

PRORATION POLICY FOR PHILLIPS TEXAS PIPELINE COMPANY, LTD. (PTPL)

When there shall be nominated to Carrier for transportation more Petroleum than can be immediately transported, based on the capacity of the System or any line segments thereof, the transportation provided by the Carrier shall be allocated among Shippers on an equitable basis. Space in each segment will be allocated between "Regular Shippers" and "New Shippers" using the following proration policy:

I. Definitions

"Proration Month" is the calendar month for which capacity is to be allocated.

The **"Base Period"** is the 12-calendar month period beginning 13 months prior to the Proration Month and excluding the month preceeding the month of allocation. For example, if November, 2005 is the Proration Month, the 12 month period begins in October, 2004 (month 1) and runs through September, 2005 (month 12).

A **"New Shipper"** is any Shipper that has not had a record of movements in the line segment being prorated during the Base Period. A New Shipper will become a Regular Shipper 12 months after the first month a movement is recorded for the New Shipper.

A **"Regular Shipper"** is any Shipper who does not qualify as a New Shipper.

"Base Shipments" are the average monthly movements by a Regular Shipper during the Base Period. Base Shipments will be calculated by dividing a Regular Shipper's total volume shipped during the Base Period by 12.

The **"Allocation Calculation"** is the method used to allocate Shippers nominated volumes once Proration is needed (A Regular Shipper's Base Shipments divided by systems average throughput during the base period equals the percent of the Proration Month's capacity that Shipper is entitled to ship).

The **"Proration Factor"** is a fraction calculated by dividing the capacity of the line segment to be prorated by the total nominations.

II. Proration Procedures

1. Up to 5% of the prorated system's capacity will be reserved for New Shippers. Each New Shipper will be allocated space equal to its nominated volume multiplied by the Proration Factor.
2. The remaining capacity will be allocated among Regular Shippers based on their Base Shipment calculations.
3. In the event any Shipper is allocated more capacity than its nominated volumes, the excess of its allocation over its nominated volumes will be reallocated among all other Regular Shippers in proportion to their Base Shipments.
4. To penalize inflation of Shippers' nominations, a Shipper's space allocation for the next Proration Month/months for which the Shipper nominates may be reduced by the amount of allocated throughput not shipped in the preceding Proration Month unless such failure is excused by force majeure.

III. General

1. Space allocated to a Shipper may be neither assigned to nor used to the benefit of another Shipper. Carrier may require written assurances from responsible officials of Shippers 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 the next month of proration.