

## **HOLLY ENERGY PARTNERS**

*Partnership Update / Current Business Footprint  
Capital Development & Growth Plans*

*Summer / Fall 2008*

# Safe Harbor Disclosure Statement

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Statements made during the course of this presentation that are not historical facts are “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are inherently uncertain and necessarily involve risks that may affect our business prospects and performance, and actual results may differ materially from those discussed during the presentation. Such risks and uncertainties include but are not limited to risks and uncertainties with respect to the future performance of the pipelines and terminals, the actions of actual or potential competitive suppliers and transporters of refined petroleum products in our markets and the markets of Holly Corporation and Alon USA, the demand for and supply of crude oil and refined products, the spread between market prices for refined products and market prices for crude oil, the possibility of constraints on the transportation of refined products, the possibility of inefficiencies or shutdowns in refinery operations or pipelines, effects of governmental regulations and policies, the availability and cost of financing, the effectiveness of capital investments and marketing and acquisition strategies, the possibility of terrorist attacks and the consequences of any such attacks, and general economic conditions. Additional information on risks and uncertainties that could affect the business prospects and performance of Holly Energy Partners is provided in our reports filed with the Securities and Exchange Commission from time to time. All forward-looking statements included in this presentation are expressly qualified in their entirety by the foregoing cautionary statements. Holly Energy Partners undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

# Publicly Traded Partnership '101' Investor Facts



## What Investors Need to Know about Publicly Traded Partnerships (PTPs)

More and more investors are discovering that PTPs represent an excellent investment option – a source of steady tax-advantaged income with great potential for capital appreciation. You may have heard of a publicly traded partnership or a master limited partnership but are unsure what they are and how they may fit in your portfolio. Learning the basics about PTPs could be a rewarding proposition.



### What is a PTP?

A PTP (also known as a master limited partnership) is exactly what the name suggests – a limited partnership in which the interests (called “units”) are traded on the New York and American Stock Exchanges and NASDAQ just like corporate stock. An investor who buys units in a PTP becomes a limited partner.

### What kinds of companies are PTPs?

Under the tax code, in order for a partnership to be publicly traded it must receive 90 percent of its income from specific sources. These include interest, dividends, rents, gain from the sale of real property, and income from mineral or natural resources activities. Most PTPs today are in energy related businesses such as oil and gas pipelines, propane, transportation of petroleum products on tankers and barges, and in some cases, oil and gas exploration and production. There are also some PTPs in real estate and timber.

### Who should invest in PTPs?

PTPs represent an opportunity for investors seeking:

- > Income
- > Yield
- > Combination of income and growth
- > Safe, stable business enterprises
- > Deferral of taxes
- > Estate Planning

### What is the tax treatment of PTPs?

Unlike corporations, PTPs and other partnerships are not considered as separate entities for tax purposes. A partnership for tax purposes is referred to as a “pass-through” entity. No tax is paid at the partnership level. Partnership income is taxed only at one level – that of the individual partner. Since deductions such as depreciation are also passed through to individual partners, taxable income is often quite low. Most PTPs make quarterly distributions to their partners that will significantly exceed any tax owed.

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NAPTP

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# Publicly Traded Partnership ‘101’ Investor Facts – Part II



National Association of Publicly Traded Partnerships

## What does that mean for PTP investors?

Since the PTP itself does not pay tax, it is able to pass along more of its earnings to its investors than a corporation. It does this in the form of quarterly cash distributions. From a tax standpoint these distributions are treated much more favorably than corporate dividends. Rather than taxable investment income, they are considered as a return of capital and reduce the partner's basis in the partnership units. The partner will not be taxed on distributions until the PTP units are sold and tax paid on the gain, including distributions, or when the basis reaches zero.

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## What happens when units are sold?

When the units are sold, the difference between the sales price and the adjusted basis equals the taxable gain (or loss). Some of the tax on the capital gain from selling the interest will be taxed at the capital gains rate. That portion of the gain that results from a downward adjustment of the basis after allocation of depreciation or other deductions will be taxed at the ordinary income rate.

## What is a K-1? Will it delay my filing?

A K-1 form is the document...showing the share of each item of partnership income, gain, loss, deductions and credit. ...K-1's cannot be made available in early January as is the case with W-4 or 1099's.

## What is a K-1? Will it delay my tax filing?

A K-1 form is the document a PTP investor will receive during tax season showing the share of each item of partnership income, gain, loss, deductions and credit. The K-1 provides information necessary for an investor's tax return.

While K-1's cannot be made available in early January as is the case with a W-4 or 1099, PTPs are now able to provide the K-1 on a timely basis. Usually an investor can download the K-1 from a company website in plenty of time to meet tax filing deadlines.

## Can I hold PTPs in my IRA or 401(k)?

Yes, but PTPs may not represent the best investment for a retirement plan. First, since a retirement plan is tax-exempt anyway, the tax benefits of a PTP would have no impact. Secondly, a retirement fund (or other tax-exempt entity earning income from an outside business is subject to the "unrelated business income tax (UBIT)" after the first \$1,000 of income. Since a PTP is a pass-through entity the fund would be considered to be "earning" this sort of income. Unless there is certainty that a PTP's income will be less than \$1,000 each year, it should not be held in a retirement plan.

## Can I hold PTP's in my IRA or 401-K?

Yes, but (holdings) are subject to "unrelated business income tax (UBIT)" after the first \$1,000 of income.

## Can I invest in PTPs through a mutual fund?

Yes. As a result of fairly recent changes in the tax code, PTP income is now considered qualified income for purposes of a mutual fund. This opens the door for expanded fund investment in PTPs. The fund is the limited partner and receives the cash distribution which is included in the fund's regular dividend. Since PTP income is converted to a fund dividend, tax exempt shareholders are not subject to UBIT. Currently there are not a great many mutual funds that invest in PTPs.



