

ARROWHEAD GATHERING COMPANY, LLC

**SOUTH TEXAS CRUDE OIL
GATHERING SYSTEM**

**RULES AND REGULATIONS
GOVERNING THE INTRASTATE GATHERING OF CRUDE
PETROLEUM BY PIPELINE**

The Rules and Regulations filed with the Railroad Commission of Texas and published herein, and all tariffs subject to these rules and regulations, are for the intrastate transportation of crude petroleum by pipeline. The Rules and Regulations published herein apply only under tariffs making specific reference by number to this tariff; such reference shall include supplements hereto and successive issues hereof. The rates in such subject tariffs are applicable only on intrastate shipments on the South Texas Crude Oil Gathering System of Arrowhead Gathering Company, LLC named therein. Specific provisions published in individual rate tariffs will take precedence over rules and regulations published herein.

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RULES AND REGULATIONS

TABLE OF CONTENTS

<u>Item</u>	<u>Subject</u>	<u>Page</u>
Section I	Rules And Regulations Of Railroad Commission Of Texas Rule 3.71. Pipeline Tariffs.....	4
1.	All Marketable Oil To Be Received For Transportation	4
2.	Basic Sediment, How Determined – Temperature	4
3.	“Barrel” Defined	4
4.	Oil Involved In Litigation, Etc. – Indemnity Against Loss	4
5.	Storage	4
6.	Identity Of Oil, Maintenance Of.....	5
7.	Minimum Quantity To Be Received.....	5
8.	Gathering Charges	5
9.	Measuring, Testing, And Deductions (Reference Special Order Number 20- 63,098 Effective June 18, 1973) [As Supplemented By Rule 30 Below]:	5
10.	Delivery And Demurrage.....	6
11.	Unpaid Charges, Lien And Sale To Cover	6
12.	Notice Of Claim	6
13.	Telephone-Telegraph Line – Shipper To Use.....	6
14.	Contracts Of Transportation	6
15.	Shipper’s Tanks, Etc. – Inspection	7
16.	Offers In Excess Of Facilities	7
17.	Interchange Of Tonnage	7
18.	Receipt And Delivery – Necessary Facilities For.....	7
19.	Reports Of Loss From Fires, Lightning And Leakage [Supplemented By Rule 26 And Rule 40 Below And Supplemented By Rule 30 Below]:.....	7
Section II	Arrowhead Gathering Company, LLC Rules And Regulations	8
	Definitions:	8
20.	Common Stream Contamination Rule 1 Above Is Supplemented As Follows:	10
21.	Storage Rule 5 And Rule 10 Above Are Supplemented As Follows:	10
22.	Identity Of Crude Oil - Rule 6 And Rule 10 Above Are Supplemented As Follows:.....	10
23.	Demurrage - Rule 10 Above Is Supplemented As Follows:.....	10
24.	Telecommunications - Rule 13 Above Is Not Applicable To The Pipelines Or Facilities Operated Under This Tariff.....	10
25.	Interconnections For Receipts And Deliveries-Rules 17 And 18 Above Is Supplemented As Follows:	10
26.	Reports Of Loss From Fires, Lightning And Leakage - Rule 19 Above Is Supplemented As Follows:	11
27.	Specifications And Restrictions, The Following Modifies And Supersedes Rule 1 And Rule 2 Above:	11

28.	Nominations And Minimum Volume	13
29.	Measurements And Adjustments-Rule 9 Above Is Supplemented As Follows:	14
30.	Liability Of Parties-Rule 4 And Rule 19 Above Are Supplemented As Follows:	14
31.	Payment Of Transportation And Other Charges-Rule 11 Above Is Supplemented As Follows:	15
32.	Charge For Spill Compensation.....	15
33.	Volumetric Adjustment.....	16
34.	Claims For Loss Or Damage-Rule 12 Above Is Supplemented As Follows:.....	16
35.	Shipments Of Indirect Petroleum Products.....	16
36.	Apportionment When Tenders Are In Excess Of Facilities	16
37.	Application.....	17
38.	Application Of Rates From And To Intermediate Points	17
39.	Common Stream Petroleum-Connecting Pipeline Operators	17
40.	Liability Of Pipeline Operator-Rule 19 Above Is Supplemented As Follows:	18
41.	Intrasystem Transfers-Intentionally Omitted.....	18
42.	Storage Of Crude Petroleum In Transit-Rule 5 Is Supplemented As Follows:	18
43.	Pipeage Or Other Contracts	19
44.	Additional Facilities – Right To Compensation	19
45.	Shipper History - Assignment Permitted	19

SECTION I

RULES AND REGULATIONS OF RAILROAD COMMISSION OF TEXAS RULE 3.71. PIPELINE TARIFFS.

