HOLLY ENERGY PARTNERS LP
Form 10-Q
October 31, 2018

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

FORM 10-Q

(Mark One)
ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
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 (State or other jurisdiction of incorporation or organization)	20-0833098 (I.R.S. Employer Identification No.)
2828 N. Harwood, Suite 1300 Dallas, Texas (Address of principal executive offices)	75201 (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)

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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes ý 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 ý 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 ý

The number of the registrant's outstanding common units at October 26, 2018, was 105,440,201.

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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," "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 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, 2017, 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.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,375	$ 7,776
Accounts receivable:		
Trade	10,301	12,803
Affiliates	47,109	51,501
	57,410	64,304
Prepaid and other current assets	2,713	2,311
Total current assets	66,498	74,391
Properties and equipment, net	1,540,713	1,569,471
Intangible assets, net	118,831	129,463
Goodwill	270,336	266,716
Equity method investments	83,911	85,279
Other assets	26,753	28,794
Total assets	$ 2,107,042	$ 2,154,114
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable:		
Trade	$ 9,988	$ 14,547
Affiliates	6,414	7,725
	16,402	22,272
Accrued interest	5,730	13,256
Deferred revenue	12,360	9,598
Accrued property taxes	7,398	4,652
Other current liabilities	3,694	5,707
Total current liabilities	45,584	55,485
Long-term debt	1,416,748	1,507,308
Other long-term liabilities	15,255	15,843
Deferred revenue	48,408	47,272
Class B unit	45,380	43,141
Equity:		
Partners' equity:		
Common unitholders (105,440,201 and 101,568,955 units issued and outstanding	446,946	393,959

at September 30, 2018 and December 31, 2017, respectively)		
Noncontrolling interest	88,721	91,106
Total equity	535,667	485,065
Total liabilities and equity	$ 2,107,042	$ 2,154,114

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Affiliates	$100,188	$95,138	$295,629	$277,316
Third parties	25,596	15,226	77,799	47,826
	125,784	110,364	373,428	325,142
Operating costs and expenses:				
Operations (exclusive of depreciation and amortization)	35,996	35,998	106,731	102,584
Depreciation and amortization	24,367	19,007	74,117	57,729
General and administrative	2,498	3,623	8,293	8,872
	62,861	58,628	189,141	169,185
Operating income	62,923	51,736	184,287	155,957
Other income (expense):				
Equity in earnings of equity method investments	1,114	5,072	4,127	10,965
Interest expense	(18,042)	(14,072)	(53,249)	(41,359)
Interest income	540	101	1,581	306
Loss on early extinguishment of debt	—	—	—	(12,225)
Gain on sale of assets and other	38	155	71	317
	(16,350)	(8,744)	(47,470)	(41,996)
Income before income taxes	46,573	42,992	136,817	113,961
State income tax benefit (expense)	(39)	69	(149)	(164)
Net income	46,534	43,061	136,668	113,797
Allocation of net income attributable to noncontrolling interests	(1,531)	(990)	(5,354)	(4,827)
Net income attributable to the partners	45,003	42,071	131,314	108,970
General partner interest in net income attributable to the Partnership, including incentive distributions	—	419	—	(35,047)
Limited partners' interest in net income	$45,003	$42,490	$131,314	$73,923
Limited partners' per unit interest in earnings—basic and diluted	$0.43	$0.66	$1.25	$1.16
Weighted average limited partners' units outstanding	105,440	64,319	104,908	63,845

See accompanying notes.

HOLLY ENERGY PARTNERS, L.P.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$46,534	$43,061	$136,668	$113,797
Other comprehensive loss:				
Change in fair value of cash flow hedging instruments	—	1	—	88
Reclassification adjustment to net income on partial settlement of cash flow hedge	—	(64)	—	(179)
Other comprehensive loss	—	(63)	—	(91)
Comprehensive income before noncontrolling interest	46,534	42,998	136,668	113,706
Allocation of comprehensive income to noncontrolling interests	(1,531)	(990)	(5,354)	(4,827)
Comprehensive income attributable to the partners	$45,003	$42,008	$131,314	$108,879

See accompanying notes.

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

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities		
Net income	$136,668	$113,797
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	74,117	57,729
Gain on sale of assets	(196)	(269)
Amortization of deferred charges	2,278	2,317
Equity-based compensation expense	2,259	1,908
Equity in earnings of equity method investments, net of distributions	—	513
Loss on early extinguishment of debt	—	12,225
(Increase) decrease in operating assets:		
Accounts receivable—trade	2,502	516
Accounts receivable—affiliates	4,392	(191)
Prepaid and other current assets	(402)	593
Increase (decrease) in operating liabilities:		
Accounts payable—trade	(1,209)	3,393
Accounts payable—affiliates	(1,311)	(6,866)
Accrued interest	(7,526)	(12,543)
Deferred revenue	5,218	3,096
Accrued property taxes	2,746	2,090
Other current liabilities	(1,955)	(99)
Other, net	(169)	(750)
Net cash provided by operating activities	217,412	177,459
Cash flows from investing activities		
Additions to properties and equipment	(34,270)	(30,675)
Business and asset acquisitions	(6,841)	—
Proceeds from sale of assets	210	794
Distributions in excess of equity in earnings of equity investments	1,368	1,224
Net cash used for investing activities	(39,533)	(28,657)
Cash flows from financing activities		
Borrowings under credit agreement	256,000	628,000
Repayments of credit agreement borrowings	(347,000)	(431,000)
Proceeds from issuance of Senior Notes	—	101,750
Redemption of 6.5% Senior Notes	—	(309,750)
Proceeds from issuance of common units	114,887	52,285
Distributions to HEP unitholders	(197,300)	(171,560)
Distributions to noncontrolling interest	(5,500)	(5,000)
Distribution to HFC for El Dorado tanks	—	(103)
Contributions from general partner	614	1,072
Deferred financing costs	—	(9,453)

Units withheld for tax withholding obligations	(58)	(35)
Other	(923)	(1,189)
Net cash used by financing activities	(179,280)	(144,983)
Cash and cash equivalents		
Increase (decrease) for the period	(1,401)	3,819
Beginning of period	7,776	3,657
End of period	$6,375	$7,476

See accompanying notes.

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

	Common Units	Noncontrolling Interest	Total Equity
Balance December 31, 2017	$393,959	$ 91,106	$485,065
Issuance of common units	114,839	—	114,839
Distributions to HEP unitholders	(197,300)	—	(197,300)
Distributions to noncontrolling interest	—	(5,500)	(5,500)
Amortization of restricted and performance units	2,259	—	2,259
Class B unit accretion	(2,239)	—	(2,239)
Cumulative transition adjustment for adoption of revenue recognition standard	1,320	—	1,320
Other	555	—	555
Net income	133,553	3,115	136,668
Balance September 30, 2018	$446,946	$ 88,721	$535,667

See accompanying notes.

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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 September 30, 2018, 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 the Osage Pipe Line Company, LLC (“Osage”) and a 50% interest in the 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, 2017. 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, 2018.

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

Share-Based Compensation
In March 2016, an accounting standard update was issued which simplifies the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. We adopted this standard effective January 1, 2017, with no impact to our financial condition or results of operations. The new standard also requires that employee taxes paid when an employer withholds units for
tax withholding purposes be reported as financing activities in the statement of cash flows on a retrospective basis. Previously, this activity was included in our operating activities. The impact of this change for the nine months ended September 30, 2017 was not material to our consolidated statement of cash flows. Finally, consistent with our existing policy, we have elected to account for forfeitures on an estimated basis.

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 3 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

Leases
In February 2016, an accounting standard update was issued requiring leases to be measured and recognized as a lease liability, with a corresponding right-of-use asset on the balance sheet. This standard has an effective date of January 1, 2019, and we plan to apply practical expedients provided in the standards update that allow us, among other things, not to reassess contracts that commenced prior to the adoption. While we continue to evaluate the provisions of the standard to determine how it will affect our financial statements, the primary effect of adopting the new standard will be to record assets and obligations for current operating leases. Adoption of the standard is not expected to have a material impact on our results of operations or cash flows.

In preparing for adoption, we have identified, reviewed and evaluated contracts containing lease and embedded lease arrangements. Additionally, we have acquired and are finalizing the implementation of software and are implementing systems to facilitate lease capture and related accounting treatment.

Note 2: Acquisitions

SLC Pipeline and Frontier Aspen

On October 31, 2017, we acquired the remaining 75% interest in SLC Pipeline LLC ("SLC Pipeline") and the remaining 50% interest in Frontier Aspen LLC ("Frontier Aspen") from subsidiaries of Plains All American Pipeline, L.P. ("Plains"), for cash consideration of $250 million. Prior to this acquisition, we held noncontrolling interests of 25% of SLC Pipeline and 50% of Frontier Aspen. As a result of the acquisitions, SLC Pipeline and Frontier Aspen are wholly-owned subsidiaries of HEP.

