

Phillips Texas Pipeline Company, Ltd
PRORATION POLICY FOR PRODUCT PIPELINES
4/1/2016

This Proration Policy will be used by the Carrier to allocate Available Capacity among all Shippers for any Proration Month for which Carrier determines, in its sole discretion, that the aggregate volume of Products Nominated by all Shippers for receipt into Carrier's System exceeds Available Capacity. Carrier may elect to allocate its Available Capacity on any equitable basis, in a manner different from this policy, during a generally recognized emergency period in order to help alleviate the emergency conditions. All capacity calculations shall be based on a gasoline equivalent basis. See connecting Carriers proration policies for information on prorating on their systems.

I. Definitions

“Available Capacity” means, with respect to any segment of System, total projected available capacity for the Proration Month on such segment, under then-current operating conditions as determined by Carrier, net of any capacity leased to others.

“Average Monthly Historical Flow” shall have the meaning as set forth in Item II.B.

“Base Period” is the 12 calendar month period just preceding the Calculation Month.

“Calculation Month” is the calendar month just preceding the Proration Month for which space is being allocated.

“Carrier” means Phillips Texas Pipeline Company, LTD

“New Shipper” is any Shipper who is not a Regular Shipper.

“Nominated” or **“Nomination”** means Products validly nominated for movement in Carrier's System in accordance with Carrier's "Nominations" procedures set forth in its published tariffs.

“Products” means any products allowed within the specific tariff.

“Products Allocated Capacity” is the Available Capacity and such Products Allocated Capacity will be allocated to Regular Shippers and New Shippers in a Proration Month, as determined in accordance with Item II.

“Proration Month” is the calendar month for which Carrier has determined that Nominated volumes exceed Available Capacity.

“Regular Shipper” is any Shipper who had a record of movements of Petroleum Product(s) in any ten (10) of the twelve (12) months in the Base Period.

“Shipment History” means the volume of Products moved through an applicable segment of Carrier's System by a Shipper during the applicable Base Period.

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“Shipper Monthly Historical Flow” has the meaning as set forth in Item II.C.

“Shipper(s)” means the party or parties who have shipper status to nominate Products for movement under Carrier’s published tariff for Products movements.

“System” means the pipeline(s) connecting the origin points and destination points described in the specific tariff

II. Allocation of Products Allocated Capacity among New and Regular Shippers

A. New Shippers shall be included in the allocation of Products Allocated Capacity. Total Products Allocated Capacity available for New Shippers will not exceed ten percent (10%) of the Products Allocated Capacity. Each New Shipper will be granted the lesser of (i) an equal initial allocated capacity of Products Allocated for Capacity for the Proration Month, provided that such initial allocation of capacity shall not be made to more than one of any affiliated New Shipper(s) or (ii) five percent (5%) of the initial Products Allocated Capacity (one half of the 10% for New Shippers) for the Proration Month, provided that such initial allocation of capacity shall not be made to more than one of any affiliated New Shipper(s). Any unused capacity shall become available for allocation among Regular Shippers as set forth in Item II.D.

B. Average Monthly Historical Flow shall be a calculation of the total barrels of all Products delivered for each segment of the System during the Base Period and divide this value by the lesser of (i) number of months in which the segment of the System has been in operation, or (ii) twelve (12).

C. Shipper Monthly Historical Flow shall be a calculation of the total barrels of all Products delivered for a particular Shipper for each segment of the System during the Base Period and divide this value by the lesser of (i) number of months in which the segment of the System has been in operation, or (ii) twelve (12).

D. The total available barrels of capacity for each segment of the System which will be allocated to that Shipper will be calculated by taking the Shipper Monthly Historical Flow divided by the Average Monthly Historical Flow, and multiplying this quotient by the total barrels of capacity allocated to Regular Shippers. The final Products capacity allocated to a particular Shipper will be the lower of (i) the Shipper’s Nomination or (ii) the allocation as determined in this Item II.D.

E. Any remaining capacity not Nominated by Regular Shippers would be re-allocated among all New Shippers according to Item II.A.

III. Notification

Carrier shall notify each Shipper of its allocated capacity in accordance with the notification timelines set forth in the Nominations provisions of Carrier's published tariff(s). Shippers shall have, following Carrier's notification of each Shipper's allocated capacity, three days to submit revisions to their initial Nominations so as to distribute their allocated capacity among the Products, origins and destinations then served by Carrier. Carrier will follow Item II.D to allocate any capacity that might become available.

IV. Good Faith Tenders

Carrier will accept only good faith Nominations from Shippers, and Carrier shall use whatever reasonable means necessary to determine whether Nominations are made in good faith. Good faith means the non-contingent ability of Shipper to deliver to Carrier at the origin(s), or to receive from Carrier at the destination(s) specified in the Nomination, all of the volume Nominated during the time period for which the Nomination is made. Carrier may request any additional documentation from Shipper indicating Shipper's ability to deliver and/or receive the Products Nominated.

V. Failure to Use Allocated Capacity

If a Shipper fails to deliver at the origin(s) or fails to remove at the destination(s), specified by it in its Nomination, Products sufficient to fill its allocated capacity and such failure has not been caused by force majeure, as substantiated in a manner satisfactory to the Carrier, Carrier may require Shipper to pay the transportation charges under Carrier's published tariff for the applicable Product movement for such unused allocated Capacity, and Carrier shall also have the right, in a non-discriminatory manner, to reduce Shipper's allocated capacity for the next Proration Month in which such Shipper Nominates Product by an amount equal to such unused allocated capacity.

VI. Multiple Shipper Accounts

Unless otherwise instructed by Shipper, Carrier will consolidate the movement history and Nominations of all the Shipper's Products accounts for Shippers who have multiple Shipper accounts. Total allocated capacity will automatically be distributed among such Shipper's various accounts with any excess capacity allotment on one of its accounts being transferred to any account for which Nominated volume exceeds allotted capacity for that account. Nothing in this Item VI will allow such Shipper to receive a capacity allocation greater than the total allocated capacity that such Shipper would be entitled to if all of its movement history were consolidated in one Shipper account.

VII. No Enhancement of Allocation

In no event will a capacity allocation to Shipper be used in such a manner that will enhance the allocated capacity of another Shipper beyond the allocated capacity that such Shipper would be entitled to under this Proration Policy. Carrier may require written assurances from a responsible officer of Shipper regarding its use of its allocated capacity stating that Shipper has not violated this Policy.

VIII. Transfer of Allocated Capacity and Shipment History.

Space allocated to a Shipper may not be assigned to another Shipper. Upon request of Carrier, a responsible official of a Shipper's company may be required to give assurances to Carrier that this provision has not been violated. In the event such provision is violated, the allocated space for all Shippers involved in the violation shall be reduced by the amount of the unauthorized space obtained; the reduction being effective for the remainder of the current month as well as for the next month of proration for which pipeline capacity has not yet been allocated. Carrier may reallocate the space so withdrawn.