

LUCID ENERGY LOGISTICS, LLC

TEXAS LOCAL TARIFF

**Governing
THE TRANSPORTATION
of
CRUDE PETROLEUM
by PIPELINE**

WITHIN THE STATE OF TEXAS

SUBJECT TO THE RULES AND REGULATIONS HEREIN

GENERAL APPLICATION

The rates named in this tariff are for the intrastate transportation of Crude Petroleum by pipeline, subject to the rules and regulations herein.

EFFECTIVE JULY 1, 2014

Issued and Compiled by:

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**PIPELINE SAFETY DIVISION
AUSTIN, TEXAS**

LUCID ENERGY LOGISTICS, LLC

SECTION 1: RULES AND REGULATIONS OF RAILROAD COMMISSION OF TEXAS

Every person owning, operating, or managing any pipeline, or any part of any pipeline, for the gathering, receiving, loading, transporting, storing, or delivering of crude petroleum as a common carrier shall be subject to and governed by the following provisions. Common carriers specified in this section shall be referred to as "pipelines," and the owners or shippers of crude petroleum by pipelines shall be referred to as "shippers."

The following nineteen (1-19) rules (and definitions) are adopted and included herein pursuant to the requirements of the Texas Railroad Commission.

Rule 1 All Marketable Oil to be Received for Transportation. By the term "marketable oil" is meant any crude petroleum adapted for refining or fuel purposes, properly settled and containing not more than 1.0% of basic sediment, water, or other impurities above a point six inches below the pipeline connection with the tank⁽¹⁾. Pipelines shall receive for transportation all such "marketable oil" tendered; but no pipeline shall be required to receive for shipment from any one person an amount exceeding 3,000 barrels of petroleum in any one day; and, if the oil tendered for transportation differs materially in character from that usually produced in the field and being transported therefrom by the pipeline, then it shall be transported under such terms as the shipper and the owner of the pipeline may agree or the commission may require.

⁽¹⁾ *This deviates from Railroad Commission Rule §3.71(1) in that the percent for basic sediment, water, or other impurities is one percent (1%) rather than two percent (2%) as provided in the Rule.*

Rule 2 Basic Sediment, How Determined - Temperature. In determining the amount of sediment, water, or other impurities, a pipeline is authorized to make a test of the oil offered for transportation from an average sample from each such tank, by the use of centrifugal machine, or by the use of any other appliance agreed upon by the pipeline and the shipper. The same method of ascertaining the amount of the sediment, water, or other impurities shall be used in the delivery as in the receipt of oil. A pipeline shall not be required to receive for transportation, nor shall consignee be required to accept as a delivery, any oil of a higher temperature than 90 degrees Fahrenheit, except that during the summer oil shall be received at any atmospheric temperature, and may be delivered at like temperature. Consignee shall have the same right to test the oil upon delivery at destination that the pipeline has to test before receiving from the shipper. (supplemented by Rule 40)

Rule 3 "Barrel" Defined. For the purpose of these sections, a "barrel" of crude petroleum is declared to be 42 gallons of 231 cubic inches per gallon at 60 degrees Fahrenheit.

Rule 4 Oil Involved in Litigation, etc. - Indemnity Against Loss. When any oil offered for transportation is involved in litigation, or the ownership is in dispute, or when the oil appears to be encumbered by lien or charge of any kind, the pipeline may require of shippers an indemnity bond to protect it against all loss. (supplemented by Rule 33)

Rule 5 Storage. Each pipeline shall provide, without additional charge, sufficient storage, such as is incident and necessary to the transportation of oil, including storage at destination or so near thereto as to be available for prompt delivery to destination point, for five days from the date of order of delivery at destination. (amended by Rule 21)

Rule 6 Identity of Oil, Maintenance of Oil. A pipeline may deliver to consignee either the identical oil received for transportation, subject to such consequences of mixing with other oil as are incident to the usual pipeline transportation, or it may make delivery from its common stock at destination; provided, if this last be done, the delivery shall be of substantially like kind and market value. (amended by Rule 22 and by Rule 26)

Rule 7 Minimum Quantity to be Received. A pipeline shall not be required to receive less than one tank car-load of oil when oil is offered for loading into tank cars at destination of the pipeline. When oil is offered for transportation for other than tank car delivery, a pipeline shall not be required to receive less than 500 barrels. (supplemented by Rule 42)

Rule 8 Gathering Charges. Tariffs to be filed by a pipeline shall specify separately the charges for gathering of the oil, for transportation, and for delivery. (supplemented by Rule 36)

Rule 9 Measuring, Testing, and Deductions (reference Special Order Number 20-63,098 effective June 18,

1973). (amended by Rule 31)