These acquisitions were accounted for as a business combination achieved in stages. Our pre-existing equity method investments in SLC Pipeline and Frontier Aspen were remeasured at an acquisition date fair value of $112 million since we now have a controlling interest, and we recognized a gain on the remeasurement in the fourth quarter of 2017 of $36.3 million. The fair value of our pre-existing equity method investments in SLC Pipeline and Frontier Aspen was estimated using Level 3 Inputs under the income method for these entities, adjusted for lack of control and marketability.

The total consideration of $363.8 million, consisting of initial cash consideration of $250 million, working capital adjustments of $1.8 million and the fair value of our preexisting equity method investments in SLC Pipeline and Frontier Aspen of $112 million, was allocated to the acquisition date fair value of assets and liabilities acquired as of the October 31, 2017 acquisition date, with the excess purchase price recorded as goodwill. The following summarizes the value of assets and liabilities acquired:

	(in thousands)
Cash and cash equivalents	$4,609
Accounts receivable	5,164
Prepaid and other current assets	8
Properties and equipment	275,061
Intangible assets	70,182
Goodwill	13,845
Accounts payable	(3,598)
Accrued property taxes	(1,438)
Net assets acquired	$363,833

SLC Pipeline is the owner of a 95-mile crude pipeline that transports crude oil into the Salt Lake City area from the Utah terminal
of the Frontier Pipeline (defined below) and from Wahsatch Station. Frontier Aspen is the owner of a 289-mile crude pipeline from Casper, Wyoming to Frontier Station, Utah (the “Frontier Pipeline”) that supplies Canadian and Rocky Mountain crudes to Salt Lake City area refiners through a connection to the SLC Pipeline.

Note 3: 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. Therefore, we bifurcate the consideration received between lease and service revenue. The service component is within the scope of Accounting Standards Codification (“ASC”) 606, which largely codified ASU 2014-09.

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.

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 retained earnings 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

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 nine months ended September 30, 2018, we recognized $3.6 million and $10.6 million, respectively, of these deficiency payments in revenue, of which $0.1 million and $2.6 million, respectively, related to deficiency payments billed in prior periods. As of September 30, 2018, deferred revenue reflected in our consolidated balance sheet related to shortfalls billed was $5.7 million.

	September 30, 2018	January 1, 2018
	(In thousands)	
Contract asset	$1,673	$—
Contract liability	$(5,726)	$(2,713)

The contract assets and liabilities include both lease and service components. We recognized an immaterial amount of revenue, that was previously included in contract liability as of January 1, 2018, during the three months ended September 30, 2018 and $2.6 million during the nine months ended September 30, 2018.

As of September 30, 2018, we expect to recognize $2.4 billion in revenue related to our unfulfilled performance obligations under the terms of our long-term throughput agreements and operating leases expiring in 2019 through 2036. These agreements 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 2018	$ 94
2019	352
2020	305
2021	294
2022	267
Thereafter	1,041
Total	$ 2,353

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 are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands)			
Pipelines	$69,735	$54,072	$207,443	$161,768
Terminals, tanks and loading racks	36,469	35,701	109,036	105,864
Refinery processing units	19,580	20,591	56,949	57,510
	$125,784	$110,364	$373,428	$325,142

During the three and nine months ended September 30, 2018, lease revenues amounted to $71.3 million and $209.8 million, respectively, and service revenues amounted to $54.5 million and $163.6 million, respectively. Both of these revenues were recorded within affiliates and third parties revenues on our consolidated statement of income.

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:

Financial Instrument	Fair Value Input Level	September 30, 2018		December 31, 2017	
		Carrying Value	Fair Value	Carrying Value	Fair Value
		(In thousands)			
Liabilities:					
6% Senior Notes	Level 2	495,748	512,840	495,308	525,120
		$495,748	$512,840	$495,308	$525,120

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:

	September 30, 2018	December 31, 2017
	(In thousands)	
Pipelines, terminals and tankage	$1,529,683	$ 1,541,722
Refinery assets	347,338	347,338
Land and right of way	85,961	86,484
Construction in progress	52,882	12,029
Other	35,376	35,659
	2,051,240	2,023,232
Less accumulated depreciation	510,527	453,761
	$1,540,713	$ 1,569,471

We capitalized $0.2 million and $0.7 million during the nine months ended September 30, 2018 and 2017, respectively, in interest attributable to construction projects.

Depreciation expense was $62.6 million and $52.1 million for the nine months ended September 30, 2018 and 2017, 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	September 30, 2018	December 31, 2017
		(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	69,282
Other		50	50
		204,797	204,396
Less accumulated amortization		85,966	74,933
		$118,831	$129,463

Amortization expense was $11.0 million and $5.2 million for the nine months ended September 30, 2018 and 2017, respectively. We estimate amortization expense to be $14.0 million for each of the next four years and $9.8 million in 2023.

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. These employees participate in the retirement and benefit plans of HFC. Our share of retirement and benefit plan costs was $1.9 million and $1.5 million for the three months ended September 30, 2018 and 2017, respectively, and $5.3 million and $4.5 million for the nine months ended September 30, 2018 and 2017, 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 September 30, 2018, we had two types of incentive-based awards outstanding, which are described below. The compensation cost charged against income was $0.7 million for both the three months ended September 30, 2018 and 2017, and $2.1 million and $1.6 million for the nine months ended September 30, 2018 and 2017, 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 September 30, 2018, 2,500,000 units were authorized to be granted under our Long-Term Incentive Plan, of which 1,323,371 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 nine months ended September 30, 2018, is presented below:

Restricted and Phantom Units	Units	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2018 (nonvested)	119,009	$ 34.77
Granted	12,890	30.23
Forfeited	(1,664)	34.64
Outstanding at September 30, 2018 (nonvested)	130,235	$ 34.33

No restricted units were vested and transferred to recipients during the nine months ended September 30, 2018. As of September 30, 2018, there was $1.3 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 1.0 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 the growth in our distributable cash flow per common unit over the performance period. As of September 30, 2018, estimated unit payouts for outstanding nonvested performance unit awards ranged between 100% and 150% of the target number of performance units granted.

We granted 2,764 performance units during the nine months ended September 30, 2018. Performance units granted in 2017 and 2018 vest over a three-year performance period ending December 31, 2020 and 2021, respectively, and are payable in HEP common units. The number of units actually earned will be based on the growth of our distributable cash flow per common unit over the performance period, and can range from 50% to 150% of the target number of performance units granted. 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 nine months ended September 30, 2018, is presented below:

Performance Units	Units
Outstanding at January 1, 2018 (nonvested)	36,911
Granted	2,764
Vesting and transfer of common units to recipients	(4,283)
Outstanding at September 30, 2018 (nonvested)	35,392

The grant date fair value of performance units vested and transferred to recipients during both the nine months ended September 30, 2018 and 2017 was $0.1 million. Based on the weighted-average fair value of performance units

outstanding at September 30, 2018, of $1.2 million, there was $0.5 million of total unrecognized compensation expense related to nonvested performance units, which is expected to be recognized over a weighted-average period of 1.1 years.

During the nine months ended September 30, 2018, we did not purchase any 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 September 30, 2018.

Senior Notes

On July 19, 2016, we closed a private placement of $400 million in aggregate principal amount of 6% senior unsecured notes due in 2024 (the " 6% Senior Notes"). On September 22, 2017, we closed a private placement of an additional $100 million in aggregate principal amount of the 6% Senior Notes for a combined aggregate principal amount outstanding of $500 million maturing in 2024.

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 September 30, 2018. 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.

On January 4, 2017, we redeemed the $300 million aggregate principal amount of 6.5% senior notes due in 2020 (the "6.5% Senior Notes") at a redemption cost of $309.8 million at which time we recognized a $12.2 million early extinguishment loss consisting of a $9.8 million debt redemption premium and unamortized discount and financing costs of $2.4 million. We funded the redemption with borrowings under our Credit Agreement.

Long-term Debt

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

	September 30, 2018	December 31, 2017
	(In thousands)	
Credit Agreement		
Amount outstanding	$921,000	$1,012,000
6% Senior Notes		

Principal	500,000	500,000
Unamortized premium and debt issuance costs	(4,252)	(4,692)
	495,748	495,308
Total long-term debt	$1,416,748	$1,507,308

Interest Rate Risk Management

The two interest rate swaps that hedged our exposure to the cash flow risk caused by the effects of LIBOR changes on $150 million of Credit Agreement advances matured on July 31, 2017. The swaps had effectively converted $150 million of our LIBOR based debt to fixed rate debt.

