HOLLY ENERGY PARTNERS LP
Form 424B4
July 08, 2004

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Filed Pursuant to Rule 424(b)(4)
Registration No. 333-113588 and 333-117217

6,100,000 Common Units

Representing Limited Partner Interests

This is an initial public offering of common units representing limited partner interests of Holly Energy Partners, L.P. Holly Energy Partners intends to distribute to each common unit the minimum quarterly distribution of $0.50 per quarter or $2.00 per year, to the extent it has sufficient cash from operations after establishment of cash reserves and payment of fees and expenses to its general partner. The common units are entitled to receive the minimum quarterly distribution before any distribution is paid on the subordinated units initially held by affiliates of Holly Corporation.

Prior to this offering, there has been no public market for the common units. The common units have been approved for listing on the New York Stock Exchange under the symbol HEP.

See Risk Factors on page 16 to read about important factors that you should consider before buying common units.

These risks include the following:

We may not have sufficient cash from operations to enable us to pay the minimum quarterly distribution following establishment of cash reserves and payment of fees and expenses, including payments to our general partner.

We depend upon Holly Corporation and particularly its Navajo Refinery for a substantial majority of our revenues, and any reduction in these revenues would reduce our ability to make distributions to unitholders.

Competition from other pipelines could cause us to reduce our rates or could reduce our revenues.

A material decrease in the supply, or a material increase in the price, of crude oil available to Holly Corporation s refineries could materially reduce our ability to make distributions to unitholders.

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.

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

Even if unitholders are dissatisfied, they cannot remove our general partner without its consent.

The control of our general partner may be transferred to a third party without unitholder consent.

You will experience immediate and substantial dilution of $17.86 per common unit.

You may be required to pay taxes on your share of our income even if you do not receive any cash distributions from us.

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

	Per Common Unit	Total

Initial public offering price	$22.25	$135,725,000
Underwriting discount[1]	$ 1.47	$ 8,967,000
Proceeds before expenses, to Holly Energy Partners, L.P.	$20.78	$126,758,000

(1) Excludes structuring fees of $339,313 to be paid to Goldman, Sachs & Co.

To the extent that the underwriters sell more than 6,100,000 common units, the underwriters have the option to purchase up to an additional 900,000 common units at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the common units against payment in New York, New York on July 13, 2004.

Goldman, Sachs & Co.

Lehman Brothers

UBS Investment Bank

A.G. Edwards

Raymond James

Prospectus dated July 7, 2004.

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You should rely only on the information contained in this prospectus. We have not, and the underwriters 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. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where an offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus.

Through and including August 1, 2004 (the 25th day after the date of this prospectus), all dealers effecting transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer s obligation to deliver a prospectus when acting as an underwriter and with respect to an unsold allotment or subscription.

SUMMARY

This summary highlights information contained elsewhere in this prospectus. It does not contain all of the information that you should consider before investing in the common units. You should read the entire prospectus carefully, including the historical and pro forma financial statements and notes to those financial statements. The information presented in this prospectus assumes that the underwriters over-allotment option is not exercised. You should read Risk Factors beginning on page 16 for more information about important factors that you should consider before buying the common units.

We include a glossary of some of the terms used in this prospectus as Appendix C. References in this prospectus to Holly Energy Partners, we, our, us, or like terms refer to Holly Energy Partners, L.P.

Holly Energy Partners

Holly Energy Partners is a Delaware limited partnership recently formed by Holly Corporation. We operate 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 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 a 15 year pipelines and terminals agreement. We are dedicated to generating stable cash flows and growing our business. Our assets include:

Refined Product Pipelines:

- approximately 780 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 to its customers in the metropolitan and rural areas of Texas, New Mexico, Arizona, Colorado, Utah and northern Mexico; and

- a 70% interest in the 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.

Refined Product Terminals:

- five refined product terminals (two of which are 50% owned), located in El Paso, Texas; Moriarty, Bloomfield and Albuquerque, New Mexico; and Tucson, Arizona, with an aggregate capacity of approximately 1.1 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 barrels per day (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.

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In addition, we have an option to purchase two intermediate product pipelines from Holly Corporation at fair market value. These pipelines transport crude oil and feedstocks from Holly Corporation s Lovington facility to its Artesia facility. These pipelines are each 65 miles long and have a current aggregate throughput capacity of 84,000 bpd.

For the year ended December 31, 2003, on a pro forma basis, reflecting the tariff and terminal fees we will initially charge Holly Corporation under the pipelines and terminals agreement, we had revenues of approximately $52.7 million, net income of approximately $21.4 million and earnings before interest, taxes, depreciation and amortization, or EBITDA, of approximately $29.8 million. For the three months ended March 31, 2004, on a pro forma basis, we had revenues of $15.4 million, net income of approximately $7.3 million and EBITDA of approximately $9.5 million. Please read Summary Historical and Operating Data and Pro Forma Financial Data for an explanation of the term EBITDA and a reconciliation of EBITDA to net income and cash flow from operating activities, our most directly comparable financial measures, calculated and presented in accordance with GAAP. For the year ended December 31, 2003, on a pro forma basis, pipelines accounted for approximately 81.2% of our revenues and terminals accounted for approximately 18.8% of our revenues. For the three months ended March 31, 2004, on a pro forma basis, pipelines accounted for approximately 80.2% of our revenues and terminals accounted for approximately 19.8% of our revenues.

Our Relationship with Holly Corporation

The substantial majority of our business is devoted to providing transportation and terminalling services to Holly Corporation. For the year ended December 31, 2003, Holly Corporation accounted for approximately $30.2 million, or 57.3%, of our pro forma revenues. For the three months ended March 31, 2004, Holly Corporation accounted for approximately $9.2 million, or 59.6%, of our pro forma revenues. We expect to continue to derive a substantial majority of our revenues from Holly Corporation for the foreseeable future.

Holly Corporation owns and operates the Navajo Refinery, the largest refinery in New Mexico, consisting of refining facilities that are located 65 miles apart in Artesia and Lovington and operated in conjunction with each other. Having recently completed a 15,000 bpd expansion, the Navajo Refinery currently has a crude oil processing capacity of 75,000 bpd. The majority of our operations are located within Holly Corporation s New Mexico refining market area. Holly Corporation relies on us to provide almost all of the light refined product transportation and terminalling services it requires to support its New Mexico refining operations. For the year ended December 31, 2003 and the three months ended March 31, 2004, we transported and terminalled approximately 99% of the light refined products produced by the Navajo Refinery. In addition, we provide terminalling services for Holly Corporation s Woods Cross Refinery near Salt Lake City, Utah. Since June 1, 2003, the date Holly Corporation acquired the Woods Cross Refinery, through March 31, 2004, we terminalled 100% of the light refined products produced by the Woods Cross Refinery. Holly Corporation also operates a refinery in Great Falls, Montana. We have no operations relating to the Montana Refinery.

Concurrently with the closing of this offering, we will enter into a 15 year pipelines and terminals agreement with Holly Corporation. Under this agreement, Holly Corporation will pay us fees that we believe are comparable to those that would be charged by third parties. Holly Corporation will also agree to transport on our refined product pipelines and throughput in our terminals a volume of refined products that will result in minimum revenues of $35.4 million in the first year. This minimum revenue commitment will increase each year at a rate equal to the percentage change in the producer price index, but will not decrease as a result of a decrease in the producer price index. Holly Corporation s obligations under this agreement may be proportionately reduced or suspended if Holly Corporation decides to shut down or materially reconfigure one of its refineries. Holly Corporation s obligations may also be temporarily

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suspended under certain circumstances. Holly Corporation will be required to give at least twelve months advance notice of any long-term shut-down or material reconfiguration. Please read Business Our Relationship with Holly Corporation Pipelines and Terminals Agreement.

We will also enter into an omnibus agreement with Holly Corporation and its affiliates under which they will generally agree not to engage in the business of operating refined product pipelines or terminals, intermediate pipelines or terminals, crude oil pipelines or terminals, truck racks or crude oil gathering systems in the continental United States. In addition, this agreement addresses our payment of a fee to Holly Corporation for the provision of various general and administrative services, Holly Corporation s indemnification of us for certain environmental and other liabilities, and other matters. Please read Certain Relationships and Related Party Transactions Omnibus Agreement.

Holly Corporation s common stock trades on the New York Stock Exchange under the symbol HOC. For the year ended December 31, 2003 and the three months ended March 31, 2004, Holly Corporation had revenues of $1.4 billion and $463 million, respectively, and net income of $46.1 million and $14.0 million, respectively. Holly Corporation is subject to the information requirements of the Securities Exchange Act of 1934. Please read Where You Can Find More Information.

Summary of Risk Factors

An investment in our common units involves risks associated with our business, our partnership structure and the tax characteristics of our common units. Those risks are described under the caption Risk Factors beginning on page 16 and include:

Risks Inherent in Our Business

We may not have sufficient cash from operations to enable us to pay the minimum quarterly distribution following establishment of cash reserves and payment of fees and expenses, including payments to our general partner.

We depend upon Holly Corporation and particularly its Navajo Refinery for a substantial majority of our revenues and if those revenues were reduced, there would be a material adverse effect on our results of operations and our ability to make distributions to unitholders.

Competition from other pipelines that may be able to supply Holly Corporation s customers with refined products at a lower price, including the Longhorn Pipeline, which may become operational late in the summer of 2004, could cause us to reduce our rates or could reduce our revenues.

A material decrease in the supply, or a material increase in the price, of crude oil available to Holly Corporation s refineries, could materially reduce our ability to make distributions to unitholders.

We are exposed to the credit risks of our key customers, including Holly Corporation, and any material nonpayment or nonperformance by our key customers could reduce our ability to make distributions to our unitholders.

Due to our lack of asset diversification, adverse developments in our pipelines and terminals business would reduce our ability to make distributions to our unitholders.

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

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If our assumptions concerning population growth are inaccurate or if Holly Corporation s growth strategy is not successful, our ability to make or increase distributions to unitholders may be adversely affected.

Restrictions in our credit agreement may prevent us from engaging in some beneficial transactions or paying distributions.

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

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.

An adverse decision in a lawsuit pending between Holly Corporation and Frontier Oil Corporation could have a material adverse effect on Holly Corporation s financial condition and therefore on our results of operations.

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 to your detriment.

Cost reimbursements, which will be determined by our general partner, and fees due our general partner and its affiliates for services provided will be substantial and will reduce our cash available for distribution to you.

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 general partner that might otherwise constitute breaches of fiduciary duty.

Even if unitholders are dissatisfied, they cannot remove our general partner without its consent.

The control of our general partner may be transferred to a third party without unitholder consent.

You will experience immediate and substantial dilution of $17.86 per common unit.

We may issue additional common units without your approval, which would dilute your ownership interests.

In establishing cash reserves, our general partner may reduce the amount of cash available for distribution to you.

Tax Risks

Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to entity-level taxation by states. If the IRS were to treat us as a corporation or if we were to become subject to entity-level taxation for state tax purposes, then our cash available for distribution to you would be substantially reduced.

A successful IRS contest of the federal income tax positions we take may adversely impact the market for our common units, and the costs of any contest will be borne by our unitholders and our general partner.

You may be required to pay taxes on your share of our income even if you do not receive any cash distributions from us.

We will register as a tax shelter. This may increase the risk of an IRS audit of us or a unitholder.

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Business Strategies

Our primary business objective is to increase distributable cash flow per unit by executing the following strategies:

Generate stable cash flows through the use of long-term contracts, including the pipelines and terminals agreement we will enter into with Holly Corporation at the closing of this offering.

Increase our pipeline and terminal throughput by focusing on markets with increasing demand for light refined products.

Undertake economic construction and expansion opportunities in specific markets to meet rising demand for light refined products in the Southwestern United States, northern Mexico and the Rocky Mountain region of the United States.

Pursue strategic and accretive acquisitions that complement our existing asset base.

Competitive Strengths

We believe we are well-positioned to execute our business strategies successfully using the following competitive strengths:

Substantially all of our assets are located in markets with above average population growth, which we expect will result in increased demand for light refined products.

We will operate a substantial part of our business under long-term contracts which we believe will enhance the stability and predictability of our cash flows.

Our assets are modern, efficient, and well maintained.

We have a strategic relationship with Holly Corporation. Substantially all of our refined product pipelines are linked to Holly Corporation s refineries and provide Holly Corporation with the safest and most cost-effective means to distribute its light refined products.

We are contractually and strategically positioned to benefit from Holly Corporation s growth initiatives due to the strategic links between our assets and Holly Corporation s refineries.

We will have the financial flexibility to pursue expansion and acquisition opportunities due to our $100.0 million credit agreement.

We have an experienced management team.

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The Transactions

General

We have recently been formed as a Delaware limited partnership to own and operate the refined product pipelines and distribution terminals currently owned or leased by Holly Corporation and its subsidiaries. Holly Corporation and its subsidiaries have agreed to contribute certain of their assets and liabilities to us or our subsidiaries in exchange for an aggregate of 900,000 common units and 7,000,000 subordinated units representing limited partner interests in us, a 2% general partner interest in us, and all of our incentive distribution rights, which entitle the general partner to increasing percentages of the cash we distribute in excess of $0.55 per unit per quarter.

At the closing of this offering, the following transactions will occur:

- We will issue 6,100,000 common units to the public in this offering, representing a 42.7% limited partner interest in us, and will use the net proceeds to repay debt, make a cash distribution to Holly Corporation and to fund our working capital needs.

- We will borrow $25.0 million under our new $100.0 million credit agreement to fund an additional cash distribution to Holly Corporation.

- Holly Corporation will enter into the pipelines and terminals agreement with us.

- Holly Corporation will agree not to compete with us in some respects and to indemnify us for certain pre-closing liabilities pursuant to the omnibus agreement.

References in this prospectus to Holly Energy Partners, we, our, us or like terms when used in a historical context refer to the assets of Holly Corporation and its subsidiaries that are being contributed to Holly Energy Partners, L.P. and its subsidiaries in connection with the offering. When used in the present tense or prospectively, those terms refer to Holly Energy Partners, L.P.

Holding Company Structure

As is common with publicly traded limited partnerships and in order to maximize operational flexibility, we will conduct our operations through subsidiaries. We will have two direct subsidiaries initially: HEP Operating Company, L.P., a limited partnership that will conduct all of our operations through itself and its subsidiaries, and HEP Logistics GP, L.L.C., its general partner. HEP Operating Company, L.P. will own 100% of the membership interests in its subsidiaries, other than Rio Grande Pipeline Company, in which it will indirectly own a 70% interest.

Organizational Structure After the Transactions

The following diagram depicts our organizational structure after giving effect to the transactions.

Organizational Structure After the Transactions

Management of Holly Energy Partners, L.P.

Holly Logistic Services, L.L.C., as the general partner of HEP Logistics Holdings, L.P., our general partner, will manage our operations and activities. The executive officers and directors of Holly Logistic Services, L.L.C. currently serve as executive officers and directors of Holly Corporation. For more information about these individuals, please read Management Directors and Executive Officers of Holly Logistic Services, L.L.C.

Neither our general partner nor the board of directors of Holly Logistic Services, L.L.C. will be elected by our unitholders. Unlike shareholders in a publicly traded corporation, our unitholders will not be entitled to elect the directors of Holly Logistic Services, L.L.C.

Holly Corporation will receive an annual administrative fee, initially in the amount of $2.0 million, for the provision of various general and administrative services for our benefit. The administrative fee may increase in the second and third years 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. The $2.0 million fee does not include salaries of pipeline and terminal personnel or other employees of Holly Logistic Services, L.L.C. or the cost of their employee benefits, all of which are a component of our direct operating costs. We will also reimburse Holly Corporation and its affiliates for direct expenses they incur on our behalf. We also anticipate incurring approximately $1.7 million in additional general and administrative costs, including costs related to operating as a separate publicly held entity. Please read Certain Relationships and Related Party Transactions.

Our principal executive offices are located at 100 Crescent Court, Suite 1600, Dallas, Texas 75201, and our telephone number is (214) 871-3555. Our website is located at www.hollyenergy.com. We expect to make our periodic reports and other information filed with or furnished to the SEC available, free of charge, through our website, as soon as reasonably practicable after those reports and other information are electronically filed with or furnished to the SEC. Information on our website or any other website is not incorporated by reference into this prospectus and does not constitute a part of this prospectus.

Summary of Conflicts of Interest and Fiduciary Duties

HEP Logistics Holdings, L.P., our general partner, has a legal duty to manage us in a manner beneficial to our unitholders. This legal duty originates in statutes and judicial decisions and is commonly referred to as a fiduciary duty. However, because Holly Logistic Services, L.L.C., the general partner of our general partner, is indirectly wholly owned by Holly Corporation, the officers and directors of Holly Logistic Services, L.L.C. have fiduciary duties to manage the business of Holly Logistic Services, L.L.C. in a manner beneficial to Holly Corporation. As a result of this relationship, conflicts of interest may arise in the future between us and our unitholders, on the one hand, and our general partner and its affiliates, on the other hand. For a more detailed description of the conflicts of interest and fiduciary duties of our general partner, please read Conflicts of Interest and Fiduciary Duties.

Our partnership agreement limits the liability and reduces the fiduciary duties of our general partner to our unitholders. Our partnership agreement also restricts the remedies available to unitholders for actions that might otherwise constitute breaches of our general partner s fiduciary duty. By purchasing a common unit, you are treated as having consented to various actions contemplated in the partnership agreement and conflicts of interest that might otherwise be considered a breach of fiduciary or other duties under applicable state law.

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The Offering

Common units offered to the public	6,100,000 common units.
	7,000,000 common units if the underwriters exercise their over-allotment option in full.
Units outstanding after this offering	7,000,000 common units and 7,000,000 subordinated units, each representing a 49% limited partner interest in us.
Use of proceeds	We intend to use the net proceeds of this offering to:
	make a $82.2 million cash distribution to Holly Corporation and its affiliates, in part to reimburse them for certain capital expenditures;
	repay $30.1 million of debt we owe to Holly Corporation;
	provide $10.0 million in working capital;
	pay $3.0 million of expenses associated with the offering and related formation transactions; and
	pay $1.1 million of deferred debt issuance costs incurred in connection with our new credit agreement.
	At the closing of this offering, we will borrow $25.0 million under our credit agreement to fund an additional cash distribution to Holly Corporation.
	The net proceeds from any exercise of the underwriters over-allotment option will be used to redeem from Holly Corporation and its affiliates a number of common units equal to the number of common units issued upon exercise of the over-allotment option at a price per common unit equal to the proceeds per common unit before expenses but after underwriting discounts and commissions.
Cash distributions	We intend to make minimum quarterly distributions of $0.50 per unit to the extent we have sufficient cash from operations after establishment of cash reserves and payment of fees and expenses, including payments to our general partner. In general, we will pay any cash distributions we make each quarter in the following manner:
	first, 98% to the holders of common units and 2% to our general partner, until each common unit has received a minimum quarterly distribution of $0.50 plus any arrearages from prior quarters;
	second, 98% to the holders of subordinated units and 2% to our general partner, until each subordinated unit has received a minimum quarterly distribution of $0.50; and
	third, 98% to all unitholders, pro rata, and 2% to the general partner, until each unit has received a distribution of $0.55.

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	If cash distributions exceed $0.55 per unit in a quarter, our general partner will receive increasing percentages, up to 50%, of the cash we distribute in excess of that amount. We refer to these distributions as incentive distributions. Please read Cash Distribution Policy.
	We must distribute all of our cash on hand at the end of each quarter, less reserves established by our general partner in its discretion. We refer to this cash as available cash, and we define its meaning in our partnership agreement and in the glossary of terms attached as Appendix C. The amount of available cash may be greater than or less than the minimum quarterly distribution.
	We believe that, based on the assumptions listed on page 46 of this prospectus, we will have sufficient cash from operations to make the minimum quarterly distribution of $0.50 on all units for each quarter through June 30, 2005. The amount of pro forma cash available for distribution generated during 2003 would have been sufficient to allow us to pay the full minimum quarterly distribution on the common units, but would not have been sufficient to allow us to pay the full minimum quarterly distribution on the subordinated units, during this period. The amount of pro forma cash available for distribution generated during the three months ended March 31, 2004 would have been sufficient to allow us to pay the full minimum quarterly distribution on all of the units during this period. Please read Cash Available for Distribution.
Subordination Period	During the subordination period, the subordinated units will not be entitled to receive any distributions until the common units have received the minimum quarterly distribution plus any arrearages from prior quarters. The subordination period will end once we meet the financial tests in the partnership agreement, but it generally cannot end before June 30, 2009. When the subordination period ends, all subordinated units will convert into common units on a one-for-one basis, and the common units will no longer be entitled to arrearages.
Issuance of additional units	In general, during the subordination period we can issue up to 3,500,000 additional common units, or 50% of the common units outstanding immediately after this offering, without obtaining unitholder approval. We can also issue an unlimited number of common units in connection with acquisitions and capital improvements that increase cash flow from operations per unit on an estimated pro forma basis. We can also issue additional common units if the proceeds are used to repay certain of our indebtedness. Please read Units Eligible for Future Sale and The Partnership Agreement Issuance of Additional Securities.

Limited voting rights	Our general partner will manage and operate us. Unlike the holders of common stock in a corporation, you will have only limited voting rights on matters affecting our business. You will have no right to elect our general partner or the directors of its general partner on an annual or other continuing basis. Our general partner may not be removed except by a vote of the holders of at least 66 2/3% of the outstanding units, including any units owned by our general partner and its affiliates, voting together as a single class. Upon consummation of this offering, our general partner and its affiliates will own an aggregate of 56.4% of our common and subordinated units. This will give our general partner the practical ability to prevent its involuntary removal. Please read The Partnership Agreement Voting Rights.
Limited call right	If at any time our general partner and its affiliates own more than 80% of the outstanding common units, our general partner has the right, but not the obligation, to purchase all of the remaining common units at a price not less than the then-current market price of the common units.
Estimated ratio of taxable income to distributions	We estimate that if you own the common units you purchase in this offering through the record date for distributions for the period ending December 31, 2007, you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be 20% or less of the cash distributed to you with respect to that period. For example, if you receive an annual distribution of $2.00 per unit, we estimate that your allocable federal income tax per year will be no more than $0.40 per unit. Please read Material Tax Consequences Tax Consequences of Unit Ownership Ratio of Taxable Income to Distributions for the basis of this estimate.
Exchange listing	The common units have been approved for listing on the New York Stock Exchange, subject to official notice of issuance, under the symbol HEP.

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Summary Historical and Operating Data
and Pro Forma Financial Data

The following table sets forth summary historical financial and operating data of Navajo Pipeline Co., L.P. (Predecessor), the predecessor to Holly Energy Partners, L.P., and pro forma financial data of Holly Energy Partners, L.P., in each case for the periods and as of the dates indicated.

Historical Results. The summary historical financial data for our predecessor for 2001, 2002 and 2003 are derived from the audited consolidated combined financial statements of Navajo Pipeline Co., L.P. (Predecessor) that are included in this prospectus. The summary historical financial data for our predecessor for the three months ended March 31, 2003 and 2004 are derived from the unaudited consolidated combined financial statements of Navajo Pipeline Co., L.P. (Predecessor) that are included in this prospectus. In reviewing this data, you should be aware of the following:

Until January 1, 2004, our historical revenues included only actual amounts received from:

- third parties who utilized our pipelines and terminals;
- Holly Corporation for use of our FERC-regulated refined product pipeline; and
- Holly Corporation for use of the Lovington crude oil pipelines, which are not being contributed to our partnership.

Until January 1, 2004, we did not record revenue for:

- transporting products for Holly Corporation on our intrastate refined product pipelines;
- providing terminalling services to Holly Corporation; and
- transporting crude oil and feedstocks on two intermediate product pipelines that connect Holly Corporation s Artesia and Lovington facilities, which are not being contributed to our partnership.

In addition, our historical results of operations reflect the impact of the following acquisitions completed in June 2003:

- the purchase of an additional 45% interest in the Rio Grande Pipeline Company on June 30, 2003, bringing our total ownership to 70%, which resulted in our consolidating the Rio Grande Pipeline Company from the date of this acquisition rather than accounting for it on the equity method; and
- the purchase of terminals in Spokane, Washington, and Boise and Burley, Idaho, as well as the Woods Cross truck rack, all of which are related to the Woods Cross refinery.

Furthermore, the historical financial data do not reflect any general and administrative expenses as Holly Corporation has not historically allocated any of its general and administrative expenses to its pipelines and terminals. Our historical results of operations include costs associated with crude oil and intermediate product pipelines that are not being contributed to our partnership.

Pro Forma Results. The summary pro forma financial data presented below as of March 31, 2004 and for the year ended December 31, 2003 and the three months ended March 31, 2004 are derived from the pro forma financial statements that are included in this prospectus. The pro forma financial data give pro forma effect to:

- the transfer of certain of our predecessor s operations to Holly Energy Partners, L.P.;
- the consolidation of the Rio Grande Pipeline Company as if the additional 45% interest had been acquired as of January 1, 2003;

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the execution of the pipelines and terminals agreement; and

the related transactions in connection with the closing of this offering.

The pro forma balance sheet assumes that the offering and the related transactions occurred as of March 31, 2004 and the pro forma statements of income assume that the offering and the related transactions occurred as of January 1, 2003.

The pro forma financial data for the year ended December 31, 2003 reflect the revenues that would have been recorded in 2003, using historical volumes, if the initial tariff rates and terminalling fees in the pipelines and terminals agreement had been in effect for the entire year. Because we began charging Holly Corporation fees at the rates set forth in the pipelines and terminals agreement for the use of all of our pipelines and terminals commencing January 1, 2004, the pro forma financial data for the three months ended March 31, 2004 reflect actual revenues received from Holly Corporation. We believe that our pipeline tariffs and terminalling fees are comparable to those that would be charged by third parties in the specific marketing locations. Please read Management s Discussion and Analysis of Financial Condition and Results of Operations Impact of Pipelines and Terminals Agreement.

The pro forma financial data do not reflect either the $2.0 million administrative fee that Holly Corporation will charge us under the omnibus agreement or the estimated $1.7 million in additional general and administrative expenses we expect to incur as a result of being a separate public entity.

Non-GAAP and Other Financial Information. The following table presents a non-GAAP financial measure: earnings before interest, taxes, depreciation and amortization, or EBITDA, which we use in our business. We explain this measure below and reconcile it to net income and cash flow from operating activities, our most directly comparable financial measures calculated and presented in accordance with GAAP.

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

Use of the term throughput in this prospectus generally refers to the refined product barrels that pass through each pipeline or terminal facility, even if those barrels are transported or pass through another of our pipeline or terminal facilities, for which we receive either pipeline tariff or terminal service fee revenue.

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The following table should be read together with, and is qualified in its entirety by reference to, the historical and unaudited pro forma financial statements and the accompanying notes included elsewhere in this prospectus. The table should also be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Navajo Pipeline Co., L.P. (Predecessor)					Holly Energy Partners, L.P. Pro Forma	
	Years Ended December 31,			Three Months Ended March 31,		Year Ended December 31,	Three Months Ended March 31,
	2001	2002	2003	2003	2004	2003	2004
	(In thousands, except per unit data)						
STATEMENT OF INCOME DATA:							
Revenue	$ 20,647	$ 23,581	$ 30,800	$ 5,662	$ 18,771	$ 52,707	$ 15,432
Operating costs and expenses							
Operations	17,388	19,442	24,193	5,166	6,452	21,550	5,228
Selling, general and administrative							
Depreciation and amortization	3,740	4,475	6,453	1,179	2,046	6,928	1,834
Total operating costs and expenses	21,128	23,917	30,646	6,345	8,498	28,478	7,062
Operating income (loss)	(481)	(336)	154	(683)	10,273	24,229	8,370
Interest expense						(1,750)	(437)
Equity income from Rio Grande Pipeline Company	2,284	2,737	894	285			
Interest and other income	620	269	291	37	35	308	35
	2,904	3,006	1,185	322	35	(1,442)	(402)
Income before minority interest	2,423	2,670	1,339	(361)	10,308	22,787	7,968
Minority interest in Rio Grande Pipeline Company			(758)		(688)	(1,405)	(688)
Net income	$ 2,423	$ 2,670	$ 581	$ (361)	$ 9,620	$ 21,382	$ 7,280
Pro forma net income per limited partner unit						$ 1.50	$ 0.51
OTHER FINANCIAL DATA:							
EBITDA	$ 5,543	$ 6,876	$ 6,743	$ 781	$ 11,631	$ 29,752	$ 9,516
Cash flows from operating activities	$ 10,273	$ 4,271	$ 5,909	$ 187	$ 283		
Cash flows from investment activities	$ (10,273)	$ (4,271)	$ (29,297)	$ (187)	$ (2,599)		
	$	$	$ 30,082	$	$		

Cash flows from financing activities						
Maintenance capital expenditures	$ 760	$ 1,178	$ 1,934	$ 187	$ 558	
Expansion capital expenditures	10,756	5,581	4,837		991	
Total capital expenditures	$ 11,516	$ 6,759	$ 6,771	$ 187	$ 1,549	
OPERATING DATA (bbls):						
Refined product pipeline throughput	21,992	25,127	23,978	5,904	7,095	
Refined product terminal throughput	30,302	34,435	40,147	7,791	12,866	
BALANCE SHEET DATA: (at period end)						
Net property, plant and equipment	$ 57,801	$60,073	$ 95,826	$58,930	$ 95,890	$ 81,927
Total assets	84,282	88,338	140,425	89,296	147,588	131,386
Total liabilities	18,674	20,059	57,889	21,377	54,994	48,334
Net partners investment	65,609	68,279	68,860	67,920	78,480	68,938

Non-GAAP Financial Measure

EBITDA is used as a supplemental financial measure by management and by external users of our financial statements, such as investors and commercial banks, to assess:

- the financial performance of our assets without regard to financing methods, capital structure or historical cost basis;
- the ability of our assets to generate cash sufficient to pay interest on our indebtedness and to make distributions to our partners;
- our operating performance and return on invested capital as compared to those of other companies in the logistics business, without regard to financing methods and capital structure; and
- our compliance with certain financial covenants included in our debt agreements.

EBITDA should not be considered an alternative to net income, operating income, cash flow from operating activities or any other measure of financial performance or liquidity presented in accordance with GAAP. EBITDA excludes some, but not all, items that affect net income and operating income, and these measures may vary among other companies. Therefore, EBITDA as presented below may not be comparable to similarly titled measures of other companies.

The following table presents a reconciliation of EBITDA to the most directly comparable GAAP financial measures, on a historical basis and pro forma basis, as applicable, for each of the years indicated.

	Navajo Pipeline Co., L.P. (Predecessor)					Holly Energy Partners, L.P. Pro Forma	
	Years Ended December 31,			Three Months Ended March 31,		Year Ended December 31,	Three Months Ended March 31,
	2001	2002	2003	2003	2004	2003	2004
	(In thousands)						
Reconciliation of EBITDA to net income:							
Net income	$ 2,423	$2,670	$ 581	$ (361)	$ 9,620	$21,382	$7,280
Add							
Depreciation and amortization	3,740	4,475	6,453	1,179	2,046	6,928	1,834
Interest expense						1,750	437
	6,163	7,145	7,034	818	11,666	30,060	9,551
Less							
Interest income	620	269	291	37	35	308	35
EBITDA	$ 5,543	$6,876	$6,743	$ 781	$11,631	$29,752	$9,516
Reconciliation of EBITDA to cash flows from operating activities:							
Cash flow from operating activities	$10,273	$4,271	$5,909	$ 187	$ 283		
Add							
Interest income	(620)	(269)	(291)	(37)	(35)		
Equity in earnings of Rio Grande Pipeline Company	2,284	2,737	894	285			

Minority interest			(758)		(688)
Increase (decrease) in working capital	(6,394)	137	989	346	12,071
EBITDA	$ 5,543	$6,876	$6,743	$ 781	$11,631

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RISK FACTORS

Limited partner interests are inherently different from the capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. You should carefully consider the following risk factors together with all of the other information included in this prospectus in evaluating an investment in our common units.

If any of the following risks were actually to occur, our business, financial condition, or results of operations could be materially adversely affected. In that case, we might not be able to pay distributions on our common units, the trading price of our common units could decline, and you could lose all or part of your investment.

Risks Inherent in Our Business

We may not have sufficient cash from operations to enable us to pay the minimum quarterly distribution following establishment of cash reserves and payment of fees and expenses, including payments to our general partner.

We may not have sufficient available cash each quarter to pay the minimum quarterly distribution. The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from our operations, which will fluctuate from quarter to quarter based on, among other things:

- the volume of refined products transported in our pipelines or handled at our terminals;
- the tariff rates and terminalling fees we charge;
- the level of our operating costs, including payments to our general partner; and
- prevailing economic conditions.

In addition, the actual amount of cash we will have available for distribution will depend on other factors such as:

- the level of capital expenditures we make;
- the restrictions contained in our credit agreement;
- our debt service requirements;
- the cost of acquisitions, if any;
- fluctuations in our working capital needs;
- our ability to borrow under our credit agreement to make distributions to our unitholders; and
- the amount, if any, of cash reserves established by our general partner in its discretion.

The amount of cash we have available for distribution to unitholders depends primarily on our cash flow and not solely on profitability.

You should be aware that the amount of cash we have available for distribution depends primarily on our cash flow, including cash flow from financial reserves and working capital borrowings, and not solely on profitability, which will be affected by non-cash items. As a result, we may make cash distributions during periods when we record losses and may not make cash distributions during periods when we record net income.

The amount of available cash we need to pay the minimum quarterly distribution for four quarters on the common units, the subordinated units and the general partner interest to be outstanding immediately after this offering is approximately $28.6 million. Estimated available

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cash from operating surplus generated during 2003 would have been sufficient to allow us to pay the full minimum quarterly distribution on the common units, but insufficient by $5.9 million to pay the full minimum quarterly distribution on the subordinated units during this period. For a calculation of our ability to make distributions to unitholders based on our pro forma results in 2003 and the three months ended March 31, 2004, please read Cash Available for Distribution and Appendix D.

We depend upon Holly Corporation and particularly its Navajo Refinery for a substantial majority of our revenues and if those revenues were reduced, there would be a material adverse effect on our results of operations and ability to make distributions to unitholders.

For the year ended December 31, 2003, Holly Corporation accounted for approximately 53.6% of the pro forma revenues of our pipelines and approximately 73.0% of the pro forma revenues of our terminals. We expect to continue to derive a substantial majority of our revenues from Holly Corporation for the foreseeable future. If Holly Corporation satisfies only its minimum obligations under the pipelines and terminals agreement or is unable to meet its minimum revenue commitment for any reason, including due to prolonged downtime or a shutdown at the Navajo Refinery or the Woods Cross Refinery, our revenues would decline and our ability to make distributions to unitholders would be adversely affected. Please read Certain Relationships and Related Party Transactions Pipelines and Terminals Agreement for more information regarding our relationship with Holly Corporation.

Any significant curtailing of production at the Navajo 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. For the year ended December 31, 2003 and the three months ended March 31, 2004, production from the Navajo Refinery accounted for approximately 78.3% and 83.8%, respectively, of the throughput volumes transported by our pipelines that serve the Navajo Refinery. Operations at the Navajo 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 Holly Corporation s end-user markets 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 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;
- an inability to obtain crude oil for the refinery at competitive prices;
- 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, diesel fuel and travel;
  - higher gasoline prices due to higher crude oil prices, higher taxes or stricter environmental regulations; or
  - 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 mandating higher fuel economy 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 Holly Corporation may take in response to a shutdown.

We have no control over the operation of Holly Corporation s Navajo Refinery.

Holly Corporation will make all decisions at the Navajo Refinery 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 is under no contractual obligation to us to maintain operations at the Navajo Refinery.

Furthermore, Holly Corporation s obligations under the pipelines and terminals agreement would be temporarily suspended during the occurrence of an event outside the control of the parties 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 pipelines and terminals agreement. The occurrence of any of these events could reduce our revenues and cash flows, and our ability to make distributions to our unitholders.

Competition from other pipelines that may be able to supply Holly Corporation s customers with refined products at a lower price, including the Longhorn Pipeline, which may become operational late in the summer of 2004, could cause us to reduce our rates or could reduce our revenues.

We and Holly Corporation face competition from other pipelines that may be able to supply Holly Corporation s end-user markets with refined products on a more competitive basis. One particular pipeline project, the Longhorn Pipeline, could provide significant competition. The Longhorn Pipeline is a common carrier pipeline that will be 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. In April 2004, Longhorn officials stated they had received the additional financing needed to finalize the project. Recent reports suggest that Longhorn officials expect startup to occur late in the summer of 2004. 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 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, which could ultimately result in a reduction in Holly Corporation s minimum revenue commitment to us. Holly Corporation s results of operations could be adversely impacted if the Longhorn Pipeline were allowed to operate as currently proposed. It is not possible to predict whether and, if so, under what conditions, the Longhorn Pipeline will ultimately be operated, nor is it possible to predict the consequences for Holly Corporation and Holly Energy Partners of Longhorn Pipeline s operations if they occur. Please read Business Competition El Paso Market Longhorn Pipeline.

An additional factor that could affect some of Holly Corporation s markets is excess pipeline capacity from the West Coast into Holly Corporation s Arizona markets after the elimination of bottlenecks in 2000 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 Holly Corporation s Arizona markets with resulting possible downward pressure on refined products prices in these markets. Please read Business Competition Arizona and Albuquerque Markets.