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 two percent (2%) of basic sediment, water, or other impurities above a point six (6) inches below the pipeline connection with the tank. 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 three thousand (3,000) barrels of petroleum in any one (1) 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. [Supplemented by Rule 20 and Rule 27 below].
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 ninety degrees Fahrenheit (90° F), 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 27 below].
3. **"BARREL" DEFINED.** For the purpose of these Rules, a "barrel" of crude petroleum is declared to be forty-two (42) gallons of 231 cubic inches per gallon at sixty degrees Fahrenheit (60° F).
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 30 below].
5. **STORAGE.** Each pipeline shall provide, without additional charge, sufficient storage, such as is incidental 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 (5) days from the date of order of delivery at destination. [Supplemented by Rule 21 and Rule 42 below].

6. **IDENTITY OF OIL, MAINTENANCE OF.** A pipeline may deliver to consignee, either the identical oil received for transportation, subject to such consequence 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. [Supplemented by Rule 22 below].
7. **MINIMUM QUANTITY TO BE RECEIVED.** A pipeline shall not be required to receive less than one (1) tank carload 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 five hundred (500) barrels. [Supplemented by Rule 28 below].
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.
9. **MEASURING, TESTING, AND DEDUCTIONS (REFERENCE SPECIAL ORDER NUMBER 20-63,098 EFFECTIVE JUNE 18, 1973) [AS SUPPLEMENTED BY RULE 29 AND RULE 30 BELOW]:**
 - 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 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. [Supplemented by Rule 29 below].

- D. A transfer of custody of crude between transporters is subject to measurement as agreed upon by the transporters.
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 twenty-four (24) hours' notice to the consignee, may offer oil for delivery from its common stock at the point of destination, conformable to Section 6 of this rule, at a rate not exceeding ten thousand (10,000) barrels per day of twenty-four (24) hours. Computation of time of storage (as provided for in Rule 5) shall begin at the expiration of such notice. At the expiration of the time allowed in Rule 5 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 ten (10) days of one-tenth of one cent (\$.001) per barrel; and thereafter at a rate of three-fourths of one cent (\$.0075) per barrel, for each day of twenty-four (24) hours or fractional part thereof. [Supplemented by Rules 21, 22 and 23 below].
11. **UNPAID CHARGES, LIEN 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 Operator 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 Rules 31 and 32 below].
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 ninety-one (91) days after the damage, loss, or delay occurred. If the claim is for failure to make delivery, the claim must be made within ninety-one (91) days after a reasonable time for delivery has elapsed. [Supplemented by Rule 34 below].
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. [Supplemented by Rule 24 below].

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.
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 these Rules.
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 apportionment. [Supplemented by Rule 36 below].
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. [Supplemented by Rule 25 below].
18. **RECEIPT AND DELIVERY.– NECESSARY FACILITIES FOR.** Each pipeline shall install and maintain facilities for the receipt and delivery of marketable crude petroleum 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 25 below]
19. **REPORTS OF LOSS FROM FIRES, LIGHTNING AND LEAKAGE [SUPPLEMENTED BY RULE 26 AND RULE 40 BELOW AND SUPPLEMENTED BY RULE 30 BELOW]:**
 - A. Each pipeline shall immediately notify the commission, 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 (5) barrels escapes. Each pipeline shall file the required information with the commission in accordance with the appropriate commission form within 30 days of the spill or leak. [Supplemented by Rules 26, 30 and 40 below].
 - 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 rule 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.

SECTION II

ARROWHEAD GATHERING COMPANY, LLC RULES AND REGULATIONS

DEFINITIONS:

“API” means American Petroleum Institute.

“Base Period” means the previous twenty-four (24) months beginning with the twenty-fifth month prior to the month of allocation. Months when no apportionment is in effect will be included in the Base Period.

“Committed Shipper” means a Shipper that has committed to transporting, or paying for the transportation of, certain minimum volumes of Crude Petroleum pursuant to the terms of a TSA.

“Committed Volume” means the barrel per day volume committed to a Committed Shipper, in accordance with the TSA, multiplied by the number of days in the relevant month.

