# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2019**
**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from ____________ to _____________**

**Commission File Number: 1-32225**

# HOLLY ENERGY PARTNERS, L.P.
**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **20-0833098** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **2828 N. Harwood, Suite 1300** | |
| **Dallas** | |
| **Texas** | **75201** |
| **(Address of principal executive offices)** | **(Zip code)** |

**(214) 871-3555**
**(Registrant's telephone number, including area code)**

**(Former name, former address and former fiscal year, if changed since last report)**

**Securities registered pursuant to 12(b) of the Securities Exchange Act of 1934:**

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common Limited Partner Units | HEP | New York Stock Exchange |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth" company in Rule 12b-2 of the Exchange Act.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ | Non-accelerated filer | ☐ | Smaller reporting company | ☐ |
| Emerging growth company | ☐ | | | | | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of the registrant's outstanding common units at July 26, 2019, was 105,440,201.

**HOLLY ENERGY PARTNERS, L.P.**
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**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains certain "forward-looking statements" within the meaning of the federal securities laws. All statements, other than statements of historical fact included in this Form 10-Q, including, but not limited to, those under "Results of Operations" and "Liquidity and Capital Resources" in Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part I are forward-looking statements. Forward-looking statements use words such as "anticipate," "project," "expect," "plan," "goal," "forecast," "intend," "should," "would," "could," "believe," "may," and similar expressions and statements regarding our plans and objectives for future operations. These statements are based on our beliefs and assumptions and those of our general partner using currently available information and expectations as of the date hereof, are not guarantees of future performance and involve certain risks and uncertainties. Although we and our general partner believe that such expectations reflected in such forward-looking statements are reasonable, neither we nor our general partner can give assurance that our expectations will prove to be correct. All statements concerning our expectations for future results of operations are based on forecasts for our existing operations and do not include the potential impact of any future acquisitions. Our forward-looking statements are subject to a variety of risks, uncertainties and assumptions. If one or more of these risks or uncertainties materialize, or if underlying assumptions prove incorrect, our actual results may vary materially from those anticipated, estimated, projected or expected. Certain factors could cause actual results to differ materially from results anticipated in the forward-looking statements. These factors include, but are not limited to:

- risks and uncertainties with respect to the actual quantities of petroleum products and crude oil shipped on our pipelines and/or terminalled, stored or throughput in our terminals;
- the economic viability of HollyFrontier Corporation ("HFC"), Delek US Holdings, Inc. ("Delek") and our other customers;
- the demand for refined petroleum products in markets we serve;
- our ability to purchase and integrate future acquired operations;
- our ability to complete previously announced or contemplated acquisitions;
- the availability and cost of additional debt and equity financing;
- the possibility of reductions in production or shutdowns at refineries utilizing our pipeline and terminal facilities;
- the effects of current and future government regulations and policies;
- our operational efficiency in carrying out routine operations and capital construction projects;
- the possibility of terrorist or cyber attacks and the consequences of any such attacks;
- general economic conditions;
- the impact of recent or proposed changes in the tax laws and regulations that affect master limited partnerships; and
- other financial, operational and legal risks and uncertainties detailed from time to time in our Securities and Exchange Commission filings.

Cautionary statements identifying important factors that could cause actual results to differ materially from our expectations are set forth in this Form 10-Q, including, without limitation, the forward-looking statements that are referred to above. When considering forward-looking statements, you should keep in mind the known material risk factors and other cautionary statements set forth in our Annual Report on Form 10-K for the year ended December 31, 2018, and in this Quarterly Report on Form 10-Q in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in "Risk Factors." All forward-looking statements included in this Form 10-Q and all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. The forward-looking statements speak only as of the date made and, other than as required by law, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**HOLLY ENERGY PARTNERS, L.P.**
**CONSOLIDATED BALANCE SHEETS**
(In thousands, except unit data)

| | June 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | (Unaudited) | | | |
| **ASSETS** | | | | |
| **Current assets:** | | | | |
| Cash and cash equivalents | $ | 6,941 | $ | 3,045 |
| Accounts receivable: | | | | |
| Trade | | 15,074 | | 12,332 |
| Affiliates | | 46,082 | | 46,786 |
| | | 61,156 | | 59,118 |
| Prepaid and other current assets | | 3,883 | | 4,311 |
| Total current assets | | 71,980 | | 66,474 |
| Properties and equipment, net | | 1,507,597 | | 1,538,655 |
| Operating lease right-of-use assets, net | | 76,551 | | — |
| Intangible assets, net | | 108,326 | | 115,329 |
| Goodwill | | 270,336 | | 270,336 |
| Equity method investments | | 83,015 | | 83,840 |
| Other assets | | 30,038 | | 27,906 |
| **Total assets** | $ | 2,147,843 | $ | 2,102,540 |
| **LIABILITIES AND EQUITY** | | | | |
| **Current liabilities:** | | | | |
| Accounts payable: | | | | |
| Trade | $ | 10,382 | $ | 16,435 |
| Affiliates | | 7,733 | | 14,222 |
| | | 18,115 | | 30,657 |
| Accrued interest | | 13,329 | | 13,302 |
| Deferred revenue | | 8,216 | | 8,697 |
| Accrued property taxes | | 5,437 | | 1,779 |
| Current operating lease liabilities | | 5,346 | | — |
| Current finance lease liabilities | | 857 | | 936 |
| Other current liabilities | | 2,525 | | 2,526 |
| Total current liabilities | | 53,825 | | 57,897 |
| Long-term debt | | 1,437,710 | | 1,418,900 |
| Noncurrent operating lease liabilities | | 71,550 | | — |
| Other long-term liabilities | | 13,273 | | 15,307 |
| Deferred revenue | | 48,345 | | 48,714 |
| **Class B unit** | | 47,722 | | 46,161 |
| **Equity:** | | | | |
| **Partners' equity:** | | | | |
| Common unitholders (105,440,201 units issued and outstanding at June 30, 2019 and December 31, 2018) | | 390,022 | | 427,435 |
| **Noncontrolling interest** | | 85,396 | | 88,126 |
| **Total equity** | | 475,418 | | 515,561 |
| **Total liabilities and equity** | $ | 2,147,843 | $ | 2,102,540 |

See accompanying notes.

## HOLLY ENERGY PARTNERS, L.P.
## CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per unit data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| **Revenues:** | | | | |
| Affiliates | $ 102,369 | $ 94,013 | $ 205,728 | $ 195,441 |
| Third parties | 28,382 | 24,747 | 59,520 | 52,203 |
| | 130,751 | 118,760 | 265,248 | 247,644 |
| **Operating costs and expenses:** | | | | |
| Operations (exclusive of depreciation and amortization) | 40,602 | 34,533 | 78,121 | 70,735 |
| Depreciation and amortization | 24,247 | 24,608 | 48,071 | 49,750 |
| General and administrative | 1,988 | 2,673 | 4,608 | 5,795 |
| | 66,837 | 61,814 | 130,800 | 126,280 |
| **Operating income** | 63,914 | 56,946 | 134,448 | 121,364 |
| | | | | |
| **Other income (expense):** | | | | |
| Equity in earnings of equity method investments | 1,783 | 1,734 | 3,883 | 3,013 |
| Interest expense | (19,230) | (17,626) | (38,252) | (35,207) |
| Interest income | 551 | 526 | 1,079 | 1,041 |
| Gain (loss) on sale of assets and other | 111 | (53) | (199) | 33 |
| | (16,785) | (15,419) | (33,489) | (31,120) |
| **Income before income taxes** | 47,129 | 41,527 | 100,959 | 90,244 |
| State income tax benefit (expense) | 30 | (28) | (6) | (110) |
| **Net income** | 47,159 | 41,499 | 100,953 | 90,134 |
| Allocation of net income attributable to noncontrolling interests | (1,469) | (1,356) | (4,081) | (3,823) |
| **Net income attributable to the partners** | 45,690 | 40,143 | 96,872 | 86,311 |
| **Limited partners' per unit interest in earnings—basic and diluted** | $ 0.43 | $ 0.38 | $ 0.92 | $ 0.82 |
| **Weighted average limited partners' units outstanding** | 105,440 | 105,429 | 105,440 | 104,637 |

See accompanying notes.

**HOLLY ENERGY PARTNERS, L.P.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Unaudited)
(In thousands)

| | Six Months Ended June 30, 2019 | Six Months Ended June 30, 2018 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net income | $ 100,953 | $ 90,134 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 48,071 | 49,750 |
| (Gain) loss on sale of assets | 48 | (183) |
| Amortization of deferred charges | 1,535 | 1,516 |
| Equity-based compensation expense | 1,246 | 1,550 |
| Equity in earnings of equity method investments, net of distributions | 526 | 228 |
| (Increase) decrease in operating assets: | | |
| Accounts receivable—trade | (2,742) | (698) |
| Accounts receivable—affiliates | 704 | 14,836 |
| Prepaid and other current assets | 426 | (835) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable—trade | 420 | (1,428) |
| Accounts payable—affiliates | (6,489) | 3,546 |
| Accrued interest | 27 | (67) |
| Deferred revenue | 339 | 3,700 |
| Accrued property taxes | 3,658 | 888 |
| Other current liabilities | — | (2,023) |
| Other, net | (3,733) | 49 |
| Net cash provided by operating activities | 144,989 | 160,963 |
| **Cash flows from investing activities** | | |
| Additions to properties and equipment | (17,752) | (24,739) |
| Business and asset acquisitions | — | (6,831) |
| Proceeds from sale of assets | 194 | 196 |
| Distributions in excess of equity in earnings of equity investments | 299 | 299 |
| Net cash used for investing activities | (17,259) | (31,075) |
| **Cash flows from financing activities** | | |
| Borrowings under credit agreement | 175,000 | 305,500 |
| Repayments of credit agreement borrowings | (156,500) | (417,500) |
| Proceeds from issuance of common units | — | 114,831 |
| Distributions to HEP unitholders | (136,207) | (130,075) |
| Distributions to noncontrolling interest | (5,250) | (3,500) |
| Payments on finance leases | (503) | (704) |
| Contributions from general partner | — | 492 |
| Purchase of units for incentive grants | (255) | — |
| Units withheld for tax withholding obligations | (119) | (58) |
| Other | — | 6 |
| Net cash used by financing activities | (123,834) | (131,008) |
| **Cash and cash equivalents** | | |
| Increase for the period | 3,896 | (1,120) |
| Beginning of period | 3,045 | 7,776 |
| **End of period** | $ 6,941 | $ 6,656 |

See accompanying notes.

**HOLLY ENERGY PARTNERS, L.P.**
**CONSOLIDATED STATEMENT OF EQUITY**
(Unaudited)
(In thousands)

| | Common Units | Noncontrolling Interest | Total Equity |
|---|---|---|---|
| **Balance December 31, 2018** | $ 427,435 | $ 88,126 | $ 515,561 |
| Distributions to HEP unitholders | (67,975) | — | (67,975) |
| Distributions to noncontrolling interest | — | (3,000) | (3,000) |
| Amortization of restricted and performance units | 661 | — | 661 |
| Class B unit accretion | (780) | — | (780) |
| Other | 814 | — | 814 |
| Net income | 51,962 | 1,832 | 53,794 |
| **Balance March 31, 2019** | 412,117 | 86,958 | 499,075 |
| Distributions to HEP unitholders | (68,232) | — | (68,232) |
| Distributions to noncontrolling interest | — | (2,250) | (2,250) |
| Amortization of restricted and performance units | 585 | — | 585 |
| Class B unit accretion | (781) | — | (781) |
| Other | (138) | — | (138) |
| Net income | 46,471 | 688 | 47,159 |
| **Balance June 30, 2019** | $ 390,022 | $ 85,396 | $ 475,418 |

| | Common Units | Noncontrolling Interest | Total Equity |
|---|---|---|---|
| **Balance December 31, 2017** | $ 393,959 | $ 91,106 | $ 485,065 |
| Issuance of common units | 114,376 | — | 114,376 |
| Distributions to HEP unitholders | (63,496) | — | (63,496) |
| Distributions to noncontrolling interest | — | (2,000) | (2,000) |
| Amortization of restricted and performance units | 837 | — | 837 |
| Class B unit accretion | (729) | — | (729) |
| Cumulative transition adjustment for adoption of revenue recognition standard | 1,320 | | 1,320 |
| Other | 240 | — | 240 |
| Net income | 46,897 | 1,738 | 48,635 |
| **Balance March 31, 2018** | 493,404 | 90,844 | 584,248 |
| Issuance of common units | 524 | — | 524 |
| Distributions to HEP unitholders | (66,579) | — | (66,579) |
| Distributions to noncontrolling interest | — | (1,500) | (1,500) |
| Amortization of restricted and performance units | 713 | — | 713 |
| Class B unit accretion | (730) | — | (730) |
| Other | 193 | — | 193 |
| Net income | 40,872 | 627 | 41,499 |
| **Balance June 30, 2018** | $ 468,397 | $ 89,971 | $ 558,368 |

See accompanying notes.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
**(Unaudited)**

### Note 1: Description of Business and Presentation of Financial Statements

Holly Energy Partners, L.P. (“HEP”), together with its consolidated subsidiaries, is a publicly held master limited partnership. As of June 30, 2019, HollyFrontier Corporation (“HFC”) and its subsidiaries own a 57% limited partner interest and the non-economic general partner interest in HEP. We commenced operations on July 13, 2004, upon the completion of our initial public offering. In these consolidated financial statements, the words “we,” “our,” “ours” and “us” refer to HEP unless the context otherwise indicates.

On October 31, 2017, we closed on an equity restructuring transaction with HEP Logistics Holdings, L.P. (“HEP Logistics”), a wholly-owned subsidiary of HFC and the general partner of HEP, pursuant to which the incentive distribution rights ("IDRs") held by HEP Logistics were canceled, and HEP Logistics' 2% general partner interest in HEP was converted into a non-economic general partner interest in HEP. In consideration, we issued 37,250,000 of our common units to HEP Logistics. In addition, HEP Logistics agreed to waive $2.5 million of limited partner cash distributions for each of twelve consecutive quarters beginning with the first quarter the units issued as consideration were eligible to receive distributions. As a result of this transaction, no distributions were made on the general partner interest after October 31, 2017.

On January 25, 2018, we entered into a common unit purchase agreement in which certain purchasers agreed to purchase in a private placement 3,700,000 common units representing limited partner interests, at a price of $29.73 per common unit. The private placement closed on February 6, 2018, and we received proceeds of approximately $110 million, which were used to repay indebtedness under our revolving credit facility.

We own and operate petroleum product and crude oil pipelines, terminal, tankage and loading rack facilities and refinery processing units that support HFC’s refining and marketing operations in the Mid-Continent, Southwest and Northwest regions of the United States and Delek US Holdings, Inc.’s (“Delek”) refinery in Big Spring, Texas. Additionally, we own a 75% interest in UNEV Pipeline, LLC (“UNEV”), a 50% interest in Osage Pipe Line Company, LLC (“Osage”) and a 50% interest in Cheyenne Pipeline LLC.

We operate in two reportable segments, a Pipelines and Terminals segment and a Refinery Processing Unit segment. Disclosures around these segments are discussed in Note 15.

We generate revenues by charging tariffs for transporting petroleum products and crude oil through our pipelines, by charging fees for terminalling and storing refined products and other hydrocarbons, providing other services at our storage tanks and terminals and by charging fees for processing hydrocarbon feedstocks through our refinery processing units. We do not take ownership of products that we transport, terminal, store or process, and therefore, we are not exposed directly to changes in commodity prices.

The consolidated financial statements included herein have been prepared without audit, pursuant to the rules and regulations of the United States Securities and Exchange Commission (the “SEC”). The interim financial statements reflect all adjustments, which, in the opinion of management, are necessary for a fair presentation of our results for the interim periods. Such adjustments are considered to be of a normal recurring nature. Although certain notes and other information required by U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted, we believe that the disclosures in these consolidated financial statements are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2018. Results of operations for interim periods are not necessarily indicative of the results of operations that will be realized for the year ending December 31, 2019.

***Principles of Consolidation and Common Control Transactions***

The consolidated financial statements include our accounts and those of subsidiaries and joint ventures that we control. All significant intercompany transactions and balances have been eliminated.

Most of our acquisitions from HFC occurred while we were a consolidated variable interest entity (“VIE”) of HFC. Therefore, as an entity under common control with HFC, we recorded these acquisitions on our balance sheets at HFC's historical basis instead of our purchase price or fair value.

***Accounting Pronouncements Adopted During the Periods Presented***

***Goodwill Impairment Testing***
In January 2017, Accounting Standard Update ("ASU") 2017-04, "Simplifying the Test for Goodwill Impairment," was issued amending the testing for goodwill impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Under this standard, goodwill impairment is measured as the excess of the carrying amount of the reporting unit over the related fair value. We adopted this standard effective in the second quarter of 2019, and the adoption of this standard had no effect on our financial condition, results of operations or cash flows.

***Leases***
In February 2016, ASU No. 2016-02, "Leases" ("ASC 842") was issued requiring leases to be measured and recognized as a lease liability, with a corresponding right-of-use asset on the balance sheet. We adopted this standard effective January 1, 2019 using the optional transition method, whereby comparative prior period financial information will not be restated and will continue to be reported under the lease accounting standard in effect during those periods. We also elected practical expedients provided by the new standard, including the package of practical expedients whereby we did not reassess lease classification or initial indirect lease cost under the new standard. In addition, we elected to exclude short-term leases, which at inception have a lease term of 12 months or less, from the amounts recognized on our balance sheet. Upon adoption of this standard, we recognized $78.4 million of lease liabilities and corresponding right-of-use assets on our consolidated balance sheet. Adoption of this standard did not have a material impact on our results of operations or cash flows. See Notes 2 and 3 for additional information on our lease policies.

***Revenue Recognition***
In May 2014, an accounting standard update was issued requiring revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the expected consideration for these goods or services. This standard had an effective date of January 1, 2018, and we accounted for the new guidance using the modified retrospective implementation method, whereby a cumulative effect adjustment was recorded to retained earnings as of the date of initial application. In preparing for adoption, we evaluated the terms, conditions and performance obligations under our existing contracts with customers. Furthermore, we implemented policies to comply with this new standard. See Note 2 for additional information on our revenue recognition policies.

***Business Combinations***
In December 2014, an accounting standard update was issued to provide new guidance on the definition of a business in relation to accounting for identifiable intangible assets in business combinations. This standard had an effective date of January 1, 2018 and had no effect on our financial condition, results of operations or cash flows.

***Financial Assets and Liabilities***
In January 2016, an accounting standard update was issued requiring changes in the accounting and disclosures for financial instruments. This standard was effective beginning with our 2018 reporting year and had no effect on our financial condition, results of operations or cash flows.

***Accounting Pronouncements - Not Yet Adopted***

***Credit Losses Measurement***
In June 2016, ASU 2016-13, "Measurement of Credit Losses on Financial Instruments," was issued requiring measurement of all expected credit losses for certain types of financial instruments, including trade receivables, held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. This standard is effective January 1, 2020, and we are currently evaluating the impact of this standard.