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A material decrease in the supply, or a material increase in the price, of crude oil available to Holly Corporation s refineries, could materially reduce our ability to make distributions to unitholders.

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 refineries, which, in turn, depends on the availability of attractively-priced crude oil produced in the areas accessible to Holly Corporation s refineries. In order to maintain or increase production levels at its refineries, Holly Corporation must continually contract for new crude oil supplies. A material decrease in crude oil production from the fields that supply Holly Corporation s 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 it refines. 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, Holly Corporation s future growth will depend in part upon whether it can contract for additional supplies of crude oil at a greater rate than the rate of natural decline in its currently connected supplies. Please read Business Holly Corporation s Refining Operations for more information regarding the sources of crude oil that supply Holly Corporation s refineries.

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 Holly Corporation 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 Holly Corporation s refineries without an increase in the value of the products produced by the refineries, either temporary or permanent, which caused Holly Corporation to reduce production of refined products at its refineries, this would cause a reduction in the volumes of refined products we transport and our cash flow.

We are exposed to the credit risks of our key customers, including Holly Corporation, and any material nonpayment or nonperformance by our key customers could reduce our ability to make distributions to our unitholders.

We are subject to risks of loss resulting from nonpayment or nonperformance by our customers. Any material nonpayment or nonperformance by our key customers, including Holly Corporation, could reduce our ability to make distributions to our unitholders. In addition to revenues received from Holly Corporation under our pipelines and terminals agreement, we derived approximately 12.0% of our pro forma revenues in 2003 from a contract with Alon USA, LP, which leases 20,000 bpd of capacity on our Artesia-Orla-El Paso pipeline. In addition, 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 25.6% of our pro forma revenues in 2003.

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, could reduce our ability to make distributions to our unitholders.

We may not be able to retain existing customers or acquire new customers, which would reduce our revenues and limit our future profitability.

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 USA s obligations to lease capacity on the Artesia-Orla-El Paso pipeline have remaining terms ranging from four to seven 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 to our unitholders could be adversely affected.

Due to our lack of asset diversification, adverse developments in our pipelines and terminals business would reduce our ability to make distributions to our unitholders.

We rely exclusively on the revenues generated from our pipelines and terminals business. Due to our lack of asset diversification, an adverse development in this business would have a significantly greater impact on our financial condition and results of operations than if we maintained more diverse assets.

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 result in 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 have also been operated by third parties whose handling, disposal, or release of hydrocarbons and other wastes were not under our control. Please read Business Environmental Regulation and Environmental Remediation for more information.

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.

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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, which would reduce our ability to make distributions to our unitholders.

Holly Corporation 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 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 cash flow.

If we do not make acquisitions on economically acceptable terms, any future growth will be limited.

Our ability to grow and to increase distributions to unitholders is principally dependent on our ability to make acquisitions that result in an increase in adjusted operating surplus per unit. If we are unable to make such accretive acquisitions either because we are unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts with them or because we are unable to raise financing for such acquisitions on economically acceptable terms or because we are outbid by competitors, our future growth and ability to raise distributions will be limited. Furthermore, even if we do consummate acquisitions that we believe will be accretive, they may in fact turn out to result in a decrease in adjusted operating surplus per unit. Any acquisition involves potential risks, including, among other things:

- mistaken assumptions about revenues and costs, including synergies;
- the assumption of unknown liabilities;
- 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.

If our assumptions concerning population growth are inaccurate or if Holly Corporation s growth strategy is not successful, our ability to make or increase distributions to unitholders 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.

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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. We have no material commitments for new construction or expansion projects as of the date of this prospectus. 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.

Restrictions in our credit agreement may prevent us from engaging in some beneficial transactions or paying distributions.

Various limitations in our credit agreement may reduce our ability to incur additional debt, engage in some transactions, and capitalize on acquisition or other business opportunities. Our revolving credit agreement will contain provisions relating to changes in ownership. If these provisions are triggered, the outstanding debt may become due. If that happens, we may not be able to pay the debt. In addition, we will be prohibited by our credit agreement from making cash distributions during an event of default, or if the payment of a distribution would cause an event of default, under any of our debt agreements. Further, termination of our pipelines and terminals agreement or omnibus agreement prior to its expiration will constitute an event of default under our credit facility. Borrowings under our bank credit facility that are used to pay distributions to unitholders may not exceed $5,000,000 at any one time. Please read Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Credit Agreement.

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.

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

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. A complainant might assert that the creation of the partnership itself constitutes such a change, an argument that has not previously been specifically addressed by the FERC. 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 and would reduce our ability to make distributions to our unitholders. Please read Business Rate Regulation for more information on our tariff rates.

Holly Corporation has agreed not to challenge, or to cause others to challenge or assist others in challenging, our tariff rates in effect during the term of the pipelines and terminals agreement. This agreement does not prevent other current or future shippers from challenging our tariff rates. At the end of the term of the agreement, Holly Corporation will be free to challenge, or to cause other parties to challenge or assist others in challenging, our tariff rates in effect at that time. If any party successfully challenges our tariff rates, the effect would be to reduce our ability to make distributions to our unitholders.

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 adversely affect our ability to make cash distributions to our unitholders.

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.

An adverse decision in a lawsuit pending between Holly Corporation and Frontier Oil Corporation could have a material adverse effect on Holly Corporation s financial condition and therefore on our results of operations.

On August 20, 2003, Frontier Oil Corporation filed a lawsuit in the Delaware Court of Chancery seeking declaratory relief and unspecified damages based on allegations that Holly Corporation repudiated its obligations and breached an implied covenant of good faith and fair dealing under a merger agreement announced in late March 2003 under which Frontier and Holly Corporation were to be combined. On September 2, 2003, Holly Corporation filed its answer and counterclaims seeking declaratory judgments that Holly Corporation had not repudiated the merger agreement, that Frontier had repudiated the merger agreement, that Frontier had breached certain representations made by Frontier in the merger agreement, that Holly Corporation s obligations under the merger agreement were and are excused and that Holly Corporation may terminate the merger agreement without liability, and seeking unspecified damages as well as costs and attorneys fees. The trial with respect to Frontier s complaint and the Holly Corporation answer and counterclaims began in the Delaware Court of Chancery on February 23, 2004 and was completed on March 5, 2004. In this litigation, the maximum amount of damages currently asserted by Frontier against Holly Corporation is approximately $161 million plus interest and the maximum amount of damages currently asserted by Holly Corporation against Frontier is approximately $148 million plus interest. Post-trial briefing was completed in late April 2004 and on May 4, 2004 the court heard oral argument. We expect a decision to be announced by the court within several months. While we cannot predict the outcome of this litigation, an adverse decision to Holly Corporation could have a material adverse effect on Holly Corporation s business, financial condition, liquidity, competitive position or prospects. Because we depend upon Holly Corporation for a substantial majority of our revenues, if an adverse decision to Holly Corporation reduced the volumes it transports on our pipelines or its ability to make payments to us under the pipelines and terminals agreement, our results of operations, financial condition and business could be materially adversely affected.

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 to your detriment.

Following the offering, Holly Corporation will indirectly own the 2% general partner interest and a 55.3% limited partner interest in us and will own and control our general partner. Conflicts of interest may arise between Holly Corporation and its affiliates, including our general partner, on the one hand, and us and our unitholders, 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 the interests of our unitholders. 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;

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- our general partner has limited its liability and reduced its fiduciary duties, and has also restricted the remedies available to our unitholders for actions that, without the limitations, might constitute breaches of fiduciary duty;
- our general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuance of additional partnership securities, and reserves, each of which can affect the amount of cash that is distributed to our unitholders;
- our general partner determines which costs incurred by Holly Corporation and its affiliates are reimbursable by us;
- 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 controls the enforcement of obligations owed to us by our general partner and its affiliates, including the pipelines and terminals agreement with Holly Corporation; and
- our general partner decides whether to retain separate counsel, accountants, or others to perform services for us.

Please read Certain Relationships and Related Party Transactions Omnibus Agreement and Conflicts of Interest and Fiduciary Duties.

Cost reimbursements, which will be determined by our general partner, and fees due our general partner and its affiliates for services provided will be substantial and will reduce our cash available for distribution to you.

Payments to our general partner will be substantial and will reduce the amount of available cash for distribution to unitholders. For three years following this offering, we will 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 in the second and third years 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, the general partner and its affiliates will be 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. Our general partner will determine the amount of these expenses. Our general partner and its affiliates also may provide us other services for which we will be charged fees as determined by our general partner. Please read Conflicts of Interest and Fiduciary Duties Conflicts of Interest.

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 general partner that might otherwise constitute breaches of fiduciary duty.

Our partnership agreement contains provisions that reduce the standards to which our general partner would otherwise be held by state fiduciary duty law. For example, our partnership agreement:

- permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner. This entitles our general partner to consider only the interests and factors that it desires, and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner;

provides that our general partner is entitled to make other decisions in good faith if it reasonably believes that the decision is in our best interests;

generally provides that affiliated transactions and resolutions of conflicts of interest not approved by the conflicts committee of the board of directors of our general partner s general partner and not involving a vote of unitholders must be on terms no less favorable to us than those generally being provided to or available from unrelated third parties or be fair and reasonable to us and that, in determining whether a transaction or resolution is fair and reasonable, our general partner may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us; and

provides that our general partner, its general partner and its officers and directors will not be liable for monetary damages to us, our limited partners or assignees for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that the general partner or those other persons acted in bad faith or engaged in fraud, willful misconduct or gross negligence.

In order to become a limited partner of our partnership, a common unitholder is required to agree to be bound by the provisions in the partnership agreement, including the provisions discussed above. Please read Conflicts of Interest and Fiduciary Duties Fiduciary Duties .

Even if unitholders are dissatisfied, they cannot remove our general partner without its consent.

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business and, therefore, limited ability to influence management s decisions regarding our business. Unitholders did not elect our general partner or the board of directors of our general partner s general partner and will have no right to elect our general partner or the board of directors of our general partner s general partner on an annual or other continuing basis. The board of directors of our general partner s general partner is chosen by the members of our general partner s general partner. Furthermore, if the unitholders are dissatisfied with the performance of our general partner, they will have little ability to remove our general partner. As a result of these limitations, the price at which the common units will trade could be diminished because of the absence or reduction of a takeover premium in the trading price.

The unitholders will be unable initially to remove the general partner without its consent because the general partner and its affiliates will own sufficient units upon completion of the offering to be able to prevent its removal. The vote of the holders of at least 66 2/3% of all outstanding units voting together as a single class is required to remove the general partner. Following the closing of this offering, the general partner and its affiliates will own 56.4% of the units. Also, if the general partner is removed without cause during the subordination period and units held by the general partner and its affiliates are not voted in favor of that removal, all remaining subordinated units will automatically convert into common units and any existing arrearages on the common units will be extinguished. A removal of the general partner under these circumstances would adversely affect the common units by prematurely eliminating their distribution and liquidation preference over the subordinated units, which would otherwise have continued until we had met certain distribution and performance tests. Cause is narrowly defined to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding the general partner liable for actual fraud, gross negligence, or willful or wanton misconduct in its capacity as our general partner. Cause does not include most cases of charges of poor management of the business, so the removal of the general partner because of the unitholders dissatisfaction with the general partner s performance in managing our partnership will most likely result in the termination of the subordination period.

Furthermore, unitholders voting rights are further restricted by the partnership agreement provision providing that any units held by a person that owns 20% or more of any class of units

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then outstanding, other than the general partner, its affiliates, their transferees, and persons who acquired such units with the prior approval of the board of directors of the general partner s general partner, cannot vote on any matter. Our partnership agreement also contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders ability to influence the manner or direction of management.

The control of our general partner may be transferred to a third party without unitholder consent.

Our general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. Furthermore, our partnership agreement does not restrict the ability of the partners of our general partner from transferring their respective partnership interests in our general partner to a third party. The new partners of our general partner would then be in a position to replace the board of directors and officers of the general partner of our general partner with their own choices and to control the decisions taken by the board of directors and officers.

You will experience immediate and substantial dilution of $17.86 per common unit.

The initial public offering price of $22.25 per unit exceeds pro forma net tangible book value of $4.39 per unit. Based on the initial public offering price of $22.25 per unit, you will incur immediate and substantial dilution of $17.86 per common unit. This dilution results primarily because the assets contributed by our general partner and its affiliates are recorded at their historical cost, and not their fair value, in accordance with generally accepted accounting principles. Please read Dilution.

We may issue additional common units without your approval, which would dilute your ownership interests.

During the subordination period, our general partner, without the approval of our unitholders, may cause us to issue up to 3,500,000 additional common units. Our general partner may also cause us to issue an unlimited number of additional common units or other equity securities of equal rank with the common units, without unitholder approval, in a number of circumstances such as:

- the issuance of common units upon the exercise of the underwriters over-allotment option;
- the issuance of common units in connection with acquisitions or capital improvements that increase cash flow from operations per unit on an estimated pro forma basis;
- issuances of common units to repay indebtedness, the cost of which to service is greater than the distribution obligations associated with the units issued in connection with the repayment of the indebtedness;
- the conversion of subordinated units into common units;
- the conversion of units of equal rank with the common units into common units under some circumstances;
- in the event of a combination or subdivision of common units;
- issuances of common units under our employee benefit plans; or
- the conversion of the general partner interest and the incentive distribution rights into common units as a result of the withdrawal or removal of our general partner.

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The issuance by us of additional common units or other equity securities of equal or senior rank will have the following effects:

- our unitholders proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on each unit may decrease;
- because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by our common unitholders will increase;
- the relative voting strength of each previously outstanding unit may be diminished; and
- the market price of the common units may decline.

After the end of the subordination period, we may issue an unlimited number of limited partner interests of any type without the approval of our unitholders. Our partnership agreement does not give our unitholders the right to approve our issuance of equity securities ranking junior to the common units at any time.

In establishing cash reserves, our general partner may reduce the amount of cash available for distribution to you.

Our partnership agreement requires our general partner to deduct from operating surplus cash reserves that it establishes are necessary to fund our future operating expenditures. In addition, our partnership agreement permits our general partner to reduce available cash by establishing cash reserves for the proper conduct of our business, to comply with applicable law or agreements to which we are a party, or to provide funds for future distributions to partners. These cash reserves will affect the amount of cash available for distribution to you.

Holly Corporation and its affiliates may engage in limited competition with us.

Holly Corporation and its affiliates may engage in limited competition with us. Pursuant to the omnibus agreement, Holly Corporation and its affiliates will agree not to engage in the business of operating intermediate or refined product pipelines or terminals, crude oil pipelines or terminals, truck racks or crude oil gathering systems in the continental United States. The omnibus agreement, however, does not apply to:

- any business operated by Holly Corporation or any of its subsidiaries at the closing of this offering;
- any crude oil pipeline or gathering system acquired or constructed by Holly Corporation or any of its subsidiaries after the closing of the offering that is physically interconnected to Holly Corporation s refining facilities;
- any business or asset that Holly Corporation or any of it subsidiaries acquires or constructs that has a fair market value or construction cost of less than $5.0 million; and
- any business or asset that Holly Corporation or any of its subsidiaries acquires or constructs that has a fair market value or construction cost of $5.0 million or more if we have been offered the opportunity to purchase the business or asset at fair market value, and we decline to do so with the concurrence of our conflicts committee.

In the event that Holly Corporation or its affiliates no longer control our partnership or there is a change of control of Holly Corporation, the non-competition provisions of the omnibus agreement will terminate.

Our general partner may cause us to borrow funds in order to make cash distributions, even where the purpose or effect of the borrowing benefits our general partner or its affiliates.

In some instances, our general partner may cause us to borrow funds from affiliates of Holly Corporation or from third parties in order to permit the payment of cash distributions.

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These borrowings are permitted even if the purpose and effect of the borrowing is to enable us to make a distribution on the subordinated units, to make incentive distributions, or to hasten the expiration of the subordination period.

Our general partner has a limited call right that may require you to sell your common units at an undesirable time or price.

If at any time our general partner and its affiliates own more than 80% of the common units, our general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than their then-current market price. As a result, you may be required to sell your common units at an undesirable time or price and may not receive any return on your investment. You may also incur a tax liability upon a sale of your units. At the completion of this offering and assuming no exercise of the over-allotment option, our general partner and its affiliates will own approximately 12.9% of the common units. At the end of the subordination period, assuming no additional issuances of common units, our general partner and its affiliates will own approximately 56.4% of the common units. For additional information about this call right, please read The Partnership Agreement Limited Call Right.

Your liability may not be limited if a court finds that unitholder action constitutes control of our business.

A general partner of a partnership generally has unlimited liability for the obligations of the partnership, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner. Our partnership is organized under Delaware law and we conduct business in a number of other states. The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some of the other states in which we do business. You could be liable for our obligations as if you were a general partner if:

- a court or government agency determined that we were conducting business in a state but had not complied with that particular state s partnership statute; or

- your right to act with other unitholders to remove or replace the general partner, to approve some amendments to our partnership agreement or to take other actions under our partnership agreement constitute control of our business.

Please read The Partnership Agreement Limited Liability for a discussion of the implications of the limitations of liability on a unitholder.

Unitholders may have liability to repay distributions.

Under certain circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under Section 17-607 of the Delaware Revised Uniform Limited Partnership Act, we may not make a distribution to you if the distribution would cause our liabilities to exceed the fair value of our assets. Delaware law provides that for a period of three years from the date of the impermissible distribution, limited partners who received the distribution and who knew at the time of the distribution that it violated Delaware law will be liable to the limited partnership for the distribution amount. Assignees who become substituted limited partners are liable for the obligations of the assignor to make contributions to the partnership that are known to the assignee at the time it became a limited partner and for unknown obligations if the liabilities could be determined from the partnership agreement. Liabilities to partners on account of their partnership interest and liabilities that are non-recourse to the partnership are not counted for purposes of determining whether a distribution is permitted.

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Tax Risks

You should read Material Tax Consequences for a more complete discussion of the expected material federal income tax consequences of owning and disposing of common units.

Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to entity-level taxation by states. If the IRS were to treat us as a corporation or if we were to become subject to entity-level taxation for state tax purposes, then our cash available for distribution to you would be substantially reduced.

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

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

Current law may change, causing us to be treated as a corporation for federal income tax purposes or otherwise subjecting us to entity-level taxation. For example, because of widespread state budget deficits, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise or other forms of taxation. If any state were to impose a tax upon us as an entity, the cash available for distribution to you would be reduced. The partnership agreement provides that if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state or local income tax purposes, then the minimum quarterly distribution amount and the target distribution amounts will be adjusted to reflect the impact of that law on us.

A successful IRS contest of the federal income tax positions we take may adversely impact the market for our common units, and the costs of any contest will be borne by our unitholders and our general partner.

We have not requested any ruling from the IRS with respect to our treatment as a partnership for federal income tax purposes or any other matter affecting us. The IRS may adopt positions that differ from our counsel s conclusions expressed in this prospectus. It may be necessary to resort to administrative or court proceedings to sustain some or all of our counsel s conclusions or the positions we take. A court may not agree with some or all of our counsel s conclusions or the positions we take. Any contest with the IRS may materially and adversely impact the market for our common units and the price at which they trade. In addition, the costs of any contest with the IRS will result in a reduction in cash available for distribution to our unitholders and our general partner and thus will be borne indirectly by our unitholders and our general partner.

You may be required to pay taxes on your share of our income even if you do not receive any cash distributions from us.

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

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

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

Tax-exempt entities, regulated investment companies and foreign persons face unique tax issues from owning common units that may result in adverse tax consequences to them.

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

We will register as a tax shelter. This may increase the risk of an IRS audit of us or a unitholder.

We intend to register as a tax shelter with the U.S. Secretary of the Treasury. We will advise you of our tax shelter registration number once that number has been assigned. The IRS requires that some types of entities, including some partnerships, register as tax shelters in response to the perception that they claim tax benefits that the IRS may believe to be unwarranted. As a result, we may be audited by the IRS and tax adjustments could be made. Any unitholder owning less than a 1% profits interest in us has very limited rights to participate in the income tax audit process. Further, any adjustments in our tax returns will lead to adjustments in your tax returns and may lead to audits of your tax returns and adjustments of items unrelated to us. You will bear the cost of any expense incurred in connection with an examination of your personal tax return.

Recently issued Treasury Regulations require taxpayers to report certain information on Internal Revenue Service Form 8886 if they participate in a reportable transaction. You may be required to file this form with the IRS if we participate in a reportable transaction. A transaction may be a reportable transaction based upon any of several factors. You are urged to consult with your own tax advisor concerning the application of any of these factors to your investment in our common units. Congress is considering legislative proposals that, if enacted, would impose significant penalties for failure to comply with these disclosure requirements. The Treasury Regulations also impose obligations on material advisors that organize, manage or sell interests in registered tax shelters. As stated above, we have registered as a tax shelter, and, thus, one of our material advisors will be required to maintain a list with specific information, including your name and tax identification number, and to furnish this information to the IRS upon request. You are urged to consult with your own tax advisor concerning any possible disclosure obligation with respect to your investment and should be aware that we and our material advisors intend to comply with the list and disclosure requirements.

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

Because we cannot match transferors and transferees of common units, we will adopt depreciation and amortization positions that may not conform with all aspects of existing Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to you. It also could affect the timing of these tax benefits or the amount of gain from your sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to your tax returns. Please read Material Tax Consequences Uniformity of Units for a further discussion of the effect of the depreciation and amortization positions we will adopt.

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

In addition to federal income taxes, you will likely be subject to other taxes, such as state and local income taxes, unincorporated business taxes and estate, inheritance, or intangible taxes that are imposed by the various jurisdictions in which we do business or own property. You will likely be required to file state and local income tax returns and pay state and local income taxes in some or all of these various jurisdictions. Further, you may be subject to penalties for failure to comply with those requirements. We will initially own property and conduct business in New Mexico, Arizona, Texas, Washington, Utah, and Idaho. Of those states, only Texas and Washington do not currently impose a state income tax. We may own property or conduct business in other states or foreign countries in the future. It is your responsibility to file all federal, state and local tax returns. Our counsel has not rendered an opinion on the state and local tax consequences of an investment in our common units.

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USE OF PROCEEDS

We expect to receive net proceeds of approximately $126.4 million from the sale of 6,100,000 common units offered by this prospectus, after deducting underwriting discounts but before paying estimated offering expenses.

We intend to use the net proceeds of this offering to:

- make an $82.2 million cash distribution to Holly Corporation and its affiliates, in part to reimburse them for certain capital expenditures;
- repay $30.1 million of debt we owe to Holly Corporation;
- provide $10.0 million in net working capital;
- pay $3.0 million of expenses associated with the offering and related formation transactions; and
- pay $1.1 million of deferred debt issuance costs incurred in connection with our new credit agreement.

At the closing of this offering, we will borrow $25.0 million under our credit agreement to fund an additional $25.0 million cash distribution to Holly Corporation. The $30.1 million of debt we owe to Holly Corporation is payable on demand and bears no interest. This debt was incurred in connection with the acquisition of an additional 45% interest in Rio Grande Pipeline Company and the acquisition of the Woods Cross assets.

The proceeds from any exercise of the underwriters over-allotment option will be used to redeem a number of common units from Holly Corporation and its affiliates equal to the number of common units issued upon exercise of the over-allotment option at a price per common unit equal to the proceeds per common unit before expenses but after underwriting discounts and commissions.

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CAPITALIZATION

The following table shows:

- our historical capitalization as of March 31, 2004; and

- our pro forma capitalization as of March 31, 2004, adjusted to reflect the offering of the common units, the borrowing under our credit agreement and the application of the net proceeds in the manner described under Use of Proceeds.

This table is derived from, should be read together with and is qualified in its entirety by reference to our historical and pro forma financial statements and the accompanying notes included elsewhere in this prospectus.

	As of March 31, 2004	
	Actual	Pro Forma
	(In thousands)	
Debt due to affiliate	$ 30,082	$
Term loan under new credit agreement		25,000
Total debt	30,082	25,000
Equity:		
Net parent investment	78,480	
Held by public:		
Common units		123,394
Held indirectly by Holly Corporation:		
Common units		(5,987)
Subordinated units		(46,568)
General partner interest		(1,901)
Total equity	78,480	68,938
Total capitalization	$ 108,562	$ 93,938

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DILUTION

Dilution is the amount by which the offering price will exceed the net tangible book value per unit after the offering. Based on an initial public offering price of $22.25 per common unit, on a pro forma basis as of March 31, 2004, after giving effect to the offering of common units and the related transactions, our net tangible book value was $62.7 million, or $4.39 per common unit. Purchasers of common units in this offering will experience substantial and immediate dilution in net tangible book value per common unit for financial accounting purposes, as illustrated in the following table.

Initial public offering price per common unit		$22.25
Pro forma net tangible book value per common unit before the offering(1)	$ 6.90	
Decrease in net tangible book value per common unit attributable to purchasers in the offering	(2.51)	
Less: Pro forma net tangible book value per common unit after the offering(2)		4.39
Immediate dilution in net tangible book value per common unit to purchasers in the offering		$17.86

(1) Determined by dividing the number of units (900,000 common units, 7,000,000 subordinated units, and the 2% general partner interest, which has a dilutive effect equivalent to 285,714 units) to be issued to the general partner and its affiliates for their contribution of assets and liabilities to us into the net tangible book value of the contributed assets and liabilities.

(2) Determined by dividing the total number of units (7,000,000 common units, 7,000,000 subordinated units, and the 2% general partner interest, which has a dilutive effect equivalent to 285,714 units) to be outstanding after the offering into our pro forma net tangible book value, after giving effect to the application of the net proceeds of the offering. The general partner s dilutive effect equivalent was determined by multiplying the total number of units deemed to be outstanding (*i.e.*, the total number of common and subordinated units outstanding divided by 98%) by the general partner s 2% general partner interest.

The following table sets forth the number of units that we will issue and the total consideration contributed to us by the general partner and its affiliates in respect of their units and by the purchasers of common units in this offering upon consummation of the transactions contemplated by this prospectus.

	Units Acquired		Total Consideration	
	Number	**Percent**	**Amount**	**Percent**
			(In thousands)	
General partner and its affiliates (1)(2)	8,185,714	57.3%	$ (54,456)	(79)%
New investors	6,100,000	42.7%	123,394	179%
Total	14,285,714	100.0%	$ 68,938	100.0%

(1) Upon the consummation of the transactions contemplated by this prospectus, our general partner and its affiliates will own 900,000 common units, 7,000,000 subordinated units, and a 2% general partner interest having a dilutive effect equivalent to 285,714 units.

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(2) The assets contributed by the general partner and its affiliates were recorded at historical cost in accordance with accounting principles generally accepted in the United States. Book value of the consideration provided by the general partner and its affiliates, as of March 31, 2004, after giving effect to the application of the net proceeds of the offering, is as follows:

	(In thousands)
Book value of net assets contributed	$ 62,756
Less: Distribution to Holly Corporation from net proceeds of the offering	82,212
Distribution to Holly Corporation from borrowings under the credit agreement	25,000
Replenishment of net working capital	10,000
Total consideration	$ (54,456)

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CASH DISTRIBUTION POLICY

Distributions of Available Cash

General. Within 45 days after the end of each quarter, beginning with the quarter ending September 30, 2004, we will distribute all of our available cash to unitholders of record on the applicable record date. We will adjust the minimum quarterly distribution for the period from the closing of the offering through September 30, 2004 based on the actual length of the period.

Definition of Available Cash. We define available cash in the glossary, and it generally means, for each fiscal quarter, all cash on hand at the end of the quarter:

- less the amount of cash reserves established by our general partner to:
  - provide for the proper conduct of our business;
  - comply with applicable law, any of our debt instruments, or other agreements; or
  - provide funds for distributions to our unitholders and to our general partner for any one or more of the next four quarters;
- plus all cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter. Working capital borrowings are generally borrowings that are made under our credit facility and in all cases are used solely for working capital purposes or to pay distributions to partners.

Intent to Distribute the Minimum Quarterly Distribution. We intend to distribute to the holders of common units and subordinated units on a quarterly basis at least the minimum quarterly distribution of $0.50 per unit, or $2.00 per year, to the extent we have sufficient cash from our operations after establishment of cash reserves and payment of fees and expenses, including payments to our general partner. However, there is no guarantee that we will pay the minimum quarterly distribution on the common units in any quarter, and we will be prohibited from making any distributions to unitholders if it would cause an event of default, or an event of default is existing, under our credit agreement. Please read Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Credit Agreement for a discussion of the restrictions to be included in our credit agreement that may restrict our ability to make distributions.

Operating Surplus and Capital Surplus

General. All cash distributed to unitholders will be characterized as either operating surplus or capital surplus. We distribute available cash from operating surplus differently than available cash from capital surplus.

Definition of Operating Surplus. We define operating surplus in the glossary, and for any period it generally means:

- our cash balance on the closing date of this offering; plus
- $10.0 million (as described below); plus
- all of our cash receipts after the closing of this offering, excluding cash from borrowings that are not working capital borrowings, sales of equity and debt securities and sales or other dispositions of assets outside the ordinary course of business; plus
- working capital borrowings made after the end of a quarter but before the date of determination of operating surplus for the quarter; less

- all of our operating expenditures after the closing of this offering, including the repayment of working capital borrowings, but not the repayment of other borrowings, and including maintenance capital expenditures; less

- the amount of cash reserves established by our general partner to provide funds for future operating expenditures.

Definition of Capital Surplus. We also define capital surplus in the glossary, and it will generally be generated only by:

- borrowings other than working capital borrowings;

- sales of debt and equity securities; and

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

Characterization of Cash Distributions. We will treat all available cash distributed as coming from operating surplus until the sum of all available cash distributed since we began operations equals the operating surplus as of the most recent date of determination of available cash. We will treat any amount distributed in excess of operating surplus, regardless of its source, as capital surplus. As reflected above, operating surplus includes $10.0 million in addition to our cash balance on the closing date of this offering, cash receipts from our operations and cash from working capital borrowings. This amount does not reflect actual cash on hand at closing that is available for distribution to our unitholders. Rather, it is a provision that will enable us, if we choose, to distribute as operating surplus up to $10.0 million of cash we receive in the future from non-operating sources, such as asset sales, issuances of securities, and long-term borrowings, that would otherwise be distributed as capital surplus. We do not anticipate that we will make any distributions from capital surplus.

Subordination Period

General. During the subordination period, which we define below and in the glossary, the common units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of $0.50 per quarter, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units. The purpose of the subordinated units is to increase the likelihood that during the subordination period there will be available cash to be distributed on the common units.

Definition of Subordination Period. We define the subordination period in the glossary. The subordination period will extend until the first day of any quarter beginning after June 30, 2009 that each of the following tests are met:

- distributions of available cash from operating surplus on each of the outstanding common units and subordinated units equaled or exceeded the minimum quarterly distribution for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;

- the adjusted operating surplus (as defined below) generated during each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units and subordinated units during those periods on a fully diluted basis and the related distribution on the 2% general partner interest during those periods; and there are no arrearages in payment of the minimum quarterly distribution on the common units.

If the unitholders remove the general partner without cause, the subordination period may end before June 30, 2009.

Definition of Adjusted Operating Surplus. We define adjusted operating surplus in the glossary and for any period it generally means:

operating surplus generated with respect to that period; less

any net increase in working capital borrowings with respect to that period; less

any net reduction in cash reserves for operating expenditures with respect to that period not relating to an operating expenditure made with respect to that period; plus

any net decrease in working capital borrowings with respect to that period; plus

any net increase in cash reserves for operating expenditures with respect to that period required by any debt instrument for the repayment of principal, interest or premium.

Adjusted operating surplus is intended to reflect the cash generated from operations during a particular period and therefore excludes net increases in working capital borrowings and net drawdowns of reserves of cash generated in prior periods.

Effect of Expiration of the Subordination Period. Upon expiration of the subordination period, each outstanding subordinated unit will convert into one common unit and will then participate pro rata with the other common units in distributions of available cash. In addition, if the unitholders remove our general partner other than for cause and units held by the general partner and its affiliates are not voted in favor of such removal:

the subordination period will end and each subordinated unit will immediately convert into one common unit;

any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished; and

the general partner will have the right to convert its general partner interest and its incentive distribution rights into common units or to receive cash in exchange for those interests.

Distributions of Available Cash from Operating Surplus during the Subordination Period

We will make distributions of available cash from operating surplus for any quarter during the subordination period in the following manner:

First, 98% to the common unitholders, pro rata, and 2% to the general partner, until we distribute for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter;

Second, 98% to the common unitholders, pro rata, and 2% to the general partner, until we distribute for each outstanding common unit an amount equal to any arrearages in payment of the minimum quarterly distribution on the common units for any prior quarters during the subordination period;

Third, 98% to the subordinated unitholders, pro rata, and 2% to the general partner, until we distribute for each subordinated unit an amount equal to the minimum quarterly distribution for that quarter; and

Thereafter, in the manner described in Incentive Distribution Rights below.

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Distributions of Available Cash from Operating Surplus after the Subordination Period

We will make distributions of available cash from operating surplus for any quarter after the subordination period in the following manner:

- ***First***, 98% to all unitholders, pro rata, and 2% to the general partner, until we distribute for each outstanding unit an amount equal to the minimum quarterly distribution for that quarter; and
- ***Thereafter***, in the manner described in Incentive Distribution Rights below.

Incentive Distribution Rights

Incentive distribution rights represent the right to receive an increasing percentage of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution and the target distribution levels have been achieved. Our general partner currently holds the incentive distribution rights, but may transfer these rights separately from its general partner interest, subject to restrictions in the partnership agreement.

If for any quarter:

- we have distributed available cash from operating surplus to the common and subordinated unitholders in an amount equal to the minimum quarterly distribution; and
- we have distributed available cash from operating surplus on outstanding common units in an amount necessary to eliminate any cumulative arrearages in payment of the minimum quarterly distribution;

then, we will distribute any additional available cash from operating surplus for that quarter among the unitholders and the general partner in the following manner:

- ***First***, 98% to all unitholders, pro rata, and 2% to the general partner, until each unitholder receives a total of $0.55 per unit for that quarter (the first target distribution);
- ***Second***, 85% to all unitholders, pro rata, and 15% to the general partner, until each unitholder receives a total of $0.625 per unit for that quarter (the second target distribution);
- ***Third***, 75% to all unitholders, pro rata, and 25% to the general partner, until each unitholder receives a total of $0.75 per unit for that quarter (the third target distribution); and
- ***Thereafter***, 50% to all unitholders, pro rata, and 50% to the general partner.

In each case, the amount of the target distribution set forth above is exclusive of any distributions to common unitholders to eliminate any cumulative arrearages in payment of the minimum quarterly distribution. The percentage interests set forth above for our general partner include its 2% general partner interest and assume the general partner has not transferred its incentive distribution rights.

Percentage Allocations of Available Cash from Operating Surplus

The following table illustrates the percentage allocations of the additional available cash from operating surplus between the unitholders and our general partner up to the various target distribution levels. The amounts set forth under Marginal Percentage Interest in Distributions are the percentage interests of our general partner and the unitholders in any available cash from operating surplus we distribute up to and including the corresponding amount in the column Total Quarterly Distribution, until available cash from operating surplus we distribute reaches the next target distribution level, if any. The percentage interests shown for the unitholders and the general partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution. The percentage interests set forth below for our general partner include its 2% general partner interest and assume the general partner has not transferred its incentive distribution rights.

	Total Quarterly Distribution	**Marginal Percentage Interest in Distributions**	
	Target Amount	**Unitholders**	**General Partner**
Minimum Quarterly Distribution	$0.50	98%	2%
First Target Distribution	up to $0.55	98%	2%
Second Target Distribution	above $0.55 up to $0.625	85%	15%
Third Target Distribution	above $0.625 up to $0.75	75%	25%
Thereafter	above $0.75	50%	50%

Distributions from Capital Surplus

How Distributions from Capital Surplus Will Be Made. We will make distributions of available cash from capital surplus, if any, in the following manner:

First, 98% to all unitholders, pro rata, and 2% to the general partner, until we distribute for each common unit that was issued in this offering, an amount of available cash from capital surplus equal to the initial public offering price;

Second, 98% to the common unitholders, pro rata, and 2% to the general partner, until we distribute for each common unit, an amount of available cash from capital surplus equal to any unpaid arrearages in payment of the minimum quarterly distribution on the common units; and

Thereafter, we will make all distributions of available cash from capital surplus as if they were from operating surplus.

Effect of a Distribution from Capital Surplus. The partnership agreement treats a distribution of capital surplus as the repayment of the initial unit price from this initial public offering, which is a return of capital. The initial public offering price less any distributions of capital surplus per unit is referred to as the unrecovered initial unit price. Each time a distribution of capital surplus is made, the minimum quarterly distribution and the target distribution levels will be reduced in the same proportion as the corresponding reduction in the unrecovered initial unit price. Because distributions of capital surplus will reduce the minimum quarterly distribution, after any of these distributions are made, it may be easier for the general partner to receive incentive distributions and for the subordinated units to convert into common units. However, any distribution of capital surplus before the unrecovered initial unit price is reduced to zero cannot be applied to the payment of the minimum quarterly distribution or any arrearages.

Once we distribute capital surplus on a unit issued in this offering in an amount equal to the initial unit price, we will reduce the minimum quarterly distribution and the target distribution levels to zero. We will then make all future distributions from operating surplus, with 50% being paid to the holders of units and 50% to the general partner. The percentage interests shown for our general partner include its 2% general partner interest and assume the general partner has not transferred the incentive distribution rights.

