

EXPLORER PIPELINE COMPANY

Petroleum Products
Proration Policy
January 2010

I. Definitions

- A. The "Base Period" shall be the period within which each Regular Shipper's shipments are taken into account for purposes of allocating available Bid, Regular or Discount Capacity, and shall consist of a continuous moving Base Period of 12 months beginning 13 months prior to the month of allocation and excluding the one months preceding the month of allocation. Intervals when no proration is in effect will, nevertheless, be included in the Base Period.
- B. The term "Deliveries" shall mean the volumes of petroleum products delivered at destination which moved through the line segment to be prorated or is committed volume of petroleum products in accordance with Item 111 ("Flexible Capacity Rates") to the line segment to be prorated.
- C. A "Regular Shipper" is any shipper as defined in Explorer's published tariff who (a) received Deliveries during the first month of the Base Period, or (b) previously has been classified as a Regular Shipper and who continues to receive Deliveries in any one or more months of any succeeding Base Period.
- D. A "New Shipper" is any shipper as defined in Explorer's published tariff who does not qualify under the above definition of a Regular Shipper. At the end of twelve months from the beginning of the first month in which the New Shipper shall have received Deliveries, he will then become a Regular Shipper and his actual shipments will become the basis for space allocation in the same manner as for other Regular Shippers.

- E. “Bid Capacity” shall mean up to 10% of each mainline segment’s capacity.
- F. “Regular Capacity” shall mean capacity available after allocation of Bid Capacity.
- G. “Discount Capacity” shall mean capacity available after allocation of Bid and Regular Capacity.

II. Allocation of Bid Capacity

Bid Capacity shall be awarded in accordance with the bid process defined under Item No. 113 of the FERC Tariff subject to operating restrictions. All regular and New Shippers with winning bids will be allocated space, until the total space available for bid is allocated. In the case of two or more equal bids for space exceeding the Bid Capacity, then space will be allocated proportionally among those tying bidders. If this proportional process results in an allocation that is less than the 25,000 barrel minimum batch size, that allocation will become zero. In the event the carrier does not allocate all of the designated Bid Capacity, the unused Bid Capacity will become available for allocation of Regular Capacity. During periods of proration, transportation taking place on Bid Capacity will be included for calculating Regular Capacity allocations, to the extent the Bid Capacity Deliveries do not increase the shipper’s current Regular Capacity allocation. During periods of non-proration or if Explorer comes off proration during the month, all transportation taking place on Bid Capacity will be included for calculating Regular Capacity allocations.

III. Allocation of Regular Capacity

A. Regular Shippers

During periods of proration, Regular Capacity will be allocated monthly among Regular Shippers in the respective proportions that Deliveries using Regular Capacity and any eligible Bid Capacity, as defined in Section II hereof, to each Regular Shipper during the Base Period bears to Deliveries using Regular Capacity and any eligible Bid Capacity, as defined in

Section II hereof, to all Regular Shippers during such period. Allocations to Regular Shippers will be subject to further reduction, if required to accommodate New Shippers. Beginning with Cycle 10 of 2005, allocations to Regular Shippers will be rounded to the nearest 25,000 barrel per month increment (i.e. 87,500 = 100,000. 87,499 = 75,000; 12,500 = 25,000; 12,499 = 0).

B. New Shippers

A New Shipper nominating products for shipment during monthly periods of proration, and who has otherwise satisfied applicable requirements of the tariff rules, will be allocated space based on their demonstrated need to ship a minimum batch of 25,000 barrels per month. Total Regular and Discount Capacity available for New Shippers will not exceed 7.0% of total line segment capacity rounded to the nearest 25,000-barrel per month increment.

Example: Assuming 28" southern system capacity equals 660,000 barrels per day or 19,800,000 barrels per month, then 7.0% of this capacity equals 46,200 barrels per day rounded to an even 1,400,000 barrels per month. Assuming 24" northern system capacity equals 450,000 barrels per day or 13,500,000 barrels per month, then 7.0% of this capacity equals 31,500 barrels per day rounded to an even 950,000 barrels per month.

Each New Shipper will be limited to a maximum allocation of 1.0% of total line segment capacity. If total New Shipper allocation exceeds the available space, each New Shipper's allocation will be reduced on a proportional basis so total New Shipper space does not exceed the limitations defined herein. Any unused capacity shall become available for allocation among Regular Shippers in proportion to their Base Period shipments. This provision will be effective to prospective New Shippers and will not impact current New Shippers.

IV. Allocation of Discount Capacity

In the event Carrier has excess capacity after allocating Bid and Regular capacity, then shippers may ship volumes nominated at the posted discount level as provided in Item No. 114 of the FERC Tariff. Transportation taking place on Discount Capacity will not be used for determining history for calculating Regular Capacity, but will establish a history for Discount Capacity. [W] If Explorer comes off proration during the month, all transportation taking place on Discount Capacity will be included for calculating Regular Capacity allocations.

