

HOLLY ENERGY PARTNERS LP

Form S-3

September 02, 2005

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**As filed with the Securities and Exchange Commission on September 2, 2005**

**Registration No. 333-**

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

**Form S-3  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**Holly Energy Partners, L.P.  
Holly Energy Finance Corp.\***

*(Exact Name of Registrants as Specified in Their Charters)*

<b>Delaware</b>	<b>4610</b>	<b>20-0833098</b>
<b>Delaware</b>	<b>4610</b>	<b>20-2263311</b>
<i>(State or Other Jurisdiction of Incorporation or Organization)</i>	<i>(Registrants Primary Standard Industrial Classification Code Number)</i>	<i>(I.R.S. Employer Identification No.)</i>

**100 Crescent Court, Suite 1600  
Dallas, Texas 75201  
(214) 871-3555**  
*(Address, Including Zip Code, and  
Telephone Number, Including Area Code, of  
each of the Registrants Principal Executive Offices)*

**W. John Glancy  
Senior Vice President and General Counsel  
Holly Energy Partners, L.P.  
100 Crescent Court, Suite 1600  
Dallas, Texas 75201  
(214) 871-3555**  
*(Name, Address, Including Zip Code, and  
Telephone Number, Including Area Code, of  
each of the Registrants Agent for Service)*

**Copy to:  
Alan J. Bogdanow  
Vinson & Elkins L.L.P.  
Trammell Crow Center  
2001 Ross Avenue, Suite 3700  
Dallas, Texas 75201  
(214) 220-7700**

**Approximate date of commencement of proposed sale to the public:** From time to time after this registration statement becomes effective.

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

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

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

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

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

**CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to be Registered</b>	<b>Amount to be Registered</b>	<b>Proposed Maximum Offering Price per Unit</b>	<b>Proposed Maximum Aggregate Offering Price(1)</b>	<b>Amount of Registration Fee</b>
<b>Primary Offering</b>				
Common units representing limited partner interests(2)				
Debt securities(2)(3)				
Guarantees of debt securities(4)				
<b>Total Primary Offering</b>			\$800,000,000(2)	\$94,160
<b>Secondary Offering</b>				
Common units representing limited partner interests(5)	1,170,000	(6)	\$48,824,100(7)	\$5,747
<b>Total</b>			\$848,824,100	\$99,907

(1) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended (the Securities Act ).

(2) The amount of securities registered in the primary offering consists of \$800,000,000 of an indeterminate number or amount of common units of Holly Energy Partners, L.P. ( Holly Energy Partners ), debt securities of Holly Energy Partners, which may be co-issued by its subsidiary, Holly Energy Finance Corp. ( Holly Energy Finance ), and guarantees of such debt securities as set forth in Note 4 below.

(3) If any debt securities are issued at an original issue discount, then the offering price of such debt securities shall be in such amount as shall result in an aggregate initial offering price not to exceed the amount identified in Note 2 above, less the dollar amount of any registered securities previously issued.

(4) Each of the subsidiaries of Holly Energy Partners identified on the following pages may guarantee any series of debt securities issued under this prospectus and any prospectus supplement. No separate consideration will be paid in respect of any guarantees. Pursuant to Rule 457(n) of the Securities Act, no separate fee is payable with respect to the guarantees of any debt securities.

- (5) Common units of Holly Energy Partners that may be resold by or for the account of selling unitholders.
- (6) The proposed maximum offering price per common unit will be determined from time to time by the selling unitholders in connection with, and at the time of, any sale by the selling unitholders of our common units registered hereunder.
- (7) Estimated solely for the purpose of determining the registration fee on the basis of the average high and low sales prices of the common units on the New York Stock Exchange on August 26, 2005.

\* Additional Registrants are identified on the following pages.

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**ADDITIONAL REGISTRANTS**

The additional Registrants listed below are subsidiaries of Holly Energy Partners and may guarantee the debt securities.

**HEP Logistics GP, L.L.C.**

*(Exact Name of Registrant As Specified In Its Charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**51-0504692**

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

**Holly Energy Partners Operating, L.P.**

*(Exact Name of Registrant As Specified In Its Charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**51-0504696**

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

**HEP Pipeline GP, L.L.C.**

*(Exact Name of Registrant As Specified In Its Charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**72-1583767**

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

**HEP Refining GP, L.L.C.**

*(Exact Name of Registrant As Specified In Its Charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**71-0968297**

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

**HEP Mountain Home, L.L.C.**

*(Exact Name of Registrant As Specified In Its Charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**71-0968300**

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

**HEP Pipeline, L.L.C.**

*(Exact Name of Registrant As Specified In Its Charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**71-0968296**

