PUBLIC VERSION

UNITED STATES OF AMERICA
BEFORE FEDERAL TRADE COMMISSION

In the Matter of	)	
Conoco Inc.,	)	
a corporation,	)	
	)	Docket No. C-4058
and	)	File No. 021-0040
	)	
Phillips Petroleum Company,	)	
a corporation.	)	
	)	

PETITION OF CONOCOPHILLIPS FOR APPROVAL OF THE PROPOSED DIVESTITURE OF THE PHILLIPS WOODS CROSS ASSETS TO HOLLY CORPORATION

Pursuant to Section 2.41(f) of the Federal Trade Commission ("Commission") Rules of Practice and Procedure, 16 C.F.R. § 2.41(f) (2002), and Paragraph II.A. of the Decision and Order contained in the Agreement Containing Consent Orders accepted for public comment in this matter ("Decision and Order"), ConocoPhillips hereby petitions the Commission to approve (i) the divestiture of the Phillips Woods Cross Assets[1] to Holly Corporation or a wholly-owned subsidiary of Holly Corporation ("Holly"), and (ii) the related agreements required by Paragraph II.C. of the Decision and Order.

Background

On August 2, 2002, Conoco Inc. ("Conoco"), Phillips Petroleum Company ("Phillips") (individually and collectively, "ConocoPhillips"), and the Commission executed an Agreement Containing Consent Orders that included the Decision and Order and an Order to Hold Separate and Maintain Assets (collectively, the "Consent

[1] For capitalized terms not defined herein, please see the definitions in the Decision and Order.

Agreement") to settle the Commission's charges related to the proposed merger of Conoco and Phillips. On August 30, 2002, the Commission accepted the Consent Agreement for public comment, and Conoco and Phillips thereafter consummated their merger, thereby forming a new entity, ConocoPhillips.[2] The Consent Agreement is presently before the Commission for final approval and issuance of the orders contained therein.

ConocoPhillips desires to complete the proposed divestiture of the Phillips Woods Cross Assets to Holly as soon as possible, following Commission approval. Prompt consummation will further the purposes of the Decision and Order and is in the interests of the Commission, the public, Holly, and ConocoPhillips, because it will allow Holly to move forward with its business plans for the competitive operation of the Phillips Woods Cross Assets. It will also allow ConocoPhillips to fulfill its obligations under the Consent Agreement. ConocoPhillips accordingly requests that the Commission promptly commence the period of public comment pursuant to Section 2.41(f)(2) of the Commission's Rules of Practice and Procedure, 16 C.F.R. § 2.41(f)(2) (2002), limit the public comment period to the customary 30-day period, and grant this petition by approving the divestiture of the Phillips Woods Cross Assets to Holly pursuant to the proposed agreements as soon as practicable after the close of the public comment period.

<u>Request for Confidential Treatment</u>

Because this petition and its attachments contain confidential and competitively sensitive business information relating to the divestiture of the Phillips Woods Cross Assets, ConocoPhillips has redacted such confidential information from the public version of this petition and its attachments. The disclosure of this information

[2] After the merger, Conoco and Phillips remain as corporate entities, but both are now wholly-owned subsidiaries of and included within ConocoPhillips.

would prejudice ConocoPhillips and Holly, cause harm to the ongoing competitiveness of the Phillips Woods Cross Assets, and impair ConocoPhillips' ability to comply with its obligations under the Consent Agreement. Pursuant to Sections 2.41(f)(4) and 4.9(c) of the Commission's Rules of Practice and Procedure, 16 C.F.R. § 2.41(f)(4) & 4.9(c) (2002), ConocoPhillips requests that the confidential version of this petition and its attachments and the information contained herein be accorded confidential treatment. The confidential version of this petition should be accorded such confidential treatment under 5 U.S.C. § 552 and Section 4.10(a)(2) of the Commission's Rules of Practice and Procedure, 16 C.F.R. § 4.10(a)(2) (2002). The confidential version of this petition is also exempt from disclosure under Exemptions 4, 7(A), 7(B), and 7(C) of the Freedom of Information Act, 5 U.S.C. §§ 552(b)(4), 552(b)(7)(A), 552(b)(7)(B), & 552(b)(7)(C), and the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, 15 U.S.C. § 18a(h).

I. Holly Will Be a Strong and Effective Competitor

The Bureau of Competition's 1999 "Study of the Commission's Divestiture Process" (the "Divestiture Study") discussed a number of factors that help to identify a promising divestiture buyer. All of these and other factors demonstrate that Holly will be an excellent buyer.