- (A) Except as provided in subparagraph (B) of this paragraph, all crude oil tendered to a pipeline shall be gauged and tested by a representative of the pipeline prior to its receipt by the pipeline. The shipper may be present or represented at the gauging or testing. Quantities shall be computed from correctly compiled tank tables showing 100% of the full capacity of the tanks.
- (B) As an alternative to the method of measurement provided in subparagraph (A) of this paragraph, crude oil and condensate may be measured and tested, before transfer of custody to the initial transporter, by:
 - (i) lease automatic custody transfer (LACT) equipment, provided such equipment is installed and operated in accordance with the latest revision of American Petroleum Institute (API) Manual of Petroleum Measurement Standards, Chapter 6.1, or;
 - (ii) any device or method, approved by the commission or its delegate, which yields accurate measurements of crude oil or condensate.
- (C) Adjustments to the quantities determined by the methods described in subparagraphs (A) or (B) of this paragraph shall be made for temperature from the nearest whole number degree to the basis of 60 degrees Fahrenheit and to the nearest 5/10 API degree gravity in accordance with the volume correction Tables 5A and 6A contained in API Standard 2540, American Society for Testing Materials 01250, Institute of Petroleum 200, first edition, August 1980. A pipeline may deduct the basic sediment, water, and other impurities as shown by the centrifugal or other test agreed upon by the shipper and pipeline; and 1.0% for evaporation and loss during transportation. The net balance shall be the quantity deliverable by the pipeline. In allowing the deductions, it is not the intention of the commission to affect any tax or royalty obligations imposed by the laws of Texas on any producer or shipper of crude oil.
- (D) A transfer of custody of crude between transporters is subject to measurement as agreed upon by the transporters.

Rule 10 Delivery and Demurrage. Each pipeline shall transport oil with reasonable diligence, considering the quality of the oil, the distance of transportation, and other material elements, but at any time after receipt of a consignment of oil, upon 24 hours' notice to the consignee, may offer oil for delivery from its common stock at the point of destination, conformable to paragraph (6) of this section, at a rate not exceeding 10,000 barrels per day of 24 hours. Computation of time of storage (as provided for in paragraph (5) of this section) shall begin at the expiration of such notice. At the expiration of the time allowed in paragraph (5) of this section for storage at destination, a pipeline may assess a demurrage charge on oil offered for delivery and remaining undelivered, at a rate for the first 10 days of \$.001 per barrel; and thereafter at a rate of \$.0075 per barrel, for each day of 24 hours or fractional part thereof. (amended by Rule 21 and by Rule 24)

Rule 11 Unpaid Charges, Lien for and Sale to Cover. A pipeline shall have a lien on all oil to cover charges for transportation, including demurrage, and it may withhold delivery of oil until the charges are paid. If the charges shall remain unpaid for more than five days after notice of readiness to deliver, the pipeline may sell the oil at public auction at the general office of the pipeline on any day not a legal holiday. The date for the sale shall be not less than 48 hours after publication of notice in a daily newspaper of general circulation published in the city where the general office of the pipeline is located. The notice shall give the time and place of the sale, and the quantity of the oil to be sold. From the proceeds of the sale, the pipeline may deduct all charges lawfully accruing, including demurrage, and all expenses of the sale. The net balance shall be paid to the person lawfully entitled thereto. (supplemented by Rule 38)

Rule 12 Notice of Claim. Notice of claims for loss, damage, or delay in connection with the shipment of oil must be made in writing to the pipeline within 91 days after the damage, loss, or delay occurred. If the claim is for failure to make delivery, the claim must be made within 91 days after a reasonable time for delivery has elapsed. (amended by Rule 25)

Rule 13 Telephone-Telegraph Line - Shipper to Use. If a pipeline maintains a private telegraph or telephone line, a shipper may use it without extra charge, for messages incident to shipments. However, a pipeline shall not be held liable for failure to deliver any messages away from its office or for delay in transmission or for interruption of service.

Rule 14 Contracts of Transportation. When a consignment of oil is accepted, the pipeline shall give the shipper a run ticket, and shall give the shipper a statement that shows the amount of oil received for transportation, the points of origin and destination, corrections made for temperature, deductions made for impurities, and the rate for such transportation. (supplemented by Rule 31)

Rule 15 Shipper's Tanks, etc. - Inspection. When a shipment of oil has been offered for transportation the pipeline shall have the right to go upon the premises where the oil is produced or stored, and have access to any and all tanks or storage receptacles for the purpose of making any examination, inspection, or test authorized by this section.

Rule 16 Offers in Excess of Facilities. If oil is offered to any pipeline for transportation in excess of the amount that can be immediately transported, the transportation furnished by the pipeline shall be apportioned among all shippers in proportion to the amounts offered by each; but no offer for transportation shall be considered beyond the amount which the person requesting the shipment then has ready for shipment by the pipeline. The pipeline shall be considered as a shipper of oil produced or purchased by itself and held for shipment through its line, and its oil shall be entitled to participate in such apportionate. (supplemented by Rule 42)

Rule 17 Interchange of Tonnage. Pipelines shall provide the necessary connections and facilities for the exchange of tonnage at every locality reached by two or more pipelines, when the commission finds that a necessity exists for connection, and under such regulations as said commission may determine in each case.

Rule 18 Receipt and Delivery - Necessary Facilities For. Each pipeline shall install and maintain facilities for the receipt and delivery of marketable oil of shippers at any point on its line if the commission finds that a necessity exists therefor, and under regulations by the commission. (supplemented by Rule 34)

Rule 19 Reports of Loss From Fires, Lightning, and Leakage.

