

NuStar Permian Transportation and Storage, LLC

PERMIAN EXPANSION NO. TWO PRORATION **POLICY** **Effective July 1, 2018**

The intention of this Permian Expansion No. Two Proration Policy is twofold:

- To allocate the capacity of a specific pipeline segment or portion of the Expansion Pipeline System first among the Priority Service Volumes of Priority Service Shippers and then among all Regular Shippers and New Shippers on an equitable basis in the Nomination process.
- To maximize the actual utilization of the capacity of a specific pipeline segment or portion of the Expansion Pipeline System.

Carrier may implement this Permian Expansion No. Two Proration Policy at any time the Nominations on a specific pipeline segment or portion of the Expansion Pipeline System exceed the Available Capacity on that pipeline segment or portion of the Expansion Pipeline System. This Permian Expansion No. Two Proration Policy is in compliance with Carrier's obligations under Part I of the Interstate Commerce Act.

Definitions:

"Adjusted Nominations" means the valid and binding modified Nominations that are received by Carrier from Shippers, once Shippers have been notified that a specific pipeline segment or portion of the Expansion Pipeline System has been prorated.

"Allocation Month" means any month in which the Nominations of all Shippers on a specific pipeline segment or portion of the Expansion Pipeline System exceed the capacity of such segment or portion, thereby causing Carrier to implement this Permian Expansion No. Two Proration Policy.

"Available Capacity" means the total capacity of a pipeline segment or portion of the Expansion Pipeline System available to transport Crude Petroleum.

"Base Period" means the period of months during which current Shippers establish their Historic Shipment Ratio. This would be the twelve (12) consecutive months ending with the second month prior to the Allocation Month for which Nominations are being apportioned. The initial Base Period will be the twelve (12) consecutive months ending June 30, 2019. If an Allocation Month occurs prior to June 30, 2019, then the Base Period will consist of those months starting at July 1, 2018 and ending at the end of the last full month prior to the Allocation Month.

“BPM” means barrels per month.

“Carrier” means NuStar Permian Transportation and Storage, LLC.

“Crude Petroleum” means the direct liquid product of oil wells or a mixture of the direct liquid products of oil wells with indirect liquid products and being similarly transportable as the direct products, provided that such mixture does not contain more than one percent (1%) of sediment, water, and other impurities.

“Design Capacity” means the applicable design capacity of a specific pipeline segment or portion of the Expansion Pipeline System.

“Expansion Pipeline System” means the expansion pipeline system, including all appurtenances thereto, for which Carrier held the Open Season seeking volume commitments on the expansion capacity being made available pursuant to the expansion project to construct the expansion pipeline system and which capacity is not part of the capacity available on the Original System. The Expansion Pipeline System was constructed in three phases ((i) Big Spring Terminal Inlet, (ii) Colorado City Mainline Expansion and (iii) County Line Loop), has an operating capacity of approximately 70,000 Barrels per day and is used by Carrier to transport Crude Petroleum pursuant to Carrier’s rules, regulations and rates tariff on file and in effect at the U.S. Federal Energy Regulatory Commission as F.E.R.C. No. 2.1.0, as such tariff may be amended or supplemented by Carrier from time to time or at any time.

“Extraordinary Operating Conditions” means operating conditions which result in the capacity of the Expansion Pipeline System available for shipments of Crude Petroleum, or a segment or portion thereof that is used to provide services, being reduced below the applicable Design Capacity for any reason, including events of force majeure, weather conditions, repairs or maintenance.

“Historic Shipment Ratio” means the average BPM transported on a specific pipeline segment or portion of the Expansion Pipeline System by a Regular Shipper over the Base Period divided by the total average volume of Crude Petroleum transported by Regular Shippers and New Shippers through that specific segment or portion per month during the Base Period. (Example: On pipeline segment “A” with a total average volume transported within the Base Period of 50,000 BPM, and a Regular Shipper with a Base Period history of transporting 40,000 BPM on that pipeline segment, that Regular Shipper's Historic Shipment Ratio would be 80%.)

