar GP, LLC were included in the various employee benefit plans of Valero Energy, which included a defined benefit pension plan, a retiree welfare benefit plan, health and welfare benefits, a defined contribution retirement plan, equity incentive plans and nonqualified deferred compensation plans. On July 1, 2006, employees of NuStar GP, LLC began participating in newly enacted, comparable plans sponsored by NuStar GP, LLC.

The NuStar Pension Plan (the Pension Plan) is a qualified non-contributory defined benefit plan that became effective July 6, 2006. The Pension Plan covers substantially all of NuStar GP, LLC's employees and generally provides eligible employees with retirement income based on years of service and compensation during the period of service. Employees may become eligible to receive benefits after five years of service, which includes service recognized by Valero Energy for vesting purposes under the Valero Energy pension plan. All benefit obligations associated with service for certain employees who were participants in the Valero Energy pension plan through June 30, 2006, including the effect of future salary increases, are the responsibility of Valero Energy. All benefit obligations related to service by NuStar GP, LLC employees on or after July 1, 2006 will be covered by the Pension Plan. Effective January 1, 2008, that plan was





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**Table of Contents**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

amended to comply with changes to Internal Revenue Code Section 409A (Section 409A) and change the name of the plan. The Pension Plan was further amended effective January 1, 2009 to require employees to complete one year of service, as defined in the Pension Plan, in order to participate in the Pension Plan.

NuStar GP, LLC also has an excess pension plan (the Excess Pension Plan) and a supplemental executive retirement plan (the SERP) that provide benefits to a select group of management or other highly compensated employees of NuStar GP, LLC. The Excess Pension Plan and SERP were each amended effective January 1, 2008 to comply with changes to Section 409A.

The NuStar Thrift Plan (the Thrift Plan) is a qualified employee profit-sharing plan which became effective June 26, 2006. Participation in the Thrift Plan is voluntary and is open to substantially all of NuStar GP, LLC employees who become eligible to participate upon date of hire. Thrift Plan participants can make basic contributions from 1% up to 30% of their total annual compensation. The maximum match by NuStar GP, LLC was 75% of each participant's basic contributions up to 8% based on the participant's total annual compensation. Effective January 1, 2008, the Thrift Plan was amended to comply with changes to Section 409A and change the maximum match by NuStar GP, LLC to 100% of each participant's total contribution up to 6% based on the participant's total annual compensation. The Thrift Plan was further amended effective January 1, 2009 to require temporary employees to complete one year of service in order to participate in the Thrift Plan (temporary employees and year of service, each as defined in the Thrift Plan).

NuStar GP, LLC also has an excess thrift plan (the Excess Thrift Plan) which became effective July 1, 2006 and provides benefits to a select group of management or other highly compensated employees. The Excess Thrift Plan provides benefits to those employees of NuStar GP, LLC whose annual additions under the Thrift Plan are subject to the limitations under the Internal Revenue Code. The Excess Thrift Plan was amended effective January 1, 2008 to comply with changes to Section 409A.

NuStar GP, LLC also provides a post-retirement medical benefits plan for retired employees, referred to as other post-retirement benefits.

None of the Excess Thrift Plan, the Excess Pension Plan or the SERP is intended to constitute either a qualified plan under the provisions of Section 401 of the Code or a funded plan subject to ERISA. All costs incurred by NuStar GP, LLC related to these employee benefit plans were and will continue to be reimbursed by us at cost.

***Long-Term Incentive Plans***

NuStar GP, LLC also sponsors the following:

The Second Amended and Restated 2000 Long-Term Incentive Plan (the 2000 LTIP), under which NuStar GP, LLC may award up to 1,500,000 common units. Awards under the 2000 LTIP can include unit options, restricted units, performance awards, distribution equivalent rights (DERs) and contractual rights to receive common units. As of December 31, 2008, a total of 471,117 common units remained available to be awarded under the 2000 LTIP.

The 2003 Employee Unit Incentive Plan (the UIP) under which NuStar GP, LLC may award up to 500,000 NuStar Energy common units to employees of NuStar GP, LLC or its affiliates, excluding officers and directors of NuStar GP, LLC and its affiliates. Awards under the UIP can include unit options, restricted units and DERs. As of December 31, 2008, a total of 259,719 common units remained available to be awarded under the UIP.

The 2002 Unit Option Plan (the UOP) under which NuStar GP, LLC may award up to 200,000 NuStar Energy unit options to officers and directors of NuStar GP, LLC or its affiliates, of which substantially all of the unit options have been awarded as of December 31, 2008.

The 2006 Long-Term Incentive Plan (the 2006 LTIP) under which NuStar GP Holdings may award up to 2,000,000 units to employees, consultants and directors of NuStar GP Holdings and its affiliates, including us. Awards under the 2006 LTIP can include unit options, performance units, restricted units, phantom units, unit grants and unit appreciation rights of NuStar GP Holdings, LLC. As of December 31, 2008, a total of 1,627,029 NuStar GP Holdings units remained available to be awarded under the 2006 LTIP.

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Our share of compensation expense related to the various long-term incentive plans described above totaled \$5.3 million, \$3.8 million and \$2.4 million, respectively, for the years ended December 31, 2008, 2007 and 2006. We record such amounts in General and administrative expenses in the consolidated statements of income for those years.

The number of awards granted under the above noted plans were as follows:

	Year Ended December 31,					
	2008		2007		2006	
	Granted	Vesting	Granted	Vesting	Granted	Vesting
<b>2000 LTIP:</b>						
Performance awards	14,470	(a)	10,840	(a)	8,940	(a)
Unit options	10,670	1/5 per year	204,675	1/5 per year	203,975	1/5 per year
Restricted units	236,868	1/5 per year	117,575	1/5 per year	51,140	1/5 per year
Restricted units (grants to non-employee directors of NuStar GP, LLC) (b)	5,625	1/3 per year	3,510	1/3 per year	2,307	1/3 per year
<b>UIP:</b>						
Unit options	795	1/5 per year	-	-	15,200	1/5 per year
Restricted units	13,795	1/5 per year	12,730	1/5 per year	9,740	1/5 per year
<b>2006 LTIP:</b>						
Unit options	-	-	324,100	(c)	-	-
Restricted units	30,300	1/5 per year	-	-	-	-
Restricted units (grants to non-employee directors of NuStar GP Holdings) (b)	10,308	1/3 per year	5,489	1/3 per year	2,886	1/3 per year

(a) Performance awards vest 1/3 per year if certain performance measures are met.

(b) We do not reimburse NuStar GP, LLC for compensation expense relating to these plans.

(c) Unit options granted under the 2006 LTIP vest in annual one-third increments beginning on the third anniversary of the grant date.

**20. OTHER INCOME**

Other income consisted of the following:

	Year Ended December 31,		
	2008	2007	2006
	(Thousands of Dollars)		
Sale of interest in Skelly-Belvieu (see Note 10)	\$ 18,867	\$ -	\$ -
Sale or disposal of fixed assets	7,589	7,869	474
Business interruption insurance	3,504	12,492	-
2007 Services Agreement termination fee (see Note 18)	-	13,000	-
Legal settlements	-	5,758	-
Foreign exchange gains (losses)	5,888	(6,261)	1,011
Other	1,891	5,972	1,767
Other income, net	\$ 37,739	\$ 38,830	\$ 3,252

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The business interruption insurance amount consists of insurance proceeds related to lost earnings at our pipelines and terminals that serve Valero Energy's McKee refinery, which experienced a fire in February 2007.

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****21. PARTNERS EQUITY, ALLOCATIONS OF NET INCOME AND CASH DISTRIBUTIONS***Partners Equity*

In April 2008, we issued 5,050,800 common units representing limited partner interests at a price of \$48.75 per unit. We received net proceeds of \$236.2 million and a contribution of \$5.0 million from our general partner to maintain its 2% general partner interest. The proceeds were used to repay the \$124.0 million balance under our then-active term loan agreement and a portion of the outstanding principal balance under our 2007 Revolving Credit Agreement.

On November 19, 2007, we issued 2,600,000 common units representing limited partner interests at a price of \$57.20 per unit. We received net proceeds of \$143.1 million and a contribution of \$3.0 million from our general partner to maintain its 2% general partner interest. The proceeds were used to repay a portion of the outstanding principal balance under our then-active \$600 million revolving credit agreement.

*Subordinated Units*

Effective April 1, 2006, we satisfied all the conditions included in our partnership agreement for the subordination period to end. Accordingly, all 9,599,322 subordinated units converted into common units on a one-for-one basis on May 8, 2006, the first business day after the record date for the distribution related to the first quarter earnings of 2006. Riverwalk Holdings, LLC held the 9,599,322 subordinated units at the time of conversion.

*Allocations of Net Income*

Our partnership agreement, as amended, sets forth the calculation to be used to determine the amount and priority of cash distributions that the common unitholders, subordinated unitholders and general partner will receive. The partnership agreement also contains provisions for the allocation of net income and loss to the unitholders 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.

During the year ended December 31, 2006, our general partner reimbursed us for certain charges we incurred related to services historically provided under our services agreement with Valero Energy. United States generally accepted accounting principles required us to record the charges as expenses and record the reimbursement as a capital contribution.