- (A) Each pipeline shall immediately notify the commission district office, electronically or by telephone, of each fire that occurs at any oil tank owned or controlled by the pipeline, or of any tank struck by lightning. Each pipeline shall in like manner report each break or leak in any of its tanks or pipelines from which more than five barrels escape. Each pipeline shall file the required information with the commission in accordance with the appropriate commission form within 30 days from the date of the spill or leak.
- (B) No risk of fire, storm, flood, or act of God, and no risk resulting from riots, insurrection, rebellion, war, or act of the public enemy, or from quarantine or authority of law or any order, requisition or necessity of the government of the United States in time of war, shall be borne by a pipeline, nor shall any liability accrue to it from any damage thereby occasioned. If loss of any crude oil from any such causes occurs after the oil has been received for transportation, and before it has been delivered to the consignee, the shipper shall bear a loss in such proportion as the amount of his shipment is to all of the oil held in transportation by the pipeline at the time of such loss, and the shipper shall be entitled to have delivered only such portion of his shipment as may remain after a deduction of his due proportion of such loss, but in such event the shipper shall be required to pay charges only on the quantity of oil delivered. This section shall not apply if the loss occurs because of negligence of the pipeline.
- (C) Common carrier pipelines shall mail (return receipt requested) or hand deliver to landowners (persons who have legal title to the property in question) and residents (persons whose mailing address is the property in question) of land upon which a spill or leak has occurred, all spill or leak reports required by the commission for that particular spill or leak within 30 days of filing the required reports with the commission. Registration with the commission by landowners and residents for the purpose of receiving spill or leak reports shall be required every five years, with renewal registration starting January 1, 1999. If a landowner or resident is not registered with the commission, the common carrier is not required to furnish such reports to the resident or landowner.

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SECTION 2: RULES AND REGULATIONS

Definitions and Abbreviations for Sections 2 and 3

- “Acreage Dedication” means an Incentive Shipper’s dedication to transport Crude Petroleum produced from certain acreage for a number of years as mutually agreed upon in Incentive Shipper’s transportation agreement.
- “API” means American Petroleum Institute.
- “ASTM” means American Society for Testing Materials.
- “Barrel” means forth-two (42) Unites States gallons at sixty degrees (60°) Fahrenheit and zero (0) gauge pressure if the vapor pressure of the petroleum is at or below atmospheric pressure, or at equilibrium pressure if the vapor pressure of the petroleum is above atmospheric pressure.
- “Business Day” means any calendar day other than a Saturday, Sunday or other day that federal banks are authorized or required to close.
- “Carrier” means Lucid Energy Logistics, LLC (“LEL”) and every other common carrier of Crude Petroleum by pipeline that has entered into a joint rate tariff with LEL and by reference therein has applied these rules and regulations to the transportation governed by such tariff.
- “Common Stream(s)” means Crude Petroleum moved through Carrier’s pipeline and associated facilities that is commingled or intermixed with other Crude Petroleum in said pipeline or facilities. Carrier’s Common Streams and the characteristics of each shall be determined by the Carrier.
- “Condensate” means liquid products of oil wells and gas wells resulting from condensation of petroleum hydrocarbons existing initially in gaseous phase in an underground reservoir that are recovered at the surface without resorting to processing.
- “Consignee” means the party to whom a Shipper has ordered the delivery of Crude Petroleum.
- “Crude Petroleum” means the grade or grades of the direct liquid product of oil or gas wells, including Condensate that Carrier has undertaken to transport.
- “Delivery” means the transfer from Carrier at a destination point to Shipper, Shipper’s designee, or Consignee.
- “Gross Standard Volume” means volume corrected to a temperature of sixty degrees (60°) Fahrenheit, in accordance with the latest API/ASTM measurement standards, and at equilibrium vapor pressure.
- “Incentive Rate” means the rates set out in Section 3 paid by an Incentive Shipper.
- “Incentive Shipper” means any Shipper who has executed a transportation agreement that has a mutually agreed-upon Volume Commitment or Acreage Dedication.
- “Indirect Liquid Products of Oil or Gas Wells” means liquid products resulting from the operations of gasoline recovery plants, gas recycling plants, or distillate recovery equipment in gas or oil fields, or a mixture of such products including Natural Gasoline or Natural Gas Liquids.
- “Local Incentive Rate” means the rate to be paid by a Local Incentive Shipper..
- “Local Incentive Shipper” means any Incentive Shipper for whom Carrier provides transportation services entirely within the acreage comprising such Shipper’s Acreage Dedication to Carrier.
- “Net Standard Volume” means the Gross Standard Volume less deductions or adjustments specified in Rule 31.
- “Nomination,” “Nominates” or “Tendered” as herein used means a written communication from a Shipper to Carrier requesting that Carrier transport for Shipper in a given month a stated volume of a specified Crude Petroleum from specified origin point(s) to specified destination point(s) under the terms and conditions of this tariff.
- “Origin Point Maintenance Fee” has the meaning set out in Rule 36.

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“Receipt” means the transfer of Crude Petroleum from Shipper at an origin point to Carrier for transportation.

“Reid Vapor Pressure” means the vapor pressure of gasoline, volatile crude oil, or other volatile petroleum products at one hundred degrees Fahrenheit (100° F) as determined by the latest edition of ASTM D 323, Standard Method of Test for Vapor Pressure of Petroleum Products (Reid Method).

“Shipper(s)” means the party or parties who agrees with Carrier for transportation of Crude Petroleum under the terms of this tariff.

“Uncommitted Rate” means the rates set out in Section 3 paid by a Shipper that is not an Incentive Shipper.

“Volume Commitment” means the volume of Crude Petroleum that an Incentive Shipper has committed to transport for a number of years as mutually agreed upon in Incentive Shipper’s transportation agreement.