Adjustment to the Minimum Quarterly Distribution and Target Distribution Levels

In addition to adjusting the minimum quarterly distribution and target distribution levels to reflect a distribution of capital surplus, if we combine our units into fewer units or subdivide our units into a greater number of units, we will proportionately adjust:

- the minimum quarterly distribution;
- target distribution levels;
- the unrecovered initial unit price;
- the number of common units issuable during the subordination period without a unitholder vote; and
- the number of common units into which a subordinated unit is convertible.

For example, if a two-for-one split of the common units should occur, the minimum quarterly distribution, the target distribution levels and the unrecovered initial unit price would each be reduced to 50% of its initial level, the number of common units issuable during the subordination period without unitholder vote would double and each subordinated unit would be convertible into two common units. We will not make any adjustment by reason of the issuance of additional units for cash or property.

In addition, if legislation is enacted or if existing law is modified or interpreted by a governmental taxing authority, so that we become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes, we will reduce the minimum quarterly distribution and the target distribution levels for each quarter by multiplying each distribution level by a fraction, the numerator of which is available cash for that quarter and the denominator of which is the sum of available cash for that quarter plus the general partner s estimate of our aggregate liability for the quarter for such income taxes payable by reason of such legislation or interpretation. To the extent that the actual tax liability differs from the estimated tax liability for any quarter, the difference will be accounted for in subsequent quarters.

Distributions of Cash Upon Liquidation

General. If we dissolve in accordance with the partnership agreement, we will sell or otherwise dispose of our assets in a process called liquidation. We will first apply the proceeds of liquidation to the payment of our creditors. We will distribute any remaining proceeds to the unitholders and the general partner, in accordance with their capital account balances, as adjusted to reflect any gain or loss upon the sale or other disposition of our assets in liquidation.

The allocations of gain and loss upon liquidation are intended, to the extent possible, to entitle the holders of outstanding common units to a preference over the holders of outstanding subordinated units upon our liquidation, to the extent required to permit common unitholders to receive their unrecovered initial unit price plus the minimum quarterly distribution for the quarter during which liquidation occurs plus any unpaid arrearages in payment of the minimum quarterly distribution on the common units. However, there may not be sufficient gain upon our liquidation to enable the holders of common units to fully recover all of these amounts, even though there may be cash available for distribution to the holders of subordinated units. Any further net gain recognized upon liquidation will be allocated in a manner that takes into account the incentive distribution rights of the general partner.

Manner of Adjustments for Gain. The manner of the adjustment for gain is set forth in the partnership agreement. If our liquidation occurs before the end of the subordination period, we will allocate any gain to the partners in the following manner:

- ***First***, to the general partner and the holders of units who have negative balances in their capital accounts to the extent of and in proportion to those negative balances;

Second, 98% to the common unitholders, pro rata, and 2% to the general partner, until the capital account for each common unit is equal to the sum of: (1) the unrecovered initial unit price; (2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs; and (3) any unpaid arrearages in payment of the minimum quarterly distribution;

Third, 98% to the subordinated unitholders, pro rata, and 2% to the general partner until the capital account for each subordinated unit is equal to the sum of: (1) the unrecovered initial unit price; and (2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs;

Fourth, 98% to all unitholders, pro rata, and 2% to the general partner, until we allocate under this paragraph an amount per unit equal to: (1) the sum of the excess of the first target distribution per unit over the minimum quarterly distribution per unit for each quarter of our existence; less (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the minimum quarterly distribution per unit that we distributed 98% to the unitholders, pro rata, and 2% to the general partner, for each quarter of our existence;

Fifth, 85% to all unitholders, pro rata, and 15% to the general partner, until we allocate under this paragraph an amount per unit equal to: (1) the sum of the excess of the second target distribution per unit over the first target distribution per unit for each quarter of our existence; less (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the first target distribution per unit that we distributed 85% to the unitholders, pro rata, and 15% to the general partner for each quarter of our existence;

Sixth, 75% to all unitholders, pro rata, and 25% to the general partner, until we allocate under this paragraph an amount per unit equal to: (1) the sum of the excess of the third target distribution per unit over the second target distribution per unit for each quarter of our existence; less (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the second target distribution per unit that we distributed 75% to the unitholders, pro rata, and 25% to the general partner for each quarter of our existence; and

Thereafter, 50% to all unitholders, pro rata, and 50% to the general partner.

The percentage interests set forth above for our general partner include its 2% general partner interest and assume the general partner has not transferred the incentive distribution rights.

If the liquidation occurs after the end of the subordination period, the distinction between common units and subordinated units will disappear, so that clause (3) of the second bullet point above and all of the third bullet point above will no longer be applicable.

Manner of Adjustments for Losses. If our liquidation occurs before the end of the subordination period, we will generally allocate any loss to the general partner and the unitholders in the following manner:

First, 98% to holders of subordinated units in proportion to the positive balances in their capital accounts and 2% to the general partner, until the capital accounts of the subordinated unitholders have been reduced to zero;

Second, 98% to the holders of common units in proportion to the positive balances in their capital accounts and 2% to the general partner, until the capital accounts of the common unitholders have been reduced to zero; and

Thereafter, 100% to the general partner.

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If the liquidation occurs after the end of the subordination period, the distinction between common units and subordinated units will disappear, so that all of the first bullet point above will no longer be applicable.

Adjustments to Capital Accounts. We will make adjustments to capital accounts upon the issuance of additional units. In doing so, we will allocate any unrealized and, for tax purposes, unrecognized gain or loss resulting from the adjustments to the unitholders and the general partner in the same manner as we allocate gain or loss upon liquidation. In the event that we make positive adjustments to the capital accounts upon the issuance of additional units, we will allocate any later negative adjustments to the capital accounts resulting from the issuance of additional units or upon our liquidation in a manner which results, to the extent possible, in the general partner s capital account balances equaling the amount which they would have been if no earlier positive adjustments to the capital accounts had been made.

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CASH AVAILABLE FOR DISTRIBUTION

We intend to pay each quarter, to the extent we have sufficient available cash from operating surplus, the minimum quarterly distribution of $0.50 per unit, or $2.00 per year, on all the common units and subordinated units.

The amounts of available cash from operating surplus needed to pay the minimum quarterly distribution for one quarter and for four quarters on the common units, the subordinated units, and the general partner interest to be outstanding immediately after this offering are approximately:

	One Quarter	Four Quarters
	(In thousands)	
Common units	$3,500.0	$14,000.0
Subordinated units	3,500.0	14,000.0
2% general partner interest	142.9	571.4
Total	$7,142.9	$28,571.4

Estimated available cash from operating surplus during 2003 would not have been sufficient to pay the minimum quarterly distribution on all units.

If we had completed the transactions contemplated in this prospectus on January 1, 2003, pro forma available cash from operating surplus generated during 2003 would have been approximately $26.4 million. Pro forma available cash from operating surplus does not reflect any general and administrative expenses. Estimated available cash from operating surplus includes general and administrative expenses, such as cost of tax return preparation, accounting support services, annual and quarterly reports to unitholders, investor relations, directors and officers insurance and registrar and transfer agent fees, of approximately $1.7 million per year that we expect to incur as a result of being a publicly traded partnership as well as our payment to Holly Corporation of an annual fee of approximately $2.0 million for certain other general and administrative services pursuant to the omnibus agreement. Our estimated available cash from operating surplus generated during 2003 would have been approximately $22.7 million. This amount would have been sufficient to allow us to pay the full minimum quarterly distribution on the common units and approximately 58.7% of the minimum quarterly distribution on the subordinated units for that period. If we had completed the transactions contemplated in this prospectus on January 1, 2004, pro forma available cash from operating surplus generated during the three months ended March 31, 2004 would have been approximately $8.6 million and estimated available cash from operating surplus would have been approximately $7.6 million. This amount would have been sufficient to allow us to pay the full minimum quarterly distribution on all of the units for the three months ended March 31, 2004.

We derived the amounts of pro forma available cash from operating surplus from our pro forma financial statements. The pro forma financial statements do not purport to present our results of operations had the transactions contemplated in this prospectus actually been completed as of the dates indicated. Furthermore, available cash from operating surplus as defined in the partnership agreement is a cash accounting concept, while our pro forma financial statements have been prepared on an accrual basis. A more complete explanation of the pro forma adjustments can be found in the Notes to Pro Forma Financial Statements. We derived the amounts of estimated available cash from operating surplus shown above in the manner described in Appendix D. As a result, the amount of estimated available cash from operating surplus should only be viewed as a general indication of the amount of available cash from operating surplus that we might have generated had we been formed in earlier periods.

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We believe we will have sufficient cash from operating surplus following the offering to pay the minimum quarterly distribution on all units through June 30, 2005.

We believe that, following completion of the offering, we will have sufficient available cash from operating surplus to allow us to make the full minimum quarterly distribution on all the outstanding units for each quarter through June 30, 2005. Our belief is based on a number of specific assumptions, including the assumptions that:

- average quarterly volumes shipped on our pipelines will be no less than the 65,300 bpd shipped during the three months ended March 31, 2004;
- there will be no turnaround at the Navajo Refinery during the twelve months ended June 30, 2005;
- average quarterly revenues for our terminals will be no less than the $3.0 million we received from the terminals during the three months ended March 31, 2004;
- we will realize the pipeline tariffs and terminal fees provided in our pipelines and terminals agreement with Holly Corporation;
- our maintenance capital expenditures for the twelve months ended June 30, 2005 will be approximately $1.5 million;
- general and administrative expenses for the twelve months ended June 30, 2005 will be approximately $3.7 million;
- operating expenses will increase by approximately $2.0 million for the twelve months ended June 30, 2005 compared to the operating expenses we incurred in 2003 due to additional operating expenses associated with the Rio Grande pipeline and the Spokane, Boise and Burley terminals and the Woods Cross truck rack;
- no material accidents, releases, unscheduled downtime, or similar unanticipated and material events will occur; and
- market, regulatory, and overall economic conditions will not change substantially.

While we believe that these assumptions are reasonable in light of management s current beliefs concerning future events, the assumptions underlying the projections are inherently uncertain and are subject to significant business, economic, regulatory and competitive risks and uncertainties that could cause actual results to differ materially from those we anticipate. If our assumptions are not realized, the actual available cash from operating surplus that we could generate could be substantially less than that currently expected and could, therefore, be insufficient to permit us to make the full minimum quarterly distribution on all units, in which event the market price of the common units may decline materially. When reading this section, you should keep in mind the risk factors and other cautionary statements under the heading Risk Factors and elsewhere in this prospectus.

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SELECTED HISTORICAL AND OPERATING DATA OF

NAVAJO PIPELINE CO., L.P. (PREDECESSOR) AND PRO FORMA FINANCIAL DATA OF HOLLY ENERGY PARTNERS, L.P. (SUCCESSOR)

The following table sets forth selected historical financial and operating data of Navajo Pipeline Co., L.P. (Predecessor), the predecessor to Holly Energy Partners, L.P., and pro forma financial data of Holly Energy Partners, L.P., in each case for the periods and as of the dates indicated.

Historical Results. The selected historical financial data for our predecessor for 2001, 2002 and 2003 are derived from the audited consolidated combined financial statements of Navajo Pipeline Co., L.P. (Predecessor) that are included in this prospectus. The selected historical financial data for our predecessor for 1999 and 2000 are derived from the unaudited consolidated combined financial statements of Navajo Pipeline Co., L.P. (Predecessor). The selected historical financial data for our predecessor for the three months ended March 31, 2003 and 2004 are derived from the unaudited consolidated combined financial statements of Navajo Pipeline Co., L.P. (Predecessor) that are included in this prospectus. In reviewing this data, you should be aware of the following.

Until January 1, 2004, our historical revenues included only actual amounts received by the predecessor from:

- third parties who utilized our pipelines and terminals;
- Holly Corporation for use of our FERC-regulated refined product pipeline; and
- Holly Corporation for use of the Lovington crude oil pipelines, which are not being contributed to our partnership.

Until January 1, 2004, we did not record revenue for:

- transporting products for Holly Corporation on our intrastate refined product pipelines;
- providing terminalling services to Holly Corporation; and
- transporting crude oil and feedstocks on two intermediate product pipelines that connect Holly Corporation s Artesia and Lovington facilities, which are not being contributed to our partnership.

In addition, our historical results of operations reflect the impact of the following acquisitions completed in June 2003:

- the purchase of an additional 45% interest in the Rio Grande Pipeline Company on June 30, 2003, bringing our total ownership to 70%, which resulted in our consolidating the Rio Grande Pipeline Company from the date of this acquisition rather than accounting for it on the equity method; and
- the purchase of terminals in Spokane, Washington, and Boise and Burley, Idaho, as well as the Woods Cross truck rack, all of which are related to the Woods Cross Refinery.

Furthermore, the historical financial data do not reflect any general and administrative expenses as Holly Corporation has not historically allocated any of its general and administrative expenses to its pipelines and terminals. Our historical results of operations include costs associated with crude oil and intermediate product pipelines, which are not being contributed to our partnership.

Pro Forma Results. The selected pro forma financial data presented below as of March 31, 2004 and for the year ended December 31, 2003 and the three months ended March 31, 2004

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are derived from the pro forma financial statements that are included in this prospectus. The pro forma financial data give pro forma effect to:

- the transfer of certain of our predecessor s operations to Holly Energy Partners, L.P.;
- the consolidation of the Rio Grande Pipeline Company as if the additional 45% interest had been acquired as of January 1, 2003;
- the execution of the pipelines and terminals agreement; and
- the related transactions in connection with the closing of this offering.

The pro forma balance sheet assumes that the offering and the related transactions occurred as of March 31, 2004 and the pro forma statements of income assume that the offering and the related transactions occurred as of January 1, 2003.

The pro forma financial data for the year ended December 31, 2003 reflect the revenues that would have been recorded in 2003, using historical volumes, if the initial tariff rates and terminalling fees in the pipelines and terminals agreement had been in effect for the entire year. Because we began charging Holly Corporation fees at the rates set forth in the pipelines and terminals agreement for the use of all of our pipelines and terminals commencing January 1, 2004, the pro forma financial data for the three months ended March 31, 2004 reflect actual revenues received from Holly Corporation. We believe that our pipeline tariffs and terminalling fees are comparable to those that would be charged by third parties in the specific marketing locations. Please read Management s Discussion and Analysis of Financial Condition and Results of Operations Impact of Pipelines and Terminals Agreement.

The pro forma financial data do not reflect either the $2.0 million administrative fee that Holly Corporation will charge us under the omnibus agreement or the estimated $1.7 million in additional general and administrative expenses we expect to incur as a result of being a separate public entity.

Non-GAAP and Other Financial Information

The following table presents a non-GAAP financial measure: earnings before interest, taxes, depreciation and amortization, or EBITDA, which we use in our business. We explain this measure below and reconcile it to net income and cash flow from operating activities, our most directly comparable financial measures calculated and presented in accordance with GAAP.

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

Use of the term throughput in this prospectus generally refers to the refined product barrels that pass through each pipeline or terminal facility, even if those barrels are transported or pass through another of our pipeline or terminal facilities, for which we receive either pipeline tariff or terminal service fee revenue.

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The following table should be read together with, and is qualified in its entirety by reference to, the historical and unaudited pro forma financial statements and the accompanying notes included elsewhere in this prospectus. The table should also be read together with Management s Discussion and Analysis of Financial Condition and Results of Operations.

	Navajo Pipeline Co., L.P. (Predecessor)							Holly Energy Partners, L.P. Pro Forma	
	Years Ended December 31,					Three Months Ended March 31,		Year Ended December 31,	Three Months Ended March 31,
	1999	2000	2001	2002	2003	2003	2004	2003	2004
	(In thousands, except per unit data)								
STATEMENT OF INCOME DATA:									
Revenue	$16,774	$22,878	$20,647	$23,581	$30,800	$5,662	$18,771	$52,707	$15,432
Operating costs and expenses									
Operations	13,822	17,505	17,388	19,442	24,193	5,166	6,452	21,550	5,228
Selling, general and administrative									
Depreciation and amortization	2,491	4,940	3,740	4,475	6,453	1,179	2,046	6,928	1,834
Total operating costs and expenses	16,313	22,445	21,128	23,917	30,646	6,345	8,498	28,478	7,062
Operating income (loss)	461	433	(481)	(336)	154	(683)	10,273	24,229	8,370
Interest expense								(1,750)	(437)
Equity income from Rio Grande Pipeline Company	2,606	1,010	2,284	2,737	894	285			
Interest and other income	435	657	620	269	291	37	35	308	35
	3,041	1,667	2,904	3,006	1,185	322	35	(1,442)	(402)
Income before minority interest	3,502	2,100	2,423	2,670	1,339	(361)	10,308	22,787	7,968
Minority interest in Rio Grande Pipeline Company					(758)		(688)	(1,405)	(688)
Net income	$ 3,502	$ 2,100	$ 2,423	$ 2,670	$ 581	$ (361)	$ 9,620	$21,382	$ 7,280
Pro forma net income per limited partner unit								$ 1.50	$ 0.51

	Navajo Pipeline Co., L.P. (Predecessor)							Holly Energy Partners, L.P. Pro Forma	
	Years Ended December 31,					Three Months Ended March 31,		Year Ended December 31,	Three Months Ended March 31,
	1999	2000	2001	2002	2003	2003	2004	2003	2004
	(In thousands)								
OTHER FINANCIAL DATA:									
EBITDA	$ 5,558	$ 6,383	$ 5,543	$ 6,876	$ 6,743	$ 781	$ 11,631	$29,752	$ 9,516
Cash flows from operating activities	$ 15,848	$ 1,600	$ 10,273	$ 4,271	$ 5,909	$ 187	$ 283		
Cash flows from investment activities	$(15,848)	$ (1,600)	$(10,273)	$ (4,271)	$ (29,297)	$ (187)	$ (2,599)		
Cash flows from financing activities	$	$	$	$	$ 30,082	$	$		
Maintenance capital expenditures	$ 1,153	$ 1,179	$ 760	$ 1,178	$ 1,934	$ 187	$ 558		
Expansion capital expenditures	14,695	3,699	10,756	5,581	4,837		991		
Total capital expenditures	$ 15,848	$ 4,878	$ 11,516	$ 6,759	$ 6,771	$ 187	$ 1,549		
OPERATING DATA (bbls):									
Refined product pipeline throughput	21,898	24,400	21,992	25,127	23,978	5,904	7,095		
Refined product terminal throughput	27,851	33,506	30,302	34,435	40,147	7,791	12,866		
BALANCE SHEET DATA (at period end):									
Net property, plant and equipment	$ 52,227	$50,230	$ 57,801	$60,073	$ 95,826	$58,930	$ 95,890		$ 81,927
Total assets	65,797	70,908	84,282	88,338	140,425	89,296	147,588		131,386
Total liabilities	6,871	7,722	18,674	20,059	57,889	21,377	54,994		48,334
Net partners investment	58,926	63,186	65,609	68,279	68,860	67,920	78,480		68,938

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Non-GAAP Financial Measure

For a discussion of the non-GAAP financial measure of EBITDA, please read Summary Summary Historical and Operating Data and Pro Forma Financial Data Non-GAAP Financial Measure beginning on page 15. The following table presents a reconciliation of EBITDA to the most directly comparable GAAP financial measures, on a historical basis and pro forma basis, as applicable, for each of the years indicated.

	Navajo Pipeline Co., L.P. (Predecessor)							Holly Energy Partners, L.P. Pro Forma	
	Years Ended December 31,					Three Months Ended March 31,		Year Ended December 31,	Three Months Ended March 31,
	1999	2000	2001	2002	2003	2003	2004	2003	2004
	(In thousands)								
Reconciliation of EBITDA to net income:									
Net income	$ 3,502	$2,100	$ 2,423	$2,670	$ 581	$ (361)	$ 9,620	$21,382	$7,280
Add									
Depreciation and amortization	2,491	4,940	3,740	4,475	6,453	1,179	2,046	6,928	1,834
Interest expense								1,750	437
	5,993	7,040	6,163	7,145	7,034	818	11,666	30,060	9,551
Less									
Interest income	435	657	620	269	291	37	35	308	35
EBITDA	$ 5,558	$6,383	$ 5,543	$6,876	$6,743	$ 781	$11,631	$29,752	$9,516
Reconciliation of EBITDA to cash flows from operating activities:									
Cash flow from operating activities	$ 15,848	$1,600	$10,273	$4,271	$5,909	$ 187	$ 283		
Add									
Interest income	(435)	(657)	(620)	(269)	(291)	(37)	(35)		
Equity in earnings of Rio Grande Pipeline Company	2,606	1,010	2,284	2,737	894	285			
Minority interest					(758)		(688)		
Increase (decrease) in working capital	(12,461)	4,430	(6,394)	137	989	346	12,071		
EBITDA	$ 5,558	$6,383	$ 5,543	$6,876	$6,743	$ 781	$11,631		

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION

AND RESULTS OF OPERATIONS

You should read the following discussion of the financial condition and results of operations of Navajo Pipeline Co., L.P. (Predecessor) in conjunction with the historical combined financial statements of Navajo Pipeline Co., L.P. (Predecessor) and the pro forma financial statements of Holly Energy Partners included elsewhere in this prospectus. Among other things, those historical and pro forma financial statements include more detailed information regarding the basis of presentation for the following information.

Overview

General

Our pipelines transport light refined products (gasoline, diesel and jet fuel) from Holly Corporation s Navajo Refinery in New Mexico to its customers in the metropolitan and rural areas of Texas, New Mexico, Arizona, Colorado, Utah and northern Mexico. We also transport gasoline and diesel fuel for Alon USA LP from Orla, Texas to El Paso, Texas under three separate long-term capacity lease agreements. Our assets also include a 70% interest in Rio Grande Pipeline Company, a joint venture that owns an LPG pipeline located in West Texas; nine refined product terminals; a refined product truck rack located within the Artesia Refinery, which is held pursuant to a long-term ground lease; and a refined product truck rack located within the Woods Cross Refinery. We own a 100% interest in five of these terminals and the truck racks and a 50% interest in four of these terminals. The substantial majority of our business is devoted to providing transportation and terminalling services to Holly Corporation. Holly Corporation accounted for approximately 57.3% of our pro forma revenues for the year ended December 31, 2003 and 59.6% of our pro forma revenues for the three months ended March 31, 2004.

Historical Results of Operations

In reviewing our historical results of operations that are discussed below, you should be aware of the following:

Until January 1, 2004, our historical revenues included only actual amounts received from:

- third parties who utilized our pipelines and terminals;
- Holly Corporation for use of our FERC-regulated refined product pipeline; and
- Holly Corporation for use of the Lovington crude oil pipelines, which are not being contributed to our partnership.

Until January 1, 2004, we did not record revenue for:

- transporting products for Holly Corporation on our intrastate refined product pipelines;
- providing terminalling services to Holly Corporation; and
- transporting crude oil and feedstocks on two intermediate product pipelines that connect Holly Corporation s Artesia and Lovington facilities, which are not being contributed to our partnership.

Commencing January 1, 2004, we began charging Holly Corporation fees for the use of all of our pipelines and terminals at the rates set forth in the pipelines and terminals agreement.

In addition, our historical results of operations reflect the impact of the following acquisitions completed in June 2003:

- the purchase of an additional 45% interest in the Rio Grande Pipeline Company on June 30, 2003, bringing our total ownership to 70%, which resulted in our consolidating

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- the Rio Grande Pipeline Company from the date of this acquisition rather than accounting for it on the equity method; and

- the purchase of terminals in Spokane, Washington, and Boise and Burley, Idaho, as well as the Woods Cross truck rack, all of which are related to the Woods Cross Refinery.

Furthermore, the historical financial data do not reflect any general and administrative expenses as Holly Corporation has not historically allocated any of its general and administrative expenses to its pipelines and terminals. Our historical results of operations include costs associated with crude oil and intermediate product pipelines, which are not being contributed to our partnership.

While we do not discuss our pro forma financial statements below, these statements, and the assumptions made therein, are presented in the financial statements included elsewhere in this prospectus. You should review our pro forma financials to more fully understand the impact that this offering and the related transactions will have on our results of operations. Most importantly, the pro forma financial data give pro forma effect to:

- the transfer of certain of our predecessor s operations to Holly Energy Partners, L.P.;

- the consolidation of the Rio Grande Pipeline Company as if the additional 45% interest had been acquired as of January 1, 2003;

- the execution of the pipelines and terminals agreement and the recognition of revenues derived therefrom; and

- the related transactions in connection with the closing of this offering.

Nature of Revenues and Throughput

The amount of revenue we generate will primarily depend on the level of our tariffs and terminal service fees and the amount of throughput in our pipelines and terminals. When transporting barrels on our pipelines, we charge a tariff based on the point of origin and the ultimate destination. For example, on our Artesia, New Mexico to Moriarty, New Mexico to Bloomfield, New Mexico pipeline segment, we have separate tariffs depending on whether the ultimate destination from Artesia is Moriarty or Bloomfield.

We generate terminal revenue by charging fees for refined products that are transported through our terminals. The operating income that is generated by our terminalling operations depends on throughput volumes and the level of fees charged for terminal services as well as the fixed and variable costs of operating the terminals. Terminalling fees are not directly affected by the absolute price level of refined products, although they are affected by the absolute levels of supply and demand for these products. Our terminal fees are not regulated by any governmental authority.

Our operating expenses include compensation and related employee benefits, maintenance and operating supplies, rental expenses on our leased pipeline and contract services, all of which are relatively fixed costs. Operating expenses also include energy and drag reducing agents, both of which vary with the quantities transported on our pipelines.

The refined product throughput in our pipelines and terminals is directly affected by the level of supply and demand for refined products in the markets served directly or indirectly by our assets. Although the demand for gasoline in most markets peaks during the summer driving season, which extends from April to September, and declines during the fall and winter months, the throughput in our systems is not materially affected by seasonality.

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Agreements with Holly Corporation

Under a 15 year pipelines and terminals agreement we will enter into with Holly Corporation concurrently with the closing of this offering, Holly Corporation will pay us fees to transport on our refined product pipelines or throughput in our terminals a volume of refined products that will produce at least $35.4 million of revenue in the first year. This minimum revenue commitment will increase each year at a rate equal to the percentage change in the producer price index, but will not decrease as a result of a decrease in the producer price index. Holly Corporation will pay the published tariff rates on the pipelines and contractually agreed upon fees at the terminals. The tariffs will adjust annually at a rate equal to the percentage change in the producer price index. The terminal fees will adjust annually based upon an index comprised of comparable fees posted by a third party. Holly Corporation s minimum revenue commitment will apply only to our initial assets and may not be spread among assets we subsequently acquire. If Holly Corporation fails to meet its minimum revenue commitment in any quarter, it will be required to pay us in cash the amount of any shortfall by the last day of the month following the end of the quarter. A shortfall payment may be applied as a credit in the following four quarters after Holly Corporation s minimum obligations are met.

Furthermore, if new laws or regulations that affect terminals or pipelines generally are enacted that require us to make substantial and unanticipated capital expenditures at the pipelines or terminals, we will have the right to negotiate a monthly surcharge on Holly Corporation for the use of the terminals or to file for an increased tariff rate for use of the pipelines to cover Holly Corporation s pro rata portion of the cost of complying with these laws or regulations, after we have made efforts to mitigate their effect. We and Holly Corporation will negotiate in good faith to agree on the level of the monthly surcharge or increased tariff rate.

Holly Corporation s obligations under this agreement may be proportionately reduced or suspended if Holly Corporation shuts down or materially reconfigures one of its refineries. Holly Corporation will be required to give at least twelve months advance notice of any long-term shut-down or material reconfiguration. Holly Corporation s obligations may also be temporarily suspended or terminated in certain circumstances. From time to time Holly Corporation considers changes to its refineries. Those changes may involve new facilities, reduction in certain operations or modifications of facilities or operations. Changes may be considered to meet market demands, to satisfy regulatory requirements or environmental and safety objectives, to improve operational efficiency or for other reasons. Holly Corporation has advised us that it currently does not intend to close or dispose of the refineries currently served by our pipelines and terminals or to cause any changes that would have a material adverse effect on these refineries operations. Holly Corporation is, however, actively managing its assets and operations, and, therefore, changes of some nature, possibly material to us, are likely to occur at some point in the future.

Holly Corporation has business interruption insurance for the benefit of its refinery assets. Payments Holly Corporation is required to make pursuant to its minimum revenue commitment would be recoverable under this policy in the event of an insurable loss. In addition, we maintain our own business interruption insurance for the benefit of our pipelines and terminals.

Historically, Holly Corporation has not allocated any of its general and administrative expenses to its pipeline and terminalling operations. Under an omnibus agreement with Holly Corporation, we will pay Holly Corporation an annual administrative fee, initially in the amount of $2.0 million, for the provision by Holly Corporation or its affiliates of various general and administrative services to us for three years following this offering. The fee may increase in the second and third years by the greater of 5% or the percentage increase in the consumer price index for the applicable year. In addition, our general partner will have the right to agree to further increases in connection with expansions of our operations through the acquisition or construction of new assets or businesses with the concurrence of our conflicts committee. The

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$2.0 million fee includes expenses incurred by Holly Corporation and its affiliates to perform centralized corporate functions, such as legal, accounting, treasury, information technology and other corporate services, including the administration of employee benefit plans. This fee does not include the salaries of pipeline and terminal personnel or other employees of Holly Logistic Services, L.L.C. or the cost of their employee benefits, such as 401(k), pension and health insurance benefits. We will also reimburse Holly Corporation and its affiliates for direct expenses they incur on our behalf. In addition, we anticipate incurring additional general and administrative costs, including costs for tax return preparation, annual and quarterly reports to unitholders, investor relations, registrar and transfer agent fees, directors and officers insurance and other costs related to operating as a separate public entity. We estimate these additional costs, which are not included in our historical costs, will be approximately $1.7 million per year.

Results of Operations

Our results of operations are most directly impacted by production at the Navajo Refinery. The following table sets forth the barrels per day of refined products produced by the Navajo Refinery and the barrels per day of light refined products shipped on our pipelines in each of the periods presented.

	Year Ended December 31,					Three Months Ended March 31,
	1999	**2000**	**2001**	**2002**	**2003**	**2004**
Barrels of light refined product produced	57,700	60,014	50,663	57,173	54,531	69,451
Barrels of light refined products shipped	51,365	55,825	47,364	55,288	51,456	65,313

Production at the Navajo Refinery in 2001 was reduced by a planned refinery turnaround and by unusual operational difficulties. Production of refined products in 2002 increased due to an increased number of production days and as Holly Corporation rebuilt inventories after the turnaround in 2001 in response to market demand for its refined products. Production of refined products in 2003 was reduced by a planned turnaround timed to coordinate with downtime required for the integration of the $85 million refinery expansion and upgrade project. Holly Corporation s next planned turnaround at the Navajo Refinery is scheduled for 2007.

Historical revenue recognition policy

The only revenues reflected in the historical financial data prior to January 1, 2004 are from (i) third parties who used our pipelines and terminals, (ii) Holly Corporation s use of our FERC-regulated refined product pipeline and (iii) Holly Corporation s use of the Lovington crude pipelines, which will not be contributed to Holly Energy Partners. Prior to January 1, 2004, Holly Corporation was not charged fees for services rendered on non-FERC regulated pipelines or on any terminal facilities. Commencing January 1, 2004, Holly Corporation began to be charged for all services rendered utilizing our pipeline and terminal facilities, at rates established by the pipelines and terminals agreement.

The following table sets forth historical revenues recognized and related product volume information. Historical information is presented for the Lovington crude oil pipelines and the intermediate product pipelines connecting Holly Corporation s Artesia and Lovington facilities because they were owned by Navajo Pipeline Company, L.P. (Predecessor). Revenues for Rio Grande Pipeline Company are presented only from June 30, 2003, the date we increased our ownership interest from 25% to 70%.

	Year Ended December 31,				
	1999	2000	2001	2002	2003
	(dollars in thousands, except tariffs and service fees)				
Revenues					
Refined Product Pipelines					
Artesia to Orla to El Paso pipeline	$15,754	$16,204	$15,333	$17,160	$16,273
All other pipelines					
	15,754	16,204	15,333	17,160	16,273
Rio Grande Pipeline Company					6,910
Refined Product Terminals					
Third party revenues	1,020	1,544	1,730	1,645	2,680
All other terminals					
	1,020	1,544	1,730	1,645	2,680
Crude Oil and Intermediate Product Pipelines					
Lovington crude oil pipelines		5,130	3,584	4,776	4,937
Intermediate pipelines					
		5,130	3,583	4,776	4,937
	$16,774	$22,878	$20,647	$23,581	$30,800
Volumes (mbbls)					
Refined Product Pipelines					
Artesia to Orla to El Paso pipeline	15,566	15,917	14,391	15,320	14,658
All other pipelines(1)	6,332	8,483	7,601	9,807	9,320
	21,898	24,400	21,992	25,127	23,978
Refined Product Terminals					
Third-party volumes	2,168	4,215	4,894	4,516	7,668
Holly Corporation volumes	25,683	29,292	25,408	29,919	32,479
	27,851	33,507	30,302	34,435	40,147
Total Refined Products	49,749	57,907	52,294	59,562	64,125
Crude Oil and Intermediate Product Pipelines					
Lovington crude oil pipelines		18,247	11,414	13,357	13,068
Intermediate product pipelines	13,271	15,052	12,307	14,710	14,531
Total	63,020	91,206	76,015	87,629	91,724
Average tariffs/ service fees per barrel					

Pipelines[1]	$ 0.45	$ 0.37	$ 0.41	$ 0.41	$ 0.41
Terminals	$ 0.04	$ 0.05	$ 0.06	$ 0.05	$ 0.07

(1) Excludes the Rio Grande pipeline.

Three Months Ended March 31, 2004 Versus Three Months Ended March 31, 2003

Revenues increased by $13.1 million from $5.7 million for the three months ended March 31, 2003 to $18.8 million for the three months ended March 31, 2004. Commencing January 1, 2004, revenues related to all intercompany and intracompany utilization of refined and intermediate product pipelines and terminals have been recorded. For the three months ended March 31, 2004 these revenues amounted to $8.0 million. In addition, revenues for the three months ended March 31, 2004 include third party revenues of $0.3 million at our Spokane terminal, which we acquired in June 2003, and $3.8 million from third parties utilizing the Rio Grande pipeline, reflecting our increased ownership interest in the Rio Grande Pipeline Company which we began consolidating on June 30, 2003. Refined products shipped on our three refined product pipelines serving the Navajo Refinery increased from 51,200 bpd in the three months ended March 31, 2003 to 65,300 bpd in the three months ended March 31, 2004 increasing pipeline revenues by approximately $0.7 million. Other revenues increased by approximately $0.3 million.

Operating costs increased by $1.3 million from $5.2 million for the three months ended March 31, 2003 to $6.5 million for the three months ended March 31, 2004. Operating costs for the Burley, Boise and Spokane terminals we acquired in June 2003 accounted for approximately $0.3 million in the three months ended March 31, 2004 and operating expenses for the Rio Grande Pipeline Company were approximately $0.6 million. Operating expenses of the other pipeline and terminal facilities for the three months ended March 31, 2004 increased by approximately $0.4 million as a result of additional maintenance expenses on the Lovington crude system that is not being contributed to our partnership.

Depreciation expense increased from $1.2 million for the three months ended March 31, 2003 to $2.0 million for the three months ended March 31, 2004 primarily as a result of the consolidation of Rio Grande Pipeline Company. Depreciation expense for Rio Grande Pipeline Company for the three months ended March 31, 2004 was approximately $0.8 million. Depreciation on other assets did not change materially.

Year Ended December 31, 2003 Versus Year Ended December 31, 2002

Revenues increased by $7.2 million from $23.6 million for the year ended December 31, 2002 to $30.8 million for the year ended December 31, 2003, primarily as a result of the consolidation of Rio Grande Pipeline Company on June 30, 2003, when we increased our ownership interest from 25% to 70%. During the six months ended June 30, 2003, Rio Grande had been accounted for by the equity method, contributing $0.9 million to net income but no revenues. Rio Grande Pipeline Company s revenues for the six months of 2003 that it was consolidated were $6.9 million from a third party. Pipeline revenues received from Holly Corporation decreased by $0.9 million as a result of lower volumes of light products produced at the Navajo Refinery. Third party terminal revenues increased by $1.0 million in 2003, largely as a result of the acquisition of the Spokane terminal in June 2003, which contributed third party revenues of $0.9 million in 2003.

Operating costs increased by $4.8 million from $19.4 million for the year ended December 31, 2002 to $24.2 million for the year ended December 31, 2003. The consolidation of Rio Grande Pipeline Company and acquisition of the Spokane, Burley and Boise terminals and the Woods Cross truck rack accounted for $1.3 million and $0.9 million, respectively, of the increased costs. Operating costs for the pipelines increased $1.0 million in 2003 as compared to 2002 primarily due to a $1.9 million increase in operating costs related to the Lovington crude pipelines, reflecting increased pipeline integrity testing and related maintenance expense. The Lovington crude pipelines are not being contributed to our partnership. Operating costs for terminal facilities decreased $0.3 million in 2003 as compared to 2002, excluding the impact of new assets acquired during the year. Property taxes and insurance increased by $0.4 million in 2003 as compared to 2002.

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Depreciation expense increased $2.0 million from $4.5 million for the year ended December 31, 2002 to $6.5 million for the year ended December 31, 2003, primarily as a result of the consolidation of Rio Grande Pipeline Company and, to a lesser extent, additional capital expenditures.

