

SFPP, L.P. Proration Policy

Purpose of Policy

The purpose of this Proration Policy is to enable SFPP, L.P. (Carrier) to comply with its statutory obligations as a common carrier pipeline. This Proration Policy is intended to equitably allocate Capacity among all Shippers desiring to ship petroleum products at times when Carrier determines in its sole discretion that the aggregate monthly Nominations received from Shippers for a line segment exceed the available Capacity of such segment of the System for that month. For purposes of clarity, Carrier shall allocate Capacity on a line-segment by line-segment basis pursuant to the provisions of this Proration Policy

Definitions

“Affiliated Shipper” means any Shipper, whether a Regular Shipper, New Shipper, or prospective shipper that is directly or indirectly controlled by, under the common control of, or otherwise affiliated with any other Shipper on Carrier’s System. In order to determine if a Shipper or prospective shipper is controlled by, under the common control of, or otherwise affiliated with another Shipper on Carrier’s System for purposes of applying this Proration Policy, Carrier will consider a number of factors, including but not limited to, whether the applicable Shippers or prospective shippers share common owners, parent companies, affiliates, registered agents, directors, officers, managers, organizers, employees, schedulers, mailing addresses, email addresses, telephone numbers, fax numbers, internet protocol addresses, or financial information.

[N]“Base Capacity” means all available capacity on the affected line segment for a given period excluding, if any, the lesser of (i) the Expansion Capacity associated with such line segment, or (ii) the amount of Expansion Capacity actually allocated to all Committed Shippers in the same period.

“Base Period” is the 12-month period just preceding the Calculation Month. Individual months within the Base Period are designated by Nos. 1 through 12, with “Month 1” being the most recent Base Period month and “Month 12” being the oldest Base Period month

“Base Shipment Percentage” for each Regular Shipper means the total deliveries of Petroleum Products to all Destinations on the Pipeline Segment to be prorated by the Regular Shipper during the Base Period divided by the lesser of (a) 12 or (b) the number of the Base Period month within which the Regular Shipper first delivered Petroleum Products to a Destination on the Pipeline Segment to be prorated, divided by total deliveries to all Destinations on the Pipeline Segment during the Base Period.

“Carrier” means SFPP, L.P.

"Calculation Month" is the calendar month just preceding the "Proration Month."

[N]“Committed Rate” means the transportation rate a Committed Shipper has agreed to pay in a TSA for priority service.

[N]“Committed Shipper” means a Shipper that has entered into a TSA with Carrier which contains a minimum throughput commitment by such Shipper on the affected line segment.

“Cooperating Shipper” means any Shipper or prospective shipper that is (i) an Affiliated Shipper or (ii) acts in concert with, pursuant to the direction of, or in coordination with, another Shipper, whether written or verbal

“Deficient Volume” has the meaning set forth in Paragraph [W]9 10 of the Section entitled “Proration Procedure”

[N] “Expansion Capacity” means 7,500 barrels per day of capacity from the El Paso, TX origin point to SFPP’s Annex Terminal in Tuscon, AZ destination point, as may be reduced for a given month due to a force majeure event, as provided for in a Committed Shipper’s TSA.

[N]“Interim Service Period Movements” means all volume of product(s) moved by a shipper, regardless of its status, on any portion of the Expansion Capacity that is available for use prior to the In-Service Date

"Nomination" is a Shipper's documented intent to ship a certain quantity of Petroleum Products on Carrier’s System, as described in the currently effective Rules and Regulations Tariff.

“New Shipper” means a Shipper that has not delivered Petroleum Products to any Destination on the Pipeline Segment to be prorationed within the Base Period[N], and a Committed Shipper’s status as a Regular Shipper with respect to Expansion Capacity, and all movements by a Committed Shipper with respect to such Expansion Capacity, shall be disregarded and of no effect for purposes of determining such Shipper’s status on the same line segment with respect to Base Capacity. . A Shipper that becomes a New Shipper shall remain one for 12 consecutive months. At the end of 12-months, a New Shipper becomes a Regular Shipper.

[N]“Open Season” means the May 2019 open season held by Carrier with respect to the Expansion Capacity.

"Proration Month" is the calendar month for which Capacity is being allocated pursuant to this Proration Policy.

“Regular Shipper” means a Shipper on a given line segment that is not a New Shipper. [N] Provided, however, that a Committed Shipper’s status with respect to movements made on the Expansion Capacity shall be disregarded and of no effect for purposes of determining such Shipper’s status on the same line segment with respect to Base Capacity.

