

HOLLY ENERGY PARTNERS LP

Form 424B3

May 05, 2009

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The information in this preliminary prospectus supplement and accompanying base prospectus is not complete and may be changed. This preliminary prospectus supplement and accompanying base prospectus is not an offer to sell these securities nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

**Filed Pursuant to Rule 424(b)(3)  
Registration Statement 333-155537**

Subject to Completion. Dated May 4, 2009.

Preliminary Prospectus Supplement to Prospectus dated December 4, 2008

2,000,000 Common Units  
Representing Limited Partner Interests

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

Holly Energy Partners, L.P. is offering 2,000,000 common units to be sold in this offering.

The common units are listed on the New York Stock Exchange under the symbol HEP. The last reported sale price of the common units on May 1, 2009 was \$28.73 per common unit.

*See Risk Factors in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2008, as amended, and on page S-13 of this prospectus supplement to read about factors you should consider before buying common units. The units to be sold in this offering will not receive our cash distribution to be paid on May 14, 2009. See Summary The Offering Cash distributions.*

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

	Per Common Unit	Total
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Initial public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to Holly Energy Partners, L.P.	\$	\$

To the extent that the underwriters sell more than 2,000,000 common units, the underwriters have the option to purchase up to an additional 300,000 common units from Holly Energy Partners, L.P. 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 May , 2009.

**Goldman, Sachs & Co.**

**UBS Investment Bank**

**SMH Capital**

Prospectus Supplement dated May , 2009

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**This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of and other information relating to this offering. The second part is the accompanying base prospectus, which gives more general information, some of which may not apply to this offering. Generally, when we refer only to the prospectus, we are referring to both parts combined. If information varies between the prospectus supplement and the accompanying base prospectus, you should rely on the information in this prospectus supplement.**

**No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement and the accompanying prospectus. You must not rely on any unauthorized information or representations. This prospectus supplement is an offer to sell only the common units offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The**

**information contained in this prospectus supplement and the accompanying prospectus is current only as of its date.**

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**SUMMARY**

*This summary highlights information contained elsewhere in this prospectus supplement or the documents incorporated by reference herein. It does not contain all of the information that you should consider before investing in the common units. You should carefully read the entire prospectus supplement, the accompanying base prospectus and the other documents incorporated by reference to understand fully the terms of the common units, as well as the tax and other considerations that are important in making your investment decision. Unless otherwise indicated, the information in this prospectus supplement assumes no exercise of the underwriters' over-allotment option.*

*You should read "Risk Factors" beginning on page S-13 of this prospectus supplement as well as the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2008, as amended, incorporated by reference herein for more information about important factors that you should consider before purchasing the common units. References in this prospectus supplement to "Holly Energy Partners," "we," "our," "us," or similar terms refer either to Holly Energy Partners, L.P. or to Holly Energy Partners, L.P. and its subsidiaries collectively, as the context requires.*

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

Holly Energy Partners, L.P. is a Delaware limited partnership engaged principally in the business of operating a system of refined product and crude oil pipelines, storage tanks and distribution terminals primarily in west Texas, New Mexico, Utah and Arizona. We generate revenues by charging tariffs for transporting refined product and crude oil 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 refineries of Holly Corporation in New Mexico and Utah under three 15-year pipeline, tankage and/or terminal agreements with Holly Corporation. The first of these agreements relates to the pipelines and terminals contributed to us by Holly Corporation at the time of our initial public offering and expires in 2019. The second of these agreements relates to the intermediate pipelines acquired from Holly Corporation in July 2005 that serve Holly Corporation's Lovington and Artesia, New Mexico refinery facilities and expires in 2020. The third agreement relates to the crude pipelines and tankage assets acquired from Holly Corporation in February 2008 and expires in 2023. Holly Corporation controls our general partner and owns a 46% interest in us (before we issue the common units offered hereby), including the 2% general partner interest. We also serve Alon USA, Inc.'s (Alon) Big Spring Refinery in Texas under a pipelines and terminals agreement expiring 2020. Our assets currently include:

**Pipelines:**

approximately 820 miles of refined product pipelines, including 340 miles of leased pipelines, that transport gasoline, diesel and jet fuel principally 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;

approximately 510 miles of refined product pipelines that transport refined products from Alon's Big Spring Refinery in Texas to its customers in Texas and Oklahoma;

two parallel 65-mile pipelines that transport intermediate feedstocks and crude oil from Holly Corporation's Lovington, New Mexico refinery facilities to Holly Corporation's Artesia, New Mexico refinery facilities;

approximately 860 miles of crude oil trunk, gathering and lease connection pipelines which service Holly Corporation's Lovington and Artesia refining facilities;

approximately 10 miles of crude oil and refined product pipelines that support Holly Corporation's Woods Cross Refinery near Salt Lake City, Utah;

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a 70% interest in Rio Grande Pipeline Company, a joint venture that owns a 249-mile refined product pipeline that transports liquid petroleum gases, or LPGs, from west Texas to the Texas/Mexico border near El Paso for further transport into northern Mexico; and

a 25% interest in the joint venture that owns the Salt Lake City Pipeline, a new 95 mile intrastate crude oil pipeline system which transports crude oil into the Salt Lake City, Utah area from the Utah terminus of the Frontier Pipeline as well as crude oil flowing from Wyoming and Utah via Plains All American Pipeline, L.P.'s Rocky Mountain Pipeline.

### Refined Product Terminals and Refinery Tankage:

four refined product terminals, located in El Paso, Texas; Moriarty and Bloomfield, New Mexico; and Tucson, Arizona, with an aggregate capacity of approximately 1.0 million barrels, that are integrated with our refined product pipeline system that serves Holly Corporation's Navajo Refinery;

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 500,000 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;

two refined product terminals, located in Wichita Falls and Abilene, Texas, and one tank farm in Orla, Texas with aggregate capacity of 480,000 barrels, that are integrated with our refined product pipelines that serve Alon's Big Spring Refinery;

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, that is permitted to load over 25,000 bpd of light refined products;

a Roswell, New Mexico jet fuel terminal leased through September 2011; and

on-site crude oil tankage at Holly Corporation's Navajo and Woods Cross Refineries having an aggregate storage capacity of approximately 600,000 barrels.

## **Competitive Strengths**

We believe our business possesses the following competitive strengths:

***We operate a substantial part of our business under long-term contracts, which provides significant stability to our future cash flows.*** We 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 88% of our revenues for the fiscal year ended December 31, 2008. We have entered into three long-term contracts with Holly Corporation expiring in 2019, 2020 and 2023 and long-term contracts with Alon. The long-term contracts representing a majority of our revenue stream from Alon expire between 2018 and 2020. In addition, where we operate under contracts with terms of less than one year, we believe our long-standing customer relationships will lead to ongoing business and the renewal of such short-term contracts.



***Our assets are 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, to the extent required, repaired 100% of the total miles of the pipelines that we owned upon our initial public offering in 2004, 100% of the intermediate pipelines acquired from Holly Corporation in 2005 and 100% of the pipelines acquired from Alon in 2005 using internal inspection devices known as smart pigs, which have instruments capable of detecting cracks, line erosion and