A. Holly is an established, experienced competitor in the refining, terminaling, transportation, and sale of motor fuels and other petroleum products.

The Divestiture Study cited the buyer's experience in the relevant industry and knowledge of the assets to be purchased as key to a successful divestiture. "The most successful buyers appear to be the ones that know the most about what they are buying."[3]

[3] Divestiture Study, p.34.

Incorporated in 1947, Holly has been active in the petroleum products industry for over 33 years.[4] Holly owns and operates two refineries in the region. A Holly affiliate, Navajo Refining Company, L.P. ("Navajo"), owns a high-conversion petroleum refinery in Artesia, New Mexico. Navajo operates this refinery in conjunction with crude processing, vacuum distillation, and other facilities situated 65 miles away in Lovington, New Mexico (together, the "Navajo Refinery"). Navajo has operated the Artesia facility since 1969 and began operating the Lovington facility in 1992 after making the appropriate upgrades. Holly has successfully integrated its refining operations in Artesia and Lovington, New Mexico to create a single refinery with 60,000 barrels per day ("bpd") of crude refining capacity. The Navajo Refinery can process a variety of sour (high sulfur) crude oils. The Navajo Refinery's principal marketing areas include

Another Holly affiliate, Montana Refining Company ("MRC"), owns a 7,000 bpd refinery in Great Falls, Montana, which can process a wide range of crude oils. MRC has operated the Montana refinery since 1984. For the last three fiscal years, excluding downtime for scheduled maintenance and turnarounds, the Montana refinery has operated at an average annual crude capacity utilization rate of approximately 89%. The Montana refinery's principal marketing areas include (Unlike the Billings-area Montana refineries, MRC's Great Falls refinery does not have direct pipeline service to Utah via the Seminoe and Pioneer pipelines.)

[4] Holly's principal corporate offices are at 100 Crescent Court, Suite 1600, Dallas, Texas 75201

Holly has product storage at terminals in El Paso, Texas, Tucson, Arizona, and Albuquerque, Artesia, Moriarty and Bloomfield, New Mexico.

In recent years, Holly has made an effort to develop and expand a pipeline transportation business. These pipeline operations include approximately 1,000 miles of pipelines, of which approximately 400 miles are also used as part of the supply and distribution network of the Navajo Refinery.

Additionally, Holly owns a 25% interest in Rio Grande Pipeline Company, which provides transportation of liquid petroleum gases to northern Mexico and a 49% interest in NK Asphalt Partners, which manufactures and markets asphalt and asphalt products in Arizona and New Mexico. In addition to its refining and pipeline transportation operations, Holly conducts a small-scale oil and gas exploration and production program.

Holly also has a interest in a joint venture conducting a retail gasoline station and convenience store business in Montana.

Further, through the divestiture due diligence and negotiations, Holly has become very familiar with the Phillips Woods Cross Assets.

ConocoPhillips has endeavored to provide Holly with access to all of the necessary information about the Phillips Woods Cross Assets that Holly requested.

B. Holly has invested significant amounts in capital expenditures in recent years to enhance its refineries and to expand its supply and distribution network.

The Divestiture Study goes on to emphasize the importance of the buyer's commitment (*i.e.*, substantial investment in continuing in the relevant business), citing favorably examples of buyers that invested substantially in the construction of new facilities.[5]

Holly is spending approximately $25 million (subject to adjustment) for the Phillips Woods Cross Assets, which represents a substantial commitment approved by Holly's Board of Directors. Moreover, Holly's internal business plan currently contemplates capital expenditures of on the Phillips Woods Cross Assets.

Such substantial capital expenditures going forward are consistent with Holly's history. Holly has shown a commitment to its existing refinery assets by investing in their future through significant capital spending.

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5 Divestiture Study, p.34-35.

In December 2001, Holly received the necessary permitting for the construction of a new gas oil hydrotreater unit at the Artesia facility and for the expansion of the crude refining capacity of the Navajo Refinery from 60,000 bpd to an estimated 70,000 bpd.[6] Holly expects that the hydrotreater and the related expansion will be completed by December 2003.

Navajo will also modify several of the Artesia processing units during the first phase of the Navajo Refinery's expansion. Additional permits will also be required to undertake modifications at Navajo's Lovington, New Mexico refining facility. The modifications to the Lovington facility should also be completed by December 2003.