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

	Year Ended December 31,		
	2008	2007	2006
	(Thousands of Dollars)		
Net income applicable to general partner and limited partners interest	\$ 254,018	\$ 150,298	\$ 149,530
Charges reimbursed by general partner			575
Net income before charges reimbursed by general partner	254,018	150,298	150,105
Less general partner incentive distribution (a)	24,764	18,426	14,778
Net income before charges reimbursed by general partner and after general partner incentive distribution	229,254	131,872	135,327

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General partner interest	2%	2%	2%
General partner allocation of net income before charges reimbursed by general partner and after general partner incentive distribution	4,586	2,637	2,707
Charges reimbursed by general partner			(575)
General partner incentive distribution	24,764	18,426	14,778
Net income applicable to general partner	\$ 29,350	\$ 21,063	\$ 16,910

- (a) For the first quarter of 2008, our net income allocation to general and limited partners reflected a total cash distribution based on the partnership interests outstanding as of March 31, 2008. We issued approximately 5.1

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

million common units in April 2008. Actual distribution payments are made within 45 days after the end of each quarter as of a record date that is set after the end of each quarter. As such, the general partner's portion of the actual distribution made with respect to the first quarter 2008, including the incentive distribution rights, was greater than the net income allocation to the general partner.

**Cash Distributions**

We make quarterly distributions of 100% of our available cash, generally defined as cash receipts less cash disbursements and cash reserves established by the general partner, in its sole discretion. These quarterly distributions are declared and paid within 45 days subsequent to each quarter-end. The limited partner unitholders are entitled to receive a minimum quarterly distribution of \$0.60 per unit each quarter (\$2.40 annualized). Our cash is first distributed 98% to the limited partners and 2% to the general partner until there has been distributed to the unitholders an amount equal to the minimum quarterly distribution and arrearages in the payment of the minimum quarterly distribution for any prior quarter. Thirdly, cash in excess of the minimum quarterly distributions is distributed to the unitholders and the general partner based on the percentages shown below.

The general partner is entitled to incentive distributions if the amount we distribute with respect to any quarter exceeds specified target levels shown below:

Quarterly Distribution Amount per Unit	Percentage of Distribution	
	Unitholders	General Partner
Up to \$0.60	98%	2%
Above \$0.60 up to \$0.66	90%	10%
Above \$0.66	75%	25%

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

	Year Ended December 31,		
	2008	2007	2006
	(Thousands of Dollars, Except Per Unit Data)		
General partner interest	\$ 5,058	\$ 4,092	\$ 3,742
General partner incentive distribution	25,294	18,426	14,778
Total general partner distribution	30,352	22,518	18,520
Limited partners' distribution	222,470	182,076	168,515
Total cash distributions	\$ 252,822	\$ 204,594	\$ 187,035
Cash distributions per unit applicable to limited partners	\$ 4.085	\$ 3.835	\$ 3.600

In January 2009, we declared a quarterly cash distribution of \$1.0575 that was paid on February 12, 2009 to unitholders of record on February 5, 2009. This distribution related to the fourth quarter of 2008 and totaled \$65.8 million, of which \$8.2 million represented the general partner's share of such distribution. The general partner's distribution included a \$6.9 million incentive distribution.





**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****22. CONSOLIDATED STATEMENTS OF CASH FLOWS**

Changes in current assets and current liabilities were as follows:

	Year Ended December 31,		
	2008	2007	2006
	(Thousands of Dollars)		
Decrease (increase) in current assets:			
Accounts receivable notes receivable	\$ (52,372)	\$ (22,079)	\$ 27,307
Receivable from related party	786	(786)	1,168
Inventories	193,992	(71,457)	257
Other current assets	6,920	(8,603)	6,181
Increase (decrease) in current liabilities:			
Payable to related party	3,760	(2,315)	(9,493)
Accounts payable	(16,419)	72,918	(7,106)
Accrued interest payable	4,781	182	1,135
Accrued liabilities	(13,237)	9,546	(8,300)
Taxes other than income taxes	4,730	2	1,345
Income taxes payable	76	1,266	(1,799)
<b>Changes in current assets and current liabilities</b>	<b>\$ 133,017</b>	<b>\$ (21,326)</b>	<b>\$ 10,695</b>

The above changes in current assets and current liabilities differ from changes between amounts reflected in the applicable consolidated balance sheets for the following reasons:

the amounts shown above exclude the current assets and current liabilities acquired in connection with the East Coast Asphalt Operations acquisition; and  
certain differences between consolidated balance sheet changes and amounts reflected above result from translating foreign currency denominated amounts at different exchange rates.

Non-cash investing and financing activities for the year ended December 31, 2008 included:

adjustment to property, plant and equipment and other long-term assets relating to a non-amortizing asset on our ammonia pipeline;  
increase in the fair value of our interest rate swaps; and  
the recognition of a note payable and related other current asset pertaining to insurance.

Non-cash investing and financing activities for the year ended December 31, 2007 included:

adjustments to property, plant and equipment, goodwill and intangible assets resulting from the final purchase price allocations related to the St. James crude oil storage facility acquisition in December 2006;  
the recognition of a note payable and related other current asset pertaining to insurance; and  
adjustments to the fair value of our interest rate swap agreements.

Non-cash investing activities for the year ended December 31, 2006 included adjustments mainly to property, plant and equipment and goodwill resulting from the final purchase price allocation related to the Kaneb Acquisition in July 2005.

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

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	Year Ended December 31,		
	2008	2007	2006
	(Thousands of Dollars)		
Cash paid for interest, net of amount capitalized	\$ 98,810	\$ 83,450	\$ 73,206
Cash paid for income taxes, net of tax refunds received	\$ 12,231	\$ 9,081	\$ 7,234

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****23. INCOME TAXES**

Components of income tax expense related to certain of our operations conducted through separate taxable wholly owned corporate subsidiaries were as follows:

	Year Ended December 31,		
	2008	2007	2006
(Thousands of Dollars)			
<b>Current:</b>			
U.S.	\$ 1,059	\$ 2,373	\$ 245
Foreign	9,910	8,799	5,690
Total current	10,969	11,172	5,935
<b>Deferred:</b>			
U.S.	(1,280)	827	(3,681)
Foreign	1,317	(551)	3,607
Total deferred	37	276	(74)
<b>Total income tax expense</b>	<b>\$ 11,006</b>	<b>\$ 11,448</b>	<b>\$ 5,861</b>

The difference between income tax expense recorded in our consolidated statements of income and income taxes computed by applying the statutory federal income tax rate (35% for all years presented) to income before income tax expense is due to the fact that the majority of our income is not subject to federal income tax due to our status as a limited partnership.

The tax effects of significant temporary differences representing deferred income tax assets and liabilities were as follows:

	December 31,	
	2008	2007
(Thousands of Dollars)		
<b>U.S.:</b>		
Net operating losses	\$ 23,283	\$ 21,509
Environmental and legal reserves	14,252	14,611
Other	902	784
Valuation allowance	(13,366)	(13,276)
Deferred tax assets U. S.	25,071	23,628
Property, plant and equipment	(12,644)	(13,006)
Net deferred income tax asset U.S.	\$ 12,427	\$ 10,622
<b>Foreign:</b>		
Other	\$ 1,022	\$ 1,057

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Capital loss	1,569	2,292
Valuation allowance	(1,312)	(1,977)
Deferred tax assets foreign	1,279	1,372
Property, plant and equipment	(28,649)	(35,568)
Net deferred income tax liability foreign	\$ (27,370)	\$ (34,196)

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**Table of Contents**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Our U.S. corporate operations have net operating loss carryforwards for tax purposes totaling approximately \$66.5 million, which are subject to various limitations on use and expire in years 2009 through 2028.

As of December 31, 2008 and 2007, we have recorded a valuation allowance, substantially all of which was recorded in conjunction with the allocation of the purchase price of the Kaneb Acquisition, due to uncertainties related to our ability to utilize some of our deferred income tax assets, primarily consisting of certain federal net operating loss carryforwards, before they expire. The net change in the total valuation allowance for the year ended December 31, 2008 was a decrease of \$0.6 million. The valuation allowance is based on our estimates of taxable income in the various jurisdictions in which we operate and the period over which deferred income tax assets will be recoverable.

The realization of net deferred income tax assets recorded as of December 31, 2008 is dependent upon our ability to generate future taxable income in the United States. We believe it is more-likely-than not that the deferred income tax assets, net of the valuation allowance, as of December 31, 2008 will be realized, based on expected future taxable income and potential tax planning strategies.

***St. Eustatius Tax Agreement***

On June 1, 1989, the governments of the Netherlands Antilles and St. Eustatius approved a Free Zone and Profit Tax Agreement retroactive to January 1, 1989, which expired on December 31, 2000. This agreement required a subsidiary of Kaneb, which we acquired on July 1, 2005, to pay the greater of 2% of taxable income, as defined therein, or 500,000 Netherlands Antilles guilders (approximately \$0.3 million) per year. The agreement further provided that any amounts paid in order to meet the minimum annual payment were available to offset future tax liabilities under the agreement to the extent that the minimum annual payment is greater than 2% of taxable income.

On February 22, 2006, we entered into a revised agreement (the 2005 Tax and Maritime Agreement) with the governments of St. Eustatius and the Netherlands Antilles. The 2005 Tax and Maritime Agreement is effective beginning January 1, 2005 and expires on December 31, 2014. Under the terms of the 2005 Tax and Maritime Agreement, we agreed to make a one-time payment of five million Netherlands Antilles guilders (approximately \$2.8 million) in full and final settlement of all of our liabilities, taxes, fees, levies, charges, or otherwise (including settlement of audits) due or potentially due to St. Eustatius. We further agreed to pay an annual minimum profit tax to St. Eustatius of one million Netherlands Antilles guilders (approximately \$0.6 million), beginning as of January 1, 2005. We agreed to pay the minimum annual profit tax in twelve equal monthly installments. To the extent the minimum annual profit tax exceeds 2% of taxable profit (as defined in the 2005 Tax and Maritime Agreement), we can carry forward that excess to offset future tax liabilities. If the minimum annual profit tax is less than 2% of taxable profit, we agreed to pay that difference.