Rule 20 Carrier’s Remedies. The transportation of Crude Petroleum may be refused or terminated if Carrier determines that the Crude Petroleum does not meet the requirements established herein. Carrier shall have the right, at its sole discretion, to any remedy available, including but not limited to the right without notice of liability to return, divert, sell or dispose of Crude Petroleum that does not conform to its tariff. Shipper shall reimburse Carrier for all costs and expenses incurred by Carrier in returning or otherwise disposing of such non-conforming Crude Petroleum.

Rule 21 Storage in Transit. Carrier has working tanks that are required by Carrier to transport Crude Petroleum. However, Carrier has no other tanks and therefore shall not, unless otherwise agreed to by Shipper and Carrier, be required to offer or provide Crude Petroleum storage services. Provisions for storage during transportation and at the final destination for the benefit of Shipper will be permitted to the extent authorized by Carrier. This rule amends Rule 5 and Rule 10.

Rule 22 Blending. Carrier may elect, at its sole discretion, to receive Crude Petroleum that does not meet the requirements established herein and charge Shipper a fee as described in Rule 36.

Rule 23 Charges for Environmental Related Memberships and Fees. To the extent Barrels transported over Carrier’s facilities are the basis of a charge by any public or private agency or organization, which charge is related to compliance with federal, state or local environment laws or regulations (such as, but not limited to, the Oil Pollution Act of 1990), Carrier shall have the right to assess Shipper at a cost for any such charge attributable to that Shipper’s Barrels, provided Carrier has first given thirty (30) days advance written notice to Shipper of its intention to make such assessment thereafter.

Rule 24 Acceptance of Delivery and Demurrage. After a shipment has had time to arrive at a designated destination point and on twenty four (24) hours’ notice to Consignee, Carrier may begin delivery of such shipment to Consignee at its current rate of pumping. If all of such shipment cannot be received by Consignee, a demurrage charge of one-half cent (\$0.005) per Barrel per twenty four (24) hours shall accrue for the first three (3) days and after which a demurrage charge of two cents (\$0.02) per Barrel per twenty four (24) hours shall accrue, from the time said notice expires, on that part of such shipment that has not then been received by Consignee. If a Consignee is not able to receive Crude Petroleum from Carrier at the time when Carrier has scheduled a delivery and if Carrier has no means of withholding delivery of such Crude Petroleum, then Carrier shall have the right to sell such Crude Petroleum to the first available purchaser at the best price obtainable; to use the proceeds thereof to pay pipeline transportation, storage, demurrage and all other applicable charges that shall be due as if delivery had been made; and to hold the balance of such proceeds for whomever may be entitled thereto. This rule amends Rule 10.

Rule 25 Claims, Suits, Time for Filing. As a condition precedent to recovery for loss, damage, injury or delay to a shipment, claims must be filed in writing with Carrier within ninety-one (91) days after Delivery of the Crude Petroleum, or in case of failure to make delivery, then within ninety-one (91) days after a reasonable time for Delivery has elapsed; and suits shall be instituted against Carrier only within two (2) years and one (1) day from the day when notice in writing is given by Carrier to the claimant that Carrier has disallowed the claim or any part or parts thereof specified in the notice. Where claims are not filed or suits are not instituted thereon in accordance with the foregoing provisions, Carrier shall not be liable and such claims will not be paid. This rule amends Rule 12.

Rule 26 Common Stream Petroleum - Connecting Pipelines. When both receipts and deliveries of substantially

the same grade of Crude Petroleum are scheduled at the same location on Carrier's system, including, but not limited to, interconnections with other pipelines, Carrier reserves the right to offset like volumes of such common stream Crude Petroleum in order to avoid the unnecessary use of energy that would be required to physically pump the offsetting volumes. Carrier's applicable tariff rate will be applied to such transactions. When this right is exercised, Carrier will make subject deliveries as necessary for the Shipper involved from its Common Stream Crude Petroleum.

Rule 27 Destination Facilities. Carrier will deliver Crude Petroleum to a Shipper or its Consignee at destinations on its pipelines. Crude Petroleum will be delivered only into pipelines, tanks or other facilities that are provided by Shipper, Shipper's designee or Consignee or a connecting carrier. Carrier will determine and advise Shippers and Consignees of the size and capacity of pipelines, tanks or other facilities to be provided at destination point(s) to meet the operating conditions of Carrier's facilities and requirements of Shipper for delivery at such point. Carrier will not accept Crude Petroleum for transportation unless such facilities have been provided.

Rule 28 Dispatching. If Carrier operates its pipeline system in a batch process, then for each calendar month, Carrier will establish a sequence for pumping various grades of Crude Petroleum through its trunk lines and will schedule the approximate time when Crude Petroleum offered for shipment will be received by Carrier at origin point(s) and delivered by Carrier at destination point(s). Carrier will inform each Shipper of the time within each calendar month when Crude Petroleum will be received from such Shipper at origin point(s) and Carrier will inform each Consignee of the time within each calendar month when Crude Petroleum will be delivered to such Consignee at destination point(s).

Rule 29 Diversion or Reconsignment. Diversion or reconsignment may be made without charge if requested by Shipper prior to arrival at Shipper's original destination point(s), subject to the rates, rules, and regulations applicable from origin point(s) to the final destination point(s), provided the then current pipeline operations of the Carrier will permit such diversion or reconsignment. Such request must be confirmed in writing by Carrier.

