

ROCKY MOUNTAIN PIPELINE MONTANA LLC

Proration Procedures

Effective Date: March 5, 2018

When there shall be tendered (nominated) to the Carrier for transportation on the Carrier's pipeline system or any part thereof under applicable tariffs, more crude petroleum than can be currently transported, the transportation furnished by the Carrier shall be apportioned among shippers in a fair and equitable manner so as to avoid discrimination among shippers and so as not to adversely affect the reasonable operations of the Carrier's facilities.

Each month after nominations are received, Carrier shall determine if a pipeline system or an individual segment of the system lacks the capacity to transport the volume of crude petroleum nominated. If it is determined that prorating of a system is necessary, intrastate barrels and interstate barrels as a group will both receive a fair and equitable allocation of the capacity of the system, and both will be prorated. Within the group of intrastate barrels, proration will be handled on a current tender (nomination) basis. Within the group of interstate barrels, proration will be handled on a historical basis with viscosity adjustments. The following procedures apply to interstate nominations:

I. Definitions:

"Regular Shipper" is any shipper having a record of movements in the line segment being prorated during the Base Period.

"New Shipper" is any shipper who is not a Regular Shipper. A New Shipper will become a Regular Shipper 12 months after the month the New Shipper first nominates.

"Initial Nomination" is the shipper's nomination made to the carrier for pipeline transportation.

"Revised Nomination" is the shipper's adjusted nomination after notification from Carrier that Initial Nominations exceed pipeline capacity. If shipper does not submit a Revised Nomination, then Initial Nomination become Revised Nomination.

"Prorated Nomination" is the resulting amount of capacity available to a shipper after Carrier has completed the prorating process.

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

"Available Capacity" is the amount of pipeline capacity in barrels per day for the Proration Month for the pipeline system or line segment being prorated.

"Allocation Factor" is a fraction where the numerator is the Available Capacity and the denominator is the sum total of all interstate and intrastate nominations.

"Base Period" is the 12 calendar month period beginning one month prior to Proration Month.

"Base Shipments" are each Regular Shipper's actual average monthly movements in the segment being prorated during the Base Period.

"Proration Factor" is used to adjust a Regular Shipper's monthly nomination.

"Historical Allocation" is the method used to allocate shipper's nominated volumes once Proration is needed. This method establishes a shipper's Proration Factor by dividing a Regular Shipper's Base Shipments by the pipeline's (or segment's) average throughput during the Base Period.

"Viscosity Factor" is a factor applied to a shipper's allocated space to account for the viscosity of nominated crude types. See Attachment A.

"Segment" is defined as a section of line between adjacent (or sequential) receipt or delivery locations.

II. Proration Procedures:

1. For any month, if the Carrier determines that nominations exceed its capacity for a pipeline system or for any segment, the Carrier will notify each Interstate (and Intrastate Shipper, if applicable), and provide each shipper an opportunity to reduce its Initial Nomination. Nominations greater than Available Capacity will be reduced to Available Capacity.
2. Following the receipt of Revised Nominations for the given month, Carrier shall determine the Available Capacity for that month.
3. In the event that Revised Nominations for that month exceed Available Capacity, such capacity shall first be allocated between the groups of Intrastate and Interstate Shippers on a pro rata basis of historical usage for that system over the last 12 months.
4. Carrier will verify Revised Nominations as needed.
5. Up to three percent (3%) of the prorated system's capacity will be allocated to New Shippers. This space will be allocated to New Shippers as follows:

$$\text{New Shipper's Prorated Nomination} = \frac{\text{New Shipper allocated system capacity} \times \text{New Shipper's nomination}}{\text{sum of all New Shippers' nominations}}$$

- The remaining capacity will be allocated among Regular Shippers in proportion to their Base Period Shipments (Historical Allocation). This allocated space is further adjusted by the Viscosity Factor.

$$\text{Regular Shipper's Prorated Nomination} = \frac{\text{Remaining pipeline capacity} \times \text{Regular Shipper's Proration Factor}}{\text{X Viscosity Factor}}$$

- In the event any shipper is allocated more capacity than its Revised Nomination, the excess of its allocation over its Revised Nomination will be reallocated among all other shippers in proportion to their Base Shipments.
- Carrier will also utilize best efforts to accommodate additional injection volumes in Segments where available capacity exists and such additional volumes will not impact the system prorated nominations established in Items 6 and 7 above.

Example Calculations

Proration Month: April

	Initial Nominations	Revised Nominations
Shipper A (Intrastate Shipper)	5,000 BPD	5,000 BPD
Shipper B (Intrastate Shipper)	2,000 BPD	2,000 BPD
Shipper C (Intrastate Shipper)	12,000 BPD	11,000 BPD
Shipper D (Intrastate Shipper)	7,000 BPD	7,000 BPD

Available Capacity= 20,000 BPD

- ▶ Intrastate Historical Usage (Last 12 Month) = 7,000 BPD
- ▶ Interstate Historical Usage (Last 12 Month) = 15,000 BPD

Step 1 — Historical Allocation:

Intrastate Shippers Group:

$$\begin{aligned} & (7,000/22,000 = 32\%) \\ & 20,000 \times .32 = 6,400 \text{ BPD} \end{aligned}$$

Interstate Shippers Group

$$\begin{aligned} & (15,000/22,000 = 68\%) \\ & 20,000 \times .68 = 13,600 \text{ BPD} \end{aligned}$$

Step 2 - Interstate Historical Proration:

#1 Capacity available to Interstate Shippers: 13,600 BPD

#2 Historical Allocation:

Shipper C (Interstate Shipper)-Base Shipments = 100,000 barrels per month
Shipper D (Interstate Shipper)-Base Shipments = 85,000 barrels per month

Pipeline average movements during Base Period = 185,000 barrels per month

Shipper C Proration Factor = .54 (100,000/185,000)

Shipper D Proration Factor = .46 (85,000/185,000)

		Remaining Pipeline Capacity	Proration Factor	Prorated Nomination
Shipper C	13,600	.5400	7,344	
Shipper D	13,600	.4600	6,256	
Totals				13,600

This example does not include a 3% new Shipper allocation or Viscosity Adjustments.