“Common Stream(s)” means Crude Petroleum moved through Pipeline Operator’s pipeline and associated facilities which is commingled or intermixed with other Crude Petroleum in said pipeline or facilities. Pipeline Operator’s Common Streams and characteristics of each shall be determined by the Pipeline Operator.

“Connecting Pipeline” as used herein, means a pipeline constructed and operated by a party or parties other than Pipeline Operator from which Crude Petroleum is received into Pipeline

Operator's pipeline on the basis of measurements made at the point where it enters said Connecting Pipeline rather than at the point where it enters Pipeline Operator's pipeline.

"Consignee" means a party, including a connecting pipeline system, to whom Shipper has ordered the delivery of Crude Petroleum.

"Crude Petroleum" as used herein, means the direct product of oil wells, condensate, or a mixture of the direct product and condensate.

"Deficiency Payment" means a payment to be made by a Committed Shipper, as determined in accordance with a TSA.

"Gravity," as used herein, means gravity determined in accordance with American Society for Testing Materials Designation D-287.

"Loss" means any actual loss, cost, expense, liability, damage to person (including death) or property (including damage to the environment), demand, suit, sanction, claim, judgment, lien, fine or penalty, including attorney's fees.

"New Shipper" means any Shipper who does not qualify as a Regular Shipper or Committed Shipper.

"Nomination" means any offer by a Shipper to Pipeline Operator of a stated quantity of Product for transportation from a specified reception point or points to a specified delivery point or points in accordance with this tariff.

"Pipeline Operator" means Harvest Pipeline Company.

"Product" means Crude Petroleum as defined herein.

"Regular Shipper" means any Shipper who either received deliveries during the first month of the Base Period or previously has been classified as a Regular Shipper and who continues to receive deliveries in any one or more months of any succeeding Base Period.

"Shipper" means a party who contracts with Pipeline Operator for the gathering or transportation of Crude Petroleum under this tariff.

"Shipper History" means the historic throughput volumes, and capacity rights of a Shipper, including capacity for which the Shipper paid throughput fees, a reservation charge or a Deficiency Payment.

"Transportation Space" means delivery capacity available to Shippers as determined by Pipeline Operator, subject to changes in pipeline operations.

"TSA" means an agreement involving transportation services, including but not limited to, a Transportation Service Agreement or a Throughput and Deficiency Agreement executed by the Pipeline Operator and a Committed Shipper.

“Volume” means the quantity of Product defined under the applicable rate tariff.

20. COMMON STREAM CONTAMINATION RULE 1 ABOVE IS SUPPLEMENTED AS FOLLOWS:

If Crude Petroleum is tendered that is materially different in character or quality from that usually produced in the field, Pipeline Operator, in its sole discretion, may reject such tender to prevent contamination of the Common Stream.

21. STORAGE RULE 5 AND RULE 10 ABOVE ARE SUPPLEMENTED AS FOLLOWS:

Unless alternate prior commercial arrangements are made between any New Shipper or Regular Shipper and Pipeline Operator prior to initial tender of Crude Petroleum by a New Shipper or Regular Shipper under this tariff, Pipeline Operator shall not be required to provide Crude Petroleum storage facilities whether at or near the final destination of the tendered volume of Crude Petroleum.

22. IDENTITY OF CRUDE OIL RULE 6 AND RULE 10 ABOVE ARE SUPPLEMENTED AS FOLLOWS:

Pipeline Operator shall not be liable for any consequence related to the mixing of Crude Petroleum tendered into its Common Stream pipeline and shall not be required to deliver from its common stock crude oil which is substantially like in kind or similar market value.

23. DEMURRAGE - RULE 10 ABOVE IS SUPPLEMENTED AS FOLLOWS:

As supplemented by Rule 21, Rule 22, and this Rule, Pipeline Operator shall not be required to provide Crude Petroleum storage to any shipper, either in its pipelines or storage tanks, unless alternate commercial arrangements are made in advance between Pipeline Operator and New Shipper or Regular Shipper and the arrangements must be in place prior to initial tender of Crude Petroleum by a New Shipper or Regular Shipper under this tariff.

24. TELECOMMUNICATIONS - RULE 13 ABOVE IS NOT APPLICABLE TO THE PIPELINES OR FACILITIES OPERATED UNDER THIS TARIFF.

25. INTERCONNECTIONS FOR RECEIPTS AND DELIVERIES-RULES 17 AND 18 ABOVE IS SUPPLEMENTED AS FOLLOWS:

Pipeline Operator shall not be obligated to provide connections or facilities for the exchange of Crude Petroleum unless the Shipper or producer requesting such connection can demonstrate compliance with Pipeline Operator’s connection and delivery specifications.