Rule 30 Establishment of Grades. Carrier will from time to time determine which grades of Crude Petroleum it will regularly transport as a Common Stream from certain areas and between particular origin point(s) and destination point(s). Carrier will inform all interested persons of such determination upon request by them and this will constitute the sole holding out of Carrier in regard to the grades of Crude Petroleum transported. Shipper may request a different grade to be shipped than those grades determined by Carrier. Carrier shall determine what additional storage or pumping infrastructure, if any, will be required to be supplied by Shipper to accommodate the shipment of that different grade. Carrier may from time to time, at its sole discretion, undertake to transport other or additional grades of Crude Petroleum and Carrier may from time to time, at its sole discretion, after giving reasonable notice to persons who may be affected, cease to transport particular grades of Crude Petroleum.

Rule 31 Gauging, Testing, Measurement and Volume Adjustments. All Crude Petroleum tendered to the pipeline may be tested, gauged or metered by a representative of Carrier prior to, or at the time of, Receipt from the Shipper, but at all times, Shipper shall have the right to be present during any testing, gauging or metering. Carrier reserves the right to test, at its sole discretion, Crude Petroleum for basic or foreign sediment and water and other impurities after acceptance into Carrier's facilities. In addition to the provision under Rule 15, Carrier shall have access to any and all storage equipment, vehicles, or other facilities used for shipment of oil to the pipeline for the purpose of making any examination, inspection, or test. Except for arithmetic errors, all measurement and testing by Carrier shall be conclusive if a representative of Shipper or its Consignee was not present during such measurement and testing.

- (A) Where the measurement is determined by tank gauge, such measurement shall be based upon tanks strapped and tables compiled in accordance with Chapter 2, "Tank Calibration", API Manual of Petroleum Measurement Standards, Latest Edition, indicating one hundred percent (100%) full capacity.
- (B) Volume measurements by temperature compensated meters shall be further corrected for meter factor and pressure in accordance with the latest edition of API Manual of Petroleum Liquid Hydrocarbons by Pipeline Displacement Meters.
- (C) Carrier shall deduct from the volume of Crude Petroleum received into Carrier's facilities the actual amount of suspended basic or foreign sediment, water and other impurities as ascertained by centrifuge or other tests agreed upon.

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- (D) Unless otherwise provided in the transportation agreement between Carrier and Shipper, two tenths of one percent (0.2%) of the volumes of Crude Petroleum received into Carrier's facilities shall be deducted from such volumes and shall be retained by Carrier to cover loss due to shrinkage and evaporation incident to transportation on Carrier's facilities, and the volumes delivered to Shipper from Carrier's facilities shall be net of such deduction ("Pipeline Loss Allowance"). This portion of Rule 31 amends Rule 9 as stated.

Rule 32 Gravity Adjustments. In addition to the Pipeline Loss Allowance set forth in Rule 31, a volume shrinkage deduction for incremental evaporation resulting from the mixture of lighter hydrocarbons in the Crude Petroleum shall be applied starting at forty-five degrees (45°) API Gravity at sixty degrees Fahrenheit (60° F) as set forth below:

<u>API Gravity</u>	<u>Deduction</u>
45° to 47.4°	1.0%
47.5° to 49.9°	1.5%
50.0° to 54.9°	2.0%
55.0° to 59.9°	3.0%
≥ 60.0°	5.0%

The Net Standard Volume shall be the quantity deliverable by Carrier.

Rule 33 Inventory Requirements. Unless otherwise provided in the transportation agreement between Carrier and Shipper, Carrier may, at its sole discretion, require Shipper to supply a pro rata share of Crude Petroleum and inventory necessary for pipeline and tankage fill to assure efficient operation of Carrier's pipeline system. Crude Petroleum furnished by a Shipper may be withdrawn from Carrier's pipeline system only after (i) Shipper has ceased shipments and Shipper has notified Carrier in writing to discontinue shipments in Carrier's pipeline system, and (ii) Shipper inventory balances have been reconciled between Shipper and Carrier. Carrier may require advance payment of transportation charges on the volumes to be delivered from Carrier's pipeline system, and any unpaid accounts receivable, before final delivery will be made. Carrier shall have a reasonable period of time after the receipt of said notice to complete administrative and operational requirements incident to Shipper's withdrawal of the Crude Petroleum. If requested by Shipper, Carrier reserves the right to provide the required pipeline and tankage fill.

Rule 34 Liability of Parties. As a condition to Carrier's acceptance of Crude Petroleum under this tariff, Shipper agrees to defend, indemnify and hold harmless Carrier against claims or actions for injury and/or death of any and all persons and for damage to property of or any other loss sustained by Carrier, Shipper, Consignee and/or any third party resulting from or arising out of (1) any breach of or failure to adhere to any provision of this tariff by Shipper, Consignee, their agents, employees or representatives and (2) the negligent act(s), or failure(s) to act of Shipper, Consignee, their agents, employees or representatives in connection with Delivery or Receipt of Crude Petroleum. No party shall be liable for special, punitive, exemplary, consequential or incidental damages, or lost profits, whether based on contract, tort, strict liability, other law or otherwise and whether or not arising from any other party's sole, joint, concurrent or other negligence, strict liability or other fault. Shipper and Consignee shall be jointly and severally liable for the payment of transportation charges, fees, and all other applicable lawful charges accruing to or due Carrier by Shipper or Consignee, including but not limited to, penalties, interest and late payment charges on Crude Petroleum delivered by Carrier to Consignee. All accrued charges are due on Delivery of Crude Petroleum by Carrier to Consignee. Carrier may, at its option, require Shipper or Consignee to pay all such charges and fees in advance or to provide an irrevocable letter of credit satisfactory to Carrier. Carrier will not be liable for any loss of Crude Petroleum while in the possession of Carrier, or for any delay in receiving or delivering Crude Petroleum if caused by an event of force majeure.