[N]“TSA” means a Transportation Services Agreement by and between a Shipper and Carrier that was executed as a result of the Open Season.

"Nomination" is a Shipper's documented intent to ship a certain quantity of Petroleum Products on Carrier’s System, as described in the currently effective Rules and Regulations Tariff.

Capitalized terms not defined herein shall have the meaning set forth in Carrier’s currently effective Rules and Regulations Tariff.

Nominations Volumes

When the management of Carrier determines that it may be necessary to allocate Capacity on a specific Pipeline Segment, Carrier may request Shippers to furnish updated Nominations of volumes to be shipped in the next succeeding shipping month or portion of a month. If Carrier determines that the resulting nominated volumes exceed the available Capacity of the affected Pipeline Segment, the affected segment will be prorated in accordance with this Proration Policy.

All movements on a prorated segment of the pipeline must be nominated in accordance with the Carriers current Tendering and Scheduling Policy.

Proration Procedure

When the Carrier in its sole discretion determines that the Nominations for any month exceed the Capacity in any segment of Carrier's System, Carrier shall notify each Shipper by electronic mail of the Capacity exceedance and that such segment shall be prorated in accordance with this Proration Policy. Capacity for the prorated segment shall be allocated among Shippers in that segment by the following procedure:

1. [N].The Expansion Capacity on a prorated line segment, if applicable, will be allocated to Committed Shippers based on their contracted level of priority service. At the time of Nomination, a Committed Shipper shall be entitled to the lesser of (1) the Committed Shipper's volume commitment with respect to the Expansion Capacity on the affected line segment, as set forth in the TSA or (2) such Committed Shipper's Nomination for Expansion Capacity on the affected line segment; provided, that if the total volume Nominated for Expansion Capacity in a given month on the affected line segment exceeds the Expansion Capacity available on the affected line segment in such month, each such Committed Shipper will receive a pro rata allocation of the available Expansion Capacity, with such allocation being determined by dividing such Committed Shipper's initial Nomination for Expansion Capacity (not to exceed its TSA volume commitment for the month) by the total of all such Committed Shippers' initial Nominations for Expansion Capacity (each such Nomination not to exceed the Committed Shipper's TSA volume commitment).
2. [N]After the allocation of Expansion Capacity to Committed Shippers , if any pursuant to Paragraph 1 above, [W]Up to 1% of the total available [W]Base Capacity of the prorated segment will be allocated to any New Shipper that submits a Nomination; provided, however, that total [W] Base Capacity allocated to all New Shippers shall not exceed 5% of the total available [W] Base Capacity of the prorated segment. If the number of New Shippers and/or the Nominations of New Shippers would exceed the 5% of available [W]Base Capacity of the prorated segment, the 5% of available [W] Base Capacity will be prorated equally to all New Shippers. In the event any Shipper is allocated more capacity than its Nomination, the excess capacity will be reallocated among all Regular Shippers.
3. After the allocation of the portion of [W]Base Capacity to New Shippers that is required by paragraph [W]4 2, the remaining portion of [W] Base Capacity on the prorated line

segment for that month shall be available to Regular Shippers that have nominated volumes for the that month.

Such remaining [W] Base Capacity shall be allocated among Regulars Shipper in proportion to their Base Shipment Percentages. In the event that the volume of Petroleum Products that would be allocated to a Shipper on the Base Shipment Percentage is greater than the volume it nominates, the excess volume will be reallocated among all other Regular Shippers in proportion to their Base Shipment Percentages.