**Note 2: Revenues**

Revenues are generally recognized as products are shipped through our pipelines and terminals, feedstocks are processed through our refinery processing units or other services are rendered. The majority of our contracts with customers meet the definition of a lease since (1) performance of the contracts is dependent on specified property, plant, or equipment and (2) it is remote that one or more parties other than the customer will take more than a minor amount of the output associated with the specified property, plant, or equipment. Prior to the adoption of the new lease standard (see Note 1), we bifurcated the consideration received between lease and service revenue. The new lease standard allows the election of a practical expedient whereby a lessor does not have to separate non-lease (service) components from lease components under certain conditions. The majority of our contracts meet these conditions, and we have made this election for those contracts. Under this practical expedient, we treat the combined components as a single performance obligation in accordance with Accounting Standards Codification ("ASC") 606, which largely codified ASU 2014-09, if the non-lease (service) component is the dominant component. If the lease component is the dominant component, we treat the combined components as a lease in accordance with ASC 842, which largely codified ASU 2016-02.

We adopted the new revenue recognition standard (see Note 1) using the modified retrospective method, whereby the cumulative effect of applying the new standard was recorded as an adjustment to the opening balance of partners' equity as well as the carrying amounts of assets and liabilities as of January 1, 2018, which had no impact on our cash flows. The following table reflects the cumulative effect of adoption as of January 1, 2018:

| | Prior to Adoption | Increase (Decrease) | As Adjusted |
|---|---|---|---|
| | | (In thousands) | |
| Deferred revenue | $ 9,598 | $ (1,320) | $ 8,278 |
| Partners' equity: Common unitholders | $ 393,959 | $ 1,320 | $ 395,279 |

Several of our contracts include incentive or reduced tariffs once a certain quarterly volume is met. Revenue from the variable element of these transactions is recognized based on the actual volumes shipped as it relates specifically to rendering the services during the applicable quarter.

The majority of our long-term transportation contracts specify minimum volume requirements, whereby, we bill a customer for a minimum level of shipments in the event a customer ships below their contractual requirements. If there are no future performance obligations, we will recognize these deficiency payments in revenue.

In certain of these throughput agreements, a customer may later utilize such shortfall billings as credit towards future volume shipments in excess of its minimum levels within its respective contractual shortfall make-up period. Such amounts represent an obligation to perform future services, which may be initially deferred and later recognized as revenue based on estimated future shipping levels, including the likelihood of a customer's ability to utilize such amounts prior to the end of the contractual shortfall make-up period. We recognize the service portion of these deficiency payments in revenue when we do not expect we will be required to satisfy these performance obligations in the future based on the pattern of rights exercised by the customer. During the three and six months ended June 30, 2019, we recognized $3.1 million and $6.6 million, respectively, of these deficiency payments in revenue, of which none and $0.6 million, respectively, related to deficiency payments billed in prior periods. As of June 30, 2019, deferred revenue reflected in our consolidated balance sheet related to shortfalls billed was $0.8 million.

A contract liability exists when an entity is obligated to perform future services to a customer for which the entity has received consideration. Since HEP may be required to perform future services for these deficiency payments received, the deferred revenues on our balance sheets were considered contract liabilities. A contract asset exists when an entity has a right to consideration in exchange for goods or services transferred to a customer. Our consolidated balance sheets included the contract assets and liabilities in the table below:

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| | (In thousands) | |
| Contract assets | $ 5,283 | $ 1,818 |
| Contract liabilities | $ (810) | $ (1,821) |

The contract assets and liabilities include both lease and service components. We did not recognize any revenue during the three months ended June 30, 2019, that was previously included in contract liability as of December 31, 2018, and we recognized $0.6 million of revenue during the six months ended June 30, 2019, that was previously included in contract liability as of December 31, 2018. During the three and the six months ended June 30, 2018, we recognized $0.4 million and $2.6 million, respectively, that was previously included in contract liability as of January 1, 2018. During the three and the six months ended June 30, 2019, we also recognized $0.3 million and $3.5 million, respectively, of revenue included in contract assets at June 30, 2019.

As of June 30, 2019, we expect to recognize $2.7 billion in revenue related to our unfulfilled performance obligations under the terms of our long-term throughput agreements and operating leases expiring in 2020 through 2036. These agreements generally provide for changes in the minimum revenue guarantees annually for increases or decreases in the Producer Price Index ("PPI") or Federal Energy Regulatory Commission ("FERC") index, with certain contracts having provisions that limit the level of the rate increases or decreases. We expect to recognize revenue for these unfulfilled performance obligations as shown in the table below (amounts shown in table include both service and lease revenues):

| Years Ending December 31, | | (In millions) |
|---|---|---|
| Remainder of 2019 | $ | 196 |
| 2020 | | 368 |
| 2021 | | 356 |
| 2022 | | 329 |
| 2023 | | 293 |
| Thereafter | | 1,121 |
| Total | $ | 2,663 |

Payment terms under our contracts with customers are consistent with industry norms and are typically payable within 10 to 30 days of the date of invoice.

Disaggregated revenues were as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | (In thousands) | | | |
| Pipelines | $ 72,263 | $ 65,539 | $ 147,363 | $ 137,708 |
| Terminals, tanks and loading racks | 39,089 | 34,386 | 76,667 | 72,567 |
| Refinery processing units | 19,399 | 18,835 | 41,218 | 37,369 |
| | $ 130,751 | $ 118,760 | $ 265,248 | $ 247,644 |

During the three and six months ended June 30, 2019, lease revenues amounted to $94.8 million and $188.3 million, respectively, and service revenues amounted to $36.0 million and $77.0 million, respectively. Both of these revenues were recorded within affiliates and third parties revenues on our consolidated statement of income.

**Note 3: Leases**

We adopted ASC 842 effective January 1, 2019, and elected to adopt using the modified retrospective transition method and practical expedients, both of which are provided as options by the standard and further defined in Note 1.

***Lessee Accounting***

At inception, we determine if an arrangement is or contains a lease. Right-of-use assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our payment obligation under the leasing arrangement. Right-of-use assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. We use our estimated incremental borrowing rate ("IBR") to determine the present value of lease payments as most of our leases do not contain an implicit rate. Our IBR represents the interest rate which we would pay to borrow, on a collateralized basis, an amount equal to the lease payments over a similar term in a similar economic environment. We use the implicit rate when readily determinable.

As a lessee, we lease land, buildings, pipelines, transportation and other equipment to support our operations. These leases can be categorized into operating and finance leases. Operating leases are recorded in operating lease right-of-use assets and current and noncurrent operating lease liabilities on our consolidated balance sheet. Finance leases are included in properties and equipment, current finance lease liabilities and other long-term liabilities on our consolidated balance sheet.

When renewal options are defined in a lease, our lease term includes an option to extend the lease when it is reasonably certain we will exercise that option. Leases with a term of 12 months or less are not recorded on our balance sheet, and lease expense is accounted for on a straight-line basis. In addition, as a lessee, we separate non-lease components that are identifiable and exclude them from the determination of net present value of lease payment obligations.

Our leases have remaining terms of 1 to 26 years, some of which include options to extend the leases for up to 10 years.

***Finance Lease Obligations***

We have finance lease obligations related to vehicle leases with initial terms of 33 to 48 months. The total cost of assets under finance leases was $6.1 million and $5.8 million as of June 30, 2019 and December 31, 2018, respectively, with accumulated depreciation of $4.8 million and $4.3 million as of June 30, 2019 and December 31, 2018, respectively. We include depreciation of finance leases in depreciation and amortization in our consolidated statements of income.

Supplemental balance sheet information related to leases was as follows (in thousands, except for lease term and discount rate):

| | June 30, 2019 | |
|---|---|---|
| Operating leases: | | |
| Operating lease right-of-use assets, net | $ | 76,551 |
| | | |
| Current operating lease liabilities | | 5,346 |
| Noncurrent operating lease liabilities | | 71,550 |
| Total operating lease liabilities | $ | 76,896 |
| | | |
| Finance leases: | | |
| Properties and equipment | $ | 6,147 |
| Accumulated amortization | | (4,791) |
| Properties and equipment, net | $ | 1,356 |
| | | |
| Current finance lease liabilities | $ | 857 |
| Other long-term liabilities | | 667 |
| Total finance lease liabilities | $ | 1,524 |
| | | |
| Weighted average remaining lease term (in years) | | |
| Operating leases | 17.4 | |
| Finance leases | 1.1 | |
| | | |
| Weighted average discount rate | | |
| Operating leases | 5.6% | |
| Finance leases | 6.6% | |

Supplemental cash flow and other information related to leases were as follows:

| | Six Months Ended June 30, 2019 | |
|---|---|---|
| | (In thousands) | |
| Cash paid for amounts included in the measurement of lease liabilities: | | |
| Operating cash flows on operating leases | $ | 3,589 |
| Operating cash flows on finance leases | $ | 51 |
| Financing cash flows on finance leases | $ | 503 |

Maturities of lease liabilities were as follows:

| | June 30, 2019 | |
|---|---|---|
| | Operating | Finance |
| | (In thousands) | |
| 2019 | $ 4,296 | $ 531 |
| 2020 | 7,865 | 691 |
| 2021 | 7,090 | 242 |
| 2022 | 6,737 | 91 |
| 2023 | 6,647 | 86 |
| 2024 and thereafter | 87,700 | — |
| Total lease payments | 120,335 | 1,641 |
| Less: Imputed interest | (43,439) | (117) |
| Total lease obligations | 76,896 | 1,524 |
| Less: Current obligations | (5,346) | (857) |
| Long-term lease obligations | $ 71,550 | $ 667 |

The components of lease expense were as follows:

| | Three Months Ended June 30, 2019 | Six Months Ended June 30, 2019 |
|---|---|---|
| | (In thousands) | |
| Operating lease costs | $ 1,798 | $ 3,568 |
| Finance lease costs | | |
| Amortization of assets | 254 | 498 |
| Interest on lease liabilities | 24 | 51 |
| Variable lease cost | 35 | 71 |
| Total net lease cost | $ 2,111 | $ 4,188 |

***Lessor Accounting***

As discussed in Note 2, the majority of our contracts with customers meet the definition of a lease. See Note 2 for further discussion of the impact of adoption of this standard on our activities as a lessor.

Substantially all of the assets supporting contracts meeting the definition of a lease have long useful lives, and we believe these assets will continue to have value when the current agreements expire. HFC generally has the option to purchase assets located within HFC refinery boundaries, including refinery tankage, truck racks and refinery processing units, at fair market value when the related agreements expire.

Lease income recognized was as follows:

| | Three Months Ended June 30, 2019 | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | (In thousands) | | | |
| Operating lease revenues | $ 94,783 | $ 68,069 | $ 188,287 | $ 138,661 |
| Direct financing lease interest income | $ 509 | $ 501 | $ 1,019 | $ 1,004 |

As discussed in Note 2, prior to the adoption of ASC 842, contract consideration was bifurcated between operating lease and service revenues.

Annual minimum undiscounted lease payments under our leases were as follows as of June 30, 2019:

| | Operating | Finance |
|---|---|---|
| **Years Ending December 31,** | (In thousands) | |
| Remainder of 2019 | $ 166,904 | $ 1,049 |
| 2020 | 309,729 | 2,106 |
| 2021 | 303,110 | 2,123 |
| 2022 | 301,707 | 2,139 |
| 2023 | 271,207 | 2,156 |
| Thereafter | 1,001,978 | 42,768 |
| Less: Imputed Interest | — | (35,807) |
| Total | $ 2,354,635 | $ 16,534 |

Our consolidated balance sheet included finance lease receivables of $16.5 million as of June 30, 2019.

### Note 4: Financial Instruments

Our financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, and debt. The carrying amounts of cash equivalents, accounts receivable and accounts payable approximate fair value due to the short-term maturity of these instruments. Debt consists of outstanding principal under our revolving credit agreement (which approximates fair value as interest rates are reset frequently at current interest rates) and our fixed interest rate senior notes.

Fair value measurements are derived using inputs (assumptions that market participants would use in pricing an asset or liability) including assumptions about risk. GAAP categorizes inputs used in fair value measurements into three broad levels as follows:

- (Level 1) Quoted prices in active markets for identical assets or liabilities.
- (Level 2) Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, similar assets and liabilities in markets that are not active or can be corroborated by observable market data.
- (Level 3) Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes valuation techniques that involve significant unobservable inputs.

The carrying amounts and estimated fair values of our senior notes were as follows:

| | | June 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|---|
| **Financial Instrument** | **Fair Value Input Level** | **Carrying Value** | **Fair Value** | **Carrying Value** | **Fair Value** |
| | | (In thousands) | | | |
| **Liabilities:** | | | | | |
| 6% Senior Notes | Level 2 | 496,210 | 517,375 | 495,900 | 488,310 |

*Level 2 Financial Instruments*

Our senior notes are measured at fair value using Level 2 inputs. The fair value of the senior notes is based on market values provided by a third-party bank, which were derived using market quotes for similar type debt instruments. See Note 8 for additional information.

**Note 5: Properties and Equipment**

The carrying amounts of our properties and equipment are as follows:

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| | (In thousands) | |
| Pipelines, terminals and tankage | $ 1,572,949 | $ 1,571,338 |
| Refinery assets | 347,338 | 347,338 |
| Land and right of way | 86,095 | 86,298 |
| Construction in progress | 31,027 | 23,482 |
| Other | 40,603 | 41,250 |
| | 2,078,012 | 2,069,706 |
| Less accumulated depreciation | 570,415 | 531,051 |
| | $ 1,507,597 | $ 1,538,655 |

We capitalized $8 thousand and $0.2 million during the six months ended June 30, 2019 and 2018, respectively, in interest attributable to construction projects.

Depreciation expense was $41.3 million and $41.9 million for the six months ended June 30, 2019 and 2018, respectively, and includes depreciation of assets acquired under capital leases.

**Note 6: Intangible Assets**

Intangible assets include transportation agreements and customer relationships that represent a portion of the total purchase price of certain assets acquired from Delek in 2005, from HFC in 2008 prior to HEP becoming a consolidated VIE of HFC, from Plains in 2017, and from other minor acquisitions in 2018.

The carrying amounts of our intangible assets are as follows:

| | Useful Life | June 30, 2019 | December 31, 2018 |
|---|---|---|---|
| | | (In thousands) | |
| Delek transportation agreement | 30 years | $ 59,933 | $ 59,933 |
| HFC transportation agreement | 10-15 years | 75,131 | 75,131 |
| Customer relationships | 10 years | 69,683 | 69,683 |
| Other | | 50 | 50 |
| | | 204,797 | 204,797 |
| Less accumulated amortization | | 96,471 | 89,468 |
| | | $ 108,326 | $ 115,329 |

Amortization expense was $7.0 million and $7.5 million for the six months ended June 30, 2019 and 2018, respectively. We estimate amortization expense to be $14.0 million for each of the next three years, $9.9 million in 2023, and $9.1 million in 2024.

We have additional transportation agreements with HFC resulting from historical transactions consisting of pipeline, terminal and tankage assets contributed to us or acquired from HFC. These transactions occurred while we were a consolidated VIE of HFC; therefore, our basis in these agreements is zero and does not reflect a step-up in basis to fair value.

## Note 7: Employees, Retirement and Incentive Plans

Direct support for our operations is provided by Holly Logistic Services, L.L.C. ("HLS"), an HFC subsidiary, which utilizes personnel employed by HFC who are dedicated to performing services for us. Their costs, including salaries, bonuses, payroll taxes, benefits and other direct costs, are charged to us monthly in accordance with an omnibus agreement that we have with HFC (the "Omnibus Agreement"). These employees participate in the retirement and benefit plans of HFC. Our share of retirement and benefit plan costs was $1.7 million and $1.6 million for the three months ended June 30, 2019 and 2018, respectively, and $3.7 million and $3.4 million for the six months ended June 30, 2019 and 2018, respectively.

Under HLS's secondment agreement with HFC (the "Secondment Agreement"), certain employees of HFC are seconded to HLS to provide operational and maintenance services for certain of our processing, refining, pipeline and tankage assets, and HLS reimburses HFC for its prorated portion of the wages, benefits, and other costs related to these employees.

We have a Long-Term Incentive Plan for employees and non-employee directors who perform services for us. The Long-Term Incentive Plan consists of four components: restricted or phantom units, performance units, unit options and unit appreciation rights. Our accounting policy for the recognition of compensation expense for awards with pro-rata vesting (a significant proportion of our awards) is to expense the costs ratably over the vesting periods.

As of June 30, 2019, we had two types of incentive-based awards outstanding, which are described below. The compensation cost charged against income was $0.6 million and $0.7 million for the three months ended June 30, 2019 and 2018, respectively, and $1.2 million and $1.5 million for the six months ended June 30, 2019 and 2018, respectively. We currently purchase units in the open market instead of issuing new units for settlement of all unit awards under our Long-Term Incentive Plan. As of June 30, 2019, 2,500,000 units were authorized to be granted under our Long-Term Incentive Plan, of which 1,235,221 have not yet been granted, assuming no forfeitures of the unvested units and full achievement of goals for the unvested performance units.

***Restricted and Phantom Units***

Under our Long-Term Incentive Plan, we grant restricted units to non-employee directors and phantom units to selected employees who perform services for us, with most awards vesting over a period of one to three years. We previously granted restricted units to selected employees who perform services for us, which vest over a period of three years. Although full ownership of the units does not transfer to the recipients until the units vest, the recipients have distribution rights on these units from the date of grant, and the recipients of the restricted units have voting rights on the restricted units from the date of grant.

The fair value of each restricted or phantom unit award is measured at the market price as of the date of grant and is amortized on a straight-line basis over the requisite service period for each separately vesting portion of the award.

A summary of restricted and phantom unit activity and changes during the six months ended June 30, 2019, is presented below:

| Restricted and Phantom Units | Units | Weighted Average Grant-Date Fair Value |
|---|---|---|
| Outstanding at January 1, 2019 (nonvested) | 138,016 | $ 31.35 |
| Forfeited | (15,800) | 31.20 |
| Outstanding at June 30, 2019 (nonvested) | 122,216 | $ 31.37 |

No restricted units were vested and transferred to recipients during the six months ended June 30, 2019. As of June 30, 2019, there was $1.4 million of total unrecognized compensation expense related to unvested restricted and phantom unit grants, which is expected to be recognized over a weighted-average period of 1.2 years.

***Performance Units***
Under our Long-Term Incentive Plan, we grant performance units to selected officers who perform services for us. Performance units granted are payable in common units at the end of a three-year performance period based upon meeting certain criteria over the performance period. Under the terms of our performance unit grants, some awards are subject to the growth in our distributable cash flow per common unit over the performance period while other awards are subject to "financial performance" and "market performance." Financial performance is based on meeting certain earnings before interest, taxes, depreciation and amortization ("EBITDA") targets, while market performance is based on the relative standing of total unitholder return achieved by HEP compared to peer group companies. The number of units ultimately issued under these awards can range from 50% to 150% or 0% to 200%. As of June 30, 2019, estimated unit payouts for outstanding nonvested performance unit awards ranged between 100% and 150% of the target number of performance units granted.

We did not grant any performance units during the six months ended June 30, 2019. Although common units are not transferred to the recipients until the performance units vest, the recipients have distribution rights with respect to the common units from the date of grant.