- (A) If such loss occurs to Crude Petroleum in a segregated shipment, then the Shipper and Consignee thereof shall bear the entire loss, damage or delay that occurs.
- (B) However, if such loss occurs to Crude Petroleum that is not in a segregated shipment, then each Shipper of the grade of Crude Petroleum so lost via the system in which the loss occurs shall share such loss in the proportion that the amount of such grade of Crude Petroleum then in the custody of Carrier for the account of such Shipper in such system bears to the total amount of such grade of Crude Petroleum then in the custody of Carrier in such system.

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- (C) Carrier will be obligated to deliver only that portion of a Crude Petroleum shipment remaining after deducting such loss. Transportation charges will be made only on quantities of Crude Petroleum delivered.
- (D) If Crude Petroleum is lost in transit while in the custody of Carrier due to causes other than those described in the first paragraph of this item, Carrier may obtain and deliver to Consignee thereof other Crude Petroleum of the same quantity and grades as that which was lost, but Carrier shall not be obligated to do so; in the alternative, Carrier may compensate Shipper for such loss in money.

Rule 35 Origin Facilities. Carrier will receive Crude Petroleum from Shippers at stations and origins on its pipelines and at leases or plants to which its pipelines connect. Crude Petroleum will be received only from pipelines, tanks or other facilities that are provided by Shipper or Shipper's designee, or a connecting pipeline, or a marketer of Crude Petroleum. Carrier will determine and advise Shippers of the size and capacity of pipelines, tanks or other facilities to be provided at the origin point to meet the operating conditions of Carrier's facilities at such point. Carrier will not accept Crude Petroleum for transportation unless the above-described facilities meet generally-accepted industry standards. All connections will be subject to design requirements necessary to protect the safety, security, integrity and efficient operation of Carrier's pipeline system in accordance with generally-accepted industry standards. Acceptance of any request for connection will be subject to compliance with governmental and jurisdictional regulations.

Rule 36 Zone Designations. Carrier will establish origin point(s) and destination point(s) on its pipeline system and charge Shipper and Consignee fees for transportation of Crude Petroleum based on the relative location of both the origin point and destination point. Carrier's pipeline system, and the contemplated expansion thereof, will be separated into three (3) distinct zones. Each zone is distinguished from the other based on the geographic boundaries below:

- (A) The North Zone is the lands located north of a line projecting east and west and situated on the county line between Mitchell County and Sterling County, Texas.
- (B) The Central Zone is the lands located south of the line described in (A) above, and lands located north of a line projecting east and west of the southernmost county line between Sterling County and Tom Green County, Texas.
- (C) The South Zone is the lands located south of the line described in (B) above.

Rule 37 Rates Applicable. The rate that shall apply to the transportation of Crude Petroleum shall be the rate in effect on the date Crude Petroleum is received by Carrier for transportation. Likewise, the rules and regulations that shall govern the transportation of Crude Petroleum shall be the rules and regulations in effect on the date Crude Petroleum is received by Carrier for transportation. Unless otherwise provided in the transportation agreement between Carrier and Shipper, the rates charged by Carrier for the various services on its pipeline system are as follows:

- (A) Transportation charges, which are stated in Section 3 below, are based upon whether the origin point and the destination point are within the same zone or in different zones. An Incentive Shipper shall be entitled to the applicable Incentive Rates set out in Section 3 below. A Local Incentive Shipper shall be entitled to the applicable Local Incentive Rates set out in its transportation services agreement. A Shipper that is not an Incentive Shipper or a Local Incentive Shipper shall pay the applicable Uncommitted Rate set out in Section 3 below.
- (B) Truck unloading charge of fifteen cents per Barrel (\$0.15) for Crude Petroleum that is unloaded at Carrier's truck unloading facilities for delivery into Carrier's pipeline system.
- (C) Blending charge of two hundred cents per Barrel (\$2.00) for Crude Petroleum received by Carrier, at its sole discretion, at an origin point that does not meet the quality requirements specified herein.
- (D) A pumping surcharge representing Shipper's volumetric allocation of direct pumping expenses that represent the fraction of such electrical expenses incurred when natural gas is priced greater than \$4.00 for the posting of Inside FERC Henry Hub. For example: if natural gas was priced at \$5.00 for the example month, then Carrier is responsible for 80% (\$4.00/\$5.00) of the direct pumping expenses and Shipper will be responsible for its volumetric allocation of 20% of such direct pumping expenses.

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- (E) If the average daily quantity of Crude Petroleum delivered by Shipper to Carrier at an origin point over any calendar month is less than 25 Barrels per day for any reason (other than force majeure or Carrier's unexcused failure to accept Receipt), then Carrier will charge Shipper an "Origin Point Maintenance Fee" of \$900.00 per month for such origin point for administration, maintenance and meter servicing.
- (F) An escalation of all charges included herein that will adjust each charge on each anniversary of this tariff following the effective date, if positive, by the percentage increase in the Consumer Price Index, All Urban Consumers (the "Price Index") as published by the U.S. Department of Labor Bureau of Labor Statistics calculated for the twelve months preceding the date of escalation.

