

HOLLY ENERGY PARTNERS — OPERATING, L.P.
PRORATION POLICY

September 24, 2004

1. **Definition of terms.** Except where the context requires another meaning, the following terms have the following meanings:
 - 1.1. “New Shipper” means a Shipper that is not a Regular Shipper. A Shipper that becomes a New Shipper shall remain one for twelve (12) consecutive calendar months.
 - 1.2. “Regular Shipper” means a Shipper that has –
 - (a) shipped Refined Petroleum Products on Carrier’s system within the 12-month period preceding the first day of a month in which the system or a portion of the system is prorated; and
 - (b) first shipped Refined Petroleum Products on Carrier’s system more than twelve (12) months prior to the first day of the month in which the system is prorated.
2. **Prorationing of capacity.**
 - 2.1. When capacity will be prorated. Carrier will prorate the capacity of its system or a portion of its system during any month when, based upon the Nomination forms properly submitted by Shippers, Carrier determines, in its sole discretion, that the total volume Nominated by all Shippers for Shipment on Carrier’s system or portion thereof during that month exceeds the capacity of the system or portion thereof.
 - 2.2. Division of capacity between Shipper classes. Except as provided in paragraphs 2.7 and 2.9, prorated capacity shall be divided between Regular Shippers as a class and New Shippers as a class.
 - 2.3. Availability of capacity to Regular Shippers. After the adjustment for New Shippers, as provided in paragraphs 2.5 and 2.6, all remaining capacity plus any pour-over capacity (as determined in accordance with paragraph 2.7) plus any unused allocated capacity as determined in accordance with paragraph 2.9 shall be available to Regular Shippers who have Nominated volumes for that month.
 - 2.4. Allocation to each Regular Shipper. Each Regular Shipper shall be allocated a volume of the capacity available to all Regular Shippers that is equal to a fraction, the numerator of which is the total shipments by that Shipper on Carrier’s system during the twelve (12) months preceding the first day of the month for which the Shipper’s allocation is being calculated, and the denominator of which is the total shipments during such 12-month period by all Regular Shippers, multiplied by the total capacity available to all Regular Shippers during that month.

- 2.5. Availability of capacity to New Shippers. Not more than five (5) percent of the total available prorated capacity of Carrier's system or portion thereof shall be made available to New Shippers.
- 2.6. Allocation to each New Shipper. Each New Shipper shall be allocated a volume of the capacity available to all New Shippers which is equal to the lesser of –
- (a) five (5) percent of the total available prorated capacity of Carrier's system or portion thereof divided by the number of New Shippers who nominated volumes for shipment on the system or portion thereof during the month for which the allocation is being calculated; or
 - (b) 1.25 percent (one-fourth of 5%) of the available capacity of the system or portion thereof for that month.
- 2.7. Pour-over capacity. Any amount of prorated capacity that is available to New Shippers under the rules in paragraphs 2.5 and 2.6 but is not nominated by an eligible New Shipper shall be deemed "pour-over capacity" and shall be made available to Regular Shippers in accordance with the rules in paragraphs 2.3 and 2.4.
- 2.8. Basis for allocation: notification. When prorating of the capacity of Carrier's system or portion thereof is in effect —
- (a) Carrier's available capacity shall be allocated among eligible Shippers on a monthly basis; and
 - (b) Carrier shall use reasonable efforts to notify each Shipper entitled to an allocation of capacity of the amount of its allocation not later than the first working day of the month for which the allocation is made.
- 2.9. Reallocation of unused allocated capacity. If, during a month of prorating, a Shipper fails to use all of its allocated capacity, such unused capacity shall be available to other Shippers, as follows:
- (a) Unused allocated capacity resulting from a Regular Shipper's failure to use all of its allocated capacity shall be reallocated among other Regular Shippers in accordance with the rules in paragraph 2.4.
 - (b) Unused allocated capacity resulting from a New Shipper's failure to use all of its allocated capacity shall be reallocated among other New Shippers in accordance with the rules in paragraph 2.6. If, however, the reallocation would cause any New Shipper's total allocation for a month to exceed 1.25 percent of the available capacity for that month, such excess shall be treated as unused allocated capacity and shall be reallocated among Regular Shippers in accordance with the rules in subparagraph (a) of this paragraph.

2.10. Failure to use allocated capacity.

- (a) Except as provided in subparagraph (b) of this paragraph, a Shipper that fails to use all of its allocated capacity during a month of prorationing shall have its allocation of capacity reduced in each subsequent month of prorationing until the total reductions equal the amount of the deficiency. The amount of any such reduction shall be treated as unused allocated capacity and shall be reallocated among other Shippers in accordance with the rules in paragraph 2.9.
- (b) Reduction of a Shipper's allocation for failure to use its allocated capacity during a prior month of prorationing may be waived, in whole or in part if Carrier determines, in its sole discretion, that the Shipper's failure to use all or some of its allocated capacity was due to factors beyond the Shipper's reasonable control.

2.11. Transfer of prorated capacity; use of affiliates.

Except as provided in paragraph 2.9, prorated volumes allocated to a Shipper may not be assigned, conveyed, loaned, 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, such as an executor or trustee in bankruptcy. A Shipper may not use an affiliated or cooperating entity to obtain an increased allocation of prorated capacity or, in the case of a Regular Shipper, seek New Shipper status in order to pool two or more allocations to the benefit of the Shipper.