SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES AND EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the fiscal year ended December 31, 2000

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

Commission file number 1-10311

KANEB PIPE LINE PARTNERS, L.P.

(Exact name of Registrant as specified in its Charter)

Delaware	75-2287571
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
2435 North Central Expressway Richardson, Texas	75080
(Address of principal executive offices)	(zip code)

Registrant's telephone number, including area code: (972) 699-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Units	New York Stock Exchange

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

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 X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Subsection 229.405 of this chapter) 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.[X]

Aggregate market value of the voting Units held by non-affiliates of the registrant: $494,132,366. This figure is estimated as of March 6, 2001, at which date the closing price of the Registrant's Units on the New York Stock Exchange was $33.39 per Unit and assumes that only the General Partner of the Registrant (the "General Partner"), officers and directors of the General Partner and its parent and wholly owned subsidiaries of the General Partner and its parent were affiliates.

Number of Units of the Registrant outstanding at March 6, 2001: 20,285,090.

PART I

Item I. Business

General

Kaneb Pipe Line Partners, L.P., a Delaware limited partnership (the “Partnership”), is engaged in the refined petroleum products pipeline business and the terminaling of petroleum products and specialty liquids. The Partnership was formed in September 1989 to acquire, own and operate the pipeline system and operations that had been previously conducted by Kaneb Pipe Line Company, a Delaware corporation (“KPL”), since 1953. KPL owns a combined 2% interest as general partner of the Partnership and of Kaneb Pipe Line Operating Partnership, L.P., a Delaware limited partnership ("KPOP"). The Partnership’s pipeline operations are conducted through KPOP, of which the Partnership is the sole limited partner and KPL is the sole general partner. The terminaling business of the Partnership is conducted through Support Terminals Operating Partnership, L.P. (“STOP”), and its affiliated partnerships and corporate entities, which operate under the trade names “ST Services” and “StanTrans,” among others. KPOP and STOP are, collectively with their subsidiaries, referred to as the "Operating Partnerships." KPL is a wholly-owned subsidiary of Kaneb Services, Inc., a Delaware corporation (“Kaneb”) (NYSE: KAB).

Products Pipeline Business

Introduction

The Partnership’s pipeline business consists primarily of the transportation of refined petroleum products as a common carrier in Kansas, Nebraska, Iowa, South Dakota, North Dakota, Colorado and Wyoming. The Partnership owns and operates two common carrier pipelines (the “Pipelines”) described below.

East Pipeline

Construction of the East Pipeline commenced in the 1950s with a line from southern Kansas to Geneva, Nebraska. During the 1960s, the East Pipeline was extended north to its present terminus at Jamestown, North Dakota. In the 1980’s, the 8” line from Geneva, Nebraska to North Platte, Nebraska and the 16" line from McPherson, Kansas to Geneva, Nebraska were built and the Partnership acquired a 6" pipeline from Champlin Oil Company, a portion of which originally ran south from Geneva, Nebraska through Windom, Kansas terminating in Hutchinson, Kansas. In 1997, the Partnership completed construction of a new 6” pipeline from Conway, Kansas to Windom, Kansas (approximately 22 miles north of Hutchinson) that allows the Hutchinson terminal to be supplied directly from McPherson; a significantly shorter route than was previously used. As a result of this pipeline becoming operational, a 158 mile segment of the former Champlin line was shut down, including a terminal located at Superior, Nebraska. The other end of the line runs northeast approximately 175 miles, crossing the main pipeline near Osceola, Nebraska, continuing through a terminal at Columbus, Nebraska, and later interconnecting with the Partnership’s Yankton/Milford line to terminate at Rock Rapids, Iowa. In December 1998, KPOP acquired from Amoco Oil Company a 175 mile pipeline that runs from Council Bluffs, Iowa to Sioux Falls, South Dakota and the terminal at Sioux Falls. On December 31, 1998 KPOP, pursuant to its option, purchased the 203 mile North Platte line for approximately $5 million at the end of a lease. In January 1999, a connection was completed to service the Sioux Falls terminal through the main East Pipeline.

The East Pipeline system also consists of 16 product terminals in Kansas, Nebraska, Iowa, South Dakota and North Dakota with total storage capacity of approximately 3.5 million barrels and an additional 22 product tanks with total storage capacity of approximately 1,006,000 barrels at its tank farm installations at McPherson and El Dorado, Kansas. The system also has six origin pump stations in Kansas and 38 booster pump stations throughout the system. Additionally, the system maintains various office and warehouse facilities, and an extensive quality control laboratory.

KPOP owns the entire 2,090 mile East Pipeline. KPOP leases office space for its operating headquarters in Wichita, Kansas.

The East Pipeline transports refined petroleum products, including propane, received from refineries in southeast Kansas and other connecting pipelines to its terminals along the system and to receiving pipeline connections in Kansas. Shippers on the East Pipeline obtain refined petroleum products from refineries connected to the East Pipeline or through other pipelines directly connected to the pipeline system. Five connecting pipelines can deliver propane for shipment through the East Pipeline from gas processing plants in Texas, New Mexico, Oklahoma and Kansas.

West Pipeline

KPOP acquired the West Pipeline in February 1995, through an asset purchase from Wyco Pipe Line Company for a purchase price of $27.1 million, increasing the Partnership's pipeline business in South Dakota and expanding it into Wyoming and Colorado. The West Pipeline system includes approximately 550 miles of pipeline in Wyoming, Colorado and South Dakota, four truck loading terminals and numerous pump stations situated along the system. The system's four product terminals have a total storage capacity of over 1.7 million barrels.

The West Pipeline originates at Casper, Wyoming and travels east to the Strouds Station, where it serves as a connecting point with Sinclair's Little America Refinery and the Seminoe Pipeline that transports product from Billings, Montana area refineries. From Strouds, the West Pipeline continues easterly through its 8" line to Douglas, Wyoming, where a 6" pipeline branches off to serve the Partnership's Rapid City, South Dakota terminal approximately 190 miles away. The Rapid City terminal has a three bay, bottom-loading truck rack and storage tank capacity of 256,000 barrels. The 6" pipeline also receives product from Wyoming Refining's pipeline at a connection located near the Wyoming/South Dakota border, approximately 30 miles south of Wyoming Refining's Newcastle, Wyoming Refinery. From Douglas, the Partnership's 8" pipeline continues southward through a delivery point at the Burlington Northern junction to the terminal at Cheyenne, Wyoming. The Cheyenne terminal has a two bay, bottom-loading truck rack, storage tank capacity of 345,000 barrels and serves as a receiving point for products from the Frontier Oil & Refining Company refinery at Cheyenne, as well as a product delivery point to Conoco's Cheyenne Pipeline. From the Cheyenne terminal, the 8" pipeline extends south into Colorado to the Dupont Terminal located in the Denver metropolitan area. The Dupont Terminal is the largest terminal on the West Pipeline system, with a six bay, bottom-loading truck rack and tankage capacity of 692,000 barrels. The 8" pipeline continues to the Commerce City Station, where the West Pipeline can receive from and transfer product to the Ultramar Diamond Shamrock and Conoco refineries and the Phillips Petroleum Terminal. From Commerce City, a 6" line continues south 90 miles where the system terminates at the Fountain, Colorado Terminal serving the Colorado Springs area. The Fountain Terminal has a five bay, bottom-loading truck rack and storage tank capacity of 366,000 barrels.

The West Pipeline system parallels the Partnership's East Pipeline to the west. The East Pipeline's North Platte line terminates in western Nebraska, approximately 200 miles east of the West Pipeline's Cheyenne, Wyoming Terminal. Conoco's Cheyenne Pipeline runs from west to east from the Cheyenne Terminal to near the East Pipeline's North Platte Terminal, although a portion of the line from Sidney, Nebraska (approximately 100 miles from Cheyenne) to North Platte has been deactivated. The West Pipeline serves Denver and other eastern Colorado markets and supplies jet fuel to Ellsworth Air Force Base at Rapid City, South Dakota, as compared to the East Pipeline's largely agricultural service area. The West Pipeline has a relatively small number of shippers, who, with a few exceptions, are also shippers on the Partnership's East Pipeline system.

Other Systems

The Partnership also owns three single-use pipelines, located near Umatilla, Oregon; Rawlins, Wyoming and Pasco, Washington, each of which supplies diesel fuel to a railroad fueling facility. The Oregon and Washington lines are fully automated, however the Wyoming line utilizes a coordinated startup procedure between the refinery and the railroad. For the year ended December 31, 2000, these three systems combined transported a total of 3.7 million barrels of diesel fuel, representing an aggregate of $1.5 million in revenues.

Pipelines Products and Activities

The Pipelines' revenues are based upon volumes and distances of product shipped. The following table reflects the total volume and barrel miles of refined petroleum products shipped and total operating revenues earned by the Pipelines for each of the periods indicated:

	Year Ended December 31,				
	2000	**1999**	**1998**	**1997**	**1996**
Volume (1)	89,192	85,356	77,965	69,984	73,839
Barrel miles (2)	17,843	18,440	17,007	16,144	16,735
Revenues (3)	$70,685	$67,607	$63,421	$61,320	$63,441

(1) Volumes are expressed in thousands of barrels of refined petroleum product.

(2) Barrel miles are shown in millions. A barrel mile is the movement of one barrel of refined petroleum product one mile.

(3) Revenues are expressed in thousands of dollars.

The following table sets forth volumes of propane and various types of other refined petroleum products transported by the Pipelines during each of the periods indicated:

	Year Ended December 31, (Thousands of Barrels)				
	2000	**1999**	**1998**	**1997**	**1996**
Gasoline	44,215	41,472	37,983	32,237	36,063
Diesel and fuel oil	41,087	40,435	36,237	33,541	32,934
Propane	3,890	3,449	3,745	4,206	4,842
Total	89,192	85,356	77,965	69,984	73,839

Diesel and fuel oil are used in farm machinery and equipment, over-the-road transportation, railroad fueling and residential fuel oil. Gasoline is primarily used in over-the-road transportation and propane is used for crop drying, residential heating and to power irrigation equipment. The mix of refined petroleum products delivered varies seasonally, with gasoline demand peaking in early summer, diesel fuel demand peaking in late summer and propane demand higher in the fall. In addition, weather conditions in the areas served by the East Pipeline affect both the demand for and the mix of the refined petroleum products delivered through the East Pipeline, although historically any overall impact on the total volumes shipped has been short-term. Tariffs charged to shippers for transportation of products do not vary according to the type of product delivered.

Maintenance and Monitoring

The Pipelines have been constructed and are maintained in a manner consistent with applicable Federal, state and local laws and regulations, standards prescribed by the American Petroleum Institute and accepted industry practice. Further, protective measures are taken and routine preventive maintenance is performed on the Pipelines, in order to prolong the useful lives of the Pipelines. Such measures includes cathodic protection to prevent external corrosion, inhibitors to prevent internal corrosion and periodic inspection of the Pipelines. Additionally, the Pipelines are patrolled at regular intervals to identify equipment or activities by third parties that, if left unchecked, could result in encroachment upon the Pipeline's rights-of-way and possible damage to the Pipelines.

The Partnership uses a state-of-the-art Supervisory Control and Data Acquisition remote supervisory control software program to continuously monitor and control the Pipelines from the Wichita, Kansas headquarters. The system monitors quantities of refined petroleum products injected in and delivered through the Pipelines and automatically signals the Wichita headquarters personnel upon deviations from normal operations that requires attention.

Pipeline Operations

Both the East Pipeline and the West Pipeline are interstate pipelines and thus subject to Federal regulation by such governmental agencies as the Federal Energy Regulatory Commission ("FERC"), the Department of Transportation, and the Environmental Protection Agency. Additionally, the West Pipeline is subject to state regulation of certain intrastate rates in Colorado and Wyoming and the East Pipeline is subject to state regulation in Kansas. See "Regulation."

Except for the three single-use pipelines and certain ethanol facilities, all of the Partnership's pipeline operations constitute common carrier operations and are subject to Federal tariff regulation. In May 1998, KPOP was authorized by the FERC to adopt market-based rates in approximately one-half of its markets. Also, certain of its intrastate common carrier operations are subject to state tariff regulation. Common carrier activities are those under which transportation through the Pipelines is available at published tariffs filed, in the case of interstate shipments, with the FERC, or in the case of intrastate shipments in Kansas, Colorado and Wyoming, with the relevant state authority, to any shipper of refined petroleum products who requests such services and satisfies the conditions and specifications for transportation.

In general, a shipper on one of the Pipelines delivers products to the pipeline from refineries or third party pipelines that connect to the Pipelines. The Pipelines' operations also include 20 truck loading terminals through which refined petroleum products are delivered to storage tanks and then loaded into petroleum transport trucks. Five of the 20 terminals also receive propane into storage tanks and then load it into transport trucks. Tariffs for transportation are charged to shippers based upon transportation from the origination point on the pipeline to the point of delivery. Such tariffs also include charges for terminaling and storage of product at the Pipeline's terminals. Pipelines are generally the lowest cost method for intermediate and long-haul overland transportation of refined petroleum products.

Each shipper transporting product on a pipeline is required to supply KPOP with a notice of shipment indicating sources of products and destinations. All shipments are tested or receive refinery certifications to ensure compliance with KPOP's specifications. Shippers are generally invoiced by KPOP immediately upon the product entering one of the Pipelines.

The following table shows the number of tanks owned by KPOP at each terminal location at December 31, 2000, the storage capacity in barrels and truck capacity of each terminal location.

Location of Terminals	Number of Tanks	Tankage Capacity	Truck Capacity[a]
Colorado:			
Dupont	18	692,000	6
Fountain	13	366,000	5
Iowa:			
LeMars	9	103,000	2
Milford[b]	11	172,000	2
Rock Rapids	12	366,000	2
Kansas:			
Concordia[c]	7	79,000	2
Hutchinson	9	162,000	1
Nebraska:			
Columbus[d]	12	191,000	2
Geneva	39	678,000	8
Norfolk	16	187,000	4
North Platte	22	198,000	5
Osceola	8	79,000	2
North Dakota:			
Jamestown	13	188,000	2
South Dakota:			
Aberdeen	12	181,000	2
Mitchell	8	72,000	2
Rapid City	13	256,000	3
Sioux Falls	9	394,000	2
Wolsey	21	149,000	4
Yankton	25	246,000	4
Wyoming:			
Cheyenne	15	345,000	2
Totals	292	5,104,000	

(a) Number of trucks that may be simultaneously loaded.

(b) This terminal is situated on land leased through August 7, 2007 at an annual rental of $2,400. KPOP has the right to renew the lease upon its expiration for an additional term of 20 years at the same annual rental rate.

(c) This terminal is situated on land leased through the year 2060 for a total rental of $2,000.

(d) Also loads rail tank cars.

The East Pipeline also has intermediate storage facilities consisting of 12 storage tanks at El Dorado, Kansas and 10 storage tanks at McPherson, Kansas, with aggregate capacities of approximately 472,000 and 534,000 barrels, respectively. During 2000, approximately 50.4% and 91.5% of the deliveries of the East Pipeline and the West Pipeline, respectively, were made through their terminals, and the remainder of the respective deliveries of such lines were made to other pipelines and customer owned storage tanks.

Storage of product at terminals pending delivery is considered by the Partnership to be an integral part of the product delivery service of the Pipelines. Shippers generally store refined petroleum products for less than one week. Ancillary services, including injection of shipper-furnished and generic additives, are available at each terminal.

