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~~**KOCH PIPELINE COMPANY, L.P.**~~  
**[W] KPL South Texas, LLC**

**LOCAL COMMODITY TARIFF**

Naming

**RULES AND REGULATIONS**

Applying On

**PRODUCT**

Transported 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. Specific provisions published in individual rate tariffs will take precedence over rules and regulations published herein.

The provisions published herein will, if effective, not result in an effect on the quality of the human environment.

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## RULES AND REGULATIONS

### ITEM 5 DEFINITIONS

As used in this tariff, the following terms have the following meanings:

"API" means American Petroleum Institute

"Barrel" means forty-two (42) United States gallons, at a temperature of sixty (60) degrees Fahrenheit.

"Carrier" means ~~Koch Pipeline Company, L.P.~~ [W] Koch Pipeline South Texas, LLC

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

"Consignee" means the party to whom a Shipper has ordered the delivery of Product, as appropriate.

"Crude Petroleum" means the direct product of oil wells or a mixture of the direct product of oil wells and the indirect petroleum products resulting either from refining Crude Petroleum or from the operation of gasoline recovery plants, gas recycling plants or distillate recovery equipment in gas and distillate fields, or broken out during the normal production or processing of natural gas, and meeting the specifications referenced in Item 10 (Specifications as to Quality & Legality of Shipments).

"Nomination" means any offer by a Shipper to Carrier 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.

"Petroleum Products" means the commodities more specifically described in Item 10 (Specifications as to Quality & Legality of Shipments) under the applicable rate tariff.

"Product" means Crude Petroleum or Petroleum Products as defined herein.

"Shipper" means a party that contracts with Carrier for the transportation of Product under the terms of this tariff.

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

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

**ITEM 10 SPECIFICATIONS AS TO QUALITY & LEGALITY OF SHIPMENTS**

Carrier will not accept Product that fails to fulfill the specifications set forth in the applicable rate tariff. If a Shipper's Product does not comply with the specifications of the applicable rate tariff Shipper will remove its Product from the Carrier's facilities as directed by the Carrier. If the Shipper fails to remove its Product from the facilities as directed by the Carrier, Carrier will remove and sell any or all of such Shipper's Product that is in Carrier's possession to a purchaser at the current market price. The proceeds of such sale will be applied to the costs incurred by Carrier with respect to the storage, removal and sale of such Shipper's Product, including attorneys' fees. The remainder of such proceeds, if any, will be paid by Carrier to Shipper.

A Shipper will provide to the Carrier, upon request, a certificate setting forth the specifications of Product to be received by the Carrier from such Shipper. If a Shipper fails to provide the Carrier with such certificate, then the Carrier will not be obligated to accept the Shipper's Product.

**ITEM 15 ADDITIVES**

Carrier, will require, approve, or reject Product containing, or the injection into Product of, corrosion inhibitors, viscosity or pour point depressants, drag reducing agent, or other such additives in Product to be transported.

**ITEM 20 SEGREGATION AND CHANGES IN QUALITY**

Carrier will use reasonable care to transport Product received to destination with a minimum of contamination and mixing, and will attempt to maintain the identity of each shipment. Carrier will not be required to deliver the identical Product received, but will use reasonable care to deliver Product with specifications similar to those of the Product received. Except to the extent provided in Item 115 (Liability of Carrier), Carrier will not be liable for any damage or loss, including but not limited to consequential, incidental, direct or indirect damages or lost profits, caused by contamination, discoloration, deterioration, a change in the density, or other change in the quality of a Shipper's Product resulting from Carrier's transportation of such Product.

The above language does not apply to pipeline systems that are designated as "Common Stream" in the applicable rate tariff under the Item Specifications as to Quality & Legality of Shipments.

**ITEM 25 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. Subject to the availability of Transportation Space and the operating conditions of the facility Carrier 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. Carrier 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 Carrier will accept a Nomination from a new Shipper, such Shipper (i) will comply with Item 90 (Creditworthiness and Financial Assurances); (ii) will demonstrate to Carrier the adequacy of such Shipper's facilities as referenced in Item 40 (Origin and Destination Facilities); and (iii) will provide any other information reasonably requested by Carrier.

**ITEM 30 APPORTIONMENT**

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

The "Base Period" is the previous twelve months beginning with the thirteenth month prior to the month of allocation. Months when no apportionment is in effect will be included in the Base Period.

A "Regular Shipper" is 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.

A "New Shipper" is any Shipper who does not qualify as a Regular Shipper.

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 [U] 1.25% of the total Transportation Space. If total New Shipper allocation exceeds [U] 5.0% of Transportation Space, each New Shipper's allocation will be reduced on a proportional basis not to exceed the [U] 5.0% threshold. Any unused Transportation Space will become available for allocation among Regular Shippers allocated per this Item.