Year Ended December 31, 2002 Versus Year Ended December 31, 2001

Revenues increased by $3.0 million from $20.6 million for the year ended December 31, 2001 to $23.6 million for the year ended December 31, 2002. Pipeline revenues received from Holly Corporation increased by $2.0 million in 2002 as a result of increased volumes shipped due to increased production at the Navajo Refinery. Contract revenues from Alon increased by $1.1 million in 2002 as a result of the inclusion of a full year s revenue from the third capacity lease agreement. In addition, revenues from terminals decreased by $0.1 million as a result of lower volumes handled at our terminal in Mountain Home, Idaho.

Operating costs increased by $2.0 million from $17.4 million for the year ended December 31, 2001 to $19.4 million for the year ended December 31, 2002. Approximately $1.2 million of the increased operating costs related to maintenance cost of the Lovington crude pipelines and approximately $0.5 million of the increased operating costs were associated with our Moriarty terminal, as a result of increased security costs and one-time expenses associated with the handling of transmix at the start-up of the terminal.

Depreciation expense increased by $0.8 million from $3.7 million for the year ended December 31, 2001 to $4.5 million for the year ended December 31, 2002 primarily as a result of $5.2 million of capital expenditures related to the Lovington crude pipelines and $8.1 million of capital expenditures related to the new terminal facilities in Moriarty and Bloomfield, New Mexico that were made in 2001 and 2002.

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Impact of Pipelines and Terminals Agreement

The following table displays the revenues that would have been recorded for the years 1999 through 2003 using historical volumes and as if the initial tariff rates and terminalling fees in the pipelines and terminals agreement had been in place for all periods presented. The data for 2003 includes (1) results of operations for the Boise, Burley and Spokane terminals and the Woods Cross truck rack from June 1, 2003, the date of acquisition and (2) revenues for the Rio Grande Pipeline Company from June 30, 2003, the date we increased our ownership from 25% to 70%.

	Year Ended December 31,				
	1999	2000	2001	2002	2003
	(dollars in thousands except tariffs and service fees)				
Revenues					
Product pipelines	$21,546	$27,170	$25,837	$30,516	$29,275
Terminals	5,607	7,160	6,821	7,442	9,931
	27,153	34,330	32,658	37,958	39,206
Rio Grande Pipeline Company					6,910
	$27,153	$34,330	$32,658	$37,958	$46,116
Volumes (mbbls)					
Product pipelines[1]	21,898	24,400	21,992	25,127	23,978
Terminals	27,851	33,506	30,302	34,435	40,147
	49,749	57,906	52,294	59,562	64,125
Average tariffs/service fees per barrel					
Product pipelines[1]	$ 0.98	$ 1.11	$ 1.17	$ 1.21	$ 1.22
Terminals	$ 0.20	$ 0.21	$ 0.23	$ 0.22	$ 0.25

(1) Excludes the Rio Grande pipeline.

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The following table reflects the overall impact to 2003 revenues of the new tariff and terminal service fee revenues using historical throughput barrels, including the impact, if any, on each of our pipeline and terminal facilities. The amounts in the table below were calculated using historical throughput barrels. As adjusted revenues are unaudited.

	Year Ended December 31, 2003		
	Historical Revenues	As Adjusted Revenues	Increase (Decrease)
	(In thousands)		
Refined Product Pipelines			
6 Artesia to El Paso	$	$ 3,595	$ 3,595
8 -12 -8 Artesia to Orla to El Paso	16,273	16,273	
Four Corners Pipeline(1)		9,407	9,407
Total Refined Product Pipelines	16,273	29,275	13,002
Refined Product Terminals			
El Paso Terminal	737	2,983	2,246
Mountain Home Terminal	482	482	
Moriarty Terminal		947	947
Bloomfield Terminal		652	652
Tucson Terminal	603	1,472	869
Albuquerque Terminal		947	947
Boise Terminal		104	104
Burley Terminal		154	154
Spokane Terminal	858	897	39
Artesia Truck Rack		439	439
Woods Cross Truck Rack		854	854
Total Refined Product Terminals	2,680	9,931	7,251
Subtotal	18,953	39,206	20,253
Rio Grande Pipeline Company	6,910	6,910	
Intermediate Product Pipelines(2)			
Crude Oil Pipelines(2)	4,937		(4,937)
Total	$30,800	$46,116	$15,316

(1) Includes shipments between Artesia and Moriarty and Artesia and Bloomfield.

(2) These pipelines will not be contributed to our partnership.

Liquidity and Capital Resources

Cash flows and capital expenditures

Holly Corporation utilizes a common treasury function for all of its subsidiaries, whereby all cash receipts are deposited in Holly Corporation bank accounts and all cash disbursements are made from these accounts. Cash receipts from customers and cash payments to vendors for Navajo Pipeline Co., L.P. (Predecessor) were recorded in these common accounts. Thus, prior to the acquisition of control of Rio Grande Pipeline Company no cash balances were reflected in the accounts of Navajo Pipeline Co., L.P. (Predecessor). Cash transactions handled by Holly Corporation for Navajo Pipeline Co., L.P. (Predecessor) were reflected in intercompany accounts receivable and accounts payable between the parent and the subsidiary.

Cash flows from operations. Cash flows from operations increased from $0.2 million for the three months ended March 31, 2003 to $0.3 million for the three months ended March 31, 2004. Net income for the three months ended March 31, 2004 was approximately $9.6 million

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compared to a net loss of $0.4 million for the three months ended March 31, 2003. However, the net change in working capital reduced cash flow from operations by $0.3 million for the three months ended March 31, 2003 and $12.1 million for the three months ended March 31, 2004 as a result of the change in accounting policies related to intercompany and intracompany revenues. Depreciation increased cash flow from operations by approximately $0.8 million and items related to equity accounting versus consolidation of Rio Grande Pipeline Company increased cash flows from operations for the three months ended March 31, 2004 by approximately $1.0 million.

Cash flows from operations for the year ended December 31, 2003 increased $1.6 million to $5.9 million from $4.3 million for the year ended December 31, 2002. Cash flows from operations for the year ended December 31, 2003 increased primarily due to an increase in non-cash items consisting of the following: (i) an increase in depreciation of $2.0 million; (ii) the reduction in equity and earnings of $1.8 million; and (iii) an increase in minority interest of $0.8 million when compared to the year ended December 31, 2002. However, net income for the year ended December 31, 2003 decreased by $2.1 million. In addition, increases in accounts payable and accrued liabilities increased cash flows by $5.8 million, while the increases in intercompany accounts receivable decreased cash flows by $6.7 million in 2003.

Cash flows from operations for the year ended December 31, 2001 and the year ended December 31, 2002 were $10.3 million and $4.3 million, respectively. Cash flows for 2001 were substantially greater than 2002 primarily as a result of a substantial increase in intercompany accounts payable in 2001 related to the construction of the Bloomfield and Moriarty terminals, a new 10-inch intermediate products pipeline from Lovington to Artesia, as well as construction of additional compression facilities on the Moriarty to Bloomfield leased line.

Cash flows from investing activities. Cash flows from investing activities decreased from $(0.2) million for the three months ended March 31, 2003 to $(2.6) million for the three months ended March 31, 2004. Investment in properties and equipment for the three months ended March 31, 2004 increased by approximately $1.3 million for new office facilities, a new pump station for the intermediate pipelines not being contributed to the partnership and pipeline expansions for the Rio Grande Pipeline.

During the year ended December 31, 2003 approximately $6.8 million was expended on capital assets, including $3.4 million by Rio Grande Pipeline Company subsequent to June 30, 2003 and $1.4 million in connection with the acquisition of the Boise, Burley and Spokane terminals and the Woods Cross truck rack. An additional $1.9 million was expended on maintenance capital projects and/or construction in progress during the year ended December 31, 2003.

Capital expenditures were $11.5 million in the year ended December 31, 2001 and $6.8 million in the year ended December 31, 2002, respectively. These expenditures related primarily to additions to the intermediate product pipelines (which will not be contributed to our partnership) and the terminals in Moriarty and Bloomfield, New Mexico.

In 2003, Rio Grande Pipeline Company made cash distributions of $4.5 million to its owners subsequent to June 30, 2003, of which $1.4 million is reflected as a cash outflow in investing activities.

During the three months ended March 31, 2004, $1.0 million was distributed to the owners of the minority interest in Rio Grande Pipeline Company.

Cash flows from financing activities. Effective June 30, 2003, we acquired an additional 45% equity interest in Rio Grande Pipeline Company. On June 1, 2003, we acquired the Boise, Burley and Spokane terminals and the Woods Cross truck rack. Financing for these acquisitions totaled $30.1 million.

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Capital requirements

Our pipeline and terminalling operations are capital intensive, requiring investments to expand, upgrade or enhance existing operations and to meet environmental and operations regulations. Our capital requirements have consisted of and are expected to continue to consist primarily of maintenance capital expenditures and expansion capital expenditures. Maintenance capital expenditures represent capital expenditures to replace partially or fully depreciated assets to maintain the operating capacity of existing assets and extend their useful lives. Expansion capital expenditures represent capital expenditures to expand the operating capacity of existing or new assets, whether through construction or acquisition. Repair and maintenance expenses associated with existing assets that are minor in nature and do not extend the useful life of existing assets are charged to operating expenses as incurred. Maintenance capital expenditures include expenditures required to maintain equipment reliability, tankage, and pipeline integrity and safety and to address environmental regulations. Expansion capital expenditures include expenditures to acquire assets to grow our business and to expand existing facilities, such as projects that increase throughput capacity on our pipelines and in our terminals. During the three years ended December 31, 2003, we incurred a total of $3.9 million in maintenance capital expenditures and expended $21.2 million for acquisitions and expansion and/or upgrades of our pipelines and terminal facilities.

We have budgeted average annual maintenance capital expenditures for our operations of $1.5 million in each of 2004 and 2005. We anticipate that these capital expenditures will be funded with cash generated by operations.

Our capital requirements over the past three years have been met with internally generated funds including short-term non-interest bearing funding from affiliates. It is anticipated that future expansion capital requirements will be provided through long-term borrowings or other debt financings and/or equity capital offerings.

Credit Agreement

We have entered into a four-year $100 million senior secured revolving credit agreement in connection with this offering. Union Bank of California, N.A. serves as administrative agent under this credit agreement.

The credit agreement is available to fund capital expenditures, acquisitions, working capital and for general partnership purposes. In addition, the credit agreement is available to fund letters of credit up to a $50 million sub-limit. Up to $5 million is available to fund distributions to unitholders. We will borrow $25 million under the credit agreement at the closing of the offering to fund a distribution to Holly Corporation, leaving approximately $75 million available for future borrowings. Under certain conditions specified in the credit agreement, only $60 million would be available for future borrowings.

Following the closing of this offering and funding of the credit agreement, we will have the right to request an increase in the maximum amount of the agreement, up to $175 million. Such requests will become effective if (i) certain conditions specified in the credit agreement are met and (ii) existing lenders under the credit agreement or other financial institutions reasonably acceptable to the administrative agent commit to lend such increased amounts under the agreement.

Our obligations under the credit agreement are secured by substantially all of our assets. Indebtedness under the credit agreement is non-recourse to our general partner and guaranteed by our subsidiaries.

We may prepay all loans at any time without penalty. We are required to reduce all working capital borrowings under the credit agreement to zero for a period of at least 15 consecutive days once each twelve month period prior to the maturity date of the agreement.

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Indebtedness under the credit agreement bears interest, at our option, at either (i) the base rate as announced by the administrative agent plus an applicable margin (ranging from 0.25% to 1.00%) or (ii) at a rate equal to LIBOR plus an applicable margin (ranging from 1.50% to 2.25%). In each case, the applicable margin is based upon the ratio of our funded debt (as defined in the credit agreement) to EBITDA (as defined in the credit agreement). We will incur a commitment fee on the unused portion of the credit agreement at a rate for the four most recently completed fiscal quarters of 37.5 or 50.0 basis points based upon the ratio of our funded debt to EBITDA for the four most recently completed fiscal quarters. The credit agreement matures in July 2008. At that time, the agreement will terminate and all outstanding amounts thereunder will be due and payable.

The credit agreement prohibits us from making distributions to unitholders if any potential default or event of default, as defined in the credit agreement, occurs or would result from the distribution. In addition, the credit agreement contains various covenants that limit, among other things, our ability to:

- incur indebtedness;
- grant liens;
- make certain loans, acquisitions and investments;
- make any material change to the nature of our business;
- acquire another company; or
- enter into a merger, consolidation or sale of assets.

The credit agreement also contains covenants requiring us to maintain on a quarterly basis:

- a ratio of not less than 3.50:1.00 of EBITDA to interest expense, each measured for the preceding four quarter period;
- a ratio of not more than 3.50:1.00 of debt at the end of the quarter to EBITDA for the preceding four quarter period; and
- a minimum tangible net worth of $45.0 million plus 50% of the gross proceeds of all equity issuances by us after this offering.

If an event of default exists under the credit agreement, the lenders will be able to accelerate the maturity of the credit agreement and exercise other rights and remedies. Each of the following is an event of default:

- failure to pay any principal when due or any interest, fees or other amount within certain grace periods;
- failure of any representation or warranty to be true and correct in any material respect;
- failure to perform or otherwise comply with the covenants in the credit agreement or other loan documents, subject to certain grace periods;
- default by us or any of our subsidiaries on the payment of any other indebtedness in excess of $5.0 million, or any default in the performance of any obligation or condition with respect to such indebtedness beyond the applicable grace period if the effect of the default is to permit or cause the acceleration of the indebtedness;
- termination of any material agreements, including the pipelines and terminals agreement and the omnibus agreement;
- default under any material agreement if such default could have a material adverse effect on us;
- bankruptcy or insolvency events involving us or our subsidiaries;

the entry, and failure to pay, one or more adverse judgments in excess of $5.0 million against which enforcement proceedings are brought or that are not stayed pending appeal; and

the minimum revenue commitment being decreased to an amount below $6,637,500 per quarter pursuant to the terms of our pipelines and terminals agreement;

a Change of Control (as defined in the credit agreement).

Contractual Obligations and Contingences

Our contractual obligations at March 31, 2004 consisted of the following (in thousands):

		Payments Due by Period			
	Total	Less than 1 Year	2-3 Years	4-5 Years	Over 5 Years
Pipeline operating lease	$17,225	$ 5,300	$10,600	$1,325	
Short-term debt	$30,082	$30,082			

On a pro forma basis, after giving effect to the offering and the application of the proceeds therefrom to repay certain short-term debt, our contractual obligations at March 31, 2004 consisted of the following (in thousands):

		Payments Due by Period			
	Total	Less than 1 Year	2-3 Years	4-5 Years	Over 5 Years
Pipeline operating lease	$17,225	$5,300	$10,600	$ 1,325	
Debt under the new credit agreement	$25,000			$25,000	

Impact of Inflation

Inflation in the United States has been relatively low in recent years and did not have a material impact on our results of operations for the years ended December 31, 2001, 2002, 2003 or the three months ended March 31, 2004.

Regulatory Matters

Our interstate common carrier pipeline operations are subject to rate regulation by the FERC under the Interstate Commerce Act and the Energy Policy Act. Some of our intrastate pipeline operations are subject to regulation by the Texas Railroad Commission, the New Mexico Public Regulation Commission or the Idaho Public Utilities Commission. For more information on federal and state regulations affecting our business, please read Business Rate Regulation.

Environmental Matters

Our operations are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdictions in which these operations are conducted. For a complete discussion of the environmental laws and regulations affecting our business, please read Business Environmental Regulation.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 142 Goodwill and Other Intangible Assets which changes how goodwill and other intangible assets are accounted for subsequent to their initial recognition. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001, with

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early adoption permitted; however, all goodwill and intangible assets acquired after June 30, 2001, are immediately subject to the provisions of this statement. We adopted the standard effective August 1, 2002 and there was no material effect on our financial condition, results of operations, or cash flows.

In June 2001, FASB issued SFAS No. 143 Accounting for Asset Retirement Obligations which requires that the fair value for an asset retirement obligation be capitalized as part of the carrying amount of the long-lived asset if a reasonable estimate of fair value can be made. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, with early adoption permitted. We adopted the standard effective August 1, 2002 and there was no material effect on our financial condition, results of operations, or cash flows.

In August 2001, FASB issued SFAS No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets. This statement supersedes SFAS No. 121 Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of , but carries over the key guidance from SFAS No. 121 in establishing the framework for the recognition and measurement of long-lived assets to be disposed of by sale and addresses significant implementation issues. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, with early adoption permitted. We adopted the standard effective August 1, 2002 and there was no material effect on our financial condition, results of operations, or cash flows.

In June 2002, FASB issued SFAS No. 146 Accounting for Certain Costs Associated with Exit or Disposal Activities which nullifies Emerging Issues Task Force (EITF) 94-3 and requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and establishes fair value as the objective for initial measurement of liabilities. This differs from EITF 94-3 which stated that liabilities for exit costs were to be recognized as of the date of an entity s commitment to an exit plan. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. We adopted the standard on January 1, 2003, and there was no material effect on our financial condition, results of operations, or cash flows.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities as of the date of the financial statements. Actual results may differ from these estimates under different assumptions or conditions. We consider the following policies to be the most critical to understanding the judgments that are involved and the uncertainties that could impact our results of operations, financial condition and cash flows.

Revenue Recognition

Revenues are recognized as products are shipped through our pipelines and terminals, except that prior to January 1, 2004 pipeline tariff and terminal services fee revenues were not recorded on services utilizing non-FERC regulated pipelines. These revenues had not previously been recognized as the pipelines and terminals were operated as a component of Holly Corporation s petroleum refining and marketing business. Commencing January 1, 2004, we began charging Holly Corporation pipeline tariffs and terminal service fees as set forth in the pipelines and terminals agreement. Additional pipeline transportation revenues result from an operating lease by Alon of an interest in the capacity of one of our pipelines.

The only revenues reflected in the historical financial data prior to January 1, 2004 are from (i) third parties who used our pipelines and terminals, (ii) Holly Corporation s use of our FERC-regulated pipeline and (iii) Holly Corporation s use of the Lovington crude pipelines, which will not be contributed to Holly Energy Partners, L.P. Upon the closing of the offering, we will receive revenues from Holly Corporation pursuant to the terms of the pipelines and terminals agreement. Please read Impact of Pipelines and Terminals Agreement.

Long-lived Assets

We calculate depreciation and amortization based on estimated useful lives and salvage values of our assets. When assets are placed into service, we make estimates with respect to their useful lives that we believe are reasonable. However, factors such as competition, regulation or environmental matters could cause us to changes our estimates, thus impacting the future calculation of depreciation and amortization. We evaluate long-lived assets for potential impairment by identifying whether indicators of impairment exist and, if so, assessing whether the long-lived assets are recoverable from estimated future undiscounted cash flows. The actual amount of impairment loss, if any, to be recorded is equal to the amount by which a long-lived asset s carrying value exceeds its fair value. Estimates of future discounted cash flows and fair value of assets require subjective assumptions with regard to future operating results and actual results could differ from those estimates. No impairments of long-lived assets were recorded during the three years ended December 31, 2003 or during the three months ended March 31, 2004.

Contingencies

In the future, we will be subject to proceedings, lawsuits and other claims related to environmental, labor, product and other matters. We are required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies is made after careful analysis of each individual issue. The required reserves may change in the future due to developments in each matter or changes in approach such as a change in settlement strategy in dealing with these potential matters.

The omnibus agreement also provides that Holly Corporation will indemnify us up to $15 million for certain environmental matters for a period of ten years. Please read Business Environmental Regulation, and Certain Relationships and Related Transactions Omnibus Agreement for a more complete description of these provisions.

Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices. Because we do not own the refined product that is shipped on our pipelines or throughput in our terminals, we are not directly exposed to refined product or commodity type risk. Debt that we incur under our credit agreement will bear variable interest and will expose us to interest rate risk. Unless interest rates increase significantly in the future, our exposure to interest rate risk should be minimal. We may use certain derivative instruments to hedge our exposure to variable interest rates. We do not currently have in place any hedges or forward contracts.

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BUSINESS

Overview

Holly Energy Partners is a Delaware limited partnership recently formed by Holly Corporation. We operate 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 refined products through our pipelines and by charging fees for terminalling refined products and other hydrocarbons, 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 a 15 year pipelines and terminals agreement. Our assets include:

Refined Product Pipelines:

- approximately 780 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 to its customers in the metropolitan and rural areas of Texas, New Mexico, Arizona, Colorado, Utah and northern Mexico; and
- a 70% interest in the 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.

Refined Product Terminals:

- five refined product terminals (two of which are 50% owned), located in El Paso, Texas; Moriarty, Bloomfield and Albuquerque, New Mexico; and Tucson, Arizona, with an aggregate capacity of approximately 1.1 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.

In addition, we have an option to purchase two intermediate product pipelines from Holly Corporation. These pipelines transport crude oil and feedstocks from Holly Corporation s Lovington facility to its Artesia facility. These pipelines are each 65 miles long and have a current aggregate throughput capacity of 84,000 bpd.

Our Relationship with Holly Corporation

The substantial majority of our business is devoted to providing transportation and terminalling services to Holly Corporation, an independent petroleum refiner and marketer that produces high value light products such as gasoline, diesel fuel and jet fuel. For the year ended December 31, 2003, Holly Corporation accounted for approximately $30.2 million, or 57.3%, of our pro forma revenues. For the three months ended March 31, 2004, Holly Corporation accounted for approximately $9.2 million, or 59.6%, of our pro forma revenues. We expect to continue to derive a substantial majority of our revenues from Holly Corporation for the foreseeable future. Please read Risk Factors Risks Inherent in Our Business An adverse decision in a lawsuit pending between Holly Corporation and Frontier Oil Corporation could have a material adverse effect on Holly Corporation s financial condition and results of operations and therefore our results of operations.

Holly Corporation owns and operates the Navajo Refinery, the largest refinery in New Mexico, consisting of refining facilities that are located 65 miles apart in Artesia and Lovington and operated in conjunction with each other. The Navajo Refinery, which has operated continuously since its acquisition by Holly Corporation in 1969, is one of the most efficient and technologically advanced refineries in the geographic area it serves, with a Nelson Complexity Index rating of 10.0. In December 2003, the Navajo Refinery completed an $85.0 million expansion project at the Artesia facility that increased its crude oil processing capacity from 60,000 bpd to 75,000 bpd and allowed the refinery to meet or exceed the federally mandated clean air requirements for gasoline. The majority of our operations are located within Holly Corporation s New Mexico refining market area. Holly Corporation relies on us to provide almost all of the light refined product transportation and terminalling services it requires to support its New Mexico refining operations. For the year ended December 31, 2003 and the three months ended March 31, 2004, we transported and terminalled approximately 99% of the light refined products produced by the Navajo Refinery.

Holly Corporation also operates a crude oil refinery in Woods Cross, Utah, near Salt Lake City, primarily serving markets in Utah and Idaho. The Woods Cross Refinery has a current crude oil processing capacity of 25,000 bpd and, for the period from June 1, 2003 to March 31, 2004, it processed 22,119 bpd of crude oil, utilizing approximately 88.4% of the refinery s capacity. Since June 1, 2003, the date Holly Corporation acquired the Woods Cross Refinery, through March 31, 2004, we terminalled 100% of the light refined products produced by the Woods Cross Refinery.

Holly Corporation also operates a refinery in Great Falls, Montana, primarily serving markets in Montana, with a current crude oil processing capacity of 8,000 bpd. We have no operations relating to the Montana Refinery.

Holly Corporation currently markets the light refined products it produces in Texas, New Mexico, Arizona, Montana, Utah, Colorado, Idaho, Washington, and northern Mexico. For more information on Holly Corporation s marketing activities, please read Holly Corporation s Refining Operations Marketing.

Holly Corporation has a significant interest in our partnership through its indirect ownership of a 56% limited partner interest and a 2% general partner interest. Holly Corporation s common stock trades on the New York Stock Exchange under the symbol HOC. For the year ended December 31, 2003 and the three months ended March 31, 2004, Holly Corporation had revenues of $1.4 billion and $463 million, respectively, and net income of $46.1 million and $14.0 million, respectively. Holly Corporation is subject to the information requirements of the Securities Exchange Act of 1934. Please read Where You Can Find More Information.

Pipelines and Terminals Agreement

Concurrently with the closing of this offering, we will enter into a 15 year pipelines and terminals agreement with Holly Corporation. Under this agreement, Holly Corporation will pay us fees that we believe are comparable to those that would be charged by third parties. Holly Corporation will also agree to transport on our refined product pipelines and throughput in our terminals a volume of refined products that will result in minimum revenues of $35.4 million in the first year. This minimum revenue commitment will increase each year at a rate equal to the percentage change in the producer price index, but will not decrease as a result of a decrease in the producer price index. Holly Corporation will pay the published tariff rates on the pipelines and contractually agreed upon fees at the terminals. The tariffs will adjust annually at a rate equal to the change in the producer price index. The terminal fees will adjust annually based upon an index comprised of comparable fees posted by third parties. Holly Corporation s minimum revenue commitment will apply only to our initial assets and may not be spread among assets we subsequently acquire. On a pro forma basis, we would have received $30.2 million in revenue from Holly Corporation for the use of our pipelines and terminals during the year ended December 31, 2003. Because we began charging Holly Corporation the fees set forth in the pipelines and terminals agreement beginning January 1, 2004, we received actual revenues from Holly Corporation of $9.2 million in the first quarter of 2004. If Holly Corporation fails to meet its minimum revenue commitment in any quarter, it will be required to pay us in cash the amount of any shortfall by the last day of the month following the end of the quarter. A shortfall payment may be applied as a credit in the following four quarters after Holly Corporation s minimum obligations are met.

At Holly Corporation s request, we will use our best efforts to transport by pipeline each month during the term of the agreement up to 40,000 bpd from Artesia to El Paso and up to 40,000 bpd from Artesia to Moriarty/ Bloomfield, subject to our common carrier duty to pro-ration capacity, where applicable. We have also agreed to provide terminalling services for all of Holly Corporation s barrels shipped on those pipelines to those destinations.

Holly Corporation s obligations under this agreement may be proportionately reduced or suspended if Holly Corporation (1) shuts down or reconfigures one of its refineries (other than for planned maintenance turnarounds) and (2) reasonably believes in good faith that such event will jeopardize its ability to satisfy its minimum revenue obligations. Holly Corporation will be required to give at least twelve months advance notice of any long-term shut-down or material reconfiguration. Holly Corporation will propose new minimum obligations that proportionally reduce the affected obligations. If we do not agree with this reduction, any change in Holly Corporation s obligations will be determined by binding arbitration.

Furthermore, if new laws or regulations that affect terminals or pipelines generally are enacted that require us to make substantial and unanticipated capital expenditures at the pipelines or terminals, we will have the right to impose a monthly surcharge on Holly Corporation for the use of the terminals or to file for an increased tariff rate for use of the pipelines to cover Holly Corporation s pro rata portion of the cost of complying with these laws or regulations, after we have made efforts to mitigate their effect. We and Holly Corporation will negotiate in good faith to agree on the level of the monthly surcharge or increased tariff rate.

Holly Corporation s obligations under this agreement may be temporarily suspended during the occurrence of an event that is outside the control of the parties that renders performance impossible with respect to an asset for at least 30 days. An event with a duration of longer than one year would allow us or Holly Corporation to terminate the contract.

Holly Corporation has business interruption insurance for the benefit of its refinery assets. Payments Holly Corporation is required to make pursuant to its minimum revenue commitment would be recoverable under this policy in the event of an insurable loss. In addition, we maintain our own business interruption insurance for the benefit of our pipelines and terminals.

Holly Corporation has agreed not to challenge, or to cause others to challenge or assist others in challenging, our tariff rates for the term of the pipelines and terminals agreement. This agreement does not prevent other current or future shippers from challenging our tariff rates. At the end of the agreement, Holly Corporation will be free to challenge, or to cause others to challenge or assist others in challenging, our tariff rates.

During the term of the agreement, we have agreed not to reverse the direction of any of our pipelines or to connect any other pipelines to our pipelines or terminals without the consent of Holly Corporation.

Holly Corporation s obligations under this agreement will not terminate if Holly Corporation and its affiliates no longer own the general partner. This agreement may be assigned by Holly Corporation only with the consent of our conflicts committee.

Upon termination of the agreement, Holly Corporation will have a limited right of first refusal giving it the right to enter into a new pipelines and terminals agreement with us pursuant to which Holly Corporation will agree to match any commercial terms offered to us by a third party.

To the extent Holly Corporation does not extend or renew the pipelines and terminals agreement, our financial condition and results of operations may be adversely affected. The majority of our assets were constructed or purchased to service Holly Corporation s refining and marketing supply chain and are well-situated to suit Holly Corporation s needs. As a result, we would expect that even if this agreement is not renewed, Holly Corporation would continue to use our pipelines and terminals. However, we cannot assure you that Holly Corporation will continue to use our facilities or that we will be able to generate additional revenues from third parties.

From time to time Holly Corporation considers changes to its refineries. Those changes may involve new facilities, reduction in certain operations or modifications of facilities or operations. Changes may be considered to meet market demands, to satisfy regulatory requirements or environmental and safety objectives, to improve operational efficiency or for other reasons. One such project recently completed is an $85.0 million expansion project at Holly Corporation s Artesia facility that expanded total crude oil processing capacity from 60,000 bpd to 75,000 bpd and allowed the refinery to meet or exceed current federally mandated clean air requirements for gasoline.

Holly Corporation has advised us that although it continually considers the types of matters referred to above, it currently does not intend to close or dispose of the refineries currently served by our pipelines and terminals or to cause any changes that would have a material adverse effect on us. Holly Corporation is, however, actively managing its assets and operations, and, therefore, changes of some nature, possibly material to us, are likely to occur at some point in the future.

Business Strategies

Our primary business objective is to increase distributable cash flow per unit by executing the following strategies:

Generate stable cash flows. We generate revenues from customers who pay us fees primarily based on the volume of refined products shipped in our pipelines or stored in or distributed from our terminals. We have no direct commodity price risk because we do not own any of the products transported on our pipelines or distributed from our terminals. In order to ensure stable cash flows, we will enter into a long-term pipelines and terminals agreement pursuant to which Holly Corporation will agree to pay us a guaranteed minimum amount of revenues. The initial annual minimum revenue commitment of $35.4 million equals approximately 67.2% of our pro forma revenues for 2003. We believe that the fee-based nature of our business and the long-term nature of our contracts will provide us with stable cash flows.

Increase our pipeline and terminal throughput. We have available capacity in many of our pipelines and terminals that can allow us to increase throughput without significant capital expenditures. In 2003, we averaged 50.9% capacity utilization on our three main refined products pipelines. We believe that the recent 15,000 bpd expansion of Holly Corporation s Navajo Refinery and growth in demand for light refined products in the markets we serve will result in increased utilization of our pipelines and terminals. For example, for the three months ended March 31, 2004, we averaged 60.4% capacity utilization on our three main refined product pipelines. As a result of our strategic position within Holly Corporation s supply chain,

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substantially all of the new barrels produced as a result of the 2003 Navajo Refinery expansion are being transported on our pipelines. In addition, as part of this expansion, Holly Corporation built the infrastructure necessary to expand the Navajo Refinery by an additional 5,000 bpd to a total production of 80,000 bpd, if refined product demand increases in the future.

Undertake economic construction and expansion opportunities. We continually evaluate opportunities to expand our asset base. Since 1996, our management team has constructed or leased approximately 500 miles of additional pipelines and has constructed or expanded terminals providing approximately 482,000 barrels of additional storage capacity. These assets have provided shippers with access to new markets in northern Mexico, northern New Mexico, southern Colorado and southern Utah. We will continue to consider extending our existing refined product pipelines or constructing new refined product pipelines and terminals to meet rising demand in high growth areas in the southwestern United States, northern Mexico and the Rocky Mountain region in the United States.

Pursue strategic and accretive acquisitions that complement our existing asset base. We plan to pursue acquisitions from third parties of energy transportation and distribution assets that are complementary to those we currently own. We will pursue these acquisitions independently as well as jointly with Holly Corporation. For example, in 2003, we acquired terminals in Burley and Boise, Idaho, and Spokane, Washington providing over 514,000 barrels of additional storage capacity and an additional 45% interest in the Rio Grande Pipeline Company. Future acquisition targets may include assets to be directly integrated into our existing refined product distribution chain, such as pipelines, terminals and qualified processing assets, or acquisitions of related businesses in which we are not currently active. In addition, we currently have an option to purchase two intermediate pipelines from Holly Corporation pursuant to the omnibus agreement and may have the opportunity to acquire other pipeline or terminal assets associated with Holly Corporation s refineries in the future.

Competitive Strengths

We believe we are well-positioned to execute our business strategies successfully using the following competitive strengths:

Substantially all of our assets are located in markets with above average population growth. Our pipelines and terminals serve our customers marketing operations in the Southwest and Rocky Mountain regions of the United States as well as northern Mexico. In many of our core markets, demand for light refined products exceeds local production, due in part to above average population growth. We expect that the population growth in the states of Texas, New Mexico, Colorado and Arizona will result in increased demand for light refined products shipped on our pipelines.

We will operate a substantial part of our business under long-term contracts. We will conduct a significant portion of our operations pursuant to long-term contracts, which we believe will enhance the stability and predictability of our revenues and cash flows. Revenues from contracts extending beyond one year constituted approximately 95% of our pro forma revenues for 2003 and for the first quarter of 2004. In addition, where we operate under shorter-term contracts, we believe our long-standing customer relationships will lead to repeat business and the renewal of short-term contracts.

Our assets are modern, efficient, and well maintained. We continually invest in the maintenance and integrity of our assets, including state-of-the-art internal mechanical integrity inspection and repair programs to comply with federal regulations. Since 1998, we have inspected and repaired approximately 98% of the total miles of our pipelines using internal inspection devices known as smart pigs that have instruments capable of detecting cracks, line erosion and other structural deficiencies. The operating pressures of these lines have been validated with recent hydrotesting. All of our assets are operated via satellite communications systems from our control center. The control center operates with state-of-the-art computer systems designed to continuously monitor real time operational data, including product quantities, flow rates and pressures.

We have a strategic relationship with Holly Corporation. Substantially all of our refined product pipelines are directly linked to Holly Corporation s refineries and provide Holly Corporation with the safest and most cost-effective means to distribute light refined products to its major markets. For the year ended December 31, 2003 and the three months ended March 31, 2004, Holly Corporation transported through our refined product pipelines or loading racks approximately 99% of the light refined products from its Navajo Refinery and 100% from its Woods Cross Refinery. Holly Corporation will agree to continue using our assets to transport, terminal and store light refined products pursuant to the pipelines and terminals agreement. Furthermore, Holly Corporation has a significant economic interest to see that our pipeline and terminal assets are managed in the best interests of unitholders because it and its affiliates will own the 2% general partner interest in us and a 55.3% limited partner interest in us and the incentive distribution rights.

We are contractually and strategically positioned to benefit from growth initiatives by Holly Corporation. In the past year, we benefited from Holly Corporation s acquisition of a group of terminals in the Northwest and a 15,000 bpd expansion of its Navajo Refinery. In the event that Holly Corporation further expands its refineries, we believe that the additional production may also be transported, stored and distributed through our existing pipelines and terminals. Under the omnibus agreement, Holly Corporation will be required to grant us an opportunity to acquire certain types of transportation and distribution assets that are part of certain acquisitions it makes.

We have the financial flexibility to pursue expansion and acquisition opportunities. We have a $100.0 million credit agreement, of which we will have approximately $75.0 million of borrowing capacity available for general partnership purposes, including capital expenditures and acquisitions, following this offering. In addition, we believe that we have debt capacity beyond that available under our credit agreement. In combination with our ability to issue new partnership units, we have significant resources to finance expansion projects and acquisitions.

We have an experienced management team. We believe we will benefit from the experience and long-standing industry relationships of our senior management team. Our senior management has operated Holly Corporation s pipeline and terminals business for over 15 years and has an average of over 20 years of experience in the energy industry.

Construction and Acquisition History

We have developed our business through pipeline construction, leases and various acquisitions including the following:

In 1996, we entered into a long-term lease for 155 miles of 8-inch pipeline from White Lakes, New Mexico to Moriarty, New Mexico;

In 1996, we entered into a long-term lease for 191 miles of 8-inch pipeline from Moriarty, New Mexico to Bloomfield, New Mexico;

In 1997, we constructed 98 miles of 12-inch pipeline from Orla, Texas to El Paso, Texas;

In 1997, we acquired a 25% interest in Rio Grande Pipeline Company;

In 1998, we constructed 60 miles of 12-inch pipeline from Artesia, New Mexico to White Lakes, New Mexico;

In 1998, we constructed the Moriarty Terminal;

In 1998, we constructed the Bloomfield Terminal;

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In 2002, we expanded the El Paso Terminal by 100,000 bbls;

In 2003, we acquired an additional 45% interest in Rio Grande Pipeline Company; and

In 2003, we acquired the Boise and Burley, Idaho, and Spokane, Washington terminals and the truck rack located in the Woods Cross Refinery.

Pipelines

Overview

Our refined product pipelines transport light refined products from Holly Corporation s Navajo Refinery, as well as from a third party, to customers in the metropolitan and rural areas of Texas, New Mexico, Arizona, Colorado, Utah and northern Mexico. The refined products transported in these pipelines include conventional gasolines, federal, state and local specification reformulated gasoline, low-octane gasoline for oxygenate blending, distillates that include high- and low-sulfur diesel and jet fuel and LPGs (such as propane, butane and isobutane).