4. Prorating on a Gasoline Equivalent Basis. When and if the Carrier, in its sole discretion, determines that a Barrel of gasoline consumes a smaller portion of Capacity, on the average, than a Barrel of heavier Petroleum Products such as distillate, Capacity will be prorated on a gasoline equivalent basis.
5. Carrier shall then notify each Shipper by electronic mail that the amount of their allocated Capacity is available on the customer section of Carrier's website.
6. Upon receipt of their Capacity allocation, each Shipper will have a 2-business day grace period, commencing the day after the Shipper's allocation is posted on the customer section of Carrier's website, to make any changes to its Nomination. [N](the Nomination resulting after said 2-business day grace period, the "Base Nomination").
7. Any excess capacity resulting from a Shipper's reduction in its Nomination pursuant to Paragraph [W]56 may be reallocated to other Regular Shippers, at Carrier's sole discretion, [W]but on not a unduly discrimination basis
8. [W]Regular Shippers receiving additional capacity allocations pursuant to Paragraph [W]67 shall be notified by electronic mail that their revised allocated capacity is available on the customer section of Carrier's website. Upon receipt of their revised capacity allocation, each [W]Regular Shipper will have a 2-business day grace period, commencing the day after the Shipper's revised allocation is posted on the customer section of Carrier's website, to accept or decline the revised capacity allocation. [W]Regular Shippers receiving additional allocated capacity may decline the additional capacity without penalty during this 2-business day grace period
9. Upon the expiration of the 2-business day grace period, all capacity allocations under Paragraphs [W] 5-6 and 7 8 are considered final and binding upon Shippers; provided, however, that additional capacity may be allocated to Shippers under Paragraph [W]4412 and such additional capacity shall not be considered as part of a Shipper's final and binding capacity allocation for purposes of applying the penalty provision of Paragraph [W]910.
10. Any Shipper that fails to deliver to Carrier during the Proration Month, based on receipt tickets, the total volume of [W] ~~barrels~~ Base Capacity allocated to such Shipper during the Proration Month shall pay a fee for the amount of Shipper's unused allocated Base Capacity. Such fee shall be calculated by multiplying \$0.45 per barrel times the positive difference between (i) the total volume of [W] barrels Base Capacity allocated to Shipper for the Proration Month and (ii) the actual barrels transported by Shipper [W]with respect to such Base Capacity in the Proration Month ("Deficient Volume").

11. In the event Carrier is unable to accept all or a portion of a Shipper's Nomination during the Proration Month, which causes Shipper to have Deficient Volume, such Shipper shall not be subject to the deficiency charge of \$0.45 described in Paragraph [W] 910 for the amount of Shipper's Deficient Volume that resulted from Carrier's inability to accept all or a portion of Shipper's Nomination.
12. If a Shipper does not use the capacity allocated to it under this Proration Policy at the times and in the amounts designated by the Carrier, Carrier shall have the right to use Shipper's unused capacity to fulfill the unmet Nominations of other Shippers.

Carrier reserves the right to adjust nominated volumes and/or Base Shipments to prevent permanent loss of allocated capacity of any Shipper due to requests by Carrier to redistribute deliveries, force majeure or other causes beyond the control of a Shipper.

Transfer, Loan, Assignment or Conveyance of Capacity and Shipment History

New Shipper or Regular Shipper capacity allocations or shipment history may not be assigned, conveyed, loaned or transferred to any Shipper [N] provided, that nothing herein shall prevent a Committed Shipper from assigning its rights and obligations under a TSA pursuant to the terms of the TSA. . Further, New Shipper or Regular Shipper capacity allocations or shipment history may not be used by any Shipper or prospective Shipper other than the Shipper assigned such allocation by Carrier. However, a Shipper's capacity allocation or shipment history may be transferred as an incident of the bona fide sale of the Shipper's business or to a successor to the Shipper's business by the operation of law, such as an executor or trustee in bankruptcy. All transfers made pursuant to this section shall be irrevocable. If a Shipper transfers its allocation or shipment history, that Shipper is prohibited from becoming a New Shipper for a period of twelve (12) months.

In no event shall any portion of an allocation to a Shipper be used in such a manner that it will increase the allocation of another Shipper or any Cooperating Shipper beyond what they are entitled to under this Proration Policy or in the case of Regular Shippers, seek New Shipper status, in its own name or through any Cooperating Shipper. Shippers are prohibited from pooling two or more allocations of capacity to the benefit of [W] the a single Shipper [N]but this restriction shall not prohibit a Committed Shipper from receiving both an allocation of Expansion Capacity and Base Capacity . Further, a Shipper may not create, use or otherwise work with a Cooperating Shipper in order to circumvent this Proration Policy for the purposes of improperly obtaining additional capacity on Carrier's System, becoming a Regular Shipper, establishing shipment history, or any other improper purposes.

Shippers shall have the burden of demonstrating that they are not in violation of this Proration Policy. To this end, Carrier may require written assurances from a responsible official, through the submission of a notarized affidavit or similar document, stating that the Shipper is not violating this requirement with respect to the use of allocated capacity.

In the event that Carrier determines that a Shipper or potential Shipper is in violation of the requirements and prohibitions set forth in this Section (Transfer, Loan, Assignment or Conveyance of Capacity and Shipment History), Carrier will enforce the following penalties, as applicable: (1) deny requested New Shipper status to a Cooperating Shipper; (2) void the Nomination of a Cooperating Shipper for the applicable Proration Month; (3) upon the second finding by Carrier of a violation by any Shipper of the requirements and prohibitions in this Section, bar such Shipper from shipping on the pipeline during the next Proration Month.