The permits received by Navajo to date for the Artesia facility should also permit a second phase expansion of the Navajo refinery's crude oil capacity from 70,000 bpd to an estimated 80,000 bpd, but a schedule for such additional expansion has not been determined.

Further, in fiscal 2001, Holly completed the construction of a new additional sulfur recovery unit at the Artesia facility, which is currently utilized to enhance sour crude processing capabilities and will provide sufficient capacity to recover the additional extracted sulfur that will result from operations of the hydrotreater.

Holly also recently completed a large pipeline project that involved a significant capital investment. Holly leases from Mid America Pipeline Company more than 300 miles of 8" pipeline running from Chaves County to San Juan County, New Mexico (the "Leased Pipeline"). Holly owns and operates a 12" pipeline from the Navajo Refinery to the Leased Pipeline and also owns terminaling facilities in Bloomfield, New Mexico (northwest corner of New Mexico) and in Moriarty (40 miles east of Albuquerque). Transportation of petroleum products to Moriarty and Bloomfield began at the end of calendar 1999. In December 2001, Holly completed an expansion of the Moriarty terminal and the pumping capacity on the Leased

[6] Holly Corporation Press Release attached as Exhibit 1.

Pipeline.[7] The terminal expansion included the addition of gasoline and jet fuel to the existing diesel fuel delivery capabilities, thus permitting Holly to provide a full slate of light products to the growing Albuquerque and Santa Fe, New Mexico areas. The enhanced pumping capabilities on Holly's Leased Pipeline extending from the Artesia refinery through Moriarty to Bloomfield will permit Holly to deliver a total of over 45,000 bpd of light products to these locations. If needed, additional pump stations could further increase the pipeline's capabilities.

Holly's capital budget adopted for 2003 totals $14.8 million. Of that, $6.5 million is slated for the hydrotreater project and refinery expansion, $3.2 million for other refinery improvements, $3 million for pipeline transportation projects, $0.6 million for oil and gas exploration and production, and $1.5 million for information technology and other projects. For the 2003 fiscal year, MRC's capital budget is $800,000, most of which is for various improvements at the Montana refinery. Including money budgeted in previous years, Holly plans to spend approximately $40 million in fiscal 2003 for capital improvements.

As with its recent capital expenditures, Holly has historically invested in its refineries in order to make them competitive over the long term. In total, from fiscal year 1998 through fiscal year 2002, Holly spent over on capital projects at the Navajo Refinery. Over the same period, the Montana refinery's capital expenditures were over

7 Holly Corporation Press Release attached as Exhibit 2.

C. Holly currently has no operations or assets in the immediate vicinity of the Phillips Woods Cross Assets.

The Divestiture Study emphasized that the most successful buyers often were fringe competitors or entrants expanding geographically. "Frequently, the most knowledgeable and best buyer was the fringe competitor or an entrant expanding geographically."[8]

Holly does not own any refineries in Northern Utah and has no presence in the Northern Utah bulk supply market identified in the Commission's complaint.

As an entrant already engaged in the relevant business and expanding to a nearby geographic area, Holly is an ideal divestiture buyer. Indeed, Holly already operates both north and south of the relevant geographic area. As mentioned above, Holly operates refineries in Montana and New Mexico

[8] Divestiture Study, p.34.

E. Holly has the financial capability to successfully complete the transaction.

Holly is a publicly traded company with its stock listed on the American Stock Exchange under the symbol HOC. For the fiscal year ended July 2002, Holly had sales of $888,906,000. Of this $868,730,000 resulted from refinery operations, $18,588,000 from pipeline transportation, and $1,588,000 from corporate and other sales. These sales resulted in income from operations of $43,046,000, primarily from Holly's refinery operations but with a substantial contribution from the pipeline transportation business. Holly's net income for the fiscal year ended July 2002 was $32,029,000.

Holly will finance the purchase of the Phillips Woods Cross Assets with cash on hand. The inventory will be financed with an inventory financing arrangement or similar facility.

II. The Woods Cross Agreements Satisfy the Requirements of the Decision and Order To Divest The Phillips Woods Cross Assets

Paragraph II of the Decision and Order requires ConocoPhillips to divest the Phillips Woods Cross Assets, assign all Phillips Woods Cross Supply Agreements, and enter into a trademark license agreement, a credit card services agreement, a transition services agreement, and a purchase agreement regarding branded Ancillary Products by August 2, 2003 (twelve months from the date ConocoPhillips executed the Consent Agreement). Pursuant to this requirement, ConocoPhillips has diligently sought a buyer that would be acceptable to the Commission and has entered into all appropriate agreements more than seven months before the deadline for completing the required divestitures.