The Pipeline Operator may refuse to accept Crude Petroleum for transportation unless satisfactory written evidence is furnished that the Shipper or Consignee has provided the necessary facilities for the prompt receiving of said Crude Petroleum at its destination.

All connections will be subject to design requirements necessary to protect the safety, security, integrity and efficient operation of the Pipeline Operator's pipeline(s) in accordance with generally accepted industry standards. Acceptance of any request for connection will be subject to compliance with all governmental regulations.

26. REPORTS OF LOSS FROM FIRES, LIGHTNING AND LEAKAGE - RULE 19 ABOVE IS SUPPLEMENTED AS FOLLOWS:

Pipeline Operator shall not be obligated to provide notification to landowners or residents of a spill or leak on their property unless said landowners and residents are duly registered with the commission. Upon reporting of a spill or leak under Rule 19A to the commission, the commission will be requested to provide Pipeline Operator with a list of landowners or residents whose lands are affected by said spill or leak. Pipeline Operator shall then have thirty (30) days from the day Pipeline Operator receives such list to provide the requisite notification to the landowners' addresses as provided on such list.

27. SPECIFICATIONS AND RESTRICTIONS, THE FOLLOWING MODIFIES AND SUPERSEDES RULE 1 AND RULE 2 ABOVE:

A. No Crude Petroleum will be accepted for transportation except 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 Pipeline Operator's existing facilities, and will not materially affect the quality of other shipments or cause disadvantage to other shippers or the Pipeline Operator. In addition, Pipeline Operator reserves the right to reject (any and all of, but not limited to) shipments of Crude Petroleum where the Shipper or Consignee has failed to comply with applicable laws, rules, and regulations made by government authorities regulating shipment of Crude Petroleum. 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 Pipeline Operator's facilities.

B. All shipments of Crude Petroleum and condensate having an API Gravity of 60.0 degrees or above, as determined by either the composite average of the sample pot or on an individual truckload basis as determined by its truck ticket (as determined in Pipeline Operator's sole discretion), shall be subject to a deduction to cover the shrinkage resulting from the mixture thereof, in the Pipeline Operator's facilities. Such deduction shall be determined in accordance with the following table:

<u>API GRAVITY, Degrees</u>	<u>% DEDUCTION</u>
60 through 74.9	1%
75 through 84.9	5%

On certain movements as specified in the individual tariffs referencing this tariff, Crude Petroleum and condensate injected into the Pipeline Operator's system with an API gravity in excess of 84.9 degrees shall be subject to a deduction of 20%.

- C. Pipeline Operator may, from time to time, undertake to transport other or additional grades of Crude Petroleum and if, in the opinion of Pipeline Operator, sufficient quantities are not nominated or facilities are not available to justify continued transportation of other or additional grades, Pipeline Operator may, after giving reasonable notice to Shippers who may be affected, cease transporting particular grades of Crude Petroleum.
- D. If, upon investigation, Pipeline Operator determines that a Shipper has delivered to Pipeline Operator's facilities Crude Petroleum that has been contaminated by the existence of or excess amounts of impure substances, including but not limited to, chlorinated or oxygenated hydrocarbons, arsenic, lead, 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 Pipeline Operator. Further, Pipeline Operator reserves the right to dispose of any contaminated Crude Petroleum blocking 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 Pipeline Operator's system.
- E. The quantity deliverable shall be the net volume remaining after adjustment for temperature and deduction for basic sediment, water, other impurities, and losses, provided for in Rule 9, less the applicable deduction for shrinkage in subparagraph B above. Transportation charges will be assessed on such net volume remaining.
- F. Pipeline Operator reserves the right to reject any and all of the following shipments:
 - i. Crude petroleum having a Reid vapor pressure in excess of 10 psia at a temperature of 100 degrees Fahrenheit/or an API gravity in excess of 84.9 degrees.
 - ii. Crude petroleum where the Shipper or Consignee has failed to comply with all applicable laws, rules and regulations made by any governmental authorities regulating shipments of Crude Petroleum.
 - iii. Crude petroleum received from tanks containing basic sediment, water or other impurities in excess of one percent (1%) average in suspension above the pipeline connection. Where crude oil is delivered to pipeline through automatic custody transfer measurement facilities, Pipeline Operator may require use of a monitor which rejects oil containing in excess of one percent (1%) basic sediment and water. [This limitation by Pipeline Operator is supplementary to the one percent (1%) basic sediment and water limit above a point six (6) inches below pipeline connection provided for in Rule 1.]