NAPTP

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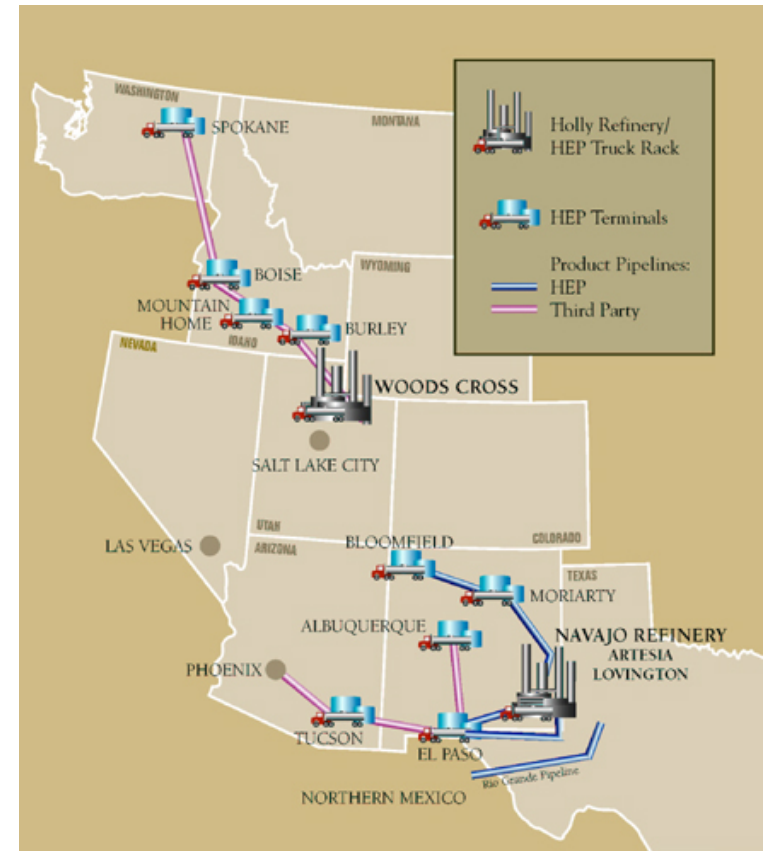
# Presentation Topics

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- ✓ Formation & Acquisition History
- ✓ Additional Capital Projects
- ✓ Growth, Pro-forma EBITDA & Capital Spending
- ✓ Summary
- ✓ Appendix

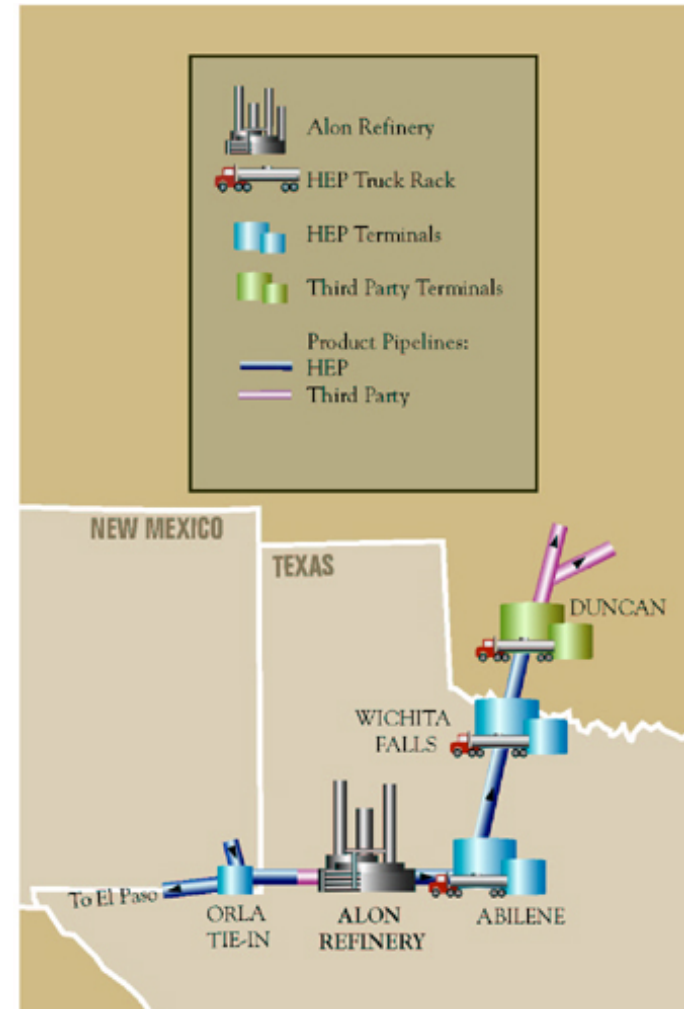
# Formation History, July 2004

- ✓ Formed in July 2004 as an Initial Public Offering sponsored by Holly Corporation.
- ✓ Original assets:
  - ✓ North refined products pipeline system from Artesia, NM to Moriarty & Bloomfield, NM
  - ✓ South refined products pipeline system from Artesia, NM to El Paso, TX
  - ✓ Joint venture LPG pipeline from Lawson Junction, TX to Juarez, Mexico
  - ✓ 9 refined product terminals in 5 western states
  - ✓ 2 refinery truck loading rack facilities
- ✓ Over 1,000 miles of refined product pipelines
- ✓ Over 1.7 million bbls of refined product storage
- ✓ Initial EBITDA approximately \$35 million
- ✓ 15-year pipeline & terminal agreement between Holly & HEP providing guaranteed minimums from Holly to HEP
- ✓ No commodity risk – all fee based transportation & storage revenue



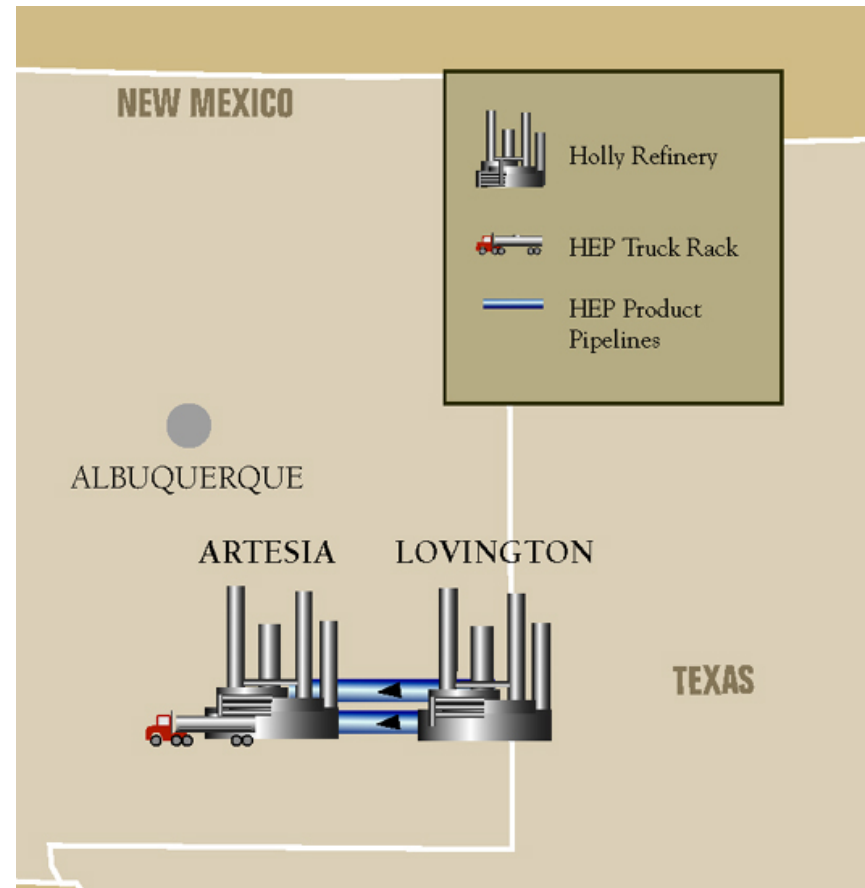
## Acquisition History: Alon USA Transaction, February 2005