Rule 38 Environmental Charges. In addition to the transportation charges and all other charges accruing on Crude Petroleum accepted for transportation, a per Barrel charge will be assessed and collected in the amount of any tax, fee, or other charge levied against the Carrier in connection with such a commodity, pursuant to any Federal, State or local act or regulation which levies a tax, fee, or other charge, on the receipt, delivery, transfer or transportation of such commodities within their jurisdiction for the purpose of creating a fund for the prevention, containment, cleanup and/or removal of spills and/or the reimbursement of persons sustaining loss therefrom. If such taxes, fees or other charges are levied against the Carrier pursuant to this Rule 37, Carrier shall file a tariff with the Commission.

Rule 39 Payment of Transportation and Other Charges. Shipper and Consignee shall be jointly and severally liable for the payment of transportation, demurrage and all other applicable charges upon Delivery of Crude Petroleum by Carrier to Consignee or to a point on Carrier's lines by mutual agreement of Carrier, Shipper and Consignee. Transportation charges will be assessed and collected by Carrier at the rates in effect as provided herein on the basis of Net Standard Volume actually received at the origin point(s). Carrier shall have a lien on all Crude Petroleum accepted for transportation to secure the payment of all charges, and may withhold said Crude Petroleum from delivery until all of the said charges shall have been paid.

- (A) Carrier will bill Shipper each month for transportation, demurrage and all other applicable charges on Crude Petroleum delivered by Shipper to Carrier during the previous month. If such a bill is not paid within ten (10) days after date of invoice, Carrier shall have the right to assess a late charge at an annual interest rate equivalent to one hundred twenty-five percent (125%) of the prime rate of interest charged by Citibank N.A. of New York, New York on ninety (90) day loans to substantial and responsible commercial borrowers as of the due date. In the event the late charge, as described in the preceding sentence, is greater than the maximum rate allowed by law, then the maximum rate allowed by law will be used. Such late charge shall accrue from ten (10) days after date of invoice until payment is made.
- (B) Carrier may require that all payments to Carrier for services pertaining to the transportation of Crude Petroleum be wire transferred in accordance with the instructions on the Carrier's invoice to Shipper.
- (C) In the event Carrier determines that the financial condition of a Shipper or Shipper's guarantor (if any) is or has become impaired or unsatisfactory or Carrier determines it is necessary to obtain security from a Shipper, Carrier, upon notice to Shipper, will require any of the following prior to Carrier's delivery of Shipper's Crude Petroleum in Carrier's possession or prior to Carrier's acceptance of Shipper's Crude Petroleum: (1) prepayment of all charges by wire transfer to be held by the Carrier without interest accruing thereon until credited to the Shipper, (2) a letter of credit at Shipper's expense in favor of Carrier in an amount sufficient to ensure payment of all such charges and, in a form, and from an institution acceptable to Carrier, or (3) a guaranty in an amount sufficient to ensure payment of all such charges, and in a form and from a third party acceptable to Carrier. In the event Shipper fails to comply with any such requirement on or before the date supplied in Carrier's notice to Shipper, Carrier shall not be obligated to provide Shipper access to Carrier's facilities or provide services pursuant to this tariff until such requirement is fully met.

Rule 40 Minimum Nominations and Special Nominations. Carrier will not make a delivery of less than ten thousand (10,000) Barrels of Crude Petroleum in a calendar month at any destinations on its pipelines, except when (a) necessitated by dispatching contingencies, (b) a smaller delivery is authorized by an individual tariff, or (c) at Carrier's sole discretion. Carrier will also accept for transportation a grade of Crude Petroleum that does not meet the conditions of the above portion of this rule, provided that Carrier (i) has available facilities to segregate such grade of Crude Petroleum while it is in transit from all other grades of Crude Petroleum, and (ii) shall not be liable

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to Shipper or Consignee for changes in the gravity or quality of such grade of Crude Petroleum while it is in transit.

Rule 41 Specifications Required as to Quality and Legality. Carrier will accept Crude Petroleum into the pipeline system from Shippers according to the provisions below.

- (A) Crude Petroleum will be accepted for transportation only if it is deemed merchantable Crude Petroleum, which is properly settled and contains not more than one percent (1%) of basic sediment, water, and other impurities, and has a temperature not in excess of one hundred and twenty degrees (120°) Fahrenheit and its gravity, viscosity, pour point, and other characteristics are such that it will be readily susceptible to transportation through the Carrier's existing facilities, and will not materially affect the quality of other shipments or cause disadvantage to other Shippers and/or Carrier.
- (B) Crude Petroleum having a Reid Vapor Pressure exceeding nine (9) pounds per square inch absolute, an API gravity in excess of 45.0°, and/or sulphur content by weight exceeding one-quarter percent (0.25%) will be accepted at Carrier's sole discretion.
- (C) If Crude Petroleum is accepted from tankage, settled bottoms in such tanks must not be above a point four inches (4") below the bottom of the pipeline connection with the tank from which it enters Carrier's facilities.
- (D) Quality specifications of a connecting pipeline may be imposed upon Carrier when such limits are less than that of Carrier, in which case the limitations of the connecting pipeline will be applied.
- (E) Carrier may, from time to time, undertake to transport other or additional grades of Crude Petroleum and if, in the opinion of Carrier, sufficient quantities are not nominated or facilities are not available to justify continued transportation of other or additional grades, Carrier may, after giving reasonable notice to Shippers who may be affected, cease transporting particular grades of Crude Petroleum.
- (F) If, upon investigation, Carrier determines that a Shipper has delivered to Carrier's facilities Crude Petroleum that has been contaminated by the existence of and/or excess amounts of impure substances, including but not limited to, waste oils, lube oils, crankcase oils, chlorinated and/or oxygenated hydrocarbons, arsenic, lead and/or other metals, such Shipper will be excluded from further entry into applicable segments of the system until such time as quality specifications are met to the satisfaction of Carrier. Further, Carrier reserves the right to dispose of any contaminated Crude Petroleum locking its system. Disposal thereof, if necessary, may be made in any reasonable commercial manner, and any liability associated with the contamination or disposal of any Crude Petroleum shall be borne by the Shipper introducing the contaminated Crude Petroleum into Carrier's system.
- (G) Carrier will from time to time determine which grades of Crude Petroleum it will regularly transport as a common stream between particular receipt points and destination points on its pipeline systems. Carrier will inform all subscribers to tariffs for the system affected by such determination and this will constitute the sole holding out of Carrier in regard to the grades of Crude Petroleum transported.
- (H) Unless stated otherwise in written notice provided by Carrier to all subscribers to tariffs for the system affected, Carrier will not segregate Crude Petroleum of a kind and/or quality not currently transported through Carrier's facilities.
- (I) Carrier reserves the right to reject any and all Crude Petroleum nominated where the Shipper or Consignee has failed to comply with all applicable laws, items and regulations made by any governmental authorities regulating shipments of Crude Petroleum.

