

HOLLY ENERGY PARTNERS LP
Form 8-K
November 10, 2011

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 8-K
CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of Report (Date of Earliest Event Reported):

November 10, 2011 (November 9, 2011)

HOLLY ENERGY PARTNERS, L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State of Incorporation)

001-32225
(Commission File Number)

20-0833098
(I.R.S. Employer
Identification Number)

2828 N. Harwood, Suite 1300, Dallas, Texas 75201

(Address of Principal Executive Offices)

(214) 871-3555

(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 1.01 Entry into a Material Definitive Agreement

LLC Interest Purchase Agreement

On November 9, 2011, HollyFrontier Corporation (*HollyFrontier*), its subsidiaries Frontier Refining LLC (*Frontier Cheyenne*) and Frontier El Dorado Refining LLC (*Frontier El Dorado*), Holly Energy Partners, L.P. (the *Partnership*) and its subsidiary, Holly Energy Partners Operating, L.P. (*HEP-Operating*), entered into an LLC Interest Purchase Agreement (the *Purchase Agreement*), with an effective date of November 1, 2011, pursuant to which HEP-Operating acquired from Frontier Cheyenne and Frontier El Dorado, respectively, (i) all of the issued and outstanding membership interests of Cheyenne Logistics LLC (*Cheyenne Logistics*), which owns approximately 1.7 million barrels of hydrocarbon storage tanks, a refined products loading rack, two propane loading spots, four crude oil LACTS units, and a crude oil receiving pipeline (the *Cheyenne Assets*) located at Frontier Cheyenne's refinery in Cheyenne, Wyoming (the *Cheyenne Refinery*) and (ii) all of the issued and outstanding membership interests of El Dorado Logistics LLC (*El Dorado Logistics*), which owns approximately 3.7 million barrels of hydrocarbon storage tanks, a refined products loading rack, and a propane loading rack (the *El Dorado Assets*), located at Frontier El Dorado's refinery in El Dorado, Kansas (the *Acquisition*). The aggregate consideration paid by HEP-Operating for the Cheyenne Assets was \$110 million, consisting of an unsecured promissory note in the principal amount of \$50 million and 1,202,405 common units of the Partnership (*Common Units*) valued at approximately \$60 million. The aggregate consideration paid by HEP-Operating for the El Dorado Assets was \$230 million, consisting of an unsecured promissory note in the principal amount of \$100 million and 2,605,210 Common Units valued at approximately \$60 million. The value of the Common Units issued as consideration was based upon the volume weighted average price of the Common Units for the ten trading days prior to the announcement of the transaction on October 10, 2011. The Acquisition was closed simultaneously with the signing of the Purchase Agreement. HollyFrontier controls the general partner of the Partnership.

HollyFrontier has agreed to unconditionally guarantee the payment of certain obligations under the Purchase Agreement.

The description of the Purchase Agreement herein is qualified by reference to the copy of the Purchase Agreement filed as Exhibit 10.1 to this report, which is incorporated by reference into this report in its entirety.

Tankage, Loading Rack and Crude Oil Receiving Throughput Agreement (Cheyenne)

On November 9, 2011, in connection with the closing of the Acquisition, Frontier Cheyenne and Cheyenne Logistics entered into a 15-year Tankage, Loading Rack and Crude Oil Receiving Throughput Agreement (Cheyenne) (the *Cheyenne Throughput Agreement*) with an effective date of November 1, 2011.

Pursuant to the Cheyenne Throughput Agreement, Cheyenne Logistics will operate and maintain the Cheyenne Assets and will provide certain transportation, storage and loading services to Frontier Cheyenne, and Frontier Cheyenne will pay Cheyenne Logistics:

a crude oil receiving base tariff of \$.30 for each barrel of crude oil received by the Cheyenne Refinery up to 50,600 barrels per day (*bpd*) and \$.14 per barrel for volumes in excess of 50,600 bpd, with a guaranteed minimum throughput of 46,000 bpd;

a tankage base tariff of \$.45 per barrel for use of tankage up to 45,100 bpd of refined and intermediate products and \$.20 per barrel for volumes in excess of 45,100 bpd, with a guaranteed minimum throughput of 41,000 bpd; and

a loading racks tariff of \$.25 for each barrel of refined products, LPG, intermediate products and heavy products loaded over the loading racks, with a guaranteed minimum throughput of 41,000 bpd.

These tariffs are subject to various adjustments, including limited upward adjustments for changes in the Producer Price Index-Commodities-Finished Goods (PPI) produced by the U.S. Department of Labor, Bureaus of Statistics, and limited upward adjustment if actual operating expenses regarding the Cheyenne Assets exceed assumed operating expenses.