Interest Expense and Other Debt Information

Interest expense consists of the following components:

	Nine Months Ended September 30,	
	2018	2017
	(In thousands)	
Interest on outstanding debt:		
Credit Agreement, net of interest on interest rate swaps	$27,233	$20,338
6.5% Senior Notes	—	163
6% Senior Notes	22,500	18,150
Amortization of discount and deferred debt issuance costs	2,277	2,317
Commitment fees and other	1,450	1,137
Total interest incurred	53,460	42,105
Less capitalized interest	211	746
Net interest expense	$53,249	$41,359
Cash paid for interest	$58,697	$53,181

Capital Lease Obligations

We have capital lease obligations related to vehicle leases with initial terms of 33 to 48 months. The total cost of assets under capital leases was $5.8 million and $5.1 million as of September 30, 2018 and December 31, 2017, respectively, with accumulated depreciation of $4.0 million and $3.3 million as of September 30, 2018 and December 31, 2017, respectively. We include depreciation of capital leases in depreciation and amortization in our consolidated statements of income.

Note 9: Significant Customers

All revenues are domestic revenues, of which 86% 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
HFC	80%	86%	79%	85%
Delek	6 %	7 %	6 %	7 %

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 2019 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 September 30, 2018, these agreements with HFC require minimum annualized payments to us of $335 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 an omnibus agreement we have with HFC (the "Omnibus Agreement"), we pay HFC an annual administrative fee (currently $2.5 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 $100.2 million and $95.1 million for the three months ended September 30, 2018 and 2017, respectively, and $295.6 million and $277.3 million for the nine months ended September 30, 2018 and 2017, respectively.
- HFC charged us general and administrative services under the Omnibus Agreement of $0.6 million for each of the three months ended September 30, 2018 and 2017, and $1.9 million and $1.8 million for the nine months ended September 30, 2018 and 2017, respectively.
- We reimbursed HFC for costs of employees supporting our operations of $13.1 million and $11.7 million for the three months ended September 30, 2018 and 2017, respectively, and $38.3 million and $34.5 million for the nine months ended September 30, 2018 and 2017, respectively.
- HFC reimbursed us $2.8 million and $1.9 million for the three months ended September 30, 2018 and 2017, respectively, for expense and capital projects and $6.9 million and $4.7 million for the nine months ended September 30, 2018 and 2017, respectively.
- We distributed $36.9 million and $109.7 million in the three and nine months ended September 30, 2018, respectively, to HFC as regular distributions on its common units and $32.8 million and $94.8 million on its common units and general partner interest, including general partner incentive distributions, in the three and nine months ended September 30, 2017, respectively.
- Accounts receivable from HFC were $47.1 million and $51.5 million at September 30, 2018, and December 31, 2017, respectively.
- Accounts payable to HFC were $6.4 million and $7.7 million at September 30, 2018, and December 31, 2017, respectively.
- Deferred revenue in the consolidated balance sheets at September 30, 2018 and December 31, 2017, includes $2.0 million and $4.4 million, respectively, relating to certain shortfall billings to HFC. It is possible that HFC may not exceed its minimum obligations to receive credit for any of the $2.0 million deferred at September 30, 2018.
- We received lease payments from HFC for use of our Artesia and Tulsa railyards of $0.5 million and $0.1 million for the three months ended September 30, 2018 and 2017, respectively, and $1.5 million and $0.3 million for the nine months ended September 30, 2018 and 2017, respectively.
- On October 31, 2017, we closed on an equity restructuring transaction with HEP Logistics, a wholly-owned subsidiary of HFC and the general partner of HEP, pursuant to which the incentive distribution rights 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.

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

As of September 30, 2018, 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. Additionally, HEP Logistics, our general partner, owned all incentive distribution rights through October 31, 2017, at which time we closed on an equity restructuring transaction with HEP Logistics pursuant to which the incentive distribution rights were canceled. See Note 1 for a description of this equity restructuring transaction.

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 nine months ended September 30, 2018, HEP issued 171,246 units under this program, providing approximately $5.2 million in gross proceeds. As of September 30, 2018, 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 our credit facility 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.

Prior to the equity restructuring of the general partner interest owned by HEP Logistics described in Note 1 that occurred on October 31, 2017, net income attributable to HEP was allocated between limited partners and the general partner interest in accordance with the provisions of the partnership agreement. HEP net income allocated to the general partner included incentive distributions that were declared subsequent to quarter end. After incentive distributions and other priority allocations were allocated to the general partner, the remaining net income attributable to HEP was allocated to the partners based on their weighted-average ownership percentage during the period.

The following table presents the allocation of the general partner interest in net income for the periods presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands)			
General partner interest in net income	$—	$(419)	$—	$919
General partner incentive distribution	—	—	—	34,128
Total general partner interest in net income	$—	$(419)	$—	$35,047

Cash Distributions

On October 19, 2018, we announced our cash distribution for the third quarter of 2018 of $0.665 per unit. The distribution is payable on all common units and will be paid November 8, 2018, to all unitholders of record on October 29, 2018. However, HEP Logistics will waive $2.5 million in limited partner cash distributions in accordance with the equity restructuring discussed in Note 1.

Prior to the equity restructuring of the general partner interest owned by HEP Logistics that occurred on October 31, 2017, our general partner, HEP Logistics, was entitled to incentive distributions if the amount we distributed with respect to any quarter exceeded specified target levels. After the restructuring of the general partner interest, the general partner interest was no longer entitled to any distributions.

The following table presents the allocation of our regular quarterly cash distributions to the general and limited partners for the periods in which they apply. Our distributions are declared subsequent to quarter end; therefore, the amounts presented do not reflect distributions paid during the periods presented below.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands, except per unit data)			
General partner interest in distribution	$—	$—	$—	$2,335
General partner incentive distribution	—	—	—	34,128
Total general partner distribution	—	—	—	36,463
Limited partner distribution	67,669	63,012	201,310	143,326
Total regular quarterly cash distribution	$67,669	$63,012	$201,310	$179,789
Cash distribution per unit applicable to limited partners	$0.6650	$0.6450	$1.9800	$1.8975

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 variable interest entity 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). Prior to the equity restructuring transaction described in Note 1, which was effective October 31, 2017, we had participating securities which included the aforementioned common units and restricted units as well as general partner units and IDRs. After the equity restructuring, the general partner interest was no longer entitled to any distributions, and none were made on the general partner interest after October 31, 2017.

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands)			
Net income attributable to the partners	$45,003	$42,071	$131,314	$108,970
Less: General partner's distribution declared (including IDRs)	—	—	—	(36,463)
Limited partner's distribution declared on common units	(67,669)	(63,012)	(201,310)	(143,326)
Distributions in excess of net income attributable to the partners	$(22,666)	$(20,941)	$(69,996)	$(70,819)

	General Partner (including IDRs)	Limited Partners' Common Units	Total
	(In thousands, except per unit data)		
Three Months Ended September 30, 2018			
Net income attributable to the partners:			
Distributions declared	$—	$67,669	$67,669
Distributions in excess of net income attributable to the partners	—	(22,666)	(22,666)
Net income attributable to the partners	$—	$45,003	$45,003
Weighted average limited partners' units outstanding		105,440	
Limited partners' per unit interest in earnings - basic and diluted		$0.43	
Three Months Ended September 30, 2017			
Net income attributable to the partners:			
Distributions declared	$—	$63,012	$63,012
Distributions in excess of net income attributable to the partners	(419)	(20,522)	(20,941)
Net income attributable to the partners	$(419)	$42,490	$42,071
Weighted average limited partners' units outstanding		64,319	
Limited partners' per unit interest in earnings - basic and diluted		$0.66	

	General Partner (including IDRs)	Limited Partners' Common Units	Total
	(In thousands, except per unit data)		
Nine Months Ended September 30, 2018			
Net income attributable to partnership:			
Distributions declared	$—	$201,310	$201,310
Distributions in excess of net income attributable to the partners	—	(69,996)	(69,996)
Net income attributable to the partners	$—	$131,314	$131,314
Weighted average limited partners' units outstanding		104,908	
Limited partners' per unit interest in earnings - basic and diluted		$1.25	
Nine Months Ended September 30, 2017			
Net income attributable to partnership:			
Distributions declared	$36,463	$143,326	$179,789
Distributions in excess of net income attributable to the partners	(1,416)	(69,403)	(70,819)
Net income attributable to the partners	$35,047	$73,923	$108,970
Weighted average limited partners' units outstanding		63,845	
Limited partners' per unit interest in earnings - basic and diluted		$1.16	

Note 13: Environmental

We expensed $0.1 million and $0.4 million for the three and nine months ended September 30, 2018, respectively, for environmental remediation obligations, and we incurred no expenses for the three and nine months ended September 30, 2017. The accrued environmental liability, net of expected recoveries from indemnifying parties, reflected in our consolidated balance sheets was $6.1 million and $6.5 million at September 30, 2018 and December 31, 2017, respectively, of which $4.3 million and $5.0 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 September 30, 2018 and December 31, 2017, our consolidated balance sheets included additional accrued environmental liabilities of $0.6 million and $0.8 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 operating segments: pipelines and terminals, and refinery processing units. These operating segments adhere to the accounting polices used for our consolidated financial statements.