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

**HEP Refining, L.L.C.**

*(Exact Name of Registrant As Specified In Its Charter)*

**Delaware**

**71-0968299**

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*(State or Other Jurisdiction of  
Incorporation or Organization)*

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

**HEP Woods Cross, L.L.C.**

*(Exact Name of Registrant As Specified In Its Charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**72-1583768**

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

**HEP Navajo Southern, L.P.**

*(Exact Name of Registrant As Specified In Its Charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**57-1207829**

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

**HEP Pipeline Assets, Limited Partnership**

*(Exact Name of Registrant As Specified In Its Charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**51-0512050**

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

**HEP Refining Assets, L.P.**

*(Exact Name of Registrant As Specified In Its Charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**51-0512052**

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

**HEP Fin Tex/ Trust River, L.P.**

*(Exact Name of Registrant As Specified In Its Charter)*

**Texas**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**20-2161011**

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

**The Registrants hereby amend this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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The information in this prospectus is not complete and may be changed. Securities may not be sold pursuant to this prospectus until a registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell securities and it is not soliciting an offer to buy securities in any jurisdiction where the offer or sale is not permitted.

**SUBJECT TO COMPLETION, DATED SEPTEMBER 2, 2005**

**PROSPECTUS**

**Holly Energy Partners, L.P.  
Holly Energy Finance Corp.  
\$800,000,000  
COMMON UNITS  
DEBT SECURITIES**

**1,170,000 COMMON UNITS  
Offered by the  
Selling Unitholders**

We may from time to time offer the following securities under this prospectus:  
common units representing limited partner interests in Holly Energy Partners, L.P.; and

debt securities of Holly Energy Partners L.P.

Holly Energy Finance Corp. may act as co-issuer of the debt securities and certain other subsidiaries of Holly Energy Partners, L.P. may guarantee the debt securities.

This prospectus provides you with a general description of the securities we may offer. Each time we sell securities we will provide a prospectus supplement that will contain specific information about the terms of that offering. The amount of any securities offered and the price at which those securities are offered will be determined at the time of each offering. Any prospectus supplement may also add, update or change information contained in this prospectus. You should read carefully this prospectus and any prospectus supplement before you invest. You should also read the documents we have referred you to in the **Where You Can Find More Information** section of this prospectus for information about us, including our financial statements.

In addition, up to 1,170,000 common units may be offered from time to time by the selling unitholders named herein. Specific terms of certain offerings by such selling unitholders may be specified in a prospectus supplement to this prospectus. We will not receive proceeds of any sale of common units by any such selling unitholders unless otherwise indicated in a prospectus supplement. For a more detailed discussion of selling unitholders, please read **Selling Unitholders**.

Our common units are listed on the New York Stock Exchange under the trading symbol **HEP**.

Unless otherwise specified in a prospectus supplement, any of our senior debt securities, when and if issued, will be unsecured and will rank equally with our other unsecured and unsubordinated indebtedness, and any of our subordinated debt securities, when and if issued, will be subordinated in right of payment to our senior debt.

**Limited partnerships are inherently different from corporations. You should review carefully Risk Factors beginning on page 3 for a discussion of important risks you should consider before investing in our securities.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

This prospectus may not be used to consummate sales of securities by the Registrants unless accompanied by a prospectus supplement.

The date of this prospectus is \_\_\_\_\_, 2005.

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<u>Opinion/Consent of Vinson &amp; Elkins L.L.P.</u>	
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You should rely only on the information contained or incorporated by reference in this prospectus or any prospectus supplement. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should not assume that the information incorporated by reference or provided in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of each document.

Our, we, us and Holly Energy Partners as used in this prospectus refer to Holly Energy Partners, L.P. or to Holly Energy Partners, L.P. and certain of its subsidiaries collectively, including its subsidiary Holly Energy Finance Corp., as the context requires.



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**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we file with the Securities and Exchange Commission (the Commission ) using a shelf registration process. Under this shelf process, we may offer from time to time up to \$800,000,000 of our securities and the selling unitholders may offer from time to time up to 1,170,000 of our common units. Each time we offer securities, we will provide you with a prospectus supplement that will describe, among other things, the specific amounts and prices of the securities being offered and the terms of the offering. The selling unitholders may offer common units pursuant to this prospectus or may provide you with a prospectus supplement that will describe, among other things, the specific amounts and prices of the common units being offered and the terms of the offering. Any prospectus supplement may add, update or change information contained in this prospectus. Any statement that we make in this prospectus will be modified or superseded by any inconsistent statement made by us in any prospectus supplement. Therefore, you should read this prospectus and any attached prospectus supplement before you invest in our securities.