**24. SEGMENT INFORMATION**

Beginning in the second quarter of 2008, we revised the manner in which we internally evaluate our segment performance and made certain organizational changes. As a result, we have changed the way we report our segmental results. All product sales and related costs, including those associated with the East Coast Asphalt Operations, are included in the asphalt and fuels marketing segment. Also, the refined product terminals and crude oil storage tanks segments have been combined into the storage segment and the refined products pipelines and crude oil pipelines segments have been combined into the transportation segment. Previous periods have been restated to conform to this presentation.

Our segments represent strategic business units that offer different services. We evaluate the performance of each segment based on its respective 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. Product sales included in our asphalt and fuels marketing segment consist of sales of asphalt and other petroleum products to third parties. Intersegment revenues are derived from storage and throughput rates consistent with rates charged to third parties and pipeline tariffs based upon the published tariff applicable to all shippers.

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Results of operations for the reportable segments were as follows:

	2008	Year Ended December 31, 2007	2006
	(Thousands of Dollars)		
<b>Revenues:</b>			
Storage:			
Third party revenues	\$ 423,730	\$ 400,058	\$ 355,144
Intersegment revenues	30,359	10,569	8,269
<b>Total storage</b>	<b>454,089</b>	<b>410,627</b>	<b>363,413</b>
Transportation:			
Third party revenues	316,900	296,565	281,010
Intersegment revenues	878	231	-
<b>Total transportation</b>	<b>317,778</b>	<b>296,796</b>	<b>281,010</b>
Asphalt and fuels marketing:			
Third party revenues	4,088,140	778,391	501,107
Intersegment revenues	29	-	-
<b>Total asphalt and fuels marketing</b>	<b>4,088,169</b>	<b>778,391</b>	<b>501,107</b>
Consolidation and intersegment eliminations	(31,266)	(10,800)	(8,269)
<b>Total revenues</b>	<b>\$ 4,828,770</b>	<b>\$ 1,475,014</b>	<b>\$ 1,137,261</b>
<b>Depreciation and amortization expense:</b>			
Storage	\$ 66,706	\$ 62,317	\$ 53,121
Transportation	50,749	49,946	47,145
Asphalt and fuels marketing	14,734	423	-
Consolidation and intersegment eliminations	3,520	1,607	-
<b>Total depreciation and amortization expense</b>	<b>\$ 135,709</b>	<b>\$ 114,293</b>	<b>\$ 100,266</b>
<b>Operating income:</b>			
Storage	\$ 141,079	\$ 114,635	\$ 108,486
Transportation	135,086	126,508	122,714
Asphalt and fuels marketing	112,506	21,111	26,915
Consolidation and intersegment eliminations	(2,168)	(1,740)	-
<b>Total segment operating income</b>	<b>386,503</b>	<b>260,514</b>	<b>258,115</b>
Less general and administrative expenses	76,430	67,915	45,216
<b>Total operating income</b>	<b>\$ 310,073</b>	<b>\$ 192,599</b>	<b>\$ 212,899</b>

Revenues by geographic area for the years ended December 31, 2008, 2007 and 2006 are shown in the table below.

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	Year Ended December 31,		
	2008	2007	2006
	(Thousands of Dollars)		
United States	\$ 3,731,685	\$ 655,013	\$ 501,756
Netherlands Antilles	926,690	719,084	537,626
Canada	97,762	44,927	51,203
Other countries	72,633	55,990	46,676
Consolidated revenues	\$ 4,828,770	\$ 1,475,014	\$ 1,137,261

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

For the year ended December 31, 2008, no single customer accounted for more than 10% of our consolidated revenues. For the years ended December 31, 2007 and 2006, revenues from Valero Energy accounted for 18% and 23% of our consolidated revenues, respectively, and no other single customer accounted for more than 10% of our consolidated revenue. As such, revenues from Valero Energy by operating segment are presented only for the years ended December 31, 2007 and 2006 as follows:

	Year Ended December 31,	
	2007	2006
	(Thousands of Dollars)	
<b>Revenues:</b>		
Storage	\$ 115,417	\$ 100,069
Transportation	147,597	160,911
Asphalt and fuels marketing	7,426	-
<b>Total revenues</b>	<b>\$ 270,440</b>	<b>\$ 260,980</b>

Long-lived assets include property, plant and equipment, intangible assets subject to amortization and certain long-lived assets included in Other long-term assets, net in the consolidated balance sheets. Geographic information by country for long-lived assets consisted of the following:

	December 31,	
	2008	2007
	(Thousands of Dollars)	
United States	\$ 2,630,940	\$ 2,109,594
Netherlands Antilles	253,355	252,024
Canada	80,956	95,618
United Kingdom	70,335	92,149
Netherlands	121,977	90,157
Mexico	9,218	11,392
<b>Consolidated long-lived assets</b>	<b>\$ 3,166,781</b>	<b>\$ 2,650,934</b>

Total assets by reportable segment were as follows:

	December 31,	
	2008	2007
	(Thousands of Dollars)	
Storage	\$ 2,140,010	\$ 2,085,345
Transportation	1,327,666	1,373,597
Asphalt and fuels marketing	885,492	202,151
<b>Total segment assets</b>	<b>4,353,168</b>	<b>3,661,093</b>
<b>Other partnership assets</b>	<b>106,429</b>	<b>121,994</b>



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Total consolidated assets	\$ 4,459,597	\$ 3,783,087
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**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Changes in the carrying amount of goodwill were as follows:

	Storage	Transportation	Asphalt and Fuels Marketing	Total
	(Thousands of Dollars)			
Balance as of January 1, 2007	\$ 566,487	\$ 176,831	\$ 31,123	\$ 774,441
St. James Acquisition final purchase price allocation	13,898	-	-	13,898
Other	(1,856)	(1,464)	-	(3,320)
Balance as of December 31, 2007	578,529	175,367	31,123	785,019
East Coast Asphalt Operations acquisition preliminary purchase price allocation	-	-	20,201	20,201
Other	1,110	-	-	1,110
Balance as of December 31, 2008	\$ 579,639	\$ 175,367	\$ 51,324	\$ 806,330

The 2007 amounts above have been revised to reflect goodwill relating to the bunkering activities at St. Eustatius and Point Tupper in the asphalt and fuels marketing segment.

Capital expenditures, including acquisitions and investments in other noncurrent assets, by reportable segment were as follows:

	Year Ended December 31,		
	2008	2007	2006
	(Thousands of Dollars)		
Storage	\$ 191,696	\$ 203,177	\$ 230,416
Transportation	23,117	25,344	54,678
Asphalt and fuels marketing	787,733	1,755	-
Other partnership assets	9,808	21,037	4,222
Total capital expenditures	\$ 1,012,354	\$ 251,313	\$ 289,316

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****25. CONDENSED CONSOLIDATING FINANCIAL STATEMENTS**

NuStar Energy has no operations and its assets consist mainly of its investments in NuStar Logistics and NuPOP, both wholly owned subsidiaries. The senior notes issued by NuStar Logistics and NuPOP are fully and unconditionally guaranteed by NuStar Energy, and both NuStar Logistics and NuPOP fully and unconditionally guarantee the outstanding senior notes of the other. As a result, the following condensed consolidating financial statements are being presented as an alternative to providing separate financial statements for NuStar Logistics and NuPOP.

**Condensed Consolidating Balance Sheet****December 31, 2008****(Thousands of Dollars)**

	<b>NuStar Energy</b>	<b>NuStar Logistics</b>	<b>NuPOP</b>	<b>Non-Guarantor Subsidiaries (a)</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Assets</b>						
Cash and cash equivalents	\$ 53	\$ 2	\$ 656	\$ 44,664	\$ -	\$ 45,375
Receivables, net	8	33,620	8,421	143,141	(6,974)	178,216
Inventories	-	-	347	220,937	(710)	220,574
Other current assets	9	9,472	13,673	19,167	-	42,321
Intercompany receivable	-	337,685	666,052	-	(1,003,737)	-
<b>Current assets</b>	<b>70</b>	<b>380,779</b>	<b>689,149</b>	<b>427,909</b>	<b>(1,011,421)</b>	<b>486,486</b>
Property, plant and equipment, net	-	954,487	629,091	1,358,246	-	2,941,824
Intangible assets, net	-	2,771	-	48,933	-	51,704
Goodwill	-	18,613	170,652	617,065	-	806,330
Investment in wholly owned subsidiaries	2,341,184	82,435	806,706	1,679,065	(4,909,390)	-
Investments in joint ventures	-	-	-	68,813	-	68,813
Deferred income tax asset	-	-	-	12,427	-	12,427
Other long-term assets, net	56	34,557	26,517	30,883	-	92,013
<b>Total assets</b>	<b>\$ 2,341,310</b>	<b>\$ 1,473,642</b>	<b>\$ 2,322,115</b>	<b>\$ 4,243,341</b>	<b>\$ (5,920,811)</b>	<b>\$ 4,459,597</b>
<b>Liabilities and Partners Equity</b>						
Current portion of long-term debt	\$ -	\$ 713	\$ -	\$ -	\$ -	\$ 713
Payables	-	23,900	10,171	122,307	(6,974)	149,404
Notes payable	-	22,120	-	-	-	22,120
Accrued interest payable	-	13,830	8,490	176	-	22,496
Accrued liabilities	1,032	14,998	5,076	16,365	(17)	37,454
Taxes other than income taxes	125	3,866	2,687	8,655	-	15,333