Demand for and Sources of Refined Petroleum Products

The Partnership's pipeline business depends in large part on (i) the level of demand for refined petroleum products in the markets served by the Pipelines and (ii) the ability and willingness of refiners and marketers having access to the Pipelines to supply such demand by deliveries through the Pipelines.

Most of the refined petroleum products delivered through the East Pipeline are ultimately used as fuel for railroads or in agricultural operations, including fuel for farm equipment, irrigation systems, trucks used for transporting crops and crop drying facilities. Demand for refined petroleum products for agricultural use, and the relative mix of products required, is affected by weather conditions in the markets served by the East Pipeline. The agricultural sector is also affected by government agricultural policies and crop prices. Although periods of drought suppress agricultural demand for some refined petroleum products, particularly those used for fueling farm equipment, the demand for fuel for irrigation systems often increases during such times.

While there is some agricultural demand for the refined petroleum products delivered through the West Pipeline, as well as military jet fuel volumes, most of the demand is centered in the Denver and Colorado Springs area. Because demand on the West Pipeline is significantly weighted toward urban and suburban areas, the product mix on the West Pipeline includes a substantially higher percentage of gasoline than the product mix on the East Pipeline.

The Pipelines are also dependent upon adequate levels of production of refined petroleum products by refineries connected to the Pipelines, directly or through connecting pipelines. The refineries are, in turn, dependent upon adequate supplies of suitable grades of crude oil. The refineries connected directly to the East Pipeline obtain crude oil from producing fields located primarily in Kansas, Oklahoma and Texas, and, to a much lesser extent, from other domestic or foreign sources. In addition, refineries in Kansas, Oklahoma and Texas are also connected to the East Pipeline through other pipelines. These refineries obtain their supplies of crude oil from a variety of sources. The refineries connected directly to the West Pipeline are located in Casper and Cheyenne, Wyoming and Denver, Colorado. Refineries in Billings and Laurel, Montana are connected to the West Pipeline through other pipelines. These refineries obtain their supplies of crude oil primarily from Rocky Mountain sources. If operations at any one refinery were discontinued, the Partnership believes (assuming unchanged demand for refined petroleum products in markets served by the Pipelines) that the effects thereof would be short-term in nature, and the Partnership's business would not be materially adversely affected over the long term because such discontinued production could be replaced by other refineries or by other sources.

The majority of the refined petroleum product transported through the East Pipeline in 2000 was produced at three refineries located at McPherson and El Dorado, Kansas and Ponca City, Oklahoma, and operated by Cooperative Refining Association ("CRA"), Frontier Refining and Conoco, Inc. respectively. The CRA and Frontier Refining refineries are connected directly to the East Pipeline. The McPherson, Kansas refinery operated by CRA accounted for approximately 27% of the total amount of product shipped over the East Pipeline in 2000. The East Pipeline also has direct access by third party pipelines to four other refineries in Kansas, Oklahoma and Texas and to Gulf Coast supplies of products through connecting pipelines that receive products from pipelines originating on the Gulf Coast. Five connecting pipelines can deliver propane from gas processing plants in Texas, New Mexico, Oklahoma and Kansas to the East Pipeline for shipment.

The majority of the refined petroleum products transported through the West Pipeline is produced at the Frontier Refinery located at Cheyenne, Wyoming, the Ultramar Diamond Shamrock and Conoco Refineries located at Denver, Colorado, and Sinclair's Little America Refinery located at Casper, Wyoming, all of which are connected directly to the West Pipeline. The West Pipeline also has access to three Billings, Montana, area refineries through a connecting pipeline.

Principal Customers

KPOP had a total of approximately 52 shippers in 2000. The principal shippers include four integrated oil companies, three refining companies, two large farm cooperatives and one railroad. Transportation revenues attributable to the top 10 shippers of the Pipelines were $48.7 million, $42.7 million and $48.3 million, which accounted for 69%, 63% and 76% of total revenues shipped for each of the years 2000, 1999 and 1998, respectively.

Competition and Business Considerations

The East Pipeline's major competitor is an independent, regulated common carrier pipeline system owned by The Williams Companies, Inc. ("Williams") that operates approximately 100 miles east of and parallel to the East Pipeline. The Williams system is a substantially more extensive system than the East Pipeline. Furthermore, Williams and its affiliates have capital and financial resources that are substantially greater than those of the Partnership. Competition with Williams is based primarily on transportation charges, quality of customer service and proximity to end users, although refined product pricing at either the origin or terminal point on a pipeline may outweigh transportation costs. Fifteen of the East Pipeline's 16 delivery terminals are located within 2 to 145 miles of, and in direct competition with Williams' terminals.

The West Pipeline competes with the truck loading racks of the Cheyenne and Denver refineries and the Denver terminals of the Chase Terminal Company and Phillips Petroleum Company. Ultramar Diamond Shamrock terminals in Denver and Colorado Springs, connected to a Ultramar Diamond Shamrock pipeline from their Texas Panhandle Refinery, are major competitors to the West Pipeline's Denver and Fountain Terminals, respectively.

Because pipelines are generally the lowest cost method for intermediate and long-haul movement of refined petroleum products, the Pipelines' more significant competitors are common carrier and proprietary pipelines owned and operated by major integrated and large independent oil companies and other companies in the areas where the Pipelines deliver products. Competition between common carrier pipelines is based primarily on transportation charges, quality of customer service and proximity to end users. The Partnership believes high capital costs, tariff regulation, environmental considerations and problems in acquiring rights-of-way make it unlikely that other competing pipeline systems comparable in size and scope to the Pipelines will be built in the near future, provided the Pipelines have available capacity to satisfy demand and its tariffs remain at reasonable levels.

The costs associated with transporting products from a loading terminal to end users limit the geographic size of the market that can be served economically by any terminal. Transportation to end users from the loading terminals of the Partnership is conducted principally by trucking operations of unrelated third parties. Trucks may competitively deliver products in some of the areas served by the Pipelines. However, trucking costs render that mode of transportation not competitive for longer hauls or larger volumes. The Partnership does not believe that trucks are, or will be, effective competition to its long-haul volumes over the long term.

Liquids Terminaling

Introduction

The Partnership's Support Terminal Services operation ("ST") is one of the largest independent petroleum products and specialty liquids terminaling companies in the United States. For the year ended December 31, 2000, the Partnership's terminaling business accounted for approximately 55% of the Partnership's revenues. As of December 31, 2000, and excluding the Shore acquisition described in the next paragraph, ST operated 35 facilities in 19 states and the District of Columbia, with a total storage capacity of approximately 25.0 million barrels. In addition, in February 1999, ST made its first significant international acquisition, with the purchase of six terminals located in the United Kingdom, having a total capacity of approximately 5.4 million barrels. In September 2000, ST acquired a 1.6 million barrel petroleum terminal in Paulsboro, New Jersey. ST and its predecessors have a long history in the terminaling business and handle a wide variety of liquids from petroleum products to specialty chemicals to edible liquids.

On January 3, 2001, the Partnership completed the acquisition of Shore Terminals LLC. Shore Terminals owns seven terminals, four in California (three in the San Francisco Bay area and one in Los Angeles) and one each in Tacoma, Washington, Portland, Oregon and Reno, Nevada, with a total storage capacity of 7.8 million barrels. All of the terminals handle petroleum products and, with the exception of the Nevada terminal, have deep water access. The purchase price was approximately $107,000,000 in cash and 1,975,090 units of limited partnership in the Partnership. The acquisition, which will become a part of the ST Services terminaling operations, will significantly increase ST Services' presence on the West Coast.

ST's terminal facilities provide storage on a fee basis for petroleum products, specialty chemicals and other liquids. ST's five largest domestic terminal facilities are located in Piney Point, Maryland; Linden, New Jersey (50% owned joint venture); Jacksonville, Florida; Texas City, Texas; and, Paulsboro, New Jersey. These facilities accounted for approximately 38.0% of ST's revenues and 49.1% of its tankage capacity in 2000 (excluding the Paulsboro facility, which was acquired by ST in September 2000). Upon their acquisition, the Shore terminals at Crockett and Martinez, California became the third and fourth largest ST terminals.

Description of Largest Domestic Terminal Facilities

Piney Point, Maryland. The largest terminal currently owned by ST is located on approximately 400 acres on the Potomac River. The facility was acquired as part of the purchase of the liquids terminaling assets of Steuart Petroleum Company and certain of its affiliates (collectively "Steuart") in December 1995. The Piney Point terminal has approximately 5.4 million barrels of storage capacity in 28 tanks and is the closest deep water facility to Washington, D.C. This terminal competes with other large petroleum terminals in the East Coast water-borne market extending from New York Harbor to Norfolk, Virginia. The terminal currently stores petroleum products consisting primarily of fuel oils and asphalt. The terminal has a dock with a 36-foot draft for tankers and four berths for barges. It also has truck loading facilities, product blending capabilities and is connected to a pipeline which supplies residual fuel oil to two power generating stations.

Linden, New Jersey. In October 1998, ST entered into a joint venture relationship with Northville Industries Corp. ("Northville") to acquire a 50% ownership interest in and the management of the terminal facility at Linden, New Jersey that was previously owned by Northville. The 44 acre facility provides ST with deep-water terminaling capabilities at New York Harbor and primarily stores petroleum products, including gasoline, jet fuel and fuel oils. The facility has a total capacity of approximately 3.9 million barrels in 22 tanks, can receive products via ship, barge and pipeline and delivers product by ship, barge, pipeline and truck. The terminal has two docks (and leases a third) with draft limits of 35 and 24 feet, respectively.

Jacksonville, Florida. The Jacksonville terminal, also acquired as part of the Steuart transaction in 1995, is located on approximately 86 acres on the St. John's River and consists of a main terminal and two annexes with combined storage capacity of approximately 2.1 million barrels in 30 tanks. The terminal is currently used to store petroleum products including gasoline, No. 2 oil, No. 6 oil, diesel and kerosene. This terminal has a tanker berth with a 38-foot draft and four barge berths and also offers truck and rail car loading facilities and facilities to blend residual fuels for ship bunkering.

Texas City, Texas. The Texas City facility is situated on 39 acres of land leased from the Texas City Terminal Railway Company ("TCTRC") with long-term renewal options. Located on Galveston Bay near the mouth of the Houston Ship Channel, approximately sixteen miles from open water, the Texas City terminal consists of 124 tanks with a total capacity of approximately 2 million barrels. The eastern end of the Texas City site is adjacent to three deep-water docking facilities, which are also owned by TCTRC. The three deep-water docks include two 36-foot draft docks and a 40-foot draft dock. The docking facilities can accommodate any ship or barge capable of navigating the 40-foot draft of the Houston Ship Channel. ST is charged dockage and wharfage fees on a per vessel and per unit basis, respectively, by TCTRC, which it passes on to its customers.

The Texas City facility is designed to accommodate a diverse product mix, including specialty chemicals, such as petrochemicals and has tanks equipped for the specific storage needs of the various products handled; piping and pumping equipment for moving the product between the tanks and the transportation modes; and, an extensive infrastructure of support equipment. ST receives and delivers the majority of the specialty chemicals that it handles via ship or barge at Texas City. ST also receives and delivers liquids via rail tank cars and transport trucks and has direct pipeline connections to refineries in Texas City.

Paulsboro, New Jersey. The Paulsboro terminal was acquired from GATX in September of 2000. The facility has 18 tanks with a combined storage capacity of approximately 1.6 million barrels on the east bank of the Delaware river across from Philadelphia, Pennsylvania. The terminal has one ship dock and two barge berths, is connected to Colonial pipeline and has a truck loading rack for receipt and delivery of petroleum products.

ST's facilities have been designed with engineered structural measures to minimize the possibility of the occurrence and the level of damage in the event of a spill or fire. All loading areas, tanks, pipes and pumping areas are "contained" to collect any spillage and insure that only properly treated water is discharged from the site.

Other Terminal Sites. In addition to the five major facilities described above, ST now has 37 other terminal facilities located throughout the United States and six facilities in the United Kingdom. The Paulsboro facility was acquired during 2000 and the seven Shore terminals in January 2001. The 30 facilities (excluding the seven Shore terminals acquired in January 2001, but including the Paulsboro terminal) represented approximately 50.9% of ST's total tankage capacity and approximately 60.5% of its total revenue for 2000. With the exception of the facilities in Columbus, Georgia, which handles aviation gasoline and specialty chemicals; Winona, Minnesota, which handles nitrogen fertilizer solutions; Savannah, Georgia, which handles chemicals and caustic solutions, as well as petroleum products; Vancouver, Washington, which handles chemicals and bulk fertilizer; Eastham, United Kingdom which handles chemicals and animal fats; and Runcorn, United Kingdom, which handles molten sulphur, these facilities primarily store petroleum products for a variety of customers. Overall, these facilities provide ST locations which are diverse geographically, in products handled and in customers served.

The following table outlines ST's terminal locations, capacities, tanks and primary products handled:

Facility	Tankage Capacity	No. of Tanks	Primary Products Handled
Major U. S. Terminals:			
Piney Point, MD	5,403,000	28	Petroleum
Linden, NJ[(a)]	3,884,000	22	Petroleum
Crockett, CA[(d)]	3,048,000	24	Petroleum
Martinez, CA[(d)]	2,783,000	16	Petroleum
Jacksonville, FL	2,066,000	30	Petroleum
Other U. S. Terminals:			
Montgomery, AL[(b)]	162,000	7	Petroleum, Jet Fuel
Moundville, AL[(b)]	310,000	6	Jet Fuel
Tuscon, AZ[(a)]	181,000	7	Petroleum
Los Angeles, CA[(d)]	597,000	20	Petroleum
Richmond, CA[(d)]	617,000	25	Petroleum
Stockton, CA	706,000	32	Petroleum
M Street, DC	133,000	3	Petroleum
Homestead, FL[(b)]	72,000	2	Jet Fuel
Augusta, GA	110,000	8	Petroleum
Bremen, GA	180,000	8	Petroleum, Jet Fuel
Brunswick, GA	302,000	3	Petroleum, Pulp Liquor
Columbus, GA	180,000	25	Petroleum, Chemicals
Macon, GA[(b)]	307,000	10	Petroleum, Jet Fuel
Savannah, GA	861,000	19	Petroleum, Chemicals
Blue Island, IL	752,000	19	Petroleum
Chillicothe, IL[(a)]	270,000	6	Petroleum
Peru, IL	221,000	8	Petroleum, Fertilizer
Indianapolis, IN	410,000	18	Petroleum
Westwego, LA	858,000	54	Molasses, Fertilizer, Caustic
Salina, KS[(c)]	98,000	10	Petroleum
Andrews AFB Pipeline, MD[(b)]	72,000	3	Jet Fuel
Baltimore, MD	821,000	49	Chemicals, Asphalt, Jet Fuel
Salisbury, MD	177,000	14	Petroleum
Winona, MN	229,000	7	Fertilizer
Reno, NV[(d)]	107,000	7	Petroleum
Paulsboro, NJ	1,580,000	18	Petroleum
Alamogordo, NM[(b)]	120,000	5	Jet Fuel
Drumright, OK	315,000	4	Petroleum, Jet Fuel
Portland, OR[(d)]	343,000	11	Petroleum
Philadelphia, PA	1,044,000	12	Petroleum
San Antonio, TX	207,000	4	Jet Fuel
Texas City, TX	2,002,000	124	Chemicals and Petrochemicals
Dumfries, VA	554,000	16	Petroleum, Asphalt
Virginia Beach, VA[(b)]	40,000	2	Jet Fuel
Tacoma, WA[(d)]	367,000	15	Petroleum
Vancouver, WA	94,000	31	Chemicals, Fertilizer
Milwaukee, WI	308,000	7	Petroleum

Facility	Tankage Capacity	No. of Tanks	Primary Products Handled
Foreign Terminals:			
Grays, England	1,945,000	53	Petroleum
Eastham, England	2,185,000	162	Chemicals, Animal Fats
Runcorn, England	146,000	4	Molten sulphur
Glasgow, Scotland	344,000	16	Petroleum
Leith, Scotland	459,000	34	Petroleum, Chemicals
Belfast, Northern Ireland	315,000	38	Petroleum
	38,285,000	1,046	

(a) The terminal is 50% owned by ST.
(b) Facility also includes pipelines to U.S. government military base locations.
(c) Transferred to Kaneb Pipe Line Operating Partnership, L.P. effective January 1, 2001.
(d) Acquired in the Shore acquisition on January 3, 2001.