- ✓ Alon USA pipeline & terminal acquisition : (February 2005)
  - ✓ 4 refined products pipelines aggregating 500 miles
  - ✓ 2 refined product terminals with 350,000 bbls of storage
  - ✓ Refined product tank farm facility
- ✓ Purchase price: \$120 million in cash & 937,500 subordinated HEP units
- ✓ Approximate annual EBITDA of assets: \$17 million
- ✓ 15-year pipeline & terminal agreement between Alon & HEP
  - ✓ Guaranteed minimum volume commitment by Alon
  - ✓ Annual increase in tariffs tied to PPI adjustment
- ✓ No commodity risk – all fee based transportation & storage revenue



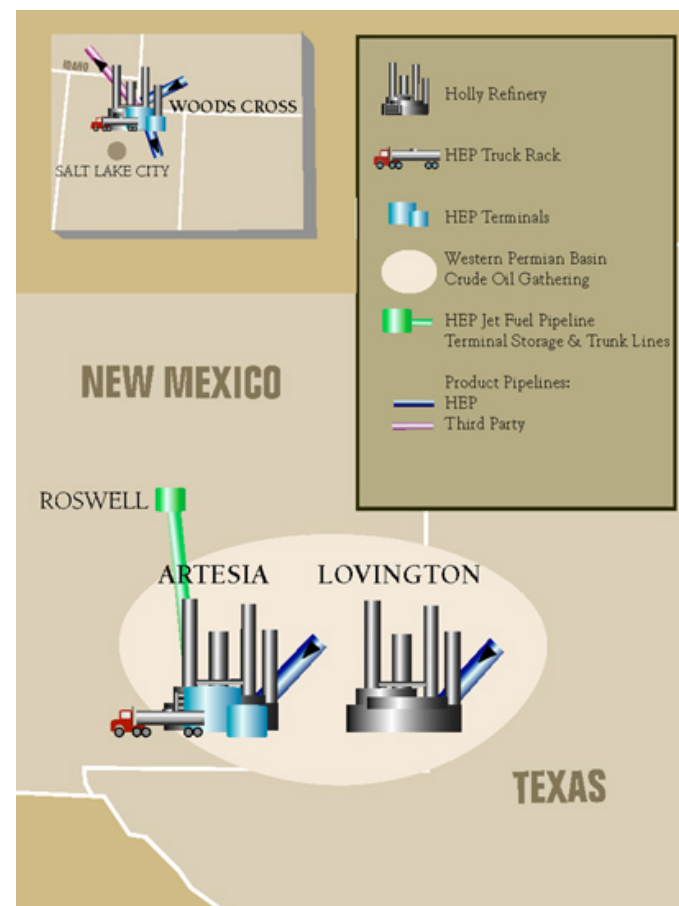
## Acquisition History: Holly Intermediate Pipelines, July 2005

- ✓ Holly intermediate feedstock / product pipelines : (July 2005)
  - ✓ Two 65-mile parallel pipelines which move intermediate feedstock from Holly's Lovington, NM facility to its Artesia, NM facility
  - ✓ 84,000 bpd of throughput capacity
- ✓ Purchase price: \$81.5 million
- ✓ Approximate annual EBITDA of assets: \$10 million
- ✓ 15-year intermediate pipeline agreement between Holly & HEP
  - ✓ Guaranteed minimum volume/revenue commitment by Holly
  - ✓ Increase in annual minimum revenue tied to PPI adjustment
- ✓ No commodity risk – all fee based transportation & storage revenue



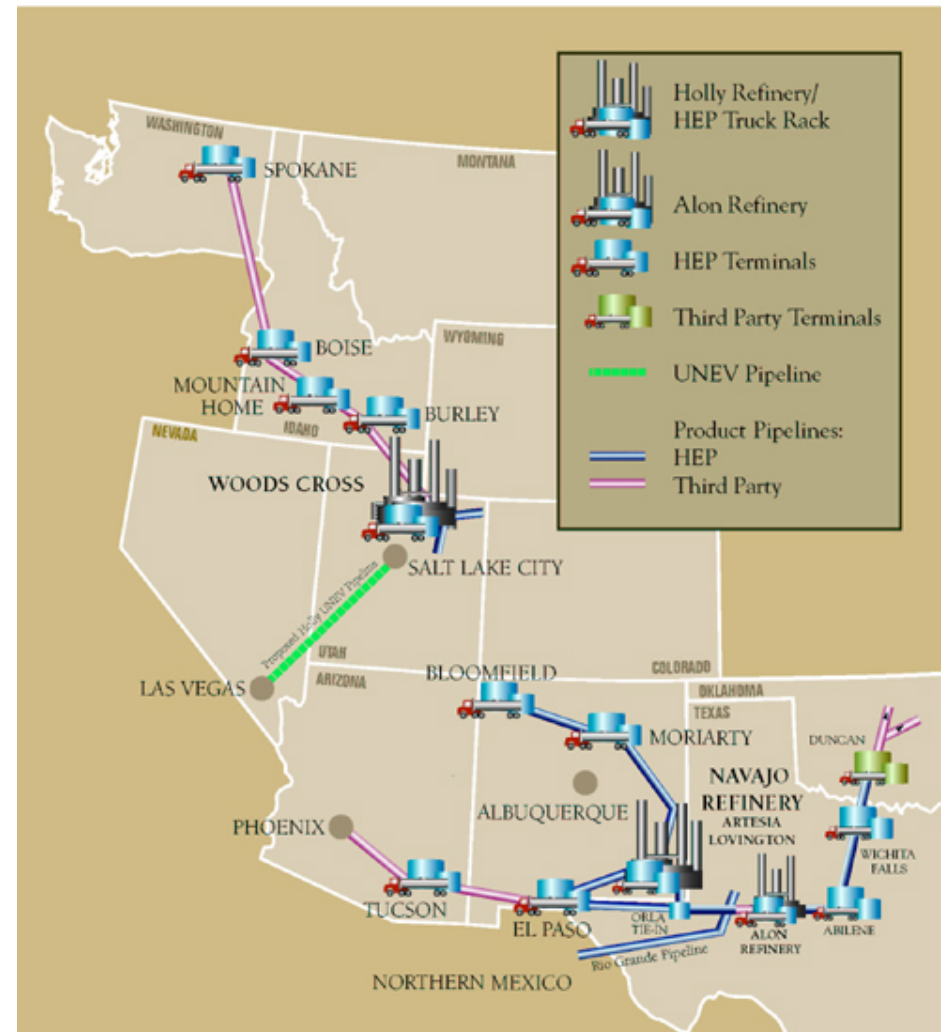
## Acquisition of Holly Crude Oil & Product Transportation Assets, March 2008