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

Except as noted in this Item 30, 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.

### **ITEM 35            NOMINATION INTEGRITY**

In any month of apportionment, if a Shipper fails to deliver to Carrier at least 95% of its final confirmed Nomination, the Carrier will charge the Shipper an amount equal to the tariff rate multiplied by the nominated Volume not received by Carrier. If Shipper's failure to deliver was due to factors beyond the Shipper's control, or if the Carrier is able to achieve any of the Volume lost from such Shipper through other means, such charge will be reduced accordingly.

#### **ITEM 40 ORIGIN AND DESTINATION FACILITIES**

Carrier will only accept Product for transportation at established origin points with delivery of the Product to established delivery points.

The Carrier will only accept Product for transportation when the Shipper or Consignee has provided evidence to the Carrier proving that Shipper or Consignee has the necessary facilities, subject to the Carrier's operations, at the specified origin and delivery points.

#### **ITEM 45 DESTINATION CHANGES**

A Shipper can change destinations before such shipment arrives at its original destination if Shipper makes a request for such destination change in writing and if no interference with Carrier's operations would occur due to such change. Any such change will be subject to Carrier's operations and the rates, rules, and regulations applicable from the point of origin to the final destination.

#### **ITEM 50 INTRASYSTEM TRANSFERS**

Transfers of Product in Carrier's custody from one Shipper (transferor) to another Shipper (transferee) will be permitted provided that transferor and transferee provide Carrier written notice setting forth the kind, quantity, source, location, transferor and transferee of the Product and the month that the transfer is to occur. Any party involved in an intrasystem transfer described in this provision is subject to all other provisions of this tariff.

Intrasystem transfers will be allowed at a fee of [U] one-half of one cent (\$.005) per Barrel to be charged to the transferee.

#### **ITEM 55 MEASURING, TESTING, AND DEDUCTIONS**

Before a Carrier accepts Product from a Shipper, such Product will be measured by Carrier pursuant to the Measurement, Testing, and Deductions provisions set forth in the applicable rate tariff. The Shipper or Consignee may be present at the measurement, but the measurement by Carrier is final, regardless of whether Shipper or Consignee is present. Volume will be determined in accordance with the applicable API Manual of Petroleum Measurement Standards. Carrier may deduct sediment, water, and other impurities as shown by the centrifugal method, Karl Fischer method or other method reasonably determined by Carrier and Carrier will make deductions as set forth in the applicable rate tariff. Transportation charges will be assessed on the net balance of Product as determined by Carrier's measurement, and such net balance will be the Volume deliverable by Carrier.

#### **ITEM 60 EVIDENCE OF RECEIPT AND DELIVERY**

Carrier will document Product received from or delivered to Shipper, in each instance, by tickets showing volumes, temperature, basic sediment and water, and any other data essential to the determination of quantity and quality. Unless waived, such tickets will be signed by Carrier and representatives of Shipper or Consignee, as applicable. Such ticket will be conclusive evidence of Product received or delivered, as the case may be. Failure of Shipper or Consignee to have a representative present will constitute a waiver, and Shipper or Consignee will be bound by the information on such tickets. When tickets are unavailable or unreliable, Carrier will use the best available data to determine the Volume of Product received and delivered.

**ITEM 65            LINE FILL AND TANK BOTTOM INVENTORY**

Carrier will require Shipper to supply a pro rata share of Product necessary for pipeline and tankage fill to ensure efficient operation of Carrier's pipeline system.

Product provided by Shipper for this purpose may be withdrawn only after: (i) the Shipper has given Carrier reasonable written notice of Shipper's intention to discontinue shipment on the system and shipments have ceased, and (ii) such Shipper's Volume balances have been reconciled between Shipper and Carrier. Based on the Shipper's creditworthiness determined in Item 90 (Creditworthiness and Financial Assurances), Carrier may require that Shipper pay in advance any final transportation charges and settle any unpaid accounts receivable before Carrier will make final delivery.

If a Shipper's inventory balance drops below its pro rata portion of the Volume of Product necessary for efficient operation of Carrier's pipeline system, Carrier will require Shipper to provide the necessary Volume to meet its pro rata portion of such Volume of Product.

If Shipper maintains an inventory balance after ceasing shipments on the system, or Shipper gives Carrier written notice of its intent to cease movement over the system, and such Shipper is unable to schedule appropriate shipments to clear the inactive inventory balance, within 30 days, then Carrier may shall have the right upon giving the Shipper 60 days notice to remove and sell any or all of such inventory balance to a purchaser at the current market price. The proceeds of such sale will be applied to the costs incurred by Carrier with respect to the storage, removal, and sale of such Shipper's Product, including attorneys' fees. The remainder of such proceeds, if any, will be paid by Carrier to Shipper.