Customers

The storage and transport of jet fuel for the U.S. Department of Defense is an important part of ST's business. Eleven of ST's terminal sites are involved in the terminaling or transport (via pipeline) of jet fuel for the Department of Defense and six of the eleven locations have been utilized solely by the U.S. Government. Two of these locations are presently without government business. Of the eleven locations, five include pipelines which deliver jet fuel directly to nearby military bases, while another location supplies Andrews Air Force Base, Maryland and consists of a barge receiving dock, and an 11.3 mile pipeline, with three 24,000 barrel double-bottomed tanks and an administration building located on the base.

Competition and Business Considerations

In addition to the terminals owned by independent terminal operators, such as ST, many major energy and chemical companies own extensive terminal storage facilities. Although such terminals often have the same capabilities as terminals owned by independent operators, they generally do not provide terminaling services to third parties. In many instances, major energy and chemical companies that own storage and terminaling facilities are also significant customers of independent terminal operators, such as ST. Such companies typically have strong demand for terminals owned by independent operators when independent terminals have more cost effective locations near key transportation links, such as deep-water ports. Major energy and chemical companies also need independent terminal storage when their owned storage facilities are inadequate, either because of size constraints, the nature of the stored material or specialized handling requirements.

Independent terminal owners generally compete on the basis of the location and versatility of terminals, service and price. A favorably located terminal will have access to various cost effective transportation modes both to and from the terminal. Possible transportation modes include waterways, railroads, roadways and pipelines. Terminals located near deep-water port facilities are referred to as "deep-water terminals" and terminals without such facilities are referred to as "inland terminals"; though some inland facilities are served by barges on navigable rivers.

Terminal versatility is a function of the operator's ability to offer handling for diverse products with complex handling requirements. The service function typically provided by the terminal includes, among other things, the safe storage of the product at specified temperature, moisture and other conditions, as well as receipt at and delivery from the terminal, all of which must be in compliance with applicable environmental regulations. A terminal operator's ability to obtain attractive pricing is often dependent on the quality, versatility and reputation of the facilities owned by the operator. Although many products require modest terminal modification, operators with a greater diversity of terminals with versatile storage capabilities typically require less modification prior to usage, ultimately making the storage cost to the customer more attractive.

Several companies offering liquid terminaling facilities have significantly more capacity than ST. However, much of ST's tankage can be described as "niche" facilities that are equipped to properly handle "specialty" liquids or provide facilities or services where management believes they enjoy an advantage over competitors. Most of the larger operators have facilities used primarily for petroleum related products. As a result, many of ST's terminals compete against other large petroleum products terminals, rather than specialty liquids facilities. Such specialty or "niche" tankage is less abundant in the U.S. and "specialty" liquids typically command higher terminal fees than lower-price bulk terminaling for petroleum products.

Capital Expenditures

Capital expenditures by the Pipelines, excluding acquisitions, were $3.4 million, $3.6 million and $5.0 million for 2000, 1999 and 1998, respectively. During these periods, adequate capacity existed on the Pipelines to accommodate volume growth, and the expenditures required for environmental and safety improvements were not material in amount. Capital expenditures, excluding acquisitions, by ST were $6.1 million, $11.0 million and $4.4 million for 2000, 1999 and 1998, respectively.

Capital expenditures of the Partnership during 2001 are expected to be approximately $12 million to $15 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources." Additional expansion-related capital expenditures will depend on future opportunities to expand the Partnership's operations. KPL intends to finance future expansion capital expenditures primarily through Partnership borrowings. Such future expenditures, however, will depend on many factors beyond the Partnership's control, including, without limitation, demand for refined petroleum products and terminaling services in the Partnership's market areas, local, state and Federal governmental regulations, fuel conservation efforts and the availability of financing on acceptable terms. No assurance can be given that required capital expenditures will not exceed anticipated amounts during the year or thereafter or that the Partnership will have the ability to finance such expenditures through borrowings or choose to do so.

Regulation

Interstate Regulation. The interstate common carrier pipeline operations of the Partnership are subject to rate regulation by FERC under the Interstate Commerce Act. The Interstate Commerce Act provides, among other things, that to be lawful the rates of common carrier petroleum pipelines must be "just and reasonable" and not unduly discriminatory. New and changed rates must be filed with the FERC, which may investigate their lawfulness on protest or its own motion. The FERC may suspend the effectiveness of such rates for up to seven months. If the suspension expires before completion of the investigation, the rates go into effect, but the pipeline can be required to refund to shippers, with interest, any difference between the level the FERC determines to be lawful and the filed rates under investigation. Rates that have become final and effective may be challenged by a complaint to FERC filed by a shipper or on the FERC's own initiative. Reparations may be recovered by the party filing the complaint for the two-year period prior to the complaint, if FERC finds the rate to be unlawful.

The FERC allows for a rate of return for petroleum products pipelines determined by adding (i) the product of a rate of return equal to the nominal cost of debt multiplied by the portion of the rate base that is deemed to be financed with debt and (ii) the product of a rate of return equal to the real (i.e., inflation-free) cost of equity multiplied by the portion of the rate base that is deemed to be financed with equity. The appropriate rate of return for a petroleum pipeline is determined on a case-by-case basis, taking into account cost of capital, competitive factors and business and financial risks associated with pipeline operations.

Under Title XVIII of the Energy Policy Act of 1992 (the "EP Act"), rates that were in effect on October 24, 1991 that were not subject to a protest, investigation or complaint are deemed to be just and reasonable. Such rates, commonly referred to as grandfathered rates, are subject to challenge only for limited reasons. Any relief granted pursuant to such challenges may be prospective only. Because the Partnership's rates that were in effect on October 24, 1991, were not subject to investigation and protest at that time, those rates could be deemed to be just and reasonable pursuant to the EP Act. The Partnership's current rates became final and effective in July 2000, and the Partnership believes that its currently effective tariffs are just and reasonable and would withstand challenge under the FERC's cost-based rate standards. Because of the complexity of rate making, however, the lawfulness of any rate is never assured.

On October 22, 1993, the FERC issued Order No. 561 which adopted a simplified rate making methodology for future oil pipeline rate changes in the form of indexation. Indexation, which is also known as price cap regulation, establishes ceiling prices on oil pipeline rates based on application of a broad-based measure of inflation in the general economy to existing rates. Rate increases up to the ceiling level are to be discretionary for the pipeline, and, for such rate increases, there will be no need to file cost-of-service or supporting data. Moreover, so long as the ceiling is not exceeded, a pipeline may make a limitless number of rate change filings. This indexing mechanism calculates a ceiling rate. Rate decreases are required if the indexing mechanism operates to reduce the ceiling rate below a pipeline's existing rates. The pipeline may increase its rates to this calculated ceiling rate without filing a formal cost based justification and with limited risk of shipper protests.

The indexation method is to serve as the principal basis for the establishment of oil pipeline rate changes in the future. However, the FERC determined that a pipeline may utilize any one of the following alternative methodologies to indexing: (i) a cost-of-service methodology may be utilized by a pipeline to justify a change in a rate if a pipeline can demonstrate that its increased costs are prudently incurred and that there is a substantial divergence between such increased costs and the rate that would be produced by application of the index; and (ii) a pipeline may base its rates upon a "light-handed" market-based form of regulation if it is able to demonstrate a lack of significant market power in the relevant markets.

On September 15, 1997, the Partnership filed an Application for Market Power Determination with the FERC seeking market based rates for approximately half of its markets. In May 1998, the FERC granted the Partnership's application and approximately half of the Pipelines markets subsequently became subject to market force regulation.

In the FERC's Lakehead decision issued June 15, 1995, the FERC partially disallowed Lakehead's inclusion of income taxes in its cost of service. Specifically, the FERC held that Lakehead was entitled to receive an income tax allowance with respect to income attributable to its corporate partners, but was not entitled to receive such an allowance for income attributable to the partnership interests held by individuals. Lakehead's motion for rehearing was denied by the FERC and Lakehead appealed the decision to the U.S. Court of Appeals. Subsequently, the case was settled by Lakehead and the appeal was withdrawn. In another FERC proceeding involving a different oil pipeline limited partnership, various shippers challenged such pipeline's inclusion of an income tax allowance in its cost of service. The FERC decided this case on the same basis as its holding in the Lakehead case. If the FERC were to partially or completely disallow the income tax allowance in the cost of service of the Pipelines on the basis set forth in the Lakehead order, KPL believes that the Partnership's ability to pay distributions to the holders of the Units would not be impaired; however, in view of the uncertainties involved in this issue, there can be no assurance in this regard.

Intrastate Regulation. The intrastate operations of the East Pipeline in Kansas are subject to regulation by the Kansas Corporation Commission, and the intrastate operations of the West Pipeline in Colorado and Wyoming are subject to regulation by the Colorado Public Utility Commission and the Wyoming Public Service Commission, respectively. Like the FERC, the state regulatory authorities require that shippers be notified of proposed intrastate tariff increases and have an opportunity to protest such increases. KPOP also files with such state authorities copies of interstate tariff changes filed with the FERC. In addition to challenges to new or proposed rates, challenges to intrastate rates that have already become effective are permitted by complaint of an interested person or by independent action of the appropriate regulatory authority.

Environmental Matters

*General***.** The operations of the Partnership are subject to Federal, state and local laws and regulations relating to the protection of the environment in the United States and, since February 1999, the environmental laws and regulations of the United Kingdom in regard to the terminals acquired from GATX Terminals, Limited, in the United Kingdom. Although the Partnership believes that its operations are in general compliance with applicable environmental regulations, risks of substantial costs and liabilities are inherent in pipeline and terminal operations, and there can be no assurance that significant costs and liabilities will not be incurred by the Partnership. Moreover, it is possible that other developments, such as increasingly strict environmental laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from the operations of the Partnership, past and present, could result in substantial costs and liabilities to the Partnership.

See "Item 3 – Legal Proceedings" for information concerning a lawsuit against certain subsidiaries of the Partnership involving jet fuel leaks from a pipeline.

*Water***.** The Oil Pollution Act ("OPA") was enacted in 1990 and amends provisions of the Federal Water Pollution Control Act of 1972 and other statutes as they pertain to prevention and response to oil spills. The OPA subjects owners of facilities to strict, joint and potentially unlimited liability for removal costs and certain other consequences of an oil spill, where such spill is into navigable waters, along shorelines or in the exclusive economic zone. In the event of an oil spill into such waters, substantial liabilities could be imposed upon the Partnership. Regulations concerning the environment are continually being developed and revised in ways that may impose additional regulatory burdens on the Partnership.

Contamination resulting from spills or releases of refined petroleum products are not unusual within the petroleum pipeline and liquids terminaling industries. The East Pipeline and ST Services have experienced limited groundwater contamination at various terminal and pipeline sites resulting from various causes including activities of previous owners. Remediation projects are underway or under construction using various remediation techniques. The costs to remediate contamination at several ST terminal locations is being borne by the former owners under indemnification agreements. Although no assurances can be made, the Partnership believes that the aggregate cost of these remediation efforts will not be material.

Groundwater remediation efforts are ongoing at all four of the West Pipeline's terminals and at a Wyoming pump station. Regulatory officials have been consulted in the development of remediation plans. In connection with the purchase of the West Pipeline, KPOP agreed to implement remediation plans at these specific sites over the succeeding five years following the acquisition in return for the payment by the seller, Wyco Pipe Line Company, of $1,312,000 to KPOP to cover the discounted estimated future costs of these remediations. The Partnership has accrued $2.1 million for these future remediation expenses.

In May 1998, the West Pipeline, at a point between Dupont, Colorado and Fountain, Colorado ruptured, and approximately 1,000 barrels of product was released. Containment and remedial action was immediately commenced. Upon investigation, it appeared that the failure of the pipeline was due to damage caused by third party excavations. The Partnership has made claim to the third party as well as to its insurance carriers. The Partnership has entered into a Compliance Order on Consent with the State of Colorado with respect to the remediation. As of December 31, 2000, the Partnership has incurred $1.2 million of costs in connection with this incident. Future costs are not anticipated to be significant. The Partnership has recovered substantially all of its costs from its insurance carrier.

On April 7, 2000, a fuel oil pipeline in Maryland owned by Potomac Electric Power Company ("PEPCO") ruptured. The pipeline was operated by a partnership of which ST is general partner. PEPCO has reported that, through December 2000, it incurred approximately $66 million in clean-up costs and expects to incur total cleanup costs of $70 million to $75 million. Since May 2000, ST has participated provisionally in a minority share of the cleanup expense, which has been funded by ST's insurance carriers. KPP cannot predict the amount, if any, that ultimately may be determined to be ST's share of the remediation expense, but it believes that such amount will be covered by insurance and will not materially affect KPP's financial condition.

As a result of the rupture, purported class actions have been filed in federal and state court in Maryland by property and/or business owners alleging damages in unspecified amounts against PEPCO and ST under various theories, including the federal Oil Pollution Act. The court has ordered a consolidated complaint to be filed in this action. ST's insurance carriers have assumed the defense of these actions. While KPP cannot predict the amount, if any, of any liability it may have in these suits, it believes that such amounts will be covered by insurance and that these actions will not have a material adverse effect on its financial condition.

PEPCO and ST have agreed with the State of Maryland to pay costs of assessing natural resource damages under the federal Oil Pollution Act, but they cannot predict at this time the amount of any damages that may be claimed by Maryland. KPL believes that both the assessment costs and such damages are covered by insurance and will not materially affect KPP's financial condition.

The U.S. Department of Transportation has issued a Notice of Proposed Violation to PEPCO and ST alleging violations over several years of pipeline safety regulations and proposing a civil penalty of $674,000. ST and PEPCO intend to contest the allegations of violations and the proposed penalty. The ultimate amount of any penalty attributable to ST cannot be determined at this time, but KPL believes that this matter will not have a material effect on KPP's financial condition.

The EPA has also promulgated regulations that may require the Partnership to apply for permits to discharge storm water runoff. Storm water discharge permits also may be required in certain states in which the Partnership operates. Where such requirements are applicable, the Partnership has applied for such permits and, after the permits are received, will be required to sample storm water effluent before releasing it. The Partnership believes that effluent limitations could be met, if necessary, with minor modifications to existing facilities and operations. Although no assurance in this regard can be given, the Partnership believes that the changes will not have a material effect on the Partnership's financial condition or results of operations.