- G. Pipeline Operator may refuse to accept for transportation or require batched movement outside the Common Stream of any material tendered for transportation which is not Crude Petroleum and which otherwise does not meet the quality requirements as set forth in this Rule 27 or which in Pipeline Operator's opinion differs materially in character from Crude Petroleum being transported by Pipeline Operator. Batched transportation shall be under such terms and conditions as Pipeline Operator and Shipper shall agree.

28. NOMINATIONS AND MINIMUM VOLUME.

Shippers will nominate Product for transportation in writing on the forms and by the dates and times as specified under the applicable rate tariff; provided that, if a given rate tariff does not so specify, this Item 28 shall apply. Subject to the availability of Transportation Space and the operating conditions of the facility, Pipeline Operator will accept Nominations after such specified dates and times, on an equitable and non-discriminatory basis.

Nominations and minimum Volume will be as specified under the applicable rate tariff; provided that, if a given rate tariff does not so specify, this Item 28 shall apply. Pipeline Operator may require but shall not be obligated to accept Nominations from any Shipper unless such Shipper provides written third party verification in support of the Shipper's Nominations that proves Shipper's Nominations are in good faith.

Before Pipeline Operator will accept a Nomination from a new Shipper, such Shipper (i) will comply with requirements regarding creditworthiness and financial assurances; (ii) will demonstrate to Pipeline Operator the adequacy of such Shipper's facilities; and (iii) will provide any information reasonably requested by Pipeline Operator.

Nominations for the transportation of Crude Petroleum for which Pipeline Operator has facilities will be accepted into Pipeline Operator's system under these rules in volumes of not less than two thousand (2,000) bpd (barrels per day) aggregate from one or more Shippers as operations permit and provided such Crude Petroleum is of similar quality and characteristics as is being transported from receipt point to destination point; except that Pipeline Operator reserves the right to accept any volume of Crude Petroleum if such volume can be consolidated with other Crude Petroleum such that Pipeline Operator can make a single delivery of not less than two thousand (2,000) bpd, and Pipeline Operator will not be obligated to make any single delivery of less than two thousand (2,000) bpd, unless Pipeline Operator's operations dictate otherwise.

Crude Petroleum for shipment through lines of Pipeline Operator will be received only on properly executed Nominations from the Shipper showing the point at which the Crude Petroleum is to be received, point of delivery, consignee and amount of Crude Petroleum transported.

Any Shipper desiring to Nominate Crude Petroleum for transportation shall make a Nomination to the initial Pipeline Operator in writing on or before the twenty-fifth (25th) day of the month preceding the month during which the transportation under the Nomination is to begin; except that, if Transportation Space is available for current movement, a Shipper may Nominate Crude

Petroleum for transportation after the twenty-fifth (25th) day of the month preceding the month during which the transportation under the Nomination is to begin.

If a Committed Shipper fails to tender a volume of Crude Petroleum equal to the Committed Volume, it shall pay to the Pipeline Operator the Deficiency Payment, which payment shall be equal to the shortfall in the volume tendered multiplied by the applicable rate.

29. MEASUREMENTS AND ADJUSTMENTS-RULE 9 ABOVE IS SUPPLEMENTED AS FOLLOWS:

All shipments tendered to Pipeline Operator for transportation shall be tested, gauged, or metered by a representative of Pipeline Operator prior to, or at the time of receipt from the Shipper, into the Pipeline, but the Shipper shall at all times have the privilege of being present or represented during the testing, gauging or metering.

- A. Quantities for receiving and delivering will be net standard volume. Quantities may be computed from tank tables compiled or accepted by the Pipeline Operator.
- B. The volume of impurities in Crude Petroleum received and delivered by Pipeline Operator will be measured by centrifugal test, or by such other tests as may be agreed upon by the Shipper and Pipeline Operator. The volume of impurities will be deducted from the volume of such receipts and deliveries. Corrections will be made for temperature from observed degrees Fahrenheit to 60 degrees Fahrenheit and for pressure to 14.696 psia.
- C. In addition to deductions for losses as provided for in Rule 27 and Rule 30, Crude Petroleum quantities received for transportation may be adjusted to allow for inherent losses including but not limited to shrinkage, evaporation, interface losses and normal "over and short" losses. Pipeline Operator shall deduct from all Crude Petroleum received for transportation to cover losses incident to pipeline transportation, a deduction of two tenths of one percent (0.2%) to cover evaporation, interface losses, and other normal losses during transportation.

