

HOLLY ENERGY PARTNERS LP  
Form 10-K  
February 21, 2018

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

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FORM 10-K

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(Mark One)

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

For the fiscal year ended December 31, 2017  
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

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

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Delaware 20-0833098  
(State or other jurisdiction of (I.R.S. Employer Identification No.)  
incorporation or organization)

2828 N. Harwood, Suite 1300 75201-1507  
Dallas, Texas (Address of principal executive offices) (Zip Code)  
(214) 871-3555  
Registrant's telephone number, including area code

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Securities registered pursuant to Section 12(b) of the Act:  
Common Limited Partner Units

Securities registered pursuant to 12(g) of the Act:  
None.

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The aggregate market value of common limited partner units held by non-affiliates of the registrant was approximately \$1.2 billion on June 30, 2017, the last day of the registrant's most recently completed second fiscal quarter, based on the last sales price as quoted on the New York Stock Exchange on such date.

The number of the registrant's outstanding common limited partners units at February 20, 2018 was 105,268,955.

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DOCUMENTS INCORPORATED BY REFERENCE: None

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## PART I

### FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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-K, including, but not limited to, those under “Business”, “Risk Factors” and “Properties” in Items 1, 1A and 2 and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7, are forward-looking statements. Forward looking statements use words such as “anticipate,” “project,” “expect,” “plan,” “goal,” “forecast,” “intend,” “should,” “would,” “could,” “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, Delek US Holdings, Inc. 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 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-K, 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 this Form 10-K under “Risk Factors” in Item 1A. All forward-looking statements included in this Form 10-K 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.



## INDEX TO DEFINED TERMS AND NAMES

The following terms and names that appear in this form 10-K are defined on the following pages:

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## Items 1 and 2. Business and Properties

### OVERVIEW

Holly Energy Partners, L.P. (“HEP”) is a Delaware limited partnership engaged principally in the business of operating a system of petroleum product and crude pipelines, storage tanks, distribution terminals, loading rack facilities and refinery processing units in West Texas, New Mexico, Utah, Nevada, Oklahoma, Wyoming, Kansas, Arizona, Idaho and Washington. We were formed in Delaware in 2004 and maintain our principal corporate offices at 2828 N. Harwood, Suite 1300, Dallas, Texas 75201-1507. Our telephone number is 214-871-3555 and our internet website address is [www.hollyenergy.com](http://www.hollyenergy.com). The information contained on our website does not constitute part of this Annual Report on Form 10-K. A copy of this Annual Report on Form 10-K will be provided without charge upon written request to the Director, Investor Relations at the above address. A direct link to our filings at the U.S. Securities and Exchange Commission (“SEC”) website is available on our website on the Investors page. Also available on our website are copies of our Governance Guidelines, Audit Committee Charter, Compensation Committee Charter, and Code of Business Conduct and Ethics, all of which will be provided without charge upon written request to the Vice President, Investor Relations at the above address. In this document, the words “we,” “our,” “ours” and “us” refer to HEP and its consolidated subsidiaries or to HEP or an individual subsidiary and not to any other person. “HFC” refers to HollyFrontier Corporation and its subsidiaries, other than HEP and its subsidiaries and other than Holly Logistic Services, L.L.C. (“HLS”), a subsidiary of HollyFrontier Corporation that is the general partner of the general partner of HEP and manages HEP.

We own and operate petroleum product and crude pipelines, terminal, tankage and loading rack facilities, and refinery processing units that support the refining and marketing operations of 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. At December 31, 2017, HFC owned approximately 59% of our outstanding common units as well as a non-economic general partner interest. Our assets are categorized into a Pipelines and Terminals segment and a Refinery Processing Unit segment. Segment disclosures are discussed in Note 14 to our consolidated financial statements in Part II, Item 8.

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 have a long-term strategic relationship with HFC. Our 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 will continue to pursue third-party logistic asset acquisitions that are accretive to our unitholders and increase the diversity of our revenues.

On October 31, 2017, we closed on a 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 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.

### PIPELINES AND TERMINALS

#### Pipelines

Our refined product pipelines transport light refined products from HFC's Navajo refinery in New Mexico and Delek's Big Spring refinery in Texas to their customers in the metropolitan and rural areas of Texas, New Mexico, Arizona, Utah, and Oklahoma and from various refineries in Utah, Wyoming, and Montana (including HFC's Woods Cross refinery in Utah) to Las Vegas, Nevada and Cedar City, Utah. The refined products transported in these pipelines include conventional gasolines, federal, state and local specification reformulated gasoline, low-octane gasoline for oxygenate blending, distillates that include high- and low-sulfur diesel and jet fuel and liquefied petroleum gases ("LPGs") (such as propane, butane and isobutane).