- ✓ In March 2008, HEP purchased from Holly Corporation:
  - Crude oil delivery system to Navajo Refinery (New Mexico)
  - Crude oil gathering system (Western Permian Basin)
  - Jet fuel transportation pipeline and terminal storage (Roswell, NM)
  - Crude oil delivery system to Woods Cross Refinery (Utah)
  - Refinery on-site crude oil storage (Navajo & Woods Cross refineries)
  - Refined product delivery pipeline (Woods Cross refinery)
- ✓ Purchase price - \$180 million
- ✓ Revenues from Holly minimum revenue commitment – \$25 million
- ✓ Pro forma initial annual EBITDA – \$20 million
- ✓ No commodity risk – all fee based transportation & storage revenue



# HEP Assets: Current Footprint

- ✓ Over 1,700 miles of product pipelines
- ✓ Over 800 miles of crude gathering and trunk pipelines
  - Over 1 million bbls of crude oil storage
- ✓ 11 Terminals & 2 truck loading rack facilities in 5 Western states
  - Over 2 million bbls of refined product storage
- ✓ 70% Joint Venture interest in Rio Grande Pipeline Co—a product line moving LPG's from West Texas into Mexico
- ✓ Expected total annual maintenance CAPEX for HEP after transaction-- \$3.5 million
- ✓ Total minimum annual revenue & lease commitments of \$109 million<sup>1</sup>



## From IPO (2004) to Present (2008)

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- ✓ *Demonstrated ability to successfully grow revenues & distributions to unitholders*
- ✓ *Conservative business model:*
  - ✓ *Fee based contracts*
  - ✓ *Long-term minimum revenue commitments*
  - ✓ *No commodity risk*

## Presentation Topics

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- ✓ Formation & Acquisition History
- ✓ **Additional Capital Projects**
- ✓ Growth, Pro-forma EBITDA & Capital Spending
- ✓ Summary
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# HEP Capital Projects

Project	Contracted & Commenced Projects			Additional HEP Opportunity
	Plains JV	South System Expansion	UNEV P/L	Crude Delivery & Intermediate P/L Facilities
Description	<ul style="list-style-type: none"> <li>25% Interest – Investment approx. \$25 million</li> <li>Brings needed relief to heavy crude capacity constraints for SLC refiners</li> </ul>	<ul style="list-style-type: none"> <li>Expand pipeline from Artesia, NM to El Paso, TX to transport additional volumes from Navajo refinery expansion and third party contract to transport iso – butane</li> <li>Brings increased volumes to HEP existing assets</li> </ul>	<ul style="list-style-type: none"> <li>400 mile 12” pipeline; terminals in Las Vegas &amp; Cedar City, UT</li> <li>New source of refined products for Las Vegas given California sourcing issues</li> </ul>	<ul style="list-style-type: none"> <li>2 pipelines totaling approx. 135 miles of 16” pipeline connecting Centurion crude oil pipeline in West Texas with Holly’s Navajo Refinery facilities</li> <li>Pump station additions &amp; additions to existing HEP pipelines.</li> <li>Natural gas line conversion</li> <li>Adds 25,000 bpd of capacity between Navajo Lovington &amp; Artesia facilities</li> <li>Delivers Canadian crude oil to Navajo Refinery</li> </ul>
Project Sponsor	Plains / HEP	HEP	HOC	HOC
Estimated Capex	\$28mm <sup>1</sup>	\$48mm	\$240mm <sup>2</sup>	\$90-100mm
Estimated EBITDA	\$3.5mm	\$10mm	\$23mm <sup>2</sup>	TBD <sup>3</sup>
Expected Completion Date	Q4 2008	Q4 2008	Q4 ‘09 / Q1 ‘10	Q3 2009



<sup>1</sup> Includes Payment of \$2.5mm to HOC

<sup>2</sup> Represents HOC’s 75% ownership share. Total capital expenditures of \$300.0mm and total EBITDA of \$31mm.

HEP has an option to purchase HOC’s interest in pipeline for 180 days from completion of project at HOC’s cost plus 7% per annum interest

<sup>3</sup> Negotiations underway between HEP & HOC

## Overview of Plains JV – Q2 2008

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- Description:**
- 95-mile intrastate pipeline being constructed by Plains All American Pipeline
  - Replaces previous HEP Porcupine Ridge Pipeline project
- Location:**
- Transports crude from Wyoming and Utah and the Utah Terminus of the Frontier Pipeline into the Salt Lake City area
- Capacity:**
- 120,000 barrels per day (initial light crude capacity)
  - Significantly increases capacity to deliver heavy Canadian crude into SLC
  - Provides excess crude delivery capacity for future SLC refinery expansions
- Investment:**
- HEP will own a 25% JV interest
  - Investment of \$28 million in third quarter of 2008<sup>1</sup>
- EBITDA:**
- \$3.5 million, HEP's 25% share
- Completion Date:**
- Fourth quarter of 2008
  - Definitive agreements signed in November 2007

# HEP Capital Projects

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# Overview of South System Expansion – Q4 2008