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other structural deficiencies. The operating pressures of these lines have been hydrotested as required by the Department of Transportation. All of our existing pipeline and terminal assets are operated via satellite communications systems from our control center in Artesia, New Mexico. 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, which provides us with access to stable volumes, growth opportunities and management expertise.*** A substantial majority of our existing petroleum pipelines are directly linked to Holly Corporation's refineries and provide Holly Corporation with the safest and most cost-effective means to transport and distribute petroleum products to its major markets. Following our acquisition from Holly Corporation of certain pipeline and tankage assets effective March 1, 2008, Holly Corporation now transports through our petroleum pipelines or loading racks 100% of the refined products from its Navajo Refinery and its Woods Cross Refinery, 100% and 15% of the crude oil coming into its Navajo Refinery and Woods Cross Refinery, respectively, and 100% of the intermediate products between Navajo Refinery's Artesia and Lovington facilities. Holly Corporation has agreed to continue using our assets to transport, terminal and store petroleum products pursuant to three separate pipelines and terminals agreements expiring in 2019, 2020 and 2023. 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 own the 2% general partner interest and a 44% limited partner interest in us (before we issue the common units offered hereby) and certain incentive distribution rights. Our recent investment in the Salt Lake City Pipeline and our investment in the previously announced UNEV Pipeline (which will run from Salt Lake City, Utah to Las Vegas, Nevada), assuming in the case of the UNEV Pipeline that such pipeline is completed and we exercise our option to purchase Holly Corporation's 75% interest in such pipeline, will serve to further strengthen our relationship with Holly Corporation.

***We are contractually and strategically positioned to benefit from growth initiatives by Holly Corporation.*** In the past four years, we benefited from Holly Corporation's expansions of its Navajo and Woods Cross Refineries. In the event that Holly Corporation further expands its Navajo or Woods Cross Refineries, we believe that the additional production may also be transported, stored and distributed through our existing pipelines and terminals. In addition, on July 22, 2008, Holly Corporation announced an agreement by one of its subsidiaries to transport crude oil on Centurion Pipeline L.P.'s pipeline from Cushing, Oklahoma to Centurion's Slaughter station in west Texas. In connection with such agreement, Holly Corporation has approved capital expenditures of up to \$90.0 million to build the necessary infrastructure including a 70-mile pipeline from Centurion's Slaughter station in west Texas to Lovington, New Mexico, and a 65-mile pipeline from Lovington to Artesia, New Mexico. Under provisions of our omnibus agreement with Holly Corporation we will have an option to purchase Holly Corporation's investment in the project at a purchase price to be negotiated with Holly Corporation.

***Substantially all of our assets serve 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 customers' core markets, demand for petroleum products exceeds local production, due in part to population growth rates that are higher than the national average. We expect that the population growth in the states of Texas, New Mexico, Colorado, Utah, Washington, Nevada, Arizona and Idaho will result in increased demand for petroleum products shipped on our pipelines and through our terminals.

***We have an experienced management team.*** We benefit from the experience and long-standing industry relationships of our senior management team. Our senior management has an average of over 25 years of experience in the energy industry.

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**Partnership Structure and Management**

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

Holly Logistic Services, L.L.C., as the general partner of HEP Logistics Holdings, L.P., our general partner, manages our operations and activities. Neither our general partner nor the board of directors of Holly Logistic Services, L.L.C. are elected by our unitholders. Unlike shareholders in a publicly traded corporation, our unitholders are not entitled to elect the directors of Holly Logistic Services, L.L.C.

The chart on page S-5 depicts the current structure and ownership of Holly Energy Partners, L.P., our operating partnership and its subsidiaries prior to this offering of common units.

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**Table of Contents****The Offering**

The summary below describes the principal terms of the common units offered hereby. Certain of the terms and conditions described below are subject to important limitations and exceptions. You should read the full text and more specific details contained elsewhere in this prospectus supplement and in the base prospectus under the heading **Description of Our Common Units And Preferred Units**.