Our intermediate product pipelines consist principally of three parallel pipelines that connect the Navajo refinery, Lovington and Artesia facilities. These pipelines primarily transport intermediate feedstocks and crude oil for HFC's refining operations in New Mexico. We also own pipelines that transport intermediate product and gas between HFC's Tulsa East and West refinery facilities.



Our crude pipelines consist of crude oil trunk, gathering and connection pipelines located in West Texas, New Mexico, Kansas, Oklahoma, Utah and Wyoming that deliver crude oil to HFC's Navajo, El Dorado and Woods Cross refineries.

Our pipelines are regularly inspected. Generally, other than as may be provided in certain pipelines and terminal agreements, substantially all of our pipelines are unrestricted as to the direction in which product flows and the types of crude and refined products that we can transport on them. The Federal Energy Regulatory Commission ("FERC") regulates the transportation tariffs for interstate shipments on our refined product and crude oil pipelines and state regulatory agencies regulate the transportation tariffs for intrastate shipments on our pipelines.

HFC shipped an aggregate of 63% of the petroleum products transported on our refined product pipelines, 97% of the throughput volumes transported on our intermediate pipelines, and 93% of the throughput on our crude pipelines in 2017.

The following table details the average aggregate daily number of barrels of petroleum products transported on our pipelines in each of the periods set forth below for HFC and for third parties.

	Years Ended December 31,				
	2017	2016	2015	2014	2013
Volumes transported for barrels per day ("bpd"):					
HFC	556,516	542,762	558,027	457,014	397,359
Third parties	99,847	75,909	73,555	64,055	63,337
Total	656,363	618,671	631,582	521,069	460,696
Total barrels in thousands ("mbbls")	239,572	226,434	230,527	190,190	168,154

Our pipeline assets are managed by geographic region; significant pipeline assets are grouped accordingly and described below.

#### Mid-Continent Region

##### Tulsa, Oklahoma Interconnect Pipelines

Five pipelines, totaling seven miles, move intermediate product and gas between HFC's Tulsa East and West refinery facilities.

##### El Dorado Crude Delivery Pipeline

This 2-mile pipeline supplies HFC's El Dorado Refinery facility with crude oil from HEP's El Dorado crude tankage. HFC is the only shipper on this line.

##### Osage Pipe Line Company LLC

This 135-mile pipeline supplies HFC's El Dorado Refinery with crude oil from Cushing, Oklahoma and also has a connection to the Jayhawk pipeline that services the CHS refinery in McPherson, Kansas. HEP has a 50% interest in this entity and is the operator of the pipeline.

##### Cheyenne Pipeline LLC

This 87-mile crude oil pipeline runs from Fort Laramie, Wyoming to Cheyenne, Wyoming. HEP owns a 50% interest in this entity; the pipeline is operated by an affiliate of Plains All American Pipeline, L.P. ("Plains").

#### Southwest Region

Artesia, New Mexico to El Paso, Texas

These 371 miles of pipeline are comprised of five main segments which are regulated by the FERC. The segments primarily ship refined product produced at the Navajo refinery to El Paso terminals: (1) 156 miles of 6-inch pipeline from HFC's Navajo refinery to HFC's El Paso terminal, (2) 82 miles of 12-inch pipeline from HFC's Navajo refinery to our Orla tank farm, (3) 126 miles from our Orla tank farm to outside El Paso, (4) seven miles from outside El Paso to HFC's El Paso terminal and (5) six miles of 12-inch pipeline from outside El Paso to Magellan Midstream Partners' ("Magellan") El Paso terminal. There are two shippers on the latter three segments, HFC and Delek, and HFC is the only shipper on the first two segments.

Refined products destined to HFC's El Paso terminal and Magellan's El Paso terminal are delivered to common carrier pipelines for transportation to Arizona, northern New Mexico and northern Mexico and to the terminal's truck rack for local delivery by tanker truck.

#### Artesia, New Mexico to Moriarty, New Mexico

The Artesia to Moriarty refined product pipeline consists of a 60 mile segment that extends from HFC's Navajo refinery Artesia facility to White Lakes Junction, New Mexico, and another 155 mile segment that extends from White Lakes Junction to our Moriarty terminal, where it also connects to our Moriarty to Bloomfield pipeline. HEP owns the segment from Artesia to White Lakes Junction and leases the segment from White Lakes Junction to Moriarty from Mid-America Pipeline Company, LLC ("Mid-America") under a long-term lease agreement which expires in 2027. The current monthly lease payment is \$535,000 (subject to adjustments for changes in Producer Price Index ("PPI")) to the owner/operator, Mid-America. HFC is the only shipper on this pipeline.