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Income taxes payable	-	976	-	3,528	-	4,504
Intercompany payable	118,890	-	-	884,847	(1,003,737)	-
<b>Current liabilities</b>	<b>120,047</b>	<b>80,403</b>	<b>26,424</b>	<b>1,035,878</b>	<b>(1,010,728)</b>	<b>252,024</b>
Long-term debt, less current portion	-	1,309,763	531,504	30,748	-	1,872,015
Long-term payable to related party	-	-	-	6,645	-	6,645
Deferred tax liability	-	-	-	27,370	-	27,370
Other long-term liabilities	-	4,992	965	88,589	-	94,546
Total partners' equity	2,221,263	78,484	1,763,222	3,054,111	(4,910,083)	2,206,997
<b>Total liabilities and partners' equity</b>	<b>\$ 2,341,310</b>	<b>\$ 1,473,642</b>	<b>\$ 2,322,115</b>	<b>\$ 4,243,341</b>	<b>\$ (5,920,811)</b>	<b>\$ 4,459,597</b>

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

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Consolidating Balance Sheet****December 31, 2007****(Thousands of Dollars)**

	<b>NuStar Energy</b>	<b>NuStar Logistics</b>	<b>NuPOP</b>	<b>Non-Guarantor Subsidiaries (a)</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Assets</b>						
Cash and cash equivalents	\$ 7	\$ 12,284	\$ 122	\$ 77,425	\$ -	\$ 89,838
Receivables, net	-	24,234	10,703	96,203	-	131,140
Inventories	-	-	-	88,664	(132)	88,532
Other current assets	9	4,606	15,889	17,120	-	37,624
Intercompany receivable	-	39,238	646,226	-	(685,464)	-
<b>Current assets</b>	<b>16</b>	<b>80,362</b>	<b>672,940</b>	<b>279,412</b>	<b>(685,596)</b>	<b>347,134</b>
Property, plant and equipment, net	-	942,297	667,132	882,657	-	2,492,086
Intangible assets, net	-	3,551	-	44,211	-	47,762
Goodwill	-	18,613	170,652	595,754	-	785,019
Investment in wholly owned subsidiaries	2,327,401	1,721	730,663	1,458,721	(4,518,506)	-
Investments in joint ventures	-	16,640	-	63,726	-	80,366
Deferred income tax asset	-	-	-	10,622	-	10,622
Other long-term assets, net	75	15,761	382	3,880	-	20,098
<b>Total assets</b>	<b>\$ 2,327,492</b>	<b>\$ 1,078,945</b>	<b>\$ 2,241,769</b>	<b>\$ 3,338,983</b>	<b>\$ (5,204,102)</b>	<b>\$ 3,783,087</b>
<b>Liabilities and Partners Equity</b>						
Current portion of long-term debt	\$ -	\$ 663	\$ -	\$ -	\$ -	\$ 663
Payables	-	22,273	5,532	135,504	-	163,309
Accrued interest payable	-	8,986	8,490	249	-	17,725
Accrued liabilities	1,570	16,469	13,135	16,072	(57)	47,189
Taxes other than income taxes	126	3,249	2,873	3,909	-	10,157
Income taxes payable	-	2,025	-	1,417	-	3,442
Intercompany payable	357,851	-	-	327,613	(685,464)	-
<b>Current liabilities</b>	<b>359,547</b>	<b>53,665</b>	<b>30,030</b>	<b>484,764</b>	<b>(685,521)</b>	<b>242,485</b>
Long-term debt, less current portion	-	865,105	538,893	41,628	-	1,445,626
	-	-	-	5,684	-	5,684

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Long-term payable to related party						
Deferred income tax liability	-	-	-	34,196	-	34,196
Other long-term liabilities	-	3,984	1,520	54,760	-	60,264
Total partners equity	1,967,945	156,191	1,671,326	2,717,951	(4,518,581)	1,994,832
Total liabilities and partners equity	\$ 2,327,492	\$ 1,078,945	\$ 2,241,769	\$ 3,338,983	\$ (5,204,102)	\$ 3,783,087

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

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Consolidating Statements of Income****For the Year Ended December 31, 2008****(Thousands of Dollars)**

	<b>NuStar Energy</b>	<b>NuStar Logistics</b>	<b>NuPOP</b>	<b>Non-Guarantor Subsidiaries (a)</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues	\$ -	\$ 298,003	\$ 157,067	\$ 4,386,481	\$ (12,781)	\$ 4,828,770
Costs and expenses	1,628	181,216	116,057	4,231,959	(12,163)	4,518,697
Operating income	(1,628)	116,787	41,010	154,522	(618)	310,073
Equity earnings in subsidiaries	255,725	80,760	76,044	133,243	(545,772)	-
Equity earnings from joint ventures	-	609	-	7,421	-	8,030
Interest expense, net	-	(61,792)	(24,704)	(4,322)	-	(90,818)
Other (expense) income, net	(79)	28,668	(453)	9,603	-	37,739
Income before income tax expense	254,018	165,032	91,897	300,467	(546,390)	265,024
Income tax expense	-	752	-	10,254	-	11,006
Net income	\$ 254,018	\$ 164,280	\$ 91,897	\$ 290,213	\$ (546,390)	\$ 254,018

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

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Consolidating Statements of Income****For the Year Ended December 31, 2007****(Thousands of Dollars)**

	<b>NuStar Energy</b>	<b>NuStar Logistics</b>	<b>NuPOP</b>	<b>Non-Guarantor Subsidiaries (a)</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues	\$ -	\$ 274,001	\$ 149,973	\$ 1,059,813	\$ (8,773)	\$ 1,475,014
Costs and expenses	1,966	170,961	108,277	1,009,913	(8,702)	1,282,415
Operating income	(1,966)	103,040	41,696	49,900	(71)	192,599
Equity earnings in subsidiaries	152,264	(12,500)	61,867	107,659	(309,290)	-
Equity earnings from joint ventures	-	738	-	6,095	-	6,833
Interest (expense) income, net	-	(52,036)	(25,173)	693	-	(76,516)
Other income, net	-	29,105	178	9,547	-	38,830
Income before income tax expense	150,298	68,347	78,568	173,894	(309,361)	161,746
Income tax expense	-	2,026	-	9,422	-	11,448
Net income	\$ 150,298	\$ 66,321	\$ 78,568	\$ 164,472	\$ (309,361)	\$ 150,298

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



**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Consolidating Statements of Income****For the Year Ended December 31, 2006****(Thousands of Dollars)**

	<b>NuStar Energy</b>	<b>NuStar Logistics</b>	<b>NuPOP</b>	<b>Non-Guarantor Subsidiaries (a)</b>	<b>Eliminations</b>	<b>Consolidated</b>
Revenues	\$ -	\$ 261,929	\$ 121,835	\$ 754,509	\$ (1,012)	\$ 1,137,261
Costs and expenses	2,260	145,453	89,984	687,677	(1,012)	924,362
Operating income	(2,260)	116,476	31,851	66,832	-	212,899
Equity earnings in subsidiaries	151,790	154	65,321	72,423	(289,688)	-
Equity earnings from joint ventures	-	815	-	5,067	-	5,882
Interest expense, net	-	(37,145)	(25,093)	(4,028)	-	(66,266)
Other income, net	-	1,242	19	1,991	-	3,252
Income from continuing operations before income tax expense	149,530	81,542	72,098	142,285	(289,688)	155,767
Income tax expense	-	-	-	5,861	-	5,861
Income from continuing operations	149,530	81,542	72,098	136,424	(289,688)	149,906
Income (loss) from discontinued operations	-	-	317	(693)	-	(376)
Net income	\$ 149,530	\$ 81,542	\$ 72,415	\$ 135,731	\$ (289,688)	\$ 149,530

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

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Consolidating Statement of Cash Flows****For the Year Ended December 31, 2008****(Thousands of Dollars)**

	<b>NuStar Energy</b>	<b>NuStar Logistics</b>	<b>NuPOP</b>	<b>Non- Guarantor Subsidiaries (a)</b>	<b>Elim- inations</b>	<b>Consolidated</b>
Net cash provided by (used in) operating activities	\$ 239,707	\$ 111,078	\$ 34,487	\$ 341,873	\$ (241,964)	\$ 485,181
Cash flows from investing activities:						
Capital expenditures	-	(51,575)	(14,009)	(136,559)	-	(202,143)
Acquisition of East Coast Asphalt Operations	-	-	-	(803,184)	-	(803,184)
Other acquisitions	-	(7,027)	-	-	-	(7,027)
Proceeds from sale or disposition of assets	-	40,396	1	10,416	-	50,813
Proceeds from insurance settlement	-	-	-	5,000	-	5,000
Other, net	-	-	-	24	-	24
Net cash used in investing activities	-	(18,206)	(14,008)	(924,303)	-	(956,517)
Cash flows from financing activities:						
Debt borrowings	-	2,855,575	-	-	-	2,855,575
Debt repayments	-	(2,761,821)	-	-	-	(2,761,821)
Senior note offering, net	-	346,224	-	-	-	346,224
Issuance of common units, net of issuance costs	236,215	-	-	-	-	236,215
General partner contribution	5,025	-	-	-	-	5,025
Distributions to unitholders and general partner	(241,940)	(241,940)	-	(24)	241,964	(241,940)
Net intercompany (repayments) borrowings	(238,961)	(298,292)	(19,945)	557,198	-	-
Other, net	-	440	-	345	-	785
Net cash (used in) provided by financing activities	(239,661)	(99,814)	(19,945)	557,519	241,964	440,063
Effect of foreign exchange rate changes on cash	-	(5,340)	-	(7,850)	-	(13,190)
Net increase (decrease) in cash and cash equivalents	46	(12,282)	534	(32,761)	-	(44,463)
Cash and cash equivalents as of the beginning of year	7	12,284	122	77,425	-	89,838

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Cash and cash equivalents as of the end of year	\$	53	\$	2	\$	656	\$	44,664	\$	-	\$	45,375
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(a) Non-guarantor subsidiaries are wholly owned by NuStar Energy, NuStar Logistics or NuPOP.

