

**PAR ROCKY MOUNTAIN MIDSTREAM, LLC**  
**PRORATION POLICY**  
**SILVERTIP PIPELINE SYSTEM**

Effective: December 1, 2007

<b>I. Pipeline Proration Policy -- PAR ROCKY MOUNTAIN MIDSTREAM, LLC (Carrier)</b>
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**A. PURPOSE OF THIS PRORATION POLICY**

There may be times when the Carrier in its sole discretion determines that its capacity is not sufficient to transport the full volume of nominated volumes submitted to it by shippers. If increased capacity is not readily available, this policy provides a method to calculate an equitable proration of capacity to shippers.

**B. DEFINITIONS**

1. **Initial Operating Period** - the "Initial Operating Period" shall be defined as the first 12 (twelve) month period from December 1, 2007 through November 30, 2008.

2. **Base Period** - the 12 month period commencing on the first day of the month that is 13 months prior to the month during which proration is to occur and extending through the last day of the second month proceeding the prorated month. For example, if proration occurs in February 2009, the Base Period will be January 1, 2008 through December 31, 2008.

3. **Regular Shipper** - a "Regular Shipper" is any shipper who shipped on the Carrier for at least 8 of 12 months during the Base Period. Shippers will lose their Regular Shipper status when they have not shipped for at least 8 of 12 months during the Base Period.

4. **New Shipper** - a "New Shipper" is any shipper other than a Regular Shipper.

5. **Average Daily Volume** – the average of a Regular Shipper's volumes shipped during the Base Period through the Prorated Segment.

6. **Multiple Shipper Accounts** - separate accounts for all companies that are an Affiliated Entity with a single parent company. For the purpose of implementing this Proration Policy, more than fifty percent (50%) ownership by the parent company shall constitute an affiliate.

7. **Prorated Segment** – the segment of the Carrier's pipeline system that the Carrier declares to be a “prorated segment” shall be treated as a separate entity with regard to the application of the definitions of a “Regular Shipper” and “New Shipper” as defined above.

### **C. VALID NOMINATIONS.**

The Carrier does not permit over-nominating. In order that estimated capacity may be prorated among shippers without discrimination, shippers shall submit valid and realistic nominations and schedules of shipments, which do not exceed either the volume of crude expected to be available for shipment, or the Carrier's estimated capacity.

If the Carrier reasonably believes that a shipper:

a) Has nominated an amount of crude that exceeds the volume of crude the shipper will actually have available at the point of origin,

b) Has previously withdrawn all or part of an accepted nomination from the Carrier without acceptance by the Carrier of such decreased nomination,

c) Has nominated the same crude to the Carrier and to one or more other carriers,

d) Has failed to comply with the Carrier's Rules and Regulations, or

e) Has failed to provide the Carrier with required information in a timely manner;

then, the Carrier reserves the right to take any of the following actions:

1. Require an affidavit from shipper stating under oath that the nomination is valid,

2. Reduce shipper's nomination to an amount the Carrier believes to be the amount of crude that the shipper will actually have available at the point of origin for the shipment,

3. Reject the entire nomination for the nomination period, or

4. limit the volume of crude accepted by the Carrier from the shipper in each of the next three (3) months in which the line is apportioned to not more than the volume of crude received by the Carrier from such shipper in the month of proration.

#### **D. PRORATION PROCEDURES**

1. During the Initial Operating Period, the capacity shall be allocated on a pro rata basis if such apportionment becomes necessary where it shall be performed in accordance with Carrier's (Proration Procedure, Lower 48 States Systems) dated November 1, 2004. After the Initial Operating Period, the allocation methodology will be based on the following:

2. **Proration** - The nominated volumes for each Regular Shipper and New Shipper shall be totaled and divided into the capacity of the pipeline. The resultant fraction will be the "Proration Factor." If the Proration Factor is one (1) or greater, no proration is needed. If proration is needed, the capacity of the pipeline will be initially allocated separately for New Shippers and Regular Shippers.

3. **New Shipper Proration** – Five percent (5%) of the pipeline's capacity will be reserved for New Shippers. The pipeline capacity allocated for New Shippers (5%) shall be divided by the sum total of all nominated volumes for each New Shipper. The resultant fraction will be the "New Shipper Proration Factor." If the New Shipper Proration Factor is one (1) or greater, no proration is needed for the New Shipper class and each New Shipper shall be allocated their nominated volume. If the New Shipper Proration Factor is less than one (1), each New Shipper's allocated volume shall be equal to their nominated volume multiplied by the New Shipper Proration Factor.

4. **Regular Shipper Proration** - The remaining capacity after allocation to the New Shippers shall be allocated among Regular Shippers in proportion to their Average Daily Volume.

5. In the event any Regular Shipper is allocated more capacity than its nominated volume, the capacity it has been allocated in excess of its nominated volume will be reallocated among all other Regular Shippers in proportion to their Average Daily Volume until (i) such excess capacity

has been distributed to other Regular Shippers or (ii) all of the Regular Shippers have been allocated a volume equal to their nominations, whichever occurs first.

6. If additional capacity exists after the application of Items D2 through D5 above, then such additional capacity will be allocated to all shippers on a pro rata basis. Nothing in this proration policy shall require the Carrier's total allocations to be less than the available capacity.

7. In addition, if the prorated segment is restricted because of a shipper's inability to meet the Carrier's pumping and delivery rates, a volume equal to the volume of nominated capacity not utilized will be deducted from that shipper's succeeding month's allocation. The allocation reductions will not exceed the shipper's allocation, so any excess reductions will be carried forward to the next proration month.

8. If a shipper releases or is otherwise unable to use any or all of its allocated volume, the Carrier will notify all the remaining shippers of the available space and will redistribute the space on a first-come, first-serve basis.

## **E. GENERAL**

1. All shippers will continue to submit nominations for each subsequent month in accordance with the Carrier's applicable tariff rules and regulations.

2. In no event shall a shipper utilize any portion of its nominated/prorated volume in any manner that will increase the volume allocation of any other shipper. The Carrier shall have the right to require a written assurance, executed by a responsible officer of a shipper, concerning a shipper's use of its nominated/prorated volume. The written assurance shall contain a statement on behalf of the shipper that the provisions of this requirement have not been violated.

3. 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 space from a shipper through violation of this requirement, the allocated volume for both shippers will be reduced to the extent of the excess volume so made available or used. The Carrier shall have the right to

make these reductions anytime after it becomes aware that such a violation or violations have taken place.

4. Except as provided in this item, allocated volumes may not be assigned, conveyed, loaned, transferred to, or used in any manner by another shipper. However, a shipper's shipment history may be transferred as an incident of the bona fide sale of substantially all of the shipper's business or to a successor to substantially all of the shipper's business. Transfers of a shipper's shipment history must be approved in advance by the Carrier and shall be irrevocable once the transfer is approved.

5. For the purpose of allocating capacity, the Carrier shall consolidate the transportation history and nominations of all accounts for shippers who have Multiple Shipper Accounts. Nothing in this item will allow a shipper to receive a capacity allocation greater than the total allocated capacity that such shipper would be entitled to if all of its transportation history was consolidated in one shipper account.

6. The Carrier may allocate capacity on a different equitable basis during an emergency period.

7. Nothing in this policy is intended to preclude a shipper from conforming to the minimum batch size requirements as stated in the Carrier's tariff rules and regulations. To the extent practical, the Carrier will work with the shippers on an equitable basis with regard to meeting the minimum batch sizes.