For the year ended December 31, 2003, gasoline, diesel and jet fuel represented approximately 63%, 28% and 9%, respectively, of the total throughput in our refined product pipelines. Our refined product pipelines were originally constructed between 1981 and 1999, except for the Artesia to El Paso pipeline, which was originally constructed in 1959. Our pipelines are regularly inspected and well maintained, and we believe they are in good repair. Generally, other than as provided in the pipelines and terminals agreement, all of our pipelines are unrestricted as to the direction in which product flows and the type of refined products that we can transport on them. The FERC regulates the transportation tariffs for interstate shipments on our refined product pipelines and state regulatory agencies regulate the transportation tariffs for intrastate shipments on our pipelines.

The following table details the average aggregate daily number of barrels of refined products transported on our refined product pipelines in each of the periods set forth below for Holly Corporation and for third parties. We acquired the lease on the White Lakes Junction to Moriarty and the Moriarty to Bloomfield refined product pipeline segments in 1996 and began transporting refined products on these segments in November 1999. In the case of these pipeline segments, the throughput set forth below for 1999 reflects the average daily throughput from the date of the acquisition through the end of the year.

	Year Ended December 31,					Three Months Ended March 31,
	1999	**2000**	**2001**	**2002**	**2003**	**2004**
Refined products transported for (bpd):						
Holly Corporation	51,365	55,825	47,364	55,288	51,456	65,313
Third parties	8,630	11,023	12,888	13,553	14,238	12,650
Total (bpd)	59,995	66,848	60,252	68,841	65,694	77,963
Total (mbbls)	21,898	24,400	21,992	25,127	23,978	7,095

The following table sets forth certain operating data for each of our refined product pipelines. Except as shown below, we own 100% of our refined product pipelines. Throughput is the total average number of barrels per day transported on a pipeline, but does not aggregate barrels moved between different points on the same pipeline. Revenues reflect tariff revenues generated by barrels shipped from an origin to a delivery point on a pipeline. Revenues also include payments made by Alon USA, L.P. under capacity lease agreements on our Orla to El Paso pipeline. Under these agreements, we provide space on our pipeline for the shipment of up to 20,000 barrels of refined product per day. Alon pays us whether or not it actually ships the full volumes of refined products it is entitled to ship. To the extent Alon does not use its capacity, we are entitled to use it. We calculate the capacity of our pipelines based on the throughput capacity for barrels of gasoline equivalent that may be transported in the existing configuration; in some cases, this includes the use of flow improvers.

					Year ended December 31, 2003			
Origin and Destination	**Diameter (inches)**	**Approximate Length (miles)**	**Tariff[1] ($/bbl)**	**Capacity (bpd)**	**Capacity Utilization**	**Throughput (bpd)**	**Holly Corporation Throughput (bpd)**	**As Adjusted Revenues[2]**
								(in thousands)
Refined Product Pipelines:								
Artesia, NM to El Paso, TX	6	156	$ 1.05	24,000	39%	9,400	9,400	$ 3,595
Artesia, NM to Orla, TX to El Paso, TX	8/12/8	215	1.05	60,000(3)	67%	40,200	26,000	16,273
Artesia, NM to Moriarty, NM[4]	12/8	215	1.35	45,000	36%	16,200	16,200	9,407
Moriarty, NM to Bloomfield, NM[4]	8	191	2.25(5)	(6)	(6)	(6)	(6)	(6)
Rio Grande Pipeline Company:								
Rio Grande Pipeline[7]	8	249	1.37	24,000	77%	18,580	0	13,501

(1) Represents the initial tariff rate under the pipelines and terminals agreement with Holly Corporation. Certain of these tariff rates are reduced in the event certain throughput levels are achieved.

(2) Represents actual revenues received from third parties, plus, in the case of revenues from Holly Corporation, historical volumes multiplied by tariffs set forth in the pipelines and terminals agreement.

(3) Includes 20,000 bpd of capacity on the Orla to El Paso segment of this pipeline that is leased to Alon.

(4) The White Lakes Junction to Moriarty segment of our Artesia to Moriarty pipeline and our Moriarty to Bloomfield pipeline is leased from Mid-America Pipeline Company, LLC under a long-term lease agreement.

(5) Represents the tariff from Artesia to Bloomfield.

(6) Capacity, utilization, throughput and revenues for this pipeline are reflected in the information for the Artesia to Moriarty pipeline.

(7) We have a 70% joint venture interest in the entity that owns this pipeline. Capacity, throughput and revenues reflect a 100% interest. Control of the Rio Grande Pipeline Company was acquired on June 30, 2003.

For the year ended December 31, 2003 and the three months ended March 31, 2004, Holly Corporation accounted for an aggregate of 78.3% and 83.8%, respectively, of the refined product volumes transported on our refined product pipelines (excluding the Rio Grande Pipeline). For the same periods, these pipelines transported approximately 99% of the light refined products transported by pipeline from the Navajo Refinery.

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The following map shows our light refined product pipelines and the intermediate refined product pipelines owned by Holly Corporation, which we have an option to purchase:

Refined Product Pipelines

Artesia, New Mexico to El Paso, Texas. The Artesia to El Paso refined product pipeline was constructed in 1959 and consists of 156 miles of 6-inch pipeline. This pipeline is used for the shipment of refined products produced at Holly Corporation s Navajo Refinery to our El Paso terminal, where we deliver to common carrier pipelines for local transportation to Arizona, northern New Mexico and northern Mexico and to the terminal s truck rack for local delivery by tanker truck. Holly Corporation is the only shipper on this pipeline. The refined products shipped on this pipeline represented approximately 17.2% of the total light refined products produced at Holly Corporation s Navajo Refinery during 2003 and 20.7% of the total light refined products for the three months ended March 31, 2004. Refined products produced at Holly Corporation s Navajo Refinery destined for El Paso are transported on either this pipeline or our Artesia to Orla to El Paso pipeline.

Artesia, New Mexico to Orla, Texas to El Paso, Texas. The Artesia to Orla to El Paso refined product pipeline is a common carrier pipeline regulated by the FERC and consists of three segments:

- an 8-inch, 81-mile segment from the Navajo Refinery to Orla, Texas, constructed in 1981;
- a 12-inch, 98-mile segment from Orla to outside El Paso, Texas, constructed in 1996; and
- an 8-inch, 35-mile segment from outside El Paso to our El Paso terminal, constructed in the mid 1950s.

There are two shippers on this pipeline, Holly Corporation and Alon USA, L.P. In 2003 and the three months ended March 31, 2004, this pipeline transported approximately 47.4% of the light refined products produced at Holly Corporation s Artesia facility to our El Paso terminal. During 2003 and the three months ended March 31, 2004, approximately 27,000 bpd of the product we transported for Holly Corporation was delivered to third-party pipelines from our El Paso terminal for further transportation to Arizona, northern New Mexico and northern Mexico;

the balance of the product is distributed through the terminal s truck rack for further delivery by tanker truck.

At Orla, the pipeline receives volumes of gasoline and diesel from Alon s 60,000 bpd Big Spring, Texas refinery through a tie-in to an Alon pipeline system. Alon has reserved an aggregate of 20,000 bpd of capacity on the segment of our pipeline from Orla to El Paso under three separate long-term capacity lease agreements, the earliest of which expires in August 2008. Each of these lease agreements provides for five-year extension options at Alon s option. Under these agreements, Alon pays us for this capacity, without regard to the volumes of refined products it actually ships.

Holly Corporation accounted for 64.5% and Alon accounted for 35.5% of volumes transported on this pipeline for the year ended December 31, 2003. For the same period, Holly Corporation accounted for 61.0% of the revenues generated by this pipeline and Alon accounted for 39.0%. For the three months ended March 31, 2004, Holly Corporation accounted for 72.2% of the volumes and 66.2% of the revenues for this pipeline, with Alon accounting for the balance.

Artesia, New Mexico to Moriarty, New Mexico. The Artesia to Moriarty refined product pipeline consists of a 59.5-mile, 12-inch pipeline from Holly Corporation s Artesia facility to White Lakes Junction, New Mexico that was constructed in 1999, and approximately 155 miles of 8-inch pipeline that was constructed in 1973 and extends from White Lakes Junction to our Moriarty terminal, where it also connects to our Moriarty to Bloomfield pipeline. We own the 12-inch pipeline from Artesia to White Lakes Junction. We lease the White Lakes Junction to Moriarty segment of this pipeline, and our Moriarty to Bloomfield pipeline described below, from Mid-America Pipeline Company, LLC under a long-term lease agreement entered into in 1996, which expires in 2007 and has one ten-year extension at our option. At our Moriarty terminal, volumes shipped on this pipeline can be transported to other markets in the area via tanker truck, including Albuquerque, Santa Fe and west Texas. The 155-mile White Lakes Junction to Moriarty segment of this pipeline is operated by Mid-America Pipeline Company, LLC (or its designee). Holly Corporation is the only shipper on this pipeline. We currently pay a monthly fee (which is subject to adjustments based on changes in the producer price index) of approximately $442,000 to Mid-America Pipeline Company, LLC to lease the White Lakes Junction to Moriarty and Moriarty to Bloomfield pipelines.

Moriarty, New Mexico to Bloomfield, New Mexico. The Moriarty to Bloomfield refined product pipeline was constructed in 1973 and consists of 191 miles of 8-inch pipeline leased from Mid-America Pipeline Company, LLC. This pipeline serves our terminal in Bloomfield. At our Bloomfield terminal, volumes shipped on this pipeline are transported to other markets in the Four Corners area via tanker truck. This pipeline is operated by Mid-America Pipeline Company, LLC (or its designee). Holly Corporation is the only shipper on this pipeline.

Rio Grande Pipeline

We own a 70% interest in Rio Grande Pipeline Company, a joint venture that owns a 249-mile, 8-inch common carrier LPG pipeline regulated by the FERC. The other owner of Rio Grande is a subsidiary of BP Plc. The pipeline originates from a connection with an Enterprise pipeline in West Texas at Lawson Junction, and terminates at the Mexican border near San Elizario, Texas, with a delivery point in San Elizario and an additional receipt point near Midland, Texas for ultimate use by PEMEX (the government-owned energy company of Mexico). The Rio Grande Pipeline Company does not own any facilities or pipelines in Mexico. The pipeline has a current capacity of approximately 24,000 bpd. This pipeline was originally constructed in the mid 1950s, was first reconditioned in 1988, and subsequently reconditioned in 1996 and 2003. Approximately 75 miles of this pipeline has been replaced with new pipe, and an additional 50 miles has been recoated. The pipeline is currently operated by Magellan Pipeline Company LLC, a former partner in Rio Grande Pipeline Company.

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The joint venture was formed in 1996, at which time we contributed nearly 220 miles of pipeline from near Odessa, Texas to outside El Paso, Texas in exchange for a 25% interest in the joint venture. The Rio Grande Pipeline began operations in 1997. In June 2003, we acquired an additional 45% interest in the joint venture from Juarez Pipeline Co., an affiliate of The Williams Companies, Inc. for approximately $28.7 million. The pipeline is currently completing a reconditioning project that should facilitate an expansion to more than 32,000 bpd, if required. Our 70% share of this project is expected to be approximately $3.1 million. Currently, only LPGs are transported on this pipeline, and BP is the only shipper. BP s contract provides that BP will ship a minimum average of 16,500 bpd for the duration of the agreement. The tariff rates and shipping regulations are regulated by the FERC. For the years ended December 31, 2001, 2002 and 2003, BP paid $12.5 million, $14.2 million and $13.5 million pursuant to its contract.

An officer of Holly Logistic Services, L.L.C. is one of two members of Rio Grande Pipeline Company s management committee. Please read Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of our anticipated capital expenditures with respect to this pipeline.

Refined Product Terminals

Our refined product terminals receive products from pipelines and Holly Corporation s Navajo and Woods Cross refineries and distribute them to Holly Corporation and third parties, who in turn deliver them to end-users and retail outlets. Our terminals are generally complementary to our pipeline assets and serve Holly Corporation s marketing activities. Terminals play a key role in moving product to the end-user market by providing the following services:

- distribution;
- blending to achieve specified grades of gasoline;
- other ancillary services that include the injection of additives and filtering of jet fuel; and
- storage and inventory management.

Typically, our refined product terminal facilities consist of multiple storage tanks and are equipped with automated truck loading equipment that operates 24 hours a day. This automated system provides for control of security, allocations, and credit and carrier certification by remote input of data by our customers. In addition, nearly all of our terminals are equipped with truck loading racks capable of providing automated blending to individual customer specifications.

Our refined product terminals derive most of their revenues from terminalling fees paid by customers. We charge a fee for transferring refined products from the terminal to trucks or to pipelines connected to the terminal. In addition to terminalling fees, we generate revenues by charging our customers fees for blending, injecting additives, and filtering jet fuel. Upon execution of the pipelines and terminals agreement, Holly Corporation will account for the substantial majority of our refined product terminal revenues.

For the year ended December 31, 2003, gasoline represented approximately 63% of the total volume of refined products distributed through our product terminals, while distillates represented approximately 37%.

The table below sets forth the total average throughput for our refined product terminals in each of the periods presented:

	Year Ended December 31,					Three Months Ended March 31,
	1999	2000	2001	2002	2003	2004
Refined products terminalled for (bpd):						
Holly Corporation	70,364	80,251	69,611	81,969	88,984	115,581
Third parties	5,939	11,548	13,409	12,374	21,008	25,798
Total (bpd)	76,303	91,799	83,020	94,343	109,992	141,379
Total (mbbls)	27,851	33,506	30,302	34,435	40,147	12,866

The following table outlines the location of our refined product terminals and their storage capacities, number of tanks, supply source, mode of delivery and average throughput for the year ended December 31, 2003:

Terminal Location	Storage Capacity (bbls)	Number of Tanks	Supply Source	Mode of Delivery	Average Throughput (bpd)
El Paso, TX	507,000	16	Pipeline/rail	Truck/ Pipeline	48,400
Moriarty, NM	189,000	9	Pipeline	Truck	9,600
Bloomfield, NM	193,000	7	Pipeline	Truck	6,600
Albuquerque, NM(1)	64,000	9	Pipeline	Truck	7,900
Tucson, AZ(2)	176,000	9	Pipeline	Truck	9,600
Mountain Home, ID(3)	120,000	3	Pipeline	Pipeline	1,500
Boise, ID(1)(4)	111,000	9	Pipeline	Pipeline	(5)
Burley, ID(1)(4)	70,000	7	Pipeline	Truck	2,700
Spokane, WA(4)	333,000	32	Pipeline/rail	Truck	13,000
Artesia facility truck rack	N/A	N/A	Refinery	Truck	4,800
Woods Cross facility truck rack(4)	N/A	N/A	Refinery	Truck/Pipeline	21,200
Total	1,763,000				125,300

(1) We have a 50% ownership interest in these terminals. The capacity and throughput information represents the proportionate share of capacity and throughput attributable to our ownership interest.

(2) The Tucson terminal consists of two parcels. On one parcel, we lease the underlying ground as a 50% co-tenant with a division of Kaneb Pipeline Co. pursuant to which we own 50% of the improvements on that parcel. On the other parcel, our joint venture with Kaneb leases the underlying ground and owns the improvements. This joint venture agreement gives us rights to 100% of the terminal capacity (for both parcels), which is operated by Kaneb for a fee.

(3) Handles only jet fuel.

(4) Average throughput is calculated from June 1, 2003, the date of acquisition.

(5) The operations of this terminal are seasonal and it has seen limited use since its acquisition in June 2003.

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The following map shows our light refined product terminals and truck racks:

El Paso terminal. We receive light refined products at this terminal from Holly Corporation s Artesia facility through our Artesia to El Paso and Artesia to Orla to El Paso pipelines and by rail that account for approximately 71% of the volumes at this terminal. We also receive product from Alon s Big Spring, Texas refinery that accounted for approximately 29% of the volumes at this terminal in 2003. Refined products received at this terminal are sold locally via the truck rack or transported to our Tucson terminal on Kinder Morgan Energy Partners L.P. s East System pipeline, to our Albuquerque terminal on ChevronTexaco s Albuquerque pipeline, and to northern Mexico on ChevronTexaco s Juarez pipeline. Competition in this market includes a refinery and terminal owned by Western Refining, a joint venture pipeline and terminal owned by ConocoPhillips and Valero L.P. and a terminal connected to the Longhorn Pipeline that is currently inactive.

Moriarty terminal. We receive light refined products at this terminal from Holly Corporation s Artesia facility through our pipelines. Refined products received at this terminal are sold locally via the truck rack. Holly Corporation is our only customer at this terminal. There are no competing terminals in Moriarty.

Bloomfield terminal. We receive light refined products at this terminal from Holly Corporation s Artesia facility through our pipelines. Refined products received at this terminal are sold locally via the truck rack. Holly Corporation is our only customer at this terminal. Competition in this market includes a refinery and terminal owned by Giant Industries.

Albuquerque terminal. We and ConocoPhillips each own a 50% interest in the Albuquerque terminal. We receive light refined products from Holly Corporation that are transported on ChevronTexaco s Albuquerque pipeline from our El Paso terminal and account for over 90% of the volumes at this terminal. We also receive product from ConocoPhillips and Valero that are transported to the Albuquerque terminal on Valero, L.P. s West Emerald Pipeline from its McKee, Texas refinery. Competition in the Albuquerque market includes terminals owned by ChevronTexaco, ConocoPhillips, Giant and Valero.

Tucson terminal. The Tucson terminal consists of two parcels. On one parcel, we lease the underlying ground as a 50% co-tenant with a division of Kaneb Pipeline Co. pursuant to which we own 50% of the improvements on that parcel. On the other parcel, our joint venture with Kaneb leases the underlying ground and owns the improvements. This joint venture agreement gives us rights to 100% of the terminal capacity (for both parcels), which is operated by Kaneb for a fee. We receive light refined products at this terminal from Kinder Morgan s East System pipeline, which transports refined products from Holly Corporation s Artesia facility that it receives at our El Paso terminal. Competition in this market includes terminals owned by Kinder Morgan and CalJet.

Boise terminal. We and Sinclair each own a 50% interest in the Boise terminal. Sinclair is the operator of the terminal. The Boise terminal receives light refined product from Holly Corporation and Sinclair shipped through ChevronTexaco s pipeline originating in Salt Lake City, Utah. The Woods Cross Refinery, as well as other refineries in Salt Lake City area, and Pioneer s terminal in Salt Lake City are connected to the ChevronTexaco pipeline. All loading of products out of the Boise terminal is conducted at ChevronTexaco s loading rack, which is connected to the Boise terminal by pipeline. Holly Corporation and Sinclair are the only customers at this terminal.

Burley terminal. We and Sinclair each own a 50% interest in the Burley terminal. Sinclair is the operator of the terminal. The Burley terminal receives product from Holly Corporation and Sinclair shipped through ChevronTexaco s pipeline originating in Salt Lake City, Utah. Holly Corporation and Sinclair are the only customers at this terminal.

Spokane terminal. This terminal is connected to the Woods Cross Refinery via a ChevronTexaco common carrier pipeline. The Spokane terminal is also supplied by ChevronTexaco and Yellowstone pipelines and by rail and truck. Shell, ChevronTexaco and Holly Corporation are the major customers at this terminal. Other terminals in the Spokane area include terminals owned by ExxonMobil and ConocoPhillips.

Mountain Home terminal. We receive jet fuel from third parties at this terminal that is transported on ChevronTexaco s Salt Lake City to Boise, Idaho pipeline. We then transport the jet fuel from the Mountain Home terminal through our 13-mile, 4-inch pipeline to the United States Air Force Base outside of Mountain Home. Our pipeline associated with this terminal is the only pipeline that supplies jet fuel to the air base. We are paid a single fee from the Department of Fuel Supply Standard for injecting, storing, testing and transporting jet fuel at this terminal.

Artesia facility truck rack. The truck rack at Holly Corporation s Artesia facility loads light refined products produced at the facility onto tanker trucks for delivery to markets in the surrounding area. Holly Corporation is the only user of this truck rack.

Woods Cross facility truck rack. The truck rack at Holly Corporation s Woods Cross facility loads light refined products produced at the Woods Cross Refinery onto tanker trucks for delivery to markets in the surrounding area. Holly Corporation is the only user of this truck rack. Holly Corporation also makes transfers to a common carrier pipeline at this facility.

Pipeline and Terminal Control Operations

All of our pipelines are operated via geosynchronous satellite, microwave, radio and frame relay communication systems from a central control room located in Artesia, New Mexico. We also monitor activity at our terminals from this control room.

The control center operates with modern, state-of-the-art System Control and Data Acquisition, or SCADA, systems. Our control center is equipped with computer systems designed to continuously monitor operational data, including refined product and crude oil throughput, flow rates, and pressures. In addition, the control center monitors alarms and throughput balances. The control center operates remote pumps, motors, engines, and valves associated with the delivery of refined products and crude oil. The computer systems are designed to enhance leak-detection capabilities, sound automatic alarms if operational conditions outside of pre-established parameters occur, and provide for remote-controlled shutdown of pump stations on the pipelines. Pump stations and meter-measurement points on the pipelines are linked by satellite or telephone communication systems for remote monitoring and control, which reduces our requirement for full-time on-site personnel at most of these locations.

Safety and Maintenance

We perform preventive and normal maintenance on all of our pipeline systems and make repairs and replacements when necessary or appropriate. We also conduct routine and required inspections of our pipelines and other assets as required by code or regulation. We inject corrosion inhibitors into our mainlines to help control internal corrosion. External coatings and impressed current cathodic protection systems are used to protect against external corrosion. We conduct all cathodic protection work in accordance with National Association of Corrosion Engineers standards. We continually monitor, test, and record the effectiveness of these corrosion inhibiting systems.

We monitor the structural integrity of selected segments of our pipeline systems through a program of periodic internal inspections using both dent pigs and electronic smart pigs, as well as hydrostatic testing that conforms to Federal standards. We follow these inspections with a review of the data, and we make repairs as required to ensure the integrity of the pipeline. We have initiated a risk-based approach to prioritizing the pipeline segments for future smart pig runs or other approved integrity testing methods. This will ensure that the pipelines that have the greatest risk potential receive the highest priority in being scheduled for inspections or pressure tests for integrity.

We started our smart pigging program in 1988, prior to Department of Transportation (DOT) regulations requiring the program. Beginning in 2002, the DOT required smart pigging or other integrity testing of all DOT-regulated crude oil and refined product pipelines. This requirement is being phased in over a five-year period. Since 1998, we have inspected approximately 98% of the total miles of our pipelines. We anticipate spending approximately $250,000 per year to comply with these new inspection regulations.

Maintenance facilities containing equipment for pipe repairs, spare parts, and trained response personnel are located along the pipelines. Employees participate in simulated spill deployment exercises on a regular basis. They also participate in actual spill response boom deployment exercises in planned spill scenarios in accordance with Oil Pollution Act of 1990 requirements. We believe that all of our pipelines have been constructed and are maintained in all material respects in accordance with applicable federal, state, and local laws and the regulations and standards prescribed by the American Petroleum Institute, the DOT, and accepted industry practice.

At our terminals, tanks designed for gasoline storage are equipped with internal or external floating roofs that minimize emissions and prevent potentially flammable vapor accumulation between fluid levels and the roof of the tank. Our terminal facilities have facility response plans, spill prevention and control plans, and other plans and programs to respond to emergencies.

Many of our terminal loading racks are protected with water deluge systems activated by either heat sensors or an emergency switch. Several of our terminals are also protected by foam systems that are activated in case of fire. All of our terminals are subject to participation in a comprehensive environmental management program to assure compliance with applicable air, solid waste, and wastewater regulations.

Holly Corporation s Refining Operations

Although we do not own or operate any refining assets, our pipeline systems are located within Holly Corporation s refining supply chain. Holly Corporation, through its subsidiaries, is

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principally a petroleum refiner and marketer. Holly Corporation s petroleum refining and marketing operations include the manufacturing and marketing of a full range of petroleum products, including fuels, lubricants, asphalt, and petrochemicals. The petroleum refining and marketing operations are conducted principally in the West Texas/New Mexico/Arizona area, in Montana and in the Utah/Idaho area. Holly Corporation currently employs approximately 750 people.

Holly Corporation owns and operates three refineries located in Artesia, New Mexico, Woods Cross, Utah, and Great Falls, Montana.

Refineries

Our pipelines transport light refined products from two of Holly Corporation s three refineries.

The Navajo Refinery. The Navajo Refinery has been in continuous operation since Holly Corporation acquired it in 1969. The refinery has been upgraded to one of the most technologically advanced and efficient facilities in the New Mexico/West Texas area. Throughput volumes have increased from 16,000 bpd in 1969 to 75,000 bpd today. The Artesia facility recently underwent an $85 million expansion project that expanded throughput capacity to 75,000 bpd and allows the facility to meet or exceed the federally mandated clean air requirements for gasoline. In addition, Holly Corporation has received permits that will allow it to increase capacity at its Artesia facility to 80,000 bpd without further regulatory approvals.

The Navajo Refinery has the ability to process a variety of sour (high sulfur) crude oils into high value light refined products, such as gasoline, diesel and jet fuel. For Holly Corporation s last three fiscal years, sour crude oils have represented more than 80% of the crude oils processed by the Navajo Refinery. The recently completed expansion project allows the Navajo Refinery to now process 100% sour crude oil. The Navajo Refinery s processing capabilities enable Holly Corporation to vary its crude oil supply mix to take advantage of changes in raw material prices and to respond to fluctuations in the availability of crude oil supplies. For the year ended December 31, 2003, light products represented approximately 90% of all refined products produced at Holly Corporation s Navajo Refinery. Of the total refined products produced, gasoline represented 57.9%, diesel fuel represented 23.2% and jet fuel represented 8.6% of the Navajo Refinery s sales volumes by barrel. For the year ended December 31, 2003 and the three months ended March 31, 2004, approximately 99% of the light products produced in the Navajo Refinery were distributed through our pipelines or our terminals.

Holly Corporation s Artesia facility is located on a 400-acre site and has fully integrated crude, fluid catalytic cracking, vacuum distillation, alkylation, hydrodesulfurization, isomerization and reforming units, and approximately 1.6 million barrels of feedstock and product tank storage, as well as other supporting units and office buildings at the site. The operating units at the Artesia facility include newly constructed units, older units that have been relocated from other facilities and upgraded and re-erected in Artesia, and units that have been operating as part of the Artesia facility (with periodic major maintenance) for many years, in some cases since before 1970. The Artesia facilities are operated in conjunction with integrated refining facilities located in Lovington, New Mexico, approximately 65 miles east of Artesia. The principal equipment at Lovington consists of a crude unit and an associated vacuum unit. The Lovington facility processes crude oil into intermediate products, which are transported to Artesia by pipeline, and which are then upgraded into finished products at the Artesia facility.

Holly Corporation distributes light refined products from the Navajo Refinery to its principal markets primarily through our two pipelines from Artesia to El Paso. In addition, Holly Corporation uses our Artesia to Moriarty pipeline and our leased Moriarty to Bloomfield pipeline to transport petroleum products to markets in northwest New Mexico and to Moriarty, New Mexico, near Albuquerque, and to Colorado.

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Holly Corporation also owns and operates crude oil gathering, transportation and storage assets in West Texas and New Mexico that supply feedstock to the Artesia and Lovington refineries. Holly Corporation purchases crude oil for its Navajo Refinery from producers in nearby Southeastern New Mexico and West Texas. The purchased crude oil is gathered through Holly Corporation s crude oil gathering systems and tank trucks in New Mexico and Texas and through third party crude oil gathering systems.

The Woods Cross Refinery. On June 1, 2003, Holly Corporation acquired from ConocoPhillips a petroleum refinery in Woods Cross, Utah (near Salt Lake City), and certain other transportation assets, 25 retail service stations located in Utah and Wyoming, and a 10-year exclusive license to market fuels under the Phillips brand in the states of Utah, Wyoming, Idaho and Montana. Holly Corporation subsequently sold the retail service stations. The Woods Cross Refinery has a current crude oil processing capacity of 25,000 bpd.

The Woods Cross Refinery currently obtains its supply of crude oil primarily from suppliers in Wyoming and Canada via a common carrier pipeline, which runs from the Canadian border through Wyoming to the refinery. The Woods Cross Refinery s principal markets include Utah and Idaho where it distributes its products through a network of Phillips 66 branded marketers. The refinery produces primarily gasoline, diesel and jet fuel. We currently terminal refined products for the Woods Cross Refinery in our Spokane, Burley and Boise, Idaho terminals as well as our truck rack and pumpover pipeline facility at Woods Cross.

The Montana Refinery. The Montana Refinery, in Great Falls, Montana, can process 8,000 bpd of crude oil. The refinery is capable of handling a wide range of crude oils and primarily serves markets in Montana.

The Montana Refinery currently obtains its supply of crude oil primarily from suppliers in Canada via a common carrier pipeline, which runs from the Canadian border to the refinery. The Montana Refinery s principal markets include Great Falls, Helena, Bozeman and Billings, Montana. The refinery produces primarily gasoline (including reformulated and premium grades), diesel fuels, jet fuels, and asphalt. The Montana refinery competes principally with three other Montana refiners. We do not currently transport or terminal any of the refined products produced at the Montana Refinery.

The following table sets forth the input to crude oil processing units (in bpd) for each of Holly Corporation s refineries during each of Holly Corporation s last three fiscal years and the three months ended March 31, 2004.

	Year Ended July 31,		Year Ended December 31,	Three Months Ended March 31,
	2001	**2002**	**2003(2)**	**2004**
Input to crude oil processing units (bpd)				
Navajo Refinery	57,468	53,640	56,076	67,460
Montana Refinery	6,166	6,563	6,736	5,890
Woods Cross Refinery[(1)]	N/A	N/A	22,540	21,220

(1) Based on our ownership from June 1, 2003 to December 31, 2003.

(2) In 2003, Holly Corporation changed its fiscal year end to December 31, 2003.

Marketing

Our pipelines and terminals serve our shippers marketing operations in the Southwest and Rocky Mountain regions of the United States as well as northern Mexico. We believe that our pipeline and terminalling assets are well-positioned for future growth because many of these assets are located in regions with above average population growth and are associated with Holly Corporation, a significant participant in those regions. We expect that the historical population growth in the Southwest and Rocky Mountain regions of the United States will continue to result in increased demand for refined products and increased throughput for our refined product pipelines and terminals as Holly Corporation s sales volumes of refined products in those markets continue to grow.

Refinery Production. The Navajo Refinery converts over 90% of its raw materials throughput into high value light products. Set forth below is certain information regarding the principal products produced by the Navajo Refinery during Holly Corporation s last three fiscal years and the three months ended March 31, 2004.

	Year Ended July 31,				Year Ended December 31, 2003		Three Months Ended March 31, 2004	
	2001		2002					
	bpd	%	bpd	%	bpd	%	bpd	%
Sales of produced refined products(1)								
Gasolines	36,000	57.5%	34,820	58.2%	36,210	57.9%	46,943	60.1%
Diesel fuels	13,810	22.0	12,920	21.6	14,510	23.2	19,639	25.1
Jet fuels	7,060	11.3	6,570	11.0	5,360	8.5	5,207	6.7
Asphalt	3,480	5.6	3,450	5.7	4,380	7.0	4,069	5.2
LPG and other	2,270	3.6	2,070	3.5	2,110	3.4	2,242	2.9
Total	62,620	100%	59,830	100%	62,570	100%	78,100	100.0%

(1) Excludes refined products purchased for resale.

Light products are shipped by product pipelines or are made available at various points by exchanges with others. Light products are also made available to customers through truck loading facilities at the refinery and at our terminals.

Customers. Holly Corporation s principal customers for gasoline include other refiners (such as BP West Coast Products LLC and ConocoPhillips), convenience store chains, independent marketers, an affiliate of PEMEX (the government-owned energy company of Mexico) and retailers. Holly Corporation s gasoline is marketed in the southwestern United States, including the metropolitan areas of El Paso, Phoenix, Albuquerque, Bloomfield, and Tucson, and in portions of northern Mexico. The composition of gasoline differs, because of local regulatory requirements, depending on the area in which gasoline is to be sold; under current standards, methyl tertiary-butyl ether, or MTBE, is a constituent of gasolines exported by Holly Corporation from El Paso to northern Mexico and some grades of gasoline marketed in Phoenix during certain times of the year. Diesel fuel is sold to other refiners, truck stop chains, wholesalers, and railroads. Jet fuel is sold primarily for military use. Military jet fuel is sold to the Defense Energy Support Center, or DESC, a part of the U.S. Department of Defense, under a series of one-year contracts that can vary significantly from year to year. Holly Corporation sold approximately 5,800 bpd of jet fuel to the DESC in its 2003 fiscal year.

Competition

Product Pipelines

As a result of our physical integration with Holly Corporation s Navajo Refinery and our contractual relationship with Holly Corporation under the omnibus agreement and the pipelines

and terminals agreement, we believe that we will not face significant competition for barrels of refined products transported from the Navajo Refinery, particularly during the term of our pipelines and terminals agreement with Holly Corporation. Please read Our Relationship with Holly Corporation Pipelines and Terminals Agreement and Certain Relationships and Related Transactions Omnibus Agreement.

We and Holly Corporation do, however, face competition from other pipelines that may be able to supply Holly Corporation s end-user markets with refined products on a more competitive basis. Please read The El Paso Market for a discussion of the Longhorn Pipeline in particular. If Holly Corporation s wholesale customers reduced their purchases of refined products from Holly Corporation due to the increased availability of cheaper product from other suppliers or for other reasons, the volumes transported through our pipelines would be reduced, which, subject to the minimum revenue commitment, would cause a decrease in cash and revenues generated from our operations.

The petroleum refining business is highly competitive. Among Holly Corporation s competitors are some of the world s largest integrated petroleum companies, which have their own crude oil supplies and distribution and marketing systems. Holly Corporation competes with independent refiners as well. Competition in particular geographic areas is affected primarily by the amounts of refined products produced by refineries located in such areas and by the availability of refined products and the cost of transportation to such areas from refineries located outside those areas.

The El Paso Market

Most of the light refined products produced at the Navajo Refinery currently are shipped to El Paso on our pipelines. Of the products shipped to El Paso, most are subsequently shipped (either by Holly Corporation or by its customers) via common carrier pipeline to Tucson and Phoenix, Arizona, Albuquerque, New Mexico and markets in northern Mexico; the remaining products shipped to El Paso are sold to wholesale customers primarily for ultimate retail sale in the El Paso area.

The El Paso market for refined products is currently supplied by a number of refiners located either in El Paso or that have pipeline access to El Paso. These include the ConocoPhillips and Valero Energy Corporation refineries in the Texas Panhandle and the Western Refining Company refinery in El Paso. Holly Corporation currently ships approximately 54,000 bpd of refined products into the El Paso market, 8,000 bpd of which are consumed in the local El Paso market. Since 1995, the volume of refined products transported by various suppliers via pipeline to El Paso has increased substantially, in part as a result of the expansion of our Orla to El Paso pipeline in 1996 from an 8-inch pipeline to a 12-inch pipeline and primarily as a result of the completion in November 1995 of the Valero L.P. 10-inch pipeline running 408 miles from the Valero Energy Corporation refinery near McKee, Texas to El Paso. The capacity of this pipeline (in which ConocoPhillips now has a one-third interest) is currently 60,000 bpd after an expansion completed in 1999. In August 2000, Valero L.P. announced that it is studying a potential expansion of this pipeline to 80,000 bpd. We believe that demand in the El Paso market and the Arizona markets served through El Paso will continue to grow.

Until 1998, the El Paso market and markets served from El Paso were generally not supplied by refined products produced by the large refineries on the Texas Gulf Coast. While wholesale prices of refined products on the Gulf Coast have historically been lower than prices in El Paso, distances from the Gulf Coast to El Paso (more than 700 miles if the most direct route were used) have made transportation by truck unfeasible and have discouraged the substantial investment required for development of refined products pipelines from the Gulf Coast to El Paso.

In 1998, a Texaco, Inc. subsidiary converted an existing 16-inch crude oil pipeline running from the Gulf Coast to Midland, Texas along a northern route (through Corsicana, Texas) to refined products service. This pipeline, now owned by Shell Pipeline Company, LP, is linked to a 6-inch pipeline, also owned by Shell, that is currently being used to transport to El Paso approximately 16,000 to 18,000 bpd of refined products that are produced on the Texas Gulf Coast (this volume replaces a similar volume that had been produced in the Shell Oil Company refinery in Odessa, Texas, which was shut down in 1998). The Shell pipeline from the Gulf Coast to Midland has the potential to be linked to existing or new pipelines running from the Midland, Texas area to El Paso with the result that substantial additional volumes of refined products could be transported from the Gulf Coast to El Paso.

The Longhorn Pipeline. An additional potential source of pipeline transportation from Gulf Coast refineries to El Paso is the Longhorn Pipeline. This pipeline extends approximately 700 miles from the Houston area of the Gulf Coast to El Paso, utilizing a direct route. The owner of the Longhorn Pipeline, Longhorn Partners Pipeline, L.P. , is a Delaware limited partnership that includes affiliates of ExxonMobil Pipeline Company, BP Pipeline (North America), Inc., Williams, the Beacon Group Energy Investment Fund, L.P. and Chisholm Holdings as limited partners. Longhorn Partners has proposed to use the pipeline initially to transport approximately 72,000 bpd of refined products from the Gulf Coast to El Paso and markets served from El Paso, with an ultimate maximum capacity of 225,000 bpd. In April 2004, Longhorn officers stated they had received the additional financing needed to finalize the project. Recent reports suggest that Longhorn officials expect startup to occur late in the summer of 2004. In December 2003, the United States Court of Appeals for the Fifth Circuit affirmed a decision by the federal district court in Austin, Texas that allows the Longhorn Pipeline to begin operations when agreed improvements have been completed. The plaintiffs in this proceeding have filed a petition to the U.S. Supreme Court seeking review of the Court of Appeals decision.