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Consolidating Statement of Cash Flows****For the Year Ended December 31, 2007****(Thousands of Dollars)**

	<b>NuStar Energy</b>	<b>NuStar Logistics</b>	<b>NuPOP</b>	<b>Non- Guarantor Subsidiaries (a)</b>	<b>Elim- inations</b>	<b>Consolidated</b>
Net cash provided by (used in) operating activities	\$ 195,640	\$ 139,631	\$ 34,566	\$ 50,188	\$ (197,353)	\$ 222,672
Cash flows from investing activities:						
Capital expenditures	-	(65,653)	(15,689)	(169,909)	-	(251,251)
Proceeds from sale of assets	-	66	15	12,586	-	12,667
Other, net	-	(58)	-	246	-	188
Net cash used in investing activities	-	(65,645)	(15,674)	(157,077)	-	(238,396)
Cash flows from financing activities:						
Debt borrowings	-	1,170,302	-	-	-	1,170,302
Debt repayments	-	(1,077,975)	-	-	-	(1,077,975)
Issuance of common units, net of issuance costs	143,083	-	-	-	-	143,083
General partner contribution	3,035	-	-	-	-	3,035
Distributions to unitholders and general partner	(197,333)	(197,333)	-	(20)	197,353	(197,333)
Net intercompany (repayments) borrowings	(144,555)	35,613	(19,762)	128,704	-	-
Other, net	-	(3,144)	-	(908)	-	(4,052)
Net cash provided by (used in) financing activities	(195,770)	(72,537)	(19,762)	127,776	197,353	37,060
Effect of foreign exchange rate changes on cash	-	(1,510)	-	1,174	-	(336)
Net (decrease) increase in cash and cash equivalents	(130)	(61)	(870)	22,061	-	21,000
Cash and cash equivalents as of the beginning of year	137	12,345	992	55,364	-	68,838
Cash and cash equivalents as of the end of year	\$ 7	\$ 12,284	\$ 122	\$ 77,425	\$ -	\$ 89,838

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

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Condensed Consolidating Statement of Cash Flows****For the Year Ended December 31, 2006****(Thousands of Dollars)**

	<b>NuStar Energy</b>	<b>NuStar Logistics</b>	<b>NuPOP</b>	<b>Non- Guarantor Subsidiaries (a)</b>	<b>Elim- inations</b>	<b>Consolidated</b>
Net cash provided by (used in) operating activities	\$ 178,687	\$ 116,929	\$ 17,992	\$ 120,512	\$ (183,309)	\$ 250,811
Cash flows from investing activities:						
Capital expenditures	-	(33,939)	(12,276)	(77,807)	-	(124,022)
Proceeds from sale of assets	-	15	2	71,379	-	71,396
Acquisition and investment in other long-term assets	-	(156,275)	(50)	(8,969)	-	(165,294)
Other, net	(77)	(7,099)	27,112	(22,527)	7,277	4,686
Net cash (used in) provided by investing activities	(77)	(197,298)	14,788	(37,924)	7,277	(213,234)
Cash flows from financing activities:						
Debt borrowings	-	269,026	-	-	-	269,026
Debt repayments	-	(83,510)	-	-	-	(83,510)
Distributions to unitholders and general partner	(183,290)	(183,290)	-	(19)	183,309	(183,290)
Net intercompany borrowings (repayments)	4,232	95,075	(31,902)	(67,405)	-	-
Other, net	575	(6,177)	-	6,754	(7,277)	(6,125)
Net cash (used in) provided by financing activities	(178,483)	91,124	(31,902)	(60,670)	176,032	(3,899)
Effect of foreign exchange rate changes on cash	-	-	-	(894)	-	(894)
Net increase in cash and cash equivalents	127	10,755	878	21,024	-	32,784
Cash and cash equivalents as of the beginning of year	10	1,590	114	34,340	-	36,054
Cash and cash equivalents as of the end of year	\$ 137	\$ 12,345	\$ 992	\$ 55,364	\$ -	\$ 68,838

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

**Table of Contents****NUSTAR ENERGY L.P. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****26. QUARTERLY FINANCIAL DATA (UNAUDITED)**

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	(Thousands of Dollars, Except Per Unit Data)				
<b>2008:</b>					
Revenues	\$ 592,774	\$ 1,377,580	\$ 1,825,226	\$ 1,033,190	\$ 4,828,770
Operating income	65,186	40,362	175,478	29,047	310,073
Net income	55,869	14,090	151,277	32,782	254,018
Net income per unit applicable to limited partners	1.01	0.15	2.60	0.47	4.22
Cash distributions per unit applicable to limited partners	0.985	0.985	1.0575	1.0575	4.085
<b>2007:</b>					
Revenues	\$ 296,824	\$ 321,032	\$ 397,017	\$ 460,141	\$ 1,475,014
Operating income	45,435	42,086	60,361	44,717	192,599
Net income	31,123	39,697	51,213	28,265	150,298
Net income per unit applicable to limited partners	0.57	0.74	0.97	0.47	2.74
Cash distributions per unit applicable to limited partners	0.915	0.950	0.985	0.985	3.835



**Table of Contents**

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

***DISCLOSURE CONTROLS AND PROCEDURES.***

Our management has evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) as of the end of the period covered by this report, and has concluded that our disclosure controls and procedures were operating effectively as of December 31, 2008.

***INTERNAL CONTROL OVER FINANCIAL REPORTING***

(a) Management's Report on Internal Control over Financial Reporting.

Management's report on NuStar GP Holdings, LLC's internal control over financial reporting required by Item 9A. appears in Item 8. of this report, and is incorporated herein by reference.

(b) Attestation Report of the Registered Public Accounting Firm.

The report of KPMG LLP on NuStar GP Holdings, LLC's internal control over financial reporting appears in Item 8. of this Form 10-K, and is incorporated herein by reference.

(c) Changes in Internal Controls 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.

**ITEM 9B. OTHER INFORMATION**

None.

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**Table of Contents**

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

**DIRECTORS AND EXECUTIVE OFFICERS OF NUSTAR GP HOLDINGS, LLC**

Information required to be disclosed under this Item 10 appears under the following headings in the Company's Proxy Statement for the 2009 annual meeting of unitholders and is hereby incorporated by reference: Information Regarding the Board of Directors, Independent Directors, Audit Committee, Code of Ethics of Senior Financial Officers, Proposal No. 1 Election of Directors, Information Concerning Nominees and Other Directors and Certain Relationships and Related Transactions.

Information regarding executive officers is included in Part I of this Form 10-K as permitted by General Instruction G(3).

**ITEM 11. EXECUTIVE COMPENSATION**

Information required to be disclosed under this Item 11 appears under the following headings in the Company's Proxy Statement for the 2009 annual meeting of unitholders and is hereby incorporated by reference: Compensation Committee, Compensation Discussion and Analysis, Compensation of Directors, Executive Compensation and Certain Relationships and Related Transactions.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED UNITHOLDER MATTERS**

Information required to be disclosed under this Item 12 appears under the following headings in the Company's Proxy Statement for the 2009 annual meeting of unitholders and is hereby incorporated by reference: Beneficial Ownership and Equity Compensation Plan Information.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information required to be disclosed under this Item 13 appears under the following headings in the Company's Proxy Statement for the 2009 annual meeting of unitholders and is hereby incorporated by reference: Certain Relationships and Related Transactions and Independent Directors.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information required to be disclosed under this Item 14 appears under the following headings in the Company's Proxy Statement for the 2009 annual meeting of unitholders and is hereby incorporated by reference: KPMG LLP Fees for Fiscal Years 2008 and 2007 and Audit Committee Pre-Approval Policy.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) **(1) Financial Statements.** The following consolidated financial statements of NuStar GP Holdings, LLC and its subsidiaries and NuStar Energy L.P. and its subsidiaries are included in Part II, Item 8 of this Form 10-K:

NUSTAR GP HOLDINGS, LLC:

Management's Report on Internal Control over Financial Reporting

Report of independent registered public accounting firm (KPMG LLP)

Consolidated Balance Sheets as of December 31, 2008 and 2007

Consolidated Statements of Income for the Years Ended December 31, 2008, 2007 and 2006

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Consolidated Statements of Cash Flows for the Years Ended December 31, 2008, 2007 and 2006

**Table of Contents**

Consolidated Statements of Members' Equity Years Ended December 31, 2008, 2007 and 2006

Notes to Consolidated Financial Statements

NUSTAR ENERGY L.P.

Reports of independent registered public accounting firm (KPMG LLP)

Consolidated Balance Sheets as of December 31, 2008 and 2007

Consolidated Statements of Income for the Years Ended December 31, 2008, 2007 and 2006

Consolidated Statements of Cash Flows for the Years Ended December 31, 2008, 2007 and 2006

Consolidated Statements of Partners' Equity for the Years Ended December 31, 2008, 2007 and 2006

Notes to Consolidated Financial Statements

- (2) **Financial Statement Schedules and Other Financial Information.** No financial statement schedules are submitted because either they are inapplicable or because the required information is included in the consolidated financial statements or notes thereto.

