

**INLAND CORPORATION  
PRORATION POLICY  
EFFECTIVE MARCH 1, 2015**

When there shall be tendered to the Carrier for transportation on the Carrier's pipeline system more petroleum products than can be currently transported, the transportation furnished by the Carrier shall be apportioned among Shippers in a fair and equitable manner to avoid discrimination among Shippers, to not adversely affect the operation of the Carrier's facilities and to comply with the common carrier pipeline obligations under the Interstate Commerce Act. The Proration Policy shall be applied separately to each line segment or facility.

The intention of the Proration Policy is twofold:

- To allocate the pipeline capacity equitably among all active Shippers in the nomination process.
- To maximize the actual utilization of the pipeline capacity.

The provisions of the Proration Policy will be in effect for a segment or facility when the aggregate volume of petroleum products nominated in a given period exceeds the throughput capacity of that pipeline segment or facility.

**PRORATION POLICY SUMMARY**

A database of product movement data by segment is stored for each Shipper. The database contains all the information required to implement the Proration Policy. Each Shipper's nominations, actual volumes shipped and other information is stored by period for the preceding 12 months. The Proration Policy averages each of these factors over a rolling 12 month Base Period resulting in "annual usage factors." Each of the factors discussed in this Policy are annual averages unless otherwise noted. These factors are calculated on a cycle and line segment basis. The Policy's key components are as follows:

1. **Allocation Based on Historical Usage** Each Shipper's actual shipments are stored on a period-by-period basis for each segment. The historical allocation percentage is derived by dividing the prior 12 months actual historical volumes by the total actual historical volumes of all Shippers.
2. **New Shippers Policy** Up to ten percent (10%) of available capacity will be made available to the total of all New Shippers.
3. **Penalties for Failure to Utilize Allocated Space** Tariff fees will be charged for a portion of the Binding Prorated Nomination which goes unused during a period of proration.

**PRORATION POLICY ALLOCATION DETAILS**

The following details the steps and algorithms used to calculate the space allocation for each Shipper. These provisions only apply to those cycles/segments that are prorated. If a particular cycle/segment is not prorated the Shipper will receive the total volume nominated.

## THE VOLUME ALLOCATION PROCESS

1. Nominations not submitted in proper form or submitted after the deadline established in the tariff will be rejected, unless the Carrier has specifically instructed the Shipper to submit nominations by another means or by a later date.
2. When it is determined that insufficient capacity is available to accommodate all valid timely and properly submitted nominations, Carrier will notify each Shipper that has tendered a nomination for the affected line segment or facility. Each affected Shipper will then have a period of two business days to reduce its nomination. At 12:01am on the third business day following the day notification was made to Shippers; this adjusted nomination shall be considered a **Binding Nomination**.
3. If nominations continue to exceed available capacity, Carrier will review all receiving and delivery facilities to determine if any are incapable of injecting or receiving at Carrier's existing flow rates or throughput rates, and if there are such restricted facilities, Shippers using them will be subject to reduction of up to one hundred percent (100%) of the quantity nominated from or to the restricted facility, as necessary to equate total nominations to available pipeline capacity.
4. If nominations continue to exceed available pipeline capacity, the percentage of pipeline capacity to be allocated to each Regular Shipper will be calculated by the using the following steps:
  - Prior to nomination each Shipper's space allocation is calculated using nominations, history and available capacity.
  - The total space available in the period on the pipeline by cycle/segment is calculated.
  - The Historical Allocation Percentage for each Shipper by class of Shipper with limits on space allocation for New Shippers is applied.
  - The Space Allocation for each Shipper is calculated for the nomination period.
5. For pipeline segments with origins in Lima and Toledo, and destinations in Eastern Ohio, for each of the first six (6) months after the commencement of pipeline operations, the Historical Allocation Percentage for each shipper that signed a throughput and deficiency agreement pursuant to the Open Season that commenced on July 19, 2012 will be based upon the ratio of (i) the greater of such shipper's (A) Minimum Volume Commitment multiplied by 365, or (B) annual historical factored volume, to (ii) total annual factored volume for volumes delivered by such shipper to the pipeline at the origin point designated by such shipper in their throughput and deficiency agreement.