If the Longhorn Pipeline operates as proposed, it could result in significant downward pressure on wholesale refined product prices and refined product margins in El Paso and related markets. Any effects on Holly Corporation s markets in Tucson and Phoenix, Arizona and Albuquerque, New Mexico would be expected to be limited in the short term because current common carrier pipelines from El Paso to these markets are now running at capacity and proration policies of these pipelines allocate only limited capacity to new shippers. To date, ChevronTexaco, the owner of the common carrier pipeline between El Paso and Albuquerque, has not announced any plans to expand the capacity of this pipeline, although Kinder Morgan has announced plans to expand their common carrier pipeline between El Paso and Tucson by 53,000 bpd and from Tucson to Phoenix by 44,000 bpd. The last public announcement regarding this expansion expected such added capacity to be in place during 2005. Holly Energy Partners and Holly Corporation s results of operations could be adversely impacted if the Longhorn Pipeline operates as currently proposed. It is not possible to predict whether and, if so, under what conditions, the Longhorn Pipeline will ultimately be operated, nor is it possible to predict the consequences for Holly Corporation and Holly Energy Partners of Longhorn Pipeline s operations if they occur.

Arizona and Albuquerque Markets

Holly Corporation currently ships approximately 33,000 bpd into and accounts for approximately 14% of the refined products consumed in the Arizona market, which is comprised primarily of Phoenix and Tucson. Holly Corporation currently ships approximately 11,000 bpd into and accounts for approximately 15% of the refined products consumed in the Albuquerque market. 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 products that 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 operation of the Longhorn Pipeline or otherwise, could further exacerbate such constraints on deliveries to Arizona. No assurances can be given that Holly Corporation will not experience future constraints on its ability to deliver its products through the common carrier pipeline to Arizona. Any future constraints on Holly Corporation s ability to transport its refined products to Arizona could, if sustained, adversely affect Holly Corporation s results of operations and financial condition and its ability to meet its minimum revenue commitment under the pipelines and terminals agreement. Kinder Morgan Energy Partners, the owner of the common carrier pipelines running from El Paso to Tucson and Phoenix, has recently proposed to expand the capacity of these pipelines by approximately 55,000 bpd from El Paso to Tucson and 44,000 bpd from Tucson to Phoenix. Under the announced schedule, the expansion would be completed in 2005. For Holly Corporation, the proposed expansion would permit the shipment of additional refined products to markets in Arizona, but pipeline tariffs would likely be higher and the expansion would also permit additional shipments by competing suppliers. The ultimate effects of the proposed pipeline expansion on Holly Corporation and Holly Energy Partners cannot presently be estimated.

The common carrier pipeline used by Holly Corporation to serve the Albuquerque market from El Paso currently operates at or near capacity with resulting limitations on the amount of refined products that Holly Corporation and other shippers can deliver. We lease a pipeline between Artesia and the Albuquerque vicinity and Bloomfield, New Mexico from Mid-America Pipeline Company, LLC. We own and operate a 12-inch pipeline from the Navajo Refinery to the leased pipeline, as well as terminalling facilities in Bloomfield, New Mexico, which is located in the northwest corner of New Mexico, and in Moriarty, which is 40 miles east of Albuquerque. Transportation of petroleum products to markets in northwest New Mexico and diesel fuels to Moriarty began at the end of 1999. In December 2001, we completed our expansion of the Moriarty terminal and our pumping capacity on the pipeline we lease from Enterprise. The terminal expansion included the addition of gasoline and jet fuel to the existing diesel fuel delivery capabilities, thus permitting Holly Corporation to provide a full slate of light products to the growing markets in the Albuquerque and Santa Fe, New Mexico areas. The enhanced pumping capabilities on our leased pipeline extending from the Artesia facility through Moriarty to Bloomfield permit Holly Corporation to deliver a total of over 45,000 bpd of light products to these locations. If needed, additional pump stations could further increase the pipeline s capabilities.

An additional factor that could affect some of Holly Corporation s markets is excess pipeline capacity from the West Coast into Holly Corporation s Arizona markets after the elimination of bottlenecks in 2000 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 Holly Corporation s Arizona markets with resulting possible downward pressure on refined products prices in these markets. The availability of refined products on the West Coast for shipment to Phoenix may however be reduced by the effects on West Coast gasoline supplies of the scheduled ban in California on the use of MTBE as a constituent of gasoline after 2004.

Utah and Idaho Markets

The majority of the light refined products produced at the Woods Cross Refinery currently is delivered to customers in the Salt Lake area via our truck rack. Remaining volumes are shipped via pipelines owned by ChevronTexaco to numerous terminals, including our terminals at Boise and Burley, Idaho and Spokane, Washington. The Woods Cross Refinery is one of five refineries located in Utah. We estimate that the four refineries that compete with the Woods Cross Refinery have a combined capacity to process approximately 135,000 bpd of crude oil. These five refineries collectively supply an estimated 70% of the gasoline and distillate products consumed in the states of Utah and Idaho, with the remainder imported from refineries in Wyoming and Montana via the Pioneer Pipeline owned jointly by Sinclair and ConocoPhillips.

Other Developments and Factors Affecting Competition

In addition to the projects described above, other projects have been explored from time to time by refiners and other entities, which projects, if consummated, could result in a further increase in the supply of products to some or all of Holly Corporation s markets.

In addition, we face competition from trucks that deliver product in a number of areas we serve. While their costs may not be competitive for longer hauls or large volume shipments, trucks compete effectively for incremental and marginal volumes in many areas we serve. The availability of truck transportation places some competitive constraint on us.

In recent years, there have been several refining and marketing consolidations or acquisitions between entities competing in Holly Corporation s geographic market. In the future, these transactions could increase competitive pressures on Holly Corporation and reduce its ability to meet its obligations to us for volumes under our pipelines and terminals agreement.

Terminal Facilities

Historically, the vast majority of the throughput at our terminal facilities, other than third party receipts at the Spokane terminal and Alon volumes at El Paso, has come from Holly Corporation. Under the terms of our pipelines and terminals agreement, we will continue to receive a significant portion of the throughput at these facilities from Holly Corporation.

Our nine refined product terminals compete with other independent terminal operators as well as integrated oil companies on the basis of terminal location, price, versatility and services provided. Our competition primarily comes from integrated petroleum companies, refining and marketing companies, independent terminal companies and distribution companies with marketing and trading arms. As a result of the integration of our pipelines and the El Paso, Moriarty, Bloomfield, Albuquerque and Tucson terminals with Holly Corporation s Navajo Refinery, we face little competition except in the El Paso market. As a result of the integration of our Boise and Burley terminals with Holly Corporation s Woods Cross refinery, we face little competition. As discussed above, however, increased competition in the El Paso market could reduce Holly Corporation s ability to meet its obligations under the pipelines and terminals agreement, which would cause a decrease in cash and revenues generated from our operations.

Option to Purchase Intermediate Product Pipelines

Pursuant to the omnibus agreement, Holly Corporation will grant us an exclusive three-year option to purchase its intermediate product pipelines at fair market value at the time of purchase. The pipelines transport feedstocks and crude oil from Holly Corporation s Lovington crude oil processing unit to its downstream processing unit in the Artesia facility. The Lovington to Artesia 8-inch pipeline and the Lovington to Artesia 10-inch pipeline both originate at Holly Corporation s Lovington facility and terminate at its Artesia facility. Each pipeline is 65 miles long. Holly Corporation did not contribute these pipelines to our partnership because, unlike our other pipelines which transport refined products from Holly Corporation s refineries to its customers, the Lovington to Artesia pipelines transport feedstocks and crude oil only between two Holly Corporation refining facilities.

In the event we exercise our option, we would anticipate entering into a throughput agreement containing a minimum revenue commitment with Holly Corporation with respect to those pipelines generally consistent with the terms contained in the pipelines and terminals agreement. The option is contained in the omnibus agreement we will enter into with Holly Corporation. In accordance with this agreement, if we decide to exercise our option, we must provide written notice to Holly Corporation setting forth the fair market value we propose to pay for the intermediate product pipelines. If Holly Corporation does not agree with our proposed fair market value, we and Holly Corporation will appoint a mutually agreed-upon investment banking firm to determine the fair market value. Once the investment bank submits its valuation, we will have the right, but not the obligation, to purchase the asset at the price determined by the investment bank.

Rate Regulation

General Interstate Regulation

Some of our pipelines are subject to rate regulation by the FERC under the Interstate Commerce Act. The Interstate Commerce Act requires that tariff rates for oil pipelines, a category that includes crude oil and petroleum product pipelines (crude oil and petroleum product pipelines are referred to collectively as petroleum pipelines in this prospectus), be just and reasonable and non-discriminatory. The Interstate Commerce Act permits challenges to proposed new or changed rates by protest, and challenges to rates that are already on file and in effect by complaint. Upon the appropriate showing, a successful complainant may obtain damages or reparations for generally up to two years prior to the filing of a complaint.

The FERC is authorized to suspend the effectiveness of a new or changed tariff rate for a period of up to seven months and to investigate the rate. The FERC may also permit a new or changed tariff rate to go into effect on at least one day s notice, subject to refund and investigation. If upon the completion of an investigation the FERC finds that the rate is unlawful, then it may require the pipeline operator to refund to shippers, with interest, any difference between the rates the FERC determines to be lawful and the rates under investigation. The FERC will order the pipeline to change its rates prospectively to the lawful level. Interstate petroleum pipeline rates may be defended on the basis of the pipeline s cost of service, although, as discussed below, rates may also be justified based upon the FERC s indexing methodology, or deemed grandfathered, under the Energy Policy Act. Settlement rates, which are rates that have been agreed to by all shippers, are permitted, and market-based rates may be permitted in certain circumstances.

From 1906 until October 1, 1977, the Interstate Commerce Commission, rather than the FERC, was charged with exercising regulatory authority over petroleum pipeline rates. During the latter years of this period, the Interstate Commerce Commission determined pipeline rates on a valuation methodology under which pipeline rate base was calculated on fair value rather than on depreciated original cost. The valuation rate base approach was applied by the Interstate Commerce Commission until 1977, when its oversight authority for petroleum pipeline rates was transferred to the FERC. The FERC was then required by a federal court to reevaluate its petroleum pipeline ratemaking methods.

In 1985, the FERC issued an opinion in a case involving Williams Pipe Line Co. (Opinion No. 154-B) which adopted the trended original cost methodology for determining the justness and reasonableness of petroleum pipeline tariff rates. The trended original cost methodology provides that in calculating a petroleum pipeline s rate base, after a starting rate base has been determined, the pipeline s rate base is to be:

- increased by property additions at cost plus an amount equal to the equity portion of the rate base multiplied or trended by an inflation factor; and

- decreased by property retirements and depreciation and amortization of the rate base write-ups reflecting inflation and amortization of the starting rate base write-up.

The starting rate base must be determined for pipelines that previously were regulated under the Interstate Commerce Commission valuation methodology in order to provide a transition from the valuation methodology to the trended original cost methodology. For these pipelines, a portion of the starting rate base will continue to reflect reproduction costs in excess of the depreciated original cost of the pipeline s assets. The Williams opinion provides that the starting rate base is to be the sum of the following components:

- the depreciated original cost of the carrier s property, multiplied by the ratio of debt to total capitalization;

- the net depreciated reproduction cost based on the FERC reproduction cost rate base (as of 1983) derived under the Interstate Commerce Commission valuation methodology, multiplied by the ratio of equity to total capitalization; and

- the original cost of land, the net book value of rights-of-way and allowed working capital.

The difference between the starting rate base and the depreciated original cost rate base is referred to as the starting rate base write-up. This write-up is amortized over the useful life of the facilities. The Williams opinion expressly provides that the use of a starting rate base in excess of the original cost of the assets is subject to challenge by showing that the investors in the carrier had not relied on the Interstate Commerce Commission valuation rate base methodology. Some of our rates involve rate base components built or acquired prior to 1983, and, if these rates were challenged, defending these rates on a cost-of-service basis might require technical rate base calculations.

Index-Based Rates and Other Subsequent Developments

In October 1992, Congress passed the Energy Policy Act of 1992. The Energy Policy Act deemed interstate petroleum pipeline rates in effect for the 365-day period ending on the date of enactment of the Energy Policy Act, or that were in effect on the 365th day preceding enactment and had not been subject to complaint, protest, or investigation during the 365-day period, to be just and reasonable under the Interstate Commerce Act. These rates are commonly referred to as grandfathered rates. There is a tariff on file for transportation from Artesia, New Mexico to El Paso, Texas, which is grandfathered and therefore is deemed just and reasonable under the Energy Policy Act. The Energy Policy Act provides that the FERC may change grandfathered rates upon complaints only under the following limited circumstances:

- a substantial change has occurred since enactment in either the economic circumstances or the nature of the services that were a basis for the rate;

- the complainant was contractually barred from challenging the rate prior to enactment of the Energy Policy Act and filed the complaint within 30 days of the expiration of the contractual bar; or

- a provision of the tariff is unduly discriminatory or preferential.

The Energy Policy Act further required the FERC to issue rules establishing a simplified and generally applicable ratemaking methodology for interstate petroleum pipelines and to streamline procedures in petroleum pipeline proceedings. On October 22, 1993, the FERC responded to the Energy Policy Act directive by issuing Order No. 561, which adopts a new indexing rate methodology for interstate petroleum pipelines. Under the resulting regulations, effective January 1, 1995 through June 30, 2002, petroleum pipelines were able to change their rates within prescribed ceiling levels that are tied to changes in the Producer Price Index for Finished Goods (PPI), minus one percent. Pipelines still calculate their ceiling rates based on the indexing rate methodology, but such rate has been increased, as discussed below. Rate increases made under the index will be subject to protest, but the scope of the protest proceeding will be limited to an inquiry into whether the portion of the rate increase resulting from application of the index is substantially in excess of the pipeline s increase in costs. The indexing methodology is applicable to any existing rate, whether grandfathered or whether established after enactment of the Energy Policy Act.

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In Order No. 561, the FERC said that as a general rule pipelines must utilize the indexing methodology to change their rates. Indexing includes the requirement that, in any year in which the index is negative, pipelines must file to lower their rates if they would otherwise be above the reduced ceiling. However, the pipeline is not required to reduce grandfathered rates below the level deemed just and reasonable under the Energy Policy Act. The FERC further indicated in Order No. 561, however, that it is retaining cost-of-service ratemaking, market-based rates, and settlement rates as alternatives to the indexing approach. A pipeline can follow a cost-of-service approach when seeking to increase its rates above index levels (or when seeking to avoid lowering rates to index levels) provided that the pipeline can establish that there is a substantial divergence between the actual costs experienced by the pipeline and the rate resulting from application of the index. A pipeline can charge market-based rates if it establishes that it lacks significant market power in the affected markets. In addition, a pipeline can establish rates by settlement if agreed upon by all current shippers. As specified in Order No. 561 and subsequent decisions, a pipeline can seek to establish initial rates for new services through a cost-of-service showing, or through an agreement between the pipeline and at least one shipper not affiliated with the pipeline who intends to use the new service.

The Court of Appeals for the District of Columbia Circuit affirmed Order No. 561, concluding that the general indexing methodology, along with the limited exceptions to indexed rates, reasonably balances the FERC s dual responsibilities of ensuring just and reasonable rates and streamlining ratemaking through generally applicable procedures. The FERC indicated in Order No. 561 that it would assess in 2000 how the rate-indexing method was operating. The FERC issued a Notice of Inquiry on July 27, 2000 seeking comments on whether to retain or to change the existing index. On December 14, 2000, the FERC issued an order concluding the initial review of the petroleum pipeline pricing index. In this order, the FERC found that the existing index has closely approximated the actual cost changes in the petroleum pipeline industry and that use of the rate index continues to satisfy the mandates of the Energy Policy Act. In 2002, the United States Court of Appeals for the District of Columbia remanded the FERC s order, holding that the FERC had failed to provide a reasoned and lawful justification for continuation of the index. On February 24, 2003, the FERC issued an order on remand increasing the index to equal the PPI. The next review of the FERC index is scheduled for July 2005.

Another development affecting petroleum pipeline ratemaking arose in Opinion No. 397, involving a partnership operating a crude oil pipeline. In Opinion No. 397, the FERC concluded that there should not be a corporate income tax allowance built into a petroleum pipeline s rates for income attributable to non-corporate partners because those partners, unlike corporate partners, do not pay a corporate income tax on partnership distributions. Opinion No. 397 was affirmed by the FERC on rehearing in May 1996. The parties subsequently settled the case, so no judicial review of the tax ruling took place.

A current proceeding, however, is pending at the FERC that could result in changes to the FERC s income tax method announced in Opinion No. 397 as well as to other elements of the FERC s rate methodology for petroleum pipelines. This proceeding involves another publicly traded limited partnership engaged in petroleum products pipeline transportation. More specifically, on January 13, 1999, the FERC issued Opinion No. 435 in this proceeding, which, among other things, affirmed Opinion No. 397 s determination that there should not be a corporate income tax allowance built into a petroleum pipeline s rates for income attributable to non-corporate partners. The FERC subsequently issued a series of orders further refining FERC s petroleum pipeline rate methods. These orders were appealed by both the pipeline and shippers to the United States Court of Appeals for the District of Columbia Circuit, and the appeal remains pending.

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Negotiated Rates

Under Order No. 561, a pipeline is permitted to establish initial rates through an agreement between the pipeline and at least one shipper not affiliated with the pipeline who intends to use the new service. Such rates, however, are not entitled to a presumption of lawfulness, and are subject to challenge by a shipper through protest or complaint under the Interstate Commerce Act.

Market-Based Rates

In a proceeding involving Buckeye Pipeline Company, L.P., the FERC found that a petroleum pipeline able to demonstrate a lack of market power may be allowed a lighter standard of regulation than that imposed by the trended original cost methodology. In such a case, the pipeline company has the opportunity to establish that it faces sufficient competition to justify relief from the strict application of the cost-based principles. In Buckeye, the FERC determined, based on the existing level of market concentration in the pipeline s market areas, that Buckeye exercised significant market power in only five of its 21 market areas and therefore was entitled to charge market-based rates in the other 16 market areas. The opportunity to charge market-based rates means that the pipeline may charge what the market will bear. Order No. 572, a companion order to Order No. 561, was issued by the FERC on October 25, 1994 and established procedural rules governing petroleum pipelines applications for a finding that the pipeline lacks significant market power in the relevant market.

Settlement Rates

In Order No. 561, the FERC specifically held that it would also permit changes in rates that are the product of unanimous agreement between the pipeline and all the shippers using the service to which the rate applies. The rationale behind allowing this type of rate change is to further the FERC s policy of favoring settlements among parties and to lessen the regulatory burdens on all concerned. The FERC, however, will also entertain a challenge to settlement rates, in response to a protest or a complaint that alleges the same circumstances required to challenge an indexed rate. An example of this type of challenge is that there is a discrepancy between the rate and the pipeline s cost of service that is so substantial as to render the settlement (or indexed) rate unjust and unreasonable.

Intrastate Regulation

While the FERC regulates the rates for interstate shipments on our refined product pipelines, the New Mexico Public Regulation Commission regulates the rates for intrastate shipments in New Mexico, the Texas Railroad Commission regulates the rates for intrastate shipments in Texas, and the Idaho Public Utilities Commission regulates the rates for intrastate shipments in Idaho. The applicable Texas statutes require that pipeline rates provide no more than a fair return on the aggregate value of the pipeline property used to render services. The applicable Idaho statutes require that pipeline rates be just and reasonable. The applicable New Mexico state statutes require that pipeline rates be reasonable. Both the applicable Texas and Idaho statutes further require that pipeline rates be non-discriminating. State commissions have generally not been aggressive in regulating common carrier pipelines and have generally not investigated the rates or practices of petroleum pipelines in the absence of shipper complaints. Complaints to state agencies have been infrequent and are usually resolved informally. Although we cannot assure you that our intrastate rates would ultimately be upheld if challenged, we believe that, given this history, the tariffs now in effect are not likely to be challenged or, if challenged, are not likely to be ordered to be reduced.

Our Pipelines

The FERC generally has not investigated interstate rates on its own initiative when those rates, like ours, have not been the subject of a protest or a complaint by a shipper. However, the FERC could investigate any new interstate rates we might file if those rates were protested by a third party and the third party were able to show that it had a substantial economic interest in our tariff rate level. The FERC could also investigate any of our existing interstate rates if a complaint were filed against the rate.

As discussed above, intrastate pipelines generally are subject to light-handed regulation by state commissions, and we do not believe the intrastate tariffs now in effect are likely to be challenged. A state regulatory commission could, however, investigate our rates if such a challenge were filed.

If the rate from Artesia, New Mexico to El Paso, Texas were challenged, we would defend it as grandfathered under the Energy Policy Act. Under that Act, a person challenging a grandfathered rate must, as a threshold matter, establish a substantial change 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. A complainant might assert that the creation of the partnership itself constitutes such a change, an argument that has not previously been specifically addressed by the FERC and to which we believe there are valid defenses. If the FERC were to find a substantial change in circumstances, then the existing rates could be subject to detailed review. If a negotiated rate or a settlement rate of one of our interstate pipelines were challenged by a protest or complaint, we would have to justify that rate on a cost-of-service basis.

If the FERC were to inquire into our costs, pursuant to an investigation of our rates, it could investigate the following:

- the overall cost of service, including operating costs and overhead;
- the allocation of overhead and other administrative and general expenses to the rate;
- the appropriate capital structure to be utilized in calculating rates;
- the appropriate rate of return on equity;
- the rate base, including the proper starting rate base;
- the throughput underlying the rate; and
- the proper allowance for federal and state income taxes.

We do not believe that it is likely that there will be a challenge to our rates by a current shipper that would materially affect our revenues or cash flows. Holly Corporation and its subsidiaries are the only current shippers on many of our pipelines. Holly Corporation has agreed not to challenge, or to cause others to challenge or assist others in challenging, our tariff rates for the term of the pipelines and terminals agreement.

As noted above, a tariff for service from Artesia, New Mexico to El Paso, Texas is on file with the FERC and is grandfathered under the Energy Policy Act. Although the 6-inch pipeline from Artesia, New Mexico to El Paso, Texas has previously been regarded as a proprietary pipeline, we intend to use it to provide service under our FERC tariff. Since Holly Corporation is the only shipper on the Artesia, New Mexico to El Paso, Texas tariff and has agreed to the rate in that tariff, we do not expect there to be any challenges to that rate. There is currently no tariff on file for the Artesia, New Mexico to Moriarty, New Mexico and Moriarty, New Mexico to Bloomfield, New Mexico pipelines. We intend to file tariffs for those pipelines with the New Mexico Public Regulatory Commission. Since Holly Corporation is the only shipper on those lines, we do not expect there to be any challenges to those rates, which have been agreed to by

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Holly Corporation. The Rio Grande Pipeline has a tariff on file at the FERC based on a negotiated rate.

We may be required to accept new shippers who wish to transport on our pipelines. It is possible that a new shipper, current shipper, or other interested party, may decide to challenge our tariff rates. If any rate challenge or challenges were successful, cash available for distribution could be materially reduced.

Environmental Regulation

General

Our operation of pipelines, terminals, and associated facilities in connection with the storage and transportation of refined products are subject to stringent and complex federal, state, and local laws and regulations governing the discharge of materials into the environment, or otherwise relating to the protection of the environment. As with the industry generally, compliance with existing and anticipated laws and regulations increases our overall cost of business, including our capital costs to construct, maintain, and upgrade equipment and facilities. While these laws and regulations affect our maintenance capital expenditures and net income, we believe that they do not affect our competitive position in that the operations of our competitors are similarly affected. We believe that our operations are in substantial compliance with applicable environmental laws and regulations. However, these laws and regulations are subject to frequent change by regulatory authorities, and we are unable to predict the ongoing cost to us of complying with these laws and regulations or the future impact of these laws and regulations on our operations. Violation of environmental laws, regulations, and permits can result in the imposition of significant administrative, civil and criminal penalties, injunctions, and construction bans or delays. A discharge of hydrocarbons or hazardous substances into the environment could, to the extent the event is not insured, subject us to substantial expense, including both the cost to comply with applicable laws and regulations and claims made by neighboring landowners and other third parties for personal injury and property damage.

We inspect our pipelines regularly using equipment rented from third party suppliers. Third parties also assist us in interpreting the results of the inspections.

Holly Corporation has agreed to indemnify us in an aggregate amount not to exceed $15 million for ten years after the closing of this offering for environmental noncompliance and remediation liabilities associated with the assets transferred to us and occurring or existing before the closing date.

Air Emissions

Our operations are subject to the Clean Air Act and comparable state and local statutes. Amendments to the Clean Air Act enacted in late 1990 as well as recent or soon to be adopted changes to state implementation plans for controlling air emissions in regional, non-attainment areas require or will require most industrial operations in the United States to incur capital expenditures in order to meet air emission control standards developed by the Environmental Protection Agency and state environmental agencies. As a result of these amendments, our facilities that emit volatile organic compounds or nitrogen oxides are subject to increasingly stringent regulations, including requirements that some sources install maximum or reasonably available control technology. In addition, the 1990 Clean Air Act Amendments established a new operating permit for major sources. Although we can give no assurances, we believe that the expenditures needed for us to comply with the 1990 Clean Air Act Amendments will not have a material adverse effect on our financial condition or results of operations.

These requirements also affect the Holly Corporation refineries from which we will receive a majority of our revenues. Holly Corporation will be required to incur certain capital expenditures in the next several years, over and above the recent construction of a new gas oil hydrodesulfurizer at Navajo Refinery for air pollution control equipment in connection with maintaining or obtaining permits and approvals addressing air emission related issues.

Since the late 1990s, the EPA has undertaken significant enforcement initiatives under authority of the Clean Air Act s New Source Review and Prevention of Significant Deterioration, or NSR/ PSD, program in an effort to further reduce annual emissions of volatile organic compounds, nitrogen oxides, sulfur dioxide, and particulate matter. These enforcement initiatives have been targeted at industries that have large manufacturing facilities and that are significant sources of emissions, such as refining, paper and pulp, and electric power generating industries. The basic premise of the enforcement initiative is the EPA s assertion that many of these industrial establishments have modified or expanded their operations over time without complying with NSR/ PSD regulations adopted by the EPA that require permits and new emission controls in connection with any significant facility modifications or expansions that can result in emissions increases above certain thresholds.

As part of this ongoing NSR/ PSD enforcement initiative, the EPA has entered into consent agreements with several refiners, including Holly Corporation, that require the refiners to make significant capital expenditures to install emissions control equipment at selected facilities. On December 2001, following discussions initiated by Holly Corporation, Holly Corporation entered into a consent decree with the EPA, the New Mexico Environmental Department and the Montana Department of Environmental Quality with respect to a global settlement of issues concerning the application of air quality requirements to past and future operations of Holly Corporation s refineries in New Mexico and Montana. The consent decree was entered by the federal court in New Mexico in March 2002 and requires investments by Holly Corporation expected to total approximately $15 million over a period expected to end in 2009, of which approximately $8 million has been expended, as well as changes in operational practices at these refineries.

Under the Clean Air Act, the EPA and state agencies acting with authority delegated by the EPA have announced new rules or the intent to strengthen existing rules affecting the composition of motor vehicle fuels and automobile emissions. The EPA s Gasoline Sulfur Control Requirements require that the sulfur content of motor vehicle gasoline be reduced to 80 parts per million and the corporate average sulfur content be reduced to 30 parts per million by 2006. Likewise, the EPA s Diesel Fuel Sulfur Control Requirements require that the sulfur content of on-road diesel fuel be reduced to 15 parts per million by 2006. The rules include banking and trading credit systems, which could provide refiners flexibility until 2006 for the low-sulfur gasoline and until 2010 for the low-sulfur diesel. The ultimate impact of the rules may be affected by such factors as technology selection, the effectiveness of the banking and trading credit systems, production mix, timing uncertainties created by permitting requirements and construction schedules, and any effect on prices created by changes in the level of gasoline and diesel fuel production. The regulations provide special provisions for refineries serving those Rocky Mountain states exhibiting lesser air quality problems and for small business refiners, such as Holly Corporation, which extend the effective date of these lower sulfur requirements.

Effective January 1, 1995, certain cities in the country were required to use only reformulated gasoline, or RFG, a cleaner burning fuel. Phoenix is the only principal market of Holly Corporation that currently requires the equivalent of RFG (or an alternative clean burning gasoline formula), although this requirement could be implemented in other markets over time. Phoenix adopted the even more rigorous California Air Resources Board, or CARB, fuel specifications for winter months beginning in late 2000. This new requirement, the recently adopted EPA Nationwide Low-Sulfur Gasoline requirements that will become effective in 2004, EPA Nationwide Low-Sulfur Diesel requirements that will become effective in 2006, other requirements of the federal Clean Air Act, and other presently existing or future environmental regulations could cause Holly Corporation to expend substantial amounts to permit Holly Corporation s refineries to produce products that meet applicable requirements. Holly

Corporation has informed us that it believes that existing equipment at its Woods Cross and Montana refineries and the completion of a new gas oil hydrotreater unit at the Navajo Refinery, completed in December 2003, permits all of Holly Corporation s refineries to meet the current gasoline standards and those that will be in effect through 2009. Holly Corporation is in the process of beginning engineering activities for projects to meet the new EPA Nationwide Low-Sulfur Diesel requirements. These new requirements along with other requirements of the federal Clean Air Act or other presently existing or future environmental regulations could cause Holly Corporation to expend substantial amounts to permit Holly Corporation s refineries to produce products that meet applicable requirements.

The EPA is also reportedly considering limiting the levels of benzene and other toxic substances in gasoline as well as banning MTBE, in gasoline, which may require the use of other chemical additives to serve as oxygenates instead of MTBE. Legal mandates to use alternative fuels may also have a direct and potentially adverse impact on our revenues. For example, under the Energy Policy Act of 1992, 75% of new vehicles purchased by certain federal and state government fleets must use alternative fuels and New York has adopted standards requiring that by the year 2003, 10% of fleets delivered be zero-emissions vehicles; and under the Clean Air Act, 50% to 70% (depending on vehicle weight) of new vehicles in clean air non-attainment areas purchased by certain federal, state, municipal, and private fleets must use some type of alternative fuels beginning in 2001. Also, some states and local governments, including, for example, Texas, have adopted boutique fuel standards to comply with clean air requirements. Boutique fuels pose distribution problems because refiners must produce different blends for different communities.

The EPA recently proposed new regulations that would limit the sulfur content of diesel fuel used in powered engines in off-road activities such as mining, agriculture and construction. The EPA expects to promulgate these new sulfur standards during 2004.

Hazardous Substances and Waste

To a large extent, the environmental laws and regulations affecting our operations relate to the release of hazardous substances or solid wastes into soils, groundwater, and surface water, and include measures to control pollution of the environment. These laws generally regulate the generation, storage, treatment, transportation, and disposal of solid and hazardous waste. They also require corrective action, including the investigation and remediation, of certain units at a facility where such waste may have been released or disposed. For instance, the Comprehensive Environmental Response, Compensation, and Liability Act, referred to as CERCLA and also known as Superfund, and comparable state laws impose liability, without regard to fault or the legality of the original conduct, 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 where the release occurred and companies that disposed or arranged for the disposal of the hazardous substances found at the site. Under CERCLA, these persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources, and for the costs of certain health studies. 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. It is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by hazardous substances or other pollutants released into the environment. In the course of our ordinary operations, we may generate waste that falls within CERCLA s definition of a hazardous substance and, as a result, may be jointly and severally liable under CERCLA for all or part of the costs required to clean up sites at which these hazardous substances have been released into the environment. Costs for these remedial actions, if any, as

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well as any related claims are all covered by an indemnity from Holly Corporation. For more information, please read Environmental Remediation.

We also generate solid wastes, including hazardous wastes, that are subject to the requirements of the federal Resource Conservation and Recovery Act, referred to as RCRA, and comparable state statutes. From time to time, the EPA considers the adoption of stricter disposal standards for non-hazardous wastes, including crude oil and gas wastes. We are not currently required to comply with a substantial portion of the RCRA requirements because our operations generate minimal quantities of hazardous wastes. However, it is possible that additional wastes, which could include wastes currently generated during 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. Any changes in the regulations could have a material adverse effect on our maintenance capital expenditures and operating expenses.

We currently own or lease, and our predecessor has in the past owned or leased, properties where hydrocarbons are being or have been handled for many years. Although we have utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other waste may have been disposed of or released on or under the properties owned or leased by us or on or under other locations where these wastes have been taken for disposal. In addition, many of these properties have been operated by third parties whose treatment and disposal or release of hydrocarbons or other wastes was not under our control. These properties and wastes disposed thereon may be subject to CERCLA, RCRA, and analogous state laws. Under these laws, we could be required to remove or remediate previously disposed wastes (including wastes disposed of or released by prior owners or operators), to clean up contaminated property (including contaminated groundwater), or to perform remedial operations to prevent future contamination.

Water

Our operations can result in the discharge of pollutants. The Oil Pollution Act was enacted in 1990 and amends provisions of the Water Pollution Control Act of 1972 and other statutes as they pertain to prevention and response to oil spills. The Oil Pollution Act subjects owners of covered facilities to strict, joint, and potentially unlimited liability for removal costs and other consequences of an oil spill, where the spill is into navigable waters, along shorelines or in the exclusive economic zone of the United States. In the event of an oil spill into navigable waters, substantial liabilities could be imposed upon us. States in which we operate have also enacted similar laws. Regulations are currently being developed under the Oil Pollution Act and state laws that may also impose additional regulatory burdens on our operations. Spill prevention control and countermeasure requirements of federal laws and some state laws require diking and similar structures to help prevent contamination of navigable waters in the event of an oil overflow, rupture, or leak. We are in substantial compliance with these laws. Additionally, the Office of Pipeline Safety of the DOT has approved our oil spill emergency response plans.

The Water Pollution Control Act of 1972 imposes restrictions and strict controls regarding the discharge of pollutants into navigable waters. Permits must be obtained to discharge pollutants into state and federal waters. The Water Pollution Control Act of 1972 imposes substantial potential liability for the costs of removal, remediation, and damages. In addition, some states maintain groundwater protection programs that require permits for discharges or operations that may impact groundwater conditions. We believe that compliance with existing permits and compliance with foreseeable new permit requirements will not have a material adverse effect on our financial condition or results of operations.

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Employee Safety

We are subject to the requirements of the Occupational Safety and Health Act, referred to as 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 information be maintained about hazardous materials used or produced in operations and that this information be provided to employees, state, and local government authorities and citizens. We believe that our operations are in substantial compliance with the OSHA requirements, including general industry standards, record keeping requirements, and monitoring of occupational exposure to regulated substances.

Endangered Species Act

The Endangered Species Act restricts activities that may affect endangered species or their habitats. While some of our facilities are in areas that may be designated as habitat for endangered species, we believe that we are in substantial compliance with the Endangered Species Act. However, the discovery of previously unidentified endangered species could cause us to incur additional costs or become subject to operating restrictions or bans in the affected area.

Hazardous Materials Transportation Requirements

The DOT regulations affecting pipeline safety require pipeline operators to implement measures designed to reduce the environmental impact of refined product discharge from onshore refined product pipelines. These regulations require operators to maintain comprehensive spill response plans, including extensive spill response training for pipeline personnel. In addition, the DOT regulations contain detailed specifications for pipeline operation and maintenance. We believe our operations are in substantial compliance with these regulations. The DOT has recently adopted a pipeline integrity management rule. We have analyzed the impact of this rule and have estimated that compliance with this rule will cost us approximately $250,000 a year.

Environmental Remediation

Contamination resulting from spills of refined products and crude oil is not unusual within the petroleum pipeline industry. Historic spills along our pipelines and terminals as a result of past operations have resulted in contamination of the environment, including soils and groundwater. Site conditions, including soils and groundwater, are being evaluated at a few of our properties where operations may have resulted in releases of hydrocarbons and other wastes.

An environmental remediation project is currently in progress at our El Paso terminal, which is projected to cost approximately $1.2 million over the next five years. Other parties are undertaking remediation projects at our Boise, Burley and Albuquerque terminals, and we are obligated to pay a portion of these costs at the Albuquerque terminal, but not at the Boise or Burley terminals. The estimated cost for our share of the environmental remediation at the Albuquerque terminal is $250,000, to be incurred over the next five years. Holly Corporation has agreed to indemnify us from environmental liabilities related to the assets transferred to us to the extent such liabilities exist or arise from operation of these assets prior to closing and are asserted within 10 years after the closing of this offering. This indemnity will cover the costs associated with performance of the assessment, monitoring, and remediation programs. See Environmental Regulation General.

We may experience future releases of refined products into the environment from our pipelines and terminals, or discover historical releases that were previously unidentified or not assessed. While we maintain an extensive inspection and audit program designed, as applicable, to prevent and to detect and address these releases promptly, damages and liabilities incurred due to any future environmental releases from our assets nevertheless have the potential to substantially affect our business.

