

**GRAY OAK PIPELINE, LLC**  
**PRORATION POLICY**  
**February 28, 2020**



The intention of Carrier's Proration Policy is twofold:

- To allocate the capacity of a specific segment of the Pipeline among the Regular Shippers and New Shippers on an equitable basis in the Nomination process.
- To maximize the actual utilization of the capacity of a specific Pipeline segment.

Carrier may implement this Proration Policy anytime the Nominations on a specific Pipeline segment exceed the Available Capacity on that Pipeline segment. This Proration Policy is in compliance with Carrier's obligations under applicable law.

**Definitions:** For purposes of the Proration Policy, the following terms have the meanings ascribed to them below.

**Actual Shipments** means the volume of Crude Petroleum transported over a specific Pipeline segment.

**Adjusted Nominations** means the valid and binding Nominations that are received by Carrier from Shippers, as may be modified by Carrier pursuant to this Policy if Shippers have been notified that a specific Pipeline segment has been prorated.

**Affiliate** means, with respect to any Shipper, any other entity or person that (a) Owns or controls the Shipper, (b) is Owned or Controlled by the Shipper, or (c) is under common Ownership or Control with the Shipper. For purposes of this definition, "Own", "Owned", or "Ownership" means ownership of more than fifty percent of the equity interests or rights of distribution on account of equity of any person or entity, and "Control" means the possession, direct or indirect, of the power to exercise effective control over the management and policies of an entity, whether through the ownership of voting securities, by contract, or otherwise.

**Allocation Month** means any month in which the Nominations of all Shippers on a specific Pipeline segment exceed the Available Capacity, thereby causing Carrier to implement this Proration Policy.

**Alternate Out of Path Nomination** means:

- (i) a Nomination by a Committed Shipper from an origin point that is neither a Selected Origin Point nor a Path Origin Point for such Committed Shipper, or
- (ii) a Nomination by a Committed Shipper to a destination point that is neither a Selected Destination Point nor a Path Destination Point for such Committed Shipper.

In addition, the term "Alternate Out of Path Nomination" includes:

- a) any In-Path Segmented Movement for which either the ultimate upstream origin point or the ultimate downstream destination point, in either case of the Path Segmentation Nomination of which the In-Path Segmented Movement is a component, meets the criteria of (i) or (ii) above, as applicable, or
- b) any component segment(s) of a Path Segmentation Nomination by a Committed Shipper that is not an In-Path Segmented Movement.

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**Alternate Path Destination Point Nomination** means a Nomination for a Path to an applicable Path Destination Point by a Committed Shipper, in accordance with the Committed Shipper's TSA, including for the avoidance of doubt any component segment(s) of a Path Segmentation Nomination by a Committed Shipper that is an In-Path Segmented Movement, and for which Path Segmentation Nomination the ultimate downstream destination point is a Path Destination Point.

**Alternate Path Origin Point Nomination** means a Nomination for a Path from an applicable Path Origin Point by a Committed Shipper, in accordance with the Committed Shipper's TSA, including for the avoidance of doubt any component segment(s) of a Path Segmentation Nomination by a Committed Shipper that is an In-Path Segmented Movement, and for which Path Segmentation Nomination the ultimate upstream origin point is a Path Origin Point.

**Available Capacity** means the total available capacity of a segment of the Pipeline to transport Crude Petroleum.

**Base Capacity** means Available Capacity on the Pipeline other than Incremental Capacity. For the avoidance of doubt, Base Capacity includes capacity that becomes Base Capacity due to the occurrence of a date set forth in the definition of "Incremental Capacity" below, after which date the subject capacity ceases to be Incremental Capacity.