HollyFrontier will guarantee the obligations of Frontier Cheyenne under the Cheyenne Throughput Agreement, and the Partnership and HEP-Operating will guarantee the obligations of Cheyenne Logistics.

The description of the Cheyenne Throughput Agreement herein is qualified by reference to the copy of the Cheyenne Throughput Agreement, filed as Exhibit 10.2 to this report, which is incorporated by reference into this report in its entirety.

Pipeline Delivery, Tankage and Loading Rack Throughput Agreement (El Dorado)

On November 9, 2011, in connection with the closing of the Acquisition, Frontier El Dorado and El Dorado Logistics entered into a 15-year Pipeline Delivery, Tankage and Loading Rack Throughput Agreement (El Dorado) (the *El Dorado Throughput Agreement*) with an effective date of November 1, 2011.

Pursuant to the El Dorado Throughput Agreement, El Dorado Logistics will operate and maintain the El Dorado Assets and will provide certain transportation, storage and loading services to Frontier El Dorado, and Frontier El Dorado will pay El Dorado Logistics:

a pipeline delivery tariff of \$.15 for each barrel of intermediate products and refined products delivered to outgoing pipelines up to 132,000 bpd and \$.07 per barrel for volumes in excess of 132,000 bpd, with a guaranteed minimum throughput of 120,000 bpd;

a tankage base tariff of \$.45 for each barrel for use of tankage up to 154,000 bpd of refined products, LPG, intermediate products and heavy products and \$.20 per barrel for volumes in excess of 154,000 bpd, with a guaranteed minimum throughput of 140,000 bpd; and

a loading racks tariff of \$.25 for each barrel of refined products, LPG, and heavy products loaded over the loading racks with a guaranteed minimum throughput of 20,000 bpd.

These tariffs are subject to various adjustments, including limited upward adjustments for changes in the Producer Price Index-Commodities-Finished Goods (PPI) produced by the U.S. Department of Labor, Bureaus of Statistics, and limited upward adjustment if actual operating expenses regarding the El Dorado Assets exceed assumed operating expenses.

HollyFrontier will guarantee the obligations of Frontier El Dorado under the Cheyenne Throughput Agreement, and the Partnership and HEP-Operating will guarantee the obligations of El Dorado Logistics.

The description of the El Dorado Throughput Agreement herein is qualified by reference to the copy of the El Dorado Throughput Agreement, filed as Exhibit 10.3 to this report, which is incorporated by reference into this report in its entirety.

Sixth Amended and Restated Omnibus Agreement

On November 9, 2011, in connection with the closing of the Acquisition, HollyFrontier and the Partnership and certain of their respective subsidiaries entered into a Sixth Amended and Restated Omnibus Agreement (the *Sixth Restated Omnibus Agreement*) with an effective date of November 1, 2011. The Sixth Restated Omnibus Agreement amends and restates the Fifth Amended and Restated Omnibus Agreement, dated as of August 31, 2011, that was previously filed as an exhibit to the Partnership's Current Report on Form 8-K dated September 1, 2011. The Sixth Restated Omnibus Agreement amends and restates the omnibus agreement to, among other things:

subject the Cheyenne Assets and the El Dorado Assets to HollyFrontier's right of first refusal to purchase the Partnership's assets that serve HollyFrontier's refineries; and

extend the mutual environmental indemnification provided under the Fifth Amended and Restated Omnibus Agreement to cover the Cheyenne Assets and the El Dorado Assets.

The description of the Sixth Restated Omnibus Agreement herein is qualified by reference to the copy of the Sixth Restated Omnibus Agreement, filed as Exhibit 10.4 to this report, which is incorporated by reference into this report in its entirety.

Lease and Access Agreement (Cheyenne)

On November 9, 2011, in connection with the closing of the Acquisition, Frontier Cheyenne and Cheyenne Logistics entered into a Lease and Access Agreement (Cheyenne) (the *Cheyenne Lease and Access Agreement*), effective as of November 1, 2011, with a 50-year initial term, pursuant to which Frontier Cheyenne will lease to Cheyenne Logistics, for a nominal amount, the real property on which the Cheyenne Assets are situated. Pursuant to the terms of the Cheyenne Lease and Access Agreement, Frontier Cheyenne has agreed to permit Cheyenne Logistics and its affiliates to have access to the Cheyenne Assets. The Cheyenne Lease and Access Agreement also provides that, following termination or expiration of the Cheyenne Throughput Agreement, Frontier Cheyenne will have the option to purchase the Cheyenne Assets for fair market value.

The description of the Cheyenne Lease and Access Agreement herein is qualified by reference to the copy of the Cheyenne Lease and Access Agreement, filed as Exhibit 10.5 to this report, which is incorporated by reference into this report in its entirety.