“New Shipper” means any nominating party who has a Historic Shipment Ratio of zero. Subject to Item No. 12 of the Allocation Methodology below, a Priority Service Shipper will not be a New Shipper to the extent of its Priority Service Volume.

“Nomination” means a request by a Shipper to Carrier to transport a stated quantity of Crude Petroleum on a specific pipeline segment or portion of the Expansion Pipeline System for the account of such Shipper in any month.

“Open Season” means that open season held by Carrier beginning on January 9, 2018 whereby the Priority Service Shipper has committed to transporting certain minimum volumes of Crude Petroleum for a certain term of years and is entitled to certain rights to priority service.

“Original System” means the pipeline system, including all appurtenances thereto, used by Carrier to transport Crude Petroleum pursuant to Carrier’s rules, regulations and rates tariff on file and in effect at the U.S. Federal Energy Regulatory Commission as F.E.R.C. No. 1.2.0, as such tariff may be amended or supplemented by Carrier from time to time or at any time, which was the subject of an open season held by Carrier that commenced on September 18, 2013, and that was subsequently extended and supplemented, or pursuant to the open season held by Carrier that commenced on January 26, 2017, with an operating capacity of approximately 170,000 Barrels per day. This Permian Expansion No. Two Proration Policy does not apply in any way to the proration of the Original System’s operating capacity of approximately 170,000 Barrels per day.

“Permian Expansion No. Two Proration Policy” means this document, which is the official written description of the process by which Carrier will allocate Available Capacity when Nominations on any pipeline segment or portion of the Expansion Pipeline System exceed the Available Capacity and that is referred to Rule 65 of Carrier’s rules, regulations and rates tariff on file and in effect at the U.S. Federal Energy Regulatory Commission as F.E.R.C. No. 2.1.0, as such tariff may be amended or supplemented by Carrier from time to time or at any time.

“Prepaid Transportation Credits” means credits generated by deficiency payments made by a Priority Service Shipper that may be applied as prepayment for transportation of certain future volumes delivered by such Priority Service Shipper in accordance with the terms and conditions of such Priority Service Shipper’s Transportation Services Agreement.

“Priority Service Shipper” means a Shipper that has executed a Transportation Service Agreement that provides for either (i) a priority rate for all committed volumes or (ii) a priority rate that applies to all committed volumes at Shipper’s election during an Allocation Month. A Priority Service Shipper will be treated as a Regular Shipper, as applicable under this Permian Expansion No. Two Proration Policy, (i) for any Nominations in excess of its Priority Service Volume and/or (ii) for any Allocation Month that such Shipper elects not to pay the applicable priority rate for all committed volumes as provided for in such Shipper’s Transportation Services Agreement.

“Priority Service Volume” means, with respect to a Priority Service Shipper, the minimum daily volume of Crude Petroleum that is either (i) entitled to priority service as provided for in such Shipper’s Transportation Services Agreement or (ii) entitled to priority service and such Shipper has elected to pay the applicable priority rate for all committed volumes during the applicable Allocation Month(s) as provided for in such Shipper’s Transportation Services Agreement.

“Regular Shipper” means a Shipper that transports barrels of Crude Petroleum during the Base Period. A New Shipper becomes a Regular Shipper as soon as it has a Historic Shipment Ratio exceeding zero. A Regular Shipper ceases to be a Regular Shipper if it transports zero barrels of Crude Petroleum during the Base Period. Subject to Item No. 11 of the Allocation Methodology below, a Priority Service Shipper will not be a Regular Shipper to the extent of its Priority Service Volume.

“Remaining Capacity” means the Available Capacity remaining after completion of Item Nos. 1, 2, and 3 of the Allocation Methodology below.

“Shipper” means the party who contracts with Carrier for the transportation of Crude Petroleum under the terms of the Tariff.

“Tariff” means Carrier’s rules, regulations and rates tariff on file and in effect at the U.S. Federal Energy Regulatory Commission as F.E.R.C. No. 2.1.0, as such tariff may be amended or supplemented by Carrier from time to time or at any time.