**Base Capacity Historic Shipment Volume** means

- a) for a Regular Shipper other than a Committed Shipper, the monthly average of such Regular Shipper's volumes of Crude Petroleum actually shipped over the Base Period in the Base Capacity, and
- b) for a Committed Shipper, the greater of
  - (i) the monthly average of such Committed Shipper's volumes of Crude Petroleum actually shipped over the Base Period in the Base Capacity (or such portion of such monthly average that shall not result in an allocation to any other Committed Shipper under step #2 below that reduces such other Committed Shipper below its Committed Volume), provided that for all purposes of determining such average, such Committed Shipper's Segmented Path Movements (if any) during the Base Period shall be deemed to be from the Selected Origin Point to the Selected Destination Point for the relevant path, only, and the volume of such Segmented Path Movements shall be the volume nominated and actually shipped from the relevant ultimate upstream origin point for the Segmented Path Movement only, or
  - (ii) the Committed Shipper's Committed Volume.

**Base Period** means the twelve (12) consecutive month period ending with the second month prior to the Allocation Month for which Nominations are being apportioned, during which current Shippers establish their Base Capacity Historic Shipment Volume.

**BPM** means barrels per month.

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**Carrier** means the pipeline company, Gray Oak Pipeline LLC, which accepts Nominations for transportation of, and transports, Crude Petroleum on its common carrier Pipeline system.

**Central Junction Segment Group(s)** means those certain segments of the Pipeline that are defined as forming the “Central Junction Segment Groups” in the TSAs, which include the following: that portion of the Pipeline immediately downstream of the Central Junction to and including the Three Rivers Junction; that portion of the Pipeline immediately downstream of the Three Rivers Junction to and including the Three Rivers Station; that portion of the Pipeline immediately downstream of the Three Rivers Junction to and including the George West Station; that portion of the Pipeline immediately downstream of the George West Station to and including the Taft Station; that portion of the Pipeline immediately downstream of the Taft Station to and including the Corpus Station; that portion of the Pipeline immediately downstream of the Taft Station to and including the Ingleside Station; that portion of the Pipeline immediately downstream of the Central Junction to and including the VDP Station, the Sweeny/Freeport Station, and the DOE Pipeline Station; and that portion of the Pipeline immediately downstream of the previously described segment to and including the Houston Station.

**Committed Shipper** means a Shipper that has committed to ship, or pay a deficiency payment for failure to ship, certain minimum volumes of Crude Petroleum pursuant to a TSA and/or a Shipper that has dedicated Crude Petroleum to Carrier pursuant to a TSA, in each case where Carrier has developed and designed the Pipeline to accommodate Committed Volumes for each such Committed Shipper TSA.

**Committed Volume** means the minimum average daily volume of Crude Petroleum set forth in a Committed Shipper's TSA, as such Shipper's minimum volume commitment may be in effect from time to time in accordance with such Committed Shipper's TSA.

**Crude Petroleum** is defined in Carrier's tariff(s).

**Extraordinary Operating Conditions** means operating conditions which result in the capacity of a Pipeline segment available for shipments of Crude Petroleum being reduced below the design capacity for any reason, including events of force majeure, weather conditions, repairs or maintenance.

**In-Path Segmented Movement** means any component segment(s) of a Path Segmentation Nomination by a Committed Shipper that is within the continuous path from the ultimate upstream origin point of the Path Segmentation Nomination to the ultimate downstream destination point of such Path Segmentation Nomination.

**Incremental Capacity** means approximately 68,000 barrels per day for all segments originating in West Texas for the first year (April 1, 2020 through March 31, 2021) and approximately 56,000 barrels per day for all segments originating in West Texas for year two (April 1, 2021 through March 31, 2022).

**New Shipper** means any Shipper who is not a Regular Shipper.

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**New Shipper Base Capacity** means, with respect to a prorated Pipeline segment in any Allocation Month, the greater of:

- a) 10% of the Available Capacity that is Base Capacity of such prorated Pipeline segment or
- b) the Base Capacity of such prorated Pipeline segment that is not Regular Shipper Base Capacity.

**Nomination** means a request by a Shipper to Carrier to transport a stated quantity of Crude Petroleum on the Pipeline for the account of such Shipper in any month.

**Origin Segment** means, with respect to a Committed Shipper, the specific segment of the Pipeline on which such Committed Shipper's Selected Origin Point is located pursuant to the terms of the its TSA.