A summary of performance unit activity and changes for the six months ended June 30, 2019, is presented below:

| Performance Units | Units |
|---|---|
| Outstanding at January 1, 2019 (nonvested) | 51,748 |
| Vesting and transfer of common units to recipients | (10,113) |
| Forfeited | (5,200) |
| Outstanding at June 30, 2019 (nonvested) | 36,435 |

The grant date fair value of performance units vested and transferred to recipients during the six months ended June 30, 2019 and 2018 was $0.3 million and $0.1 million, respectively. Based on the weighted-average fair value of performance units outstanding at June 30, 2019, of $1.2 million, there was $0.4 million of total unrecognized compensation expense related to nonvested performance units, which is expected to be recognized over a weighted-average period of 1.5 years.

During the six months ended June 30, 2019, we paid $0.3 million for the purchase of our common units in the open market for the issuance and settlement of unit awards under our Long-Term Incentive Plan.

**Note 8: Debt**

***Credit Agreement***
We have a $1.4 billion senior secured revolving credit facility (the “Credit Agreement”) expiring in July 2022. The Credit Agreement is available to fund capital expenditures, investments, acquisitions, distribution payments and working capital and for general partnership purposes. The Credit Agreement is also available to fund letters of credit up to a $50 million sub-limit, and it contains an accordion feature giving us the ability to increase the size of the facility by up to $300 million with additional lender commitments.

Our obligations under the Credit Agreement are collateralized by substantially all of our assets, and indebtedness under the Credit Agreement is guaranteed by our material, wholly-owned subsidiaries. The Credit Agreement requires us to maintain compliance with certain financial covenants consisting of total leverage, senior secured leverage, and interest coverage. It also limits or restricts our ability to engage in certain activities. If, at any time prior to the expiration of the Credit Agreement, HEP obtains two investment grade credit ratings, the Credit Agreement will become unsecured and many of the covenants, limitations, and restrictions will be eliminated.

We may prepay all loans at any time without penalty, except for tranche breakage costs. If an event of default exists under the Credit Agreement, the lenders will be able to accelerate the maturity of all loans outstanding and exercise other rights and remedies. We were in compliance with the covenants as of June 30, 2019.

***Senior Notes***
We have $500 million in aggregate principal amount of 6% senior unsecured notes due in 2024 (the “ 6% Senior Notes”). We used the net proceeds from our offerings of the 6% Senior Notes to repay indebtedness under our Credit Agreement.

The 6% Senior Notes are unsecured and impose certain restrictive covenants, including limitations on our ability to incur additional indebtedness, make investments, sell assets, incur certain liens, pay distributions, enter into transactions with affiliates and enter into mergers. We were in compliance with the restrictive covenants for the 6% Senior Notes as of June 30, 2019. At any time when the 6% Senior Notes are rated investment grade by both Moody's and Standard & Poor's and no default or event of default exists, we will not be subject to many of the foregoing covenants. Additionally, we have certain redemption rights at varying premiums over face value under the 6% Senior Notes.

Indebtedness under the 6% Senior Notes is guaranteed by our wholly-owned subsidiaries.

***Long-term Debt***
The carrying amounts of our long-term debt was as follows:

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| | (In thousands) | |
| Credit Agreement | | |
| Amount outstanding | $ 941,500 | $ 923,000 |
| | | |
| 6% Senior Notes | | |
| Principal | 500,000 | 500,000 |
| Unamortized premium and debt issuance costs | (3,790) | (4,100) |
| | 496,210 | 495,900 |
| | | |
| Total long-term debt | $ 1,437,710 | $ 1,418,900 |

***Interest Expense and Other Debt Information***
Interest expense consists of the following components:

| | Six Months Ended June 30, 2019 | Six Months Ended June 30, 2018 |
|---|---|---|
| | (In thousands) | |
| Interest on outstanding debt: | | |
| Credit Agreement | $ 20,840 | $ 17,850 |
| 6% Senior Notes | 15,000 | 15,000 |
| Amortization of discount and deferred debt issuance costs | 1,535 | 1,516 |
| Commitment fees and other | 885 | 1,007 |
| Total interest incurred | 38,260 | 35,373 |
| Less capitalized interest | 8 | 166 |
| Net interest expense | $ 38,252 | $ 35,207 |
| Cash paid for interest | $ 36,698 | $ 33,935 |

**Note 9: Significant Customers**

All revenues are domestic revenues, of which 84% are currently generated from our two largest customers: HFC and Delek.

The following table presents the percentage of total revenues generated by each of these customers:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| HFC | 78% | 79% | 78% | 79% |
| Delek | 6% | 7% | 6% | 6% |

**Note 10: Related Party Transactions**

We serve HFC's refineries under long-term pipeline, terminal and tankage throughput agreements, and refinery processing unit tolling agreements expiring from 2020 to 2036. Under these agreements, HFC agrees to transport, store and process throughput volumes of refined product, crude oil and feedstocks on our pipelines, terminals, tankage, loading rack facilities and refinery processing units that result in minimum annual payments to us. These minimum annual payments or revenues are subject to annual rate adjustments on July 1st each year generally based on increases or decreases in PPI or the FERC index. As of June 30, 2019, these agreements with HFC require minimum annualized payments to us of $349 million.

If HFC fails to meet its minimum volume commitments under the agreements in any quarter, it will be required to pay us the amount of any shortfall in cash by the last day of the month following the end of the quarter. Under certain of these agreements, a shortfall payment may be applied as a credit in the following four quarters after its minimum obligations are met.

Under certain provisions of the Omnibus Agreement, we pay HFC an annual administrative fee (currently $2.6 million) for the provision by HFC or its affiliates of various general and administrative services to us. This fee does not include the salaries of personnel employed by HFC who perform services for us on behalf of HLS or the cost of their employee benefits, which are charged to us separately by HFC. Also, we reimburse HFC and its affiliates for direct expenses they incur on our behalf.

Related party transactions with HFC are as follows:

- Revenues received from HFC were $102.4 million and $94.0 million for the three months ended June 30, 2019 and 2018, respectively, and $205.7 million and $195.4 million for the six months ended June 30, 2019 and 2018, respectively.
- HFC charged us general and administrative services under the Omnibus Agreement of $0.6 million for each of the three months ended June 30, 2019 and 2018, and $1.3 million and $1.2 million for the six months ended June 30, 2019 and 2018, respectively.
- We reimbursed HFC for costs of employees supporting our operations of $13.2 million and $12.5 million for the three months ended June 30, 2019 and 2018, respectively, and $26.8 million and $25.2 million for the six months ended June 30, 2019 and 2018, respectively.
- HFC reimbursed us $3.6 million and $2.9 million for the three months ended June 30, 2019 and 2018, respectively, for expense and capital projects, and $5.8 million and $4.2 million for the six months ended June 30, 2019 and 2018, respectively.
- We distributed $37.5 million and $36.6 million in the three months ended June 30, 2019 and 2018, respectively, and $74.8 million and $72.8 million for the six months ended June 30, 2019 and 2018, respectively, to HFC as regular distributions on its common units.
- Accounts receivable from HFC were $46.1 million and $46.8 million at June 30, 2019, and December 31, 2018, respectively.
- Accounts payable to HFC were $7.7 million and $14.2 million at June 30, 2019, and December 31, 2018, respectively.
- Deferred revenue in the consolidated balance sheets at June 30, 2019 and December 31, 2018, included $0.6 million and $1.7 million, respectively, relating to certain shortfall billings to HFC.
- We received finance lease payments from HFC for use of our Artesia and Tulsa railyards of $0.5 million for each of the three months ended June 30, 2019 and 2018, and $1.0 million for each of the six months ended June 30, 2019 and 2018.

**Note 11: Partners' Equity, Income Allocations and Cash Distributions**

As of June 30, 2019, HFC held 59,630,030 of our common units, constituting a 57% limited partner interest in us, and held the non-economic general partner interest.

On January 25, 2018, we entered into a common unit purchase agreement in which certain purchasers agreed to purchase in a private placement 3,700,000 common units representing limited partnership interests, at a price of $29.73 per common unit. The private placement closed on February 6, 2018, and we received proceeds of approximately $110 million, which were used to repay indebtedness under our Credit Agreement.

***Continuous Offering Program***
We have a continuous offering program under which we may issue and sell common units from time to time, representing limited partner interests, up to an aggregate gross sales amount of $200 million. For the six months ended June 30, 2019, HEP did not issue units under this program. As of June 30, 2019, HEP has issued 2,413,153 units under this program, providing $82.3 million in gross proceeds.

We intend to use our net proceeds for general partnership purposes, which may include funding working capital, repayment of debt, acquisitions and capital expenditures. Amounts repaid under the Credit Agreement may be reborrowed from time to time.

***Allocations of Net Income***
Net income attributable to HEP is allocated to the partners based on their weighted-average ownership percentage during the period.

***Cash Distributions***
On July 18, 2019, we announced our cash distribution for the second quarter of 2019 of $0.6725 per unit. The distribution is payable on all common units and will be paid August 13, 2019, to all unitholders of record on July 29, 2019. However, HEP Logistics waived $2.5 million in limited partner cash distributions due to them as discussed in Note 1.

Our regular quarterly cash distribution to the limited partners will be $68.5 million for the three months ended June 30, 2019 and was $67.1 million for the three months ended June 30, 2018. For the six months ended June 30, 2019, the regular quarterly distribution to the limited partners will be $136.7 million and was $133.7 million for the six months ended June 30, 2018. Our distributions are declared subsequent to quarter end; therefore, these amounts do not reflect distributions paid during the respective period.

As a master limited partnership, we distribute our available cash, which historically has exceeded our net income attributable to HEP because depreciation and amortization expense represents a non-cash charge against income. The result is a decline in our partners' equity since our regular quarterly distributions have exceeded our quarterly net income attributable to HEP. Additionally, if the asset contributions and acquisitions from HFC had occurred while we were not a consolidated VIE of HFC, our acquisition cost, in excess of HFC's historical basis in the transferred assets, would have been recorded in our financial statements at the time of acquisition as increases to our properties and equipment and intangible assets instead of decreases to our partners' equity.

**Note 12: Net Income Per Limited Partner Unit**

Net income per unit applicable to the limited partners is computed using the two-class method, since we have more than one participating security (common units and restricted units).

To the extent net income attributable to the partners exceeds or is less than cash distributions, this difference is allocated to the partners based on their weighted-average ownership percentage during the period, after consideration of any priority allocations of earnings. Our dilutive securities, restricted units, are immaterial for all periods presented.

For purposes of applying the two-class method, including the allocation of cash distributions in excess of earnings, net income per limited partner unit is computed as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | (In thousands) | | | |
| Net income attributable to the partners | $ 45,690 | $ 40,143 | $ 96,872 | $ 86,311 |
| Limited partner's distribution declared on common units | (68,496) | (67,091) | (136,729) | (133,670) |
| Distributions in excess of net income attributable to the partners | $ (22,806) | $ (26,948) | $ (39,857) | $ (47,359) |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | (In thousands, except per unit data) | | | |
| Net income attributable to the partners: | | | | |
| Distributions declared | $ (68,496) | $ (67,091) | (136,729) | (133,670) |
| Distributions in excess of net income attributable to the partners | (22,806) | (26,948) | (39,857) | (47,359) |
| Net income attributable to the partners | $ 45,690 | $ 40,143 | $ 96,872 | $ 86,311 |
| Weighted average limited partners' units outstanding | 105,440 | 105,429 | 105,440 | 104,637 |
| Limited partners' per unit interest in earnings - basic and diluted | $ 0.43 | $ 0.38 | $ 0.92 | $ 0.82 |

**Note 13: Environmental**

We expensed $0.1 million for the three and six months ended June 30, 2019, for environmental remediation obligations, and we expensed $0.3 million for the three and six months ended June 30, 2018. The accrued environmental liability, net of expected recoveries from indemnifying parties, reflected in our consolidated balance sheets was $5.7 million and $6.3 million at June 30, 2019 and December 31, 2018, respectively, of which $3.7 million and $4.3 million, respectively, were classified as other long-term liabilities. These accruals include remediation and monitoring costs expected to be incurred over an extended period of time.

Under the Omnibus Agreement and certain transportation agreements and purchase agreements with HFC, HFC has agreed to indemnify us, subject to certain monetary and time limitations, for environmental noncompliance and remediation liabilities associated with certain assets transferred to us from HFC and occurring or existing prior to the date of such transfers. As of June 30, 2019 and December 31, 2018, our consolidated balance sheets included additional accrued environmental liabilities of $0.4 million and $0.5 million million, respectively, for HFC indemnified liabilities, and other assets included equal and offsetting balances representing amounts due from HFC related to indemnifications for environmental remediation liabilities.

**Note 14: Contingencies**

We are a party to various legal and regulatory proceedings, none of which we believe will have a material adverse impact on our financial condition, results of operations or cash flows.

**Note 15: Segment Information**

Although financial information is reviewed by our chief operating decision makers from a variety of perspectives, they view the business in two reportable operating segments: pipelines and terminals, and refinery processing units. These operating segments adhere to the accounting polices used for our consolidated financial statements.

Pipelines and terminals have been aggregated as one reportable segment as both pipeline and terminals (1) have similar economic characteristics, (2) similarly provide logistics services of transportation and storage of petroleum products, (3) similarly support the petroleum refining business, including distribution of its products, (4) have principally the same customers and (5) are subject to similar regulatory requirements.

We evaluate the performance of each segment based on its respective operating income. Certain general and administrative expenses and interest and financing costs are excluded from segment operating income as they are not directly attributable to a specific reportable segment. Identifiable assets are those used by the segment, whereas other assets are principally equity method investments, cash, deposits and other assets that are not associated with a specific reportable reportable segment.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | (In thousands) | | | |
| **Revenues:** | | | | |
| Pipelines and terminals - affiliate | $ 82,970 | $ 75,178 | $ 164,510 | $ 158,072 |
| Pipelines and terminals - third-party | 28,382 | 24,747 | 59,520 | 52,203 |
| Refinery processing units - affiliate | 19,399 | 18,835 | 41,218 | 37,369 |
| **Total segment revenues** | $ 130,751 | $ 118,760 | $ 265,248 | $ 247,644 |
| **Segment operating income:** | | | | |
| Pipelines and terminals | $ 57,936 | $ 51,004 | $ 121,168 | $ 111,217 |
| Refinery processing units | 7,966 | 8,615 | 17,888 | 15,942 |
| **Total segment operating income** | 65,902 | 59,619 | 139,056 | 127,159 |
| Unallocated general and administrative expenses | (1,988) | (2,673) | (4,608) | (5,795) |
| Interest and financing costs, net | (18,679) | (17,100) | (37,173) | (34,166) |
| Equity in earnings of unconsolidated affiliates | 1,783 | 1,734 | 3,883 | 3,013 |
| Gain on sale of assets and other | 111 | (53) | (199) | 33 |
| **Income before income taxes** | $ 47,129 | $ 41,527 | $ 100,959 | $ 90,244 |
| **Capital Expenditures:** | | | | |
| Pipelines and terminals | $ 7,034 | $ 12,127 | $ 17,752 | $ 24,739 |
| **Total capital expenditures** | $ 7,034 | $ 12,127 | $ 17,752 | $ 24,739 |

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| | (In thousands) | |
| **Identifiable assets:** | | |
| Pipelines and terminals (1) | $ 1,737,642 | $ 1,694,101 |
| Refinery processing units | 315,300 | 312,888 |
| Other | 94,901 | 95,551 |
| **Total identifiable assets** | $ 2,147,843 | $ 2,102,540 |

(1) Includes goodwill of $270.3 million as of June 30, 2019 and December 31, 2018.

**Note 16: Supplemental Guarantor/Non-Guarantor Financial Information**

Obligations of HEP ("Parent") under the 6% Senior Notes have been jointly and severally guaranteed by each of its direct and indirect 100% owned subsidiaries ("Guarantor Subsidiaries"). These guarantees are full and unconditional, subject to certain customary release provisions. These circumstances include (i) when a Guarantor Subsidiary is sold or sells all or substantially all of its assets, (ii) when a Guarantor Subsidiary is declared "unrestricted" for covenant purposes, (iii) when a Guarantor Subsidiary's guarantee of other indebtedness is terminated or released and (iv) when the requirements for legal defeasance or covenant defeasance or to discharge the senior notes have been satisfied.

The following financial information presents condensed consolidating balance sheets, statements of comprehensive income, and statements of cash flows of the Parent, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries. The information has been presented as if the Parent accounted for its ownership in the Guarantor Subsidiaries, and the Guarantor Restricted Subsidiaries accounted for the ownership of the Non-Guarantor Non-Restricted Subsidiaries, using the equity method of accounting.

**Condensed Consolidating Balance Sheet**

| June 30, 2019 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Non-Restricted Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 2 | $ 1,703 | $ 5,236 | $ — | $ 6,941 |
| Accounts receivable | — | 57,410 | 4,006 | (260) | 61,156 |
| Prepaid and other current assets | 318 | 3,173 | 392 | — | 3,883 |
| Total current assets | 320 | 62,286 | 9,634 | (260) | 71,980 |
| | | | | | |
| Properties and equipment, net | — | 1,170,005 | 337,592 | — | 1,507,597 |
| Operating leases right-of-use assets | — | 76,504 | 47 | — | 76,551 |
| Investment in subsidiaries | 1,833,110 | 256,187 | — | (2,089,297) | — |
| Intangible assets, net | — | 108,326 | — | — | 108,326 |
| Goodwill | — | 270,336 | — | — | 270,336 |
| Equity method investments | — | 83,015 | — | — | 83,015 |
| Other assets | 7,939 | 22,099 | — | — | 30,038 |
| Total assets | $ 1,841,369 | $ 2,048,758 | $ 347,273 | $ (2,089,557) | $ 2,147,843 |
| | | | | | |
| **LIABILITIES AND EQUITY** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ — | $ 17,094 | $ 1,281 | $ (260) | $ 18,115 |
| Accrued interest | 13,329 | — | — | — | 13,329 |
| Deferred revenue | — | 7,406 | 810 | — | 8,216 |
| Accrued property taxes | — | 2,280 | 3,157 | — | 5,437 |
| Current maturities of operating leases | — | 5,299 | 47 | — | 5,346 |
| Current maturities of finance leases | — | 857 | — | — | 857 |
| Other current liabilities | 48 | 2,473 | 4 | — | 2,525 |
| Total current liabilities | 13,377 | 35,409 | 5,299 | (260) | 53,825 |
| | | | | | |
| Long-term debt | 1,437,710 | — | — | — | 1,437,710 |
| Noncurrent operating lease liabilities | — | 71,550 | — | — | 71,550 |
| Other long-term liabilities | 260 | 12,622 | 391 | — | 13,273 |
| Deferred revenue | — | 48,345 | — | — | 48,345 |
| Class B unit | — | 47,722 | — | — | 47,722 |
| | | | | | |
| Equity - partners | 390,022 | 1,833,110 | 256,187 | (2,089,297) | 390,022 |
| Equity - noncontrolling interest | — | — | 85,396 | — | 85,396 |
| Total liabilities and equity | $ 1,841,369 | $ 2,048,758 | $ 347,273 | $ (2,089,557) | $ 2,147,843 |