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- Description:**
- Expand capacity of pipeline from Artesia, NM to El Paso, TX to transport increased volumes from Navajo due to refinery expansion from 85,000 bpd to 100,000 bpd
  - Provides additional refinery feedstock transport capability (*up to 10,000 bpd*)
  - 85 mile, new 12" pipe from Artesia to El Paso
  - Additional storage at El Paso (150,000 bbls)
- Capex:**
- Approximately \$48 million
- Annual EBITDA:**
- \$10 million from increased tariffs & volumes<sup>1</sup>
- Completion Date:**
- Total project: Fourth quarter of 2008

# HEP Capital Projects

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## Overview of Las Vegas Pipeline – Q4 2009

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- Description:**
- 75% interest in 400 mile refined products pipeline from Salt Lake City to Las Vegas with terminals in Cedar City, UT and Las Vegas, NV
  - HOC owns through construction phase
  - HEP has option to purchase HOC's ownership interest
  - Sinclair to be 25% equity partner
- Benefits:**
- Increased refined product supply to fast-growing market with consistent annual demand
  - Lowers impact to refiners of seasonal demand reduction with wintertime months in local market
  - Possible competitive outlet for crude-cost-advantaged Rocky Mountain refiners
- Capacity:**
- 62,000 bpd (expandable to 118,000 bpd)
- Capex:**
- Approximately \$240mm (HOC's 75% share of \$300mm total project cost, plus carrying cost of 7% per annum)
- Estimated EBITDA:**
- \$23mm (75% share; initial annual EBITDA estimate)
- Completion Date:**
- Fourth quarter 2009 / First quarter of 2010
- Funding**
- During the construction phase, HOC will fund construction payments
  - At completion of construction, HEP will have option to purchase from HOC at cost plus a 7% carrying cost

# HEP Capital Projects

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HEP has an option to purchase HOC's interest in pipeline for 180 days from completion of project at HOC's cost plus 7% per annum interest

<sup>3</sup> Negotiations underway between HEP & HOC

## Crude Delivery & Intermediate Pipeline Facilities\* – Q3 2009

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- Description:**
- 2 pipeline segments totaling approx. 135 mile 16” pipeline originating in Slaughter, TX, transporting crude oil to Navajo’s Lovington facility, then continuing with crude transport to Navajo’s Artesia facility.
  - Pump station additions, piping changes & additions to existing HEP pipelines
  - 50,000 bpd of capacity
  - HOC to own during construction phase
  - HEP expected to have option to purchase
- Benefits:**
- Delivers heavy Canadian crude oil to Navajo Refinery
  - Allows for additional feedstock transport between the Navajo facilities
- Capex:**
- Approximately \$90-100mm
- Estimated EBITDA:**
- TBD\*
- Completion Date:**
- Third quarter 2009

## Presentation Topics

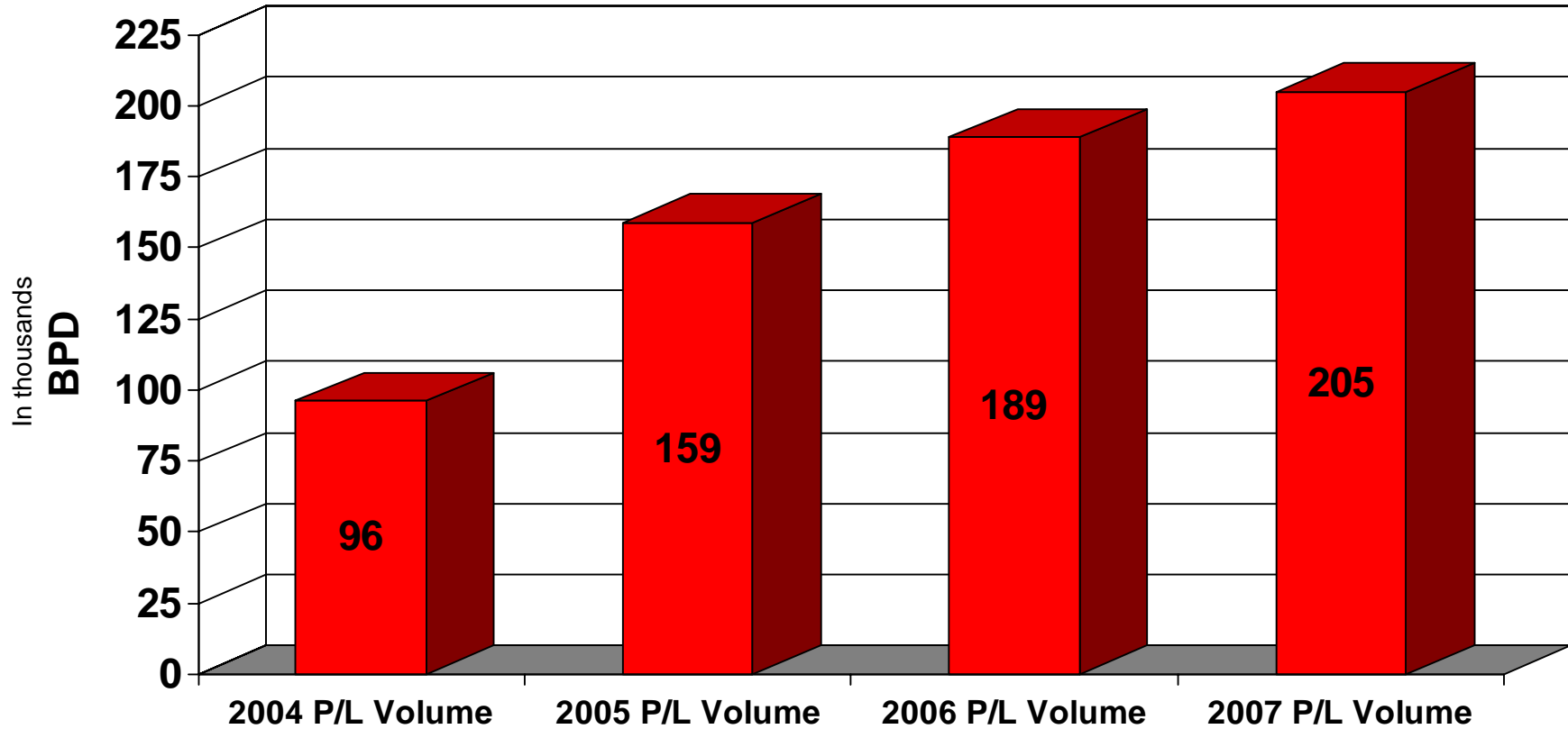
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# Pipeline Volume Growth