**Path** means a combination of a Selected Origin Point and a Selected Destination Point under a given TSA.

**Path Destination Point** means either a point designated as such with respect to a given destination point in the TSAs, or a destination point that is upstream of, and over a shorter transportation haul and in the same continuous path as, the relevant Committed Shipper's Selected Destination Point from the Selected Origin Point.

**Path Origin Point** means either a point designated as such with respect to a given origin point in the TSAs, or an origin point that is downstream of, and over a shorter transportation haul and in the same continuous path as, the relevant Committed Shipper's Selected Origin Point to the Selected Destination Point.

**Path Segmentation Nomination** means, with respect to a Committed Shipper's Path under a TSA, (A) a nomination (1) that is from a Selected Origin Point, a Path Origin Point, or any other origin point(s) on the Pipeline, to a destination point on the Pipeline that is downstream of the nominated origin point but that is not the Selected Destination Point for such Committed Shipper, and (2) that utilizes a portion of the transportation path on the Pipeline from the Committed Shipper's Selected Origin Point to the Selected Destination Point; and (B) a nomination (1) that is from an origin point on the Pipeline, that is not the Selected Origin Point for such Committed Shipper, to the Selected Destination Point, a Path Destination Point, or any other destination point(s) on the Pipeline, and (2) that does not overlap any part of the transportation path for the nominated movement described in (A) above but does utilize a portion of the transportation path on the Pipeline from the Committed Shipper's Selected Origin Point to the Selected Destination Point. Pursuant to the terms of each applicable TSA, the nomination described in (A) and (B) must be submitted for the same number of Barrels.

**Pipeline** means the Gray Oak Pipeline.

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**Prepaid Transportation Credits** means credits generated by deficiency payments made by a Committed Shipper under its TSA, or otherwise generated as provided in its TSA, that may be applied as prepayment for transportation by such Committed Shipper.

**Proration Policy** means this document, which is the official written description of the process by which Carrier will allocate Available Capacity when Nominations on any segment of the Pipeline exceed the Available Capacity.

**Regular Shipper** means

- (i) a Committed Shipper (excluding any Committed Shipper whose rights with respect in the event of prorating have been terminated by the Carrier in accordance with Section 12(c) of the TSA), and
- (ii) a Shipper that has Actual Shipments during each month of the Base Period.

**Regular Shipper Base Capacity** means, with respect to a prorated Pipeline segment in any Allocation Month, the lesser of:

- (a) ninety percent (90%) of the Available Capacity that is Base Capacity of such prorated Pipeline segment or
- (b) one hundred and thirty five percent (135%) of the aggregate Committed Volumes utilizing such prorated Pipeline segment.

**Segmented Path Movement** means, collectively, the shipment of barrels on the Pipeline that are actually tendered by a Committed Shipper in accordance with a nomination made under subpart (A) of the definition of "Path Segmentation Nomination" and under a nomination made under subpart (B) of such definition.

**Selected Destination Point** means a destination point designated as such in a Committed Shipper's TSA.

**Selected Origin Point** means an origin point designated as such in a Committed Shipper's TSA.

**Shipper** means a party nominating volumes for the shipment of Crude Petroleum on the Pipeline segment, in accordance with Carrier's tariff(s).

**TSA** means a Transportation Services Agreement executed by the Carrier and a Committed Shipper in accordance with an open season.

**The Allocation Methodology:**

During an Allocation Month, Available Capacity on an affected Pipeline segment will be allocated as follows:

1. In the aggregate, New Shippers will be allocated the New Shipper Base Capacity on a pro rata basis, but each New Shipper's allocation will not exceed the lesser of the New Shipper's Nomination or 2.5% of Available Capacity that is Base Capacity in any Allocation Month. If the pro rata allocation in an Allocation Month, based on the number of New Shippers

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making Nominations, results in no New Shipper being allocated the applicable minimum batch size, then Carrier will administer a lottery process for the total number of minimum batch size allocations available to New Shippers in the Allocation Month. A New Shipper will not be allocated capacity through the lottery process if it is: (a) an Affiliate of a Regular Shipper, or (b) an Affiliate of another Shipper who received an allocation through the lottery process. The lottery process will be conducted as follows:

- A. Carrier will use a random number generating software to randomly assign each New Shipper a number from one to the number representing the total number of New Shippers participating in the lottery (i.e. if there are fifty New Shippers, numbers one through fifty will be assigned).
  - B. The New Shipper assigned number one will receive the first minimum batch size allocation. Thereafter, minimum batch size allocations will be assigned to New Shippers sequentially, from lowest assigned number to highest assigned number, until the New Shipper Base Capacity is fully allocated.
2. For each prorated Pipeline segment, Regular Shipper Base Capacity will be allocated to Regular Shippers proportionately based on the lesser of each Regular Shipper's Base Capacity Historic Shipment Volume or its Nomination in the Allocation Month, including without limitation and for the avoidance of doubt for any In-Path Segmented Movement(s) that are part of any Regular Shipper's Nomination, except as otherwise provided in this Step #2. Provided, however, that in the event that one or more Regular Shippers makes an Alternate Path Origin Point Nomination or an Alternate Out of Path Nomination for an Allocation Month affecting a given origin point, then Regular Shipper Base Capacity under this Step #2 shall be allocated first to Regular Shippers' Nominations for Paths with such origin point as the Selected Origin Point, then to Regular Shippers' Alternate Path Origin Point Nominations at such point, and then to Regular Shippers' Alternate Out of Path Nominations originating at such point. In the event that two or more Regular Shippers make Alternate Path Origin Point Nominations for an Allocation Month for one or more origin points, then Regular Shipper Base Capacity under this Step #2 shall be allocated first to Regular Shippers' Nominations for Paths with such origin point(s) as the Selected Origin Point, second to Regular Shippers' Alternate Path Origin Point Nominations with an alternate origin point that is included in the same Origin Segment as the Selected Origin Point for the applicable Path, and third to Regular Shippers' Alternate Path Origin Point Nominations where such alternate origin point is not included in the same Origin Segment as the Selected Origin Point for the applicable Path.

Provided further that in the event that one or more Regular Shippers makes an Alternate Path Destination Point Nomination or an Alternate Out of Path Nomination for an Allocation Month affecting a given destination point, then Regular Shipper Base Capacity under this Step #2 shall be allocated first to Regular Shippers' Nominations for Paths with such destination point as the Selected Destination Point, then to Regular Shippers' Alternate Path Destination Point Nominations at such point, and then to Regular Shippers' Alternate Out of Path Nominations ultimately destined for such point. Finally, in the event that two or more Regular Shippers make Alternate Path Destination Point Nominations for an Allocation

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Month for one or more destination points, then Regular Shipper Base Capacity under this Step #2 shall be allocated first to Regular Shippers' Nominations for Paths with such destination point(s) as the Selected Destination Point, second to Regular Shippers' Alternate Path Destination Point Nominations with an alternate destination point that is included in the same Central Junction Segment Group as the Selected Destination Point for the applicable Path, and third to Regular Shippers' Alternate Path Destination Point Nominations where such alternate destination point is not included in the same Central Junction Segment Group as the Selected Destination Point for the applicable Path.