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**WHO WE ARE**

Holly Energy Partners, L.P. is a Delaware limited partnership engaged principally in the business of operating a system of refined product pipelines and distribution terminals primarily in West Texas, New Mexico, Utah and Arizona. We generate revenues by charging tariffs for transporting intermediate and refined products through our pipelines and by charging fees for terminalling refined products and other hydrocarbons in, and storing and providing other services at, our terminals. We do not take ownership of products that we transport or terminal and therefore we are not directly exposed to changes in commodity prices. We serve Holly Corporation's refineries in New Mexico and Utah under two pipelines and/or terminals agreements expiring in July 2019 and July 2020 and Alon USA, Inc.'s (Alon) Big Spring Refinery under a separate pipelines and terminals agreement expiring in February 2020. We are dedicated to generating stable cash flows and growing our business. Our assets include:

**Refined Product Pipelines:**

approximately 949 miles of refined product pipelines, including 340 miles of leased pipelines, that transport gasoline, diesel, and jet fuel from Holly Corporation's Navajo Refinery in New Mexico and Alon's Big Spring Refinery in Texas to their customers in the metropolitan and rural areas of Texas, New Mexico, Oklahoma, Arizona, Colorado, Utah and northern Mexico; and

a 70% interest in Rio Grande Pipeline Company, a joint venture that owns a 249-mile refined product pipeline, that transports liquid petroleum gases, or LPGs, from West Texas to the Texas/ Mexico border near El Paso for further transport into northern Mexico by shippers other than Holly Corporation.

**Intermediate Pipelines:**

two 65-mile parallel pipelines that originate in Lovington, New Mexico and terminate at Holly Corporation's Artesia refining facility, with an aggregate throughput capacity of 84,000 barrels per day (bpd), which we acquired from Holly Corporation in July 2005.

**Refined Product Terminals:**

seven refined product terminals (one of which is 50% owned), located in El Paso, Abilene and Wichita Falls, Texas, Moriarty, Bloomfield and Albuquerque, New Mexico, and Tucson, Arizona, with an aggregate capacity of approximately 2.3 million barrels, that are integrated with our refined product pipeline system;

three refined product terminals (two of which are 50% owned), located in Burley and Boise, Idaho, and Spokane, Washington, with an aggregate capacity of approximately 514,000 barrels, that serve third-party common carrier pipelines;

one refined product terminal near Mountain Home, Idaho, with a capacity of 120,000 barrels, that serves a nearby United States Air Force Base; and

two refined product truck loading racks, one located within Holly Corporation's Navajo Refinery, that is permitted to load over 40,000 bpd of light refined products, and one located within Holly Corporation's Woods Cross Refinery near Salt Lake City, Utah, that is permitted to load over 25,000 bpd of light refined products.

**Tank Farm:**

one tank farm in Orla, Texas, with a storage capacity of 135,000 barrels.

Holly Energy Finance Corp. (Holly Energy Finance) is a Delaware corporation and wholly-owned subsidiary of Holly Energy Partners organized for the sole purpose of co-issuing certain of our debt securities. Holly Energy Finance does not have any operations of any kind and does not generate any revenue other than as may be incidental to its activities as a co-issuer of any of our debt securities.

Our principal executive offices are located at 100 Crescent Court, Suite 1600, Dallas, Texas 75201, and our telephone number is (214) 871-3555.

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**THE SUBSIDIARY GUARANTORS**

Throughout this prospectus, we refer to each of the following subsidiaries of Holly Energy Partners as the Subsidiary Guarantors : HEP Logistics GP, L.L.C., Holly Energy Partners Operating, L.P., HEP Pipeline GP, L.L.C., HEP Refining GP, L.L.C., HEP Mountain Home, L.L.C., HEP Pipeline, L.L.C., HEP Refining, L.L.C., HEP Woods Cross, L.L.C., HEP Navajo Southern, L.P., HEP Pipeline Assets, Limited Partnership, HEP Refining Assets, L.P. and HEP Fin Tex/ Trust River, L.P. Each of the Subsidiary Guarantors may jointly and severally and unconditionally guarantee our payment obligations under any series of debt securities offered by this prospectus and any prospectus supplement.