The pipelines and terminals operating segments have been aggregated into 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 operating 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 operating segment.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands)			
Revenues:				
Pipelines and terminals - affiliate	$80,608	$74,547	$238,680	$219,806
Pipelines and terminals - third-party	25,596	15,226	77,799	47,826
Refinery processing units - affiliate	19,580	20,591	56,949	57,510
Total segment revenues	$125,784	$110,364	$373,428	$325,142
Segment operating income:				
Pipelines and terminals	$56,531	$44,896	$167,748	$140,546
Refinery processing units	8,890	10,463	24,832	24,283
Total segment operating income	65,421	55,359	192,580	164,829
Unallocated general and administrative expenses	(2,498)	(3,623)	(8,293)	(8,872)
Interest and financing costs, net	(17,502)	(13,971)	(51,668)	(53,278)
Equity in earnings of unconsolidated affiliates	1,114	5,072	4,127	10,965
Gain on sale of assets and other	38	155	71	317
Income before income taxes	$46,573	$42,992	$136,817	$113,961
Capital Expenditures:				
Pipelines and terminals	$9,389	$10,151	$34,128	$30,437
Refinery processing units	142	—	142	238
Total capital expenditures	$9,531	$10,151	$34,270	$30,675

	September 30, 2018	December 31, 2017
	(In thousands)	
Identifiable assets:		
Pipelines and terminals [1]	$1,692,679	$1,728,074
Refinery processing units	317,919	328,585
Other	96,444	97,455
Total identifiable assets	$2,107,042	$2,154,114

(1) Includes goodwill of $270.3 million and $266.7 million as of September 30, 2018 and December 31, 2017, respectively.

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

September 30, 2018	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Non-Restricted Subsidiaries	Eliminations	Consolidated
	(In thousands)				
ASSETS					
Current assets:					
Cash and cash equivalents	$2	$1,639	$ 4,734	$—	$6,375
Accounts receivable	—	52,218	5,438	(246)	57,410
Prepaid and other current assets	85	2,253	375	—	2,713
Total current assets	87	56,110	10,547	(246)	66,498
Properties and equipment, net	—	1,190,867	349,846	—	1,540,713
Investment in subsidiaries	1,859,722	266,162	—	(2,125,884)	—
Intangible assets, net	—	118,831	—	—	118,831
Goodwill	—	270,336	—	—	270,336
Equity method investments	—	83,911	—	—	83,911
Other assets	9,897	16,856	—	—	26,753
Total assets	$1,869,706	$2,003,073	$ 360,393	$(2,126,130)	$2,107,042
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable	$—	$15,574	$ 1,074	$(246)	$16,402
Accrued interest	5,730	—	—	—	5,730
Deferred revenue	—	11,228	1,132	—	12,360
Accrued property taxes	—	4,346	3,052	—	7,398
Other current liabilities	22	3,670	2	—	3,694
Total current liabilities	5,752	34,818	5,260	(246)	45,584
Long-term debt	1,416,748	—	—	—	1,416,748
Other long-term liabilities	260	14,745	250	—	15,255
Deferred revenue	—	48,408	—	—	48,408
Class B unit	—	45,380	—	—	45,380
Equity - partners	446,946	1,859,722	266,162	(2,125,884)	446,946

Equity - noncontrolling interest	—	—	88,721	—	88,721
Total liabilities and equity	$1,869,706	$2,003,073	$ 360,393	$(2,126,130)	$2,107,042

Condensed Consolidating Balance Sheet

December 31, 2017	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Non-Restricted Subsidiaries	Eliminations	Consolidated
	(In thousands)				
ASSETS					
Current assets:					
Cash and cash equivalents	$2	$511	$ 7,263	$—	$7,776
Accounts receivable	—	59,448	5,038	(182)	64,304
Prepaid and other current assets	13	2,016	282	—	2,311
Total current assets	15	61,975	12,583	(182)	74,391
Properties and equipment, net	—	1,213,626	355,845	—	1,569,471
Investment in subsidiaries	1,902,285	273,319	—	(2,175,604)	—
Intangible assets, net	—	129,463	—	—	129,463
Goodwill	—	266,716	—	—	266,716
Equity method investments	—	85,279	—	—	85,279
Other assets	11,753	17,041	—	—	28,794
Total assets	$1,914,053	$2,047,419	$ 368,428	$(2,175,786)	$2,154,114
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable	$—	$20,928	$ 1,526	$(182)	$22,272
Accrued interest	12,500	756	—	—	13,256
Deferred revenue	—	8,540	1,058	—	9,598
Accrued property taxes	—	3,431	1,221	—	4,652
Other current liabilities	—	5,707	—	—	5,707
Total current liabilities	12,500	39,362	3,805	(182)	55,485
Long-term debt	1,507,308	—	—	—	1,507,308
Other long-term liabilities	286	15,359	198	—	15,843
Deferred revenue	—	47,272	—	—	47,272
Class B unit	—	43,141	—	—	43,141
Equity - partners	393,959	1,902,285	273,319	(2,175,604)	393,959
Equity - noncontrolling interest	—	—	91,106	—	91,106
Total liabilities and equity	$1,914,053	$2,047,419	$ 368,428	$(2,175,786)	$2,154,114

Condensed Consolidating Statement of Comprehensive Income

Three Months Ended September 30, 2018	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Non-restricted Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenues:					
Affiliates	$—	$ 94,270	$ 5,918	$ —	$ 100,188
Third parties	—	21,277	4,319	—	25,596
	—	115,547	10,237	—	125,784
Operating costs and expenses:					
Operations (exclusive of depreciation and amortization)	—	32,906	3,090	—	35,996
Depreciation and amortization		20,198	4,169	—	24,367
General and administrative	698	1,800	—	—	2,498
	698	54,904	7,259	—	62,861
Operating income (loss)	(698)	60,643	2,978	—	62,923
Other income (expense):					
Equity in earnings of subsidiaries	63,731	2,251	—	(65,982)	—
Equity in earnings of equity method investments	—	1,114	—	—	1,114
Interest expense	(18,030)	(12)	—	—	(18,042)
Interest income	—	540	—	—	540
Gain on sale of assets and other	—	14	24	—	38
	45,701	3,907	24	(65,982)	(16,350)
Income before income taxes	45,003	64,550	3,002	(65,982)	46,573
State income tax expense	—	(39)	—	—	(39)
Net income	45,003	64,511	3,002	(65,982)	46,534
Allocation of net income attributable to noncontrolling interests	—	(780)	(751)	—	(1,531)
Net income attributable to the partners	45,003	63,731	2,251	(65,982)	45,003
Other comprehensive income	—	—	—	—	—
Comprehensive income attributable to the partners	$45,003	$ 63,731	$ 2,251	$ (65,982)	$ 45,003

Condensed Consolidating Statement of Comprehensive Income

Three Months Ended September 30, 2017	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Non-Restricted Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenues:					
Affiliates	$—	$ 89,772	$ 5,366	$ —	$ 95,138
Third parties	—	10,758	4,468	—	15,226
	—	100,530	9,834	—	110,364
Operating costs and expenses:					
Operations (exclusive of depreciation and amortization)	—	31,360	4,638	—	35,998
Depreciation and amortization	—	14,854	4,153	—	19,007
General and administrative	1,050	2,573	—	—	3,623
	1,050	48,787	8,791	—	58,628
Operating income (loss)	(1,050)	51,743	1,043	—	51,736
Other income (expense):					
Equity in earnings of subsidiaries	57,193	783	—	(57,976)	—
Equity in earnings of equity method investments	—	5,072	—	—	5,072
Interest expense	(14,072)	—	—	—	(14,072)
Interest income	—	101	—	—	101
Gain on sale of assets and other	—	154	1	—	155
	43,121	6,110	1	(57,976)	(8,744)
Income before income taxes	42,071	57,853	1,044	(57,976)	42,992
State income tax expense	—	69	—	—	69
Net income	42,071	57,922	1,044	(57,976)	43,061
Allocation of net income attributable to noncontrolling interests	—	(729)	(261)	—	(990)
Net income attributable to the partners	42,071	57,193	783	(57,976)	42,071
Other comprehensive income	(63)	(63)	—	63	(63)
Comprehensive income attributable to the partners	$42,008	$ 57,130	$ 783	$ (57,913)	$ 42,008