3. For each prorated Pipeline segment, the Available Capacity that is Incremental Capacity will be allocated on a pro rata basis to all Shippers based on the excess of each Shipper's Nomination over the capacity allocated to such Shipper pursuant to Steps #1 and #2 above. For certainty, no shipping history shall accrue in respect of Incremental Capacity allocated pursuant to this Allocation Methodology.
4. Any remaining Available Capacity after implementing steps #1, #2 and #3 will be allocated on a pro rata basis to Committed Shippers nominating volumes pursuant to Alternate Path Origin Point Nominations, Alternate Path Destination Point Nominations, Alternate Out of Path Nominations, and volumes to be shipped with the application of Prepaid Transportation Credits, based on the excess of such Committed Shippers' Nomination over the capacity allocated to such Committed Shipper pursuant to Steps #2 and #3.
5. Any remaining Available Capacity after implementing steps #1, #2, #3, and #4 will be allocated on a pro rata basis among all Shippers which were allocated Available Capacity pursuant to steps #1, #2, #3, or #4 based on the excess of each Shipper's Nomination over the capacity allocated to such Shipper pursuant to Steps #1, #2, #3, and #4.
6. No Nominations will be considered above the amount that the Shipper has been allocated for shipment, nor will Carrier accept a Nomination which exceeds the Available Capacity. Shippers shall not make Nominations that are inflated beyond the volume such Shipper reasonably expects to be able to ship. Carrier may require written assurances from responsible officials of a Shipper, stating that this requirement has not been violated. Furthermore, during any Allocation Month, no New Shipper Nomination shall be considered beyond the New Shipper Base Capacity. Nominations in excess of these limits will be reduced accordingly.
7. Once Carrier has determined each Shipper's Adjusted Nomination for any prorated Pipeline segment in accordance with the foregoing Allocation Methodology, Carrier will notify each Shipper of its Adjusted Nominations for the Allocation Month, if any, which shall be binding on the Shipper absent manifest error by Carrier.
8. In the event that a Regular Shipper or New Shipper releases all or any part of its allocated capacity in sufficient time prior to the Allocation Month to permit Carrier to reallocate and revise the schedule, and as a result the Carrier is then able to solicit other Shippers to fully utilize that capacity, then Shipper's allocation will be reduced without penalty (other than any Deficiency Payments payable by Committed Shippers for their allocated capacity).

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9. If the allocated capacity awarded to a Regular Shipper or New Shipper on a prorated Pipeline segment goes unused by that Shipper ("Unused Allocation"), then that Shipper is accountable for payment of the tariff fees for the Actual Shipments, or 100% of the Adjusted Nomination, whichever is greater. These charges will be waived when there exists Unused Allocation as a result of deliveries having been reduced at the request of the Carrier, or where Extraordinary Operating Conditions prevented full receipt or delivery of barrels Nominated by the Shipper.
  
10. In the event that a Shipper, who in spite of having a binding Adjusted Nomination on the prorated Pipeline segment, then attempts to withdraw that binding Adjusted Nomination, and as a result the Available Capacity is not fully allocated following application of items #1 through #5 above, the newly available portion of the Available Capacity shall be allocated in the following manner:
  - A. Each Regular Shipper with Nominations exceeding its Adjusted Nomination for such Pipeline segment will be allocated a portion of the newly available portion of the Available Capacity in the same proportion as that which it has been assigned on the allocated Pipeline segment.
  - B. Each New Shipper who was allocated Available Capacity pursuant to Step #1 above whose Nominations exceeded its Adjusted Nomination will be allocated a portion of the newly available portion of the Available Capacity in the same proportion as that which it has been assigned on the allocated Pipeline segment.
  - C. If there are no Shippers who have Nominations exceeding their Adjusted Nominations all Shippers who have Nominations on the allocated Pipeline segment will be notified that there is additional Available Capacity on the Pipeline segment. All Nominations from these Shippers will be honored in the same proportion that their Adjusted Nomination bears to the aggregated Adjusted Nominations from all Nominations from Shippers. For the avoidance of doubt, no history in a Base Period will be earned on Incremental Capacity allocated under this step.
  
11. In the event any Shipper shall, by any device, scheme, or arrangement whatsoever, make available to another Shipper, or in the event any Shipper shall receive and use any Available Capacity from another Shipper through violation of this Proration Policy, then the allocated capacity for both Shippers will be reduced, to the extent of the Allocated Capacity so made available or used, in the next Allocation Month after such violation becomes known to Carrier. In the event of sale, merger, consolidation or other material occurrence affecting a Shipper, Carrier shall make adjustments in allocations consistent with this Proration Policy. Notwithstanding the foregoing, this provision shall not prevent or exclude any Shipper from purchasing Crude Petroleum from any third party (including any other Shipper) prior to tendering such Crude Petroleum to Carrier and selling such Crude Petroleum to any third party (which may include another Shipper) following such Crude Petroleum being delivered to Shipper at the applicable Delivery Point (as such term is defined in the Carrier's tariff(s)).