30. LIABILITY OF PARTIES-RULE 4, RULE 9 AND RULE 19 ABOVE ARE SUPPLEMENTED AS FOLLOWS:

As a condition to Pipeline Operator's acceptance of Crude Petroleum under this tariff, each Shipper agrees to defend, indemnify, and hold harmless Pipeline Operator against claims or actions for injury or death of any and all persons whomever and for damage to property of or any other loss sustained by Pipeline Operator, 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 acts, or failures to act of Shipper or Consignee, their agents, employees or representatives in connection with delivery or receipt of Crude Petroleum.

The Shipper shall be liable for the payment of all gathering and transportation charges, fees, and other lawful charges accruing to or due Pipeline Operator by Shipper, including but not limited to, penalties, interest, and late payment charges on Crude Petroleum delivered by Pipeline Operator to Consignee. Pipeline Operator may, at its option, require Shipper to pay all such charges and fees in advance or to provide an irrevocable letter of credit or guarantee satisfactory to Pipeline Operator.

The Pipeline Operator, while in possession of Crude Petroleum herein described, shall not be liable for any loss thereof; damage hereto; or delay caused by act of God, war, act of public enemy, quarantine, the authority of law, strikes, riots, civil disorder, requisition or necessity of the Government of the United States in time of war, default of Shipper, or from any cause not due to the sole negligence of the Pipeline Operator.

31. PAYMENT OF TRANSPORTATION AND OTHER CHARGES-RULE 11 ABOVE IS SUPPLEMENTED AS FOLLOWS:

Transportation charges will be assessed and collected by Pipeline Operator at the attached rates in effect on the basis of net volumes actually received at the origin/receipt point(s).

The Shipper shall pay the transportation and all other charges applicable to the shipment, and, if required pursuant to Section 30, shall prepay or guarantee the same before acceptance by the Pipeline Operator, or pay the same before delivery. Pipeline Operator shall have a lien on all Crude Petroleum in its possession belonging to the Shipper to secure the payment of all unpaid charges due by such Shipper, and may withhold such Crude Petroleum from delivery until all of such unpaid charges shall have been paid.

If any charge remains unpaid after the due date specified in Pipeline Operator's invoice, then such amount shall bear interest from the day after the date of the invoice until paid, calculated at an annual rate equivalent to 125% of the prime rate of interest, as of the date of Pipeline Operator's invoice, charged by the Citibank N.A. of New York, New York, for ninety (90) day loans made to substantial and responsible commercial borrowers or the maximum rate allowed by law, whichever is the lesser. If said charges shall remain unpaid five (5) days after the time which may be fixed for delivery as provided for below or, in the absence of unpaid charges, when there shall be failure to take the Crude Petroleum at the destination point as provided in these rules and regulations, the Pipeline Operator may, by an agent, sell said Crude Petroleum at public auction for cash on any day not a Sunday or legal holiday, and not less than forty-eight (48) hours after publication of notice, in a daily newspaper, of the time and place of such sale and the quantity of Crude Petroleum to be sold. The Pipeline Operator may be a bidder and purchaser at such sale. Out of the proceeds of said sale the Pipeline Operator may pay itself all transportation and any other lawful charges, expense of notice, advertisement, sale, and other necessary expense, and of caring for and maintaining the Crude Petroleum, and the net balance shall be held without interest for whomsoever may be lawfully entitled thereto.

32. CHARGE FOR SPILL COMPENSATION.

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 Pipeline Operator by an agency with jurisdiction under any federal, state, or local act or regulation which levies a tax, fee, or other charge on the receipt, delivery, transfer, or transportation of Crude Petroleum within its jurisdiction for the purpose of creating a fund for the prevention, containment, cleanup, or removal of spills or the reimbursement of persons sustaining loss therefrom.

33. VOLUMETRIC ADJUSTMENT.

Any volumetric difference between receipts from Shipper and delivery to Shipper or Consignee during a current month as a result of scheduling will be adjusted in the following month without any further liability to Pipeline Operator, taking into consideration all prior deductions allowed pursuant to the rules and regulations contained herein.