“Transportation Services Agreement” means a transportation services agreement entered into between Carrier and a Priority Service Shipper pursuant to the Open Season.

The Allocation Methodology:

During an Allocation Month, Available Capacity will be allocated as follows:

1. Each Priority Service Shipper shall be allocated an amount equal to one hundred percent (100%) of its Priority Service Volume, subject to Item Nos. 2, 3, and 12 below.
2. If a Priority Service Shipper's Nomination for a month is less than its Priority Service Volume, the Priority Service Shipper will be allocated only the amount of its Nomination.
3. During any period when the capacity of a pipeline segment or portion of the Expansion Pipeline System is reduced below the applicable Design Capacity because of Extraordinary Operating Conditions, the allocation of such Available Capacity to Priority Service Shippers pursuant to Items Nos. 1 and 2 shall be reduced by the same percentage as the reduction in capacity below the applicable Design Capacity of such pipeline segment or portion of the Expansion Pipeline System.
4. The capacity allocated to each Regular Shipper during an Allocation Month will be determined by multiplying such Regular Shipper's Crude Petroleum Historic Shipment Ratio by the Remaining Capacity of the prorated pipeline segment, provided that, until the end of the initial Base Period, the allocation shall be determined based on the ratio of each Shipper’s nominated volumes (excluding nominated Priority Service Volumes) to the total of all Shippers’ nominated volumes (excluding nominated Priority Service Volumes).
5. If the result of the allocation calculation for a Regular Shipper in Item No. 4 is less than the minimum batch size set out in the Tariff, then to the extent feasible the Regular Shipper’s allocated capacity will be increased to the minimum batch size of the allocated pipeline segment for the Allocation Month.
6. If the result of the calculation in Item No. 4 for a Regular Shipper is greater than that Regular Shipper’s Nomination, then the Regular Shipper’s allocated capacity will be reduced to equal its Nomination, provided that to the extent feasible the allocated capacity will not be less than the minimum batch size set out in the Tariff.
7. New Shippers will be included in the allocation of capacity. Since a New Shipper will have a Historic Shipment Ratio of zero, such Shipper will be limited to a maximum of 2.5% of the Remaining Capacity of the allocated pipeline segment or portion of the Expansion Pipeline System in any Allocation Month, except as provided in Item No. 11. If this allocated capacity is greater than the New Shipper’s Nomination, then the New Shipper's allocated capacity will be reduced to equal its Nomination, provided that to the extent feasible the allocated capacity will not be less than the minimum batch size set out in the Tariff.

8. In the aggregate, New Shippers will be limited to a maximum of 7.5% of the Remaining Capacity of the allocated pipeline segment in any Allocation Month, except as provided in Item No. 11.
9. Where there are more than three New Shippers on an allocated pipeline segment, each New Shipper will be allowed to transport its prorated share of the total of 7.5% of the Remaining Capacity allocated to New Shippers. To the extent feasible, a New Shipper's allocated capacity will not be less than the minimum batch size set out in the Tariff.
10. Where Items Nos. 7, 8 and 9 are implemented, all allocations to Regular Shippers will be adjusted proportionately downward if necessary.
11. If there is any Available Capacity remaining after completion of Item Nos. 1 through 9, New Shippers will not be limited by the maximum percentages set out in Items Nos. 7 through 9.
12. A Priority Service Shipper who is in default under its Transportation Services Agreement and has been given notice by Carrier pursuant to such Transportation Services Agreement of the termination of its rights to have a tender of its minimum volume of Crude Petroleum not be subject to prorationing to accommodate nominations of uncommitted volumes and volumes to which Prepaid Transportation Credits are applied under ordinary operating conditions shall be deemed a New Shipper effective as of the date of such notice for the purposes of this Permian Expansion No. Two Proration Policy, and all volumes nominated by any such Priority Service Shipper, including its Priority Service Volume, shall be subject to Item Nos. 4 through 11 and not subject to Item Nos. 1 through 3.