On ConocoPhillips entered into an Asset Purchase and Sale Agreement (the "Woods Cross Sale Agreement") with Holly, which requires ConocoPhillips to sell the Phillips Woods Cross Assets to Holly. ConocoPhillips provided the Commission staff with a copy of the Woods Cross Sale Agreement on Attached to the Woods Cross Sale Agreement are a Credit Card Services Agreement (Exhibit G), a Transition Services Agreement (Exhibit H), a Trademark License Agreement (Exhibit I), a Branded Ancillary Products Purchase Agreement (Exhibit L), and an Environmental Agreement (Exhibit J) (collectively, together with the Woods Cross Sale Agreement, the "Woods Cross Agreements").[9] ConocoPhillips provided the Commission staff with a copy of these related agreements on

1. Divestiture of Phillips Woods Cross Assets. Paragraph II.A. of the Decision and Order requires that ConocoPhillips divest the Phillips Woods Cross Assets absolutely and in good faith to an acquirer within twelve months from the date ConocoPhillips executed the Consent Agreement. Pursuant to the Woods Cross Sale Agreement, Holly will acquire all of the Phillips Woods Cross Assets. Woods Cross Sale Agreement

2. Assignment of Phillips Woods Cross Supply Agreements. Paragraph II.B. of the Decision and Order requires that ConocoPhillips assign to the acquirer of the Phillips Woods Cross Assets all Phillips Woods Cross Supply Agreements. Pursuant to the Woods Cross Sale Agreement, ConocoPhillips will assign all of the Phillips Woods Cross Supply Agreements to Holly. Woods Cross Sale Agreement

3. Brand License for Sale of Motor Fuels. Paragraph II.C.1.a. of the Decision and Order requires that ConocoPhillips, for a period of ten years from the Effective Date of Divestiture of the Phillips Woods Cross Assets, at no payment by the acquirer to ConocoPhillips, "in connection with the sale of Motor Fuels, provide the exclusive right to use in

[9] The Woods Cross Agreements are attached at Exhibit 3.

Utah, Idaho, Wyoming, or Montana all brand names that are (i) owned by or licensed to Phillips, and (ii) used by Phillips or Phillips Branded Sellers in Utah, Idaho, Wyoming, or Montana as of the date ConocoPhillips executed the Consent Agreement, including the exclusive right to use Phillips' identification signs, trademarks, and other trade indicia." ConocoPhillips granted such a license in the Woods Cross Agreements. Exhibit I, Trademark License Agreement

4. Brand License for Sale of Ancillary Products. Paragraph II.C.1.b. of the Decision and Order requires that ConocoPhillips, for a period of ten years from the Effective Date of Divestiture of the Phillips Woods Cross Assets, at no payment by the acquirer to ConocoPhillips, "in connection with the sale of Ancillary Products, provide the exclusive right to use all brand names that are (i) owned by or licensed to Phillips, and (ii) used by Phillips or Phillips Branded Sellers in Utah, Idaho, Wyoming, or Montana as of the date ConocoPhillips executed the Consent Agreement, at all Gasoline Outlets owned or operated by the acquirer in Utah, Idaho, Wyoming, and Montana; and the non-exclusive right to use all brand names that are (i) owned by or licensed to Phillips, and (ii) used Phillips or Phillips Branded Sellers in Utah, Idaho, Wyoming, and Montana as of the date ConocoPhillips executed the Consent Agreement, in connection with the sale of Ancillary Products elsewhere in Utah, Idaho, Wyoming, and Montana." ConocoPhillips granted both the exclusive and the non-exclusive license in the Woods Cross Agreements. Exhibit I, Trademark License Agreement & Exhibit L, Branded Ancillary Products Purchase Agreement

5. Upgrades and Changes to Brand. Paragraph II.C.1. of the Decision and Order requires ConocoPhillips to provide any upgrades or changes to the brand name, identification sign, trademark, or other trade indicia offered in other states unless such brand name, identification sign, trademark, or other trade indicia includes the name "Conoco" or

includes any brand name, identification sign, trademark, or other trade indicia used by Conoco or Conoco Branded Sellers as of the date ConocoPhillips executed the Agreement Containing Consent Orders.