34. CLAIMS FOR LOSS OR DAMAGE-RULE 12 ABOVE IS SUPPLEMENTED AS FOLLOWS:

Claims for loss or damage must be made in writing to Pipeline Operator within nine (9) months after delivery of the Crude Petroleum, or in case of a failure to make delivery, then within nine (9) months after a reasonable time for delivery has elapsed. Suits for loss or damage shall be instituted before a court of competent jurisdiction not later than two (2) years after the date of delivery of the Crude Petroleum; or in case of a failure to make delivery, then not later than two (2) years after a reasonable time for delivery has elapsed. Where claims for loss or damage are not filed or suits are not instituted thereon in accordance with the foregoing provisions, such claims will not be paid and the Pipeline Operator will not be liable.

35. SHIPMENTS OF INDIRECT PETROLEUM PRODUCTS.

Pipeline Operator will not be obligated to accept for transportation indirect petroleum products. Pipeline Operator will, however, review requests to ship indirect petroleum products on an individual basis and reserve the right to do so if operationally feasible. Pre-authorization to transport indirect petroleum products must be obtained from the Pipeline Operator by the Shipper prior to shipment.

36. APPORTIONMENT.

If Pipeline Operator receives Nominations for more Product than Pipeline Operator can transport in a given month, the Pipeline Operator will apportion the Nominations among the Shippers for such month as follows:

Transportation Space will be allocated among Regular Shippers in the respective proportions that delivery during the Base Period bears to the deliveries of all Regular Shippers during such period. Allocations to Regular Shippers will be subject to further reduction if required to accommodate New Shippers.

A New Shipper nominating Product for shipment during the given period, and who has otherwise satisfied applicable requirements of the tariff rules, will be allocated Transportation Space based on its demonstrated need to ship at least the minimum Volume requirement up to a maximum allocation of 1.25% of the total Transportation Space. If total New Shipper allocation exceeds 5.0% of Transportation Space, each New Shipper's allocation will be reduced on a proportional basis not to exceed the 5.0% threshold. Any unused Transportation Space will become available for allocation among Regular Shippers and allocated per this Item.

If, during a month of apportionment, a Shipper fails to deliver to Pipeline Operator Volumes equal to its allocated Transportation Space, such unused space shall be made available to other Shippers in accordance with the procedures described in this Item 36 and in Item 45 in order for Pipeline Operator to efficiently utilize the Transportation Space.

Except as noted in this Item 36 and in Item 45, prorated Transportation Space allocated to a Shipper may not be assigned, conveyed, loaded, transferred to or used in any manner by another Shipper. However, a Shipper's allocation 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.

If Pipeline Operator receives Nominations for more Crude Petroleum than Pipeline Operator can transport in a given month, then Committed Shippers will be allocated their aggregate Committed Volumes. Any remaining capacity will be apportioned among all remaining Shipper Nominations, including excess Committed Shipper Nominations, in accordance with the provisions in this same item in the associated rules and regulations tariff.

37. APPLICATION OF RATES AND CHARGES.

Crude Petroleum accepted for mainline transportation shall be subject to the rates and charges in effect on the date of receipt of such Crude Petroleum by the Pipeline Operator, irrespective of the date of the tender. Mainline transportation and all other lawful charges will be collected on the basis of net volume of Crude Petroleum delivered. All net volumes will be determined in the manner described in Rule 27 and Rule 29.

38. APPLICATION OF RATES FROM AND TO INTERMEDIATE POINTS.

For Crude Petroleum accepted for transportation from any point on Pipeline Operator's lines not named in tariffs making reference hereto, which is intermediate to a point from which rates are published in said tariffs, through such unnamed point, the rate published therein from the next more distant point specified in the tariff will apply from such unnamed point. For Crude Petroleum accepted for transportation to any point not named in tariffs making reference hereto, which is intermediate to a point which rates are published in said tariffs, through such unnamed point, the rate published therein to the next more distant point specified in the tariff will apply.

39. COMMON STREAM PETROLEUM-CONNECTING CARRIERS.

When both receipts from, and deliveries to, a connecting carrier of substantially the same grade of Crude Petroleum are scheduled at the same interconnection, Pipeline Operator reserves the

right, with cooperation of the connecting carrier, to offset like volumes of such Common Stream Crude Petroleum in order to avoid the unnecessary use of energy which would be required to physically pump the offsetting volumes. When this right is exercised, Pipeline Operator will make the further deliveries for the Shipper involved from its Common Stream Crude Petroleum.