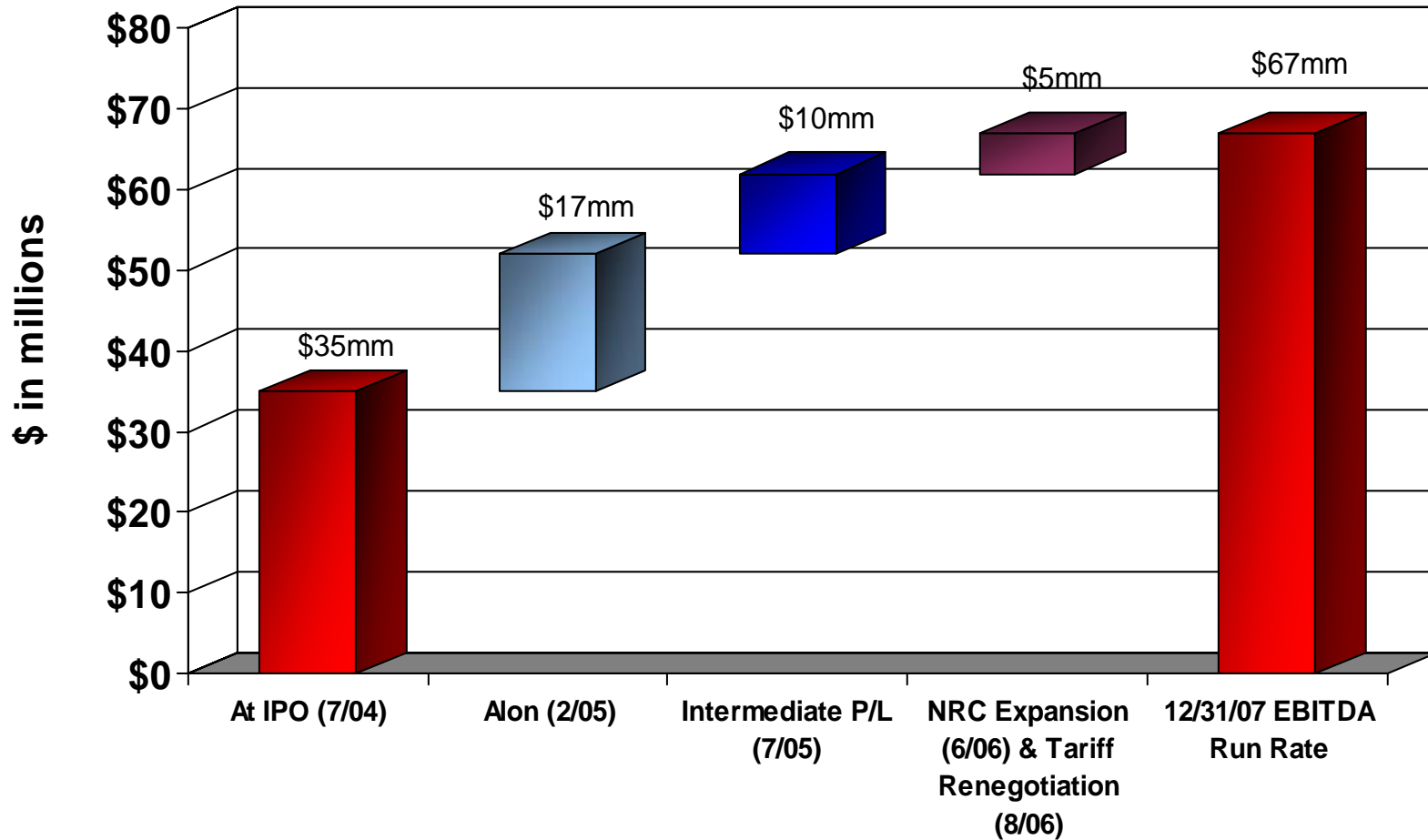
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✓ Year over Year Pipeline Volume Growth



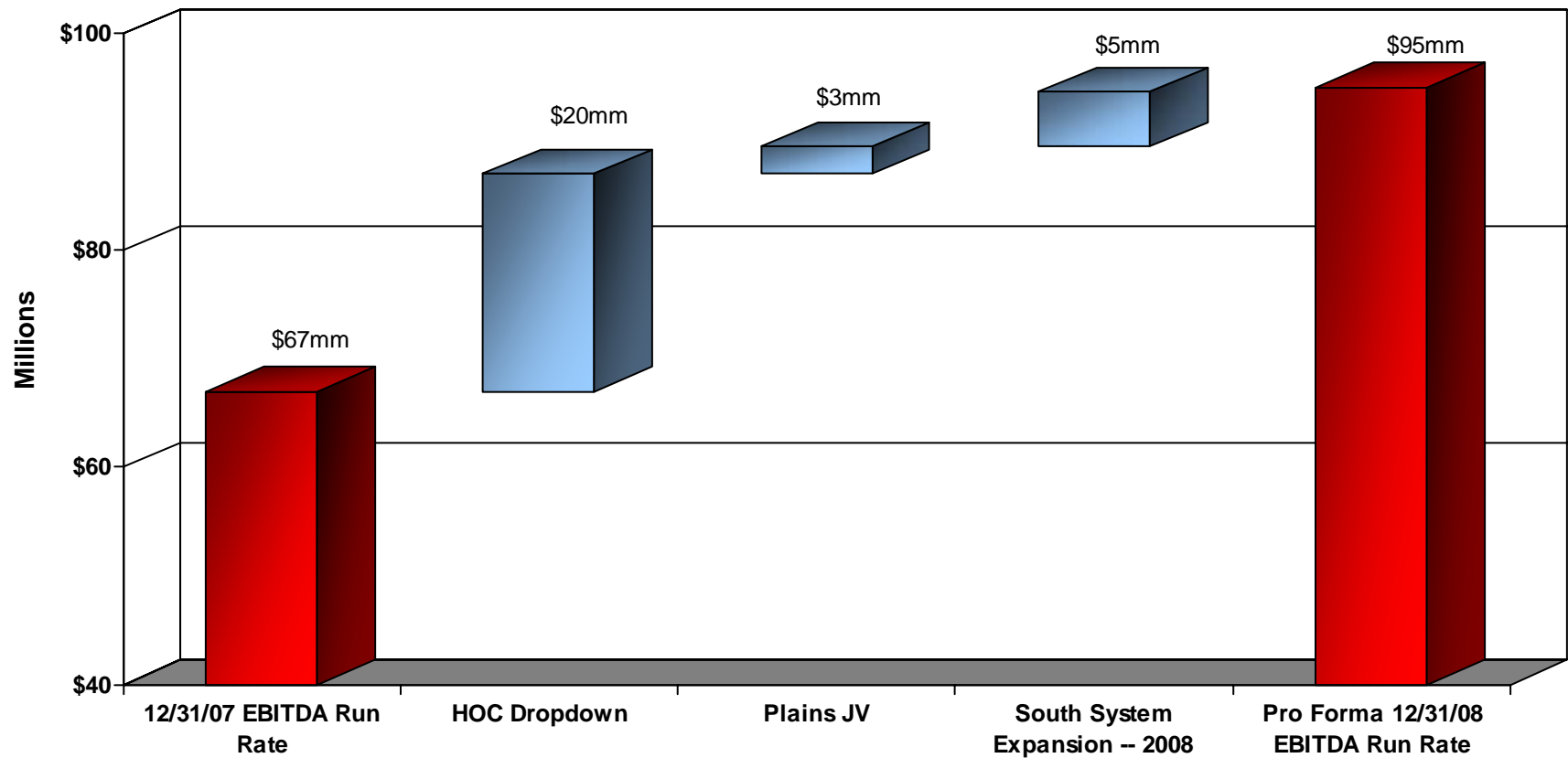
✓ In 2007 approximately 84% of revenues came from pipeline activity