The space allocation is then communicated to the Shippers. Shippers are informed of their allocation by email. This allocation will be known as the Shippers' **Binding Prorated Nomination**. Shippers are accountable for payment of the tariff fees for the larger of actual shipments or 85% of their Binding Prorated Nomination (see Penalties for Failure to Utilize Allocated Space).

When all the Shippers have submitted their nominations for the period, they are combined into a schedule. After the schedule has been issued, the nomination process is complete. All subsequent changes are made to the current schedule. Any space not utilized by a Shipper becomes free space and will be offered to all other Shippers in proportion to their unsatisfied requirements (i.e. each Shipper's Binding Nomination minus their Binding Prorated Nomination).

## PRORATION CALCULATION DETAILS

### 1. Calculate the total space available in the period by Shipper class and cycle/segment

The Oil Movements department determines the projected space that will be available for the nomination period. This estimate takes into account all known factors that materially affect capacity on the pipeline. These projections are expressed as total barrels throughput for each source/segment for each cycle. Carrier currently operates on a calendar month cycle.

$$\text{Cycle Capacity} = \text{Number of Days in Cycle} * \text{Daily Capacity}$$
$$\text{Total Period Capacity} = \text{Sum (Cycle Capacities)}$$

Example:

Days in Cycle	30
Daily Capacity (kbpd)	100
Cycles in Period	1
Total Cycle Capacity (kbbbls)	3,000
Capacity Reserved for New Shippers (kbbbls)	300

Note: The volumes are not representative of an actual period. These numbers are intended to illustrate the concepts and formulas used in the Proration Policy.

Note: All volumes are expressed in thousands of barrels (kbbbls) and at its option, will convert products of differing flow rate characteristics to a standard base.

### 2. Calculate the Allocation Percentage for Each Historical Shipper

The historical allocation percent is the primary factor used in determining a Shippers' allocation. The allocation percentage is calculated as the ratio of each Shipper's annual historical factored volume to the total annual factored volume. The annual volume is a rolling 12 month period starting with the last completed period and the prior 11 periods.

The percentage is calculated using the following formula:

$$\text{Shipper Allocation Percentage} = \frac{\text{Sum(Shipper Shipments in prior 12 months)}}{\text{Sum(Total Shipments in prior 12 months)}}$$

Example:

	Sum of Prior 12 Month Historical Factored Volume (kbbbls)	Shipper Allocation Percentage
HistoricalShipper1	250	38%
HistoricalShipper2	185	28%
HistoricalShipper3	221	34%
Total	656	100%

### 3. Calculate the Allocation Percentage to New Shippers

Up to two and one half percent (2.5%) of available capacity will be made available to each New Shipper subject to a total of ten percent (10%) of available capacity for all New Shippers.

New Shippers will be allocated pipeline capacity as follows: If four or fewer New Shippers have submitted nominations for the affected facility or segment, each shipper will be allocated the lesser of either two and one-half percent (2.5%) of available capacity or their nominated volume. In the event that more than four New Shippers have submitted nominations for the affected facility or segment, the nominated volumes for each New Shipper shall be totaled and divided into ten percent (10%) of the available pipeline capacity. The resulting percentage shall be the initial New Shipper Allocation Percentage. Each New Shipper will be allocated pipeline segment or facility capacity equal to the lesser of:

- (a) 2.5% of available capacity\*
- (b) its nominated volumes
- (c) its nominated volumes multiplied by the New Shipper Allocation Percentage

Example:

	<b>Current Month Binding Nomination (kbbls)</b>	<b>New Shipper Allocation Percentage</b>	<b>New Shipper Allocation (kbbls)</b>
NewShipper1	50	80%	41
NewShipper2	70	80%	57
NewShipper3	100	80%	75*
NewShipper4	85	80%	70
NewShipper5	70	80%	57
Total	375		300

Any remaining pipeline segment or facility capacity will be allocated to Regular Shippers as set forth in Section 2 above. If there remains available pipeline capacity after New Shippers have been allocated capacity in accordance with the preceding paragraphs of this Section, and after Regular Shippers have received allocations equal to one hundred percent (100%) of their nominated volumes, the remaining available capacity shall be allocated to New Shippers based on their current binding nomination.