A. Regular Shippers

During periods of proration, Discount Capacity will be allocated monthly among Regular Shippers in the respective proportions that the total Deliveries to each Regular Shipper using Discount Capacity during the Base Period bears to the total Deliveries to all Regular Shippers using Discount Capacity during such period. Allocations to Regular Shippers will be subject to further reduction, if required to accommodate New Shippers.

B. New Shippers

A New Shipper nominating products for Discount Capacity during monthly periods of proration, and who has otherwise satisfied applicable requirements of the tariff rules, will be allocated space based on their demonstrated need to ship a minimum batch of 25,000 barrels per month. Total Regular and Discount Capacity available for New Shippers will not exceed 7.0% of total line segment capacity rounded to the nearest 25,000-barrel per month increment. If total New Shipper allocation exceeds the available space, each New Shipper's allocation will be reduced on a proportional basis so total New Shipper space does not exceed the limitations defined herein.

V. Off-Peak Periods

To Encourage use of Explorer's pipeline capacity during off peak periods, (Explorer's cycles 1 through 9 and 31 through 36) actual Regular Capacity and eligible Bid Capacity, as defined in Section II hereof, Deliveries for New and Regular Shippers during these cycles will be adjusted upward by a factor of one and seventy-five hundredths (1.75) for establishing Base Period volumes only. Carrier's cycles are 10 days each commencing with cycle 1 approximately January 1 of each year.

VI. General

Attention is directed to that provision of Explorer's published tariff which requires written notice from each Shipper to Explorer, given by the 10th day of each month, of details respecting petroleum products to be shipped for the ensuing month. Shippers are reminded that Explorer is under no obligation to accept shipments not included in such notice.

A. Explorer will carefully examine nominations, using every means available to insure that they are true and realistic and may challenge any nominations which appear to be inflated. In no event will any portion of an allocation granted to a shipper be used in such manner that it will increase the allocation of another shipper beyond what it is entitled to under the proration policy. Explorer may require written assurances from responsible officials of shippers respecting use of allocated space, stating that this requirement has not been violated. In the event any shipper shall, by any device, assignment, scheme or arrangement whatsoever, make available to another shipper or, in the event any shipper shall receive and use any space from a New Shipper through violation of this requirement, the allocated space for both shippers will be reduced, in the prorated shipping cycles next following discovery of the violation, each to the extent of the space improperly used.

- B. Explorer reserves the right to increase or decrease any shipper's allocation in the event such shipper is involved in a merger, substantial sale of assets, reorganization or other substantial change which will significantly affect the future need of such shipper, or its successor, for shipping space.
- C. If a shipper releases, or is otherwise unable to use, any or all of his allocated space from an allocated cycle, such space shall be redistributed among the remaining shippers in that cycle in such manner as to allow the carrier to fully utilize the capacity of its system. Any shipper who holds allocated space that he cannot use, and who fails to notify Explorer thereof by wire or letter and relinquish the space for redistribution by the carrier to other shippers prior to 72 hours before the first day of a cycle, will have his allocation in the succeeding month reduced by the amount of space that he failed to utilize. If any shipper, new or regular, is unable to utilize all of his allocated space, because of a fire, strike, labor slow down, or other condition of force majeure, which reasonably causes such inability, and has given Explorer written notice thereof as soon as possible, Explorer may adjust credits for shipments in such equitable manner necessary to prevent the loss of that shipper's allocation percentage.
- D. To fully utilize Explorer's capacity during times of proration, Explorer will review all receiving and delivery facilities to determine if any are incapable of injecting or receiving at Explorer existing flow rates or throughput rates, and if there are such restricted facilities, Shippers using them will be subject to reduction of up to 100 percent of the quantity nominated from or to the restricted facility, as necessary to equate the total Nominations to available pipeline capacity. If more than one receipt or delivery facility is restricted from injecting into or receiving from Explorer at less

than Explorer's existing flow rates or throughput rates, Nominations from or to such facilities will be allocated in order of their actual capacity, with the facility able to inject or receive at higher rates taking priority over those capable of lesser rates. Nominations from or to facilities that can inject or receive at Explorer's existing flow rates or throughput rates, or greater will all be given equal priority. Explorer reserves the right to adjust allocations at restricted facilities in order to maximize total available pipeline capacity and throughput. Shippers will be notified of the proration of Nominations made from or to the restricted facility and will be permitted to re-nominate those volumes to another unrestricted facility prior to further allocation.

- E. Any discrimination, preference or advantage which the carrier or shippers may offer, grant, give, solicit, accept, or receive with respect to the allocation of shipping space may be a violation of Section 41, Title 49, United States Code Annotated, and other applicable laws.

VII. Explanation of Reference Marks

[W] Change in Wording only
[N] New