**ITEM 70            STORAGE SERVICE**

Carrier will only provide working tankage for such storage that is incidental and necessary to the transportation of Product pursuant to the applicable rate tariff. Any additional storage in Carrier's tankage, i.e., storage beyond what is incidental and necessary to transportation pursuant to the applicable rate tariff, will be subject to the terms and conditions of Carrier's standard storage agreement and is a non-jurisdictional service.

**ITEM 75            APPLICATION OF RATES**

The tariff rate in effect on the date Product is delivered by Carrier to Shipper will apply to the transportation of such Product.

**ITEM 80            APPLICATION OF RATES FROM AND TO INTERMEDIATE POINTS**

Product received from a point on Carrier's system that is not named in the applicable rate tariff, but that is intermediate to a point for which rates are published in the applicable rate tariff ("intermediate point"), will be charged the rate in effect for the next more distant point published in the applicable rate tariff.

Product delivered to an intermediate point will be charged the rate in effect for the next more distant point published in the applicable rate tariff.

If Carrier determines that an intermediate point is expected to be used on a continuous basis for more than 30 days, Carrier will file a tariff publication applicable to the transportation movement to such intermediate point.

## **ITEM 85 PAYMENT OF CHARGES**

Payment for all charges under this tariff will be made to Carrier within 10 days of the invoice date. Any charges remaining unpaid 10 days after the invoice date will accrue interest from the day after the due date until paid, calculated at an annual rate equal to the lesser of (i) [U] 125% of the prime rate as quoted by a major New York bank or (ii) the maximum interest rate allowed by law. Payments must be made by wire transfer. Shipper and Consignee will be jointly and severally liable for payment of all charges under this tariff and for all documented costs incurred by Carrier to collect any unpaid amounts due under this tariff. Any time Shipper fails to make a timely payment under this tariff, Carrier may set off any such charges against any amounts owed to Shipper by Carrier or any Product of Shipper in Carrier's custody.

## **ITEM 90 CREDITWORTHINESS AND FINANCIAL ASSURANCES**

Shippers will provide Carrier with information that Carrier requests related to Shipper's creditworthiness or ability to perform any of its financial obligations that could arise under this tariff. The type of information that Carrier could request of Shippers includes: current financial statements; annual reports; 10-K reports or other filings with regulatory agencies; a list of all corporate affiliates; bank references; written attestation from Shipper that it has not filed a petition for bankruptcy, dissolution, or liquidation; and/or reports from credit agencies. Carrier will reject Product from any Shipper that does not comply with such request within [U] 10 days of the Carrier's written request.

If, from time to time, Carrier reasonably determines that a Shipper lacks creditworthiness, financial capability or ability to perform any obligation under this tariff, including but not limited to any potential indemnification obligations that may arise under this tariff, Carrier will (a) refuse to accept Nominations from such Shipper, (b) demand that Shipper prepay for all charges by wire transfer; or (c) demand that Shipper provide financial assurance to Carrier in the form of a standby irrevocable letter of credit at Shipper's expense in favor of Carrier in an amount sufficient to ensure payment of all applicable charges and potential indemnification obligations, drawn upon a bank acceptable to Carrier.

## **ITEM 95 UNPAID CHARGES, LIEN FOR AND SALE TO COVER**

Carrier will have a first priority general lien on all of a Shipper's Product that is in Carrier's possession to secure the payment of all charges and costs accruing or due under this tariff. This general lien will be in addition to any lien or security interest otherwise provided by law or contract. Carrier may withhold a Shipper's Product from delivery and may exercise any other rights and remedies provided at law or by contract, until all such charges and costs have been paid. If charges for the transportation of a Shipper's Product remain unpaid for [10] days after Carrier provides notice of demand for payment of such charges, then Carrier may remove and sell any or all of such Shipper's Product that is in Carrier's possession in any lawful manner Carrier deems appropriate. The proceeds of such sale will be applied in the following order: (i) to the costs incurred by Carrier with respect to the storage, removal and sale of such Shipper's Product, including reasonable attorneys' fees, and (ii) to the charges and cost, including any interest, relating to Carrier's transportation of such Shipper's Product. The remainder of such proceeds, if any, will be paid by Carrier to Shipper. If the proceeds are insufficient to fully satisfy Carrier's charges and costs, Shipper will remain liable for any deficiency.

## **ITEM 100 DELIVERY AND DEMURRAGE**

Shipper or Consignee will, upon 24 hours' notice from Carrier, accept and remove its shipment of Product from Carrier's system. Except to the extent provided in Item 115 (Liability of Carrier), Carrier will not be liable for any loss of or damage to such Product that has not been



removed.

If a Shipper or Consignee does not remove such Product in accordance with the previous paragraph, Carrier may make whatever arrangements for disposition of such Product it deems appropriate to clear its system. Any additional expenses incurred by Carrier in making such arrangements will be paid by the Shipper or Consignee.