6. Credit Card Services. Paragraph II.C.1. of the Decision and Order requires that ConocoPhillips, for a period of ten years from the Effective Date of Divestiture of the Phillips Woods Cross Assets, at no payment by the acquirer to ConocoPhillips, in connection with the sale of Motor Fuels, provide the non-exclusive right to accept and process Phillips credit cards in connection with such sales of Phillips Branded Fuels.

7. Renewal of Brand Licensing Agreement. Paragraph II.C.2. of the Decision and Order requires that ConocoPhillips offer to enter into discussions regarding renewal of the brand licensing agreement at the end of the ninth year.

8. Services. Paragraph II.C.3 of the Decision and Order requires that ConocoPhillips enter into an agreement providing such credit card services, additive, and brand support as the acquirer may wish to purchase at Phillips' cost.

9. Purchase and Sale of Ancillary Products. Paragraph II.C.4. of the Decision and Order requires that ConocoPhillips enter into a purchase and sale agreement regarding Ancillary Products that includes terms that provide for the following, "Ancillary Products acquired from ConocoPhillips for resale in Utah, Idaho, Wyoming, and Montana at

commercial, arms-length terms, no less favorable than those given by ConocoPhillips to other wholesale purchasers who buy Ancillary Products of like quantity, grade, and quality from ConocoPhillips, but permitting differences in manufacturing, purchasing, shipping, or storage costs." ConocoPhillips has entered into a Branded Ancillary Products Purchase Agreement with Holly.

10. Environmental Indemnity. Paragraph II.F. of the Decision and Order requires that ConocoPhillips offer the acquirer an indemnity allocating among ConocoPhillips and the acquirer responsibility with respect to potential claims and liabilities arising out of failure to comply with local, state, and federal environmental obligations in connection with the Phillips Woods Cross Assets. ConocoPhillips has entered into an Environmental Agreement with Holly. Woods Cross Sale Agreement & Exhibit L, Environmental Agreement

11. Inability to Divest Intangible Asset Involving Rights Granted by Government Authorities. Paragraph II.J. of the Decision and Order requires that ConocoPhillips, if it is unable to satisfy all conditions necessary to divest any intangible asset, with respect to permits, licenses or other rights granted by governmental authorities (other than patents), provide such assistance as the acquirer may reasonably request.

12. Inability to Divest Other Intangible Asset Not Involving Rights Granted by a Government Authority. Paragraph II.J. of the Decision and Order requires that ConocoPhillips, if it is unable to satisfy all conditions necessary to divest any intangible asset, with respect to other intangible assets not included in Paragraph 11 above, including patents and contractual rights, substitute equivalent assets or arrangements.

13. Boise and Burley Terminals. Paragraph II.K. of the Decision and Order provides that should ConocoPhillips be unable to divest its interest in the Boise or Burley terminals due to a co-owner's failure to waive its preferential rights, ConocoPhillips will enter into a substitute agreement that will enable the acquirer to obtain the same commercial benefit it would have obtained if it had purchased the Boise and Burley terminals.

14. Purpose of the Decision and Order. Paragraph II.M. of the Decision and Order provides that the purpose of the Decision and Order's provisions concerning the divestiture of the Phillips Woods Cross Assets is to ensure the continued use of the Phillips Woods Cross Assets in the same business in which they were engaged at the time of the announcement of the proposed merger and to remedy the lessening of competition in the

refining, terminaling, and bulk supply of motor fuels and other petroleum products resulting from the merger, as alleged in the Commission's complaint. As discussed in greater detail above, Holly is an experienced refiner that currently operates two refineries, thousands of miles of transportation assets, and six terminals. Moreover, Holly has no refineries in the Utah market identified in the Commission's complaint. Accordingly, the proposed divestiture of the Phillips Woods Cross Assets to Holly will accomplish the Commission's goals.

* * *

ConocoPhillips and Holly have entered into agreements relating to the divestiture of the Phillips Woods Cross Assets that fully comply with the Commission's Decision and Order. Further, there is every reason to believe that Holly will be a viable and competitive owner of the Phillips Woods Cross Assets. Accordingly, ConocoPhillips hereby seeks expeditious Commission approval of the proposed divestiture – along with the related agreements – pursuant to Paragraphs II.A. of the Decision and Order.