40. LIABILITY OF CARRIER-RULE 19 ABOVE IS SUPPLEMENTED AS FOLLOWS:

Pipeline Operator will not be liable for any loss of Crude Petroleum herein described, or damage thereto, or delay, because of an act of God, the public enemy, quarantine, the authority of law, strikes, riots, or the acts of default of the Shipper or Consignee, or from any other cause not due to the negligence of Pipeline Operator; in case of such losses from such causes, other than the negligence of Pipeline Operator losses shall be charged proportionately to each shipment in the ratio that such shipment, or portion thereof, received and undelivered at the time the loss or damage occurs, bears to the total of all shipment, or portions thereof, then in the custody of Pipeline Operator for shipment via the lines or other facilities in which the loss or damage occurs; the consignee shall be entitled to receive only that portion of this shipment remaining after deducting his proportion of such loss or damage, determined as aforesaid, and shall be required to pay transportation charges only on the quantity delivered.

41. INTRASYSTEM TRANSFERS-INTENTIONALLY OMITTED

42. STORAGE OF CRUDE PETROLEUM IN TRANSIT-RULE 5 IS SUPPLEMENTED AS FOLLOWS:

- A. Pipeline Operator will only provide working tankage for such storage that is incidental and necessary to the transportation of Crude Petroleum, but does not provide or offer storage service. Shipper or Consignee may, by request on the original tender or shipping order, or by order for diversion or reconsignment enroute, have Crude Petroleum tendered for shipment stored in tanks furnished by the Shipper or Consignee at points on the lines of Pipeline Operator, when intermediate to the designation shown on the tender of shipments, subject to the conditions provided in this section.
- B. All lawful transportation charges from point of origin to the storage point published in tariffs lawfully on file with the Railroad Commission of Texas shall be paid upon delivery of Crude Petroleum into the tanks at storage point or may be required in advance of such transportation at the option of Pipeline Operator and pursuant to Section 30.
- C. If shipments are placed in in-transit storage at request of Shipper, and such stopover causes an additional pumping by Pipeline Operator upon reshipment from the in-transit point which would not otherwise have been required for delivery to final destination on Pipeline Operator's system, then such shipments shall be subject to a charge for stopover service of nine cents (9¢) per barrel. The stopover charge shall be in addition to all other transportation charges and shall be payable when shipment is re-shipped from the in-transit point.

- D. Transportation charges on Crude Petroleum stopped, and subsequently forwarded to destination within a period not exceeding two (2) years from date of original shipment, shall be assessed at the balance of the through rate from the original point of origin to final destination, via the storage point, in effect On the date of original shipment, provided for in tariffs of Pipeline Operator lawfully on file with the Railroad Commission of Texas.
- E. Crude petroleum disposed of locally will be subject to the local rate into the storage point and Crude Petroleum not forwarded from storage points within the specified time will be subject to the local rate into, and out, of the storage point published in Pipeline Operator's tariffs lawfully on file with the Railroad Commission of Texas.
- F. Upon delivery of Crude Petroleum into storage tanks furnished by the Shipper or Consignee, its custody and possession shall be that of the Shipper or Consignee and not that of Pipeline Operator, and Pipeline Operator shall not be liable for loss of or damage to such crude petroleum while in storage. Pipeline Operator, however, reserves the right to gauge and examine such Crude Petroleum from time to time as desired while it is in said tanks.
- G. When the Crude Petroleum is tendered for forwarding to designation, a new tender must be issued making proper reference by number and date to the original tender or shipping order for shipment.

43. PIPEAGE OR OTHER CONTRACTS.

Separate pipeage and other contracts may be required of a Shipper, in accordance with the applicable tariff and these rules, before any duty of transportation by the Pipeline Operator shall arise.

44. ADDITIONAL FACILITIES – RIGHT TO COMPENSATION.

If Pipeline Operator provides any facilities under Rules 17, 18, 21, 23 and/or 25, Pipeline Operator shall be entitled to charge Shipper for such facilities.

45. SHIPPER HISTORY - ASSIGNMENT PERMITTED.

A Shipper may assign its Shipper History to another Shipper ("Assignee Shipper") ("Assigned Shipper History"). Pipeline Operator shall be given notice of such assignment in writing by the twenty-fifth (25th) of the month prior to the month in which an apportionment decision by the Pipeline Operator is expected to include the Assigned Shipper History in apportionment. For any purpose under this tariff for which Shipper History is relevant, Assigned Shipper History shall apply to the Assignee Shipper as though it had been performed by the Assignee Shipper itself. Such Assigned Shipper History also shall contribute to the satisfaction of the Base Period requirement imposed on Regular Shippers under this tariff.