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**RISK FACTORS**

*An investment in our securities involves risks. You should consider carefully the following risk factors, together with all of the other information included in, or incorporated by reference into, this prospectus and any prospectus supplement in evaluating an investment in our securities. This prospectus also contains forward-looking statements that involve risks and uncertainties. Please read *Forward-Looking Statements*. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors, including the risks described below and the other information included in, or incorporated by reference into, this prospectus. If any of these risks occur, our business, financial condition or results of operations could be adversely affected. When we offer and sell any securities pursuant to a prospectus supplement, we may include additional risk factors relevant to such securities in the prospectus supplement.*

**Risks Inherent in Our Business**

***We depend upon Holly Corporation and particularly its Navajo Refinery for a majority of our revenues and upon Alon and its Big Spring Refinery for a substantial portion of our other revenues, and if revenues from either of these customers were materially-reduced, there would be a material adverse effect on our results of operations.***

For the six months ended June 30, 2005, Holly Corporation accounted for approximately 49.5% of the revenues of our refined products pipelines and approximately 70.5% of the revenues of our terminals and truck loading racks. For the six months ended June 30, 2005, which includes four months for which our pipelines and terminals agreement with Alon was in effect, Alon accounted for approximately 34.4% of the revenues of our refined products pipelines and approximately 9.4% of the revenues of our terminals and truck loading racks. We expect to continue to derive a substantial majority of our revenues from Holly Corporation and Alon for the foreseeable future. If either Holly Corporation or Alon satisfy only their minimum obligations under our respective pipelines and/or terminals agreements with them or are unable to meet their minimum revenue commitment or minimum volume commitment for any reason, including due to prolonged downtime or a shutdown at the Navajo Refinery, the Woods Cross Refinery or the Big Spring Refinery, our revenues would decline.

Any significant curtailing of production at either the Navajo Refinery or the Big Spring Refinery could, by reducing throughput in our pipelines, result in our realizing materially lower levels of revenues and cash flow for the duration of the shutdown. Operations at the Navajo Refinery or the Big Spring Refinery could be partially or completely shut down, temporarily or permanently, as the result of:

- competition from other refineries and pipelines that may be able to supply the end-user markets of either Holly Corporation or Alon on a more cost-effective basis;

- operational problems such as catastrophic events at the refinery, labor difficulties or environmental proceedings or other litigation that compel the cessation of all or a portion of the operations at the refinery;

- increasingly stringent environmental laws and regulations, such as the Environmental Protection Agency's gasoline and diesel sulfur control requirements that limit the concentration of sulfur in motor gasoline and diesel fuel for both on-road and non-road usage as well as various state and federal emission requirements that may affect the refinery itself;

- an inability to obtain crude oil for the refinery at competitive prices; or

- a general reduction in demand for refined products in the area due to:

- a local or national recession or other adverse economic condition that results in lower spending by businesses and consumers on gasoline and diesel fuel;

- higher gasoline prices due to higher crude oil prices, higher taxes or stricter environmental laws or regulations; or



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a shift by consumers to more fuel-efficient or alternative fuel vehicles or an increase in fuel economy, whether as a result of technological advances by manufacturers, legislation either mandating or encouraging higher fuel economy or the use of alternative fuel or otherwise.

The magnitude of the effect on us of any shutdown will depend on the length of the shutdown and the extent of the refinery operations affected by the shutdown. We have no control over the factors that may lead to a shutdown or the measures either Holly Corporation or Alon may take in response to a shutdown. Holly Corporation and Alon make all decisions at the Navajo Refinery and the Big Spring Refinery, respectively, concerning levels of production, regulatory compliance, planned shutdowns of individual process units within the refinery to perform major maintenance activities, also referred to as refinery turnarounds, labor relations, environmental remediation and capital expenditures, and are responsible for all related costs, and are under no contractual obligation to us to maintain operations at these refineries.

Holly Corporation's obligations under our pipelines and or/terminals agreements with it would be temporarily suspended during the occurrence of a force majeure event that renders performance impossible with respect to an asset for at least 30 days. If such an event were to continue for a year, we or Holly Corporation could terminate the applicable pipelines and/or terminals agreement. Our pipelines and terminals agreement with Alon provides that if we are unable to transport our terminal refined products that Alon is prepared to ship, then Alon has the right to reduce its minimum volume commitment to us during the period of interruption. If a force majeure event occurs beyond the control of either of us, we or Alon could terminate the Alon pipelines and terminals agreement after the expiration of certain time periods. The occurrence of any of these events could reduce our revenues and cash flows and our ability to make distributions on our common units or to meet our debt service requirements.

***We are exposed to the credit risks of our key customers.***

We are subject to risks of loss resulting from nonpayment or nonperformance by our customers. In addition to revenues that we receive from Holly Corporation and Alon, a subsidiary of BP is the only shipper on the Rio Grande Pipeline, a joint venture in which we own a 70% interest and from which we derived approximately 12.8% of our revenues for the six months ended June 30, 2005.

If any of our key customers default on their obligations to us, our financial results could be adversely affected. Furthermore, some of our customers may be highly leveraged and subject to their own operating and regulatory risks. Any loss of our key customers, including Holly Corporation, Alon or the BP subsidiary, could reduce our ability to make distributions on our common units or to meet our debt service requirements.