# HEP Steady State EBITDA Growth Since IPO



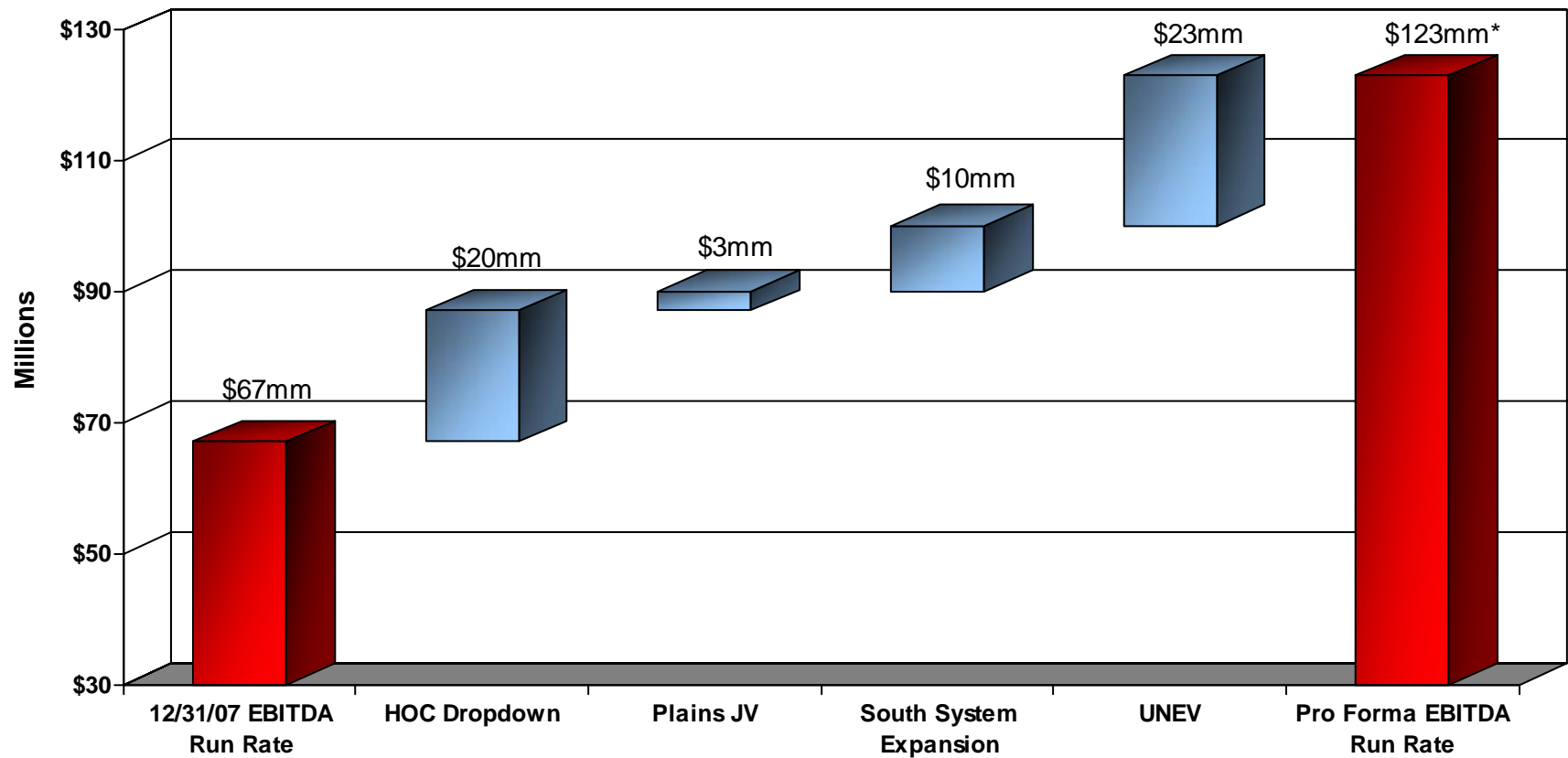
## HEP Steady State EBITDA Pro Forma Growth from Contracted & Commenced Projects