Title to Properties and Permits

Substantially all of our pipelines are constructed on rights-of-way granted by the apparent record owners of the property and in some instances these rights-of-way are revocable at the election of the grantor. Several rights-of-way for our pipelines and other real property assets are shared with other pipelines and other assets owned by third parties. In many instances, lands over which rights-of-way have been obtained are subject to prior liens that have not been subordinated to the right-of-way grants. We have obtained permits from public authorities to cross over or under, or to lay facilities in or along, watercourses, county roads, municipal streets, and state highways and, in some instances, these permits are revocable at the election of the grantor. In some cases, property for pipeline purposes was purchased in fee. We have also obtained permits from railroad companies to cross over or under lands or rights-of-way, many of which are also revocable at the grantor s election. In some states and under some circumstances, we have the right of eminent domain to acquire rights-of-way and lands necessary for our common carrier pipelines.

Some of the leases, easements, rights-of-way, licenses and permits, including environmental permits, that will be transferred to us will require the consent of the grantor to transfer these rights, which in some instances is a governmental entity. Our general partner believes that it has obtained or will obtain sufficient third-party consents, permits, and authorizations for the transfer of the assets necessary for us to operate our business in all material respects as described in this prospectus. With respect to any consents, permits, or authorizations that have not been obtained, our general partner believes that these consents, permits, or authorizations will be obtained after the closing of this offering, or that the failure to obtain these consents, permits, or authorizations will have no material adverse effect on the operation of our business.

Our general partner believes that we have satisfactory title to all of our assets, or we are entitled to indemnification from Holly Corporation under the omnibus agreement for title defects to the assets contributed to us and for failures to obtain certain consents and permits necessary to conduct our business that arise within ten years after the closing of this offering. Record title to some of our assets may continue to be held by affiliates of Holly Corporation until we have made the appropriate filings in the jurisdictions in which such assets are located and obtained any consents and approvals that are not obtained prior to transfer. We will make these filings and obtain these consents upon completion of this offering. Although title to these properties is subject to encumbrances in some cases, such as customary interests generally retained in connection with acquisition of real property, liens that can be imposed in some jurisdictions for government-initiated action to clean up environmental contamination, liens for current taxes and other burdens, and easements, restrictions, and other encumbrances to which the underlying properties were subject at the time of acquisition by our predecessor or us, our general partner believes that none of these burdens should materially detract from the value of these properties or from our interest in these properties or should materially interfere with their use in the operation of our business.

Employees

To carry out our operations, Holly Logistic Services, L.L.C. will initially employ approximately 65 people who will provide direct support to our operations. None of these employees are covered by collective bargaining agreements. Holly Logistic Services, L.L.C. considers its employee relations to be good. Neither our general partner or our partnership has employees.

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Legal Proceedings

We will be a party to various legal actions that arise in the ordinary course of our business. Holly Corporation has agreed to indemnify us for any losses we may suffer as a result of currently pending legal actions against our predecessors.

On March 31, 2003, Frontier Oil Corporation and Holly Corporation announced a merger agreement pursuant to which the two companies would be combined. On August 20, 2003, Frontier filed a lawsuit in the Delaware Court of Chancery seeking declaratory relief and unspecified damages based on allegations that the Holly Corporation repudiated its obligations under the merger agreement and breached an implied covenant of good faith and fair dealing. On September 2, 2003, Holly Corporation filed its answer and counterclaims seeking declaratory judgments that it had not repudiated the merger agreement, that Frontier had repudiated the merger agreement, that Frontier had breached certain representations made by Frontier in the merger agreement, that Holly Corporation s obligations under the merger agreement were and are excused and that Holly Corporation may terminate the merger agreement without liability, and seeking unspecified damages as well as costs and attorneys fees. The trial with respect to Frontier s complaint and Holly Corporation s answer and counterclaims began in the Delaware Court of Chancery on February 23, 2004 and was completed on March 5, 2004. In this litigation, the maximum amount of damages currently asserted by Frontier against Holly Corporation is approximately $161 million plus interest and the maximum amount of damages currently asserted by Holly Corporation against Frontier is approximately $148 million plus interest. Post-trial briefing was completed at the end of April 2004 and on May 4, 2004 the court heard oral argument. We expect a decision to be announced by the court within several months.

In late April 2004, Holly Corporation received a request for information from the EPA under Section 114 of the Clean Air Act. The request for information relates to certain batches of gasoline produced and shipped by the Navajo Refinery in 2000 through 2003. This request for information follows informal communications with the EPA concerning Holly Corporation s compliance with environmental regulations applicable to gasolines produced by the Navajo Refinery. One specific matter that was the subject of informal communications with the EPA in early 2004 but that was not the subject of the April 2004 request for information was the inadvertent issuance by the Navajo Refinery for almost 12 months during 2001 and 2002 of delivery documents to exchange partners that failed to properly contain statements required by the federal regulations that the product did not meet the requirements for reformulated gasoline. Holly Corporation has informed us that it believes that this omission did not result in the delivery of non-reformulated gasoline to geographic areas where federal regulations require the use of reformulated gasoline. Holly Corporation discovered and corrected the problem, which had been caused by a computer system problem at the Artesia truck rack at the Navajo Refinery, during Holly Corporation s annual attestation process in May 2002 and self-reported the violation in its annual attestation statement made to the EPA on May 24, 2002. Holly Corporation has no indication at this stage whether or not the EPA will consider any of the matters that were the subject of informal communications with the EPA in early 2004, including the matters that are the subject of the April 2004 request for information, as matters for enforcement action. If enforcement action were taken, Holly Corporation has informed us that it does not believe that such enforcement action would result in any material adverse effect on Holly Corporation s result of operations or financial condition.

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MANAGEMENT

Management of Holly Energy Partners

Holly Logistic Services, L.L.C., as the general partner of HEP Logistics Holdings, L.P., our general partner, will manage our operations and activities on our behalf. Our general partner is not elected by our unitholders and will not be subject to re-election on a regular basis in the future. Unitholders will not be entitled to elect the directors of Holly Logistic Services, L.L.C. or directly or indirectly participate in our management or operation. Our general partner owes a fiduciary duty to our unitholders. Our general partner will be liable, as general partner, for all of our debts (to the extent not paid from our assets), except for indebtedness or other obligations that are made specifically nonrecourse to it. Whenever possible, our general partner intends to incur indebtedness or other obligations that are nonrecourse.

At least two members of the board of directors of Holly Logistic Services, L.L.C. will serve on a conflicts committee to review specific matters that the board believes may involve conflicts of interest. The conflicts committee will determine if the resolution of the conflict of interest is fair and reasonable to us. The members of the conflicts committee may not be officers or employees of Holly Logistic Services, L.L.C. or directors, officers, or employees of its affiliates, and must meet the independence and experience standards established by the New York Stock Exchange and the Securities Exchange Act of 1934, as amended, to serve on an audit committee of a board of directors. Any matters approved by the conflicts committee will be conclusively deemed to be fair and reasonable to us, approved by all of our partners, and not a breach by our general partner of any duties it may owe us or our unitholders. In addition, we will have an audit committee of at least three independent directors that will review our external financial reporting, recommend engagement of our independent auditors, and review procedures for internal auditing and the adequacy of our internal accounting controls. We will also have a compensation committee, which will oversee compensation decisions for the officers of Holly Logistic Services, L.L.C., as well as the compensation plans described below.

The three independent members of the board, Messrs. Darling, Pinkerton and Stengel, will serve as the initial members of our audit and compensation committees.

We intend to add one or more non-independent directors to the board of Holly Logistic Services, L.L.C. after the offering.

We are managed and operated by the directors and officers of Holly Logistic Services, L.L.C., on behalf of our general partner. Most of our operational personnel will be employees of Holly Logistic Services, L.L.C.

Mr. Clifton will spend approximately half his time overseeing the management of our business and affairs. Mr. Shaw will spend approximately three quarters of his time overseeing our corporate development and future acquisition initiatives. Mr. Townsend will spend substantially all of his time managing the operational aspects of our business. The rest of our officers intend to devote approximately one-quarter of their time to us. Our non-executive directors will devote as much time as is necessary to prepare for and attend board of directors and committee meetings.

Directors and Executive Officers of Holly Logistic Services, L.L.C.

The following table shows information for the directors and executive officers of Holly Logistic Services, L.L.C.

Name	Age	Position with Holly Logistic Services, L.L.C.
Matthew P. Clifton	52	Chairman of the Board and Chief Executive Officer
Stephen J. McDonnell	53	Vice President and Chief Financial Officer
James G. Townsend	49	Vice President-Pipeline Operations
M. Neale Hickerson	50	Vice President-Treasury and Investor Relations
Mark A. Plake	45	Vice President-Human Resources and Governmental Affairs
Bruce R. Shaw	36	Vice President-Corporate Development
Scott C. Surplus	45	Vice President and Controller
Lamar Norsworthy	56	Director
Charles M. Darling, IV	57	Director nominee
Jerry W. Pinkerton	63	Director nominee
William P. Stengel	56	Director nominee

Matthew P. Clifton was elected Chairman of our Board, and Chief Executive Officer in March 2004. He has been employed by Holly Corporation for over twenty years. Mr. Clifton served as Holly Corporation s vice president of economics, engineering and legal affairs from 1988 to 1991, senior vice president of Holly Corporation from 1991 to 1995, president of Navajo Pipeline Company, a wholly owned subsidiary of Holly Corporation, since its inception in 1981, and has served as president and a director of Holly Corporation since 1995.

Stephen J. McDonnell was elected Vice President Chief Financial Officer in March 2004. Mr. McDonnell held the office of Vice President, Finance and Corporate Development of Holly Corporation from August 2000 to September 2001, when he became the vice president and chief financial officer of Holly Corporation. Mr. McDonnell was previously employed with Central and South West Corporation as vice president in the mergers and acquisitions area from 1996 to June 2000. Mr. McDonnell joined Central and South West in 1977 as manager of financial reporting. Mr. McDonnell held a number of accounting positions with Central and South West, including the position of corporate treasurer from 1989 to 1996.

James G. Townsend was elected Vice President Pipeline Operations in March 2004. He has been vice president of pipelines and terminals for Holly Corporation since 1997. Mr. Townsend served as Manager of Transportation for Navajo Refining Company, a wholly-owned subsidiary of Holly Corporation, from 1995 to 1997. Mr. Townsend has worked in Navajo Refining s pipeline group since joining Navajo Refining in 1984.

M. Neale Hickerson was elected Vice President Treasury and Investor Relations in May, 2004. Mr. Hickerson currently serves in this same capacity for Holly Corporation, a position he has held since January 2004. From February 2000 to January 2004, Mr. Hickerson served as director of special projects for Holly Corporation. Mr. Hickerson joined Navajo Refining Company in 1994 as assistant to the vice president of crude supply, and held that position until February 2000. Prior to 1994, Mr. Hickerson was employed by Crowell, Weedon & Co. and served as an equity trader and specialist on The Pacific Stock Exchange.

Mark A. Plake was elected Vice President Human Resources and Governmental Affairs in May, 2004. Mr. Plake has served as vice president human resources and governmental affairs for Holly Corporation since December 2003. From March 1999 to December 2003, Mr. Plake was assistant to the president of Holly Corporation. Prior to joining Holly Corporation in 1999, Mr. Plake was employed by the Atlantic Richfield Corporation and its subsidiary, ARCO Pipe Line Company, in a variety of management and legal positions.

Bruce R. Shaw was elected Vice President Corporate Development in May, 2004. Mr. Shaw is currently vice president of corporate development for Holly Corporation, a position he has held since October 2001. From February 2000 to October 2001, Mr. Shaw left Holly Corporation to serve as vice president of Brierley & Partners. Mr. Shaw joined Holly Corporation in 1997 as director of corporate development. Prior to 1997, Mr. Shaw was employed by McKinsey & Company as a consultant.

Scott C. Surplus was elected Vice President and Controller in May, 2004. Since January 2004, Mr. Surplus has served as vice president and controller for Holly Corporation. From June 2000 to January 2004, Mr. Surplus served as vice president treasury and tax of Holly Corporation. Mr. Surplus served as assistant treasurer of Holly Corporation from 1990 to March 2000. Mr. Surplus has been employed by Holly Corporation since 1984, except from April 2000 to June 2000, when he was vice president finance of e.io, inc., a data storage service company.

Lamar Norsworthy was elected to our Board of Directors in March 2004. He joined Holly Corporation in 1967, was elected to the board of directors in 1968 and has been chairman of the board since 1977. He has served as chief executive officer of Holly Corporation since 1971. Mr. Norsworthy is also a director of Cooper Cameron Corporation, a publicly traded manufacturer of oil field services equipment.

Charles M. Darling, IV will join us as a director upon completion of this offering. Mr. Darling has served as president of DQ Holdings, L.L.C., a venture capital investment and consulting firm focused primarily on opportunities in the energy industry, since August 1998. From 1997 to 1998, Mr. Darling was the president and general counsel and a director of DeepTech International, which was acquired by El Paso Energy Corp. in August 1998. Mr. Darling was also a director at Leviathan Gas Pipeline Company from 1993 through 1998. Prior to joining DeepTech in 1997, Mr. Darling practiced law at the law firm of Baker Botts L.L.P. for over 20 years.

Jerry W. Pinkerton will join us as a director upon completion of this offering. Since December 2003, Mr. Pinkerton has been retired. From December 2000 to December 2003, Mr. Pinkerton served as a consultant to TXU Corp., an energy services company, with respect to accounting-related projects principally involving financial reporting. From August 1997 to December 2000, Mr. Pinkerton served as controller of TXU and its U.S. subsidiaries. From August 1988 until its merger with TXU in August 1997, Mr. Pinkerton served as the vice president and chief accounting officer of ENSERCH Corporation/ Lone Star Gas Company, a diversified energy company. Prior to joining ENSERCH, Mr. Pinkerton was employed for 26 years as an auditor by Deloitte Haskins & Sells, a predecessor firm of Deloitte & Touche LLP.

William P. Stengel will join us as a director upon completion of this offering. Mr. Stengel has been retired since May 2003. From 1997 to May 2003, Mr. Stengel served as managing director of the global energy and mining group at Citigroup/Citibank, N.A. and was responsible for Citigroup s global relationships with U.S. multinational oil and gas companies headquartered in the United States. From 1973 to 1997, Mr. Stengel served in various other capacities with Citigroup/Citibank, N.A.

Reimbursement of Expenses of the General Partner

Our general partner will not receive any management fee or other compensation for its management of Holly Energy Partners. Under the terms of the omnibus agreement, we will pay Holly Corporation an annual administrative fee, initially in the amount of $2.0 million, for the provision of various general and administrative services for our benefit. The administrative fee may increase in the second and third years 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. Additionally, our general partner and its affiliates will be reimbursed for expenses incurred on our behalf. These expenses include the costs of employee, officer, and director compensation and benefits properly allocable to Holly Energy Partners, and all other expenses necessary or appropriate to the conduct of the business of, and allocable to, Holly Energy Partners. The partnership agreement provides that the general partner will determine the expenses that are allocable to Holly Energy Partners. Please read Certain Relationships and Related Transactions Omnibus Agreement.

Executive Compensation

Holly Energy Partners and our general partner were formed in March 2004. We have not accrued any obligations with respect to management incentive or retirement benefits for the directors and officers for the 2004 fiscal year. Officers and employees of Holly Logistic Services, L.L.C. or its affiliates may participate in employee benefit plans and arrangements sponsored by the general partner or its affiliates, including plans that may be established by the general partner or its affiliates in the future.

Compensation of Directors

Officers or employees of Holly Logistic Services, L.L.C. who also serve as directors will not receive additional compensation. Directors who are not officers or employees of Holly Logistics Services, L.L.C. will receive: (a) a $25,000 annual cash retainer, payable in four quarterly installments; (b) $1,500 for each meeting of the board of directors attended; (c) $1,500 for each board committee meeting attended (limited to payment for one committee meeting per day); and (d) an annual grant of restricted units equal in value to $40,000 on the date of grant. In addition to the foregoing, each director who serves as the chairperson of a committee of the board of directors will also receive a $5,000 special annual retainer for his service as committee chair. In addition, each director will be reimbursed for out-of-pocket expenses in connection with attending meetings of the board of directors or committees. Each director will be fully indemnified by us for actions associated with being a director to the extent permitted under Delaware law.

Long-Term Incentive Plan

Holly Logistic Services, L.L.C. intends to adopt the Holly Energy Partners, L.P. Long-Term Incentive Plan for employees, consultants and directors of Holly Logistic Services, L.L.C. and employees and consultants of its affiliates who perform services for Holly Logistic Services, L.L.C. or its affiliates. The long-term incentive plan consists of four components: restricted units, phantom units, unit options and unit appreciation rights. The long-term incentive plan currently permits the grant of awards covering an aggregate of 350,000 units. The plan will be administered by the compensation committee of the board of directors of Holly Logistic Services, L.L.C.

Holly Logistic Services, L.L.C. s board of directors, or its compensation committee, in its discretion may terminate, suspend or discontinue the long-term incentive plan at any time with respect to any award that has not yet been granted. Holly Logistic Services, L.L.C. s board of directors, or its compensation committee, also has the right to alter or amend the long-term incentive plan or any part of the plan from time to time, including increasing the number of units that may be granted subject to unitholder approval as required by the exchange upon which the common units are listed at that time. However, no change in any outstanding grant may be made that would materially impair the rights of the participant without the consent of the participant.

Restricted Units and Phantom Units. A restricted unit is a common unit subject to forfeiture prior to the vesting of the award. A phantom unit is a notional unit that entitles the grantee to receive a common unit upon the vesting of the phantom unit or, in the discretion of the compensation committee, cash equivalent to the value of a common unit. The compensation committee may determine to make grants under the plan of restricted units and phantom units to employees, consultants and directors containing such terms as the compensation committee shall determine. The compensation committee will determine the period over which restricted units and phantom units granted to employees, consultants and directors will vest. The committee may base its determination upon the achievement of specified financial objectives. In addition, the restricted units and phantom units will vest upon a change of control of Holly Energy Partners, our general partner, Holly Logistic Services, L.L.C. or Holly Corporation, unless provided otherwise by the compensation committee.

If a grantee s employment, service relationship or membership on the board of directors terminates for any reason, the grantee s restricted units and phantom units will be automatically forfeited unless, and to the extent, the compensation committee provides otherwise. Common units to be delivered in connection with the grant of restricted units or upon the vesting of phantom units may be common units acquired by Holly Logistic Services, L.L.C. on the open market, common units already owned by Holly Logistic Services, L.L.C., common units acquired by Holly Logistic Services, L.L.C. directly from us or any other person or any combination of the foregoing. Holly Logistic Services, L.L.C. will be entitled to reimbursement by us for the cost incurred in acquiring common units. Thus, the cost of the restricted units and delivery of common units upon the vesting of phantom units will be borne by us. If we issue new common units in connection with the grant of restricted units or upon vesting of the phantom units, the total number of common units outstanding will increase. The compensation committee, in its discretion, may grant tandem distribution rights with respect to restricted units and tandem distribution equivalent rights with respect to phantom units.

We intend the issuance of restricted units and common units upon the vesting of the phantom units under the plan to serve as a means of incentive compensation for performance and not primarily as an opportunity to participate in the equity appreciation of the common units. Therefore, at this time it is not contemplated that plan participants will pay any consideration for restricted units or common units they receive, and at this time we do not contemplate that we will receive any remuneration for the restricted units and common units.

Unit Options and Unit Appreciation Rights. The long-term incentive plan will permit the grant of options covering common units and the grant of unit appreciation rights. A unit appreciation right is an award that, upon exercise, entitles the participant to receive the excess of the fair market value of a unit on the exercise date over the exercise price established for the unit appreciation right. Such excess may be paid in common units, cash, or a combination thereof, as determined by the compensation committee in its discretion. The compensation committee will be able to make grants of unit options and unit appreciation rights under the plan to employees, consultants and directors containing such terms as the committee shall determine. Unit options and unit appreciation rights may have an exercise price that is less than, equal to or greater than the fair market value of the common units on the date of grant. In general, unit options and unit appreciation rights granted will become exercisable over a period determined by the compensation committee. In addition, the unit options and unit appreciation rights will become exercisable upon a change in control of Holly Energy Partners, our general partner, Holly Logistic Services, L.L.C. or Holly Corporation, unless provided otherwise by the committee.

Upon exercise of a unit option (or a unit appreciation right settled in common units), Holly Logistic Services, L.L.C. will acquire common units on the open market or directly from us or any other person or use common units already owned by Holly Logistic Services, L.L.C., or any combination of the foregoing. Holly Logistic Services, L.L.C. will be entitled to reimbursement by us for the difference between the cost incurred by Holly Logistic Services, L.L.C. in acquiring these common units and the proceeds received from a participant at the time of exercise. Thus, the cost of the unit options (or a unit appreciation right settled in common units) will be borne by us. If we issue new common units upon exercise of the unit options (or a unit appreciation right settled in common units), the total number of common units outstanding will increase, and Holly Logistic Services, L.L.C. will pay us the proceeds it receives from an optionee upon exercise of a unit option. The availability of unit options and unit appreciation rights is intended to

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furnish additional compensation to employees, consultants and directors and to align their economic interests with those of common unitholders.

Management Incentive Plan

Holly Logistic Services, L.L.C. will adopt the Holly Logistic Services, L.L.C. Annual Incentive Compensation Plan. The management incentive plan is designed to enhance the performance of Holly Logistic Services, L.L.C. s key employees by rewarding them with cash awards for achieving annual financial and operational performance objectives. The compensation committee in its discretion may determine individual participants and payments, if any, for each fiscal year. The board of directors of Holly Logistic Services, L.L.C. may amend or change the management incentive plan at any time. We will reimburse Holly Logistic Services, L.L.C. for payments and costs incurred under the plan.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the beneficial ownership of units of Holly Energy Partners that will be issued upon the consummation of this offering and the related transactions and held by beneficial owners of 5% or more of the units, by directors of Holly Logistic Services, L.L.C., the general partner of our general partner, by each named executive officer and by all directors and officers of Holly Logistic Services, L.L.C. as a group. HEP Logistics Holdings, L.P. is owned by Holly Logistic Services, L.L.C. and Navajo Pipeline Co., L.P., each of which is a direct or indirect wholly-owned subsidiary of Holly Corporation. Navajo Refining Company, L.P. is an indirect wholly-owned subsidiary of Holly Corporation. Woods Cross Refining Company, L.L.C. is a direct wholly-owned subsidiary of Navajo Refining Company, L.P. The address of Holly Corporation is 100 Crescent Court, Suite 1600, Dallas, Texas 75201.

Name of Beneficial Owner	Common Units to Be Beneficially Owned	Percentage of Common Units to Be Beneficially Owned	Subordinated Units to Be Beneficially Owned	Percentage of Subordinated Units to Be Beneficially Owned	Percentage of Total Units to Be Beneficially Owned
Holly Corporation(1)	900,000	12.8%	7,000,000	100%	56.4%
HEP Logistics Holdings, L.P. (1)	499,421	7.1	7,000,000	100	53.6
Navajo Refining Company, L.P.(1)	212,775	3.0	0	0	1.5
Woods Cross Refining Company, L.L.C.(1)	100,470	1.4	0	0	*
Matthew P. Clifton	13,000	*	0	0	*
M. Neale Hickerson	2,200	*	0	0	*
Stephen J. McDonnell	13,000	*	0	0	*
James G. Townsend	2,000	*	0	0	*
Mark A. Plake	400	*	0	0	*
Bruce R. Shaw	400	*	0	0	*
Scott C. Surplus	4,400	*	0	0	*
Lamar Norsworthy	0	0	0	0	0
Charles M. Darling, IV	11,200	*	0	0	*
Jerry W. Pinkerton	1,000	*	0	0	*
William P. Stengel	0	0	0	0	0
All directors and executive officers as a group (11 persons)	47,600	*	0	0	*

* Less than 1%.

(1) Holly Corporation is the ultimate parent company of HEP Logistics Holdings, L.P., Navajo Refining Company, L.P. and Woods Cross Refining Company, L.L.C. and may, therefore, be deemed to beneficially own the units held by HEP Logistics Holdings, L.P., Navajo Refining Company, L.P. and Woods Cross Refining Company, L.L.C. Holly Corporation s common stock is listed on the New York Stock Exchange under the symbol HOC . Holly Corporation files information with or furnishes information to, the Securities and Exchange Commission pursuant to the information requirements of the Securities Exchange Act of 1934.

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CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

After this offering, the general partner and its affiliates will own 900,000 common units and 7,000,000 subordinated units representing a 55.3% limited partner interest in us. In addition, the general partner will own a 2% general partner interest in us.

Distributions and Payments to the General Partner and Its Affiliates

The following table summarizes the distributions and payments to be made by us to our general partner and its affiliates in connection with the formation, ongoing operation, and liquidation of Holly Energy Partners. These distributions and payments were determined by and among affiliated entities and, consequently, are not the result of arm s-length negotiations.

Formation Stage

The consideration received by our general partner and its affiliates for the contribution of the assets and liabilities	900,000 common units;
	7,000,000 subordinated units;
	2% general partner interest in Holly Energy Partners;
	the incentive distribution rights;
	$82.2 million cash distribution of the proceeds of the offering, in part to reimburse them for certain capital expenditures; and
	an additional $25.0 million cash distribution funded with borrowings under our credit agreement.

Operational Stage

Distributions of available cash to our general partner and its affiliates	We will generally make cash distributions 98% to the unitholders, including our general partner and its affiliates, as the holders of an aggregate of 900,000 common units and all of the subordinated units, and 2% to the general partner. In addition, if distributions exceed the minimum quarterly distribution and other higher target levels, our general partner will be entitled to increasing percentages of the distributions, up to 50% of the distributions above the highest target level.
	Assuming we have sufficient available cash to pay the full minimum quarterly distribution on all of our outstanding units for four quarters, our general partner and its affiliates would receive an annual distribution of approximately $570,000 on the 2% general partner interest and $15.8 million on their common units and subordinated units.
Payments to our general partner and its affiliates	We will pay Holly Corporation or its affiliates an administrative fee, initially $2.0 million per year, for the provision of various general and administrative services for our benefit.

	The administrative fee may increase in the second and third years 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, the general partner will be entitled to reimbursement for all expenses it incurs on our behalf, including other general and administrative expenses. These reimbursable expenses include the salaries and the cost of employee benefits of employees of Holly Logistic Services, L.L.C. who provide services to us. Please read Omnibus Agreement. Our general partner will determine the amount of these expenses.
Withdrawal or removal of our general partner	If our general partner withdraws or is removed, its general partner interest and its incentive distribution rights will either be sold to the new general partner for cash or converted into common units, in each case for an amount equal to the fair market value of those interests. Please read The Partnership Agreement Withdrawal or Removal of the General Partner.
Liquidation Stage	
Liquidation	Upon our liquidation, the partners, including our general partner, will be entitled to receive liquidating distributions according to their particular capital account balances.

Agreements Governing the Transactions

We and other parties have entered into or will enter into the various documents and agreements that will effect the transactions, including the vesting of assets in, and the assumption of liabilities by, us and our subsidiaries, and the application of the proceeds of this offering. These agreements will not be the result of arm s-length negotiations, and they, or any of the transactions that they provide for, may not be effected on terms at least as favorable to the parties to these agreements as they could have been obtained from unaffiliated third parties. All of the transaction expenses incurred in connection with these transactions, including the expenses associated with vesting assets into our subsidiaries, will be paid from the proceeds of this offering.

Omnibus Agreement

Upon the closing of this offering, we will enter into an omnibus agreement with Holly Corporation and our general partner that will address the following matters:

- our obligation to pay Holly Corporation an annual administrative fee, initially in the amount of $2.0 million, for the provision by Holly Corporation of certain general and administrative services;
- Holly Corporation s and its affiliates agreement not to compete with us under certain circumstances;
- an indemnity by Holly Corporation for certain potential environmental liabilities;
- our obligation to indemnify Holly Corporation for environmental liabilities related to our assets to the extent Holly Corporation is not required to indemnify us;

our three-year option to purchase the intermediate pipelines owned by Holly Corporation; and

Holly Corporation s right of first refusal to purchase our assets that serve Holly Corporation s refineries.

Payment of General and Administrative Services Fee

Under the omnibus agreement we will pay Holly Corporation an annual administrative fee, initially in the amount of $2.0 million, for the provision of various general and administrative services for our benefit. The contract provides that this amount may be increased in the second and third years following this offering by the greater of 5% or the percentage increase in the consumer price index for the applicable year. Our general partner, with the approval and consent of its conflicts committee, will also have the right to agree to further increases in connection with expansions of our operations through the acquisition or construction of new assets or businesses. After this three-year period, our general partner will determine the general and administrative expenses that will be allocated to us. Please real Risk Factors Risk Inherent in an Investment in Us and Conflicts of Interest and Fiduciary Duties Conflicts of Interest We will reimburse the general partner and its affiliates for expenses.

The $2.0 million fee includes expenses incurred by Holly Corporation and its affiliates to perform centralized corporate functions, such as legal, accounting, treasury, information technology and other corporate services, including the administration of employee benefit plans. The fee does not include salaries of pipeline and terminal personnel or other employees of Holly Logistic Services, L.L.C. or the cost of their employee benefits, such as 401(k), pension, and health insurance benefits. We will also reimburse Holly Corporation and its affiliates for direct general and administrative expenses they incur on our behalf. In addition, we anticipate incurring approximately $1.7 million of additional general and administrative costs, including costs relating to operating as a separate publicly held entity, such as costs for tax return preparation, annual and quarterly reports to unitholders, investor relations, directors and officers insurance and registrar and transfer agent fees.

Noncompetition

Holly Corporation will agree, and will cause its affiliates to agree, for so long as Holly Corporation controls the general partner, not to engage in, whether by acquisition or otherwise, the business of operating crude oil pipelines or terminals, refined products pipelines or terminals, intermediate pipelines or terminals, truck racks or crude oil gathering systems in the continental United States. This restriction will not apply to:

any business operated by Holly Corporation or any of its affiliates at the closing of this offering;

any business conducted by Holly Corporation with the approval of our conflicts committee;

any crude oil pipeline or gathering system acquired or constructed by Holly Corporation or any of its affiliates after the closing of this offering that is physically interconnected to Holly Corporation s refining facilities;

any business or asset that Holly Corporation or any of its affiliates acquires or constructs that has a fair market value or construction cost of less than $5.0 million; and

any business or asset that Holly Corporation or any of its affiliates acquires or constructs that has a fair market value or construction cost of $5.0 million or more if we have been offered the opportunity to purchase the business or asset at fair market value, and we decline to do so with the concurrence of our conflicts committee

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The limitations on the ability of Holly Corporation and its affiliates to compete with us will terminate upon a change of control of Holly Corporation.

Indemnification

Under the omnibus agreement, Holly Corporation will indemnify us for ten years after the closing of this offering against certain potential environmental liabilities associated with the operation of the assets and occurring before the closing date of this offering. Holly Corporation s maximum liability for this indemnification obligation will not exceed $15.0 million and Holly Corporation will not have any obligation under this indemnification until our losses exceed $200,000. We have agreed to indemnify Holly Corporation and its affiliates against environmental liabilities related to our assets to the extent Holly Corporation is not required to indemnify us.

Option to Purchase Intermediate Product Pipelines

The omnibus agreement also contains the terms under which we have an option to purchase two intermediate product pipelines from Holly Corporation as described under Business Option to Purchase Intermediate Product Pipelines.

Right of First Refusal to Purchase Our Assets

The omnibus agreement also contains the terms under which Holly Corporation will have a right of first refusal to purchase our assets that serve its refineries. Before we enter into any contract to sell pipeline and terminal assets serving Holly Corporation s refineries, we must give written notice of the terms of such proposed sale to Holly Corporation. The notice must set forth the name of the third party purchaser, the assets to be sold, the purchase price, all details of the payment terms and all other terms and conditions of the offer. To the extent the third party offer consists of consideration other than cash (or in addition to cash), the purchase price shall be deemed equal to the amount of any such cash plus the fair market value of such non-cash consideration, determined as set forth in the omnibus agreement. Holly Corporation will then have the sole and exclusive option for a period of thirty days following receipt of the notice, to purchase the subject assets on the terms specified in the notice.

Pipelines and Terminals Agreement

Concurrently with the closing of this offering, we will enter into a pipelines and terminals agreement with Holly Corporation as described under Business Our Relationship with Holly Corporation.

Holly Corporation s obligations under this agreement will not terminate if Holly Corporation and its affiliates no longer own the general partner. This agreement may be assigned by Holly Corporation only with the consent of our conflicts committee.

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CONFLICTS OF INTEREST AND FIDUCIARY DUTIES

Conflicts of Interest

Conflicts of interest exist and may arise in the future as a result of the relationships between our general partner and its affiliates, including Holly Corporation, on the one hand, and us and our limited partners, on the other hand. The directors and officers of the general partner of our general partner, Holly Logistic Services, L.L.C., have fiduciary duties to manage the general partner in a manner beneficial to its owners. At the same time, our general partner has a fiduciary duty to manage us in a manner beneficial to us and our unitholders.

Whenever a conflict arises between our general partner or its affiliates, on the one hand, and us or any other partner, on the other, our general partner will resolve that conflict. Our partnership agreement contains provisions that modify and limit our general partner s fiduciary duties to the unitholders. Our partnership agreement also restricts the remedies available to unitholders for actions taken that, without those limitations, might constitute breaches of fiduciary duty.

Our general partner will not be in breach of its obligations under the partnership agreement or its duties to us or our unitholders if the resolution of the conflict is:

- approved by the conflicts committee, although our general partner is not obligated to seek such approval;
- approved by the vote of a majority of the outstanding common units, excluding any common units owned by our general partner or any of its affiliates;
- on terms no less favorable to us than those generally being provided to or available from unrelated third parties; or
- fair and reasonable to us, taking into account the totality of the relationships between the parties involved, including other transactions that may be particularly favorable or advantageous to us.

Our general partner may, but is not required to, seek the approval of such resolution from the conflicts committee of the board of directors of Holly Logistic Services, L.L.C. If our general partner does not seek approval from the conflicts committee and the board of directors of Holly Logistic Services, L.L.C. determines that the resolution or course of action taken with respect to the conflict of interest satisfies either of the standards set forth in the third and fourth bullet points above, then it will be presumed that, in making its decision, the board of directors acted in good faith, and in any proceeding brought by or on behalf of any limited partner or the partnership, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption. Unless the resolution of a conflict is specifically provided for in our partnership agreement, our general partner or the conflicts committee may consider any factors it determines in good faith to consider when resolving a conflict. When our partnership agreement requires someone to act in good faith, it requires that person to reasonably believe that he is acting in the best interests of the partnership, unless the context otherwise requires.

Conflicts of interest could arise in the situations described below, among others.

Actions taken by our general partner may affect the amount of cash available for distribution to unitholders or accelerate the right to convert subordinated units.

The amount of cash that is available for distribution to unitholders is affected by decisions of our general partner regarding such matters as:

- amount and timing of asset purchases and sales;
- cash expenditures;

- borrowings;
- issuance of additional units; and
- the creation, reduction, or increase of reserves in any quarter.

In addition, borrowings by us and our affiliates do not constitute a breach of any duty owed by the general partner to our unitholders, including borrowings that have the purpose or effect of:

- enabling our general partner or its affiliates to receive distributions on any subordinated units held by them or the incentive distribution rights; or
- hastening the expiration of the subordination period.

For example, in the event we have not generated sufficient cash from our operations to pay the minimum quarterly distribution on our common units and our subordinated units, our partnership agreement permits us to borrow funds, which would enable us to make this distribution on all outstanding units. Please read Cash Distribution Policy Subordination Period.

Our partnership agreement provides that we and our subsidiaries may borrow funds from our general partner and its affiliates. Our general partner and its affiliates may not borrow funds from us, the operating partnership, or its operating subsidiaries, other than in connection with Holly Corporation s centralized cash management program.

We do not have any officers or employees and rely solely on officers and employees of Holly Logistic Services, L.L.C. and its affiliates.

Affiliates of Holly Logistic Services, L.L.C. conduct businesses and activities of their own in which we have no economic interest. If these separate activities are significantly greater than our activities, there could be material competition for the time and effort of the officers and employees who provide services to Holly Logistic Services, L.L.C. The officers of Holly Logistic Services, L.L.C. are not required to work full time on our affairs. These officers are required to devote time to the affairs of Holly Corporation or its affiliates and are compensated by them for the services rendered to them.

We will reimburse the general partner and its affiliates for expenses.

We will reimburse the general partner and its affiliates for costs incurred in managing and operating us, including costs incurred in rendering corporate staff and support services to us. Our partnership agreement provides that the general partner will determine the expenses that are allocable to us in good faith. Please read Certain Relationships and Related Transactions Omnibus Agreement.

Our general partner intends to limit its liability regarding our obligations.

Our general partner intends to limit its liability under contractual arrangements so that the other party has recourse only to our assets and not against the general partner or its assets or any affiliate of the general partner or its assets. Our partnership agreement provides that any action taken by our general partner to limit its or our liability is not a breach of the general partner s fiduciary duties, even if we could have obtained terms that are more favorable without the limitation on liability.

Common unitholders will have no right to enforce obligations of our general partner and its affiliates under agreements with us.

Any agreements between us, on the one hand, and our general partner and its affiliates, on the other, will not grant to the unitholders, separate and apart from us, the right to enforce the obligations of our general partner and its affiliates in our favor.

Contracts between us, on the one hand, and our general partner and its affiliates, on the other, will not be the result of arm s-length negotiations.