Condensed Consolidating Statement of Comprehensive Income

Nine Months Ended September 30, 2018	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Non-restricted Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenues:					
Affiliates	$—	$ 278,083	$ 17,546	$—	$ 295,629
Third parties	—	60,795	17,004	—	77,799
	—	338,878	34,550	—	373,428
Operating costs and expenses:					
Operations (exclusive of depreciation and amortization)	—	97,064	9,667	—	106,731
Depreciation and amortization	—	61,630	12,487	—	74,117
General and administrative	2,739	5,554	—	—	8,293
	2,739	164,248	22,154	—	189,141
Operating income (loss)	(2,739)	174,630	12,396	—	184,287
Other income (expense):					
Equity in earnings (loss) of subsidiaries	187,349	9,344	—	(196,693)	—
Equity in earnings of equity method investments	—	4,127	—	—	4,127
Interest expense	(53,341)	92	—	—	(53,249)
Interest income	—	1,581	—	—	1,581
Gain (loss) on sale of assets and other	45	(37)	63	—	71
	134,053	15,107	63	(196,693)	(47,470)
Income (loss) before income taxes	131,314	189,737	12,459	(196,693)	136,817
State income tax expense	—	(149)	—	—	(149)
Net income (loss)	131,314	189,588	12,459	(196,693)	136,668
Allocation of net income attributable to noncontrolling interests	—	(2,239)	(3,115)	—	(5,354)
Net income (loss) attributable to Holly Energy Partners	131,314	187,349	9,344	(196,693)	131,314
Other comprehensive income (loss)	—	—	—	—	—
Comprehensive income (loss)	$131,314	$ 187,349	$ 9,344	$(196,693)	$ 131,314

Condensed Consolidating Statement of Comprehensive Income

Nine Months Ended September 30, 2017	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Non-Restricted Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Revenues:					
Affiliates	$—	$ 258,571	$ 18,745	$—	$ 277,316
Third parties	—	32,146	15,680	—	47,826
	—	290,717	34,425	—	325,142
Operating costs and expenses:					
Operations (exclusive of depreciation and amortization)	—	91,323	11,261	—	102,584
Depreciation and amortization	—	45,498	12,231	—	57,729
General and administrative	3,070	5,802	—	—	8,872
	3,070	142,623	23,492	—	169,185
Operating income (loss)	(3,070)	148,094	10,933	—	155,957
Other income (expense):					
Equity in earnings (loss) of subsidiaries	165,624	8,203	—	(173,827)	—
Equity in earnings of equity method investments	—	10,965	—	—	10,965
Interest expense	(41,359)	—	—	—	(41,359)
Interest income	—	306	—	—	306
Loss on early extinguishment of debt	(12,225)	—	—	—	(12,225)
Gain (loss) on sale of assets and other	—	313	4	—	317
	112,040	19,787	4	(173,827)	(41,996)
Income (loss) before income taxes	108,970	167,881	10,937	(173,827)	113,961
State income tax expense	—	(164)	—	—	(164)
Net income (loss)	108,970	167,717	10,937	(173,827)	113,797
Allocation of net income attributable to noncontrolling interests	—	(2,093)	(2,734)	—	(4,827)
Net income (loss) attributable to Holly Energy Partners	108,970	165,624	8,203	(173,827)	108,970
Other comprehensive income (loss)	(91)	(91)	—	91	(91)
Comprehensive income (loss)	$108,879	$ 165,533	$ 8,203	$(173,736)	$ 108,879

Condensed Consolidating Statement of Cash Flows

Nine Months Ended September 30, 2018	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Non-Restricted Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Cash flows from operating activities	$ (58,326)	$ 259,360	$ 25,722	$ (9,344)	$ 217,412
Cash flows from investing activities					
Additions to properties and equipment	—	(28,057)	(6,213)	—	(34,270)
Business and asset acquisitions	—	(6,803)	(38)	—	(6,841)
Distributions from UNEV in excess of earnings	—	7,156	—	(7,156)	—
Proceeds from sale of assets	—	210	—	—	210
Distributions in excess of equity in earnings of equity investments	—	1,368	—	—	1,368
	—	(26,126)	(6,251)	(7,156)	(39,533)
Cash flows from financing activities					
Net repayments under credit agreement	(91,000)	—	—	—	(91,000)
Net intercompany financing activities	231,231	(231,231)	—	—	—
Proceeds from issuance of common units	114,839	48	—	—	114,887
Contribution from general partner	614	—	—	—	614
Distributions to HEP unitholders	(197,300)	—	—	—	(197,300)
Distributions to noncontrolling interests	—	—	(22,000)	16,500	(5,500)
Units withheld for tax withholding obligations	(58)	—	—	—	(58)
Other	—	(923)	—	—	(923)
	58,326	(232,106)	(22,000)	16,500	(179,280)
Cash and cash equivalents					
Increase (decrease) for the period	—	1,128	(2,529)	—	(1,401)
Beginning of period	2	511	7,263	—	7,776
End of period	$ 2	$ 1,639	$ 4,734	$ —	$ 6,375

Condensed Consolidating Statement of Cash Flows

Nine Months Ended September 30, 2017	Parent	Guarantor Restricted Subsidiaries	Non-Guarantor Non-Restricted Subsidiaries	Eliminations	Consolidated
	(In thousands)				
Cash flows from operating activities	$(57,010)	$ 215,608	$ 27,064	$ (8,203)	$ 177,459
Cash flows from investing activities					
Additions to properties and equipment	—	(27,725)	(2,950)	—	(30,675)
Proceeds from sale of assets	—	794	—	—	794
Distributions from UNEV in excess of earnings	—	6,797	—	(6,797)	—
Distributions in excess of equity in earnings of equity investments	—	1,224	—	—	1,224
	—	(18,910)	(2,950)	(6,797)	(28,657)
Cash flows from financing activities					
Net borrowings under credit agreement	750,000	(553,000)	—	—	197,000
Net intercompany financing activities	(357,196)	357,196	—	—	—
Proceeds from issuance of 6% Senior Notes	103,250	(1,500)	—	—	101,750
Redemption of senior notes	(309,750)	—	—	—	(309,750)
Proceeds from issuance of common units	52,285	—	—	—	52,285
Distributions to HEP unitholders	(171,560)	—	—	—	(171,560)
Distributions to noncontrolling interests	—	—	(20,000)	15,000	(5,000)
Distribution to HFC for El Dorado tanks	(103)	—	—	—	(103)
Contributions from general partner	1,072	—	—	—	1,072
Units withheld for tax withholding obligations	(35)	—	—	—	(35)
Deferred financing costs	(10,953)	1,500	—	—	(9,453)
Other	—	(1,189)	—	—	(1,189)
	57,010	(196,993)	(20,000)	15,000	(144,983)
Cash and cash equivalents					
Decrease for the period	—	(295)	4,114	—	3,819
Beginning of period	2	301	3,354	—	3,657
End of period	$2	$ 6	$ 7,468	$ —	$ 7,476

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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 September 30, 2018.

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.

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.

Acquisitions

On October 31, 2017, we acquired the remaining 75% interest in SLC Pipeline LLC ("SLC Pipeline") and the remaining 50% interest in Frontier Aspen LLC ("Frontier Aspen") from subsidiaries of Plains All American Pipeline, L.P., for cash consideration of $250 million. Prior to this acquisition, we held noncontrolling interests of 25% of SLC Pipeline and 50% of Frontier Aspen. As a result of the acquisitions, SLC Pipeline and Frontier Aspen are wholly-owned subsidiaries of HEP.

This acquisition was accounted for as a business combination achieved in stages with the consideration allocated to the acquisition date fair value of assets and liabilities acquired. The preexisting equity interests in SLC Pipeline and Frontier Aspen were remeasured at acquisition date fair value since we have a controlling interest as a result, and we

recognized a gain on the remeasurement in the fourth quarter of 2017 of $36.3 million.

SLC Pipeline is the owner of a 95-mile crude pipeline that transports crude oil into the Salt Lake City area from the Utah terminal of the Frontier pipeline and from Wahsatch Station. Frontier Aspen is the owner of a 289-mile crude pipeline from Casper, Wyoming to Frontier Station, Utah that supplies Canadian and Rocky Mountain crudes to Salt Lake City area refiners through a connection to the SLC Pipeline.

Agreements with HFC and Delek

We serve HFC’s refineries under long-term pipeline, terminal, tankage and refinery processing unit throughput agreements expiring from 2019 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, 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

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each year, based on the Producer Price Index ("PPI") or Federal Energy Regulatory Commission index. As of September 30, 2018, these agreements with HFC require minimum annualized payments to us of $335 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 under this lease agreement expire beginning in the third quarter of 2018 through the first quarter of 2022. As of September 30, 2018, these agreements with Delek require minimum annualized payments to us of $31 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 $2.5 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.

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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 nine months ended September 30, 2018 and 2017.