#### Moriarty, New Mexico to Bloomfield, New Mexico

This 191-mile pipeline is leased from Mid-America and ships refined product from Moriarty to Western Refining's terminal in Bloomfield and our Bloomfield terminal, which is currently idled. This pipeline is operated by Mid-America (or its designee), and HFC is the only shipper on this pipeline.

#### Big Spring, Texas to Abilene and Wichita Falls, Texas

These two pipelines carry refined product produced at Delek's Big Spring refinery to the Abilene and Wichita Falls terminals and span 100 miles from Big Spring to Abilene and 227 miles from Big Spring to Wichita Falls. Delek is the only shipper on these pipelines.

#### Wichita Falls, Texas to Duncan, Oklahoma

This 47-mile, common carrier pipeline is regulated by the FERC and transports refined product from the Wichita Falls terminal to Delek's Duncan terminal. Delek is the only shipper on this pipeline.

#### Midland, Texas to Orla, Texas

This 135-mile pipeline is used for the shipment of refined product from Midland to our tank farm at Orla (refined product produced at Delek's Big Spring refinery). Delek is the only shipper on this pipeline.

#### Intermediate pipelines between Lovington, New Mexico and Artesia, New Mexico

Two of the three 65-mile pipelines are used for the shipment of intermediate feedstocks, crude oil and LPGs from HFC's Navajo refinery Lovington facility to its Artesia facility. The third pipeline is used to supply both HFC's Navajo refinery Artesia and Lovington facilities with crude oil from the Barnsdall and Beeson gathering systems. This third pipeline can also connect to the Roadrunner pipeline (described below). HFC is the primary shipper on these pipelines.

#### Roadrunner pipeline

The 69-mile Roadrunner crude oil pipeline connects the Navajo refinery Lovington facility to a terminal on the Centurion Pipeline in Slaughter, Texas that extends to Cushing, Oklahoma. This pipeline is currently used to deliver crude oil from Lovington to Slaughter, but has been reversed in prior years for the shipment of crude oil from Cushing, Oklahoma to the Navajo refinery Lovington facility.

#### New Mexico and Texas crude oil pipelines

The 802-mile network of crude oil gathering and trunk pipelines deliver crude oil to HFC's Navajo refinery from New Mexico and Texas. The crude oil trunk pipelines consist of nine pipeline segments that deliver crude oil to the Navajo refinery Lovington facility and fourteen pipeline segments that deliver crude oil to the Navajo refinery Artesia facility. The crude oil gathering pipelines connect crude leases and crude gathering hubs to the crude oil trunk pipeline system.

#### New Mexico crude expansion pipelines

HEP constructed three pipelines to expand on the existing network of New Mexico crude oil pipelines discussed above. They include (1) the 46-mile Beeson pipeline which delivers crude oil from the crude oil gathering system to

the Navajo refinery Lovington facility and the Roadrunner Pipeline (2) the 61-mile Whites City crude pipeline which delivers crude oil from HEP's Whites City Road crude truck off-loading station to Artesia Station and (3) the 13-mile Bisti connector pipeline which delivers crude oil from HEP's Beeson Crude Station to the Plains Bisti Pipeline.

#### Northwest Region

##### Utah refined product pipelines

The Utah refined product pipelines consist of four pipeline segments: (1) a 2-mile segment from Woods Cross, UT to Pioneer Pipe Line Company's terminal is used for product shipments to and through the Pioneer terminal (2) another 2-mile segment is used to ship refined product from HFC's Woods Cross refinery to the UNEV pipeline origin pump station (3) a 4-mile segment from HFC's Woods Cross refinery to Chevron Pipeline's Salt Lake City products pipeline is used for product shipments from

HFC's Woods Cross refinery to Andeavor Logistics LP's Northwest Pipeline origin station (4) a 1-mile segment is used to move refined product from Chevron's Salt Lake City refining facility into the UNEV pipeline origin pump station. HFC is the only shipper on the three former segments and Chevron is the only shipper on the fourth, common carrier segment.

#### UNEV refined product pipeline

The 427-mile UNEV products pipeline is a common carrier pipeline used for the shipment of refined products from Woods Cross, Utah to terminals in Las Vegas, Nevada and Cedar City, Utah. This pipeline is owned by UNEV Pipeline, LLC ("UNEV"). HEP owns a 75% interest in UNEV and HEP is the operator of this pipeline.