***We may be unable to make future acquisitions on attractive terms and potential future acquisitions, if any, may affect our business by substantially increasing the level of our indebtedness and contingent liabilities and increasing our risks of being unable to effectively integrate these new operations.***

We expect to continue to evaluate and, where appropriate, pursue acquisitions of assets and businesses that we believe complement our existing assets and businesses. We cannot assure you that we will be able to identify suitable acquisitions in the future, or that we will be able to purchase or finance any acquisitions on terms that we find acceptable. Additionally, we compete against other companies for acquisitions, and we cannot assure you that we will be successful in the acquisition of any assets or businesses appropriate for our growth strategy.

Acquisitions may require substantial capital or the incurrence of substantial indebtedness. If we consummate any future acquisitions, our capitalization and results of operations may change significantly, and you will not have the opportunity to evaluate the economic, financial and other relevant information that we will consider in determining the application of our funds and other resources.

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Any acquisition involves potential risks, including, among other things:

mistaken assumptions about revenues and costs, including synergies;

the assumption of unknown liabilities or known liabilities for which we underestimate the risk;

the potentially substantial transaction costs associated with completed acquisitions or pursuing acquisitions that are not completed;

limitations on rights to indemnity from the seller;

the diversion of management's attention from other business concerns;

unforeseen difficulties operating in new product areas or new geographic areas; and

customer or key employee losses at the acquired businesses.

***Competition from other pipelines, including the Longhorn Pipeline, that may be able to supply our shippers customers with refined products at a lower price could cause us to reduce our rates or could reduce our revenues.***

We and our shippers face competition from other pipelines that may be able to supply our shippers' end-user markets with refined products on a more competitive basis. One particular pipeline, the Longhorn Pipeline, could provide significant competition. The Longhorn Pipeline is a common carrier pipeline that is capable of delivering refined products utilizing a direct route from the Texas Gulf Coast to El Paso and, through interconnections with third-party common carrier pipelines, into the Arizona market. If the Longhorn Pipeline operates as currently proposed, it could result in significant downward pressure on wholesale refined product prices and refined product margins in El Paso and related markets. Additionally, the increased supply of refined products from Gulf Coast refiners entering the El Paso and Arizona markets on this pipeline and the likely increase in the demand for shipping product on the interconnecting common carrier pipelines, which are currently capacity constrained, could cause a decline in the demand for refined product from Holly Corporation or Alon. For Holly Corporation, this could ultimately result in a reduction in Holly Corporation's minimum revenue commitment to us, and while our pipelines and terminals agreement with Alon does not provide for a reduction in its minimum volume commitment obligation in these circumstances, it could reduce our opportunity to earn revenue from Alon in excess of Alon's minimum volume commitment and our ability to make distributions on our common units or to meet our debt service requirements.

An additional factor that could affect some of Holly Corporation's and Alon's markets is excess pipeline capacity from the West Coast into our shippers' Arizona markets on the pipeline from the West Coast to Phoenix. If refined products become available on the West Coast in excess of demand in that market, additional products could be shipped into our shippers' Arizona markets with resulting possible downward pressure on refined products prices in these markets.

***A material decrease in the supply, or a material increase in the price, of crude oil available to Holly Corporation's and Alon's refineries, could materially reduce our revenues.***

The volume of refined products we transport in our refined product pipelines depends on the level of production of refined products from Holly Corporation's and Alon's refineries, which, in turn, depends on the availability of attractively-priced crude oil produced in the areas accessible to those refineries. In order to maintain or increase production levels at their refineries, our shippers must continually contract for new crude oil supplies. A material decrease in crude oil production from the fields that supply their refineries, as a result of depressed commodity prices, lack of drilling activity, natural production declines or otherwise, could result in a decline in the volume of crude oil our shippers refine. Such an event would result in an overall decline in volumes of refined products transported through our pipelines and therefore a corresponding reduction in our cash flow. In addition, the future growth of our shippers' operations will depend in part upon whether they can contract for additional supplies of crude oil at a greater

rate than the rate of natural decline in their currently connected supplies.



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Fluctuations in crude oil prices can greatly affect production rates and investments by third parties in the development of new oil reserves. Drilling activity generally decreases as crude oil prices decrease. We and our shippers have no control over the level of drilling activity in the areas of operations, the amount of reserves underlying the wells and the rate at which production from a well will decline or producers or their production decisions, which are affected by, among other things, prevailing and projected energy prices, demand for hydrocarbons, geological considerations, governmental regulation and the availability and cost of capital. Similarly, if there were a material increase in the price of crude oil supplied to our shippers' refineries without an increase in the value of the products produced by the refineries, either temporary or permanent, which caused a reduction in the production of refined products at the refineries, this would cause a reduction in the volumes of refined products we transport and our cash flow and could materially reduce our revenues and our ability to make distributions on our common units and to meet our debt service requirements.