	Three Months Ended September 30,		Change from
	2018	2017	2017
	(In thousands, except per unit data)		
Revenues:			
Pipelines:			
Affiliates—refined product pipelines	$20,803	$20,801	$2
Affiliates—intermediate pipelines	6,772	7,832	(1,060)
Affiliates—crude pipelines	20,461	14,089	6,372
	48,036	42,722	5,314
Third parties—refined product pipelines	11,194	11,350	(156)
Third parties—crude pipelines	10,505	—	10,505
	69,735	54,072	15,663
Terminals, tanks and loading racks:			
Affiliates	32,572	31,825	747
Third parties	3,897	3,876	21
	36,469	35,701	768
Affiliates—refinery processing units	19,580	20,591	(1,011)
Total revenues	125,784	110,364	15,420
Operating costs and expenses:			
Operations (exclusive of depreciation and amortization)	35,996	35,998	(2)
Depreciation and amortization	24,367	19,007	5,360
General and administrative	2,498	3,623	(1,125)
	62,861	58,628	4,233
Operating income	62,923	51,736	11,187
Other income (expense):			
Equity in earnings of equity method investments	1,114	5,072	(3,958)
Interest expense, including amortization	(18,042)	(14,072)	(3,970)
Interest income	540	101	439
Gain on sale of assets and other	38	155	(117)
	(16,350)	(8,744)	(7,606)
Income before income taxes	46,573	42,992	3,581
State income tax benefit (expense)	(39)	69	(108)
Net income	46,534	43,061	3,473
Allocation of net income attributable to noncontrolling interests	(1,531)	(990)	(541)
Net income attributable to the partners	45,003	42,071	2,932
General partner interest in net income attributable to the partners [1]	—	419	(419)
Limited partners' interest in net income	$45,003	$42,490	$2,513
Limited partners' earnings per unit—basic and diluted [1]	$0.43	$0.66	$(0.23)
Weighted average limited partners' units outstanding	105,440	64,319	41,121

EBITDA [2]	$86,911	$74,980	$11,931
Distributable cash flow [3]	$66,598	$59,248	$7,350
Volumes (bpd)			
Pipelines:			
Affiliates—refined product pipelines	120,024	142,624	(22,600)
Affiliates—intermediate pipelines	148,347	151,622	(3,275)
Affiliates—crude pipelines	322,590	267,911	54,679
	590,961	562,157	28,804
Third parties—refined product pipelines	67,112	74,703	(7,591)
Third parties – crude pipelines	119,503	—	119,503
	777,576	636,860	140,716
Terminals and loading racks:			
Affiliates	417,079	426,122	(9,043)
Third parties	57,990	69,405	(11,415)
	475,069	495,527	(20,458)
Affiliates—refinery processing units	65,640	61,453	4,187
Total for pipelines and terminal and refinery processing unit assets (bpd)	1,318,285	1,193,840	124,445

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	Nine Months Ended September 30,		Change from
	2018	2017	2017
	(In thousands, except per unit data)		
Revenues:			
Pipelines:			
Affiliates—refined product pipelines	$60,841	$57,977	$2,864
Affiliates—intermediate pipelines	22,496	20,366	2,130
Affiliates—crude pipelines	58,737	47,890	10,847
	142,074	126,233	15,841
Third parties—refined product pipelines	37,124	35,535	1,589
Third parties—crude pipelines	28,245	—	28,245
	207,443	161,768	45,675
Terminals, tanks and loading racks:			
Affiliates	96,606	93,573	3,033
Third parties	12,430	12,291	139
	109,036	105,864	3,172
Affiliates—refinery processing units	56,949	57,510	(561)
Total revenues	373,428	325,142	48,286
Operating costs and expenses:			
Operations (exclusive of depreciation and amortization)	106,731	102,584	4,147
Depreciation and amortization	74,117	57,729	16,388
General and administrative	8,293	8,872	(579)
	189,141	169,185	19,956
Operating income	184,287	155,957	28,330
Other income (expense):			
Equity in earnings of equity method investments	4,127	10,965	(6,838)
Interest expense, including amortization	(53,249)	(41,359)	(11,890)
Interest income	1,581	306	1,275
Loss on early extinguishment of debt	—	(12,225)	12,225
Gain on sale of assets and other	71	317	(246)
	(47,470)	(41,996)	(5,474)
Income before income taxes	136,817	113,961	22,856
State income tax expense	(149)	(164)	15
Net income	136,668	113,797	22,871
Allocation of net income attributable to noncontrolling interests	(5,354)	(4,827)	(527)
Net income attributable to the partners	131,314	108,970	22,344
General partner interest in net income attributable to the partners [1]	—	(35,047)	35,047
Limited partners' interest in net income	$131,314	$73,923	$57,391
Limited partners' earnings per unit—basic and diluted [1]	$1.25	$1.16	$0.09
Weighted average limited partners' units outstanding	104,908	63,845	41,063
EBITDA [2]	$257,248	$207,916	$49,332
Distributable cash flow [3]	$200,878	$177,436	$23,442
Volumes (bpd)			
Pipelines:			

Affiliates—refined product pipelines	125,642	128,212	(2,570)
Affiliates—intermediate pipelines	142,371	136,055	6,316
Affiliates—crude pipelines	336,224	268,736	67,488
	604,237	533,003	71,234
Third parties—refined product pipelines	70,830	77,114	(6,284)
Third parties – crude pipelines	119,344	—	119,344
	794,411	610,117	184,294
Terminals and loading racks:			
Affiliates	418,009	420,979	(2,970)
Third parties	59,776	68,902	(9,126)
	477,785	489,881	(12,096)
Affiliates—refinery processing units	67,873	63,858	4,015
Total for pipelines and terminal and refinery processing unit assets (bpd)	1,340,069	1,163,856	176,213

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(1) Prior to the equity restructuring transaction on October 31, 2017, net income attributable to Holly Energy Partners was allocated between limited partners and the general partner interest in accordance with the provisions of the partnership agreement. HEP net income allocated to the general partner included incentive distributions that were declared subsequent to quarter end. There were no distributions made on the general partner interest after October 31, 2017. No general partner distributions were declared for the three months ended September 30, 2017, and general partner distributions of $36.5 million were declared for the nine months ended September 30, 2017

(2) 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 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands)			
Net income attributable to the partners	$45,003	$42,071	$131,314	$108,970
Add (subtract):				
Interest expense	17,280	13,291	50,971	39,042
Interest income	(540)	(101)	(1,581)	(306)
Amortization of discount and deferred debt issuance costs	762	781	2,278	2,317
State income tax (benefit) expense	39	(69)	149	164
Depreciation and amortization	24,367	19,007	74,117	57,729
EBITDA	$86,911	$74,980	$257,248	$207,916

(3) 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands)			
Net income attributable to the partners	$45,003	$42,071	$131,314	$108,970

Add (subtract):				
Depreciation and amortization	24,367	19,007	74,117	57,729
Amortization of discount and deferred debt issuance costs	762	781	2,278	2,317
Loss on early extinguishment of debt	—	—	—	12,225
Customer billings greater than revenue recognized	1,294	1,134	2,994	3,835
Maintenance capital expenditures [4]	(3,198)	(3,240)	(4,504)	(6,308)
Decrease in environmental liability	(150)	(180)	(368)	(741)
Decrease in reimbursable deferred revenue	(1,517)	(917)	(3,937)	(2,765)
Other non-cash adjustments	37	592	(1,016)	2,174
Distributable cash flow	$66,598	$59,248	$200,878	$177,436

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(4) 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.

	September 30, 2018	December 31, 2017
	(In thousands)	
Balance Sheet Data		
Cash and cash equivalents	$6,375	$ 7,776
Working capital	$20,914	$ 18,906
Total assets	$2,107,042	$ 2,154,114
Long-term debt	$1,416,748	$ 1,507,308
Partners' equity[5]	$446,946	$ 393,959

(5) 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 September 30, 2018 Compared with Three Months Ended September 30, 2017

Summary

Net income attributable to the partners for the third quarter was $45.0 million ($0.43 per basic and diluted limited partner unit) compared to $42.1 million ($0.66 per basic and diluted limited partner unit) for the third quarter of 2017. The increase in net income attributable to the partners was primarily due to our acquisition of the remaining interest in the SLC and Frontier pipelines in the fourth quarter of 2017 and higher crude oil gathering volumes around the Permian Basin. These gains were partially offset by higher interest expense and lower earnings on equity investments.

Our major shippers are obligated to make deficiency payments to us if they do not meet their minimum volume shipping obligations. Revenues for the three months ended September 30, 2018, included an immaterial recognition of prior shortfalls billed to shippers in 2017 compared to revenues for the three months ended September 30, 2017, which included the recognition of $0.7 million of prior shortfalls billed to shippers in 2016 and 2017. Additional net shortfall billings of $1.4 million associated with certain guaranteed shipping contracts were deferred during the three months ended September 30, 2018.

Revenues

Revenues for the quarter were $125.8 million, an increase of $15.4 million compared to the third quarter of 2017. The increase was primarily attributable to our acquisition of the remaining interests in the SLC and Frontier pipelines and higher crude oil gathering volumes around the Permian Basin in New Mexico and Texas, which contributed to an increase in overall pipeline volumes of 22%.