*Aboveground Storage Tank Acts***.** A number of the states in which the Partnership operates in the United States have passed statutes regulating aboveground tanks containing liquid substances. Generally, these statutes require that such tanks include secondary containment systems or that the operators take certain alternative precautions to ensure that no contamination results from any leaks or spills from the tanks. Although there is not currently a Federal statute regulating these above ground tanks, there is a possibility that such a law will be passed in the United States within the next few years. The Partnership is in substantial compliance with all above ground storage tank laws in the states with such laws. Although no assurance can be given, the Partnership believes that the future implementation of above ground storage tank laws by either additional states or by the Federal government will not have a material adverse effect on the Partnership's financial condition or results of operations.

*Air Emissions***.** The operations of the Partnership are subject to the Federal Clean Air Act and comparable state and local statutes. The Partnership believes that the operations of the Pipelines and Terminals are in substantial compliance with such statutes in all states in which they operate.

Amendments to the Federal Clean Air Act enacted in 1990 require or will require most industrial operations in the United States to incur future capital expenditures in order to meet the air emission control standards that have been and are to be developed and implemented by the EPA and state environmental agencies. Pursuant to these Clean Air Act Amendments, those Partnership facilities that emit volatile organic compounds ("VOC") or nitrogen oxides are subject to increasingly stringent regulations, including requirements that certain sources install maximum or reasonably available control technology. In addition, the 1999 Federal Clean Air Act Amendments include a new operating permit for major sources ("Title V Permits"), which applies to some of the Partnership's facilities. Additionally, new dockside loading facilities owned or operated by the Partnership in the United States will be subject to the New Source Performance Standards that were proposed in May 1994. These regulations require control of VOC emissions from the loading and unloading of tank vessels.

Although the Partnership is in substantial compliance with applicable air pollution laws, in anticipation of the implementation of stricter air control regulations, the Partnership is taking actions to substantially reduce its air emissions. The Partnership plans to install bottom loading and vapor recovery equipment on the loading racks at selected terminal sites along the East Pipeline that do not already have such emissions control equipment. These modifications will substantially reduce the total air emissions from each of these facilities. Having begun in 1993, this project is being phased in over a period of years.

*Solid Waste***.** The Partnership generates non-hazardous solid waste that is subject to the requirements of the Federal Resource Conservation and Recovery Act ("RCRA") and comparable state statutes in the United States. The EPA is considering the adoption of stricter disposal standards for non-hazardous wastes. RCRA also governs the disposal of hazardous wastes. At present, the Partnership is not required to comply with a substantial portion of the RCRA requirements because the Partnership's operations generate minimal quantities of hazardous wastes. However, it is anticipated that additional wastes, which could include wastes currently generated during pipeline operations, will in the future be designated as "hazardous wastes". Hazardous wastes are subject to more rigorous and costly disposal requirements than are non-hazardous wastes. Such changes in the regulations may result in additional capital expenditures or operating expenses by the Partnership.

At the terminal sites at which groundwater contamination is present, there is also limited soil contamination as a result of the aforementioned spills. The Partnership is under no present requirements to remove these contaminated soils, but the Partnership may be required to do so in the future. Soil contamination also may be present at other Partnership facilities at which spills or releases have occurred. Under certain circumstances, the Partnership may be required to clean up such contaminated soils. Although these costs should not have a material adverse effect on the Partnership, no assurance can be given in this regard.

*Superfund***.** The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA" or "Superfund") imposes liability, without regard to fault or the legality of the original act, on certain classes of persons that contributed to the release of a "hazardous substance" into the environment. These persons include the owner or operator of the site and companies that disposed or arranged for the disposal of the hazardous substances found at the site. CERCLA also authorizes the EPA and, in some instances, third parties to act in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. In the course of its ordinary operations, the Partnership may generate waste that may fall within CERCLA's definition of a "hazardous substance". The Partnership may be responsible under CERCLA for all or part of the costs required to clean up sites at which such wastes have been disposed.

*Environmental Impact Statement***.** The United States National Environmental Policy Act of 1969 (the "NEPA") applies to certain extensions or additions to a pipeline system. Under NEPA, if any project that would significantly affect the quality of the environment requires a permit or approval from any United States Federal agency, a detailed environmental impact statement must be prepared. The effect of the NEPA may be to delay or prevent construction of new facilities or to alter their location, design or method of construction.

*Indemnification***.** KPL has agreed to indemnify the Partnership against liabilities for damage to the environment resulting from operations of the East Pipeline prior to October 3, 1989. Such indemnification does not extend to any liabilities that arise after such date to the extent such liabilities result from change in environmental laws or regulations. Under such indemnity, KPL is presently liable for the remediation of contamination at certain East Pipeline sites. In addition, both KPOP and ST was wholly or partially indemnified under certain acquisition contracts for some environmental costs. Most of such contracts contain time and amount limitations on the indemnities. To the extent that environmental liabilities exceed the amount of such indemnity, KPOP has affirmatively assumed the excess environmental liabilities.

Safety Regulation

The Pipelines are subject to regulation by the United States Department of Transportation (the "DOT") under the Hazardous Liquid Pipeline Safety Act of 1979 ("HLPSA") relating to the design, installation, testing, construction, operation, replacement and management of their pipeline facilities. The HLPSA covers petroleum and petroleum products pipelines and requires any entity that owns or operates pipeline facilities to comply with such safety regulations and to permit access to and copying of records and to make certain reports and provide information as required by the Secretary to Transportation. The Federal Pipeline Safety Act of 1992 amended the HLPSA to include requirements of the future use of internal inspection devices. The Partnership does not believe that it will be required to make any substantial capital expenditures to comply with the requirements of HLPSA as so amended.

On November 3, 2000, the DOT issued new regulations intended by the DOT to assess the integrity of hazardous liquid pipeline segments that, in the event of a leak or failure, could adversely affect highly populated areas, areas unusually sensitive to environmental impact and commercially navigable waterways. Under the regulations, an operator is required, among other things, to conduct baseline integrity assessment tests (such as internal inspections) within seven years, conduct future integrity tests at typically five year intervals and develop and follow a written risk-based integrity management program covering the designated high consequence areas. KPL does not believe that any increased costs of compliance with these regulations will materially affect the Partnership's results of operations.

The Partnership is subject to the requirements of the United States Federal Occupational Safety and Health Act ("OSHA") and comparable state statutes that regulate the protection of the health and safety of workers. In addition, the OSHA hazard communication standard requires that certain information be maintained about hazardous materials used or produced in operations and that this information be provided to employees, state and local authorities and citizens. The Partnership believes that it is in general compliance with OSHA requirements, including general industry standards, record keeping requirements and monitoring of occupational exposure to benzene.

The OSHA hazard communication standard, the EPA community right-to-know regulations under Title III of the Federal Superfund Amendment and Reauthorization Act, and comparable state statutes require the Partnership to organize information about the hazardous materials used in its operations. Certain parts of this information must be reported to employees, state and local governmental authorities, and local citizens upon request. In general, the Partnership expects to increase its expenditures during the next decade to comply with higher industry and regulatory safety standards such as those described above. Such expenditures cannot be accurately estimated at this time, although they are not expected to have a material adverse impact on the Partnership.

Employees

The Partnership has no employees. The business of the Partnership is conducted by the General Partner, KPL, which at December 31, 2000, employed approximately 600 persons. Approximately 114 of the persons employed by KPL were subject to representation by unions for collective bargaining purposes; however, only 86 persons employed at 5 of KPL's terminal unit locations were subject to collective bargaining or similar contracts at that date. Union contracts regarding conditions of employment for 18, 6, 16, 30 and 16 employees are in effect through June 30, 2001, September 1, 2001, February 28, 2002, June 29, 2002, and November 1, 2003, respectively. All such contracts are subject to automatic renewal for successive one year periods unless either party provides written notice in a timely manner to terminate or modify such agreement.

Item 2. Properties

The properties owned or utilized by the Partnership and its subsidiaries are generally described in Item 1 of this Report. Additional information concerning the obligations of the Partnership and its subsidiaries for lease and rental commitments is presented under the caption "Commitments and Contingencies" in Note 6 to the Partnership's consolidated financial statements. Such descriptions and information are hereby incorporated by reference into this Item 2.

The properties used in the operations of the Pipelines are owned by the Partnership, through its subsidiary entities, except for KPL's operational headquarters, located in Wichita, Kansas, which is held under a lease that expires in 2004. The majority of ST's facilities are owned, while the remainder, including most of its terminal facilities located in port areas and its operational headquarters, located in Dallas, Texas, are held pursuant to lease agreements having various expiration dates, rental rates and other terms.

Item 3. Legal Proceedings

Certain subsidiaries of the Partnership were sued in a Texas state court in 1997 by Grace Energy Corporation ("Grace"), the entity from which the Partnership acquired ST Services in 1993. The lawsuit involves environmental response and remediation allegedly resulting from jet fuel leaks in the early 1970's from a pipeline. The pipeline, which connected a former Grace terminal with Otis Air Force Base in Massachusetts, was abandoned in 1976, when the connecting terminal was sold to an unrelated entity.

Grace alleged that subsidiaries of the Partnership acquired the abandoned pipeline, as part of the acquisition of ST Services in 1993, and assumed responsibility for environmental damages allegedly caused by the jet fuel leaks. Grace sought a ruling that these subsidiaries are responsible for all present and future remediation expenses for these leaks and that Grace has no obligation to indemnify these subsidiaries for these expenses.

In the lawsuit, Grace also sought indemnification for expenses that it has incurred since 1996 of approximately $3.5 million for response and remediation required by the State of Massachusetts and for additional expenses that it expects to incur in the future. The consistent position of the Partnership's subsidiaries is that they did not acquire the abandoned pipeline as part of the 1993 ST transaction, and therefore did not assume any responsibility for the environmental damage nor any liability to Grace for the pipeline.

At the end of the trial on May 19, 2000, the jury returned a verdict including findings that Grace had breached a provision of the 1993 acquisition agreement and that the pipeline was abandoned prior to 1978. On July 17, 2000, the Judge entered final judgment in the case, which is now on appeal to the Dallas Court of Appeals, that Grace take nothing from the subsidiaries on its claims, including claims for future expenses. Although the Partnership's subsidiaries have not incurred any expenses in connection with the remediation, the court also ruled, in effect, that the subsidiaries would not be entitled to an indemnification from Grace if any such expenses were incurred in the future. However, the Judge let stand a prior summary judgment ruling that the pipeline was an asset of the Partnership acquired as part of the 1993 ST transaction. The Judge also awarded attorney fees to Grace.

While the judgment means that the subsidiaries have no obligation to reimburse Grace for the approximately $3.5 million it has incurred, as required by the State of Massachusetts, the Partnership's subsidiaries have filed an appeal of the judgment finding that the Otis Pipeline was transferred to them and the award of attorney fees.

The Otis Air Force Base is a part of the Massachusetts Military Reservation ("MMR"), which has been declared a Superfund Site pursuant to the Comprehensive Environmental Response, Compensation and Liability Act. The MMR Site contains nine groundwater contamination plumes, two of which are allegedly associated with the pipeline, and various other waste management areas of concern, such as landfills. The United States Department of Defense and the United States Coast Guard, pursuant to a Federal Facilities Agreement, have been responding to the Government remediation demand for most of the contamination problems at the MMR Site. Grace and others have also received and responded to formal inquiries from the United States Government in connection with the environmental damages allegedly resulting from the jet fuel leaks. The Partnership's subsidiaries have voluntarily responded to an invitation from the Government to provide information indicating that they do not own the pipeline. In connection with a court-ordered mediation between Grace and the subsidiaries, the Government advised the parties in April 1999 that it has identified the two spill areas that it believes to be related to the pipeline that is the subject of the Grace suit. The Government advised the parties that it believes it has incurred costs of approximately $34 million, and expects in the future to incur costs of approximately $55 million, for remediation of one of the spill areas. This amount was not intended to be a final accounting of costs or to include all categories of costs. The Government also advised the parties that it could not at that time allocate its costs attributable to the second spill area. The Partnership believes that the ultimate cost of the remediation, while substantial, will be considerably less than the Government has indicated.

The Government has made no claims against the Partnership or any other person on account of this matter. The Partnership believes that if any such claims were made, its subsidiaries would have substantial defenses to such claims. Under Massachusetts law, the party responsible for remediation of a facility is the last owner before the abandonment, which was a Grace company. The Partnership does not believe that either the Grace litigation or any claims that may be made by the Government will adversely affect its ability to make cash distributions to its unitholders, but there can be no assurances in that regard.

The Partnership has other contingent liabilities resulting from litigation, claims and commitments incident to the ordinary course of business. Management believes, based on the advice of counsel, that the ultimate resolution of such contingencies will not have a materially adverse effect on the financial position or results of operations of the Partnership.

Item 4. Submission of Matters to a Vote of Security Holders

The Partnership did not hold a meeting of Unitholders or otherwise submit any matter to a vote of security holders in the fourth quarter of 2000.

PART II

Item 5. Market for the Registrant's Units and Related Unitholder Matters

The Partnership's limited partnership interests ("Units") are listed and traded on the New York Stock Exchange (the "NYSE"), under the symbol "KPP." At March 6, 2001, there were approximately 1,100 Unitholders. Set forth below are prices on the NYSE and cash distributions for the periods indicated for such Units.

Year		Unit Prices		Cash Distributions
		High	Low	Declared
1999:				
	First Quarter	29 3/16	26 1/4	$ .70
	Second Quarter	29 3/4	27 1/4	.70
	Third Quarter	29 3/4	26 1/2	.70
	Fourth Quarter	26 15/16	21 5/16	.70
2000:				
	First Quarter	28 1/4	24 3/16	.70
	Second Quarter	27 1/8	23 3/8	.70
	Third Quarter	29 15/16	24 11/16	.70
	Fourth Quarter	31 3/4	26 1/16	.70
2001:				
	First quarter (through March 6, 2001)	34.09	29.88	.70

Under the terms of its financing agreements, the Partnership is prohibited from declaring or paying any distribution if a default exists thereunder.

Item 6. SUMMARY HISTORICAL FINANCIAL AND OPERATING DATA

The following table sets forth, for the periods and at the dates indicated, selected historical financial and operating data for Kaneb Pipe Line Partners, L.P. and subsidiaries (the "Partnership"). The data in the table (in thousands, except per unit amounts) is derived from the historical financial statements of the Partnership and should be read in conjunction with the Partnership's audited financial statements. See also "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year Ended December 31,				
	2000	1999	1998	1997	1996
Income Statement Data:					
Revenues	$ 156,232	$ 158,028	$ 125,812	$ 121,156	$ 117,554
Operating costs	69,653	69,148	52,200	50,183	49,925
Depreciation and amortization	16,253	15,043	12,148	11,711	10,981
General and administrative	11,881	9,424	6,261	5,793	5,259
Total costs and expenses	97,787	93,615	70,609	67,687	66,165
Operating income	58,445	64,413	55,203	53,469	51,389
Interest and other income	1,442	408	626	562	776
Interest expense	(12,283)	(13,390)	(11,304)	(11,332)	(11,033)
Minority interest in net income	(467)	(499)	(441)	(420)	(403)
Income before income taxes	47,137	50,932	44,084	42,279	40,729
Income tax provision	(943)	(1,496)	(418)	(718)	(822)
Net income	$ 46,194	$ 49,436	$ 43,666	$ 41,561	$ 39,907
Allocation of net income per Unit [(a)]	$ 2.43	$ 2.81	$ 2.67	$ 2.55	$ 2.46
Cash Distributions declared per Unit [(a)]	$ 2.80	$ 2.80	$ 2.60	$ 2.50	$ 2.30
Balance Sheet Data (at period end):					
Property and equipment, net	$ 321,355	$ 316,883	$ 268,626	$ 247,132	$ 249,733
Total assets	375,063	365,953	308,432	269,032	274,765
Long-term debt	166,900	155,987	153,000	132,118	139,453
Partners' capital	160,767	168,288	105,388	104,196	103,340

(a) Prior to the third quarter of 1998, the Partnership had three classes of partnership interests designated as Senior Preference Units, Preference Units and Common Units, respectively. Pursuant to the Partnership Agreement, on August 14, 1998, each such class of units were converted into a single class designated as "Units", effective July 1, 1998. Allocations of net income and cash distributions declared were equal for all classes of units for all periods presented.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion should be read in conjunction with the consolidated financial statements of Kaneb Pipe Line Partners, L.P. and notes thereto and the summary historical financial and operating data included elsewhere in this report.