**Condensed Consolidating Balance Sheet**

| December 31, 2018 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Non-Restricted Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| **ASSETS** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 2 | $ — | $ 3,043 | $ — | $ 3,045 |
| Accounts receivable | — | 53,376 | 5,994 | (252) | 59,118 |
| Prepaid and other current assets | 217 | 3,542 | 552 | — | 4,311 |
| Total current assets | 219 | 56,918 | 9,589 | (252) | 66,474 |
| | | | | | |
| Properties and equipment, net | — | 1,193,181 | 345,474 | — | 1,538,655 |
| Investment in subsidiaries | 1,850,416 | 264,378 | — | (2,114,794) | — |
| Intangible assets, net | — | 115,329 | — | — | 115,329 |
| Goodwill | — | 270,336 | — | — | 270,336 |
| Equity method investments | — | 83,840 | — | — | 83,840 |
| Other assets | 9,291 | 18,615 | — | — | 27,906 |
| Total assets | $ 1,859,926 | $ 2,002,597 | $ 355,063 | $ (2,115,046) | $ 2,102,540 |
| | | | | | |
| **LIABILITIES AND EQUITY** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | $ — | $ 30,325 | $ 584 | $ (252) | $ 30,657 |
| Accrued interest | 13,302 | — | — | — | 13,302 |
| Deferred revenue | — | 8,065 | 632 | — | 8,697 |
| Accrued property taxes | — | 744 | 1,035 | — | 1,779 |
| Other current liabilities | 29 | 3,429 | 4 | — | 3,462 |
| Total current liabilities | 13,331 | 42,563 | 2,255 | (252) | 57,897 |
| | | | | | |
| Long-term debt | 1,418,900 | — | — | — | 1,418,900 |
| Other long-term liabilities | 260 | 14,743 | 304 | — | 15,307 |
| Deferred revenue | — | 48,714 | — | — | 48,714 |
| Class B unit | — | 46,161 | — | — | 46,161 |
| Equity - partners | 427,435 | 1,850,416 | 264,378 | (2,114,794) | 427,435 |
| Equity - noncontrolling interest | — | — | 88,126 | — | 88,126 |
| Total liabilities and equity | $ 1,859,926 | $ 2,002,597 | $ 355,063 | $ (2,115,046) | $ 2,102,540 |

**Condensed Consolidating Statement of Income**

| Three Months Ended June 30, 2019 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Non-restricted Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Revenues: | | | | | |
| Affiliates | $ — | $ 96,221 | $ 6,148 | $ — | $ 102,369 |
| Third parties | — | 23,700 | 4,682 | — | 28,382 |
| | — | 119,921 | 10,830 | — | 130,751 |
| Operating costs and expenses: | | | | | |
| Operations (exclusive of depreciation and amortization) | — | 36,701 | 3,901 | — | 40,602 |
| Depreciation and amortization | | 20,027 | 4,220 | — | 24,247 |
| General and administrative | 745 | 1,243 | — | — | 1,988 |
| | 745 | 57,971 | 8,121 | — | 66,837 |
| Operating income (loss) | (745) | 61,950 | 2,709 | — | 63,914 |
| | | | | | |
| Other income (expense): | | | | | |
| Equity in earnings of subsidiaries | 65,431 | 2,063 | — | (67,494) | — |
| Equity in earnings of equity method investments | — | 1,783 | — | — | 1,783 |
| Interest expense | (18,996) | (234) | — | — | (19,230) |
| Interest income | — | 551 | — | — | 551 |
| Gain on sale of assets and other | — | 69 | 42 | — | 111 |
| | 46,435 | 4,232 | 42 | (67,494) | (16,785) |
| Income before income taxes | 45,690 | 66,182 | 2,751 | (67,494) | 47,129 |
| State income tax benefit | — | 30 | — | — | 30 |
| Net income | 45,690 | 66,212 | 2,751 | (67,494) | 47,159 |
| Allocation of net income attributable to noncontrolling interests | — | (781) | (688) | — | (1,469) |
| Net income attributable to the partners | $ 45,690 | $ 65,431 | $ 2,063 | $ (67,494) | $ 45,690 |

**Condensed Consolidating Statement of Income**

| Three Months Ended June 30, 2018 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Non-Restricted Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Revenues: | | | | | |
| Affiliates | $ — | $ 89,522 | $ 4,491 | $ — | $ 94,013 |
| Third parties | — | 19,540 | 5,207 | — | 24,747 |
| | — | 109,062 | 9,698 | — | 118,760 |
| Operating costs and expenses: | | | | | |
| Operations (exclusive of depreciation and amortization) | — | 31,494 | 3,039 | — | 34,533 |
| Depreciation and amortization | — | 20,431 | 4,177 | — | 24,608 |
| General and administrative | 761 | 1,912 | — | — | 2,673 |
| | 761 | 53,837 | 7,216 | — | 61,814 |
| Operating income (loss) | (761) | 55,225 | 2,482 | — | 56,946 |
| | | | | | |
| Other income (expense): | | | | | |
| Equity in earnings of subsidiaries | 58,566 | 1,881 | — | (60,447) | — |
| Equity in earnings of equity method investments | — | 1,734 | — | — | 1,734 |
| Interest expense | (17,662) | 36 | — | — | (17,626) |
| Interest income | — | 526 | — | — | 526 |
| Gain (loss) on sale of assets and other | — | (79) | 26 | — | (53) |
| | 40,904 | 4,098 | 26 | (60,447) | (15,419) |
| Income before income taxes | 40,143 | 59,323 | 2,508 | (60,447) | 41,527 |
| State income tax expense | — | (28) | — | — | (28) |
| Net income | 40,143 | 59,295 | 2,508 | (60,447) | 41,499 |
| Allocation of net income attributable to noncontrolling interests | — | (729) | (627) | — | (1,356) |
| Net income attributable to the partners | $ 40,143 | $ 58,566 | $ 1,881 | $ (60,447) | $ 40,143 |

**Condensed Consolidating Statement of Comprehensive Income**

| Six Months Ended June 30, 2019 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Non-restricted Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Revenues: | | | | | |
| Affiliates | $ — | $ 193,614 | $ 12,114 | $ — | $ 205,728 |
| Third parties | — | 45,765 | 13,755 | — | 59,520 |
| | — | 239,379 | 25,869 | — | 265,248 |
| Operating costs and expenses: | | | | | |
| Operations (exclusive of depreciation and amortization) | — | 70,778 | 7,343 | — | 78,121 |
| Depreciation and amortization | | 39,563 | 8,508 | — | 48,071 |
| General and administrative | 1,821 | 2,787 | — | — | 4,608 |
| | 1,821 | 113,128 | 15,851 | — | 130,800 |
| Operating income (loss) | (1,821) | 126,251 | 10,018 | — | 134,448 |
| | | | | | |
| Other income (expense): | | | | | |
| Equity in earnings (loss) of subsidiaries | 136,730 | 7,559 | — | (144,289) | — |
| Equity in earnings of equity method investments | — | 3,883 | — | — | 3,883 |
| Interest expense | (38,037) | (215) | — | — | (38,252) |
| Interest income | — | 1,079 | — | — | 1,079 |
| Gain (loss) on sale of assets and other | — | (260) | 61 | — | (199) |
| | 98,693 | 12,046 | 61 | (144,289) | (33,489) |
| Income (loss) before income taxes | 96,872 | 138,297 | 10,079 | (144,289) | 100,959 |
| State income tax expense | — | (6) | — | — | (6) |
| Net income (loss) | 96,872 | 138,291 | 10,079 | (144,289) | 100,953 |
| Allocation of net income attributable to noncontrolling interests | — | (1,561) | (2,520) | — | (4,081) |
| Net income attributable to the partners | $ 96,872 | $ 136,730 | $ 7,559 | $ (144,289) | $ 96,872 |

**Condensed Consolidating Statement of Income**

| Six Months Ended June 30, 2018 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Non-Restricted Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Revenues: | | | | | |
| Affiliates | $ — | $ 183,813 | $ 11,628 | $ — | $ 195,441 |
| Third parties | — | 39,518 | 12,685 | — | 52,203 |
| | — | 223,331 | 24,313 | — | 247,644 |
| Operating costs and expenses: | | | | | |
| Operations (exclusive of depreciation and amortization) | — | 64,158 | 6,577 | — | 70,735 |
| Depreciation and amortization | — | 41,432 | 8,318 | — | 49,750 |
| General and administrative | 2,041 | 3,754 | — | — | 5,795 |
| | 2,041 | 109,344 | 14,895 | — | 126,280 |
| Operating income (loss) | (2,041) | 113,987 | 9,418 | — | 121,364 |
| | | | | | |
| Other income (expense): | | | | | |
| Equity in earnings (loss) of subsidiaries | 123,618 | 7,093 | — | (130,711) | — |
| Equity in earnings of equity method investments | — | 3,013 | — | — | 3,013 |
| Interest expense | (35,311) | 104 | — | — | (35,207) |
| Interest income | — | 1,041 | — | — | 1,041 |
| Gain (loss) on sale of assets and other | 45 | (51) | 39 | — | 33 |
| | 88,352 | 11,200 | 39 | (130,711) | (31,120) |
| Income (loss) before income taxes | 86,311 | 125,187 | 9,457 | (130,711) | 90,244 |
| State income tax expense | — | (110) | — | — | (110) |
| Net income (loss) | 86,311 | 125,077 | 9,457 | (130,711) | 90,134 |
| Allocation of net income attributable to noncontrolling interests | — | (1,459) | (2,364) | — | (3,823) |
| Net income attributable to the partners | $ 86,311 | $ 123,618 | $ 7,093 | $ (130,711) | $ 86,311 |

**Condensed Consolidating Statement of Cash Flows**

| Six Months Ended June 30, 2019 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Non-Restricted Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Cash flows from operating activities | $ (37,005) | $ 165,882 | $ 23,671 | $ (7,559) | $ 144,989 |
| | | | | | |
| Cash flows from investing activities | | | | | |
| Additions to properties and equipment | — | (17,274) | (478) | — | (17,752) |
| Distributions from UNEV in excess of earnings | — | 8,191 | — | (8,191) | — |
| Proceeds from sale of assets | — | 194 | — | — | 194 |
| Distributions in excess of equity in earnings of equity investments | — | 299 | — | — | 299 |
| | — | (8,590) | (478) | (8,191) | (17,259) |
| | | | | | |
| Cash flows from financing activities | | | | | |
| Net borrowings under credit agreement | 18,500 | — | — | — | 18,500 |
| Net intercompany financing activities | 155,225 | (155,225) | — | — | — |
| Distributions to HEP unitholders | (136,207) | — | — | — | (136,207) |
| Distributions to noncontrolling interests | — | — | (21,000) | 15,750 | (5,250) |
| Units withheld for tax withholding obligations | (119) | — | — | — | (119) |
| Purchase units for incentive grants | (255) | — | — | — | (255) |
| Payments on finance leases | (139) | (364) | — | — | (503) |
| | 37,005 | (155,589) | (21,000) | 15,750 | (123,834) |
| | | | | | |
| Cash and cash equivalents | | | | | |
| Increase (decrease) for the period | — | 1,703 | 2,193 | — | 3,896 |
| Beginning of period | 2 | — | 3,043 | — | 3,045 |
| End of period | $ 2 | $ 1,703 | $ 5,236 | $ — | $ 6,941 |

**Condensed Consolidating Statement of Cash Flows**

| Six Months Ended June 30, 2018 | Parent | Guarantor Restricted Subsidiaries | Non-Guarantor Non-Restricted Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (In thousands) | | |
| Cash flows from operating activities | $ (33,588) | $ 182,983 | $ 18,661 | $ (7,093) | $ 160,963 |
| | | | | | |
| Cash flows from investing activities | | | | | |
| Additions to properties and equipment | — | (18,829) | (5,910) | — | (24,739) |
| Business and asset acquisitions | — | (6,831) | — | — | (6,831) |
| Proceeds from sale of assets | — | 196 | — | — | 196 |
| Distributions from UNEV in excess of earnings | — | 3,407 | — | (3,407) | — |
| Distributions in excess of equity in earnings of equity investments | — | 299 | — | — | 299 |
| | — | (21,758) | (5,910) | (3,407) | (31,075) |
| | | | | | |
| Cash flows from financing activities | | | | | |
| Net repayments under credit agreement | (112,000) | — | — | — | (112,000) |
| Net intercompany financing activities | 160,330 | (160,330) | — | — | — |
| Proceeds from issuance of common units | 114,899 | (68) | — | — | 114,831 |
| Distributions to HEP unitholders | (130,075) | — | — | — | (130,075) |
| Distributions to noncontrolling interests | — | — | (14,000) | 10,500 | (3,500) |
| Contributions from general partner | 492 | — | — | — | 492 |
| Units withheld for tax withholding obligations | (58) | — | — | — | (58) |
| Other | — | (698) | — | — | (698) |
| | 33,588 | (161,096) | (14,000) | 10,500 | (131,008) |
| | | | | | |
| Cash and cash equivalents | | | | | |
| Increase (decrease) for the period | — | 129 | (1,249) | — | (1,120) |
| Beginning of period | 2 | 511 | 7,263 | — | 7,776 |
| End of period | $ 2 | $ 640 | $ 6,014 | $ — | $ 6,656 |

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This Item 2, including but not limited to the sections under "Results of Operations" and "Liquidity and Capital Resources," contains forward-looking statements. See "Forward-Looking Statements" at the beginning of Part I of this Quarterly Report on Form 10-Q. In this document, the words "we," "our," "ours" and "us" refer to Holly Energy Partners, L.P. ("HEP") and its consolidated subsidiaries or to HEP or an individual subsidiary and not to any other person.

### OVERVIEW

HEP is a Delaware limited partnership. We own and operate petroleum product and crude oil pipelines, terminal, tankage and loading rack facilities and refinery processing units that support the refining and marketing operations of HollyFrontier Corporation ("HFC") in the Mid-Continent, Southwest and Northwest regions of the United States and Delek US Holdings, Inc.'s ("Delek") refinery in Big Spring, Texas. HEP, through its subsidiaries and joint ventures, owns and/or operates petroleum product and crude pipelines, tankage and terminals in Texas, New Mexico, Washington, Idaho, Oklahoma, Utah, Nevada, Wyoming and Kansas as well as refinery processing units in Utah and Kansas. HFC owned 57% of our outstanding common units and the non-economic general partnership interest, as of June 30, 2019.

We generate revenues by charging tariffs for transporting petroleum products and crude oil through our pipelines, by charging fees for terminalling and storing refined products and other hydrocarbons, providing other services at our storage tanks and terminals and charging a tolling fee per barrel or thousand standard cubic feet of feedstock throughput in our refinery processing units. We do not take ownership of products that we transport, terminal, store or process, and therefore, we are not directly exposed to changes in commodity prices.

We believe the long-term growth of global refined product demand and U.S. crude production should support high utilization rates for the refineries we serve, which in turn should support volumes in our product pipelines, crude gathering systems and terminals.

#### *Agreements with HFC and Delek*

We serve HFC's refineries under long-term pipeline, terminal, tankage and refinery processing unit throughput agreements expiring from 2020 to 2036. Under these agreements, HFC agrees to transport, store and process throughput volumes of refined product, crude oil and feedstocks on our pipelines, terminal, tankage, and loading rack facilities and refinery processing units that result in minimum annual payments to us. These minimum annual payments or revenues are subject to annual rate adjustments on July 1st each year, based on the Producer Price Index ("PPI") or Federal Energy Regulatory Commission index. As of July 1, 2019, these agreements with HFC require minimum annualized payments to us of $349 million.

If HFC fails to meet its minimum volume commitments under the agreements in any quarter, it will be required to pay us the amount of any shortfall in cash by the last day of the month following the end of the quarter. Under certain of the agreements, a shortfall payment may be applied as a credit in the following four quarters after minimum obligations are met.

We have a pipelines and terminals agreement with Delek expiring in 2020 under which Delek has agreed to transport on our pipelines and throughput through our terminals volumes of refined products that result in a minimum level of annual revenue that is also subject to annual tariff rate adjustments. We also have a capacity lease agreement under which we lease Delek space on our Orla to El Paso pipeline for the shipment of refined product. The terms for a portion of the capacity under this lease agreement expired in 2018 and were not renewed, and the remaining portions of the capacity expire in 2020 and 2022. As of June 30, 2019, these agreements with Delek require minimum annualized payments to us of $32 million.

A significant reduction in revenues under these agreements could have a material adverse effect on our results of operations.

Under certain provisions of an omnibus agreement we have with HFC (the "Omnibus Agreement"), we pay HFC an annual administrative fee, currently $2.6 million, for the provision by HFC or its affiliates of various general and administrative services to us. This fee does not include the salaries of personnel employed by HFC who perform services for us on behalf of Holly Logistic Services, L.L.C. ("HLS"), or the cost of their employee benefits, which are separately charged to us by HFC. We also reimburse HFC and its affiliates for direct expenses they incur on our behalf.

Under HLS's Secondment Agreement with HFC, certain employees of HFC are seconded to HLS to provide operational and maintenance services for certain of our processing, refining, pipeline and tankage assets, and HLS reimburses HFC for its prorated portion of the wages, benefits, and other costs of these employees for our benefit.

We have a long-term strategic relationship with HFC. Our current growth plan is to continue to pursue purchases of logistic and other assets at HFC's existing refining locations in New Mexico, Utah, Oklahoma, Kansas and Wyoming. We also expect to work with HFC on logistic asset acquisitions in conjunction with HFC's refinery acquisition strategies. Furthermore, we plan to continue to pursue third-party logistic asset acquisitions that are accretive to our unitholders and increase the diversity of our revenues.