Revenues from our refined product pipelines were $32.0 million, a decrease of $0.2 million, on shipments averaging 187.1 thousand barrels per day (“mbpd”) compared to 217.3 mbpd for the third quarter of 2017. The volume decrease was mainly due to pipelines servicing HFC's Woods Cross refinery, which had lower throughput due to operational issues at the refinery during the quarter, lower volumes on pipelines servicing HFC's Navajo refinery, and lower volumes from Delek. Revenue remained relatively consistent due to contractual minimum revenue commitments and contractual tariff escalators.

Revenues from our intermediate pipelines were $6.8 million, a decrease of $1.1 million compared to the third quarter of 2017, on shipments averaging 148.3 mbpd compared to 151.6 mbpd for the third quarter of 2017. The decreases were mainly attributable to a decrease in production at HFC's Navajo refinery and a $0.6 million decrease in deferred revenue realized.

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Revenues from our crude pipelines were $31.0 million, an increase of $16.9 million, on shipments averaging 442.1 mbpd compared to 267.9 mbpd for the third quarter of 2017. The increases were mainly attributable to our acquisition of the remaining interests in the SLC and Frontier pipelines in the fourth quarter of 2017 as well as increased volumes on our crude pipeline systems in New Mexico and Texas.

Revenues from terminal, tankage and loading rack fees were $36.5 million, an increase of $0.8 million compared to the third quarter of 2017. Refined products and crude oil terminalled in the facilities averaged 475.1 mbpd compared to 495.5 mbpd for the third quarter of 2017. The volume decrease was mainly due to the planned turnaround at HFC's El Dorado refinery in the third quarter of 2018 as well as the cessation of HEP's operations at the Tucson terminal in April 2018.

Revenues from refinery processing units were $19.6 million, a decrease of $1.0 million compared to the third quarter of 2017, on throughputs averaging 65.6 mbpd compared to 61.5 mbpd for the third quarter of 2017. Although throughput increased, revenue decreased, driven by lower reimbursable natural gas costs.

Operations Expense
Operations (exclusive of depreciation and amortization) expense was $36.0 million for both of the three months ended September 30, 2018 and September 30, 2017. An increase due to new operating costs and expenses related to our acquisition of the remaining interests in the SLC and Frontier pipelines in the fourth quarter of 2017 was primarily offset by higher maintenance project costs in the three months ended September 30, 2017.

Depreciation and Amortization
Depreciation and amortization for the three months ended September 30, 2018, increased by $5.4 million compared to the three months ended September 30, 2017. The increase was primarily due to depreciation and amortization related to our acquisition of the remaining interests in the SLC and Frontier pipelines in the fourth quarter of 2017.

General and Administrative
General and administrative costs for the three months ended September 30, 2018, decreased by $1.1 million compared to the three months ended September 30, 2017, mainly due to higher legal and consulting costs incurred in the three months ended September 30, 2017, associated with our agreement, pursuant to which the 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.

Equity in Earnings of Equity Method Investments

	Three Months Ended September 30,	
Equity Method Investment	2018	2017
	(in thousands)	
SLC Pipeline LLC	$—	$1,030
Frontier Aspen LLC	—	1,662
Osage Pipe Line Company, LLC	294	1,119
Cheyenne Pipeline LLC	820	1,261
Total	$1,114	$5,072

Equity in earnings of Osage Pipe Line Company, LLC are lower for the three months ended September 30, 2018, mainly due to lower crude throughput volumes due to the planned turnaround at HFC's El Dorado refinery in the third quarter of 2018.

Interest Expense

Interest expense for the three months ended September 30, 2018, totaled $18.0 million, an increase of $4.0 million compared to the three months ended September 30, 2017. The increase is primarily due to interest expense associated with the private placement of an additional $100 million in aggregate principal amount of our 6% Senior Notes due 2024 completed in the third quarter of 2017, higher average balances outstanding under our senior secured revolving credit facility and market interest rate increases under that facility. Our aggregate effective interest rates were 5.1% and 4.5% for the three months ended September 30, 2018 and 2017, respectively.

State Income Tax

We recorded state income tax expense of $39,000 and benefit of $69,000 for the three months ended September 30, 2018 and 2017, respectively. All tax expense is solely attributable to the Texas margin tax.

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Results of Operations—Nine Months Ended September 30, 2018 Compared with Nine Months Ended September 30, 2017

Summary

Net income attributable to the partners for the nine months ended September 30, 2018, was $131.3 million compared to $109.0 million for the nine months ended September 30, 2017. The increase in earnings was primarily due to higher pipeline throughputs and revenues as well as increased earnings related to our acquisition of the remaining interests in the SLC and Frontier pipelines in the fourth quarter of 2017, which were partially offset by higher interest expense. In addition, we recognized a loss on early extinguishment of debt of $12.2 million in the first quarter of 2017.

Revenues for the nine months ended September 30, 2018, include the recognition of $2.6 million of prior shortfalls billed to shippers in 2017 compared to revenues for the nine months ended September 30, 2017, which included the recognition of $3.5 million of prior shortfalls billed to shippers in 2016. As of September 30, 2018, deferred revenue reflected in our consolidated balance sheet related to shortfalls billed was $5.7 million.

Revenues

Revenues for the nine months ended September 30, 2018, were $373.4 million, an increase of $48.3 million compared to the nine months ended September 30, 2017. The increase is primarily attributable to our acquisition of the remaining interests in the SLC and Frontier pipelines and the turnaround at HFC’s Navajo refinery in the first quarter of 2017.

Revenues from our refined product pipelines were $98.0 million, an increase of $4.5 million, on shipments averaging 196.5 mbpd compared to 205.3 mbpd for the nine months ended September 30, 2017. The volume decrease was mainly due to pipelines servicing HFC's Woods Cross refinery, which had lower throughput due to operational issues at the refinery beginning in the first quarter of 2018. These decreases were partially offset by higher volumes on our product pipelines in New Mexico due to the turnaround at HFC's Navajo refinery in the first quarter of 2017. Revenue increased as a result of the higher volumes on the New Mexico product pipelines and remained relatively consistent around pipelines servicing HFC's Woods Cross refinery due to contractual minimum volume commitments.

Revenues from our intermediate pipelines were $22.5 million, an increase of $2.1 million, on shipments averaging 142.4 mbpd compared to 136.1 mbpd for the nine months ended September 30, 2017. These increases were principally due to the turnaround at HFC's Navajo refinery in the first quarter of 2017.

Revenues from our crude pipelines were $87.0 million, an increase of $39.1 million, on shipments averaging 455.6 mbpd compared to 268.7 mbpd for the nine months ended September 30, 2017. The increases were mainly attributable to our acquisition of the remaining interests in the SLC and Frontier pipelines in the fourth quarter of 2017 as well as increased volumes on our crude pipeline systems in New Mexico and Texas.

Revenues from terminal, tankage and loading rack fees were $109.0 million, an increase of $3.2 million compared to the nine months ended September 30, 2017. Refined products and crude oil terminalled in the facilities averaged 477.8 mbpd compared to 489.9 mbpd for the nine months ended September 30, 2017. Despite the overall decrease in volume, revenue increased due to higher volumes at certain higher revenue terminals combined with an adjustment to revenue recognition.

Revenues from refinery processing units were $56.9 million, a decrease of $0.6 million on throughputs averaging 67.9 mbpd compared to 63.9 mbpd for the nine months ended September 30, 2017. Although throughput increased, revenue decreased, driven by lower reimbursable natural gas costs.

Operations Expense

Operations expense (exclusive of depreciation and amortization) for the nine months ended September 30, 2018, increased by $4.1 million compared to the nine months ended September 30, 2017. The increase is primarily due to new operating costs and expenses related to our acquisition of the remaining interests in the SLC and Frontier pipelines in the fourth quarter of 2017.

Depreciation and Amortization

Depreciation and amortization for the nine months ended September 30, 2018, increased by $16.4 million compared to the nine months ended September 30, 2017. The increase is primarily due to depreciation and amortization related to our acquisition of the remaining interests in the SLC and Frontier pipelines in the fourth quarter of 2017.

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General and Administrative

General and administrative costs for the nine months ended September 30, 2018, decreased $0.6 million compared to the nine months ended September 30, 2017, mainly due to higher legal and consulting costs incurred in the nine months ended September 30, 2017, associated with our agreement, pursuant to which the 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.

Equity in Earnings of Equity Method Investments

	Nine Months Ended September 30,	
Equity Method Investments	2018	2017
	(in thousands)	
SLC Pipeline LLC	$—	$2,053
Frontier Aspen LLC	—	3,813
Osage Pipe Line Company, LLC	1,895	1,889
Cheyenne Pipeline LLC	2,232	3,210
Total	$4,127	$10,965

Interest Expense

Interest expense for the nine months ended September 30, 2018, totaled $53.2 million, an increase of $11.9 million compared to the nine months ended September 30, 2017. The increase is primarily due to interest expense associated with the private placement of an additional $100 million in aggregate principal amount of our 6% Senior Notes due 2024 completed in the third quarter of 2017, higher average balances outstanding under our senior secured revolving credit facility, and market interest rate increases under that facility. Our aggregate effective interest rates were 5.0% and 4.4% for the nine months ended September 30, 2018 and 2017, respectively.