General

In September 1989, Kaneb Pipe Line Company ("KPL"), a wholly-owned subsidiary of Kaneb Services, Inc. ("Kaneb"), formed the Partnership to own and operate its refined petroleum products pipeline business. The Partnership operates through KPOP, a limited partnership in which the Partnership holds a 99% interest as limited partner and KPL owns a 1% interest as general partner in both the Partnership and KPOP. The Partnership is engaged through operating subsidiaries in the refined petroleum products pipeline business and, since 1993, terminaling and storage of petroleum products and specialty liquids.

The Partnership's pipeline business consists primarily of the transportation through the East Pipeline and the West Pipeline, as common carriers, of refined petroleum products. The East Pipeline and the West Pipeline are collectively referred to as the "Pipelines." The Pipelines primarily transport gasoline, diesel oil, fuel oil and propane. The products are transported from refineries connected to the Pipeline, directly or through other pipelines, to agricultural users, railroads and wholesale customers in the states in which the Pipelines are located and in portions of other states. Substantially all of the Pipelines' operations constitute common carrier operations that are subject to Federal or state tariff regulations. The Partnership has not engaged, nor does it currently intend to engage, in the merchant function of buying and selling refined petroleum products.

The Partnership's business of terminaling petroleum products and specialty liquids is conducted under the name ST Services ("ST").

On January 3, 2001, the Partnership, through a wholly-owned subsidiary, acquired Shore Terminals LLC ("Shore") for $107 million in cash and 1,975,090 KPP Units. Financing for the cash portion of the purchase price was supplied under a new $275 million unsecured revolving credit agreement with a bank. See "Liquidity and Capital Resources". Shore owns seven terminals, located in four states, with a total tankage capacity of 7.8 million barrels. All of the terminals handle petroleum products and, with the exception of one, have deep water access.

On February 1, 1999, the Partnership, through two wholly-owned indirect subsidiaries, acquired six terminals in the United Kingdom from GATX Terminal Limited for £22.6 million (approximately $37.2 million) plus transaction costs and the assumption of certain liabilities. The acquisition of the six locations, which have an aggregate tankage capacity of 5.4 million barrels, was initially financed by term loans from a bank. $13.3 million of the term loans were repaid in July 1999 with the proceeds from a public unit offering. See "Liquidity and Capital Resources". Three of the terminals, handling petroleum products, chemicals and molten sulfur, respectively, operate in England. The remaining three facilities, two in Scotland and one in Northern Ireland, are primarily petroleum terminals. All six terminals are served by deepwater marine docks.

On October 30, 1998, the Partnership, through a wholly-owned subsidiary, entered into acquisition and joint venture agreements with Northville Industries Corp. ("Northville") to acquire and manage the former Northville terminal located in Linden, New Jersey. Under the agreements, the Partnership acquired a 50% interest in the newly-formed ST Linden Terminal LLC for $20.5 million plus transaction costs. The petroleum storage facility, which has capacity of 3.9 million barrels in 22 tanks, was funded by bank financing which was repaid using proceeds from a public unit offering in July 1999. See "Liquidity and Capital Resources".

The Partnership is the third largest independent liquids terminaling company in the United States. Following the Shore acquisition on January 3, 2001, ST operated 42 facilities in 24 states, the District of Columbia and six facilities in the United Kingdom with an aggregate tankage capacity of approximately 38.3 million barrels.

Pipeline Operations

	Year Ended December 31,		
	2000	1999	1998
		(in thousands)	
Revenues	$ 70,685	$ 67,607	$ 63,421
Operating costs	25,223	23,579	22,057
Depreciation and amortization	5,180	5,090	4,619
General and administrative	4,069	3,102	3,115
Operating income	$ 36,213	$ 35,836	$ 33,630

Pipelines revenues are based on volumes shipped and the distances over which such volumes are transported. For the year ended December 31, 2000, revenues increased by $3.1 million due primarily to an increase in terminaling charges. For the year ended December 31, 1999, revenues increased by $4.2 million due to overall increases in total volumes shipped, primarily on the East Pipeline. Because tariff rates are regulated by the FERC, the Pipelines compete primarily on the basis of quality of service, including delivering products at convenient locations on a timely basis to meet the needs of its customers. Barrel miles totaled 17.8 billion, 18.4 billion and 17.0 billion for the years ended December 31, 2000, 1999 and 1998, respectively.

Operating costs, which include fuel and power costs, materials and supplies, maintenance and repair costs, salaries, wages and employee benefits, and property and other taxes, increased by $1.6 million in 2000 and $1.5 million in 1999, respectively. The increase in both years was due to increases in materials and supplies costs, including additives, that are volume related. General and administrative costs, which include managerial, accounting and administrative personnel costs, office rental expense, legal and professional costs and other non-operating costs increased by $1.0 million in 2000, compared to 1999, when the Partnership booked a one-time benefit resulting from the favorable elimination of a contingency.

Terminaling Operations

	Year Ended December 31,		
	2000	1999	1998
		(in thousands)	
Revenues	$ 85,547	$ 90,421	$ 62,391
Operating costs	44,430	45,569	30,143
Depreciation and amortization	11,073	9,953	7,529
General and administrative	7,812	6,322	3,146
Operating income	$ 22,232	$ 28,577	$ 21,573

For the year ended December 31, 2000, revenues decreased by $4.9 million, compared to 1999. Revenue increases resulting from the United Kingdom and other 1999 terminal acquisitions were more than offset by decreases in tank utilization due to unfavorable domestic market conditions resulting from declines in forward product pricing. For the year ended December 31, 1999, revenues increased by $28.0 million, due to terminal acquisitions and increased utilization of existing terminals due to favorable market conditions, partially offset by a decrease in the overall price realized for storage. Average annual tankage utilized for the years ended December 31, 2000, 1999 and 1998 aggregated 21.0 million barrels, 22.6 million barrels and 15.2 million barrels, respectively. The 2000 decrease in average annual tankage utilized resulted from the unfavorable domestic market conditions. The 1999 increase resulted from the acquisitions and increased storage at the Partnership's largest petroleum storage facility. Average revenues per barrel of tankage utilized for the years ended December 31, 2000, 1999 and 1998 was $4.12, $4.00 and $4.11, respectively. The increase in 2000 average revenues per barrel of tankage utilized, when compared to 1999, was due to the storage of a larger proportionate volume of specialty chemicals, which are historically at higher per barrel rates than petroleum products. The unusually low 1999 average revenues per barrel of tankage utilized was due to the 1999 temporary increase in storage at the Partnership's largest petroleum storage facility.

Operating costs decreased by $1.1 million in 2000, when compared to 1999, due to lower costs resulting from the overall decline in volumes stored. The 1999 increase of $15.4 million in operating costs was due to the terminal acquisitions and increases in tank utilization. General and administrative expense increased by $1.5 million in 2000 and by $3.2 million in 1999. The increase in 2000 is due entirely to extraordinarily high litigation costs. Approximately one-half of the increase in 1999 was due to the terminal acquisitions with the remaining portion of the 1999 increase due to the extraordinarily high litigation costs. In 2000, KPP sold land and other Terminaling business assets for approximately $2.0 million in net proceeds, recognizing a gain on disposition of assets of $1.1 million.

Total tankage capacity (38.3 million barrels, including 7.8 million barrels acquired in the Shore acquisition on January 3, 2001) has been, and is expected to remain, adequate to meet existing customer storage requirements. Customers consider factors such as location, access to cost effective transportation and quality of service, in addition to pricing, when selecting terminal storage.

Liquidity and Capital Resources

Cash provided by operating activities was $62.0 million, $63.6 million and $58.8 million for the years 2000, 1999 and 1998, respectively. The decrease in cash provided by operations in 2000 is a result of the decrease in terminaling revenues and operating income due to unfavorable domestic market conditions. The increase in 1999 resulted from increases in revenues and operating income in the terminaling operations resulting from terminal acquisitions and improvements in pipeline operations from increases in volumes shipped.

Capital expenditures, excluding expansion capital expenditures, were $9.5 million, $14.6 million and $9.4 million for 2000, 1999 and 1998, respectively. During all periods, adequate pipeline capacity existed to accommodate volume growth, and the expenditures required for environmental and safety improvements were not, and are not expected in the future to be, significant. Environmental damages caused by sudden and accidental occurrences are included under the Partnership's insurance coverages (subject to deductible and limits). The Partnership anticipates that routine maintenance capital expenditures (excluding acquisitions) will total approximately $12 million to $15 million in 2001. Such future expenditures, however, will depend on many factors beyond the Partnership's control, including, without limitation, demand for refined petroleum products and terminaling services in the Partnership's market areas, local, state and Federal governmental regulations, fuel conservation efforts and the availability of financing on acceptable terms. No assurance can be given that required capital expenditures will not exceed anticipated amounts during the year or thereafter or that the Partnership will have the ability to finance such expenditures through borrowings or choose to do so.

The Partnership expects to fund future cash distributions and maintenance capital expenditures with existing cash and cash flows from operating activities. Expansionary capital expenditures are expected to be funded through additional Partnership bank borrowings and/or future public unit or debt offerings.

The Partnership makes quarterly distributions of 100% of its Available Cash, as defined in the Partnership Agreement, to holders of limited partnership units ("Unitholders") and KPL. Available Cash consists generally of all the cash receipts less all cash disbursements and reserves. Distributions of $2.80 per unit were declared to Unitholders in 2000 and 1999 and $2.60 per unit was declared in 1998.

In December 2000, the Partnership entered into a credit agreement with a group of banks that provides for a $275 million unsecured revolving credit facility through December 2003. No amounts were drawn on the facility at December 31, 2000. The credit facility bears interest at variable rates, has a variable commitment fee on unutilized amounts and contains certain financial and operational covenants. Proceeds from the facility were used to repay in full the Partnership's $128 million of mortgage notes and $15 million outstanding under its $25 million revolving credit facility in January 2001. An additional $107 million was used to finance the cash portion of the Shore acquisition. Under the provisions of the mortgage notes, the Partnership incurred a $6.3 million prepayment penalty, which will be recognized as an extraordinary expense in the first quarter of 2001. At January 3, 2001, $257.5 million was drawn on the facility, at an interest rate of 6.31%, which is due in December of 2003.

In January 1999, the Partnership, through two wholly-owned subsidiaries, entered into a credit agreement with a bank that provided for the issuance of $39.2 million of term loans in connection with the United Kingdom terminal acquisition and $5.0 million for general Partnership purposes. $18.3 million of the term loans were repaid in July 1999 with the proceeds from the public unit offering. The remaining portion ($23.9 million), with a fixed rate of 7.14%, is due in January 2002. The term loans under the credit agreement, as amended, are unsecured and are pari passu with the $275 million revolving credit facility. The term loans also contain certain financial and operational covenants.

In July 1999, the Partnership issued 2.25 million limited partnership units in a public offering at $30.75 per unit, generating approximately $65.6 million in net proceeds. A portion of the proceeds was used to repay in full the Partnership's $15.0 million promissory note, the $25.0 million revolving credit facility and $18.3 million in term loans (including $13.3 million in term loans resulting from the United Kingdom terminal acquisition).

See also "Item 1 – Regulation", regarding the FERC's Lakehead decision.

Allocation of Net Income and Earnings

Net income or loss is allocated between limited partner interests and the general partner pro rata based on the aggregate amount of cash distributions declared (including general partner incentive distributions). Beginning in 1997, distributions by the Partnership of Available Cash reached the Second Target Distribution, as defined in the Partnership Agreement, which entitled the general partner to receive certain incentive distributions at different levels of cash distributions. Earnings per Unit shown on the consolidated statements of income are calculated by dividing the limited partners' interest in net income by the weighted average number of Units outstanding. If the allocation of income had been made as if all income had been distributed in cash, earnings per Unit would have been $2.49, $2.81 and $2.66 for the years ended December 31, 2000, 1999 and 1998, respectively.

Recent Accounting Pronouncements

The Partnership has assessed the reporting and disclosure requirements of SFAS No. 133, "Accounting and Derivative Instruments and Hedging Activities", which establishes the accounting and reporting standards for such activities. Under SFAS No. 133, companies must recognize all derivative instruments on its balance sheet at fair value. Changes in the value of derivative instruments which are considered hedges, will either be offset against the change in fair value of the hedged item through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings, depending on the nature of the hedge. The Partnership will adopt SFAS No. 133, as amended, in the first quarter of 2001. Currently, the Partnership is not a party to any derivative contracts, and does not anticipate that adoption will have a material effect on the Partnership's results of operations or financial position.

Item 7(a). Quantitative and Qualitative Disclosure About Market Risk

The principal market risks (i.e., the risk of loss arising from the adverse changes in market rates and prices) to which the Partnership is exposed are interest rates on the Partnership's debt and investment portfolios. The Partnership centrally manages its debt and investment portfolios considering investment opportunities and risks and overall financing strategies. The Partnership's investment portfolio consists of cash equivalents; accordingly, the carrying amounts approximate fair value. The Partnership's investments are not material to its financial position or performance. Assuming variable rate debt of $257.5 million at January 3, 2001, a one percent increase in interest rates would increase net interest expense by approximately $2.6 million.

Item 8. Financial Statements and Supplementary Data

The financial statements and supplementary data of the Partnership begin on page F-1 of this report. Such information is hereby incorporated by reference into this Item 8.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant

The Partnership is a limited partnership and has no directors. The Partnership is managed by KPL as general partner. Set forth below is certain information concerning the directors and executive officers of KPL. All directors of KPL are elected annually by Kaneb, as its sole stockholder. All officers serve at the discretion of the Board of Directors of KPL.

Name	Age	Position with KPL	Years of Service With KPL	Units(m)	% of O/S
Edward D. Doherty	65	Chairman of the Board and Chief Executive Officer	11 (a)	87,526	*
Leon E. Hutchens	66	President	41 (b)	500	*
Jimmy L. Harrison	47	Executive Vice President and Controller	8 (d)	-0-	*
Ronald D. Scoggins	46	Senior Vice President	4 (c)	1,451	*
Howard C. Wadsworth	56	Vice President, Treasurer and Secretary	7 (e)	-0-	*
Sangwoo Ahn	62	Director	12 (f)	34,000	*
John R. Barnes	56	Director	14 (g)	230,900	1.14%
Murray R. Biles	70	Director	47 (h)	500	*
Frank M. Burke, Jr.	61	Director	4 (i)	-0-	*
Charles R. Cox	58	Director	6 (j)	8,500	*
Hans Kessler	51	Director	4 (k)	-0-	*
James R. Whatley	74	Director	12 (l)	27,400	*
	All Officers and Directors as a group (12 persons)			390,777	1.93%

*Less than one percent

(a) Mr. Doherty, Chairman of the Board and Chief Executive Officer of KPL since September 1989, is also Senior Vice President of Kaneb.