(3) **Exhibits**

Filed as part of this Form 10-K are the following:

**EXHIBIT INDEX**

<b>Exhibit</b>		<b>Incorporated by Reference</b>
<b>Number</b>	<b>Description</b>	<b>to the Following Document</b>
3.01	Certificate of Formation of UDS Logistics, LLC	NuStar GP Holdings, LLC's Registration Statement on Form S-1 filed March 31, 2006 (File No. 333-132917), Exhibit 3.01
3.02	Amendment to Certificate of Formation of Valero GP Holdings, LLC, dated March 21, 2007 and effective April 1, 2007	NuStar GP Holdings, LLC's Current Report on Form 8-K, filed March 27, 2007 (File No. 001-32940), Exhibit 3.01
3.03	Second Amended and Restated Limited Liability Company Agreement of NuStar GP Holdings, LLC	NuStar GP Holdings, LLC's Current Report on Form 8-K filed July 27, 2006 (File No. 001-32940), Exhibit 3.01
3.04	Certificate of Amendment of Certificate of Formation of UDS Logistics, LLC	NuStar GP Holdings, LLC's Registration Statement on Form S-1 filed March 31, 2006 (File No. 333-132917), Exhibit 3.03
4.01	Amended and Restated Certificate of Limited Partnership of NuStar Energy L.P.	NuStar Energy L.P.'s Annual Report on Form 10-K for year ended December 31, 2001 (File No. 001-16417), Exhibit 3.3
4.02	Amendment to Amended and Restated Certificate of Limited Partnership of Valero L.P., dated March 21, 2007 and effective April 1, 2007	NuStar Energy L.P.'s Current Report on Form 8-K, filed March 27, 2007 (File No. 001-16417), Exhibit 3.01



**Table of Contents**

<b>Exhibit</b>		<b>Incorporated by Reference</b>
<b>Number</b>	<b>Description</b>	<b>to the Following Document</b>
4.03	Third Amended and Restated Agreement of Limited Partnership of NuStar Energy L.P.	NuStar Energy L.P. s Quarterly Report on Form 10-Q for quarter ended March 31, 2003 (File No. 001-16417), Exhibit 3.1
4.04	First Amendment to Third Amended and Restated Agreement of Limited Partnership of NuStar Energy L.P.	NuStar Energy L.P. s Annual Report on Form 10-K for year ended December 31, 2003 (File No. 001-16417), Exhibit 4.3
4.05	Amendment No. 2 to Third Amended and Restated Agreement of Limited Partnership of NuStar Energy L.P., dated as of July 1, 2005	NuStar Energy L.P. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File No. 001-16417), Exhibit 4.01
4.06	Certificate of Limited Partnership of Valero Logistics Operations, L.P.	NuStar Energy L.P. s Registration Statement on Form S-1 filed August 14, 2000 (File No. 333-43668), Exhibit 3.4
4.07	Certificate of Amendment to Certificate of Limited Partnership of Valero Logistics Operations, L.P.	NuStar Energy L.P. s Registration Statement on Form S-1 filed August 14, 2000 (File No. 333-43668), Exhibit 3.5
4.08	Certificate of Amendment to Certificate of Limited Partnership of Valero Logistics Operations, L.P., dated March 21, 2007 and effective April 1, 2007	NuStar GP Holdings, LLC s Quarterly Report on Form 10-K for the quarter ended March 31, 2007 (File No. 001-32940), Exhibit 3.04
4.09	Second Amended and Restated Agreement of Limited Partnership of Valero Logistics Operations, L.P.	NuStar Energy L.P. s Annual Report on Form 10-K for year ended December 31, 2001 (File No. 001-16417), Exhibit 3.9
4.10	Second Amendment to Second Amended and Restated Agreement of Limited Partnership of Valero Logistics Operations, L.P.	NuStar Energy L.P. s Annual Report on Form 10-K for year ended December 31, 2001 (File No. 001-16417), Exhibit 3.10
4.11	Certificate of Limited Partnership of Riverwalk Logistics, L.P.	NuStar Energy L.P. s Registration Statement on Form S-1 filed August 14, 2000 (File No. 333-43668), Exhibit 3.7
4.12	Agreement of Limited Partnership of Riverwalk Logistics, L.P.	NuStar Energy L.P. s Registration Statement on Form S-1 filed August 14, 2000 (File No. 333-43668), Exhibit 3.8
4.13	First Amended and Restated Limited Partnership Agreement of Riverwalk Logistics, L.P.	NuStar Energy L.P. s Annual Report on Form 10-K for year ended December 31, 2001 (File No. 001-16417), Exhibit 3.16
4.14	Certificate of Formation of Valero GP, LLC	NuStar Energy L.P. s Registration Statement on Form S-1 filed August 14, 2000 (File No. 333-43668), Exhibit 3.9

**Table of Contents**

<b>Exhibit</b>		<b>Incorporated by Reference</b>
<b>Number</b>	<b>Description</b>	<b>to the Following Document</b>
4.15	Certificate of Amendment to Certificate of Formation of Valero GP, LLC	NuStar Energy L.P. s Annual Report on Form 10-K for year ended December 31, 2001 (File No. 001-16417), Exhibit 3.14
4.16	Certificate of Amendment to Certificate of Formation of Valero GP, LLC, dated March 21, 2007 and effective April 1, 2007	NuStar GP Holdings, LLC s Quarterly Report on Form 10-K for the quarter ended March 31, 2007 (File No. 001-32940), Exhibit 3.03
4.17	First Amended and Restated LLC Agreement of Valero GP, LLC	NuStar Energy L.P. s Registration Statement on Form S-1 filed March 29, 2001 (File No. 333-43668), Exhibit 3.10
4.18	First Amendment to First Amended and Restated Limited Liability Company Agreement of Valero GP, LLC	NuStar Energy L.P. s Annual Report on Form 10-K for year ended December 31, 2001 (File No. 001-16417), Exhibit 3.15
4.19	Indenture, dated July 15, 2002, among Valero Logistics Operations, L.P., as Issuer, NuStar Energy L.P., as Guarantor, and The Bank of New York, as Trustee, relating to Senior Debt Securities	NuStar Energy L.P. s Current Report on Form 8-K filed July 15, 2002 (File No. 001-16417), Exhibit 4.1
4.20	First Supplemental Indenture, dated as of July 15, 2002, to Indenture dated July 15, 2002, in each case among Valero Logistics Operations, L.P., as Issuer, NuStar Energy L.P., as Guarantor, and The Bank of New York, as Trustee, relating to 6 <sup>7</sup> / <sub>8</sub> % Senior Notes Due 2012	NuStar Energy L.P. s Current Report on Form 8-K filed July 15, 2002 (File No. 001-16417), Exhibit 4.2
4.21	Second Supplemental Indenture, dated as of March 18, 2003, to Indenture dated July 15, 2002, as amended and supplemented by a First Supplemental Indenture thereto dated as of July 15, 2002, in each case among Valero Logistics Operations, L.P., as Issuer, NuStar Energy L.P., as Guarantor, and The Bank of New York, as Trustee (including, form of global note representing \$250,000,000 6.05% Senior Notes due 2013)	NuStar Energy L.P. s Current Report on Form 8-K filed May 9, 2003 (File No. 001-16417), Exhibit 4.1
4.22	Third Supplemental Indenture, dated as of July 1, 2005, to Indenture dated July 15, 2002, as amended and supplemented, among Valero Logistics Operations, L.P.; NuStar Energy L.P.; Kaneb Pipe Line Operating Partnership, L.P.; and The Bank of New York	NuStar Energy L.P. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File No. 001-16417), Exhibit 4.02

**Table of Contents**

<b>Exhibit</b>		<b>Incorporated by Reference</b>
<b>Number</b>	<b>Description</b>	<b>to the Following Document</b>
4.23	Instrument of Resignation, Appointment and Acceptance, dated March 31, 2008, among NuStar Logistics, L.P., NuStar Energy L.P., Kaneb Pipeline Operating Partnership, L.P. The Bank of New York Trust Company N.A., and Wells Fargo Bank, National Association	*
4.24	Indenture, dated as of February 21, 2002, between Kaneb Pipe Line Operating Partnership, L.P. and JPMorgan Chase Bank (Senior Debt Securities)	NuStar Energy L.P. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File No. 001-16417), Exhibit 4.03
4.25	First Supplemental Indenture, dated as of February 21, 2002, to Indenture dated as of February 21, 2002, between Kaneb Pipe Line Operating Partnership, L.P. and JPMorgan Chase Bank (including form of 7.750% Senior Unsecured Notes due 2012)	NuStar Energy L.P. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File No. 001-16417), Exhibit 4.04
4.26	Second Supplemental Indenture, dated as of August 9, 2002 and effective as of April 4, 2002, to Indenture dated as of February 21, 2002, as amended and supplemented, between Kaneb Pipe Line Operating Partnership, L.P.; Statia Terminals Canada Partnership; and JPMorgan Chase Bank	NuStar Energy L.P. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File No. 001-16417), Exhibit 4.05
4.27	Third Supplemental Indenture, dated and effective as of May 16, 2003, to Indenture dated as of February 21, 2002, as amended and supplemented, between Kaneb Pipe Line Operating Partnership, L.P.; Statia Terminals Canada Partnership; and JPMorgan Chase Bank	NuStar Energy L.P. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File No. 001-16417), Exhibit 4.06
4.28	Fourth Supplemental Indenture, dated and effective as of May 27, 2003, to Indenture dated as of February 21, 2002, as amended and supplemented, between Kaneb Pipe Line Operating Partnership, L.P. and JPMorgan Chase Bank (including form of 5.875% Senior Unsecured Notes due 2013)	NuStar Energy L.P. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File No. 001-16417), Exhibit 4.07
4.29	Fifth Supplemental Indenture, dated and effective as of July 1, 2005, to Indenture dated as of February 21, 2002, as amended and supplemented, among Kaneb Pipe Line Operating Partnership, L.P.; NuStar Energy L.P.; Valero Logistics Operations, L.P.; and JPMorgan Chase Bank	NuStar Energy L.P. s Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File No. 001-16417), Exhibit 4.08