✓ \$95 million annual pro forma run rate expected to be achieved by late-2008



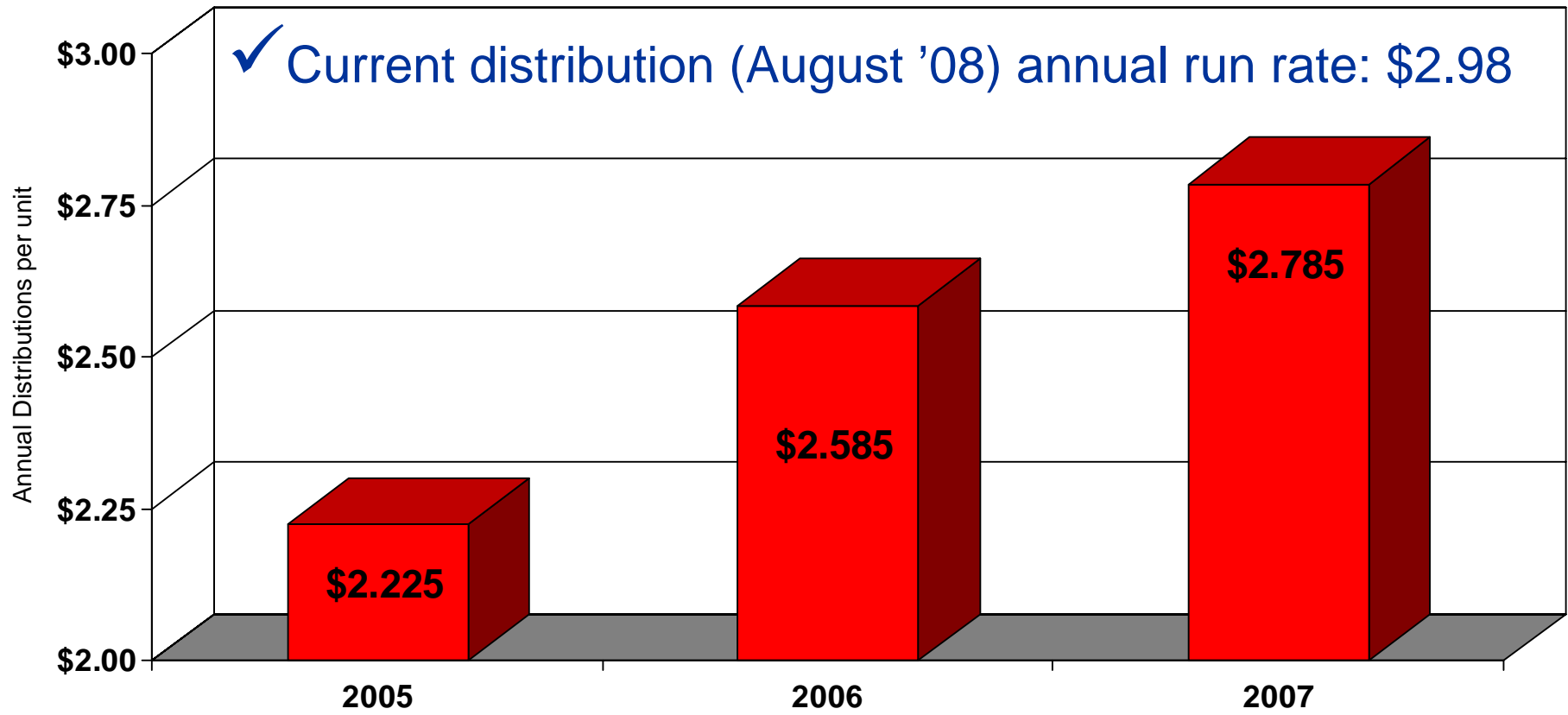
# HEP Steady State EBITDA Pro Forma Growth Assuming UNEV Option Exercised

✓ \$123 million annual pro forma run rate with UNEV Option Exercised



\*Excludes potential EBITDA from Crude Delivery & Intermediate P/L Facility Upgrades

# Distribution Growth



✓ Distribution has been increased every quarter since IPO

## Key HEP Highlights—Stability of Revenues:

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- ✓ *100% Fee / Capacity lease based – no commodity risk*
- ✓ *In 2007, over \$79 million of revenues was derived from minimum commitments under long-term contracts (approximately 75% of total revenues)*
- ✓ *After the Holly drop down acquisition in March 2008, approximately \$109 million of annual revenues derived from minimum commitments*
- ✓ *Minimum commitments ensure that even in the event of turnarounds or outages of refineries served by HEP that HEP would still be paid at least the minimum, except for suspension during a force majeure lasting more than 30 days or termination following a force majeure lasting more than one year*

Counterparty	Minimum Annualized Commitments (in mm) <sup>1</sup>	Term	Type of Contract
Holly Corp – IPO Assets	\$41.2	2019	Minimum Revenue Commitment
Alon USA – Lease Agreement	\$7.0	Multiple <sup>(2)</sup>	Capacity Lease
Alon USA – Products Pipelines	\$21.9	2020	Minimum Volume Commitment
Holly Corp – Intermediate Pipelines	\$13.3	2020	Minimum Revenue Commitment
Holly Corp – Crude Pipeline and Tankage	<u>\$25.3</u>	2022	Minimum Revenue Commitment
	\$108.7		



<sup>1</sup> As of July 1, 2008

<sup>2</sup> Three capacity lease agreements, the earliest of which expires Feb 2012

## Key HEP Highlights—Return to Unitholders Since Inception

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- ✓ *12% compounded annual increase in distributions to unitholders since inception*
- ✓ *Total unitholder return of 103% since IPO\**

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# Summary

## Key HEP Highlights—Before & After Asset Acquisition:

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- ✓ ***No commodity risk / stable operations***
- ✓ ***Stable base of revenue with long-term fee-based commitments***
- ✓ ***Well maintained assets serving high growth markets***
- ✓ ***Senior management team averaging over 25 years of industry experience***
- ✓ ***Disciplined growth strategy***
- ✓ ***Benefits from parent / sponsor Holly Corporation's refining growth plan***
- ✓ ***Conservative financial structure***

# Holly Energy Partners, L.P. (HEP)

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## Holly Energy Partners, L.P. (NYSE: HEP)

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*David G. Blair, Senior Vice President  
Bruce R. Shaw, Senior VP-Chief Financial Officer  
M. Neale Hickerson, VP-Investor Relations*

# Holly Energy Partners, L.P. (HEP)

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BPD: Barrels per day

EBITDA: Earnings before interest, taxes, depreciation and amortization which is calculated as net income plus (i) interest expense net of interest income and (ii) depreciation and amortization. EBITDA is not a calculation based upon U.S. generally accepted accounting principles (“U.S. GAAP”). However, the amounts included in the EBITDA calculation are derived from amounts included in our consolidated financial statements. EBITDA should not be considered as an alternative to net income or operating income, as an indication of our operating performance or as an alternative to operating cash flow as a measure of liquidity. EBITDA is not necessarily comparable to similarly titled measures of other companies. EBITDA is presented here because it is a widely used financial indicator used by investors and analysts to measure performance. EBITDA is also used by our management for internal analysis and as a basis for compliance with financial covenants.

STEADY STATE EBITDA: EBITDA as defined above calculated on the basis of our projection of normal pipeline and terminal volumes from our customers, applicable tariffs and fees, and normal expense levels, and assuming no material unplanned shutdowns or unavailable capacity.