Subject to Item No. 1 above, when it is determined that there is insufficient Available Capacity to accommodate all valid, timely, and properly submitted Nominations, Carrier will so notify each Shipper that has tendered a Nomination for the affected pipeline segment or portion of the Expansion Pipeline System of the Available Capacity allocated to it. Each Shipper will then have a period of two (2) business days to reduce its Nomination. At 12:01 am on the third (3rd) business day following the day notification was made to a Shipper, this Adjusted Nomination shall be considered a binding Nomination.

No movements will be considered above the amount that Shipper has been allocated for shipment, nor will Carrier accept a Nomination which exceeds the Available Capacity.

In the event that a Shipper, who in spite of having a binding Nomination on the prorated pipeline segment or portion of the Expansion Pipeline System, then attempts to withdraw that binding Nomination, and as a result the Available Capacity is not fully allocated following application of Item Nos. 1 through 11 above, the newly available pipeline capacity shall be allocated in the following manner:

- A. Each Priority Service Shipper with Nominations of Priority Service Volumes exceeding the capacity allocated to it for those Priority Service Volumes will be allocated a portion of the Remaining Capacity in the same proportion as that which it has been assigned for its Priority Service Volumes on the allocated pipeline segment or portion of the Expansion Pipeline System.
- B. Each Regular Shipper and New Shipper with Nominations exceeding its allocated capacity will be allocated a portion of the Remaining Capacity in the same proportion as that which it

has been assigned on the allocated pipeline segment or portion of the Expansion Pipeline System.

- C. If there are no Shippers who have Nominations exceeding their allocated capacity, then all Shippers who have Nominations on the allocated pipeline segment or portion of the Expansion Pipeline System will be notified that there is additional Available Capacity. All Nominations from these Shippers will be honored in the same proportion that their allocated capacity bears to the aggregated allocated capacity of all Nominations from Shippers.

If the allocated capacity awarded to a Regular Shipper or New Shipper on a prorated pipeline segment or portion of the Expansion Pipeline System goes unused by that Shipper ("Unused Allocation"), then that Shipper is accountable for payment of the Tariff fees for the actual shipments, or 85% of the Nomination, whichever is greater. These charges will be waived when there exists Unused Allocation as a result of deliveries having been reduced at the request of Carrier, or where Extraordinary Operating Conditions prevented full receipt or delivery of barrels tendered by the Shipper. This charge only applies when the pipeline segment or portion of the Expansion Pipeline System is in proration.

In the event that a Regular Shipper or New Shipper releases all or any part of its allocated capacity in sufficient time prior to the Allocation Month to permit Carrier to reallocate and revise the schedule, and as a result Carrier is then able to solicit other Shippers to fully utilize that capacity, that Shipper's allocation will be reduced without penalty (other than any deficiency payments payable by Priority Service Shippers for their allocated capacity).

Carrier will carefully examine Nominations, using every means available to ensure that they are true and realistic and will challenge any Nominations that appear to be inflated. Carrier may require written assurances from responsible officials of Shippers requesting use of allocated capacity, stating that this requirement has not been violated. 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 Available Capacity from another Shipper through violation of this Permian Expansion No. Two Proration Policy, then the allocated capacity for both Shippers will be reduced, to the extent of the allocated capacity so made available or used, in the next Allocation Month after such violation becomes known to Carrier. In the event of sale, merger, consolidation or other material occurrence affecting a Shipper, Carrier shall make adjustments in allocations consistent with this Permian Expansion No. Two Proration Policy.

Except as provided in this Permian Expansion No. Two Proration Policy, prorated transportation capacity allocated to a Shipper and shipment history may not be assigned, conveyed, or transferred to or used in any manner by another Shipper. However, a Shipper's allocation may be transferred, in whole or in part, (1) as an incident of the bona fide sale of Shipper's business or to a successor to Shipper's business by the operation of law or (2) to or from an entity that has acted as the exclusive transporter of another entity's Crude Petroleum production, but only to the extent relating to such production. Nothing set out herein restricts or impairs Shipper's ability to enter into buy-sell transactions or other similar arrangements subject to the terms of the Tariff.