**RESULTS OF OPERATIONS (Unaudited)**

***Income, Distributable Cash Flow, Volumes and Balance Sheet Data*** The following tables present income, distributable cash flow and volume information for the three and the six months ended June 30, 2019 and 2018.

| | Three Months Ended June 30, 2019 | Three Months Ended June 30, 2018 | Change from 2018 |
|---|---|---|---|
| | (In thousands, except per unit data) | | |
| **Revenues:** | | | |
| Pipelines: | | | |
| Affiliates—refined product pipelines | $ 20,759 | $ 18,744 | $ 2,015 |
| Affiliates—intermediate pipelines | 7,297 | 7,255 | 42 |
| Affiliates—crude pipelines | 20,651 | 18,479 | 2,172 |
| | 48,707 | 44,478 | 4,229 |
| Third parties—refined product pipelines | 11,778 | 12,348 | (570) |
| Third parties—crude pipelines | 11,778 | 8,713 | 3,065 |
| | 72,263 | 65,539 | 6,724 |
| Terminals, tanks and loading racks: | | | |
| Affiliates | 34,263 | 30,700 | 3,563 |
| Third parties | 4,826 | 3,686 | 1,140 |
| | 39,089 | 34,386 | 4,703 |
| Affiliates—refinery processing units | 19,399 | 18,835 | 564 |
| Total revenues | 130,751 | 118,760 | 11,991 |
| **Operating costs and expenses:** | | | |
| Operations (exclusive of depreciation and amortization) | 40,602 | 34,533 | 6,069 |
| Depreciation and amortization | 24,247 | 24,608 | (361) |
| General and administrative | 1,988 | 2,673 | (685) |
| | 66,837 | 61,814 | 5,023 |
| **Operating income** | 63,914 | 56,946 | 6,968 |
| **Other income (expense):** | | | |
| Equity in earnings of equity method investments | 1,783 | 1,734 | 49 |
| Interest expense, including amortization | (19,230) | (17,626) | (1,604) |
| Interest income | 551 | 526 | 25 |
| Gain (loss) on sale of assets and other | 111 | (53) | 164 |
| | (16,785) | (15,419) | (1,366) |
| **Income before income taxes** | 47,129 | 41,527 | 5,602 |
| State income tax benefit (expense) | 30 | (28) | 58 |
| **Net income** | 47,159 | 41,499 | 5,660 |
| Allocation of net income attributable to noncontrolling interests | (1,469) | (1,356) | (113) |
| **Net income attributable to the partners** | 45,690 | 40,143 | 5,547 |
| **Limited partners' earnings per unit—basic and diluted** (1) | $ 0.43 | $ 0.38 | $ 0.05 |
| **Weighted average limited partners' units outstanding** | 105,440 | 105,429 | 11 |
| **EBITDA** (2) | $ 88,586 | $ 81,879 | $ 6,707 |
| **Distributable cash flow** (3) | $ 67,486 | $ 65,180 | $ 2,306 |
| | | | |
| **Volumes (bpd)** | | | |
| Pipelines: | | | |
| Affiliates—refined product pipelines | 130,802 | 112,371 | 18,431 |
| Affiliates—intermediate pipelines | 141,345 | 151,537 | (10,192) |
| Affiliates—crude pipelines | 370,351 | 322,850 | 47,501 |
| | 642,498 | 586,758 | 55,740 |
| Third parties—refined product pipelines | 66,963 | 73,196 | (6,233) |
| Third parties—crude pipelines | 140,555 | 115,011 | 25,544 |
| | 850,016 | 774,965 | 75,051 |
| Terminals and loading racks: | | | |
| Affiliates | 431,509 | 446,089 | (14,580) |
| Third parties | 59,343 | 59,035 | 308 |

| | | | |
|---|---|---|---|
| | 490,852 | 505,124 | (14,272) |
| Affiliates—refinery processing units | 77,728 | 71,117 | 6,611 |
| **Total for pipelines and terminal and refinery processing unit assets (bpd)** | 1,418,596 | 1,351,206 | 67,390 |

| | Six Months Ended June 30, 2019 | Six Months Ended June 30, 2018 | Change from 2018 |
|---|---|---|---|
| | (In thousands, except per unit data) | | |
| **Revenues:** | | | |
| Pipelines: | | | |
| Affiliates—refined product pipelines | $ 41,491 | $ 40,038 | $ 1,453 |
| Affiliates—intermediate pipelines | 14,578 | 15,724 | (1,146) |
| Affiliates—crude pipelines | 41,772 | 38,276 | 3,496 |
| | 97,841 | 94,038 | 3,803 |
| Third parties—refined product pipelines | 27,382 | 25,930 | 1,452 |
| Third parties—crude pipelines | 22,140 | 17,740 | 4,400 |
| | 147,363 | 137,708 | 9,655 |
| Terminals, tanks and loading racks: | | | |
| Affiliates | 66,669 | 64,034 | 2,635 |
| Third parties | 9,998 | 8,533 | 1,465 |
| | 76,667 | 72,567 | 4,100 |
| Affiliates—refinery processing units | 41,218 | 37,369 | 3,849 |
| Total revenues | 265,248 | 247,644 | 17,604 |
| **Operating costs and expenses:** | | | |
| Operations (exclusive of depreciation and amortization) | 78,121 | 70,735 | 7,386 |
| Depreciation and amortization | 48,071 | 49,750 | (1,679) |
| General and administrative | 4,608 | 5,795 | (1,187) |
| | 130,800 | 126,280 | 4,520 |
| **Operating income** | 134,448 | 121,364 | 13,084 |
| **Other income (expense):** | | | |
| Equity in earnings of equity method investments | 3,883 | 3,013 | 870 |
| Interest expense, including amortization | (38,252) | (35,207) | (3,045) |
| Interest income | 1,079 | 1,041 | 38 |
| Gain (loss) on sale of assets and other | (199) | 33 | (232) |
| | (33,489) | (31,120) | (2,369) |
| **Income before income taxes** | 100,959 | 90,244 | 10,715 |
| State income tax expense | (6) | (110) | 104 |
| **Net income** | 100,953 | 90,134 | 10,819 |
| Allocation of net income attributable to noncontrolling interests | (4,081) | (3,823) | (258) |
| **Net income attributable to the partners** | 96,872 | 86,311 | 10,561 |
| **Limited partners' earnings per unit—basic and diluted** | $ 0.92 | $ 0.82 | $ 0.10 |
| **Weighted average limited partners' units outstanding** | 105,440 | 104,637 | 803 |
| **EBITDA** [1] | $ 182,122 | $ 170,337 | $ 11,785 |
| **Distributable cash flow** [2] | $ 138,085 | $ 134,279 | $ 3,806 |
| | | | |
| **Volumes (bpd)** | | | |
| Pipelines: | | | |
| Affiliates—refined product pipelines | 130,805 | 128,498 | 2,307 |
| Affiliates—intermediate pipelines | 136,116 | 139,333 | (3,217) |
| Affiliates—crude pipelines | 385,490 | 341,922 | 43,568 |
| | 652,411 | 609,753 | 42,658 |
| Third parties—refined product pipelines | 73,975 | 72,720 | 1,255 |
| Third parties—crude pipelines | 133,565 | 120,568 | 12,997 |
| | 859,951 | 803,041 | 56,910 |
| Terminals and loading racks: | | | |
| Affiliates | 402,909 | 418,439 | (15,530) |
| Third parties | 64,028 | 60,684 | 3,344 |
| | 466,937 | 479,123 | (12,186) |
| Affiliates—refinery processing units | 71,816 | 69,008 | 2,808 |

| | | | |
|---|---|---|---|
| **Total for pipelines and terminal and refinery processing unit assets (bpd)** | 1,398,704 | 1,351,172 | 47,532 |

(1) Earnings before interest, taxes, depreciation and amortization ("EBITDA") is calculated as net income attributable to the partners plus (i) interest expense, net of interest income, (ii) state income tax expense and (iii) depreciation and amortization. EBITDA is not a calculation based upon generally accepted accounting principles ("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 attributable to the partners 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. Set forth below is our calculation of EBITDA.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | (In thousands) | | | |
| **Net income attributable to the partners** | $ 45,690 | $ 40,143 | $ 96,872 | $ 86,311 |
| Add (subtract): | | | | |
| Interest expense | 18,461 | 16,867 | 36,717 | 33,691 |
| Interest income | (551) | (526) | (1,079) | (1,041) |
| Amortization of discount and deferred debt issuance costs | 769 | 759 | 1,535 | 1,516 |
| State income tax (benefit) expense | (30) | 28 | 6 | 110 |
| Depreciation and amortization | 24,247 | 24,608 | 48,071 | 49,750 |
| **EBITDA** | $ 88,586 | $ 81,879 | $ 182,122 | $ 170,337 |

(2) Distributable cash flow is not a calculation based upon GAAP. However, the amounts included in the calculation are derived from amounts presented in our consolidated financial statements, with the general exceptions of maintenance capital expenditures. Distributable cash flow should not be considered in isolation or 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. Distributable cash flow is not necessarily comparable to similarly titled measures of other companies. Distributable cash flow is presented here because it is a widely accepted financial indicator used by investors to compare partnership performance. It is also used by management for internal analysis and for our performance units. We believe that this measure provides investors an enhanced perspective of the operating performance of our assets and the cash our business is generating. Set forth below is our calculation of distributable cash flow.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | (In thousands) | | | |
| **Net income attributable to the partners** | $ 45,690 | $ 40,143 | $ 96,872 | $ 86,311 |
| Add (subtract): | | | | |
| Depreciation and amortization | 24,247 | 24,608 | 48,071 | 49,750 |
| Amortization of discount and deferred debt issuance costs | 769 | 759 | 1,535 | 1,516 |
| Revenue recognized (greater) less than customer billings | (297) | 1,819 | (3,331) | 138 |
| Maintenance capital expenditures (3) | (625) | (987) | (1,360) | (1,305) |
| Decrease in environmental liability | (277) | (78) | (555) | (218) |
| Decrease in reimbursable deferred revenue | (2,061) | (1,243) | (3,640) | (2,420) |
| Other non-cash adjustments | 40 | 159 | 493 | 507 |
| **Distributable cash flow** | $ 67,486 | $ 65,180 | $ 138,085 | $ 134,279 |

(3) Maintenance capital expenditures are capital expenditures made to replace partially or fully depreciated assets in order to maintain the existing operating capacity of our assets and to extend their useful lives. Maintenance capital expenditures include expenditures required to maintain equipment reliability, tankage and pipeline integrity, safety and to address environmental regulations.

| | June 30, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | (In thousands) | | | |
| **Balance Sheet Data** | | | | |
| Cash and cash equivalents | $ | 6,941 | $ | 3,045 |
| Working capital | $ | 18,155 | $ | 8,577 |
| Total assets | $ | 2,147,843 | $ | 2,102,540 |
| Long-term debt | $ | 1,437,710 | $ | 1,418,900 |
| Partners' equity (4) | $ | 390,022 | $ | 427,435 |

(4) As a master limited partnership, we distribute our available cash, which historically has exceeded our net income attributable to the partners because depreciation and amortization expense represents a non-cash charge against income. The result is a decline in partners' equity since our regular quarterly distributions have exceeded our quarterly net income attributable to the partners. Additionally, if the assets contributed and acquired from HFC while we were a consolidated variable interest entity of HFC had been acquired from third parties, our acquisition cost in excess of HFC's basis in the transferred assets would have been recorded in our financial statements as increases to our properties and equipment and intangible assets at the time of acquisition instead of decreases to partners' equity.

**Results of Operations—Three Months Ended June 30, 2019 Compared with Three Months Ended June 30, 2018**

***Summary***

Net income attributable to the partners for the second quarter was $45.7 million ($0.43 per basic and diluted limited partner unit) compared to $40.1 million ($0.38 per basic and diluted limited partner unit) for the second quarter of 2018. The increase in net income attributable to the partners was mainly due to higher crude oil pipeline volumes around the Permian Basin and our crude pipeline systems in Wyoming and Utah as well as contractual tariff escalators. These gains were partially offset by higher operating costs and interest expense.

***Revenues***

Revenues for the second quarter were $130.8 million, an increase of $12.0 million compared to the second quarter of 2018. The increase was mainly attributable to higher crude oil pipeline volumes around the Permian Basin and our crude pipeline systems in Wyoming and Utah, which contributed to an increase in overall pipeline volumes of 10%, and contractual tariff escalators.

Revenues from our **refined product pipelines** were $32.5 million, an increase of $1.4 million compared to the second quarter of 2018, on shipments averaging 197.8 thousand barrels per day ("mbpd") compared to 185.6 mbpd for the second quarter of 2018. The volume increase was mainly due to pipelines servicing HFC's Woods Cross refinery, which had lower throughput during the second quarter of 2018 due to operational issues at the refinery. The increase in revenues was mainly due to the higher throughput and contractual tariff escalators.

Revenues from our **intermediate pipelines** were $7.3 million for both of the second quarters of 2019 and 2018, on shipments averaging 141.3 mbpd for the second quarter of 2019 compared to 151.5 mbpd for the second quarter of 2018. The decrease in volumes was mainly due to lower throughputs on our intermediate pipelines servicing HFC's Tulsa refinery due to flooding during the quarter. Revenue remained constant due to contractual minimum volume guarantees.

Revenues from our **crude pipelines** were $32.4 million, an increase of $5.2 million compared to the second quarter of 2018, on shipments averaging 510.9 mbpd compared to 437.9 mbpd for the second quarter of 2018. The increases were mainly attributable to increased volumes on our crude pipeline systems in New Mexico and Texas and on our crude pipeline systems in Wyoming and Utah as well as contractual tariff escalators.

Revenues from **terminal, tankage and loading rack** fees were $39.1 million, an increase of $4.7 million compared to the second quarter of 2018. Refined products and crude oil terminalled in the facilities averaged 490.9 mbpd compared to 505.1 mbpd for the second quarter of 2018. The volume decrease was mainly due to lower volumes at HFC's Tulsa refinery, partially offset by volumes at our new Orla diesel rack and higher volumes at HFC's El Dorado refinery, the Spokane terminal, and the Woods Cross rack. The increase in revenue was mainly due to the higher volumes at HFC's El Dorado refinery and revenues from our Orla diesel rack, which began operations in the first quarter of 2019.

Revenues from **refinery processing units** were $19.4 million, an increase of $0.6 million compared to the second quarter of 2018, on throughputs averaging 77.7 mbpd compared to 71.1 mbpd for the second quarter of 2018. The increase in revenue was mainly due to contractual rate increases.

***Operations Expense***
Operations (exclusive of depreciation and amortization) expense was $40.6 million for the three months ended June 30, 2019, an increase of $6.1 million compared to the second quarter of 2018. The increase was mainly due to higher employee compensation expenses, maintenance costs and property taxes for the three months ended June 30, 2019.

***Depreciation and Amortization***
Depreciation and amortization for the three months ended June 30, 2019, decreased by $0.4 million compared to the three months ended June 30, 2018.

***General and Administrative***
General and administrative costs for the three months ended June 30, 2019, decreased by $0.7 million compared to the three months ended June 30, 2018, mainly due to lower employee compensation and legal costs for the three months ended June 30, 2019.

***Equity in Earnings of Equity Method Investments***

| | Three Months Ended June 30, | |
|---|---|---|
| **Equity Method Investment** | **2019** | **2018** |
| | (in thousands) | |
| Osage Pipe Line Company, LLC | $ 746 | $ 959 |
| Cheyenne Pipeline LLC | 1,037 | 775 |
| Total | $ 1,783 | $ 1,734 |

Equity in earnings of Cheyenne Pipeline LLC increased for the three months ended June 30, 2019, mainly due to higher crude throughput volumes.

***Interest Expense***
Interest expense for the three months ended June 30, 2019, totaled $19.2 million, an increase of $1.6 million compared to the three months ended June 30, 2018. The increase was primarily due to interest expense associated with higher average balances outstanding under the Credit Agreement (as defined below) and market interest rate increases under that facility. Our aggregate effective interest rates were 5.3% and 5.0% for the three months ended June 30, 2019 and 2018, respectively.

***State Income Tax***
We recorded a state income tax benefit of $30,000 and expense of $28,000 for the three months ended June 30, 2019 and 2018, respectively. All tax expense is solely attributable to the Texas margin tax.

**Results of Operations—Six Months Ended June 30, 2019 Compared with Six Months Ended June 30, 2018**

***Summary***
Net income attributable to the partners for the six months ended June 30, 2019, was $96.9 million compared to $86.3 million for the six months ended June 30, 2018. The increase in earnings was primarily due to higher crude oil pipeline volumes around the Permian Basin and our crude pipeline systems in Wyoming and Utah, higher revenues on our refinery processing units and contractual tariff escalators. These gains were partially offset by higher operating costs and interest expense.

***Revenues***
Revenues for the six months ended June 30, 2019, were $265.2 million, an increase of $17.6 million compared to the six months ended June 30, 2018. The increase was mainly attributable to higher crude oil pipeline volumes around the Permian Basin and our crude pipeline systems in Wyoming and Utah, higher revenues on our refinery processing units, and contractual tariff escalators.

Revenues from our **refined product pipelines** were $68.9 million, an increase of $2.9 million compared to the six months ended June 30, 2018, on shipments averaging 204.8 mbpd compared to 201.2 mbpd for the six months ended June 30, 2018. The volume and revenue increases were mainly due to higher Delek volumes, higher volumes on pipelines servicing HFC's Woods Cross refinery, which had lower throughput in 2018 due to operational issues at the refinery beginning in the first quarter of 2018, and contractual tariff escalators.

Revenues from our **intermediate pipelines** were $14.6 million, a decrease of $1.1 million compared to the six months ended June 30, 2018, on shipments averaging 136.1 mbpd compared to 139.3 mbpd for the six months ended June 30, 2018. The decrease in revenue was primarily attributable to a decrease in deferred revenue realized.

Revenues from our **crude pipelines** were $63.9 million, an increase of $7.9 million compared to the six months ended June 30, 2018, on shipments averaging 519.1 mbpd compared to 462.5 mbpd for the six months ended June 30, 2018. The increases were mainly attributable to increased volumes on our crude pipeline systems in New Mexico and Texas and on our crude pipeline systems in Wyoming and Utah as well as contractual tariff escalators.

Revenues from **terminal, tankage and loading rack** fees were $76.7 million, an increase of $4.1 million compared to the six months ended June 30, 2018. Refined products and crude oil terminalled in the facilities averaged 466.9 mbpd compared to 479.1 mbpd for the six months ended June 30, 2018. The volume decrease was mainly due to lower volumes at HFC's Tulsa refinery as a result of the planned turnaround in the first quarter and flooding in the second quarter as well as lower volumes at HFC's El Dorado refinery due to operational issues in the first quarter, partially offset by volumes at our new Orla diesel rack and higher volumes at the Spokane terminal. The increase in revenue was mainly due to our Orla diesel rack, which began operations in the first quarter of 2019, and higher revenues at our Spokane and UNEV terminals.

Revenues from **refinery processing units** were $41.2 million, an increase of $3.8 million compared to the six months ended June 30, 2018 on throughputs averaging 71.8 mbpd compared to 69.0 mbpd for the six months ended June 30, 2018. The increase in revenue was mainly due to an adjustment in revenue recognition and contractual rate increases.

***Operations Expense***

Operations expense (exclusive of depreciation and amortization) for the six months ended June 30, 2019, increased by $7.4 million compared to the six months ended June 30, 2018. The increase was mainly due to higher employee compensation expenses, maintenance costs and property taxes.

***Depreciation and Amortization***

Depreciation and amortization for the six months ended June 30, 2019, decreased by $1.7 million compared to the six months ended June 30, 2018. The decrease was primarily due to lower amortization of intangible assets and asset retirement obligations.

***General and Administrative***

General and administrative costs for the six months ended June 30, 2019, decreased $1.2 million compared to the six months ended June 30, 2018, mainly due to lower employee compensation, legal and consulting costs incurred in the six months ended June 30, 2019.

***Equity in Earnings of Equity Method Investments***

| Equity Method Investments | Six Months Ended June 30, 2019 | Six Months Ended June 30, 2018 |
|---|---|---|
| | (in thousands) | |
| Osage Pipe Line Company, LLC | $ 1,251 | $ 1,601 |
| Cheyenne Pipeline LLC | 2,632 | 1,412 |
| Total | $ 3,883 | $ 3,013 |

Equity in earnings of Cheyenne Pipeline LLC increased for the six months ended June 30, 2019, mainly due to higher crude throughput volumes.

### *Interest Expense*

Interest expense for the six months ended June 30, 2019, totaled $38.3 million, an increase of $3.0 million compared to the six months ended June 30, 2018. The increase is primarily due to higher average balances outstanding under our Credit Agreement, and market interest rate increases under that facility. Our aggregate effective interest rates were 5.3% and 5.0% for the six months ended June 30, 2019 and 2018, respectively.

### *State Income Tax*

We recorded state income tax expense of $6,000 and $110,000 for the six months ended June 30, 2019 and 2018, respectively. All tax expense is solely attributable to the Texas margin tax.

## LIQUIDITY AND CAPITAL RESOURCES

### *Overview*

We have a $1.4 billion senior secured revolving credit facility (the "Credit Agreement") expiring in July 2022. The Credit Agreement is available to fund capital expenditures, investments, acquisitions, distribution payments and working capital and for general partnership purposes. The Credit Agreement is also available to fund letters of credit up to a $50 million sub-limit, and it contains an accordion feature giving us the ability to increase the size of the facility by up to $300 million with additional lender commitments.