Loss on Early Extinguishment of Debt

A loss on early extinguishment of debt of $12.2 million was recognized upon redemption of our $300 million aggregate principal amount of 6.5% Senior Notes at a cost of $309.8 million on January 4, 2017. The loss related to the premium paid to noteholders upon their tender of an aggregate principal amount of $300 million and related financing costs that were previously deferred.

State Income Tax

We recorded state income tax expense of $149,000 and $164,000 for the nine months ended September 30, 2018 and 2017, 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 nine months ended September 30, 2018, we received advances totaling $256.0 million and repaid $347.0 million, resulting in a net decrease of $91.0 million under the Credit Agreement and an outstanding balance of $921.0 million at September 30, 2018. As of September 30, 2018, we have no letters of credit outstanding under the Credit Agreement and the available capacity under the Credit Agreement was $479.0 million. Amounts repaid under our credit facility 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.

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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. For the nine months ended September 30, 2018, HEP issued 171,246 units under this program, providing approximately $5.2 million in gross proceeds. 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 September 30, 2018, 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, less amounts issued under the $200 million continuous offering program, 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.

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 August 2018, we paid a regular cash distribution of $0.6600 on all units in an aggregate amount of $67.1 million after deducting HEP Logistics' waiver of $2.5 million of limited partner cash distributions.

Cash and cash equivalents decreased by $1.4 million during the nine months ended September 30, 2018. The cash flows provided by operating activities of $217.4 million were less than the cash flows used for financing activities of $179.3 million and investing activities of $39.5 million. Working capital increased by $2.0 million to $20.9 million at September 30, 2018, from $18.9 million at December 31, 2017.

Cash Flows—Operating Activities
Cash flows from operating activities increased by $40.0 million from $177.5 million for the nine months ended September 30, 2017, to $217.4 million for the nine months ended September 30, 2018. The increase was due primarily to increased receipts from customers during the nine months ended September 30, 2018, as compared to the nine months ended September 30, 2017 partially offset by cash paid for interest.

Cash Flows—Investing Activities
Cash flows used for investing activities were $39.5 million for the nine months ended September 30, 2018, compared to $28.7 million for the nine months ended September 30, 2017, an increase of $10.9 million. During the nine months ended September 30, 2018 and 2017, we invested $34.3 million and $30.7 million in additions to properties and equipment, respectively. During the nine months ended September 30, 2018, we had cash payments of $6.8 million million for acquisitions. During the nine months ended September 30, 2018 and 2017, we also received $1.4 million and $1.2 million, respectively, for distributions in excess of equity in earnings of equity investments, respectively.

Cash Flows—Financing Activities
Cash flows used for financing activities were $179.3 million for the nine months ended September 30, 2018, compared to $145.0 million for the nine months ended September 30, 2017, an increase of $34.3 million. During the nine months ended September 30, 2018, we received $256.0 million and repaid $347.0 million in advances under the

Credit Agreement. We also received net proceeds of $114.9 million from the issuance of common units. Additionally, we paid $197.3 million in regular quarterly cash distributions to our limited partners and $5.5 million to our noncontrolling interest. During the nine months ended September 30, 2017, we received $628.0 million and repaid $431.0 million in advances under the Credit Agreement. We redeemed our 6.5% Senior Notes at a redemption cost of $309.8 million. We paid $171.6 million in regular quarterly cash distributions to our general and limited partners, and distributed $5.0 million to our noncontrolling interest. We also received net proceeds of $52.3 million from the issuance of common units under our continuous offering program.

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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, reimbursable 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. “Reimbursable capital expenditures” are capital expenditure projects that are reimbursed by HFC or a third-party. “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. We are forecasting to spend $9 million for maintenance capital expenditures, $5 million to $10 million for reimbursable capital expenditures and approximately $35 million to $40 million for expansion capital expenditures in 2018. We expect the majority of the expansion capital budget to be invested in refined product pipeline expansions, crude system enhancements, new storage tanks, enhanced blending capabilities at our racks, and a new truck rack. 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 Pipeline, LLC, 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 related to the period ending June 30, 2018 or any other prior periods 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 September 30, 2018.

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Senior Notes

On January 4, 2017, we redeemed the $300 million aggregate principal amount of our 6.5% Senior Notes due 2020 at a redemption cost of $309.8 million, at which time we recognized a $12.2 million early extinguishment loss. We funded the redemption with borrowings under our Credit Agreement.

We have $500 million in aggregate principal amount of 6% Senior Notes due 2024. 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 September 30, 2018. 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:

	September 30, 2018	December 31, 2017
	(In thousands)	
Credit Agreement	$921,000	$1,012,000
6% Senior Notes		
Principal	500,000	500,000
Unamortized debt issuance costs	(4,252)	(4,692)
	495,748	495,308
Total long-term debt	$1,416,748	$1,507,308

See "Risk Management" for a discussion of our interest rate swaps.

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 nine months ended September 30, 2018 and 2017. PPI has increased an average of 0.4% annually over the past five calendar years, including an increase of 3.2% and a decrease of 1.0% in 2017 and 2016, 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

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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 September 30, 2018, we had an accrual of $6.1 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, 2017. 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 our revenue recognition policies, there have been no changes to these policies in 2018. 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.

Revenue Recognition: In May 2014, ASU 2014-09 “Revenue from Contracts with Customers” 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. We adopted this standard effective January 1, 2018, and therefore, have conformed our revenue recognition policies. See Note 3, “Revenues”, for additional information on our revenue recognition policies.

Accounting Pronouncements Adopted During the Periods Presented

Share-Based Compensation

In March 2016, an accounting standard update was issued that simplifies the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. We adopted this standard effective January 1, 2017, with no impact to our financial condition or results of operations. The new standard also requires that employee taxes paid when an employer withholds units for tax-withholding purposes be reported as financing activities in the statement of cash flows on a retrospective basis. Previously, this activity was included in operating activities. The impact of this change for the nine months ended September 30, 2017 was not material to our consolidated statement of cash flows. Finally, consistent with our existing policy, we have elected to account for forfeitures on an estimated basis.

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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 have accounted for the new guidance using the modified retrospective implementation method, whereby a cumulative effect adjustment is 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 3, “Revenues”, 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

Leases
In February 2016, an accounting standard update was issued requiring leases to be measured and recognized as a lease liability, with a corresponding right-of-use asset on the balance sheet. This standard has an effective date of January 1, 2019, and we plan to apply practical expedients provided in the standards update that allow us, among other things, not to reassess contracts that commenced prior to the adoption. While we continue to evaluate the provisions of the standard to determine how it will affect our financial statements, the primary effect of adopting the new standard will be to record assets and obligations for current operating leases. Adoption of the standard is not expected to have a material impact on our results of operations or cash flows.

In preparing for adoption, we have identified, reviewed and evaluated contracts containing lease and embedded lease arrangements. Additionally, we have acquired and are finalizing the implementation of software and are implementing systems to facilitate lease capture and related accounting treatment.

RISK MANAGEMENT

The two interest rate swaps that hedged our exposure to the cash flow risk caused by the effects of LIBOR changes on $150 million of Credit Agreement advances matured on July 31, 2017. The swaps had effectively converted $150 million of our LIBOR based debt to fixed rate debt.

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

At September 30, 2018, 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 September 30, 2018, the fair value of our 6% Senior Notes was $512.8 million. We estimate a hypothetical 10% change in the yield-to-maturity applicable to the 6% Senior Notes at September 30, 2018, would result in a change of

approximately $14 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 September 30, 2018, borrowings outstanding under the Credit Agreement were $921.0 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, 2017.

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.

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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 September 30, 2018, at a reasonable level of assurance.

(b) Changes in internal control over financial reporting

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.

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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, 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

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, 2017. In addition to the other information set forth in this quarterly report, you should consider carefully the factors discussed in our 2017 Form 10-K, which could materially affect our business, financial condition or future results. The risks described in our 2017 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.

Item 6. Exhibits

The Exhibit Index on page 48 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.

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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*+	Amended and Restated Annual Incentive Plan.
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 September 30, 2018, formatted in XBRL (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 compensation plan or arrangement.
++ Filed electronically herewith.

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HOLLY ENERGY PARTNERS, L.P.
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: October 31, 2018 /s/ Richard L. Voliva III
Richard L. Voliva III
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: October 31, 2018 /s/ Kenneth P. Norwood
Kenneth P. Norwood
Vice President and Controller
(Principal Accounting Officer)