#### SLC Pipeline

This 95-mile crude oil pipeline ("SLC Pipeline") is used to transport crude into the Salt Lake City, Utah area from the Utah terminus of the Frontier Pipeline (described below) as well as crude flowing from Wyoming and Utah via the Plains Rocky Mountain pipeline. HEP owns a 100% interest in this pipeline after purchasing the remaining 75% interest, effective October 31, 2017.

#### Frontier Aspen Pipeline

This 289-mile crude oil pipeline ("Frontier Pipeline") spans from Casper, Wyoming to Frontier Station, Utah through a connection to the SLC Pipeline. HEP owns a 100% interest in this pipeline after purchasing the remaining 50% interest, effective October 31, 2017.

The following table sets forth certain operating data for each of our refined product, intermediate and crude pipelines, most of which are described above. We calculate the capacity of our pipelines based on the throughput capacity for barrels of refined product, intermediate or crude that may be transported in the existing configuration; in some cases, this includes the use of drag reducing agents.

Origin and Destination	Diameter (inches)	Length (miles)	Capacity (bpd)	
Refined Product Pipelines:				
Artesia, NM to El Paso, TX	6	156	19,000	
Artesia, NM to Orla, TX to El Paso, TX	8/12	221	95,000	(1)
Artesia, NM to Moriarty, NM <sup>(2)</sup>	12/8	215	27,000	(3)
Moriarty, NM to Bloomfield, NM <sup>(2)</sup>	8	191	14,400	(3)
Big Spring, TX to Abilene, TX	6/8	100	20,000	
Big Spring, TX to Wichita Falls, TX	6/8	227	23,000	
Wichita Falls, TX to Duncan, OK	6	47	21,000	
Midland, TX to Orla, TX	8/10	135	25,000	
Artesia, NM to Roswell, NM	4	35	5,300	(7)
Mountain Home, ID	4	13	6,000	
Woods Cross, UT	10/12/8	8	70,000	
Woods Cross, UT to Las Vegas, NV	12	427	62,000	
Salt Lake City, UT to UNEV Pipeline, UT Tulsa, OK <sup>(4)</sup>	10	1	60,000	
Intermediate Product Pipelines:				
Lovington, NM to Artesia, NM	8	65	48,000	
Lovington, NM to Artesia, NM	10	65	72,000	
Lovington, NM to Artesia, NM	16	65	98,400	
Tulsa, OK <sup>(5)</sup>	8/10/12	7		(5)
Evans Junction to Artesia, NM	8	12	107	(6)
Crude Pipelines:				
Artesia Region Gathering	Various	497	70,000	
West Texas Gathering	Various	305	35,000	
Roadrunner Pipeline	16	69	62,400	
Beeson Pipeline	8/10	46	95,000	
El Dorado Crude Delivery Pipeline	16	4	165,000	
Bisti Connection Pipeline	12	13	82,000	
Whites City Pipeline	8	61	50,000	
SLC Pipeline	16	95	105,000	
Frontier Pipeline	16	289	72,000	

(1) Includes 15,000 bpd capacity on the Orla to El Paso segment of this pipeline, leased to Delek under capacity lease agreements.

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

(3) Capacity for this pipeline is reflected in the information for the Artesia to Moriarty pipeline.

(4) Tulsa gasoline and diesel fuel connections to Magellan's pipeline are less than one mile.

(5) The capacities of the three gas pipelines are 10 million standard cubic feet per day ("MMSCFD"), 22 MMSCFD and 10 MMSCFD, and the two liquid pipelines are 45,000 bpd and 60,000 bpd.

(6) The capacity is in MMSCFD per day.

(7) Pipeline is currently idled.

#### Terminals, Loading Racks and Refinery Tankage

Our refined product terminals receive products from pipelines connected to HFC's refineries and Delek's Big Spring refinery. We then distribute them to HFC and third parties, who in turn deliver them to end-users and retail outlets.

Our terminals are generally complementary to our pipeline assets and serve HFC's and Delek's marketing activities and other customers. Terminals play a key role in moving product to the end-user market by providing the following services:

• distribution;

• blending to achieve specified grades of gasoline and diesel, including the blending of butane, ethanol and biodiesel;

• other ancillary services that include the injection of additives and filtering of jet fuel; and

• storage and inventory management.

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

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

Our crude terminal receives crude from the Osage pipeline and derives most of its revenues from throughput charges.

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

	Years Ended December 31,				
	2017	2016	2015	2014	2013
Refined products and crude terminalled for (bpd):					
HFC	428,001	413,487	391,292	261,888	255,108
Third parties	68,687	72,342	78,403		