***We may not be able to retain existing customers or acquire new customers.***

The renewal or replacement of existing contracts with our customers at rates sufficient to maintain current revenues and cash flows depends on a number of factors outside our control, including competition from other pipelines and the demand for refined products in the markets that we serve. Alon's obligations to lease capacity on the Artesia-Orla-El Paso pipeline have remaining terms ranging from three to six years. BP's agreement to ship on the Rio Grande Pipeline expires in 2007. If we are unable to renew or replace our current contracts as they expire, our ability to make distributions on our common units and to meet our debt service requirements could be adversely affected.

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

Our pipelines and terminal operations are subject to increasingly strict environmental and safety laws and regulations. The transportation and storage of refined products produces a risk that refined products and other hydrocarbons may be suddenly or gradually released into the environment, potentially causing substantial expenditures for a response action, significant government penalties, liability to government agencies for natural resources damages, personal injury or property damages to private parties and significant business interruption. We own or lease a number of properties that have been used to store or distribute refined products for many years. Many of these properties, such as recently acquired assets from Holly Corporation and Alon, have also been operated by third parties whose handling, disposal, or release of hydrocarbons and other wastes were not under our control. If we were to incur a significant liability pursuant to environmental laws or regulations, it could have a material adverse effect on our financial position and our ability to make distributions on our common units and to meet our debt service requirements.

***Our operations are subject to operational hazards and unforeseen interruptions for which we may not be adequately insured.***

Our operations are subject to operational hazards and unforeseen interruptions such as natural disasters, adverse weather, accidents, fires, explosions, hazardous materials releases, mechanical failures and other events beyond our control. These events might result in a loss of equipment or life, injury or extensive property damage, as well as an interruption in our operations. We may not be able to maintain or obtain insurance of the type and amount we desire at reasonable rates. As a result of market conditions, premiums and deductibles for certain of our insurance policies have increased substantially, and could escalate further. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. For example, our insurance carriers require broad exclusions for losses due to terrorist acts. If we were to incur a significant liability for which we were not fully insured, it could have a material adverse effect on our financial position and our ability to make distributions on our common units and to meet our debt service requirements.

**Table of Contents*****Any reduction in the capacity of, or the allocations to, our shippers in interconnecting, third-party pipelines could cause a reduction of volumes transported in our pipelines and through our terminals.***

Holly Corporation, Alon and the other users of our pipelines and terminals are dependent upon connections to third-party pipelines to receive and deliver crude oil and refined products. Any reduction of capacities of these interconnecting pipelines due to testing, line repair, reduced operating pressures, or other causes could result in reduced volumes transported in our pipelines or through our terminals. Similarly, if additional shippers begin transporting volumes of refined products over interconnecting pipelines, the allocations to existing shippers in these pipelines would be reduced, which could also reduce volumes transported in our pipelines or through our terminals. For example, the common carrier pipelines used by Holly Corporation to serve the Arizona and Albuquerque markets are currently operated at or near capacity and are subject to proration. As a result, the volumes of refined product Holly Corporation and other shippers have been able to deliver to these markets have been limited. The flow of additional products into El Paso for shipment to Arizona, either as a result of the operation of the Longhorn Pipeline or otherwise, could further exacerbate such constraints on deliveries to Arizona. Any reduction in volumes transported in our pipelines or through our terminals would adversely affect our revenues and our ability to make distributions on our common units and to meet our debt service requirements.

***If our assumptions concerning population growth are inaccurate or if Holly Corporation's growth strategy is not successful, our ability to grow may be adversely affected.***

Our growth strategy is dependent upon:

the accuracy of our assumption that many of the markets that we serve in the Southwestern and Rocky Mountain regions of the United States will experience population growth that is higher than the national average; and

the willingness and ability of Holly Corporation to capture a share of this additional demand in its existing markets and to identify and penetrate new markets in the Southwestern and Rocky Mountain regions of the United States.

If our assumptions about growth in market demand prove incorrect, Holly Corporation may not have any incentive to increase refinery capacity and production or shift additional throughput to our pipelines, which would adversely affect our growth strategy. Furthermore, Holly Corporation is under no obligation to pursue a growth strategy. If Holly Corporation chooses not to, or is unable to, gain additional customers in new or existing markets in the Southwestern and Rocky Mountain regions of the United States, our growth strategy would be adversely affected. Moreover, Holly Corporation may not make acquisitions that would provide acquisition opportunities to us, or if those opportunities arose, they may not be on terms attractive to us. Finally, Holly Corporation also will be subject to integration risks with respect to any new acquisitions it chooses to make.