During the six months ended June 30, 2019, we received advances totaling $175.0 million and repaid $156.5 million, resulting in a net increase of $18.5 million under the Credit Agreement and an outstanding balance of $941.5 million at June 30, 2019. As of June 30, 2019, we have no letters of credit outstanding under the Credit Agreement and the available capacity under the Credit Agreement was $458.5 million. Amounts repaid under the Credit Agreement may be reborrowed from time to time.

If any particular lender under the Credit Agreement could not honor its commitment, we believe the unused capacity that would be available from the remaining lenders would be sufficient to meet our borrowing needs. Additionally, we review publicly available information on the lenders in order to monitor their financial stability and assess their ongoing ability to honor their commitments under the Credit Agreement. We do not expect to experience any difficulty in the lenders' ability to honor their respective commitments, and if it were to become necessary, we believe there would be alternative lenders or options available.

On January 25, 2018, we entered into a common unit purchase agreement in which certain purchasers agreed to purchase in a private placement 3,700,000 common units representing limited partnership interests, at a price of $29.73 per common unit. The private placement closed on February 6, 2018, and we received proceeds of approximately $110 million, which were used to repay indebtedness under the Credit Agreement.

We have a continuous offering program under which we may issue and sell common units from time to time, representing limited partner interests, up to an aggregate gross sales amount of $200 million. We did not issue any units under this program during the six months ended June 30, 2019. We intend to use the net proceeds for general partnership purposes, which may include funding working capital, repayment of debt, acquisitions and capital expenditures. As of June 30, 2019, HEP has issued 2,413,153 units under this program, providing $82.3 million in gross proceeds.

Under our registration statement filed with the Securities and Exchange Commission ("SEC") using a "shelf" registration process, we currently have the authority to raise up to $2.0 billion by offering securities, through one or more prospectus supplements that would describe, among other things, the specific amounts, prices and terms of any securities offered and how the proceeds would be used. Any proceeds from the sale of securities would be used for general business purposes, which may include, among other things, funding acquisitions of assets or businesses, working capital, capital expenditures, investments in subsidiaries, the retirement of existing debt and/or the repurchase of common units or other securities.

In March 2019, we repurchased 8,674 common units in the open market for the issuance and settlement of unit awards under our Long-Term Incentive Plan, for an aggregate purchase price of $0.3 million.

We believe our current cash balances, future internally generated funds and funds available under the Credit Agreement will provide sufficient resources to meet our working capital liquidity needs for the foreseeable future.

In May 2019, we paid a regular cash distribution of $0.6700 on all units in an aggregate amount of $68.2 million after deducting HEP Logistics' waiver of $2.5 million of limited partner cash distributions.

Cash and cash equivalents increased by $3.9 million during the six months ended June 30, 2019. The cash flows provided by operating activities of $145.0 million were more than the cash flows used for financing activities of $123.8 million and investing activities of $17.3 million. Working capital increased by $9.6 million to $18.2 million at June 30, 2019, from $8.6 million at December 31, 2018.

***Cash Flows—Operating Activities***
Cash flows from operating activities decreased by $16.0 million from $161.0 million for the six months ended June 30, 2018, to $145.0 million for the six months ended June 30, 2019. The decrease was mainly due to higher payments for operating and interest expenses during the six months ended June 30, 2019, as compared to the six months ended June 30, 2018.

***Cash Flows—Investing Activities***
Cash flows used for investing activities were $17.3 million for the six months ended June 30, 2019, compared to $31.1 million for the six months ended June 30, 2018, a decrease of $13.8 million. During the six months ended June 30, 2019 and 2018, we invested $17.8 million and $24.7 million in additions to properties and equipment, respectively. During the six months ended June 30, 2018, we had cash payments of $6.8 million for acquisitions. We also received $0.3 million for distributions in excess of equity in earnings of equity investments during both the six months ended June 30, 2019 and 2018.

***Cash Flows—Financing Activities***
Cash flows used for financing activities were $123.8 million for the six months ended June 30, 2019, compared to $131.0 million for the six months ended June 30, 2018, a decrease of $7.2 million. During the six months ended June 30, 2019, we received $175.0 million and repaid $156.5 million in advances under the Credit Agreement. Additionally, we paid $136.2 million in regular quarterly cash distributions to our limited partners and $5.3 million to our noncontrolling interest. During the six months ended June 30, 2018, we received $305.5 million and repaid $417.5 million in advances under the Credit Agreement. We paid $130.1 million in regular quarterly cash distributions to our limited partners, and distributed $3.5 million to our noncontrolling interest. We also received net proceeds of $114.8 million from the issuance of common units during the six months ended June 30, 2018.

***Capital Requirements***
Our pipeline and terminalling operations are capital intensive, requiring investments to maintain, expand, upgrade or enhance existing operations and to meet environmental and operational regulations. Our capital requirements have consisted of, and are expected to continue to consist 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. Maintenance capital expenditures include expenditures required to maintain equipment reliability, tankage and pipeline integrity, safety and to address environmental regulations. “Expansion capital expenditures” represent capital expenditures to expand the operating capacity of existing or new assets, whether through construction or acquisition. 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. 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.

Each year the board of directors of HLS, our ultimate general partner, approves our annual capital budget, which specifies capital projects that our management is authorized to undertake. Additionally, at times when conditions warrant or as new opportunities arise, additional projects may be approved. The funds allocated for a particular capital project may be expended over a period in excess of a year, depending on the time required to complete the project. Therefore, our planned capital expenditures for a given year consist of expenditures approved for capital projects included in the current year’s capital budget as well as, in certain cases, expenditures approved for capital projects in capital budgets for prior years. The 2019 capital budget is comprised of approximately $10 million for maintenance capital expenditures and approximately $20 million to $25 million for expansion capital expenditures. We expect the majority of the expansion capital budget to be invested in refined product pipeline expansions, crude system enhancements, new storage tanks and enhanced blending capabilities at our racks. In addition to our capital budget, we may spend funds periodically to perform capital upgrades or additions to our assets where a customer reimburses us for such costs. The upgrades or additions would generally benefit the customer over the remaining life of the related service agreements.

We expect that our currently planned sustaining and maintenance capital expenditures, as well as expenditures for acquisitions and capital development projects, will be funded with cash generated by operations, the sale of additional limited partner common units, the issuance of debt securities and advances under our Credit Agreement, or a combination thereof. With volatility and uncertainty at times in the credit and equity markets, there may be limits on our ability to issue new debt or equity financing. Additionally, due to pricing movements in the debt and equity markets, we may not be able to issue new debt and equity securities at acceptable pricing. Without additional capital beyond amounts available under the Credit Agreement, our ability to obtain funds for some of these capital projects may be limited.

Under the terms of the transaction to acquire HFC’s 75% interest in UNEV, we issued to HFC a Class B unit comprising a noncontrolling equity interest in a wholly-owned subsidiary subject to redemption to the extent that HFC is entitled to a 50% interest in our share of annual UNEV earnings before interest, income taxes, depreciation, and amortization above $30 million beginning July 1, 2015, and ending in June 2032, subject to certain limitations. However, to the extent earnings thresholds are not achieved, no redemption payments are required. No redemption payments have been required to date.

***Credit Agreement***
Our $1.4 billion Credit Agreement expires in July 2022. The Credit Agreement is available to fund capital expenditures, investments, acquisitions, distribution payments and working capital and for general partnership purposes. The Credit Agreement is also available to fund letters of credit up to a $50 million sub-limit, and it contains an accordion feature giving us the ability to increase the size of the facility by up to $300 million with additional lender commitments.

Our obligations under the Credit Agreement are collateralized by substantially all of our assets, and indebtedness under the Credit Agreement is guaranteed by our material, wholly-owned subsidiaries. The Credit Agreement requires us to maintain compliance with certain financial covenants consisting of total leverage, senior secured leverage, and interest coverage. It also limits or restricts our ability to engage in certain activities. If, at any time prior to the expiration of the Credit Agreement, HEP obtains two investment grade credit ratings, the Credit Agreement will become unsecured and many of the covenants, limitations, and restrictions will be eliminated.

We may prepay all loans at any time without penalty, except for tranche breakage costs. If an event of default exists under the Credit Agreement, the lenders will be able to accelerate the maturity of all loans outstanding and exercise other rights and remedies. We were in compliance with all covenants as of June 30, 2019.

***Senior Notes***
We have $500 million in aggregate principal amount of 6% Senior Notes due in 2024 (the “ 6% Senior Notes”). We used the net proceeds from our offerings of the 6% Senior Notes to repay indebtedness under our Credit Agreement.

The 6% Senior Notes are unsecured and impose certain restrictive covenants, including limitations on our ability to incur additional indebtedness, make investments, sell assets, incur certain liens, pay distributions, enter into transactions with affiliates, and enter into mergers. We were in compliance with the restrictive covenants for the 6% Senior Notes as of June 30, 2019. At any time when the 6% Senior Notes are rated investment grade by both Moody’s and Standard & Poor’s and no default or event of default exists, we will not be subject to many of the foregoing covenants. Additionally, we have certain redemption rights at varying premiums over face value under the 6% Senior Notes.

Indebtedness under the 6% Senior Notes is guaranteed by our wholly-owned subsidiaries.

***Long-term Debt***
The carrying amounts of our long-term debt are as follows:

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| | (In thousands) | |
| Credit Agreement | $ 941,500 | $ 923,000 |
| | | |
| 6% Senior Notes | | |
| Principal | 500,000 | 500,000 |
| Unamortized debt issuance costs | (3,790) | (4,100) |
| | 496,210 | 495,900 |
| | | |
| Total long-term debt | $ 1,437,710 | $ 1,418,900 |

***Contractual Obligations***
There were no significant changes to our long-term contractual obligations during this period.

***Impact of Inflation***
Inflation in the United States has been relatively moderate in recent years and did not have a material impact on our results of operations for the six months ended June 30, 2019 and 2018. PPI has increased an average of 0.8% annually over the past five calendar years, including increases of 3.1% and 3.2% in 2018 and 2017, respectively.

The substantial majority of our revenues are generated under long-term contracts that provide for increases or decreases in our rates and minimum revenue guarantees annually for increases or decreases in the PPI. Certain of these contracts have provisions that limit the level of annual PPI percentage rate increases or decreases. A significant and prolonged period of high inflation or a significant and prolonged period of negative inflation could adversely affect our cash flows and results of operations if costs increase at a rate greater than the fees we charge our shippers.

***Environmental Matters***
Our operation of pipelines, terminals, and associated facilities in connection with the transportation and storage of refined products and crude oil is 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 given that the operations of our competitors are similarly affected. However, these laws and regulations, and the interpretation or enforcement thereof, 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 major 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 employees, neighboring landowners and other third parties for personal injury and property damage.

Under the Omnibus Agreement and certain transportation agreements and purchase agreements with HFC, HFC has agreed to indemnify us, subject to certain monetary and time limitations, for environmental noncompliance and remediation liabilities associated with certain assets transferred to us from HFC and occurring or existing prior to the date of such transfers.

We have an environmental agreement with Delek with respect to pre-closing environmental costs and liabilities relating to the pipelines and terminals acquired from Delek in 2005, under which Delek will indemnify us subject to certain monetary and time limitations.

There are environmental remediation projects in progress that relate to certain assets acquired from HFC. Certain of these projects were underway prior to our purchase and represent liabilities retained by HFC. At June 30, 2019, we had an accrual of $5.7 million that related to environmental clean-up projects for which we have assumed liability or for which the indemnity provided for by HFC has expired or will expire. The remaining projects, including assessment and monitoring activities, are covered under the HFC environmental indemnification discussed above and represent liabilities of HFC.

## 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. Our significant accounting policies are described in “Item 7. Management’s Discussion and Analysis of Financial Condition and Operations—Critical Accounting Policies” in our Annual Report on Form 10-K for the year ended December 31, 2018. Certain critical accounting policies that materially affect the amounts recorded in our consolidated financial statements include revenue recognition, assessing the possible impairment of certain long-lived assets and goodwill, and assessing contingent liabilities for probable losses. With the exception of certain of our revenue recognition policies discussed in Note 2 of Notes to the Consolidated Financial Statements, there have been no changes to these policies in 2019. We consider these 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.

***Accounting Pronouncements Adopted During the Periods Presented***

***Goodwill Impairment Testing***
In January 2017, Accounting Standard Update ("ASU") 2017-04, "Simplifying the Test for Goodwill Impairment," was issued amending the testing for goodwill impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Under this standard, goodwill impairment is measured as the excess of the carrying amount of the reporting unit over the related fair value. We adopted this standard effective in the second quarter of 2019, and the adoption of this standard had no effect on our financial condition, results of operations or cash flows.

***Leases***
In February 2016, ASU No. 2016-02, "Leases" ("ASC 842") was issued requiring leases to be measured and recognized as a lease liability, with a corresponding right-of-use asset on the balance sheet. We adopted this standard effective January 1, 2019, and we elected to adopt using the modified retrospective transition method, whereby comparative prior period financial information will not be restated and will continue to be reported under the lease accounting standard in effect during those periods. We also elected practical expedients provided by the new standard, including the package of practical expedients and the short-term lease recognition practical expedient, which allows an entity to not recognize on the balance sheet leases with a term of 12 months or less. Upon adoption of this standard, we recognized $78.4 million of lease liabilities and corresponding right-of-use assets on our consolidated balance sheet. Adoption of the standard did not have a material impact on our results of operations or cash flows. See Notes 2 and 3 of Notes to the Consolidated Financial Statements for additional information on our lease policies.

***Revenue Recognition***
In May 2014, an accounting standard update was issued requiring revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the expected consideration for these goods or services. This standard had an effective date of January 1, 2018, and we accounted for the new guidance using the modified retrospective implementation method, whereby a cumulative effect adjustment was recorded to retained earnings as of the date of initial application. In preparing for adoption, we evaluated the terms, conditions and performance obligations under our existing contracts with customers. Furthermore, we implemented policies to comply with this new standard. See Note 2 of Notes to the Consolidated Financial Statements for additional information on our revenue recognition policies.

***Business Combinations***
In December 2014, an accounting standard update was issued to provide new guidance on the definition of a business in relation to accounting for identifiable intangible assets in business combinations. This standard had an effective date of January 1, 2018, and had no effect on our financial condition, results of operations or cash flows.

***Financial Assets and Liabilities***
In January 2016, an accounting standard update was issued requiring changes in the accounting and disclosures for financial instruments. This standard was effective beginning with our 2018 reporting year and had no effect on our financial condition, results of operations or cash flows.

***Accounting Pronouncements - Not Yet Adopted***

***Credit Losses Measurement***
In June 2016, ASU 2016-13, "Measurement of Credit Losses on Financial Instruments," was issued requiring measurement of all expected credit losses for certain types of financial instruments, including trade receivables, held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. This standard is effective January 1, 2020, and we are currently evaluating the impact of this standard.

**RISK MANAGEMENT**

The market risk inherent in our debt positions is the potential change arising from increases or decreases in interest rates as discussed below.

At June 30, 2019, we had an outstanding principal balance of $500 million on our 6% Senior Notes. A change in interest rates generally would affect the fair value of the 6% Senior Notes, but not our earnings or cash flows. At June 30, 2019, the fair value of our 6% Senior Notes was $517.4 million. We estimate a hypothetical 10% change in the yield-to-maturity applicable to the 6% Senior Notes at June 30, 2019, would result in a change of approximately $12 million in the fair value of the underlying 6% Senior Notes.

For the variable rate Credit Agreement, changes in interest rates would affect cash flows, but not the fair value. At June 30, 2019, borrowings outstanding under the Credit Agreement were $941.5 million. A hypothetical 10% change in interest rates applicable to the Credit Agreement would not materially affect our cash flows.

Our operations are subject to normal hazards of operations, including fire, explosion and weather-related perils. We maintain various insurance coverages, including business interruption insurance, subject to certain deductibles. We are not fully insured against certain risks because such risks are not fully insurable, coverage is unavailable, or premium costs, in our judgment, do not justify such expenditures.

We have a risk management oversight committee that is made up of members from our senior management. This committee monitors our risk environment and provides direction for activities to mitigate, to an acceptable level, identified risks that may adversely affect the achievement of our goals.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices. See "Risk Management" under "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of market risk exposures that we have with respect to our long-term debt, which disclosure should be read in conjunction with the quantitative and qualitative disclosures about market risk contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

Since we do not own products shipped on our pipelines or terminalled at our terminal facilities, we do not have direct market risks associated with commodity prices.

## Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

Our principal executive officer and principal financial officer have evaluated, as required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"), our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this quarterly report on Form 10-Q. Our disclosure controls and procedures are designed to provide reasonable assurance that the information we are required to disclose in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Based upon the evaluation, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were effective as of June 30, 2019, at a reasonable level of assurance.

(b) Changes in internal control over financial reporting

During the three months ended June 30, 2019, there have been no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during our last fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

In the ordinary course of business, we may become party to legal, regulatory or administrative proceedings or governmental investigations, including environmental and other matters. Damages or penalties may be sought from us in some matters and certain matters may require years to resolve. While the outcome and impact of these proceedings and investigations on us cannot be predicted with certainty, based on advice of counsel and information currently available to us, management believes that the resolution of these proceedings and investigations, through settlement or adverse judgment, will not, either individually or in the aggregate, have a materially adverse effect on our financial condition, results of operations or cash flows.

**Environmental Matters**

We are reporting the following proceedings to comply with SEC regulations which require us to disclose proceedings arising under federal, state or local provisions regulating the discharge of materials into the environment or protecting the environment if we reasonably believe that such proceedings may result in monetary sanctions of $100,000 or more. Our respective subsidiaries have or will develop corrective action plans regarding the subject of these proceedings that will be implemented in consultation with the respective federal and state agencies. It is not possible to predict the ultimate outcome of these proceedings, although none are currently expected to have a material effect on our financial condition, results of operations or cash flows.

***Written Safety Compliance Program***
Holly Energy Partners - Operating, L.P. ("HEP Operating") received a Notice of Probable Violation (NOPV) dated June 20, 2018 from the Pipeline and Hazardous Materials Safety Administration ("PHMSA"). The NOPV follows a routine inspection of HEP's facilities and records and is not in response to an incident. In the NOPV, PHMSA alleges certain regulatory violations involving HEP Operating's written safety compliance program for its pipelines, terminals and tanks. PHMSA has proposed a civil penalty and a compliance order that would require HEP Operating to take certain remedial actions. HEP Operating is currently working with PHMSA to resolve this matter.

**Other**

We are a party to various other legal and regulatory proceedings, which we believe, based on the advice of counsel, will not either individually or in the aggregate have a materially adverse impact on our financial condition, results of operations or cash flows.

### Item 1A. Risk Factors

Other than the risk factor set forth below, there have been no material changes in our risk factors as previously disclosed in Part 1, "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. In addition to the other information set forth in this quarterly report, you should consider carefully the factors discussed in our 2018 Form 10-K, which could materially affect our business, financial condition or future results. The risks described below and in our 2018 Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business, financial condition or future results.