(b) Mr. Hutchens assumed his current position in January 1994, having been with KPL since January 1960. Mr. Hutchens had been Vice President since January 1981. Mr. Hutchens was Manager of Product Movement from July 1976 to January 1981.

(c) Mr. Scoggins became an executive officer of KPL in August 1997, prior to which he served in senior level positions for ST for more than 10 years.

(d) Mr. Harrison assumed his present position in November 1992, prior to which he served in a variety of financial positions including Assistant Secretary and Treasurer with ARCO Pipe Line Company for approximately 19 years.

(e) Mr. Wadsworth also serves as Vice President, Treasurer and Secretary for Kaneb. Mr. Wadsworth joined Kaneb in October 1990.

(f) Mr. Ahn, a director of KPL since July 1989, is also a director of Kaneb. Mr. Ahn has been a general partner of Morgan Lewis Githens & Ahn, an investment banking firm, since 1982 and currently serves as a director of PAR Technology Corporation and Quaker Fabric Corporation.

(g) Mr. Barnes, a director of KPL, is also Chairman of the Board, President and Chief Executive Officer of Kaneb.

(h) Mr. Biles joined KPL in November 1953 and served as President from January 1985 until his retirement at the close of 1993.

(i) Mr. Burke, a director of KPL since January 1997, is also a director of Kaneb. Mr. Burke has been Chairman and Managing General Partner of Burke, Mayborn Company, Ltd., a private investment company, for more than the past five years. Mr. Burke also currently serves as a Director of Avidyn, Inc. and Arch Coal, Inc.

(j) Mr. Cox, a director of KPL since September 1995, is also a director of Kaneb. Mr. Cox has been a private business consultant since retiring in January 1998 from Fluor Daniel, Inc., an international services company, where he served in senior executive level positions during a 29 year career with that organization.

(k) Mr. Kessler, elected to the Board on February 19, 1998, is also a director of Kaneb. Mr. Kessler has served as Chairman and Managing Director of KMB Kessler + Partner GmbH since 1992. He was previously a Managing Director and Vice President of a European Division of Tyco International Ltd.

(l) Mr. Whatley, a director of KPL since July 1989, is also a director of Kaneb and served as Chairman of the Board of Directors of Kaneb from February 1981 until April 1989.

(m) Partnership Units listed are those beneficially owned by the person indicated, his spouse or children living at home and do not include Units in which the person has disclaimed any beneficial interest.

Audit Committee

Messrs. Sangwoo Ahn, Frank M. Burke, Jr. and James R. Whatley serve as the members of the Audit Committee of KPL. Such Committee will, on an annual basis, or more frequently as such Committee may determine to be appropriate, review policies and practices of KPL and the Partnership and deal with various matters as to which potential conflicts of interest may arise.

Committee Interlocks and Insider Participation

KPL's Board of Directors does not have a compensation committee or any other committee that performs the equivalent functions. During the fiscal year ended December 31, 2000, none of KPL's officers or employees participated in the deliberations of KPL's Board of Directors concerning executive officer compensation.

Section 16(a) Beneficial Ownership Reporting Compliance Statement

Section 16(a) of the Securities Exchange Act of 1934, as amended ("Section 16(a)") requires KPL's officers and directors, among others, to file reports of ownership and changes of ownership in the Partnership's equity securities with the Securities and Exchange Commission and the New York Stock Exchange. Such persons are also required by related regulations to furnish KPL with copies of all Section 16(a) forms that they file.

Based solely on its review of the copies of such forms received by it, KPL believes that, since January 1, 2000, its officers and directors have complied with all applicable filing requirements with respect to the Partnership's equity securities.

Item 11. Executive Compensation

The Partnership has no executive officers, but is obligated to reimburse KPL for compensation paid to KPL's executive officers in connection with their operation of the Partnership's business.

The following table sets forth information with respect to the aggregate compensation paid or accrued by KPL during the fiscal years 2000, 1999 and 1998, to the Chief Executive Officer and each of the other most highly compensated executive officers of KPL.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation Salary[(a)]	Annual Compensation Bonus[(b)]	All Other Compensation[(c)]
Edward D. Doherty[(d)]	2000	$ 234,392	$ -0-	$ 6,787
Chairman of the	1999	225,375	-0-	6,249
Board and Chief	1998	216,758	-0-	6,402
Executive Officer				
Leon E. Hutchens	2000	203,383	-0-	7,443
President	1999	195,550	13,600	7,336
	1998	188,083	10,000	7,027
Jimmy L. Harrison	2000	128,820	-0-	2,666
Executive Vice President	1999	123,720	6,800	3,844
	1998	117,000	5,000	3,120
Ronald D. Scoggins[(d)]	2000	164,658[(e)]	-0-	6,457
Senior Vice President	1999	159,441[(e)]	-0-	6,343
	1998	161,348[(e)]	-0-	6,100

(a) Amounts for 2000, 1999 and 1998, respectively, include deferred compensation for Mr. Doherty ($6,762, $14,720 and $13,692); Mr. Hutchens ($1,608, $8,416 and $4,869); and Mr. Scoggins ($11,464, $11,212 and $10,600).
(b) Amounts earned in year shown and paid the following year.
(c) Represents KPL’s contributions to Kaneb’s Savings Investment Plan (a 401(k) plan) and the imputed value of Company-paid group term life insurance.
(d) The compensation for these individuals is paid by Kaneb, which is reimbursed for all or substantially all of such compensation by KPL.
(e) Amounts for 2000, 1999 and 1998, respectively, include $24,058, $24,016 and $31,131 in the form of Partnership Units (434, 378 and 412) and Kaneb Services, Inc. Common Stock (1,314, 969 and 1,322).

Director's Fees

During 2000, each member of KPL's Board of Directors who was not also an employee of KPL or Kaneb was paid an annual retainer of $10,000 in lieu of all attendance fees.

Item 12. Security Ownership of Certain Beneficial Owners and Management

At March 6, 2001, KPL owned a combined 2% General Partner interest in the Partnership and KPOP and, together with its affiliates, owned Units representing an aggregate limited partner interest of approximately 25%.

Item 13. Certain Relationships and Related Transactions

KPL is entitled to certain reimbursements under the Partnership Agreement. For additional information regarding the nature and amount of such reimbursements, see Note 7 to the Partnership's consolidated financial statements.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a) (1) Financial Statements

Set forth below is a list of financial statements appearing in this report.

Kaneb Pipe Line Partners, L.P. and Subsidiaries Financial Statements:

(a) (2) Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

(a) (3) List of Exhibits

3.1 Amended and Restated Agreement of Limited Partnership dated September 27, 1989, as revised July 23, 1998, filed herewith.

10.1 ST Agreement and Plan of Merger date December 21, 1992 by and between Grace Energy Corporation, Support Terminal Services, Inc., Standard Transpipe Corp., and Kaneb Pipe Line Operating Partnership, NSTS, Inc. and NSTI, Inc. as amended by Amendment of STS Merger Agreement dated March 2, 1993, filed as Exhibit 10.1 of the exhibits to Registrant's Current Report on Form 8-K ("Form 8-K"), dated March 16, 1993, which exhibit is hereby incorporated by reference.

10.2 Agreement for Sale and Purchase of Assets between Wyco Pipe Line Company and KPOP, dated February 19, 1995, filed as Exhibit 10.1 of the exhibits to the Registrant's March 1995 Form 8-K, which exhibit is hereby incorporated by reference.

10.3 Asset Purchase Agreements between and among Steuart Petroleum Company, SPC Terminals, Inc., Piney Point Industries, Inc., Steuart Investment Company, Support Terminals Operating Partnership, L.P. and KPOP, as amended, dated August 27, 1995, filed as Exhibits 10.1, 10.2, 10.3, and 10.4 of the exhibits to Registrant's Current Report on Form 8-K dated January 3, 1996, which exhibits are hereby incorporated by reference.

10.4 Formation and Purchase Agreement, between and among Support Terminal Operating Partnership, L.P., Northville Industries Corp. and AFFCO, Corp., dated October 30, 1998, filed as exhibit 10.9 to the Registrant's Form 10-K for the year ended December 31, 1998, which exhibit is hereby incorporated by reference.

10.5 Agreement, between and among, GATX Terminals Limited, ST Services, Ltd., ST Eastham, Ltd., GATX Termianls Corporation, Support Terminals Operating Partnership, L.P. and Kaneb Pipe Line Partners, L.P., dated January 26, 1999, filed as Exhibit 10.10 to the Registrant's Form 10-K for the year ended December 31, 1998, which exhibit is hereby incorporated by reference.

10.6 Credit Agreement, between and among, Kaneb Pipe Line Operating Partnership, L.P., ST Services, Ltd. and SunTrust Bank, Atlanta, dated January 27, 1999, filed as Exhibit 10.11 to the Registrant's Form 10-K for the year ended December 31, 1998, which exhibit is hereby incorporated by reference.

10.7 Revolving Credit Agreement, dated as of December 28, 2000 among Kaneb Pipe Line Operating Partnership, L.P., Kaneb Pipe Line Partners, L.P., The Lenders From Time To Time Party Hereto, and SunTrust Bank, as Administrative Agent, filed herewith.

10.8 Securities Purchase Agreement Among Shore Terminals LLC, Kaneb Pipe Line Partners, L.P. and the Sellers Named Therein, dated as of September 22, 2000, Amendment No. 1 To Securities Purchase Agreement, dated as of November 28, 2000 and Registration Rights Agreement, dated as of January 3, 2001, filed as Exhibits 10.1, 10.2 and 10.3 of the exhibits to Registrant's Current Report on Form 8-K dated January 3, 2001, which exhibits are hereby incorporated by reference.

21 List of Subsidiaries, filed herewith.

23 Consent of KPMG LLP, filed herewith.

(b) Reports on Form 8-K

Current Report on Form 8-K regarding the decision of Kaneb Services, Inc.'s ("Kaneb Services") Board of Directors to distribute its pipeline, terminaling and product marketing business to Kaneb Services' stockholders in the form of a new limited liability company, dated November 29, 2000, (Registrant is a Delaware limited partnership of which Kaneb Pipe Line Company, a Delaware corporation ("KPL"), is the general partner. KPL is a wholly owned subsidiary of Kaneb Services).

Current Report on Form 8-K regarding the Acquisition of Shore Terminals LLC, located in California, Washington, Oregon and Nevada, dated January 3, 2001.

KANEB PIPE LINE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2000	1999	1998
Revenues	$156,232,000	$158,028,000	$125,812,000
Costs and expenses:			
Operating costs	69,653,000	69,148,000	52,200,000
Depreciation and amortization	16,253,000	15,043,000	12,148,000
General and administrative	11,881,000	9,424,000	6,261,000
Total costs and expenses	97,787,000	93,615,000	70,609,000
Operating income	58,445,000	64,413,000	55,203,000
Interest and other income	1,442,000	408,000	626,000
Interest expense	(12,283,000)	(13,390,000)	(11,304,000)
Income before minority interest and income taxes	47,604,000	51,431,000	44,525,000
Minority interest in net income	(467,000)	(499,000)	(441,000)
Income tax provision	(943,000)	(1,496,000)	(418,000)
Net income	46,194,000	49,436,000	43,666,000
General partner's interest in net income	(1,639,000)	(1,640,000)	(735,000)
Limited partners' interest in net income	$ 44,555,000	$ 47,796,000	$ 42,931,000
Allocation of net income per Unit as described in Note 2	$ 2.43	$ 2.81	$ 2.67
Weighted average number of Partnership units outstanding	18,310,000	16,997,500	16,060,000

See notes to consolidated financial statements.

KANEB PIPE LINE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2000	December 31, 1999
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,758,000	$ 5,127,000
Accounts receivable	21,091,000	16,929,000
Prepaid expenses	5,291,000	5,036,000
Total current assets	31,140,000	27,092,000
Property and equipment	458,926,000	439,537,000
Less accumulated depreciation	137,571,000	122,654,000
Net property and equipment	321,355,000	316,883,000
Investment in affiliates	22,568,000	21,978,000
	$375,063,000	$365,953,000

LIABILITIES AND PARTNERS' CAPITAL

	December 31, 2000	December 31, 1999
Current liabilities:		
Accounts payable	$ 3,706,000	$ 3,288,000
Accrued expenses	7,705,000	6,350,000
Accrued distributions payable	13,372,000	13,372,000
Accrued taxes, other than income taxes	2,363,000	2,267,000
Deferred terminaling fees	3,717,000	3,075,000
Payable to general partner	1,889,000	1,411,000
Total current liabilities	32,752,000	29,763,000
Long-term debt	166,900,000	155,987,000
Other liabilities and deferred taxes	13,676,000	10,882,000
Minority interest	968,000	1,033,000
Commitments and contingencies		
Partners' capital:		
Limited partners	161,307,000	168,019,000
General partner	981,000	1,037,000
Accumulated other comprehensive income (loss) – foreign currency translation adjustment	(1,521,000)	(768,000)
Total partners' capital	160,767,000	168,288,000
	$375,063,000	$365,953,000

See notes to consolidated financial statements.

KANEB PIPE LINE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2000	1999	1998
Operating activities:			
Net income	$ 46,194,000	$ 49,436,000	$ 43,666,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	16,253,000	15,043,000	12,148,000
Minority interest in net income	467,000	499,000	441,000
Equity in earnings of affiliates, net of distribution	(154,000)	(1,072,000)	–
Gain on sale of assets	(1,126,000)	–	–
Deferred income taxes	943,000	1,487,000	481,000
Other liabilities	841,000	–	–
Changes in working capital components:			
Accounts receivable	(4,162,000)	(3,012,000)	(2,414,000)
Prepaid expenses	(255,000)	(995,000)	(14,000)
Accounts payable and accrued expenses	1,869,000	3,028,000	3,174,000
Deferred terminaling fees	642,000	(451,000)	634,000
Payable to general partner	478,000	(374,000)	642,000
Net cash provided by operating activities	61,990,000	63,589,000	58,758,000
Investing activities:			
Capital expenditures	(9,483,000)	(14,568,000)	(9,401,000)
Acquisitions of pipelines and terminals	(12,053,000)	(44,390,000)	(44,410,000)
Proceeds from sale of assets	1,961,000	–	–
Other	(212,000)	(2,064,000)	(1,121,000)
Net cash used in investing activities	(19,787,000)	(61,022,000)	(54,932,000)
Financing activities:			
Changes in amounts due to/from general partner	–	(5,000,000)	5,000,000
Issuance of debt	14,613,000	51,319,000	35,000,000
Payments of debt and capital lease	(3,700,000)	(58,332,000)	(6,453,000)
Distributions, including minority interest	(53,485,000)	(51,850,000)	(42,900,000)
Net proceeds from issuance of KPP units	–	65,574,000	–
Net cash provided by (used in) financing activities	(42,572,000)	1,711,000	(9,353,000)
Increase (decrease) in cash and cash equivalents	(369,000)	4,278,000	(5,527,000)
Cash and cash equivalents at beginning of period	5,127,000	849,000	6,376,000
Cash and cash equivalents at end of period	$ 4,758,000	$ 5,127,000	$ 849,000
Supplemental information - Cash paid for interest	$ 12,438,000	$ 12,881,000	$ 11,156,000

See notes to consolidated financial statements.