**4. Calculate the Binding Prorated Nomination for All Shippers**

The allocation computation is based on the capacity of the pipeline for the current period times the Shipper’s allocation percentage from the prior step. Formula for computing each Shipper’s space:

**Binding Prorated Nomination =  
Period Capacity Available for Shipper Class\* Shipper Allocation Percentage**

Example:

	<b>Binding Nomination</b>	<b>Capacity Available for Shipper Class</b>	<b>Shipper Allocation Percentage</b>	<b>Binding Prorated Nomination (kbbls)</b>
HistoricalShipper1	1,200	2,700	38%	1,026
HistoricalShipper2	900	2,700	28%	756
HistoricalShipper3	1,300	2,700	34%	918
NewShipper1	50	300	80%	41
NewShipper2	70	300	80%	57
NewShipper3	100	300	80%	75
NewShipper4	85	300	80%	70
NewShipper5	70	300	80%	57
Total Capacity	3,775	3,000		3,000

**Penalty for Failure to Utilize Allocated Space**

If a Shipper tenders a volume greater than or equal to eighty-five percent (85%) of its Binding Prorated Nomination, then such a Shipper shall be invoiced based on its delivered volumes. If a Shipper tenders less than eighty-five percent (85%) of its Binding Prorated Nomination, then Shipper shall be invoiced for its delivered volumes for that period, plus a charge equal to:

**Penalty = (85% of Binding Prorated Nomination - Actual Volumes Delivered)  
\* Applicable Tariff Rate**

This charge will be waived when deliveries are reduced at the request of the Carrier, or where Carrier operational problems prevented full receipt or delivery of barrels tendered by the Shipper. This charge only applies when the line segment is in proration.

**CARRIER’S RIGHT OF REVIEW**

Carrier reserves the right to review all nominations and forecasts using every means available to ensure reasonableness. This includes, but is not limited to, contacting suppliers and recipients of the volumes nominated to be shipped. Carrier reserves the right to adjust any nominations which are determined to be inflated or unreasonable.

A Shipper’s allocated volumes and base period history may not be assigned, conveyed, loaned, transferred to, or used in any manner by another Shipper, except (i) in connection with a bona fide sale of all or substantially all of the Shipper’s business, (ii) to a successor, by way of merger, consolidation or otherwise, of all or substantially all of the Shipper’s business, or (iii) in extraordinary situations (such as where a Shipper sells to another Shipper its entire interest in a refinery that it served by the Carrier); and provided that in each instance noted in (i), (ii) and (iii), there is an advance agreement between Carrier and the Shippers involved. All transfers permitted under this paragraph shall be irrevocable once the transfer is approved by Carrier.

## **DEFINITIONS AND ABBREVIATIONS**

**Allocation:** The pipeline capacity which is apportioned to a given Shipper during a period of proration.

**Base Period:** A continuous moving base of twelve consecutive calendar months, including the month ending just prior to the time of normal nomination, plus the preceding eleven months. Actual deliveries, calculated by Shipper and by Month, will be reviewed over this Base Period by the Carrier for use in determining the prorated allocations.

**Binding Nomination:** The final nomination submitted by a Shipper for a prorated line segment after being advised that the line is over-nominated and subject to proration.

**Binding Prorated Nomination:** The Binding Nomination that has been adjusted for total available space by the Carrier.

**Carrier:** Inland Corporation

**New Shipper:** A Shipper who has not utilized the Carrier's System during the Base Period.

**Regular Shipper:** A Shipper that has a shipping record over the base period. Shippers not shipping for any month will be credited with zero barrels delivered for that month in establishing their Average Regular Shipper Volume. Shippers will lose their Regular Shipper status when they have not shipped on Carrier during a period of twelve consecutive months. At that point, the Shipper would then be reclassified as a New Shipper to the system.