The following risk factor, which was previously disclosed in Part 1, "Item 1A Risk Factors," of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, is hereby amended and restated in its entirety as follows:

**TAX RISKS TO COMMON UNITHOLDERS**

**The tax treatment of publicly traded partnerships or an investment in our common units could be subject to potential legislative, judicial or administrative changes or differing interpretations, possibly applied on a retroactive basis.**

The present federal income tax treatment of publicly traded partnerships, including us, or an investment in our common units may be modified by administrative, legislative or judicial changes and differing interpretations at any time. From time to time, members of Congress propose and consider similar substantive changes to the existing federal income tax laws that would affect publicly traded partnerships, including elimination of partnership tax treatment for publicly traded partnerships. For example, the

“Clean Energy for America Act”, which is similar to legislation that was commonly proposed during the Obama Administration, was introduced in the Senate on May 2, 2019. If enacted, this proposal would, among other things, repeal Section 7704(d)(1)(E) of the Code upon which we rely for our treatment as a partnership for federal income tax purposes.

In addition, the Treasury Department has issued, and in the future may issue, regulations interpreting those laws that affect publicly traded partnerships. There can be no assurance that there will not be further changes to U.S. federal income tax laws or the Treasury Department’s interpretation of the qualifying income rules in a manner that could impact our ability to qualify as a partnership in the future, which could negatively impact the value of an investment in our common units. Any modification to the federal income tax laws may be applied retroactively and could make it more difficult or impossible for us to meet the qualifying income requirement to be treated as a partnership for U.S. federal income tax purposes. You are urged to consult with your own tax advisor with respect to the status of regulatory or administrative developments and proposals and their potential effect on your investment in our common units.

## Item 6. Exhibits

The Exhibit Index on page 47 of this Quarterly Report on Form 10-Q lists the exhibits that are filed or furnished, as applicable, as part of this Quarterly Report on Form 10-Q.

## Exhibit Index

| Exhibit Number | Description |
|---|---|
| 3.1 | Second Amended and Restated Agreement of Limited Partnership of Holly Energy Partners, L.P. (incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K filed on November 1, 2017, File No. 1-32225). |
| 3.2 | First Amended and Restated Agreement of Limited Partnership of Holly Energy Partners - Operating Company, L.P. (incorporated by reference to Exhibit 3.2 of Registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2004, File No. 1-32225). |
| 3.3 | First Amended and Restated Agreement of Limited Partnership of HEP Logistics Holdings, L.P. (incorporated by reference to Exhibit 3.4 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 1-32225). |
| 3.4 | First Amended and Restated Limited Liability Company Agreement of Holly Logistic Services, L.L.C. (incorporated by reference to Exhibit 3.5 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 1-32225). |
| 3.5 | Amendment No. 1 to the First Amended and Restated Limited Liability Company Agreement of Holly Logistic Services, L.L.C., dated April 27, 2011 (incorporated by reference to Exhibit 3.1 of Registrant's Form 8-K Current Report filed on May 3, 2011, File No. 1-32225). |
| 3.6 | First Amended and Restated Limited Liability Company Agreement of HEP Logistics GP, L.L.C. (incorporated by reference to Exhibit 3.6 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended June 30, 2004, File No. 1-32225). |
| 10.1 | First Amendment to Third Amended and Restated Crude Pipelines and Tankage Agreement, dated April 22, 2019, by and among HollyFrontier Navajo Refining LLC, HollyFrontier Woods Cross Refining LLC, HollyFrontier Refining & Marketing LLC, Holly Energy Partners - Operating, L.P., HEP Pipeline, L.L.C. and HEP Woods Cross, L.L.C. (incorporated by reference to Exhibit 10.1 of Registrant's Quarterly Report on Form 10-Q for its quarterly period ended March 31, 2019, filed May 2, 2019, File No. 1-32225). |
| 10.2*+ | Form of Holly Energy Partners, L.P. Indemnification Agreement to be entered into with officers and directors of Holly Logistic Services, L.L.C. and its subsidiaries. |
| 10.3 | Fifth Amended and Restated Master Throughput Agreement, dated as of July 1, 2019, by and between HollyFrontier Refining & Marketing LLC and Holly Energy Partners - Operating, L.P. (incorporated by reference to Exhibit 10.1 of Registrant's Form 8-K Current Report filed July 2, 2019, File No. 1-32225). |
| 31.1* | Certification of Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1** | Certification of Chief Executive Officer under Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2** | Certification of Chief Financial Officer under Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101++ | The following financial information from Holly Energy Partners, L.P.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, formatted in iXBRL (Inline Extensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statement of Partners' Equity, and (vi) Notes to Consolidated Financial Statements. |

* Filed herewith.

** Furnished herewith.

\+ Constitutes management contracts or compensatory plans or arrangements.

++ Filed electronically herewith.

**SIGNATURES**

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

HOLLY ENERGY PARTNERS, L.P.
(Registrant)

By: HEP LOGISTICS HOLDINGS, L.P.
its General Partner

By: HOLLY LOGISTIC SERVICES, L.L.C.
its General Partner

Date: August 1, 2019

/s/ Richard L. Voliva III
Richard L. Voliva III
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: August 1, 2019

/s/ Kenneth P. Norwood
Kenneth P. Norwood
Vice President and Controller
(Principal Accounting Officer)

**HOLLY ENERGY PARTNERS, L.P.**
**DIRECTOR AND OFFICER INDEMNIFICATION AGREEMENT**

This Director and Officer Indemnification Agreement, dated as of [_________________] (this "**Agreement**"), is made by and between Holly Energy Partners, L.P., a Delaware limited partnership (including any successors thereto, the "**Company**"), and [_________________] ("**Indemnitee**").

**RECITALS:**

1. Competent and experienced persons are reluctant to serve or to continue to serve corporations as directors, officers, or in other capacities unless they are provided with adequate protection through insurance or indemnification (or both) against claims and actions against them arising out of their service to and activities on behalf of those corporations.

2. Uncertainties relating to the availability of adequate insurance for directors and officers have increased the difficulty for corporations to attract and retain competent and experienced persons.

3. The Board of Directors (the "Board") of Holly Logistic Services, L.L.C. ("HLS"), a Delaware limited liability company and the general partner of the General Partner (as defined below), has determined that the continuation of present trends in litigation will make it more difficult to attract and retain competent and experienced persons, that this situation is detrimental to the best interests of the Company's unitholders, and that the Company should act to assure the officers and directors of HLS that there will be increased certainty of adequate protection in the future.

4. It is reasonable, prudent, and necessary for the Company to obligate itself contractually to indemnify the officers and directors of HLS to the fullest extent permitted by applicable law in order to induce them to serve or continue to serve the Company.

5. Indemnitee is willing to serve and continue to serve the Company or its Subsidiaries on the condition that he be indemnified to the fullest extent permitted by law.

6. Concurrently with the execution of this Agreement, Indemnitee is agreeing to serve or to continue to serve as a director of HLS or an officer of HLS and/or one or more of the Company's Subsidiaries.

**AGREEMENT:**

NOW, THEREFORE, the parties hereby agree as follows:

**1. Certain Definitions**. In addition to terms defined elsewhere herein, the following terms have the following meanings when used in this Agreement with initial capital letters:"Claim" means (i) any threatened, asserted, pending or completed claim, demand, action, suit or proceeding, whether civil, criminal, administrative, arbitrative, investigative or other, and whether made pursuant to federal, state or other law; and (ii) any threatened, pending or completed inquiry or investigation, whether made, instituted or conducted by the Company or any other person, including any federal, state or other governmental entity, that Indemnitee determines might lead to the institution of any such claim, demand, action, suit or proceeding.

(a) "Constituent Documents" means the partnership agreements, limited liability company agreements, and other documents (as same may be amended from time to time) of the Company, HEP Logistics Holdings, L.P., HLS and all of their Subsidiaries.

(b) "Controlled Affiliate" means any corporation, limited liability company, partnership, joint venture, trust or other entity or enterprise, whether or not for profit, that is directly or indirectly controlled by the Company or HLS. For purposes of this definition, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of an entity or enterprise, whether through the ownership of voting securities, through other voting rights, by contract or otherwise; provided that direct or indirect beneficial ownership of capital stock or other interests in an entity or enterprise entitling the holder to cast 20% or more of the total number of votes generally entitled to be cast in the election of directors (or persons performing comparable functions) of such entity or enterprise shall be deemed to constitute control for purposes of this definition.

(c) "Director" means a member of the Board.

(d) "Disinterested Director" means a Director who is not and was not a party to the Claim in respect of which indemnification is sought by Indemnitee.

(e) "ERISA Losses" means any taxes, penalties or other liabilities under the Employee Retirement Income Security Act of 1974, as amended, or Section 4975 of the Internal Revenue Code of 1986, as amended.

(f) "Expenses" means attorneys' and experts' fees and expenses and all other costs and expenses paid or payable in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to investigate, defend, be a witness in or participate in (including on appeal), any Claim.

(g) "General Partner" means the entity or entities holding the direct or indirect general partnership interest in the Company, including, as of the date of this Agreement, HLS and HEP Logistics Holdings, L.P.

(h) "Incumbent Directors" means the individuals who, as of the date hereof, are Directors of HLS and any individual becoming a Director subsequent to the date hereof whose election, nomination, or appointment, was approved by a vote of at least two-thirds of the then Incumbent Directors**.**

(i) "Indemnifiable Claim" means any Claim based upon, arising out of or resulting from (i) any actual, alleged or suspected act or failure to act by Indemnitee in his or her capacity as a director, officer, employee or agent of the Company or as a director, officer, employee, member, manager, trustee or agent of any other corporation, limited liability company, partnership, joint venture, trust or other entity or enterprise, whether or not for profit (including any employee benefit plan or related trust), as to which Indemnitee is or was serving at the request of the Company as a director, officer, employee, member, manager, trustee or agent, (it being understood that reimbursement by the Company for the expense of participation in any industry group or other non-profit organization shall be deemed to evidence that such service is or was at the request of the Company), (ii) any actual, alleged or suspected act or failure to act by Indemnitee in respect of any business, transaction, communication, filing, disclosure or other activity of the Company or any other entity or enterprise referred to in clause (i) of this sentence, or (iii) Indemnitee's status as a current or former director, officer, employee or agent of the Company or as a current or former director, officer, employee, member, manager, trustee or agent of the Company or any other entity or enterprise referred to in clause (i) of this sentence or any actual, alleged or suspected act or failure to act by Indemnitee in connection with any obligation or restriction imposed upon Indemnitee by reason of such status. In addition to any service at the actual request of the Company, for purposes of this Agreement, Indemnitee shall be deemed to be serving or to have served at the request of the Company as a director, officer, employee, member, manager, trustee or agent of another entity or enterprise if Indemnitee is or was serving as a director, officer, employee, member, manager, trustee or agent of such entity or enterprise and (i) such entity or enterprise is or at the time of such service was a Controlled Affiliate, (ii) such entity or enterprise is or at the time of such service was an employee benefit plan (or related trust) sponsored or maintained by the Company, HLS or a Controlled Affiliate, or (iii) the Company, HLS or a Controlled Affiliate directly or indirectly caused or authorized Indemnitee to be nominated, elected, appointed, designated, employed, engaged or selected to serve in such capacity.

(j) "Indemnifiable Losses" means any and all Losses relating to, arising out of or resulting from any Indemnifiable Claim.

(k) "Independent Counsel" means a law firm, or a member of a law firm, that is experienced in matters of partnership law and neither presently is, nor in the past five years has been, retained to represent: (i) the Company, HLS, any of their Subsidiaries or Indemnitee in any matter material to either such party (other than with respect to matters concerning Indemnitee under this Agreement, or of other indemnitees under similar indemnification agreements), or (ii) any other named (or, as to a threatened matter, reasonably likely to be named) party to the Indemnifiable Claim giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company, HLS, any of their Subsidiaries or Indemnitee in an action to determine Indemnitee's rights under this Agreement.

(l) "Losses" means any and all Expenses, damages, losses, liabilities, judgments, fines, penalties (whether civil, criminal or other), ERISA Losses and amounts paid in settlement, including all interest, assessments and other charges paid or payable in connection with or in respect of any of the foregoing.

(m) "Person" means any individual, partnership, corporation, limited liability company, trust or other entity.

(n) "Subsidiary" means, with respect to any Person, any corporation or other entity of which a majority of the voting power of the Voting Securities is owned, directly or indirectly, by that Person.

(o) "Voting Securities" means securities or other equity interests that vote generally in the election of directors, in the admission of general partners, or in the selection of any other similar governing body, or, in the case of a partnership or limited liability company, that manage the partnership or limited liability company.

2. **Indemnification Obligation**. Subject to Section 8, the Company shall indemnify, defend and hold harmless Indemnitee, to the fullest extent permitted or required by the laws of the State of Delaware in effect on the date hereof or as such laws may from time to time hereafter be amended to increase the scope of such permitted or required indemnification, against any and all Indemnifiable Claims and Indemnifiable Losses; provided, however, that (a) except as provided in Sections 4 and 21, Indemnitee shall not be entitled to indemnification pursuant to this Agreement in connection with any Claim initiated by Indemnitee against the Company or any director or officer of the Company unless the Company has joined in or consented to the initiation of such Claim and (b) no repeal or amendment of any law of the State of Delaware shall in any way diminish or adversely affect the rights of Indemnitee pursuant to this Agreement in respect of any occurrence or matter arising prior to any such repeal or amendment.

3. **Advancement of Expenses**. Indemnitee shall have the right to advancement by the Company prior to the final disposition of any Indemnifiable Claim of any and all Expenses relating to, arising out of or resulting from any Indemnifiable Claim paid or incurred by Indemnitee or which Indemnitee determines are reasonably likely to be paid or incurred by Indemnitee. Indemnitee's right to such advancement is not subject to the satisfaction of any standard of conduct and is not conditioned upon any prior determination that Indemnitee is entitled to indemnification under this Agreement with respect to the Indemnifiable Claim or the absence of any prior determination to the contrary. Without limiting the generality or effect of the foregoing, within five business days after any request by Indemnitee, the Company shall, in accordance with such request (but without duplication), (a) pay such Expenses on behalf of Indemnitee, (b) advance to Indemnitee funds in an amount sufficient to pay such Expenses, or (c) reimburse Indemnitee for such Expenses; provided that Indemnitee shall repay, without interest any amounts actually advanced to Indemnitee that, at the final disposition of the Indemnifiable Claim to which the advance related, were in excess of amounts paid or payable by Indemnitee in respect of Expenses relating to, arising out of or resulting from such Indemnifiable Claim. In connection with any such payment, advancement or reimbursement, if delivery of an undertaking is a legally required condition precedent to such payment, advance or reimbursement, Indemnitee shall execute and deliver to the Company an undertaking in the form attached hereto as Exhibit A (subject to Indemnitee filling in the blanks therein and selecting from among the bracketed alternatives therein), which need not be secured and shall be accepted by the Company without reference to Indemnitee's ability to repay the Expenses. In no event shall Indemnitee's right to the payment, advancement or reimbursement of Expenses pursuant to this Section 3 be conditioned upon any undertaking that is less favorable to Indemnitee than, or that is in addition to, the undertaking set forth in Exhibit A.

4. **Indemnification for Additional Expenses**. Without limiting the generality or effect of the foregoing, the Company shall indemnify and hold harmless Indemnitee against and, if requested by Indemnitee, shall reimburse Indemnitee for, or advance to Indemnitee, within five business days of such request, any and all Expenses paid or incurred by Indemnitee or which Indemnitee determines are reasonably likely to be paid or incurred by Indemnitee in connection with any Claim made, instituted or conducted by Indemnitee for (a) indemnification or payment, advancement or reimbursement of Expenses by the Company under any provision of this Agreement, or under any other agreement or provision of the Constituent Documents now or hereafter in effect relating to Indemnifiable Claims, and/or (b) recovery under any directors' and officers' liability insurance policies maintained by the Company or HLS, regardless in each case of whether Indemnitee ultimately is determined to be entitled to such indemnification, reimbursement, advance or insurance recovery, as the case may be; provided, however, that Indemnitee shall return, without interest, any such advance of Expenses (or portion thereof) which remains unspent at the final disposition of the Claim to which the advance related.

5. **Contribution**. To the fullest extent permissible under applicable law in effect on the date hereof or as such law may from time to time hereafter be amended to increase the scope of permitted or required indemnification, if the indemnification provided for in this Agreement is unavailable to Indemnitee for any reason whatsoever, the Company, in lieu of indemnifying Indemnitee, shall contribute to the payment of any and all Indemnifiable Claims or Indemnifiable Losses, in such proportion as is fair and reasonable in light of all of the circumstances in order to reflect (i) the relative benefits received by the Company and Indemnitee as a result of the event(s) and/or transaction(s) giving cause to such Indemnifiable Claim or Indemnifiable Loss; and/or (ii) the relative fault of the Company and any and all other parties (including Directors and officers of HLS or the Company, other than the Indemnitee) and Indemnitee in connection with such event(s) and/or transaction(s).

6. **Partial Indemnity**. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some or a portion of any Indemnifiable Loss, but not for all of the total amount thereof, the Company shall nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled.

7. **Procedure for Notification**. To obtain indemnification under this Agreement in respect of an Indemnifiable Claim or Indemnifiable Loss, Indemnitee shall submit to the Company a written request therefor, including a brief description (based upon information then available to Indemnitee) of such Indemnifiable Claim or Indemnifiable Loss. If, at the time of the receipt of such request, the Company or HLS has directors' and officers' liability insurance in effect under which coverage for such Indemnifiable Claim or Indemnifiable Loss is potentially available, the Company shall give prompt written notice of such Indemnifiable Claim or Indemnifiable Loss to the applicable insurers in accordance with the procedures set forth in the applicable policies. The Company shall provide to Indemnitee a copy of such notice delivered to the applicable insurers, and copies of all subsequent correspondence between the Company and such insurers regarding the Indemnifiable Claim or Indemnifiable Loss, in each case substantially concurrently with the delivery or receipt thereof by the Company. The failure by Indemnitee to timely notify the Company of any Indemnifiable Claim or Indemnifiable Loss shall not relieve the Company from any liability

hereunder unless, and only to the extent that, the Company did not otherwise learn of such Indemnifiable Claim or Indemnifiable Loss and such failure results in forfeiture by the Company of substantial defenses, rights or insurance coverage.

8. **Determination of Right to Indemnification**.

(a) To the extent that Indemnitee shall have been successful on the merits or otherwise in defense of any Indemnifiable Claim or any portion thereof or in defense of any issue or matter therein, including dismissal without prejudice, Indemnitee shall be indemnified against Indemnifiable Losses relating to, arising out of or resulting from such Indemnifiable Claim in accordance with Section 2 and no Standard of Conduct Determination (as defined in Section 8(b)) shall be required with respect to such Indemnifiable Claim.