Lease and Access Agreement (El Dorado)

On November 9, 2011, in connection with the closing of the Acquisition, Frontier El Dorado and El Dorado Logistics entered into a Lease and Access Agreement (El Dorado) (the *El Dorado Lease and Access Agreement*), effective as of November 1, 2011, with a 50-year initial term, pursuant to which Frontier El Dorado will lease to El Dorado Logistics, for a nominal amount, the real property on which the El Dorado Assets are situated. Pursuant to the terms of the El Dorado Lease and Access Agreement, Frontier El Dorado has agreed to permit El Dorado Logistics and its affiliates to have access to the El Dorado Assets. The El Dorado Lease and Access Agreement also provides that, following termination or expiration of the El Dorado Throughput Agreement, Frontier El Dorado will have the option to purchase the El Dorado Assets for fair market value.

The description of the El Dorado Lease and Access Agreement herein is qualified by reference to the copy of the El Dorado Lease and Access Agreement, filed as Exhibit 10.6 to this report, which is incorporated by reference into this report in its entirety.

Senior Unsecured Promissory Note (Cheyenne)

On November 9, 2011, in connection with the execution of the Purchase Agreement, HEP-Operating issued a \$50 million senior unsecured promissory note in favor of Frontier Cheyenne (the *Cheyenne Note*). The material terms of the Cheyenne Note are described below in Item 2.03, which description is incorporated herein by reference.

The description of the Cheyenne Note herein is qualified by reference to the form of Cheyenne Note, filed as Exhibit 10.7 to this report, which is incorporated by reference into this report in its entirety.

Senior Unsecured Promissory Note (El Dorado)

On November 9, 2011, in connection with the execution of the Purchase Agreement, HEP-Operating issued a \$100 million senior unsecured promissory note in favor of Frontier El Dorado (the *El Dorado Note*). The material terms of the El Dorado Note are described below in Item 2.03, which description is incorporated herein by reference.

The description of the El Dorado Note herein is qualified by reference to the form of El Dorado Note, filed as Exhibit 10.8 to this report, which is incorporated by reference into this report in its entirety.

Item 2.01 Completion of Acquisition or Disposition of Assets

On November 9, 2011, the Partnership completed the Acquisition pursuant to the terms of the Purchase Agreement and the documents related thereto as described in Item 1.01 above, which description is incorporated by reference in this Item 2.01.

The consideration for the Acquisition was determined pursuant to negotiations between HollyFrontier and the conflicts committee of the Partnership, which is comprised solely of independent outside directors.

In addition to the relationship between the Partnership and HollyFrontier created under the Cheyenne Throughput Agreement and the El Dorado Throughput Agreement, with the closing of the Acquisition, HollyFrontier indirectly owns 11,097,615 common units of the Partnership, representing a 44% ownership interest in the Partnership, including the 2% general partner interest by which HollyFrontier indirectly owns and controls the general partner of the Partnership. Additionally, the Partnership and HollyFrontier have certain commercial relationships as further described in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2010 and the Partnership's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2011, June 30, 2011 and September 30, 2011.

Historically, the Cheyenne Assets and the El Dorado Assets were originally acquired by HollyFrontier as a result of the merger of North Acquisition, Inc., a wholly-owned subsidiary of HollyFrontier, formerly Holly Corporation, with and into Frontier Oil Corporation (*Frontier*) on July 1, 2011, and have been operated by each of HollyFrontier and Frontier as part of its more extensive transportation, terminaling, crude oil and refined and intermediate products operations. As a result, neither HollyFrontier nor Frontier maintained separate financial statements for these assets.

Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant

On November 9, 2011, in connection with the execution of the Purchase Agreement, as described in Item 1.01 above, which description is incorporated herein by reference, HEP-Operating issued the Cheyenne Note and the El Dorado Note (together, the *Notes*). The principal amount of each Note, plus all accrued and unpaid interest will be due and payable in full on October 31, 2016 (the *Maturity Date*).

Generally, the interest accrued on the outstanding principal balance of each Note shall be due and payable semi-annually on May 1 and November 1 of each year until the Maturity Date, with the first such payment due on May 1, 2012; provided that, all or some portion of each such payment will be deferred (but not past the Maturity Date) if HEP-Operating is not permitted to make such payment pursuant to the terms of that certain Credit Agreement dated of as February 14, 2011 (the *Credit Agreement*), by and among HEP-Operating as borrower, the banks and financial institutions party thereto as lenders, and Wells Fargo Bank, N.A., in its capacity as administrative agent. Any such deferred interest shall be added to the principal balance outstanding of the applicable Note as of the original due date of such interest payment.

Subject to the Credit Agreement, HEP-Operating may prepay the Notes in whole or in part at any time prior to the maturity date without penalty or premium. Any prepayments will be applied first to accrued but unpaid interest, if any, and then to principal.