**Table of Contents**

<b>Exhibit</b>		<b>Incorporated by Reference</b>
<b>Number</b>	<b>Description</b>	<b>to the Following Document</b>
4.30	Instrument of Resignation, Appointment and Acceptance, dated June 30, 2008, among NuStar Pipeline Operating Partnership L.P., NuStar Energy L.P., NuStar Logistics, L.P. The Bank of New York Trust Company N.A., and Wells Fargo Bank, National Association	*
4.31	Specimen certificate representing units of NuStar GP Holdings, LLC	NuStar GP Holdings, LLC s amendment to the registration statement on Form 8-A/A filed September 6, 2006 (File No. 001-32940, Exhibit 4.01
4.32	Rights Agreement between NuStar GP Holdings, LLC and Computershare Investor Services, LLC	NuStar GP Holdings, LLC s Current Report on Form 8-K filed July 27, 2006 (File No. 001-32940), Exhibit 4.01
4.33	Amendment No. 1, dated February 28, 2008, to Rights Agreement between NuStar GP Holdings, LLC and Computershare Investor Services, LLC	NuStar GP Holdings, LLC s Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-32940), Exhibit 4.01
10.01	3-Year Revolving Credit Agreement among NuStar GP Holdings, LLC, the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, and Suntrust Bank, as Syndication Agent, dated as of July 19, 2006	NuStar GP Holdings, LLC s Current Report on Form 8-K filed July 27, 2006 (File No. 001-32940), Exhibit 10.04
10.02	First Amendment to 3-Year Revolving Credit Agreement among NuStar GP Holdings, LLC, as Borrower, JPMorgan Chase Bank, N.A., as Administrative Agent, and the Lenders party thereto, dated as of November 30, 2006	NuStar GP Holdings, LLC s Current Report on Form 8-K filed December 5, 2006 (File No. 001-32940), Exhibit 10.01
10.03	Second Amendment to 3-year Revolving Credit Agreement among NuStar GP Holdings, LLC, as Borrower, JPMorgan Chase Bank, N.A., as Administrative Agent, and the Lenders party thereto, dated as of December 18, 2007	NuStar GP Holdings, LLC s Current Report on Form 8-K filed December 20, 2007 (File No. 001-32940), Exhibit 10.01
10.04	5-Year Revolving Credit Agreement dated as of December 10, 2007 among NuStar Logistics, L.P., NuStar Energy L.P., the Lenders party thereto and JPMorgan Chase Bank, N.A., as Administrative Agent, Suntrust Bank, as Syndication Agent, and Barclays Bank PLC and Mizuho Corporate Bank Ltd., as Co-Documentation Agents	NuStar Energy L.P. s Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 001-16417), Exhibit 10.01

**Table of Contents**

<b>Exhibit</b>		<b>Incorporated by Reference</b>
<b>Number</b>	<b>Description</b>	<b>to the Following Document</b>
+10.05	NuStar GP, LLC Amended and Restated 2003 Employee Unit Incentive Plan, amended and restated as of April 1, 2007	NuStar GP Holdings, LLC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-32940), Exhibit 10.03
+10.06	NuStar GP, LLC Amended and Restated 2002 Unit Option Plan, amended and restated as of April 1, 2007	NuStar GP Holdings, LLC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-32940), Exhibit 10.02
+10.07	NuStar GP, LLC Second Amended and Restated 2000 Long-Term Incentive Plan, amended and restated as of April 1, 2007	NuStar GP Holdings, LLC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-32940), Exhibit 10.01
+10.08	Form of Restricted Unit Agreement under the NuStar GP, LLC Amended and Restated 2000 Long-Term Incentive Plan	NuStar Energy L.P.'s Current Report on Form 8-K dated October 24, 2007 and filed October 29, 2007 (File No. 001-16417), Exhibit 10.03
+10.09	Form of Unit Option Award Agreement under the NuStar GP, LLC Second Amended and Restated 2000 Long-Term Incentive Plan	NuStar Energy L.P.'s Current Report on Form 8-K filed November 3, 2006 (File No. 001-16417), Exhibit 10.02
+10.10	Valero GP, LLC Short-Term Incentive Plan	NuStar Energy L.P.'s Registration Statement on Form S-1 filed March 29, 2001 (File No. 333-43668), Exhibit 10.4
+10.11	Valero GP, LLC Intermediate-Term Incentive Plan	NuStar Energy L.P.'s Registration Statement on Form S-1 filed March 29, 2001 (File No. 333-43668), Exhibit 10.9
+10.12	NuStar GP Holdings, LLC Amended and Restated Long-Term Incentive Plan	NuStar GP Holdings, LLC's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-32940), Exhibit 10.01
+10.13	Form of Non-employee Director Restricted Unit Agreement under NuStar GP Holdings, LLC Long-Term Incentive Plan	NuStar GP Holdings, LLC's Current Report on Form 8-K filed November 10, 2008 (File No. 001-32940), Exhibit 10.02
+10.14	Form of Unit Option Award Agreement under NuStar GP Holdings, LLC's Long-Term Incentive Plan	NuStar GP Holdings, LLC's Current Report on Form 8-K dated October 24, 2007 and filed October 29, 2007 (File No. 001-32940), Exhibit 10.03
+10.15	NuStar GP, LLC Excess Pension Plan, amended and restated effective January 1, 2008	*
+10.16	NuStar GP, LLC Excess Thrift Plan, amended and restated effective January 1, 2008	*
+10.17	NuStar GP, LLC Supplemental Executive Retirement Plan, amended and restated effective January 1, 2008	*

**Table of Contents**

Exhibit		Incorporated by Reference
Number	Description	to the Following Document
+10.18	Form of Unit Option Award Agreement under the NuStar GP, LLC Second Amended and Restated Long-Term Incentive Plan	NuStar Energy L.P. s Current Report on Form 8-K filed November 3, 2006 (File No. 001-16417), Exhibit 10.02
+10.19	Form of Restricted Unit Award Agreement under the NuStar GP, LLC Second Amended and Restated Long-Term Incentive Plan	NuStar Energy L.P. s Current Report on Form 8-K filed November 10, 2008 (File No. 001-16417), Exhibit 10.03
+10.20	Change of Control Severance Agreement by and among NuStar Energy L.P., NuStar GP, LLC and Curtis V. Anastasio, dated November 6, 2006	NuStar Energy L.P. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 001-16417), Exhibit 10.05
+10.21	Form of Change of Control Severance Agreement by and among NuStar Energy L.P., NuStar GP, LLC and each of the executive officers of NuStar GP, LLC, all dated November 6, 2006	NuStar Energy L.P. s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, (File No. 001-16417), Exhibit 10.06
10.22	Pipelines and Terminals Usage Agreement by and among Ultramar Diamond Shamrock Corporation, Shamrock Logistics Operations, L.P., Shamrock Logistics, L.P., Riverwalk Logistics, L.P. and Shamrock Logistics GP, LLC, dated April 16, 2001	NuStar Energy L.P. s Annual Report on Form 10-K for year ended December 31, 2001 (File No. 001-16417), Exhibit 10.6
10.23	Amended and Restated Omnibus Agreement among Valero Energy Corporation, Valero GP, LLC, Riverwalk Logistics, L.P., NuStar Energy L.P. and Valero Logistics Operations, L.P., dated March 31, 2006	NuStar GP Holdings, LLC s Registration Statement on Form S-1 filed March 31, 2006 (File No. 333-132917), Exhibit 10.14
10.24	Fourth Amended and Restated Services Agreement among Diamond Shamrock Refining and Marketing Company, Valero Corporate Services Company, NuStar Energy L.P., Valero Logistics Operations, L.P., Riverwalk Logistics, L.P. and Valero GP, LLC , effective as of December 22, 2006	NuStar GP Holdings, LLC s Current Report on Form 8-K filed December 22, 2006 (File No. 001-32940), Exhibit 10.01
10.25	Contribution Agreement by and among Valero Refining Company California, Riverwalk Holdings, LLC, NuStar Energy L.P., Valero GP, Inc. and Valero Logistics Operations, L.P., dated as of March 6, 2003	NuStar Energy L.P. s Annual Report on Form 10-K for year ended December 31, 2002 (File No. 001-16417), Exhibit 10.13
10.26	Contribution Agreement by and among Valero Refining Company Texas, L.P., UDS Logistics, LLC, NuStar Energy L.P., Valero GP, Inc. and Valero Logistics Operations, L.P. dated as of March 6, 2003	NuStar Energy L.P. s Annual Report on Form 10-K for year ended December 31, 2002 (File No. 001-16417), Exhibit 10.14