Our partnership agreement allows our general partner to determine, in good faith, any amounts to pay itself or its affiliates for any services rendered to us. Our general partner may also enter into additional contractual arrangements with any of its affiliates on our behalf. Neither our partnership agreement nor any of the other agreements, contracts, and arrangements between us and the general partner and its affiliates are or will be the result of arm s-length negotiations.

The general partner will determine, in good faith, the terms of any of these transactions entered into after the sale of the common units offered in this offering.

Our general partner and its affiliates will have no obligation to permit us to use any facilities or assets of the general partner and its affiliates, except as may be provided in contracts entered into specifically dealing with that use. There is no obligation of our general partner and its affiliates to enter into any contracts of this kind.

Common units are subject to our general partner s limited call right.

Our general partner may exercise its right to call and purchase common units as provided in the partnership agreement or assign this right to one of its affiliates or to us. Our general partner may use its own discretion, free of fiduciary duty restrictions, in determining whether to exercise this right. As a result, a common unitholder may have his common units purchased from him at an undesirable time or price. Please read The Partnership Agreement Limited Call Right.

We may not choose to retain separate counsel for ourselves or for the holders of common units.

The attorneys, independent accountants, and others who perform services for us have been retained by our general partner. Attorneys, independent accountants, and others who perform services for us are selected by our general partner or the conflicts committee and may perform services for our general partner and its affiliates. We may retain separate counsel for ourselves or the holders of common units in the event of a conflict of interest between our general partner and its affiliates, on the one hand, and us or the holders of common units, on the other, depending on the nature of the conflict. We do not intend to do so in most cases.

Our general partner s affiliates may compete with us.

Our partnership agreement provides that our general partner will be restricted from engaging in any business activities other than those incidental to its ownership of interests in us and certain services the employees of our general partner are currently providing to Holly Corporation and its affiliates. In addition, our partnership agreement provides that our general partner, for so long as it is general partner of our partnership, will cause its affiliates not to engage in, by acquisition or otherwise, the businesses described above under the caption Certain Relationships And Related Transactions Omnibus Agreement Noncompetition. Similarly, under the omnibus agreement, Holly Corporation will agree and will cause it affiliates to agree, for so long as Holly Corporation controls our partnership, not to engage in the businesses described above under the caption Certain Relationships And Related Transactions Omnibus

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Agreement Noncompetition. Except as provided in our partnership agreement and the omnibus agreement, affiliates of our general partner are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us.

Fiduciary Duties

Our general partner is accountable to us and our unitholders as a fiduciary. Fiduciary duties owed to unitholders by our general partner are prescribed by law and the partnership agreement. The Delaware Revised Uniform Limited Partnership Act, which we refer to in this prospectus as the Delaware Act, provides that Delaware limited partnerships may, in their partnership agreements, restrict or expand the fiduciary duties owed by a general partner to limited partners and the partnership.

Our partnership agreement contains various provisions restricting the fiduciary duties that might otherwise be owed by our general partner. These modifications are detrimental to the common unitholders because they restrict the remedies available to unitholders for actions that, without those limitations, might constitute breaches of fiduciary duty, as described below. The following is a summary of the material restrictions of the fiduciary duties owed by our general partner to the limited partners:

State law fiduciary duty standards	Fiduciary duties are generally considered to include an obligation to act in good faith and with due care and loyalty. The duty of care, in the absence of a provision in a partnership agreement providing otherwise, would generally require a general partner to act for the partnership in the same manner as a prudent person would act on his own behalf. The duty of loyalty, in the absence of a provision in a partnership agreement providing otherwise, would generally prohibit a general partner of a Delaware limited partnership from taking any action or engaging in any transaction where a conflict of interest is present.
	The Delaware Act generally provides that a limited partner may institute legal action on behalf of the partnership to recover damages from a third party where a general partner has refused to institute the action or where an effort to cause a general partner to do so is not likely to succeed. In addition, the statutory or case law of some jurisdictions may permit a limited partner to institute legal action on behalf of himself and all other similarly situated limited partners to recover damages from a general partner for violations of its fiduciary duties to the limited partners.
Partnership agreement modified standards	Our partnership agreement contains provisions that waive or consent to conduct by our general partner and its affiliates that might otherwise raise issues as to compliance with fiduciary duties or applicable law. For example, our partnership agreement provides that when our general partner is acting in its capacity as our general partner, as opposed to in its individual capacity, it must act in good faith and will not be subject to any other standard under applicable law. In addition, when our general partner is acting in its individual capacity, as opposed to in its

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capacity as our general partner, it may act without any fiduciary obligation to us or the unitholders whatsoever. These standards reduce the obligations to which the general partner would otherwise be held.

Our partnership agreement generally provides that affiliated transactions and resolutions of conflicts of interest not involving a vote of unitholders and that are not approved by the conflicts committee of the board of directors of our general partner s general partner must be:

on terms no less favorable to us than those generally being provided to or available from unrelated third parties; or

fair and reasonable to us, taking into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous to us).

If our general partner does not seek approval from the conflicts committee and the board of directors of our general partner s general partner determines that the resolution or course of action taken with respect to the conflict of interest satisfies either of the standards set forth in the bullet points above, then it will be presumed that, in making its decision, the board of directors acted in good faith, and in any proceeding brought by or on behalf of any limited partner or the partnership, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption. These standards reduce the obligations to which our general partner would otherwise be held.

In addition to the other more specific provisions limiting the obligations of our general partner, our partnership agreement further provides that our general partner, its general partner and its officers and directors will not be liable for monetary damages to us, our limited partners, or assignees for errors of judgment or for any acts or omissions unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that the general partner or its officers and directors acted in bad faith or engaged in fraud, willful misconduct or gross negligence.

In order to become one of our limited partners, a common unitholder is required to agree to be bound by the provisions in the partnership agreement, including the provisions discussed above. This is in accordance with the policy of the Delaware Act favoring the principle of freedom of contract and the enforceability of partnership agreements. The failure of a limited partner or assignee to sign a partnership agreement does not render the partnership agreement unenforceable against that person.

We must indemnify our general partner and Holly Logistic Services, L.L.C. and their officers, directors, and managers, to the fullest extent permitted by law, against liabilities, costs and expenses incurred by the general partner, Holly Logistic Services, L.L.C. or these other persons.

We must provide this indemnification unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that these persons acted in bad faith or engaged in fraud, willful misconduct or gross negligence. We also must provide this indemnification for criminal proceedings unless our general partner, Holly Logistic Services, L.L.C. or these other persons acted with knowledge that their conduct was unlawful. Thus, our general partner and Holly Logistic Services, L.L.C. could be indemnified for their negligent acts if they met requirements set forth above. To the extent that these provisions purport to include indemnification for liabilities arising under the Securities Act, in the opinion of the Securities and Exchange Commission, such indemnification is contrary to public policy and therefore unenforceable. Please read The Partnership Agreement Indemnification.

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DESCRIPTION OF THE COMMON UNITS

The Units

The common units and the subordinated units represent limited partner interests in us. The holders of units are entitled to participate in partnership distributions and exercise the rights or privileges available to limited partners under our partnership agreement. For a description of the relative rights and preferences of holders of common units and subordinated units in and to partnership distributions, please read this section and Cash Distribution Policy. For a description of the rights and privileges of limited partners under our partnership agreement, including voting rights, please read The Partnership Agreement.

Transfer Agent and Registrar

Duties

American Stock Transfer & Trust Company will serve as registrar and transfer agent for the common units. We pay all fees charged by the transfer agent for transfers of common units, except the following that must be paid by unitholders:

- surety bond premiums to replace lost or stolen certificates, taxes and other governmental charges;
- special charges for services requested by a holder of a common unit; and
- other similar fees or charges.

There is no charge to unitholders for disbursements of our cash distributions. We will indemnify the transfer agent, its agents and each of their stockholders, directors, officers and employees against all claims and losses that may arise out of acts performed or omitted for its activities in that capacity, except for any liability due to any gross negligence or intentional misconduct of the indemnified person or entity.

Resignation or Removal

The transfer agent may resign, by notice to us, or be removed by us. The resignation or removal of the transfer agent will become effective upon our appointment of a successor transfer agent and registrar and its acceptance of the appointment. If no successor has been appointed and has accepted the appointment within 30 days after notice of the resignation or removal, the general partner may act as the transfer agent and registrar until a successor is appointed.

Transfer of Common Units

The transfer of the common units to persons that purchase directly from the underwriters will be accomplished through the completion, execution and delivery of a transfer application by the investor. Any later transfers of a common unit will not be recorded by the transfer agent or recognized by us unless the transferee executes and delivers a transfer application. By executing and delivering a transfer application, the transferee of common units:

- becomes the record holder of the common units and is an assignee until admitted into our partnership as a substituted limited partner;
- automatically requests admission as a substituted limited partner in our partnership;
- agrees to be bound by the terms and conditions of, and executes, our partnership agreement;
- represents that the transferee has the capacity, power and authority to enter into the partnership agreement;

- grants powers of attorney to officers of our general partner and any liquidator of us as specified in the partnership agreement; and
- gives the consents and approvals contained in our partnership agreement, such as the approval of all transactions and agreements we are entering into in connection with our formation and this offering.

An assignee will become a substituted limited partner of our partnership for the transferred common units automatically upon the recording of the transfer on our books and records. The general partner will cause any unrecorded transfers for which a completed and duly executed transfer application has been received to be recorded on our books and records no less frequently than quarterly.

A transferee s broker, agent or nominee may complete, execute and deliver a transfer application. We are entitled to treat the nominee holder of a common unit as the absolute owner. In that case, the beneficial holder s rights are limited solely to those that it has against the nominee holder as a result of any agreement between the beneficial owner and the nominee holder.

Common units are securities and are transferable according to the laws governing transfer of securities. In addition to other rights acquired upon transfer, the transferor gives the transferee the right to request admission as a substituted limited partner in our partnership for the transferred common units. A purchaser or transferee of common units who does not execute and deliver a transfer application obtains only:

- the right to assign the common unit to a purchaser or other transferee; and
- the right to transfer the right to seek admission as a substituted limited partner in our partnership for the transferred common units.

Thus, a purchaser or transferee of common units who does not execute and deliver a transfer application:

- will not receive cash distributions or federal income tax allocations, unless the common units are held in a nominee or street name account and the nominee or broker has executed and delivered a transfer application; and
- may not receive some federal income tax information or reports furnished to record holders of common units.

The transferor of common units has a duty to provide the transferee with all information that may be necessary to transfer the common units. The transferor does not have a duty to insure the execution of the transfer application by the transferee and has no liability or responsibility if the transferee neglects or chooses not to execute and forward the transfer application to the transfer agent. Please read The Partnership Agreement Status as Limited Partner or Assignee.

Until a common unit has been transferred on our books, we and the transfer agent may treat the record holder of the unit as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations.

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THE PARTNERSHIP AGREEMENT

The following is a summary of the material provisions of our partnership agreement. The form of our partnership agreement is included in this prospectus as Appendix A. The partnership agreements and limited liability company agreements of our subsidiaries are included as exhibits to the registration statement of which this prospectus constitutes a part. We will provide prospective investors with a copy of these agreements upon request at no charge.

We summarize the following provisions of our partnership agreement elsewhere in this prospectus:

- with regard to distributions of available cash, please read Cash Distribution Policy ;
- with regard to the transfer of common units, please read Description of the Common Units Transfer of Common Units ; and
- with regard to allocations of taxable income and taxable loss, please read Material Tax Consequences.

Organization and Duration

We were organized on March 9, 2004 and have a perpetual existence.

Purpose

Our purpose under the partnership agreement is limited to serving as the limited partner of the operating partnership and engaging in any business activities that may be engaged in by the operating partnership or that are approved by our general partner. The partnership agreement of the operating partnership provides that the operating partnership may, directly or indirectly, engage in:

(1) its operations as conducted immediately before our initial public offering;

(2) any other activity approved by the general partner but only to the extent that the general partner determines that, as of the date of the acquisition or commencement of the activity, the activity generates qualifying income as this term is defined in Section 7704 of the Internal Revenue Code;

or (3) any activity that enhances the operations of an activity that is described in (1) or (2) above.

Although the general partner has the ability to cause us, the operating partnership or its subsidiaries to engage in activities other than the storage, terminalling, transportation and distribution of refined petroleum products, our general partner has no current plans to do so and may decline to do so free of any fiduciary duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interests of us or the limited partners. The general partner is authorized in general to perform all acts it determines to be necessary or appropriate to carry out our purposes and to conduct our business.

Power of Attorney

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

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Capital Contributions

Unitholders are not obligated to make additional capital contributions, except as described below under Limited Liability.

Voting Rights

The following matters require the unitholder vote specified below. Matters requiring the approval of a unit majority require:

- during the subordination period, the approval of a majority of the common units, excluding those common units held by our general partner and its affiliates, and a majority of the subordinated units, voting as separate classes; and
- after the subordination period, the approval of a majority of the common units.

In voting their common and subordinated units, the general partner and its affiliates will have no fiduciary duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interests of us and the limited partners.

Issuance of additional common units or units of equal rank with the common units during the subordination period	Unit majority, with certain exceptions described under Issuance of Additional Securities.
Issuance of units senior to the common units during the subordination period	Unit majority.
Issuance of units junior to the common units during the subordination period	No approval right.
Issuance of additional units after the subordination period	No approval rights.
Amendment of the partnership agreement	Certain amendments may be made by the general partner without the approval of the unitholders. Other amendments generally require the approval of a unit majority. See Amendment of the Partnership Agreement.
Merger of our partnership or the sale of all or substantially all of our assets	Unit majority. See Merger, Sale or Other Disposition of Assets.
Amendment of the partnership agreement of the operating partnership and other action taken by us as a limited partner of the operating partnership	Unit majority if such amendment or other action would adversely affect our limited partners (or any particular class of limited partners) in any material respect. See Action Relating to the Operating Partnership.
Dissolution of our partnership	Unit majority. See Termination and Dissolution.

Reconstitution of our partnership upon dissolution	Unit majority. See Termination and Dissolution.
Withdrawal of the general partner	Under most circumstances, the approval of a majority of the common units, excluding common units held by the general partner and its affiliates, is required for the withdrawal of the general partner prior to June 30, 2014 in a manner which would cause a dissolution of our partnership. See Withdrawal or Removal of the General Partner.
Removal of the general partner	Not less than 66 2/3% of the outstanding units, voting as a single class, including units held by our general partner and its affiliates. See Withdrawal or Removal of the General Partner.
Transfer of the general partner interest	Our general partner may transfer all, but not less than all, of its general partner interest in us without a vote of our unitholders to an affiliate or another person in connection with its merger or consolidation with or into, or sale of all or substantially all of its assets to such person. The approval of a majority of the common units, excluding common units held by the general partner and its affiliates, is required in other circumstances for a transfer of the general partner interest to a third party prior to June 30, 2014. See Transfer of General Partner Interests.
Transfer of incentive distribution rights	Except for transfers to an affiliate or another person as part of the general partner s merger or consolidation with or into, or sale of all or substantially all of its assets to such person, the approval of a majority of the common units, excluding common units held by our general partner and its affiliates, voting separately as a class, is required in most circumstances for a transfer of the incentive distribution rights to a third party prior to June 30, 2014. See Transfer of Incentive Distribution Rights.
Transfer of ownership interests in the general partner	No approval required at any time. See Transfer of Ownership Interests in the General Partner and in Holly Logistic Services, L.L.C.

Limited Liability

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

- to remove or replace the general partner;

- to approve some amendments to the partnership agreement; or

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to take other action under the partnership agreement;

constituted participation in the control of our business for the purposes of the Delaware Act, then the limited partners could be held personally liable for our obligations under the laws of Delaware, to the same extent as the general partner. This liability would extend to persons who transact business with us who reasonably believe that the limited partner is a general partner. Neither the partnership agreement nor the Delaware Act specifically provides for legal recourse against the general partner if a limited partner were to lose limited liability through any fault of the general partner. While this does not mean that a limited partner could not seek legal recourse, we know of no precedent for this type of a claim in Delaware case law.

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

Our subsidiaries conduct business in six states. Maintenance of our limited liability as a limited partner of the operating partnership may require compliance with legal requirements in the jurisdictions in which the operating partnership conducts business, including qualifying our subsidiaries to do business there.

Limitations on the liability of limited partners for the obligations of a limited partner have not been clearly established in many jurisdictions. If, by virtue of our limited partner interest in the operating partnership or otherwise, it were determined that we were conducting business in any state without compliance with the applicable limited partnership or limited liability company statute, or that the right or exercise of the right by the limited partners as a group to remove or replace the general partner, to approve some amendments to the partnership agreement, or to take other action under the partnership agreement constituted participation in the control of our business for purposes of the statutes of any relevant jurisdiction, then the limited partners could be held personally liable for our obligations under the law of that jurisdiction to the same extent as the general partner under the circumstances. We will operate in a manner that the general partner considers reasonable and necessary or appropriate to preserve the limited liability of the limited partners.

Issuance of Additional Securities

The partnership agreement authorizes us to issue an unlimited number of additional partnership securities and rights to buy partnership securities for the consideration and on the terms and conditions determined by the general partner without the approval of the unitholders. During the subordination period, however, except as we discuss in the following paragraph, we may not issue equity securities ranking senior to the common units or an aggregate of more than 3,500,000 additional common units or units on a parity with the common units, in each case, without the approval of the holders of a unit majority.

During or after the subordination period, we may issue an unlimited number of common units as follows:

- upon exercise of the underwriters over-allotment option;
- upon conversion of the subordinated units;
- under employee benefit plans;
- upon conversion of the general partner interest and incentive distribution rights as a result of a withdrawal or removal of the general partner;
- in connection with the conversion of units of equal rank with the common units into common units under certain circumstances;
- in the event of a combination or subdivision of common units;
- in connection with an acquisition or a capital improvement that increases cash flow from operations per unit on an estimated pro forma basis;
- if the proceeds of the issuance are used to repay indebtedness the cost of which to service is greater than the distribution of obligations associated with the units issued in connection with the debt s retirement; or
- in connection with the redemption of common units or other equity securities of equal rank with the common units from the net proceeds of an issuance of common units or units on parity with the common units, provided that the redemption price equals the net proceeds per unit, before expenses, to us.

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

In accordance with Delaware law and the provisions of our partnership agreement, we may also issue additional partnership securities interests that, as determined by the general partner, have special voting rights to which the common units are not entitled.

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

Amendment of the Partnership Agreement

General

Amendments to the partnership agreement may be proposed only by or with the consent of the general partner. However, the general partner will have no duty or obligation to propose any amendment and may decline to do so free of any fiduciary duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interests of us or the limited partners. In order to adopt a proposed amendment, other than the amendments discussed below, the general partner must seek written approval of the holders of the number of units

required to approve the amendment or call a meeting of the limited partners to consider and vote upon the proposed amendment. Except as we describe below, an amendment must be approved by a unit majority.

Prohibited Amendments

No amendment may be made that would:

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

(2) enlarge the obligations of, restrict in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable by us to the general partner or any of its affiliates without the consent of the general partner, which may be given or withheld in at its option;

(3) change the term of our partnership;

(4) provide that our partnership is not dissolved upon an election to dissolve our partnership by the general partner that is approved by the holders of a unit majority; or

(5) give any person the right to dissolve our partnership other than the general partner s right to dissolve our partnership with the approval of the holders of a unit majority.

The provision of the partnership agreement preventing the amendments having the effects described in clauses (1) through (5) above can be amended upon the approval of the holders of at least 90% of the outstanding units voting together as a single class (including units owned by our general partner and its affiliates). Upon completion of this offering, our general partner and its affiliates will own 56.4% of the outstanding units.

No Unitholder Approval

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

(1) a change in our name, the location of our principal place of business, our registered agent or our registered office;

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

(3) a change that the general partner determines to be necessary or appropriate for us to qualify or to continue our qualification as a limited partnership or a partnership in which the limited partners have limited liability under the laws of any state or to ensure that neither we, the operating partnership, nor its subsidiaries will be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes;

(4) an amendment that is necessary, in the opinion of our counsel, to prevent us or our general partner or its directors, officers, agents, or trustees from in any manner being subjected to the provisions of the Investment Company Act of 1940, the Investment Advisors Act of 1940, or plan asset regulations adopted under the Employee Retirement Income Security Act of 1974, or ERISA, whether or not substantially similar to plan asset regulations currently applied or proposed;

(5) subject to the limitations on the issuance of additional partnership securities described above, an amendment that the general partner determines to be necessary or appropriate for the authorization of additional partnership securities or rights to acquire partnership securities;

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

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

(8) any amendment that the general partner determines to be necessary or appropriate for the formation by us of, or our investment in, any corporation, partnership, or other entity, as otherwise permitted by the partnership agreement;

(9) a change in our fiscal year or taxable year and related changes;

(10) certain mergers or conveyances as set forth in our partnership agreement; or

(11) any other amendments substantially similar to any of the matters described in (1) through (10) above.

In addition, the general partner may make amendments to the partnership agreement without the approval of any limited partner or assignee if the general partner determines that those amendments:

(1) do not adversely affect the limited partners (or any particular class of limited partners) in any material respect;

(2) are necessary or appropriate to satisfy any requirements, conditions, or guidelines contained in any opinion, directive, order, ruling, or regulation of any federal or state agency or judicial authority or contained in any federal or state statute;

(3) are necessary or appropriate to facilitate the trading of limited partner interests or to comply with any rule, regulation, guideline, or requirement of any securities exchange on which the limited partner interests are or will be listed for trading;

(4) are necessary or appropriate for any action taken by the general partner relating to splits or combinations of units under the provisions of the partnership agreement; or

(5) are required to effect the intent expressed in this prospectus or the intent of the provisions of the partnership agreement or are otherwise contemplated by the partnership agreement.

Opinion of Counsel and Unitholder Approval

Our general partner will not be required to obtain an opinion of counsel that an amendment will not result in a loss of limited liability to the limited partners or result in our being treated as an entity for federal income tax purposes if one of the amendments described above under No Unitholder Approval should occur. No other amendments to the partnership agreement will become effective without the approval of holders of at least 90% of the outstanding units voting as a single class unless we obtain an opinion of counsel to the effect that the amendment will not affect the limited liability under applicable law of any of our limited partners.

In addition to the above restrictions, any amendment that would have a material adverse effect on the rights or preferences of any type or class of outstanding units in relation to other classes of units will require the approval of at least a majority of the type or class of units so affected. Any amendment that reduces the voting percentage required to take any action must be approved by the affirmative vote of limited partners whose aggregate outstanding units constitute not less than the voting requirement sought to be reduced.

Action Relating to the Operating Partnership

Without the approval of the holders of units representing a unit majority, our general partner is prohibited from consenting on our behalf, as the limited partner of the operating partnership, to

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any amendment to the partnership agreement of the operating partnership or taking any action on our behalf permitted to be taken by a limited partner of the operating partnership in each case that would adversely affect our limited partners (or any particular class of limited partners) in any material respect.

Merger, Sale, or Other Disposition of Assets

A merger or consolidation of us requires the consent of the general partner. However, our general partner will have no duty or obligation to consent to any merger or consolidation and may decline to do so free of any fiduciary duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interests of us or the limited partners.

In addition, the partnership agreement generally prohibits the general partner, without the prior approval of the holders of units representing a unit majority, from causing us to, among other things, sell, exchange, or otherwise dispose of all or substantially all of our assets in a single transaction or a series of related transactions, including by way of merger, consolidation, or other combination, or approving on our behalf the sale, exchange, or other disposition of all or substantially all of the assets of our subsidiaries. The general partner may, however, mortgage, pledge, hypothecate, or grant a security interest in all or substantially all of our assets without that approval. The general partner may also sell all or substantially all of our assets under a foreclosure or other realization upon those encumbrances without that approval.

If conditions specified in the partnership agreement are satisfied, the general partner may convert us or any of our subsidiaries into a new limited liability entity or merge us or any of our subsidiaries into, or convey some or all of our assets to, a newly formed entity if the sole purpose of that merger or conveyance is to effect a mere change in our legal form into another limited liability entity. The unitholders are not entitled to dissenters rights of appraisal under the partnership agreement or applicable Delaware law in the event of a conversion, merger or consolidation, a sale of substantially all of our assets, or any other transaction or event.

Termination and Dissolution

We will continue as a limited partnership until terminated under the partnership agreement. We will dissolve upon:

(1) the election of the general partner to dissolve us, if approved by the holders of units representing a unit majority;

(2) the sale, exchange, or other disposition of all or substantially all of our assets and properties and our subsidiaries;

(3) the entry of a decree of judicial dissolution of Holly Energy Partners; or

(4) the withdrawal or removal of our general partner or any other event that results in its ceasing to be the general partner other than by reason of a transfer of its general partner interest in accordance with the partnership agreement or withdrawal or removal following approval and admission of a successor.

Upon a dissolution under clause (4), the holders of a unit majority may also elect, within specific time limitations, to reconstitute us and continue our business on the same terms and conditions described in the partnership agreement by forming a new limited partnership on terms identical to those in the partnership agreement and having as general partner an entity approved

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by the holders of units representing a unit majority, subject to our receipt of an opinion of counsel to the effect that:

(1) the action would not result in the loss of limited liability of any limited partner; and

(2) none of Holly Energy Partners, the reconstituted limited partnership, the operating partnership nor any of our other subsidiaries would be treated as an association taxable as a corporation or otherwise be taxable as an entity for federal income tax purposes upon the exercise of that right to continue.

Liquidation and Distribution of Proceeds

Upon our dissolution, unless we are reconstituted and continued as a new limited partnership, the liquidator authorized to wind up our affairs will, acting with all of the powers of the general partner that are necessary or appropriate, liquidate our assets and apply the proceeds of the liquidation as provided in Cash Distribution Policy Distributions of Cash Upon Liquidation. The liquidator may defer liquidation or distribution of our assets for a reasonable period or distribute assets to partners in kind if it determines that a sale would be impractical or would cause undue loss to the partners.

Withdrawal or Removal of the General Partner

Except as described below, our general partner has agreed not to withdraw voluntarily as our general partner prior to June 30, 2014 without obtaining the approval of the holders of at least a majority of the outstanding common units, excluding common units held by the general partner and its affiliates, and furnishing an opinion of counsel regarding limited liability and tax matters. On or after June 30, 2014, our general partner may withdraw as general partner without first obtaining approval of any unitholder by giving 90 days written notice, and that withdrawal will not constitute a violation of the partnership agreement. Notwithstanding the information above, our general partner may withdraw without unitholder approval upon 90 days notice to the limited partners if at least 50% of the outstanding common units are held or controlled by one person and its affiliates other than the general partner and its affiliates. In addition, the partnership agreement permits our general partner in some instances to sell or otherwise transfer all of its general partner interest in us without the approval of the unitholders. Please read Transfer of General Partner Interests and Transfer of Incentive Distribution Rights.

Upon withdrawal of our general partner under any circumstances, other than as a result of a transfer by the general partner of all or a part of its general partner interest in us, the holders of a majority of the outstanding common units and subordinated units, voting as separate classes, may select a successor to that withdrawing general partner. If a successor is not elected, or is elected but an opinion of counsel regarding limited liability and tax matters cannot be obtained, we will be dissolved, wound up, and liquidated, unless within a specified period of time after that withdrawal, the holders of a unit majority agree in writing to continue our business and to appoint a successor general partner. Please read Termination and Dissolution.

Our general partner may not be removed unless that removal is approved by the vote of the holders of not less than 66 2/3% of the outstanding units, voting together as a single class, including units held by the general partner and its affiliates, and we receive an opinion of counsel regarding limited liability and tax matters. Any removal of our general partner is also subject to the approval of a successor general partner by the vote of the holders of a majority of the outstanding common units and subordinated units, voting as separate classes. The ownership of more than 33 1/3% of the outstanding units by our general partner and its affiliates would give them the practical ability to prevent the general partner s removal. At the closing of this offering, our general partner and its affiliates will own 56.4% of the outstanding units.

Our partnership agreement also provides that if our general partner is removed as our general partner under circumstances where cause does not exist and units held by the general partner and its affiliates are not voted in favor of that removal:

- the subordination period will end and all outstanding subordinated units will immediately convert into common units on a one-for-one basis;
- any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished; and
- the general partner will have the right to convert its general partner interest and its incentive distribution rights into common units or to receive cash in exchange for those interests based on the fair market value of the interests at the time.

In the event of removal of the general partner under circumstances where cause exists or withdrawal of the general partner where that withdrawal violates the partnership agreement, a successor general partner will have the option to purchase the general partner interest and incentive distribution rights of the departing general partner for a cash payment equal to the fair market value of those interests. Under all other circumstances where the general partner withdraws or is removed by the limited partners, the departing general partner will have the option to require the successor general partner to purchase the general partner interest of the departing general partner and its incentive distribution rights for their fair market value. In each case, this fair market value will be determined by agreement between the departing general partner and the successor general partner. If no agreement is reached, an independent investment banking firm or other independent expert selected by the departing general partner and the successor general partner will determine the fair market value. Or, if the departing general partner and the successor general partner cannot agree upon an expert, then an expert chosen by agreement of the experts selected by each of them will determine the fair market value.

If the option described above is not exercised by either the departing general partner or the successor general partner, the departing general partner s general partner interest and its incentive distribution rights will automatically convert into common units equal to the fair market value of those interests as determined by an investment banking firm or other independent expert selected in the manner described in the preceding paragraph.

In addition, we will be required to reimburse the departing general partner for all amounts due the departing general partner, including, without limitation, all employee-related liabilities, including severance liabilities, incurred for the termination of any employees employed by the departing general partner or its affiliates for our benefit.

Transfer of General Partner Interests

Except for transfer by our general partner of all, but not less than all, of its general partner interest in us to:

- an affiliate of the general partner (other than an individual), or
- another entity as part of the merger or consolidation of the general partner with or into another entity or the transfer by the general partner of all or substantially all of its assets to another entity,

our general partner may not transfer all or any part of its general partner interest in us to another person prior to June 30, 2014 without the approval of the holders of at least a majority of the outstanding common units, excluding common units held by the general partner and its affiliates. As a condition of this transfer, the transferee must, among other things, assume the rights and duties of the general partner, agree to be bound by the provisions of the partnership agreement, and furnish an opinion of counsel regarding limited liability and tax matters.

Our general partner and its affiliates may at any time transfer units to one or more persons, without unitholder approval, except that they may not transfer subordinated units to us.

Transfer of Ownership Interests in General Partner and in Holly Logistic Services, L.L.C.

At any time, the partners of our general partner and the members of Holly Logistic Services, L.L.C. may sell or transfer all or part of their respective partnership or membership interests in our general partner or Holly Logistic Services, L.L.C. to an affiliate or a third party without the approval of our unitholders.

Transfer of Incentive Distribution Rights

Our general partner or its affiliates or a subsequent holder may transfer its incentive distribution rights to an affiliate of the holder (other than an individual) or another entity as part of the merger or consolidation of such holder with or into another entity, or sale of all or substantially all of its assets to, that entity without the prior approval of the unitholders. Prior to June 30, 2014, other transfers of the incentive distribution rights will require the affirmative vote of holders of a majority of the outstanding common units excluding common units held by the general partner and its affiliates. On or after June 30, 2014, the incentive distribution rights will be freely transferable.

Change of Management Provisions

The partnership agreement contains specific provisions that are intended to discourage a person or group from attempting to remove HEP Logistics Holdings, L.P. as our general partner or otherwise change management. If any person or group other than the general partner and its affiliates acquires beneficial ownership of 20% or more of any class of units, that person or group loses voting rights on all of its units. This loss of voting rights does not apply to any person or group that acquires the units from our general partner or its affiliates and any transferees of that person or group approved by our general partner or to any person or group who acquires the units with the prior approval of the board of directors.

The partnership agreement also provides that if the general partner is removed under circumstances where cause does not exist and units held by the general partner and its affiliates are not voted in favor of that removal:

- the subordination period will end and all outstanding subordinated units will immediately convert into common units on a one-for-one basis;
- any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished; and
- the general partner will have the right to convert its general partner interest and its incentive distribution rights into common units or to receive cash in exchange for those interests.

Limited Call Right

If at any time the general partner and its affiliates hold more than 80% of the then-issued and outstanding partnership securities of any class, the general partner will have the right, which it may assign in whole or in part to any of its affiliates or to us, to acquire all, but not less than all, of the remaining partnership securities of the class held by unaffiliated persons as of a record date to be selected by the general partner, on at least ten but not more than 60 days notice. The purchase price in the event of this purchase is the greater of: (1) the highest cash price paid by either of the general partner or any of its affiliates for any partnership securities of the class purchased within the 90 days preceding the date on which the general partner first mails notice of its election to purchase those partnership securities; and (2) the current market price as of the date three days before the date the notice is mailed.

As a result of the general partner s right to purchase outstanding partnership securities, a holder of partnership securities may have his partnership securities purchased at an undesirable time or price. The tax consequences to a unitholder of the exercise of this call right are the same as a sale by that unitholder of his common units in the market. Please read Material Tax Consequences Disposition of Common Units.

Meetings; Voting

Except as described below regarding a person or group owning 20% or more of any class of units then outstanding, unitholders or assignees who are record holders of units on the record date will be entitled to notice of, and to vote at, meetings of our limited partners and to act upon matters for which approvals may be solicited. Common units that are owned by an assignee who is a record holder, but who has not yet been admitted as a limited partner, will be voted by the general partner at the written direction of the record holder. Absent direction of this kind, the common units will not be voted, except that, in the case of common units held by the general partner on behalf of non-citizen assignees, the general partner will distribute the votes on those common units in the same ratios as the votes of limited partners on other units are cast.

The general partner does not anticipate that any meeting of unitholders will be called in the foreseeable future. Any action that is required or permitted to be taken by the unitholders may be taken either at a meeting of the unitholders or without a meeting if consents in writing describing the action so taken are signed by holders of the number of units necessary to authorize or take that action at a meeting. Meetings of the unitholders may be called by the general partner or by unitholders owning at least 20% of the outstanding units of the class for which a meeting is proposed. Unitholders may vote either in person or by proxy at meetings. The holders of a majority of the outstanding units of the class or classes for which a meeting has been called, represented in person or by proxy, will constitute a quorum unless any action by the unitholders requires approval by holders of a greater percentage of the units, in which case the quorum will be the greater percentage.

Each record holder of a unit has a vote according to his percentage interest in us, although additional limited partner interests having special voting rights could be issued. Please read Issuance of Additional Securities. However, if at any time any person or group, other than the general partner and its affiliates, or a direct or subsequently approved transferee of the general partner or its affiliates, acquires, in the aggregate, beneficial ownership of 20% or more of any class of units then outstanding, that person or group will lose voting rights on all of its units and the units may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes, determining the presence of a quorum, or for other similar purposes. Common units held in nominee or street name account will be voted by the broker or other nominee in accordance with the instruction of the beneficial owner unless the arrangement between the beneficial owner and his nominee provides otherwise. Except as the partnership agreement otherwise provides, subordinated units will vote together with common units as a single class.

Any notice, demand, request, report, or proxy material required or permitted to be given or made to record holders of common units under the partnership agreement will be delivered to the record holder by us or by the transfer agent.

Status as Limited Partner or Assignee

Except as described above under Limited Liability, the common units will be fully paid, and unitholders will not be required to make additional contributions.

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An assignee of a common unit, after executing and delivering a transfer application, but pending its admission as a substituted limited partner, is entitled to an interest equivalent to that of a limited partner for the right to share in allocations and distributions from us, including liquidating distributions. The general partner will vote and exercise other powers attributable to common units owned by an assignee that has not become a substitute limited partner at the written direction of the assignee. Please read Meetings; Voting. Transferees that do not execute and deliver a transfer application will not be treated as assignees or as record holders of common units, and will not receive cash distributions, federal income tax allocations, or reports furnished to holders of common units. Please read Description of the Common Units Transfer of Common Units.

Non-citizen Assignees; Redemption

If we are or become subject to federal, state, or local laws or regulations that, in the reasonable determination of the general partner, create a substantial risk of cancellation or forfeiture of any property that we have an interest in because of the nationality, citizenship, or other related status of any limited partner or assignee, we may redeem the units held by the limited partner or assignee at their current market price. In order to avoid any cancellation or forfeiture, the general partner may require each limited partner or assignee to furnish information about his nationality, citizenship, or related status. If a limited partner or assignee fails to furnish information about his nationality, citizenship, or other related status within 30 days after a request for the information or the general partner determines after receipt of the information that the limited partner or assignee is not an eligible citizen, the limited partner or assignee may be treated as a non-citizen assignee. In addition to other limitations on the rights of an assignee that is not a substituted limited partner, a non-citizen assignee does not have the right to direct the voting of his units and may not receive distributions in kind upon our liquidation.

Indemnification

Under the partnership agreement, in most circumstances, we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages, or similar events:

(1) our general partner;

(2) the general partner of our general partner;

(3) any departing general partner;

(4) any person who is or was an affiliate of the general partner of our general partner or any departing general partner;

(5) any person who is or was a officer, director, member, partner, fiduciary or trustee of any entity described in (1), (2), (3) or (4) above;

(6) any person who is or was serving as a director, officer, member, partner, fiduciary or trustee of another person at the request of the general partner or any departing general partner; or

(7) any person designated by the general partner of our general partner.

Any indemnification under these provisions will only be out of our assets. Unless it otherwise agrees, the general partner will not be personally liable for, or have any obligation to contribute or loan funds or assets to us to enable us to effectuate, indemnification. We may purchase insurance against liabilities asserted against and expenses incurred by persons for our