(b) To the extent that the provisions of Section 8(a) are inapplicable to an Indemnifiable Claim that shall have been finally disposed of, any determination of whether Indemnitee has satisfied any applicable standard of conduct under Delaware law that is a legally required condition precedent to indemnification of Indemnitee hereunder against Indemnifiable Losses relating to, arising out of or resulting from such Indemnifiable Claim (a "Standard of Conduct Determination") shall be made as follows: (i) by a majority vote of the Disinterested Directors, even if less than a quorum of the Board, (ii) if such Disinterested Directors so direct, by a majority vote of a committee of Disinterested Directors designated by a majority vote of all Disinterested Directors, or (iii) if there are no such Disinterested Directors or if Indemnitee so requests, by Independent Counsel, selected by the Indemnitee and approved by the Board (such approval not to be unreasonably withheld, delayed or conditioned), in a written opinion addressed to the Board, a copy of which shall be delivered to Indemnitee; provided, however, that if at the time of any Standard of Conduct Determination, Indemnitee is neither a director nor an officer of the Company or a Controlled Affiliate, such Standard of Conduct Determination may be made by or in the manner specified by the Board, any duly authorized committee of the Board or any duly authorized officer of the Company (unless Indemnitee requests that such Standard of Conduct Determination be made by Independent Counsel, in which case such Standard of Conduct Determination shall be made by Independent Counsel). Indemnitee will cooperate with the person or persons making such Standard of Conduct Determination, including providing to such person or persons, upon reasonable advance request, any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. The Company shall indemnify and hold harmless Indemnitee against and, if requested by Indemnitee, shall reimburse Indemnitee for, or advance to Indemnitee, within five business days of such request, any and all costs and expenses (including attorneys' and experts' fees and expenses) incurred by Indemnitee in so cooperating with the person or persons making such Standard of Conduct Determination.

(c) The Company shall use its reasonable best efforts to cause any Standard of Conduct Determination required under Section 8(b) to be made as promptly as practicable. If (i) the person or persons empowered or selected under Section 8 to make the Standard of Conduct Determination shall not have made a determination within 30 days after the later of (A) receipt by the Company of written notice from Indemnitee advising the Company of the final disposition of the applicable Indemnifiable Claim (the date of such receipt being the "***Notification Date***") and (B) the selection of an Independent Counsel, if such determination is to be made by Independent Counsel, and (ii) Indemnitee shall have fulfilled his or her obligations set forth in the second sentence of Section 8(b), then Indemnitee shall be deemed to have satisfied the applicable standard of conduct; provided that such 30-day period may be extended for a reasonable time, not to exceed an additional 30 days, if the person or persons making such determination in good faith requires such additional time for the obtaining or evaluation or documentation and/or information relating thereto.

(d) If (i) Indemnitee shall be entitled to indemnification hereunder against any Indemnifiable Losses pursuant to Section 8(a), (ii) no determination of whether Indemnitee has satisfied any applicable standard of conduct under Delaware law is a legally required condition precedent to indemnification of Indemnitee hereunder against any Indemnifiable Losses, or (iii) Indemnitee has been determined or deemed pursuant to Section 8(b) or (c) to have satisfied any applicable standard of conduct under Delaware law which is a legally required condition precedent to indemnification of Indemnitee hereunder against any Indemnifiable Losses, then the Company shall pay to Indemnitee, within five business days after the later of (x) the Notification Date in respect of the Indemnifiable Claim or portion thereof to which such Indemnifiable Losses are related, out of which such Indemnifiable Losses arose or from which such Indemnifiable Losses resulted and (y) the earliest date on which the applicable criterion specified in clause (i), (ii) or (iii) above shall have been satisfied, an amount equal to the amount of such Indemnifiable Losses.

9. **Presumption of Entitlement**.

(a) In making any Standard of Conduct Determination, the person or persons making such determination shall presume that Indemnitee has satisfied the applicable standard of conduct, and the Company may overcome such presumption only by its adducing clear and convincing evidence to the contrary. Any Standard of Conduct Determination that is adverse to Indemnitee may be challenged by Indemnitee in the Court of Chancery of the State of Delaware. No determination by the Company (including by the Directors or any Independent Counsel) that Indemnitee has not satisfied any applicable standard of conduct shall be a defense to any Claim by Indemnitee for indemnification or reimbursement or advance payment of Expenses by the Company hereunder or create a presumption that Indemnitee has not met any applicable standard of conduct.

(b) Without limiting the generality or effect of Section 8(a), (i) to the extent that any Indemnifiable Claim relates to any entity or enterprise referred to in clause (i) of the first sentence of the definition of "Indemnifiable Claim," Indemnitee shall be deemed to have satisfied the applicable standard of conduct if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the interests of such entity or enterprise (or the owners or beneficiaries thereof, including in the case of any employee benefit plan the participants and beneficiaries thereof) and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his or her conduct was unlawful, and (ii) in all cases, any belief of Indemnitee that is based on the records or books of account of the Company, including financial statements, or on information supplied to Indemnitee by the officers or Directors of HLS or the Company in the course of their duties, or on the advice of legal counsel for the Company or HLS, the Board, any committee of the Board or any Director, or on information or records given or reports made to the

Company, HLS, the Board, any committee of the Board or any Director by an independent certified public accountant or by an appraiser or other expert selected by or on behalf of the Company, HLS, the Board, any committee of the Board or any Director shall be deemed to be reasonable.

10. **No Adverse Presumption**. For purposes of this Agreement, the termination of any Claim by judgment, order, settlement (whether with or without court approval) or conviction, or upon a plea of *nolo contendere* or its equivalent, will not create a presumption that Indemnitee did not meet any applicable standard of conduct or that indemnification hereunder is otherwise not permitted.

11. **Non-exclusivity**. The rights of Indemnitee hereunder will be in addition to any other rights Indemnitee may have under the Constituent Documents, or the substantive laws of the Company's jurisdiction of organization, any other contract or otherwise (collectively, "***Other Indemnity Provisions***"); provided, however, that (a) to the extent that Indemnitee otherwise would have any greater right to indemnification under any Other Indemnity Provisions, Indemnitee will be deemed to have such greater right hereunder and (b) to the extent that any change is made to any Other Indemnity Provisions which permit any greater right to indemnification than that provided under this Agreement as of the date hereof, Indemnitee will be deemed to have such greater right hereunder. The Company will not adopt any amendment to any of the Constituent Documents the effect of which would be to deny, diminish or encumber Indemnitee's right to indemnification under this Agreement or any Other Indemnity Provision.

12. **Liability Insurance and Funding**. For the duration of Indemnitee's service as an officer or Director of HLS or the Company, and thereafter for so long as Indemnitee shall be subject to any pending or possible Indemnifiable Claim, the Company shall use commercially reasonable efforts (taking into account the scope and amount of coverage available relative to the cost thereof) to cause to be maintained in effect policies of directors' and officers' liability insurance providing coverage for officers and Directors of HLS and the Company that is at least substantially comparable in scope and amount to that provided by the current policies of directors' and officers' liability insurance maintained by the Company and HLS. The Company shall provide Indemnitee with a copy of all directors' and officers' liability insurance applications, binders, policies, declarations, endorsements and other related materials, and shall provide Indemnitee with a reasonable opportunity to review and comment on the same. Without limiting the generality or effect of the two immediately preceding sentences, the Company shall not discontinue or significantly reduce the scope or amount of coverage from one policy period to the next (i) without the prior approval thereof by a majority vote of the Incumbent Directors, even if less than a quorum, or (ii) if at the time that any such discontinuation or significant reduction in the scope or amount of coverage is proposed there are no Incumbent Directors, without the prior written consent of Indemnitee (which consent shall not be unreasonably withheld or delayed). In all policies of directors' and officers' liability insurance obtained by the Company or HLS, Indemnitee shall be named as an insured in such a manner as to provide Indemnitee the same rights and benefits, subject to the same limitations, as are accorded to the officers and Directors of HLS or the Company most favorably insured by such policy. The Company may, but shall not be required to, create a trust fund, grant a security interest or use other means, including a letter of credit, to ensure the payment of such amounts as may be necessary to satisfy its obligations to indemnify and advance expenses pursuant to this

Agreement.**Subrogation**. In the event of payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the related rights of recovery of Indemnitee against other persons or entities (other than Indemnitee's successors), including any entity or enterprise referred to in clause (i) of the definition of "Indemnifiable Claim" in Section 1(i). Indemnitee shall execute all papers reasonably required to evidence such rights (all of Indemnitee's reasonable Expenses, including attorneys' fees and charges, related thereto to be reimbursed by or, at the option of Indemnitee, advanced by the Company).

13. **No Duplication of Payments**. The Company shall not be liable under this Agreement to make any payment to Indemnitee in respect of any Indemnifiable Losses to the extent Indemnitee has otherwise actually received payment (net of any Expenses incurred in connection therewith and any repayment by Indemnitee made with respect thereto) under any insurance policy, the Constituent Documents and Other Indemnity Provisions or otherwise (including from any entity or enterprise referred to in clause (i) of the definition of "Indemnifiable Claim" in Section 1(i)) in respect of such Indemnifiable Losses otherwise indemnifiable hereunder.

14. **Defense of Claims**. The Company shall be entitled to participate in the defense of any Indemnifiable Claim or to assume the defense thereof, with counsel reasonably satisfactory to Indemnitee; provided that if Indemnitee believes, after consultation with counsel selected by Indemnitee, that (a) the use of counsel chosen by the Company to represent Indemnitee would present such counsel with an actual or potential conflict, (b) the named parties in any such Indemnifiable Claim (including any impleaded parties) include both the Company and Indemnitee and Indemnitee shall conclude that there may be one or more legal defenses available to him or her that are different from or in addition to those available to the Company, or (c) any such representation by such counsel would be precluded under the applicable standards of professional conduct then prevailing, then Indemnitee shall be entitled to retain separate counsel (but not more than one law firm plus, if applicable, local counsel in respect of any particular Indemnifiable Claim) at the Company's expense. The Company shall not be liable to Indemnitee under this Agreement for any amounts paid in settlement of any threatened or pending Indemnifiable Claim effected without the Company's prior written consent. The Company shall not, without the prior written consent of Indemnitee, effect any settlement of any threatened or pending Indemnifiable Claim to which Indemnitee is, or could have been, a party unless such settlement solely involves the payment of money and includes a complete and unconditional release of Indemnitee from all liability on any claims that are the subject matter of such Indemnifiable Claim. Neither the Company nor Indemnitee shall unreasonably withhold its consent to any proposed settlement; provided that Indemnitee may withhold consent to any settlement that does not provide a complete and unconditional release of Indemnitee.

15. **Successors and Binding Agreement**.

(a) The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all of the business or assets of the Company, by agreement in form and substance satisfactory to Indemnitee and his or her counsel, expressly to assume and agree to perform this Agreement in the same manner and to the same extent the Company would be required to perform if no such succession had taken place. This Agreement shall be binding upon and inure to the benefit of the Company and any successor to the Company, including any person acquiring directly or indirectly all or substantially all of the business or assets of the Company whether by purchase, merger, consolidation, reorganization or otherwise (and such successor will thereafter be deemed the "Company" for purposes of this Agreement), but shall not otherwise be assignable or delegable by the Company.

(b) This Agreement shall inure to the benefit of and be enforceable by Indemnitee's personal or legal representatives, executors, administrators, heirs, distributees, legatees and other successors.

(c) This Agreement is personal in nature and neither of the parties hereto shall, without the consent of the other, assign or delegate this Agreement or any rights or obligations hereunder except as expressly provided in Sections 16(a) and 16(b). Without limiting the generality or effect of the foregoing, Indemnitee's right to receive payments hereunder shall not be assignable, whether by pledge, creation of a security interest or otherwise, other than by a transfer by Indemnitee's will or by the laws of descent and distribution, and, in the event of any attempted assignment or transfer contrary to this Section 16(c), the Company shall have no liability to pay any amount so attempted to be assigned or transferred.

16. **Notices**. For all purposes of this Agreement, all communications, including notices, consents, requests or approvals, required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof orally confirmed), or five business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid or one business day after having been sent for next day delivery by a nationally recognized overnight courier service, addressed to the Company (to the attention of the Secretary of the Company) and to Indemnitee at the applicable address shown on the signature page hereto, or to such other address as any party may have furnished to the other in writing and in accordance herewith, except that notices of changes of address will be effective only upon receipt.

17. **Governing Law**. The validity, interpretation, construction and performance of this Agreement shall be governed by and construed in accordance with the substantive laws of the State of Delaware, without giving effect to the principles of conflict of laws of such State. The Company and Indemnitee each hereby irrevocably consent to the jurisdiction of the Chancery Court of the State of Delaware for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be brought only in the Chancery Court of the State of Delaware.

18. **Validity**. If any provision of this Agreement or the application of any provision hereof to any person or circumstance is held invalid, unenforceable or otherwise illegal, the remainder of this Agreement and the application of such provision to any other person or circumstance shall not be affected, and the provision so held to be invalid, unenforceable or otherwise illegal shall be reformed to the extent, and only to the extent, necessary to make it enforceable, valid or legal. In the event that any court or other adjudicative body shall decline to reform any provision of this Agreement held to be invalid, unenforceable or otherwise illegal as contemplated by the immediately preceding sentence, the parties thereto shall take all such action as may be necessary

or appropriate to replace the provision so held to be invalid, unenforceable or otherwise illegal with one or more alternative provisions that effectuate the purpose and intent of the original provisions of this Agreement as fully as possible without being invalid, unenforceable or otherwise illegal.

19. **Miscellaneous**. No provision of this Agreement may be waived, modified or discharged unless such waiver, modification or discharge is agreed to in writing signed by Indemnitee and the Company. No waiver by either party hereto at any time of any breach by the other party hereto or compliance with any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, expressed or implied with respect to the subject matter hereof have been made by either party that are not set forth expressly in this Agreement.

20. **Legal Fees and Expenses; Interest**.

(a) It is the intent of the Company that Indemnitee not be required to incur legal fees and or other Expenses associated with the interpretation, enforcement or defense of Indemnitee's rights under this Agreement by litigation or otherwise because the cost and expense thereof would substantially detract from the benefits intended to be extended to Indemnitee hereunder. Accordingly, without limiting the generality or effect of any other provision hereof, if it should appear to Indemnitee that the Company has failed to comply with any of its obligations under this Agreement (including its obligations under Section 3) or in the event that the Company or any other person takes or threatens to take any action to declare this Agreement void or unenforceable, or institutes any litigation or other action or proceeding designed to deny, or to recover from, Indemnitee the benefits provided or intended to be provided to Indemnitee hereunder, the Company irrevocably authorizes Indemnitee from time to time to retain counsel of Indemnitee's choice, at the expense of the Company as hereafter provided, to advise and represent Indemnitee in connection with any such interpretation, enforcement or defense, including the initiation or defense of any litigation or other legal action, whether by or against the Company or any director, officer, equityholder or other person affiliated with the Company or HLS, in any jurisdiction. Notwithstanding any existing or prior attorney-client relationship between the Company and such counsel, the Company irrevocably consents to Indemnitee's entering into an attorney-client relationship with such counsel, and in that connection the Company and Indemnitee agree that a confidential relationship shall exist between Indemnitee and such counsel. Without respect to whether Indemnitee prevails, in whole or in part, in connection with any of the foregoing, the Company will pay and be solely financially responsible for any and all attorneys' and related fees and expenses incurred by Indemnitee in connection with any of the foregoing to the fullest extent permitted or required by the laws of the State of Delaware in effect on the date hereof or as such laws may from time to time hereafter be amended to increase the scope of such permitted or required payment of such fees and expenses.

(b) Any amount due to Indemnitee under this Agreement that is not paid by the Company by the date on which it is due will accrue interest at the maximum legal rate under Delaware law from the date on which such amount is due to the date on which such amount is paid to Indemnitee.

21. **Certain Interpretive Matters**. Unless the context of this Agreement otherwise requires, (a) “it” or “its” or words of any gender include each other gender, (b) words using the singular or plural number also include the plural or singular number, respectively, (c) the terms “hereof,” “herein,” “hereby” and derivative or similar words refer to this entire Agreement, (d) the terms “Section” or “Exhibit” refer to the specified Section or Exhibit of or to this Agreement, (e) the terms “include,” “includes” and “including” will be deemed to be followed by the words “without limitation” (whether or not so expressed), and (f) the word “or” is disjunctive but not exclusive. Whenever this Agreement refers to a number of days, such number will refer to calendar days unless business days are specified and whenever action must be taken (including the giving of notice or the delivery of documents) under this Agreement during a certain period of time or by a particular date that ends or occurs on a non-business day, then such period or date will be extended until the immediately following business day. As used herein, “business day” means any day other than Saturday, Sunday or a United States federal holiday.

22. **Counterparts**. This Agreement may be executed in one or more counterparts, each of which will be deemed to be an original but all of which together shall constitute one and the same agreement.

**[SIGNATURE PAGE FOLLOWS]**

EXECUTED as of the date first written above.

**HOLLY ENERGY PARTNERS, L.P.**

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

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

By: ________________________
George J. Damiris
Chief Executive Officer and President

**INDEMNITEE:**

__________________________

[__________________________]

## EXHIBIT A

## UNDERTAKING

This Undertaking is submitted pursuant to the Director and Officer Indemnification Agreement, dated as of [___________] (the "***Indemnification Agreement***"), between Holly Energy Partners, L.P., a Delaware limited partnership (the "***Company***"), and the undersigned. Capitalized terms used and not otherwise defined herein have the meanings ascribed to such terms in the Indemnification Agreement.

The undersigned hereby requests **[payment], [advancement], [reimbursement]** by the Company of Expenses which the undersigned **[has incurred] [reasonably expects to incur]** in connection with ______________________ (the "***Indemnifiable Claim***").

The undersigned hereby undertakes to repay the **[payment]**, **[advancement]**, **[reimbursement]** of Expenses made by the Company to or on behalf of the undersigned in response to the foregoing request if it is determined, following the final disposition of the Indemnifiable Claim and in accordance with Section 8 of the Indemnification Agreement, that the undersigned is not entitled to indemnification by the Company under the Indemnification Agreement with respect to the Indemnifiable Claim.

**IN WITNESS WHEREOF**, the undersigned has executed this Undertaking as of this _____ day of ______________, ____.

____________

[___________________________________]

Exhibit 31.1

**CERTIFICATION**

I, George J. Damiris, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Holly Energy Partners, L.P;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 1, 2019

/s/ George J. Damiris

George J. Damiris

President and Chief Executive Officer

Exhibit 31.2

**CERTIFICATION**

I, Richard L. Voliva III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Holly Energy Partners, L.P;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent function):
    a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
    b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: August 1, 2019

/s/ Richard L. Voliva III

Richard L. Voliva III

Executive Vice President and
Chief Financial Officer

Exhibit 32.1

**CERTIFICATION OF CHIEF EXECUTIVE**
**OFFICER OF HOLLY ENERGY PARTNERS, L.P.**
**PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the accompanying report on Form 10-Q for the quarterly period ended June 30, 2019 and filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George J. Damiris, Chief Executive Officer of Holly Logistic Services, L.L.C., the general partner of HEP Logistics Holdings, L.P., the general partner of Holly Energy Partners, L.P (the "Company"), hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 1, 2019

/s/ George J. Damiris

George J. Damiris

President and Chief Executive Officer

Exhibit 32.2

**CERTIFICATION OF CHIEF FINANCIAL**
**OFFICER OF HOLLY ENERGY PARTNERS, L.P.**
**PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the accompanying report on Form 10-Q for the quarterly period ended June 30, 2019 and filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Richard L. Voliva III, Chief Financial Officer of Holly Logistic Services, L.L.C., the general partner of HEP Logistics Holdings, L.P., the general partner of Holly Energy Partners, L.P (the “Company”), hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 1, 2019

/s/ Richard L. Voliva III

Richard L. Voliva III

Executive Vice President and
Chief Financial Officer