KANEB PIPE LINE PARTNERS, L.P. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL

	Limited Partners (a)	General Partner	Accumulated Other Comprehensive Income (Loss)	Total	Comprehensive Income
Partners' capital at January 1, 1998	$ 103,167,000	$ 1,029,000	$ –	$ 104,196,000	$ –
1998 income allocation	42,931,000	735,000	–	43,666,000	43,666,000
Distributions declared	(41,756,000)	(718,000)	–	(42,474,000)	–
Comprehensive income for the year					$ 43,666,000
Partners' capital at December 31, 1998	104,342,000	1,046,000	–	105,388,000	–
1999 income allocation	47,796,000	1,640,000	–	49,436,000	49,436,000
Distributions declared	(49,693,000)	(1,649,000)	–	(51,342,000)	–
Issuance of units	65,574,000	–	–	65,574,000	–
Foreign currency translation adjustment	–	–	(768,000)	(768,000)	(768,000)
Comprehensive income for the year					$ 48,668,000
Partners' capital at December 31, 1999	168,019,000	1,037,000	(768,000)	168,288,000	
2000 income allocation	44,555,000	1,639,000	–	46,194,000	46,194,000
Distributions declared	(51,267,000)	(1,695,000)	–	(52,962,000)	–
Foreign currency translation adjustment	–	–	(753,000)	(753,000)	(753,000)
Comprehensive income for the year					$ 45,441,000
Partners' capital at December 31, 2000	$ 161,307,000	$ 981,000	$ (1,521,000)	$ 160,767,000	
Limited partnership units outstanding at December 31, 1998	16,060,000	(b)	–	16,060,000	
Units issued in 1999	2,250,000	–	–	2,250,000	
Limited partnership units outstanding at December 31, 1999 and 2000	18,310,000	(b)	–	18,310,000	

(a) Prior to the third quarter of 1998, the Partnership had three classes of partnership interests designated Senior Preference Units, Preference Units and Common Units, respectively. Pursuant to the Partnership Agreement, on August 14, 1998, each such class of units were converted into a single class designated "Units", effective July 1, 1998. See Note 2.

(b) KPL owns a combined 2% interest in the Partnership as General Partner.

See notes to consolidated financial statements.

KANEB PIPE LINE PARTNERS, L.P. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. PARTNERSHIP ORGANIZATION

Kaneb Pipe Line Partners, L.P. ("KPP" or the "Partnership"), a master limited partnership, owns and operates a refined petroleum products pipeline business and a petroleum products and specialty liquids storage and terminaling business. The Partnership operates through Kaneb Pipe Line Operating Partnership, L.P. ("KPOP"), a limited partnership in which the Partnership holds a 99% interest as limited partner. Kaneb Pipe Line Company ("KPL"), a wholly-owned subsidiary of Kaneb Services, Inc. ("Kaneb"), as general partner, holds a 1% general partner interest in both the Partnership and KPOP. KPL's 1% interest in KPOP is reflected as the minority interest in the financial statements. At December 31, 2000, KPL, together with its affiliates, owned an approximate 28% interest as a limited partner and as a general partner owned a combined 2% interest.

In July 1999, the Partnership issued 2.25 million limited partnership units in a public offering at $30.75 per unit, generating approximately $65.6 million in net proceeds. A portion of the proceeds was used to repay in full the Partnership's $15.0 million promissory note, the $25.0 million revolving credit facility and $18.3 million in term loans (including $13.3 million in term loans resulting from the United Kingdom terminal acquisition referred to in Note 3).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies are followed by the Partnership in the preparation of the consolidated financial statements.

Cash and cash equivalents

The Partnership's policy is to invest cash in highly liquid investments with original maturities of three months or less. Accordingly, uninvested cash balances are kept at minimum levels. Such investments are valued at cost, which approximates market, and are classified as cash equivalents. The Partnership does not have any derivative financial instruments.

Property and equipment

Property and equipment are carried at historical cost. Certain leases have been capitalized and the leased assets have been included in property and equipment. Additions of new equipment and major renewals and replacements of existing equipment are capitalized. Repairs and minor replacements that do not materially increase values or extend useful lives are expensed. Depreciation of property and equipment is provided on a straight-line basis at rates based upon expected useful lives of various classes of assets, as disclosed in Note 4. The rates used for pipeline and storage facilities of KPOP are the same as those which have been promulgated by the Federal Energy Regulatory Commission.

The carrying value of property and equipment is periodically evaluated using undiscounted future cash flows as the basis for determining if impairment exists under the provisions of Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". To the extent impairment is indicated to exist, an impairment loss will be recognized under SFAS No. 121 based on fair value.

Revenue and income recognition

KPOP provides pipeline transportation of refined petroleum products and liquified petroleum gases. Revenue is recognized as services are provided.

The Partnership's Support Terminal Services operation ("ST") provides terminaling and other ancillary services. Storage fees are billed one month in advance and are reported as deferred income. Revenue is recognized in the month services are provided.

Foreign currency translation

The Partnership translates the balance sheet of its foreign subsidiary using year-end exchange rates and translates income statement amounts using the average exchange rates in effect during the year. The gains and losses resulting from the change in exchange rates from year to year have been reported separately as a component of accumulated other comprehensive income (loss) in Partners' Capital. Gains and losses resulting from foreign currency transactions are included in the statements of income.

Environmental matters

Environmental expenditures that relate to current operations are expensed or capitalized, as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with the completion of a feasibility study or the Partnership's commitment to a formal plan of action.

Comprehensive income

The Partnership follows the provisions of SFAS No. 130, "Reporting Comprehensive Income", for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. SFAS No. 130 only requires additional disclosure and does not affect the Partnership's financial position or results of operations.

Estimates

The preparation of the Partnership's financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income tax considerations

Income before income tax expense is made up of the following components:

	Year Ended December 31,		
	2000	1999	1998
Partnership operations	$ 43,071,000	$ 46,242,000	$ 42,827,000
Corporate operations:			
Domestic	510,000	501,000	1,257,000
Foreign	3,556,000	4,189,000	–
	$ 47,137,000	$ 50,932,000	$ 44,084,000

Partnership operations are not subject to Federal or state income taxes. However, certain operations of ST are conducted through wholly-owned corporate subsidiaries which are taxable entities. The provision for income taxes for the periods ended December 31, 2000, 1999 and 1998 primarily consists of deferred U.S. and foreign income taxes of $0.9 million, $1.5 million and $.5 million, respectively. The net deferred tax liability of $5.9 million and $5.1 million at December 31, 2000 and 1999, respectively, consists of deferred tax liabilities of $12.0 million and $12.0 million, respectively, and deferred tax assets of $6.1 million and $6.9 million, respectively. The deferred tax liabilities consist primarily of tax depreciation in excess of book depreciation and the deferred tax assets consist primarily of net operating losses. The U.S. corporate operations have net operating loss carryforwards for tax purposes totaling approximately $15.4 million which expire in years 2008 through 2020. Additionally, the Partnership's foreign operations have net operating loss carryforwards for tax purposes totaling approximately $4.4 million which do not have an expiration date.

Since the income or loss of the operations which are conducted through limited partnerships will be included in the tax returns of the individual partners of the Partnership, no provision for income taxes has been recorded in the accompanying financial statements on these earnings. The tax returns of the Partnership are subject to examination by Federal and state taxing authorities. If any such examination results in adjustments to distributive shares of taxable income or loss, the tax liability of the partners would be adjusted accordingly.

The tax attributes of the Partnership's net assets flow directly to each individual partner. Individual partners will have different investment bases depending upon the timing and prices of acquisition of Partnership units. Further, each partner's tax accounting, which is partially dependent upon their individual tax position, may differ from the accounting followed in the financial statements. Accordingly, there could be significant differences between each individual partner's tax basis and their proportionate share of the net assets reported in the financial statements. SFAS No. 109, "Accounting for Income Taxes," requires disclosure by a publicly held partnership of the aggregate difference in the basis of its net assets for financial and tax reporting purposes. Management does not believe that, in the Partnership's circumstances, the aggregate difference would be meaningful information.

Cash distributions

The Partnership makes quarterly distributions of 100% of its Available Cash, as defined in the Partnership Agreement, to holders of limited partnership units ("Unitholders") and KPL. Available Cash consists generally of all the cash receipts of the Partnership plus the beginning cash balance less all of its cash disbursements and reserves. The Partnership expects to make distributions of all Available Cash within 45 days after the end of each quarter to Unitholders of record on the applicable record date. Distributions of $2.80, $2.80 and $2.60 per Unit were declared to all classes of Units in 2000, 1999 and 1998, respectively.

Distributions by the Partnership of its Available Cash are made 99% to Unitholders and 1% to KPL, subject to the payment of incentive distributions to the General Partner if certain target levels of cash distributions to the Unitholders are achieved. The distribution of Available Cash for each quarter during the Preference Period, as defined, was subject to the preferential rights of the holders of the Senior Preference Units ("SPUs") to receive the Minimum Quarterly Distribution for such quarter, plus any arrearages in the payment of the Minimum Quarterly Distribution for prior quarters, before any distribution of Available Cash was made to holders of Preference Units ("PUs") or Common Units ("CUs") for such quarter. The CUs were not entitled to arrearages in the payment of the Minimum Quarterly Distribution. In general, the Preference Period continued until such time as the Minimum Quarterly Distribution had been paid to the holders of the SPUs, the PUs and the CUs for twelve consecutive quarters. Payment of the August 14, 1998 regular cash distribution represented the twelfth consecutive quarterly distribution of Available Cash constituting Cash from Operations in an amount equal to or exceeding the $.55 Minimum Quarterly Distribution specified in the Partnership Agreement. Accordingly, pursuant to the terms of the Partnership Agreement, all differences and distinctions between SPUs, PUs and CUs automatically ceased as of such date. At that time, all outstanding units of limited partnership interest in the Partnership became "Units," constituting a single class of equity securities, which trade on the New York Stock Exchange under the symbol "KPP".

Allocation of net income and earnings

For the periods presented, net income or loss has been allocated between limited partner interests and the general partner pro rata based on the aggregate amount of cash distributions declared (including general partner incentive distributions). Beginning in 1997, distributions by the Partnership of Available Cash reached the Second Target Distribution, as defined in the Partnership Agreement, which entitled the general partner to certain incentive distributions at different levels of cash distributions. Earnings per Unit shown on the consolidated statements of income are calculated by dividing the amount of limited partners' interest in net income, by the weighted average number of Units outstanding. If the allocation of income had been made as if all income had been distributed in cash, earnings per Unit would have been $2.49, $2.81 and $2.66 for the years ended December 31, 2000, 1999 and 1998, respectively.

Change in presentation

Certain prior year financial statement items have been reclassified to conform with the 2000 presentation.

Recent accounting pronouncements

The Partnership has assessed the reporting and disclosure requirements of SFAS No. 133, "Accounting and Derivative Instruments and Hedging Activities", which establishes the accounting and reporting standards for such activities. Under SFAS No. 133, companies must recognize all derivative instruments on its balance sheet at fair value. Changes in the value of derivative instruments which are considered hedges, will either be offset against the change in fair value of the hedged item through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings, depending on the nature of the hedge. The Partnership will adopt SFAS No. 133, as amended, in the first quarter of 2001. Currently, the Partnership is not a party to any derivative contracts, and does not anticipate that adoption will have a material effect on the Partnership's results of operations or financial position.

3. ACQUISITIONS

On January 3, 2001, the Partnership, through a wholly-owned subsidiary, acquired Shore Terminals LLC ("Shore") for $107 million in cash and 1,975,090 KPP Units. Financing for the cash portion of the purchase price was supplied under a new $275 million unsecured revolving credit agreement with a group of banks (see Note 5). The acquisition will be accounted for, beginning January 2001, using the purchase method of accounting.

On February 1, 1999, the Partnership, through two wholly-owned indirect subsidiaries, acquired six terminals in the United Kingdom from GATX Terminal Limited for £22.6 million (approximately $37.2 million) plus transaction costs and the assumption of certain liabilities. The acquisition, which was initially financed with term loans from a bank, has been accounted for using the purchase method of accounting. $13.3 million of the term loans were repaid in July 1999 with the proceeds from a public unit offering (see Notes 1 and 5). The pro forma effect of the acquisition was not material to the results of operations.

On October 30, 1998, the Partnership, through a wholly-owned subsidiary, entered into acquisition and joint venture agreements with Northville Industries Corp. ("Northville") to acquire and manage the former Northville terminal located in Linden, New Jersey. Under the agreements, the Partnership acquired a 50% interest in the newly-formed ST Linden Terminal LLC for $20.5 million plus transaction costs. The investment was funded by bank financing which was repaid using proceeds from the public unit offering in July 1999 (See Note 1). The investment is being accounted for by the equity method of accounting, with the excess cost over net book value of the equity investment being amortized over the life of the underlying assets. During 1998, the Partnership acquired other terminals and pipelines for aggregate consideration of $23.9 million.

4. PROPERTY AND EQUIPMENT

The cost of property and equipment is summarized as follows:

	Estimated Useful Life (Years)	December 31, 2000	December 31, 1999
Land	–	$ 23,360,000	$ 21,585,000
Buildings	35	9,144,000	8,568,000
Furniture and fixtures	16	3,445,000	2,947,000
Transportation equipment	6	4,469,000	4,469,000
Machinery and equipment	20 – 40	32,996,000	32,939,000
Pipeline and terminaling equipment	20 – 40	378,123,000	364,396,000
Construction work-in-progress	–	7,389,000	4,633,000
Total property and equipment		458,926,000	439,537,000
Less accumulated depreciation		137,571,000	122,654,000
Net property and equipment		$321,355,000	$316,883,000

5. LONG-TERM DEBT

Long-term debt is summarized as follows:

	December 31, 2000	December 31, 1999
First mortgage notes, repaid in January 2001	$ 128,000,000	$128,000,000
$25 million revolving credit facility, repaid in January 2001	15,000,000	2,200,000
Term loan, due in January 2002	23,900,000	25,787,000
$275 million revolving credit facility, due in December 2003	–	–
Total long-term debt	$ 166,900,000	$155,987,000

In December 2000, the Partnership entered into a credit agreement with a group of banks that provides for a $275 million unsecured revolving credit facility through December 2003. The facility bears interest at variable interest rates, and has a variable commitment fee on the unutilized amounts and contains certain operational and financial covenants. No amounts were drawn under the facility at December 31, 2000. At January 3, 2001 $257.5 million was drawn on the facility at a interest rate of 6.31%, which is due in December of 2003.

In January 1999, the Partnership, through two wholly-owned subsidiaries, entered into a credit agreement with a bank that provided for the issuance of $39.2 million in term loans in connection with the United Kingdom terminal acquisition and $5.0 million for general Partnership purposes. $18.3 million of the term loans were repaid in July 1999 with the proceeds from the public unit offering. The remaining portion ($23.9 million), with a fixed rate of 7.14%, is due in January 2002. The term loans under the credit agreement, as amended, are unsecured and are pari passu with the $275 million revolving credit facility. The term loans also contain certain financial and operational covenants.