**Table of Contents**

<b>Exhibit</b>		<b>Incorporated by Reference</b>
<b>Number</b>	<b>Description</b>	<b>to the Following Document</b>
10.27	Contribution Agreement by and among Valero Pipeline Company, UDS Logistics, LLC, NuStar Energy L.P., Valero GP, Inc. and Valero Logistics Operations, L.P., dated as of March 6, 2003	NuStar Energy L.P. s Annual Report on Form 10-K for year ended December 31, 2002 (File No. 001-16417), Exhibit 10.15
10.28	Handling and Throughput Agreement between Valero Marketing and Supply Company and Valero Logistics Operations, L.P., dated as of March 18, 2003	NuStar Energy L.P. s Quarterly Report on Form 10-Q for quarter ended March 31, 2003 (File No. 001-16417), Exhibit 10.1
10.29	Amendment Number One to the Handling and Throughput Agreement between Valero Marketing and Supply Company and Valero Logistics Operations, L.P., effective as of April 27, 2004	NuStar Energy L.P. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 (File No. 001-16417), Exhibit 10.3
10.30	Throughput Commitment Agreement by and among Valero Marketing and Supply Company, Valero Logistics Operations, L.P. and NuStar Energy L.P., dated as of March 18, 2003	NuStar Energy L.P. s Quarterly Report on Form 10-Q for quarter ended March 31, 2003 (File No. 001-16417), Exhibit 10.4
10.31	Terminalling Agreement (Edinburg) between Valero Marketing and Supply Company and Valero Logistics Operations, L.P., dated as of March 18, 2003	NuStar Energy L.P. s Quarterly Report on Form 10-Q for quarter ended March 31, 2003 (File No. 001-16417), Exhibit 10.5
10.32	Terminalling Agreement (Houston Asphalt) between Valero Marketing and Supply Company and Valero Logistics Operations, L.P., dated as of March 18, 2003	NuStar Energy L.P. s Quarterly Report on Form 10-Q for quarter ended March 31, 2003 (File No. 001-16417), Exhibit 10.6
10.33	Terminalling Agreement (Hobby Airport) between Valero Marketing and Supply Company and Valero Logistics Operations, L.P., dated as of March 18, 2003	NuStar Energy L.P. s Quarterly Report on Form 10-Q for quarter ended March 31, 2003 (File No. 001-16417), Exhibit 10.7
10.34	Terminalling Agreement (Placedo) between Valero Marketing and Supply Company and Valero Logistics Operations, L.P., dated as of March 18, 2003	NuStar Energy L.P. s Quarterly Report on Form 10-Q for quarter ended March 31, 2003 (File No. 001-16417), Exhibit 10.8
10.35	Terminalling Agreement (San Antonio East) between Valero Marketing and Supply Company and Valero Logistics Operations, L.P., dated as of March 18, 2003	NuStar Energy L.P. s Quarterly Report on Form 10-Q for quarter ended March 31, 2003 (File No. 001-16417), Exhibit 10.9
10.36	Terminal Services Agreement (the St. James Terminal Agreement) between Valero Logistics Operations, L.P. and Valero Marketing and Supply Company, executed September 20, 2006	NuStar Energy L.P. s Current Report on Form 8-K filed October 3, 2006 (File No. 001-16417), Exhibit 10.01

**Table of Contents**

<b>Exhibit</b>		<b>Incorporated by Reference</b>
<b>Number</b>	<b>Description</b>	<b>to the Following Document</b>
10.37	Contribution Agreement by and among Diamond Shamrock Refining and Marketing Company and NuStar GP Holdings, LLC, dated effective as of June 1, 2006	NuStar GP Holdings, LLC s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (File No. 001-32940), Exhibit 10.09
10.38	Lease MOU Termination Agreement by and between Valero Corporate Services Company and Valero Logistics Operations, L.P., dated December 22, 2006	NuStar GP Holdings, LLC s Current Report on Form 8-K filed December 22, 2006 (File No. 001-32940), Exhibit 10.02
10.39	Services Agreement, effective January 1, 2008, between NuStar GP, LLC and NuStar Energy L.P.	NuStar GP Holdings, LLC s Quarterly Report for the quarter ended March 31, 2008 (File No. 001-32940), Exhibit 10.01
10.40	Non-Compete Agreement between NuStar GP Holdings, LLC, NuStar Energy L.P., Riverwalk Logistics, L.P. and NuStar GP, LLC	NuStar GP Holdings, LLC s Current Report on Form 8-K filed July 27, 2006 (File No. 001-32940), Exhibit 10.03
10.41	Employee Benefit Transition Agreement between Valero Energy Corporation, NuStar GP Holdings, LLC and NuStar GP, LLC, effective as of July 1, 2006	NuStar GP Holdings, LLC s Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 001-32940), Exhibit 10.02
10.42	Amended and Restated Employee Benefits Transition Agreement by and between Valero Energy Corporation, NuStar GP Holdings, LLC and NuStar GP, LLC, effective December 22, 2006	NuStar GP Holdings, LLC s Current Report on Form 8-K filed December 22, 2006 (File No. 001-32940), Exhibit 10.03
10.43	Unit Purchase Agreement by and between Diamond Shamrock Refining and Marketing Company and William E. Greehey, dated effective as of December 5, 2006	NuStar GP Holdings, LLC s Registration Statement on Form S-1 filed December 5, 2006 (File No. 333-138810), Exhibit 10.52
10.44	NuStar Energy L.P. Bonus Plan	NuStar Energy L.P. s Annual Report on Form 10-K for year ended December 31, 2006 (File No. 001-16417), Exhibit 10.18
10.45	Form of Unit Option Agreement under the NuStar GP, LLC Amended and Restated 2003 Employee Unit Incentive Plan	NuStar Energy L.P. s Annual Report on Form 10-K for year ended December 31, 2006 (File No. 001-16417), Exhibit 10.18
10.46	Sale and Purchase Agreement, dated as of November 5, 2007, by and between CITGO Asphalt Refining Company and NuStar Asphalt Refining, LLC	NuStar Energy L.P. s Annual Report on Form 10-K for year ended December 31, 2008 (File No. 001-16417), Exhibit 10.38
14.01	Code of Ethics for Senior Financial Officers	NuStar GP Holdings, LLC s Annual Report on Form 10-K for year ended December 31, 2006 (File No. 001-32940), Exhibit 14.1

**Table of Contents**

Exhibit		Incorporated by Reference
Number	Description	to the Following Document
21.01	List of Subsidiaries of NuStar GP Holdings, LLC	*
23.01	Consent of KPMG LLP dated February 27, 2009	*
24.01	Powers of Attorney (included in signature page of this Form 10-K)	*
31.01	Rule 13a-14(a) Certifications (under Section 302 of the Sarbanes-Oxley Act of 2002)	*
32.01	Section 1350 Certifications (under Section 906 of the Sarbanes-Oxley Act of 2002)	*
99.01	Audit Committee Pre-Approval Policy	*

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

\* Filed herewith.

Copies of exhibits filed as a part of this Form 10-K may be obtained by unitholders of record at a charge of \$0.15 per page, minimum \$5.00 each request. Direct inquiries to Corporate Secretary, NuStar GP Holdings, LLC, 2330 North Loop 1604 West, San Antonio, Texas 78248.

**Disclosures Required by Section 303A.12 of the NYSE Listed Company Manual.** Section 303A.12 of the NYSE Listed Company Manual requires the chief executive officer (CEO) of each listed company to certify to the NYSE each year that he or she is not aware of any violation by the listed company of any of the NYSE corporate governance listing standards. The CEO of NuStar GP Holdings, LLC submitted the required certification without qualification to the NYSE as of July 10, 2008. In addition, the CEO certification and the chief financial officer's certification required by Section 302 of the Sarbanes-Oxley Act of 2002 (the SOX 302 Certifications) with respect to NuStar GP Holdings, LLC's disclosures in its Form 10-K for the year ended December 31, 2007 were filed as Exhibit 31.01 to NuStar GP Holdings, LLC's Form 10-K for the year ended December 31, 2007. The SOX 302 Certifications with respect to NuStar GP Holdings, LLC's disclosures in its Form 10-K for the year ended December 31, 2008 are being filed as Exhibit 31.01 to this Form 10-K.

**Table of Contents**

**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 GP Holdings, LLC**

**(Registrant)**

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

**Curtis V. Anastasio  
President and Chief Executive Officer**

**February 27, 2009**

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

**Steven A. Blank  
Senior Vice President, Chief Financial Officer and Treasurer**

**February 27, 2009**

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

**Thomas R. Shoaf  
Vice President and Controller**

**February 27, 2009**

**Table of Contents****POWER OF ATTORNEY**

**KNOW ALL MEN BY THESE PRESENTS**, that each person whose signature appears below hereby constitutes and appoints Curtis V. Anastasio, Steven A. Blank and Bradley C. Barron, or any of them, each with power to act without the other, his true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any or all subsequent amendments and supplements to this Annual Report on Form 10-K, and to file the same, or cause to be filed the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto each said attorney-in-fact and agent full power to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby qualifying and confirming all that said attorney-in-fact and agent or his substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ William E. Greehey  (William E. Greehey)	Chairman of the Board	February 27, 2009
/s/ Curtis V. Anastasio  (Curtis V. Anastasio)	President, Chief Executive  Officer and Director  (Principal Executive Officer)	February 27, 2009
/s/ Steven A. Blank  (Steven A. Blank)	Senior Vice President,  Chief Financial Officer and  Treasurer  (Principal Financial Officer)	February 27, 2009
/s/ Thomas R. Shoaf  (Thomas R. Shoaf)	Vice President and Controller  (Principal Accounting Officer)	February 27, 2009
/s/ William B. Burnett  (William B. Burnett)	Director	February 27, 2009
/s/ James F. Clingman  (James F. Clingman)	Director	February 27, 2009
/s/ Stan L. McLelland  (Stan L. McLelland)	Director	February 27, 2009