Common units offered	2,000,000 common units (or 2,300,000 common units if the underwriters over-allotment option is exercised in full)
Units outstanding before this offering	8,390,000 common units and 7,937,500 subordinated units (including 937,500 Class B subordinated units)
Units outstanding after this offering	10,390,000 common units and 7,937,500 subordinated units (including 937,500 Class B subordinated units) or 10,690,000 common units if the underwriters over-allotment option is exercised in full.
Use of proceeds	We estimate that the net proceeds from this offering will be \$ . We intend to use the net proceeds from this offering (i) to repay \$28.0 million of bank debt incurred to fund our purchase of a 25% interest in the joint venture (the remaining 75% of which is owned by Plains All American Pipeline, L.P.) that owns the Salt Lake City Pipeline, (ii) to repay bank debt incurred to date to fund capital projects, consisting primarily of the expansion of our Artesia, New Mexico to El Paso, Texas refined products pipeline and terminal system (the South System Expansion ) and (iii) for general partnership purposes. See Use of Proceeds.
Cash distributions	<p>Under our partnership agreement, we must distribute all of our cash on hand within 45 days after the end of each quarter, after payment of fees and expenses and the establishment of cash reserves by our general partner in its discretion. We refer to this cash as available cash and we define this term in our partnership agreement. On April 23, 2009, we declared a cash distribution of \$0.775 per common unit for the first quarter of 2009 to be paid on May 14, 2009 to unitholders of record on May 5, 2009. The units to be sold in this offering will not receive this distribution.</p> <p>If cash distributions per common unit exceed \$0.50 in any quarter, our general partner will receive, in addition to amounts associated with its 2% general partner interest, increasing percentages, up to 50%, of the cash we distribute in excess of that amount. We refer to the general partner's right to receive such distributions as incentive distribution rights. The most recent cash distribution declared of \$0.775 per common unit will provide unitholders and our general partner each with 50% of the marginal percentage interest in distributions. For a description of our cash distribution policy and the incentive distribution rights, please read Cash Distribution Policy in the accompanying base prospectus.</p>



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Subordination period	<p>We have previously issued separate classes of limited partnership interests, and the rights of the holders of the subordinated units to participate in distributions are subordinated to the rights of the holders of the common units. With respect to subordinated units held by our general partner, the subordination period extends until the first day of any quarter beginning after June 30, 2009 that certain tests based on our exceeding minimum quarterly distributions are met, and we currently expect this subordination period to end as of July 1, 2009, assuming no significant decrease in our operating performance. With respect to the Class B subordinated units held by Alon USA, the subordination period will end on the last day of any quarter ending on or after March 31, 2010 if Alon USA has not defaulted on its minimum volume commitment payment obligations under our pipelines and terminals agreement with Alon USA for certain prior periods, subject to certain grace periods. In addition, the subordination periods for units held by our general partner or Alon USA will terminate if our general partner is removed without cause. When the subordination period ends for any class of subordinated units, all remaining subordinated units of such class will convert into common units on a one-for-one basis and will then participate pro rata with the other common units in distributions of available cash.</p>
Estimated ratio of taxable income to distributions	<p>We estimate that if you own the common units you purchase in this offering through December 31, 2009, you will be allocated, on a cumulative basis, an amount of federal taxable income for the taxable year 2009 that will be less than 10% of the cash distributed with respect to that period. Please read Certain United States Federal Income Tax Considerations in this prospectus supplement for the basis of this estimate.</p>
New York Stock Exchange Symbol	HEP

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**Summary Selected Historical Financial and Operating Data**

The table on the following page sets forth summary selected historical financial and operating data as of and for each of the years ended December 31, 2006, 2007 and 2008 and for the three months ended March 31, 2008 and 2009. The summary financial data presented is derived from (i) the audited financial statements of Holly Energy Partners, L.P., which are included in our Annual Report on Form 10-K for the year ended December 31, 2008, except that the information presented herein has been adjusted to present the impact of our adoption of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB 51 and Emerging Issues Task Force Issue No. 07-4,

Application of the Two-Class Method under FASB Statement No. 128 to Master Limited Partnerships, both of which were effective for us as of January 1, 2009 and (ii) the unaudited financial statements included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009. The results of operations for the three months ended March 31, 2009 are not necessarily indicative of the operating results for the entire year or any future period. Our Annual Report on Form 10-K for the year ended December 31, 2008 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 are incorporated herein by reference.

The summary selected historical financial and operating data should be read together with, and is qualified in its entirety by reference to, our historical financial statements and the accompanying notes and Management's Discussion and Analysis of Financial Condition and Results of Operations, which are set forth in our Annual Report on Form 10-K for the year ended December 31, 2008 and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.