If shipment is not being removed in a reasonable manner after expiration of a twenty-four hours' notice from Carrier, then a demurrage charge of [U] four-tenths of one cent (\$0.004) per Barrel per day of twenty-four hours shall accrue on all Product not removed.

#### **ITEM 105 TITLE AND COMPLIANCE WITH LAWS**

Delivery of Product to Carrier for transportation constitutes a warranty by Shipper that (i) Shipper or Consignee has unencumbered title to such Product, except where Shipper has provided notice to Carrier that Product is Encumbered Product (as defined in Item 110 Adverse Claims) and Shipper has complied with the financial assurance provisions in Item 90 (Creditworthiness and Financial Assurances) and (ii) such Product complies with all applicable laws. Shipper will at all times retain all right, title and interest in the Product unless such right, title and interest is transferred as permitted under the terms of this tariff.

#### **ITEM 110 ADVERSE CLAIMS**

Carrier is not required to accept Product that is involved in litigation, the ownership of which may be in dispute or that is encumbered by a lien or charge of any kind (any such Product is referred to in this tariff as "Encumbered Product"). A Shipper will advise the Carrier in writing if, at any time while the Shipper's Product is in the possession of the Carrier, such Product becomes Encumbered Product. If Encumbered Product is offered for transportation, or if Carrier receives notice from Shipper as described in the previous sentence, Carrier has the right to require Shipper to provide financial assurance to Carrier as described in Item 90 (Creditworthiness and Financial Assurances) to protect Carrier against all liability or loss arising as a result of any litigation, dispute, lien or charge.

#### **ITEM 115 LIABILITY OF CARRIER**

Carrier will not be liable for any loss, damage or delay due to fire, storm, flood, earthquake, lightning, epidemic, an act of God, sabotage, riot, strike, insurrection, rebellion, war, the public enemy, quarantine, authority of law, requisition or necessity of the government, equipment malfunction, default or negligent conduct of the Shipper or Consignee, or any other event, unless such loss, damage or delay is due to the sole negligence of the Carrier.

In no event will Carrier be liable to any Shipper for any losses or damages, including special, punitive, exemplary, consequential, incidental or indirect losses or damages, including but not limited to loss of revenue, loss of profits or present or future opportunities, however caused, whether or not foreseeable, and regardless of the theory or cause of action upon which such damages might be based, except for actual losses or damages sustained as a result of, and to the extent of, the sole negligence of Carrier.

In case of the loss of Product while in the custody of the Carrier from any such causes, other than the sole negligence of the Carrier, each Shipper shall participate in such loss in such proportion as the Volume of its Product already delivered to Carrier for shipment past the point at which the loss occurs, bears to all the Product then in the custody of the Carrier received for shipment past the said point; provided, however, that if such loss occurs at a tank or tanks, and it is possible to ascertain the ownership of the Product in such tank or tanks, the full loss shall be

charged against the Shipper or proportionately among the Shippers using such tank or tanks at the time of such loss. In either such event each Shipper shall be entitled to have delivered only that portion of its Volume as may remain after deduction of its proportion of such loss and such Shipper will be required to pay charges only upon the Volume of Product delivered.

**ITEM 120 NOTICE OF CLAIM**

Carrier must receive written notice of claims for loss, damage, or delay related to the shipment of Product within 90 days after the damage, loss, or delay occurred or, in the case of a claim for failure to make delivery, then within 90 days after a reasonable time for delivery has elapsed. If a Shipper or Consignee fails to comply with this provision, then such Shipper or Consignee waives all rights it has to bring an action against Carrier with respect to such claim and Carrier will not be liable for such claim.

**ITEM 125 INDEMNIFICATION**

Shipper or Consignee, as the case may be, will indemnify Carrier for any damages, losses, or costs, including but not limited to consequential, incidental, direct or indirect damages or lost profits, incurred by the Carrier or any other party as a result of (i) such Shipper's or Consignee's failure to comply with any provision of this tariff; (ii) such Shipper's or Consignee's negligence or willful misconduct; or (iii) the chemical characteristics of Product transported under this tariff.

**ITEM 130 REMEDIES**

If Shipper fails to comply with any provision of this tariff, Carrier may, in addition to any other rights and remedies granted to it under this tariff, exercise any or all rights and remedies provided by law or equity. Carrier's rights and remedies under this tariff are cumulative and may be exercised singly or concurrently. Shipper will pay all fees, costs and expenses, including, without limitation, attorneys' fees, that Carrier incurs in connection with the enforcement of any of its rights and remedies under this tariff.

**EXPLANATION OF REFERENCE MARKS**

- [U] Unchanged rate
- [W] Change in wording only
- [C] Cancel
- Strikethrough Cancel or Change in Wording
- Underline New