Conclusion

For the foregoing reasons, ConocoPhillips respectfully requests that the Commission expeditiously approve the proposed divestiture of the Phillips Woods Cross

Assets to Holly, in the manner provided in the Woods Cross Agreements, as soon as practicable after expiration of the public comment period.

Respectfully submitted,

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Dated: January 15, 2003

Holly Corporation Press Release

HOLLY CORPORATION RECEIVES PERMITS FOR NEW UNIT AND REFINERY EXPANSION

1/8/2002

Dallas, Texas -- Holly Corporation (AMEX "HOC") announced today that its subsidiary Navajo Refining Company, L.P. has received the necessary permits for the construction of a new Gas Oil Hydrotreating Unit at Navajo's Artesia, New Mexico refining facility and for the expansion of its New Mexico refining capacity.

The Gas Oil Hydrotreater will enable Navajo to expand substantially its capabilities to produce higher-valued California grade gasolines required in its Phoenix market while increasing Navajo's overall percentage yield of gasoline. Navajo will also be positioned to meet the new EPA nationwide low-sulfur clean-burning gasoline standards on all its gasoline production upon the completion of the Gas Oil Hydrotreater in late 2003, which would be over four years ahead of the required date for the Navajo facility.

Contemporaneous with the Hydrotreater project, Navajo will be making necessary modifications to several of the Artesia processing units for the first phase of Navajo's expansion, which will increase crude oil refining capacity from 60,000 to 70,000 barrels per day (BPD). The first phase of the expansion is expected to be completed by the end of 2003. Certain additional permits will be required to implement needed modifications at Navajo's Lovington, New Mexico refining facility which is operated in conjunction with the Artesia facility. It is envisioned that these necessary modifications to the Lovington facility would also be completed by the end of 2003. The permits received by Navajo will also permit a second phase expansion of Navajo's crude oil capacity from 70,000 to 80,000 BPD but a schedule for such additional expansion has not been determined.

Matthew P. Clifton, President of Holly Corporation said, "We are extremely pleased to produce these cleaner-burning gasolines for our New Mexico, Arizona, Texas, Colorado and Utah customers ahead of our regulatory deadlines and, to implement advanced environmental control technology that will put Navajo in the upper tier of low emission refining facilities in the country. This project demonstrates our commitment to grow our clean-burning fuel production capabilities to meet the expanding energy needs of our Southwest markets in a manner that improves air quality at our facility while reducing vehicle tailpipe emissions within the communities we serve. This project is a clear win-win situation that improves air quality, regional energy self-sufficiency, and the profitability of our company."

The cost of the Gas Oil Hydrotreater project will be substantially reduced by using existing Hydrotreater equipment that was purchased from an Illinois refinery and has been relocated to the Navajo Refinery. Because of the use of this equipment, the total cost of the Gas Oil Hydrotreater project and the expansion of the Navajo Refinery to 70,000 BPD is currently estimated to be approximately $48 million, including approximately $15 million that has already been spent on engineering and the purchase and relocation of equipment.

The first phase of the Navajo Refinery expansion project will increase Holly Corporation's total crude oil refining capacity by approximately 15%, from 67,000 BPD to 77,000 BPD.

Holly Corporation, through its affiliates, Navajo Refining Company and Montana Refining Company, is engaged in the refining, transportation, terminalling and wholesale marketing of petroleum products.

The following is a "safe harbor" statement under the Private Securities Litigation Reform Act of 1995: The statements in this press release relating to matters that are not historical facts are forward-looking statements based on management's belief and assumptions using currently available information and expectations as of the date hereof, are not guarantees of future performance and involve certain risks and uncertainties. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, the Company cannot give any assurances that these expectations will prove to be correct. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in such statements. Such differences could be caused by a number of factors including, but not limited to, risks and uncertainties with respect to efficiency in carrying out construction projects, the actions of actual or potential competitive suppliers of refined petroleum products in the Company's markets, the demand for and supply of crude oil and refined products, the spread between market prices for refined products and market prices for crude oil, the possibility of constraints on the transportation of refined products, the possibility of inefficiencies or shutdowns in refinery operations or pipelines, governmental regulations and policies, the availability and cost of financing to the Company, the effectiveness of the Company's capital investments and marketing strategies, the costs of defense and the risk of an adverse decision in the pending litigation against the Company brought by Longhorn Partners Pipeline, L.P., general economic conditions, and other financial, operational and legal risks and uncertainties detailed from time to time in the Company's Securities and Exchange Commission filings. The Company assumes no duty to publicly update or revise such statements, whether as a result of new information, future events or otherwise.