Under the terms of each of the Cheyenne Note and the El Dorado Note, an Event of Default will occur if (i) HEP-Operating fails to pay any interest (other than deferred interest as discussed above) within five days after it becomes due and payable or fails to observe or perform any covenant or agreement contained in the Cheyenne Note or the El Dorado Note, respectively; or (ii) HEP-Operating is subject to any proceeding under any reorganization, bankruptcy, moratorium, receivership, insolvency, rearrangement, readjustment of debt, conservatorship, liquidation or similar debtor relief law or statute of any jurisdiction, now or in the future in effect. Five days following receipt of a notice of an Event of Default by HEP-Operating, the total unpaid principal and accrued but unpaid interest for the applicable Note shall become immediately due and payable in full and any unpaid principal and accrued and unpaid interest outstanding upon the occurrence an Event of Default will accrue interest from and after the occurrence of the Event of Default through (but excluding) the date of payment.

Item 3.02 Unregistered Sales of Equity Securities

On November 9, 2011, in connection with the closing of the Acquisition, as described in Items 1.01 and 2.01 above, which descriptions are incorporated herein by reference, the Partnership issued a total of 3,807,615 Common Units as partial consideration for the Acquisition. The Partnership's issuance of Common Units were exempt from the registration requirements of the Securities Act of 1933, as amended (the *Securities Act*) pursuant to Section 4(2) of the Securities Act.

Item 7.01 Regulation FD Disclosure.

Furnished as Exhibit 99.1 and incorporated herein by reference in its entirety is a copy of a press release issued by HollyFrontier and the Partnership on November 9, 2011 announcing completion of the Acquisition.

In accordance with General Instruction B.2 of Form 8-K, the information furnished in this report on Form 8-K pursuant to Item 7.01, including Exhibit 99.1, shall not be deemed to be filed for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended (*Exchange Act*), or otherwise subject to the liabilities of that section, unless the Partnership specifically incorporates it by reference in a document filed under the Exchange Act or the Securities Act. By filing this report on Form 8-K and furnishing the information pursuant to Item 7.01, the Partnership makes no admission as to the materiality of any information in this report furnished pursuant to Item 7.01, including Exhibit 99.1, or that any such information includes material investor information that is not otherwise publicly available.

The information furnished in this report on Form 8-K pursuant to Item 7.01, including the information contained in Exhibit 99.1, is summary information that is intended to be considered in the context of the Partnership's Securities and Exchange Commission (SEC) filings and other public announcements that the Partnership may make, by press release or otherwise, from time to time. The Partnership disclaims any current intention to revise or update the information furnished in this report on Form 8-K pursuant to Item 7.01, including the information contained in Exhibit 99.1, although the Partnership may do so from time to time as its management believes is warranted. Any such updating may be made through the furnishing or filing of other reports or documents with the SEC, through press releases or through other public disclosure.

Item 9.01 Financial Statements and Exhibits.

(d) *Exhibits*

Exhibit No.	Description
10.1*	LLC Interest Purchase Agreement, dated November 9, 2011, by and among HollyFrontier Corporation, Frontier Refining LLC, Frontier El Dorado Refining LLC, Holly Energy Partners Operating, L.P. and Holly Energy Partners, L.P.
10.2*	Tankage, Loading Rack and Crude Oil Receiving Throughput Agreement (Cheyenne), dated November 9, 2011, by and between Frontier Refining LLC and Cheyenne Logistics LLC
10.3*	Pipeline Delivery, Tankage and Loading Rack Throughput Agreement (El Dorado), dated November 9, 2011, by and between Frontier El Dorado Refining LLC and El Dorado Logistics LLC
10.4*	Sixth Amended and Restated Omnibus Agreement, dated November 9, 2011, by and among HollyFrontier Corporation, Holly Energy Partners, L.P. and certain of their respective subsidiaries
10.5*	Lease and Access Agreement (Cheyenne), dated November 9, 2011, by and between Frontier Refining LLC and Cheyenne Logistics LLC
10.6*	Lease and Access Agreement (El Dorado), dated November 9, 2011, by and between Frontier El Dorado Refining LLC and El Dorado Logistics LLC
10.7*	Form of Senior Unsecured Note in favor of Frontier Refining LLC
10.8*	Form of Senior Unsecured Note in favor of Frontier El Dorado Refining LLC
99.1**	Press Release of HollyFrontier Corporation and Holly Energy Partners L.P., issued November 9, 2011

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

HOLLY ENERGY PARTNERS, L.P.

By: HEP Logistics Holdings, L.P., its
General Partner

By: Holly Logistic Services, L.L.C., its
General Partner

By: /s/ Douglas S. Aron
Name: Douglas S. Aron
Title: Executive Vice President and
Chief Financial Officer

Date: November 10, 2011

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