***Growing our business by constructing new pipelines and terminals, or expanding existing ones, subjects us to construction risks.***

One of the ways we may grow our business is through the construction of new pipelines and terminals or the expansion of existing ones. The construction of a new pipeline or the expansion of an existing pipeline, by adding horsepower or pump stations or by adding a second pipeline along an existing pipeline, involves numerous regulatory, environmental, political and legal uncertainties, most of which are beyond our control. These projects may not be completed on schedule or at all or at the budgeted cost. In addition, our revenues may not increase immediately upon the expenditure of funds on a particular project. For instance, if we build a new pipeline, the construction will occur over an extended period of time and we will not receive any material increases in revenues until after completion of the project. Moreover, we may construct facilities to capture anticipated future growth in demand for refined products in a region in which such growth does not materialize. As a result, new facilities may not be able to attract enough throughput to achieve our expected investment return, which could adversely affect our results of operations and financial condition and could affect our ability to make distributions on our common units and to meet our debt service requirements.

**Table of Contents*****Rate regulation may not allow us to recover the full amount of increases in our costs.***

The primary rate-making methodology of the Federal Energy Regulatory Commission, or FERC, is price indexing. We use this methodology in all of our interstate markets. The indexing method allows a pipeline to increase its rates by a percentage equal to the change in the producer price index for finished goods. If the index falls, we will be required to reduce our rates that are based on the FERC's price indexing methodology if they exceed the new maximum allowable rate. In addition, changes in the index might not be large enough to fully reflect actual increases in our costs. The FERC's rate-making methodologies may limit our ability to set rates based on our true costs or may delay the use of rates that reflect increased costs. Any of the foregoing would adversely affect our revenues and cash flow and could affect our ability to make distributions on our common units and to meet our debt service requirements.

If our interstate or intrastate tariff rates are successfully challenged, we could be required to reduce our tariff rates, which would reduce our revenues.

Under the Energy Policy Act adopted in 1992, our interstate pipeline rates were deemed just and reasonable or grandfathered. As that Act applies to our rates, a person challenging a grandfathered rate must, as a threshold matter, establish that a substantial change has occurred since the date of enactment of the Act, in either the economic circumstances or the nature of the service that formed the basis for the rate. If the FERC were to find a substantial change in circumstances, then our existing rates could be subject to detailed review. If our rates were found to be in excess of levels justified by our cost of service the FERC could order us to reduce our rates. In addition, a state commission could also investigate our intrastate rates or our terms and conditions of service on its own initiative or at the urging of a shipper or other interested party. If a state commission found that our rates exceeded levels justified by our cost of service, the state commission could order us to reduce our rates. Any such reductions would result in lower revenues and cash flows.

Holly Corporation and Alon have agreed not to challenge, or to cause others to challenge or assist others in challenging, our tariff rates in effect during the terms of their respective pipelines and terminals agreements. These agreements do not prevent other current or future shippers from challenging our tariff rates. If any party successfully challenges our tariff rates, it could have an adverse effect on us.

***Potential changes to current petroleum pipeline rate-making methods and procedures may impact the federal and state regulations under which we will operate in the future.***

If the FERC's petroleum pipeline rate-making methodology changes, the new methodology could result in tariffs that generate lower revenues and cash flow and could adversely our ability to make distributions on our common units and to meet our debt service requirements.

***Our pipeline operations are subject to FERC rate-making principles that could have an adverse impact on our ability to recover the full cost of operating our pipeline facilities and our ability to make distributions to unitholders.***

In a decision last year involving an oil pipeline limited partnership, *BP West Coast Products, LLC v. FERC*, the United States Court of Appeals for the District of Columbia Circuit vacated FERC's *Lakehead* policy. Under that policy, the FERC allowed an oil pipeline limited partnership to include in its cost of service an income tax allowance only to the extent that its unitholders were corporations subject to income tax. In May 2005, the FERC issued a statement of general policy regarding income tax allowances, stating that a pipeline organized as a tax pass-through entity may include in its cost of service-based rates an income tax allowance to reflect actual or potential tax liability on its public utility income attributable to all entities or individuals owning public utility assets, if the pipeline proves that the ultimate owner of the interest has an actual or potential income tax liability on such income. The FERC also stated that whether a pipeline's owners have such actual or potential income tax liability will be reviewed by the FERC on a case-by-case basis. In June 2005, the FERC issued an order on remand of *BP West Coast*, which, in part, applied its new policy on income tax allowance. Although the new policy affords pipelines that are organized as pass-through entities an opportunity to recover a tax allowance, the FERC has not indicated what evidence is required to establish such actual or legal income tax liability for all owners. In