FOR FURTHER INFORMATION, Contact:

Matthew P. Clifton, President
Stephen J. McDonnell, Vice President
and Chief Financial Officer
Holly Corporation
214/871-3555

Holly Corporation Press Release

HOLLY CORPORATION COMPLETES ENHANCED NEW MEXICO DISTRIBUTION SYSTEM

1/15/2002

Dallas, Texas -- Holly Corporation (AMEX "HOC") announced today that its wholly-owned subsidiary, Navajo Refining Company, L.P., has completed the expansion of its Moriarity, New Mexico petroleum products terminal. The terminal expansion includes the addition of gasoline and jet fuel to existing diesel fuel delivery capabilities and thus permits Navajo to provide a full slate of light products to the growing Albuquerque and Santa Fe, New Mexico areas.

Enhanced pumping capabilities on the Company's Navajo pipeline extending from Holly's Artesia, New Mexico refinery through Moriarity, New Mexico to Bloomfield, New Mexico, in the northwest corner of New Mexico, will permit Navajo to deliver a total of over 45,000 barrels per day (BPD) of light products to these central and northwestern New Mexico locations. If needed, the addition of pump stations could further increase the pipeline's capabilities in the future.

Navajo's pipeline system, which consists of 330 miles of 8" pipeline leased from Williams and 60 miles of company-owned 12" pipeline, commenced service at the end of 1999, with an initial capacity of 16,000 BPD, upon the completion of a gasoline, diesel and jet fuel terminal in Bloomfield, New Mexico, and a diesel fuel terminal in Moriarity.

Matthew Clifton, President of Holly Corporation, said "Our enhanced product distribution capabilities position our Navajo refinery to satisfy economically and safely the growing gasoline, diesel and jet fuel needs of northern New Mexico for many years to come."

Holly recently announced the receipt of permits for the expansion of Navajo's Artesia, New Mexico crude oil refining capacity and the addition of a new Gas Oil Hydrotreater to increase Navajo's capacity to produce clean burning gasoline. The first phase of the expansion, which will increase crude oil capacity from 60,000 BPD to 70,000 BPD, and the construction of the new Gas Oil Hydrotreater, is expected to be completed by the end of 2003. A schedule for an additional permitted expansion to 80,000 BPD of crude oil capacity has not been determined.

"This pipeline system to the Four Corners Area, coupled with our announced refinery expansion, will allow Navajo to meet anticipated New Mexico petroleum product demand and to supply Colorado and Utah with light products in the event that proposed third-party pipeline extensions from the Four Corners Area to Salt Lake City are constructed," Clifton added.

Holly Corporation, through its affiliates, Navajo Refining Company and Montana Refining Company, is engaged in the refining, transportation, terminalling and wholesale marketing of petroleum products.

The following is a "safe harbor" statement under the Private Securities Litigation Reform Act of 1995: The statements in this press release relating to matters that are not historical facts are forward-looking statements based on management's belief and assumptions using currently available information and expectations as of the date hereof, are not guarantees of future performance and involve certain risks and uncertainties. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable, the Company cannot give any assurances that these expectations will prove to be correct. Therefore, actual outcomes and results could materially differ from what is expressed, implied or forecast in such statements. Such differences could be caused by a number of factors including, but not limited to, risks and uncertainties with respect to the actions of actual or potential competitive suppliers of refined petroleum products in the Company's markets, the demand for and supply of crude oil and refined products, the spread between market prices for refined products and market prices for crude oil, the possibility of constraints on the transportation of refined products, the possibility of inefficiencies or shutdowns in refinery operations or pipelines, governmental regulations and policies, the availability and cost of financing to the Company, the effectiveness of the Company's capital investments and marketing strategies, the Company's efficiency in carrying out construction projects, the costs of defense and the risk of an adverse decision in the pending litigation against the Company brought by Longhorn Partners Pipeline, L.P., general economic conditions, and other financial, operational and legal risks and uncertainties detailed from time to time in the Company's Securities and Exchange Commission filings. The Company assumes no duty to publicly update or revise such statements, whether as a result of new information, future events or otherwise.

FOR FURTHER INFORMATION, Contact:

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James G. Townsend, Vice President,
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CONFIDENTIAL EXHIBIT 3