**Table of Contents****Summary Selected Historical Financial and Operating Data (continued)**

	<b>Year Ended December 31, 2006</b>	<b>Year Ended December 31, 2007</b>	<b>Year Ended December 31, 2008</b>	<b>Three Months Ended March 31, 2008 (unaudited)</b>	<b>2009 (unaudited)</b>
<b>(In thousands, except per unit and barrels per day data)</b>					
<b>Statement of Income Data:</b>					
Revenue	\$ 89,194	\$ 105,407	\$ 118,088	\$ 27,276	\$ 32,124
Operating costs and expenses:					
Operations	28,630	32,911	41,270	9,727	10,796
General and administrative	4,854	5,043	6,377	1,286	1,324
Depreciation and amortization	15,330	14,382	22,889	4,313	6,256
Total operating costs and expenses	48,814	52,336	70,536	15,326	18,376
Operating income	40,380	53,071	47,552	11,950	13,748
Interest expense(1)	(13,056)	(13,289)	(21,763)	(3,807)	(5,403)
SLC Pipeline acquisition costs					(2,500)
Interest income	899	533	159	93	6
Gain on sale of assets		298	36	36	
Other Income			996		175
	(12,157)	(12,458)	(20,572)	(3,678)	(7,722)
Income before income taxes	28,223	40,613	26,980	8,272	6,026
State income tax		(275)	(335)	(68)	(92)
Net income	28,223	40,338	26,645	8,204	5,934
Less noncontrolling interest in net income	680	1,067	1,278	406	495
Net income attributable to Holly Energy Partners, L.P.	27,543	39,271	25,367	7,798	5,439
Less general partner interest in net income attributable to Holly Energy Partners, L.P.	1,710	2,932	3,543	880	1,293
Limited partners interest in net income attributable to Holly Energy Partners, L.P.	\$ 25,833	\$ 36,339	\$ 21,824	\$ 6,918	\$ 4,146
Limited partners per unit interest in net income attributable to Holly Energy Partners, L.P. basic and	\$ 1.59	\$ 2.24	\$ 1.32	\$ .43	\$ .25

diluted						
Weighted average limited partners units outstanding	16,108	16,108	16,291	16,181	16,328	
<b>Other Financial Data:</b>						
EBITDA	\$ 55,030	\$ 66,684	\$ 70,195	\$ 15,893	\$ 17,184	
Distributable cash flow	\$ 47,219	\$ 51,012	\$ 60,365	\$ 13,708	\$ 14,356	
Distributions to unitholders	\$ 43,670	\$ 47,974	\$ 52,426	\$ 13,033	\$ 14,142	
Cash flows from operating activities	\$ 45,853	\$ 59,056	\$ 63,651	\$ 12,404	\$ 9,556	
Cash flows from investing activities	\$ (9,107)	\$ (9,632)	\$ (213,267)	\$ (182,050)	\$ (36,070)	
Cash flows from financing activities	\$ (45,774)	\$ (50,658)	\$ 144,564	\$ 167,562	\$ 25,566	
Maintenance capital expenditures	\$ 1,095	\$ 1,863	\$ 3,133	\$ 477	\$ 418	
Expansion capital expenditures	8,012	8,094	39,170	10,609	10,152	
Total capital expenditures	\$ 9,107	\$ 9,957	\$ 42,303	\$ 11,086	\$ 10,570	
<b>Operating Data (barrels per day):</b>						
Pipeline throughput	189,584	205,167	291,814	245,079	285,139	
Refined product terminal throughput	161,487	165,367	142,276	164,678	126,242	
<b>Balance Sheet Data (at period end):</b>						
Net property, plant and equipment	\$ 160,484	\$ 158,600	\$ 290,284	\$ 274,187	\$ 296,343	
Total assets	245,771	238,904	439,688	427,306	469,545	
Long-term debt	180,660	181,435	355,793	356,330	424,802	
Total liabilities	198,582	200,348	431,568	388,721	470,127	
Total equity (deficit)	47,189	38,556	8,120	38,585	(582)	

(1) Includes amortization of discount and deferred debt issuance costs.

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