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August 2005, the FERC dismissed requests for rehearing of its new tax allowance policy. In addition, multiple petitions for review of the FERC's application of its new tax allowance policy on remand of the *BP West Coast* decision have been filed at the United States Court of Appeals for the District of Columbia Circuit. Further, application of the FERC's policy statement in individual cases may be subject to further FERC action or review in the appropriate Court of Appeals. Therefore, the ultimate outcome of these proceedings is not certain and could result in changes to the FERC's treatment of income tax allowances in cost of service. If we were to file for a cost of service-based rate increase above the applicable indexing level for a given year, we would be permitted to include an income tax allowance in such rates only to the extent we could show, pursuant to the new policy's standard, that the ultimate owners of our units have actual or potential income tax liability on our income. If the FERC were to disallow a substantial portion of our income tax allowance, it is likely that the maximum rates that could be charged could decrease from current levels.

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

The long-term impact of terrorist attacks, such as the attacks that occurred on September 11, 2001, and the threat of future terrorist attacks, on the energy transportation industry in general, and on us in particular, is not known at this time. Increased security measures taken by us as a precaution against possible terrorist attacks have resulted in increased costs to our business. Uncertainty surrounding continued hostilities in the Middle East or other sustained military campaigns may affect our operations in unpredictable ways, including disruptions of crude oil supplies and markets for refined products, and the possibility that infrastructure facilities could be direct targets of, or indirect casualties of, an act of terror.

Changes in the insurance markets attributable to terrorist attacks may make certain types of insurance more difficult for us to obtain. Moreover, the insurance that may be available to us may be significantly more expensive than our existing insurance coverage. Instability in the financial markets as a result of terrorism or war could also affect our ability to raise capital.

**Risks Inherent in an Investment in Us**

***Holly Corporation and its affiliates have conflicts of interest and limited fiduciary duties, which may permit them to favor their own interests.***

Currently, Holly Corporation indirectly owns the 2% general partner interest and a 43% limited partner interest in us and owns and controls our general partner, HEP Logistics Holdings, L.P. Conflicts of interest may arise between Holly Corporation and its affiliates, including our general partner, on the one hand, and us, on the other hand. As a result of these conflicts, the general partner may favor its own interests and the interests of its affiliates over our interests. These conflicts include, among others, the following situations:

Holly Corporation, as a shipper on our pipelines, has an economic incentive not to cause us to seek higher tariff rates or terminalling fees, even if such higher rates or terminalling fees would reflect rates that could be obtained in arm's-length, third-party transactions;

neither our partnership agreement nor any other agreement requires Holly Corporation to pursue a business strategy that favors us or utilizes our assets, including whether to increase or decrease refinery production, whether to shut down or reconfigure a refinery, or what markets to pursue or grow. Holly Corporation's directors and officers have a fiduciary duty to make these decisions in the best interests of the stockholders of Holly Corporation;

our general partner is allowed to take into account the interests of parties other than us, such as Holly Corporation, in resolving conflicts of interest;

our general partner determines which costs incurred by Holly Corporation and its affiliates are reimbursable by us;



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our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf;

our general partner determines the amount and timing of our asset purchases and sales, capital expenditures and borrowings, each of which can affect the amount of cash available to us; and

our general partner controls the enforcement of obligations owed to us by our general partner and its affiliates, including the pipelines and terminals agreement with Holly Corporation.

***Cost reimbursements, which will be determined by our general partner, and fees due our general partner and its affiliates for services provided, are substantial.***

For three years commencing on July 13, 2004, the closing date of our initial public offering, we are obligated to pay Holly Corporation an administrative fee of \$2.0 million per year for the provision by Holly Corporation or its affiliates of various general and administrative services for our benefit. The administrative fee may increase on the second and third anniversaries of the closing date of our initial public offering by the greater of 5% or the percentage increase in the consumer price index and may also increase if we make an acquisition that requires an increase in the level of general and administrative services that we receive from Holly Corporation or its affiliates. In addition, our general partner and its affiliates are entitled to reimbursement for all other expenses they incur on our behalf, including the salaries of and the cost of employee benefits for employees of Holly Logistic Services, L.L.C. who provide services to us. Prior to making any distribution on the common units, we will reimburse our general partner and its affiliates, including officers and directors of the general partner, for all expenses incurred on our behalf. The reimbursement of expenses and the payment of fees could adversely affect our ability to make distributions. The general partner has sole discretion to determine the amount of these expenses. Our general partner and its affiliates also may provide us other services for which we are charged fees as determined by our general partner.

***Our partnership agreement limits our general partner's fiduciary duties to our unitholders and restricts the remedies available to unitholders for actions taken by our gen***