In 1994, a wholly-owned subsidiary entered into a restated credit agreement with a group of banks that, as amended, provided for a $25 million revolving credit facility through January 31, 2001. At December 31, 2000, $15.0 million was drawn under the credit facility. In January 2001, the credit facility was repaid in full with the proceeds from the new $275 million credit facility.

The $128 million of first mortgage notes outstanding at December 31, 2000 and 1999, which were due in varying amounts from 2001 to 2016, were repaid in full in January of 2001 with the proceeds from the new $275 million revolving credit facility. Under the provisions of the mortgage notes, the Partnership incurred a $6.3 million prepayment penalty, which will be recognized as an extraordinary expense in the first quarter of 2001.

6. COMMITMENTS AND CONTINGENCIES

The following is a schedule by years of future minimum lease payments under operating leases as of December 31, 2000:

Year ending December 31:

2001	$ 2,027,000
2002	1,440,000
2003	907,000
2004	640,000
2005	320,000
Total minimum lease payments	$ 5,334,000

Total rent expense under operating leases amounted to $3.1 million, $2.2 million and $1.1 million for the years ended December 31, 2000, 1999 and 1998, respectively.

The operations of the Partnership are subject to Federal, state and local laws and regulations in the United States and the United Kingdom relating to protection of the environment. Although the Partnership believes its operations are in general compliance with applicable environmental regulations, risks of additional costs and liabilities are inherent in pipeline and terminal operations, and there can be no assurance that significant costs and liabilities will not be incurred by the Partnership. Moreover, it is possible that other developments, such as increasingly stringent environmental laws, regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from the operations of the Partnership, could result in substantial costs and liabilities to the Partnership. The Partnership has recorded an undiscounted reserve for environmental claims in the amount of $8.0 million at December 31, 2000, including $7.3 million related to acquisitions of pipelines and terminals. During 2000 and 1999, respectively, the Partnership incurred $2.3 million and $0.9 million of costs related to such acquisition reserves and reduced the liability accordingly.

KPL has indemnified the Partnership against liabilities for damage to the environment resulting from operations of the pipeline prior to October 3, 1989 (the date of formation of the Partnership). The indemnification does not extend to any liabilities that arise after such date to the extent that the liabilities result from changes in environmental laws and regulations.

In December 1995, the Partnership acquired the liquids terminaling assets of Steuart Petroleum Company and certain of its affiliates. The asset purchase agreement includes a provision for an earn-out payment based upon revenues of one of the terminals exceeding a specified amount for a seven-year period ending in December 2002. No amount was payable under the earn-out provision in 1998, 1999 or 2000.

On April 7, 2000, a fuel oil pipeline in Maryland owned by Potomac Electric Power Company ("PEPCO") ruptured. The pipeline was operated by a partnership of which ST is general partner. PEPCO has reported that, through December 2000, it incurred approximately $66 million in clean-up costs and expects to incur total cleanup costs of $70 million to $75 million. Since May 2000, ST has participated provisionally in a minority share of the cleanup expense, which has been funded by ST's insurance carriers. KPP cannot predict the amount, if any, that ultimately may be determined to be ST's share of the remediation expense, but it believes that such amount will be covered by insurance and will not materially affect KPP's financial condition.

As a result of the rupture, purported class actions have been filed in federal and state court in Maryland by property and/or business owners alleging damages in unspecified amounts against PEPCO and ST under various theories, including the federal Oil Pollution Act. The court has ordered a consolidated complaint to be filed in this action. ST's insurance carriers have assumed the defense of these actions. While KPP cannot predict the amount, if any, of any liability it may have in these suits, it believes that such amounts will be covered by insurance and that these actions will not have a material adverse effect on its financial condition.

PEPCO and ST have agreed with the State of Maryland to pay costs of assessing natural resource damages under the federal Oil Pollution Act, but they cannot predict at this time the amount of any damages that may be claimed by Maryland. KPL believes that both the assessment costs and such damages are covered by insurance and will not materially affect KPP's financial condition.

The U.S. Department of Transportation has issued a Notice of Proposed Violation to PEPCO and ST alleging violations over several years of pipeline safety regulations and proposing a civil penalty of $674,000. ST and PEPCO intend to contest the allegations of violations and the proposed penalty. The ultimate amount of any penalty attributable to ST cannot be determined at this time, but KPL believes that this matter will not have a material effect on KPP's financial condition.

Certain subsidiaries of the Partnership were sued in a Texas state court in 1997 by Grace Energy Corporation ("Grace"), the entity from which the Partnership acquired ST Services in 1993. The lawsuit involves environmental response and remediation allegedly resulting from jet fuel leaks in the early 1970's from a pipeline. The pipeline, which connected a former Grace terminal with Otis Air Force Base in Massachusetts, was abandoned in 1976, when the connecting terminal was sold to an unrelated entity.

Grace alleged that subsidiaries of the Partnership acquired the abandoned pipeline, as part of the acquisition of ST Services in 1993, and assumed responsibility for environmental damages allegedly caused by the jet fuel leaks. Grace sought a ruling that these subsidiaries are responsible for all present and future remediation expenses for these leaks and that Grace has no obligation to indemnify these subsidiaries for these expenses.

In the lawsuit, Grace also sought indemnification for expenses that it has incurred since 1996 of approximately $3.5 million for response and remediation required by the State of Massachusetts and for additional expenses that it expects to incur in the future. The consistent position of the Partnership's subsidiaries is that they did not acquire the abandoned pipeline as part of the 1993 ST transaction, and therefore did not assume any responsibility for the environmental damage nor any liability to Grace for the pipeline.

At the end of the trial on May 19, 2000, the jury returned a verdict including findings that Grace had breached a provision of the 1993 acquisition agreement and that the pipeline was abandoned prior to 1978. On July 17, 2000, the Judge entered final judgment in the case, which is now on appeal to the Dallas Court of Appeals, that Grace take nothing from the subsidiaries on its claims, including claims for future expenses. Although the Partnership's subsidiaries have not incurred any expenses in connection with the remediation, the court also ruled, in effect, that the subsidiaries would not be entitled to an indemnification from Grace if any such expenses were incurred in the future. However, the Judge let stand a prior summary judgment ruling that the pipeline was an asset of the Partnership acquired as part of the 1993 ST transaction. The Judge also awarded attorney fees to Grace.

While the judgment means that the subsidiaries have no obligation to reimburse Grace for the approximately $3.5 million it has incurred, as required by the State of Massachusetts, the Partnership's subsidiaries have filed an appeal of the judgment finding that the Otis Pipeline was transferred to them and the award of attorney fees.

The Otis Air Force Base is a part of the Massachusetts Military Reservation ("MMR"), which has been declared a Superfund Site pursuant to the Comprehensive Environmental Response, Compensation and Liability Act. The MMR Site contains nine groundwater contamination plumes, two of which are allegedly associated with the pipeline, and various other waste management areas of concern, such as landfills. The United States Department of

Defense and the United States Coast Guard, pursuant to a Federal Facilities Agreement, have been responding to the Government remediation demand for most of the contamination problems at the MMR Site. Grace and others have also received and responded to formal inquiries from the United States Government in connection with the environmental damages allegedly resulting from the jet fuel leaks. The Partnership's subsidiaries have voluntarily responded to an invitation from the Government to provide information indicating that they do not own the pipeline. In connection with a court-ordered mediation between Grace and the subsidiaries, the Government advised the parties in April 1999 that it has identified the two spill areas that it believes to be related to the pipeline that is the subject of the Grace suit. The Government advised the parties that it believes it has incurred costs of approximately $34 million, and expects in the future to incur costs of approximately $55 million, for remediation of one of the spill areas. This amount was not intended to be a final accounting of costs or to include all categories of costs. The Government also advised the parties that it could not at that time allocate its costs attributable to the second spill area. The Partnership believes that the ultimate cost of the remediation, while substantial, will be considerably less than the Government has indicated.

The Government has made no claims against the Partnership or any other person on account of this matter. The Partnership believes that if any such claims were made, its subsidiaries would have substantial defenses to such claims. Under Massachusetts law, the party responsible for remediation of a facility is the last owner before the abandonment, which was a Grace company. The Partnership does not believe that either the Grace litigation or any claims that may be made by the Government will adversely affect its ability to make cash distributions to its unitholders, but there can be no assurances in that regard.

The Partnership has other contingent liabilities resulting from litigation, claims and commitments incident to the ordinary course of business. Management believes, based on the advice of counsel, that the ultimate resolution of such contingencies will not have a materially adverse effect on the financial position or results of operations of the Partnership.

7. RELATED PARTY TRANSACTIONS

The Partnership has no employees and is managed and controlled by KPL. KPL and Kaneb are entitled to reimbursement of all direct and indirect costs related to the business activities of the Partnership. These costs, which totaled $13.0 million, $11.9 million and $11.3 million for the years ended December 31, 2000, 1999 and 1998, respectively, include compensation and benefits paid to officers and employees of KPL and Kaneb, insurance premiums, general and administrative costs, tax information and reporting costs, legal and audit fees. Included in this amount is $11.0 million, $10.3 million and $9.3 million of compensation and benefits, paid to officers and employees of KPL for the years ended December 31, 2000, 1999 and 1998, respectively, which represent the actual amounts paid by KPL or Kaneb. In addition, the Partnership paid $.2 million during each of these respective years for an allocable portion of KPL's overhead expenses. At December 31, 2000 and 1999, the Partnership owed KPL $1.9 million and $1.4 million, respectively, for these expenses which are due under normal invoice terms.

8. BUSINESS SEGMENT DATA

The Partnership conducts business through two principal operations; the "Pipeline Operations," which consists primarily of the transportation of refined petroleum products in the Midwestern states as a common carrier, and the "Terminaling Operations," which provide storage for petroleum products, specialty chemicals and other liquids.

The Partnership measures segment profit as operating income. Total assets are those assets controlled by each reportable segment.

	Year Ended December 31, 2000	1999	1998
Business segment revenues:			
Pipeline operations	$ 70,685,000	$ 67,607,000	$ 63,421,000
Terminaling operations	85,547,000	90,421,000	62,391,000
	$ 156,232,000	$ 158,028,000	$ 125,812,000
Business segment profit:			
Pipeline operations	$ 36,213,000	$ 35,836,000	$ 33,630,000
Terminaling operations	22,232,000	28,577,000	21,573,000
Operating income	58,445,000	64,413,000	55,203,000
Interest expense	(12,283,000)	(13,390,000)	(11,304,000)
Interest and other income	1,442,000	408,000	626,000
Income before minority interest and income taxes	$ 47,604,000	$ 51,431,000	$ 44,525,000
Business segment assets:			
Depreciation and amortization:			
Pipeline operations	$ 5,180,000	$ 5,090,000	$ 4,619,000
Terminaling operations	11,073,000	9,953,000	7,529,000
	$ 16,253,000	$ 15,043,000	$ 12,148,000
Capital expenditures (excluding acquisitions):			
Pipeline operations	$ 3,439,000	$ 3,547,000	$ 5,020,000
Terminaling operations	6,044,000	11,021,000	4,381,000
	$ 9,483,000	$ 14,568,000	$ 9,401,000

	December 31, 2000	1999	1998
Total assets:			
Pipeline operations	$ 102,656,000	$ 104,774,000	$ 103,966,000
Terminaling operations	272,407,000	261,179,000	204,466,000
	$ 375,063,000	$ 365,953,000	$ 308,432,000

The following geographical area data includes revenues based on location of the operating segment and net property and equipment based on physical location.

	Year Ended December 31, 2000	1999	1998
Geographical area revenues:			
United States	$ 136,729,000	$ 136,197,000	$ 125,812,000
United Kingdom	19,503,000	21,831,000	–
	$ 156,232,000	$ 158,028,000	$ 125,812,000
Geographical area operating income:			
United States	$ 53,996,000	$ 58,539,000	$ 55,203,000
United Kingdom	4,449,000	5,874,000	–
	$ 58,445,000	$ 64,413,000	$ 55,203,000

	Year Ended December 31, 2000	1999	1998
Geographical area net property and equipment:			
United States	$ 282,685,000	$ 275,178,000	$ 268,626,000
United Kingdom	38,670,000	41,705,000	–
	$ 321,355,000	$ 316,883,000	$ 268,626,000

9. FAIR VALUE OF FINANCIAL INSTRUMENTS AND CONCENTRATION OF CREDIT RISK

The estimated fair value of all debt as of December 31, 2000 and 1999 was approximately $174 million and $163 million, as compared to the carrying value of $167 million and $156 million, respectively. These fair values were estimated using discounted cash flow analysis, based on the Partnership's current incremental borrowing rates for similar types of borrowing arrangements. These estimates are not necessarily indicative of the amounts that would be realized in a current market exchange. The Partnership has no derivative financial instruments.

The Partnership markets and sells its services to a broad base of customers and performs ongoing credit evaluations of its customers. The Partnership does not believe it has a significant concentration of credit risk at December 31, 2000. No customer constituted 10 percent or more of consolidated revenues in 2000, 1999 or 1998.

10. QUARTERLY FINANCIAL DATA (unaudited)

Quarterly operating results for 2000 and 1999 are summarized as follows:

	Quarter Ended March 31,	June 30,	September 30,	December 31,
2000:				
Revenues	$ 36,680,000	$ 38,438,000	$ 41,051,000	$ 40,063,000
Operating income	$ 12,922,000	$ 14,959,000	$ 17,466,000	$ 13,098,000
Net income	$ 9,567,000	$ 11,882,000	$ 14,119,000	$ 10,626,000 (a)
Allocation of net income per Unit	$ .50	$ .63	$ .75	$ .55
1999:				
Revenues	$ 36,845,000	$ 39,171,000	$ 41,573,000	$ 40,439,000
Operating income	$ 15,144,000	$ 15,467,000	$ 17,451,000	$ 16,351,000
Net income	$ 11,356,000	$ 11,413,000	$ 13,835,000	$ 12,832,000
Allocation of net income per Unit	$ .68	$ .69	$ .76	$ .68

(a) Includes approximately $1.9 million of accrued litigation costs.

INDEPENDENT AUDITORS' REPORT

To the Partners of
Kaneb Pipe Line Partners, L.P.

We have audited the consolidated financial statements of Kaneb Pipe Line Partners, L.P. and its subsidiaries (the "Partnership") as listed in the index appearing under Item 14(a)(1) on page 29. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 the Partnership and its subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP
Dallas, Texas
March 2, 2001

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, Kaneb Pipe Line Partners, L.P. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

KANEB PIPE LINE PARTNERS, L.P.
By: Kaneb Pipe Line Company
General Partner

By: EDWARD D. DOHERTY
Chairman of the Board and
Chief Executive Officer
Date: March 16, 2001

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of Kaneb Pipe Line Partners, L.P. and in the capacities with Kaneb Pipe Line Company and on the date indicated.

Signature	Title	Date
Principal Executive Officer		
EDWARD D. DOHERTY	Chairman of the Board and Chief Executive Officer	March 16, 2001
Principal Accounting Officer		
JIMMY L. HARRISON	Executive Vice President	March 16, 2001
Directors		
SANGWOO AHN	Director	March 16, 2001
JOHN R. BARNES	Director	March 16, 2001
M.R. BILES	Director	March 16, 2001
FRANK M. BURKE, JR.	Director	March 16, 2001
CHARLES R. COX	Director	March 16, 2001
HANS KESSLER	Director	March 16, 2001
JAMES R. WHATLEY	Director	March 16, 2001