Rule 42 Titles. The act of delivering Crude Petroleum to Carrier for transportation shall constitute a warranty by Shipper that Shipper or Consignee has unencumbered title thereto and that the same was produced in accordance with law.

Rule 43 Scheduling of Shipments / Allocation. All Shippers and Consignees desiring to ship or receive Crude Petroleum through the pipelines of Carrier shall provide Carrier, in writing, the following information needed by Carrier to schedule and dispatch each shipment of Crude Petroleum: the kind, quantity, origin point, destination point and Shipper of each Crude Petroleum shipment that Shipper intends to make. Nominations must be received by the Final Nomination Deadline. The Final Nomination Deadline is 3:00 pm Central Time on the twenty-fifth

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(25th) day (excluding days other than Business Days) of the month preceding the month in which Shipper desires to ship. If the twenty-fifth (25th) day of the month is a day other than a Business Day, then such Nomination is due on the last Business Day immediately prior to the twenty-fifth (25th) day of the month. Carrier is not obligated to accept Nominations or changes in Nominations between the Final Nomination Deadline date and the first day of the following month, but may do so at its sole discretion. After the first of the month, changes will be accepted only in writing and only if space is available and the additional or changed nominations do not impair the movement of Crude Petroleum nominated prior to the Final Nomination Deadline.

- (A) A change in the destination point may be made without charge if requested by Shipper prior to arrival at the original destination point, subject to the rates, rules and regulations applicable from the point of origin to the point of final destination, provided that the then current operations of Carrier will permit such a change of destination and such request be made by Shipper in writing.
- (B) In the event Shippers Nominate to ship more Crude Petroleum via a particular pipeline or segment of line during any period of time than can be transported through such line or segment of line during such period, Carrier shall allocate available transportation capacity on a fair and equitable basis among all similarly-situated Shippers pursuant to Carrier's current proration policy. Line segments may be prorated separately if necessary. No nominations will be considered beyond the amount that the nominating party is ready, willing, and able to deliver for shipment. A copy of Carrier's proration policy is available upon request.

Rule 44 Separate Pipeline Agreements. Separate agreements, if applicable, in association with pipeline connections or other facilities ancillary to the Carrier's pipeline system and in accordance with this tariff shall be required of any Shipper or consignee before any obligation to provide transportation shall rise.

In case of any discrepancy in the requirements between any of the Rules of Section 1 and Section 2, the Rules in Section 2 shall prevail.

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SECTION 3 – TRANSPORTATION RATES

Uncommitted Rates:

<u>ZONE OF ORIGIN POINT</u>	<u>ZONE OF DESTINATION POINT</u>	<u>RATE (cents per Barrel)</u>
<u>South Zone</u>	<u>South Zone</u>	<u>125.00</u>
	<u>Central Zone</u>	<u>225.00</u>
	<u>North Zone</u>	<u>225.00</u>
<u>Central Zone</u>	<u>Central Zone</u>	<u>125.00</u>
	<u>South Zone</u>	<u>225.00</u>
	<u>North Zone</u>	<u>225.00</u>
<u>North Zone</u>	<u>North Zone</u>	<u>125.00</u>
	<u>Central Zone</u>	<u>225.00</u>
	<u>South Zone</u>	<u>225.00</u>

Incentive Rates:

<u>ZONE OF ORIGIN POINT</u>	<u>ZONE OF DESTINATION POINT</u>	<u>RATE (Cents per Barrel)</u>
<u>South Zone</u>	<u>South Zone</u>	<u>100.00</u>
	<u>Central Zone</u>	<u>200.00</u>
	<u>North Zone</u>	<u>200.00</u>
<u>Central Zone</u>	<u>Central Zone</u>	<u>100.00</u>
	<u>South Zone</u>	<u>200.00</u>
	<u>North Zone</u>	<u>200.00</u>
<u>North Zone</u>	<u>North Zone</u>	<u>100.00</u>
	<u>Central Zone</u>	<u>200.00</u>
	<u>South Zone</u>	<u>200.00</u>

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