

Policy and Procedures Applicable to Shipper Over/Short Balancing and Pipeline Loss Allowance Settlement

1. This document (the “Policy”) governs the resolution by Carrier of Over/Short Positions and PLA on the Pipeline. This Policy is subject to Carrier’s rates, rules, and regulations tariff on file and in effect with the applicable regulatory authority, as such tariff may be modified by Carrier from time to time (the “Tariff”). In the event of any inconsistency, the Tariff controls.
2. By submitting a Nomination to Carrier for Services on the Pipeline, each Shipper agrees to the provisions of this Policy.
3. Definitions
 - a) “Crude Type” means a type of Crude Petroleum set forth on Schedule A, which is incorporated into this Policy.
 - b) “Default Exception Pricing” is defined in Section 7(b) and is set forth on Schedule A.
 - c) “Injection” means the physical introduction of Crude Petroleum directly into the Pipeline at any Receipt Point.
 - d) “Modified Average Price” is defined in Section 6(c)(i).
 - e) “Over/Short Position” means a Shipper’s imbalance position on the Pipeline for a Crude Type calculated by Carrier and reported to the Shipper on its month-end statement.
 - f) “PLA” means pipeline loss allowance.
 - g) “Schedule A” means the schedule of Crude Types and Quality Pools that is published on Carrier’s Website and updated from time to time as set forth in Section 4.
 - h) “Weighted Average Injection Price” is defined in Section 6(a).
 - i) “Weighted Average Balancing Price” is defined in Section 6(c)(iii).
 - j) For purposes of this Policy, a Business Day ends at 5:00 PM, CST.

Other capitalized words used in this Policy are defined in the Tariff, unless otherwise specified.
4. Adding or Deleting a Crude Type:
 - a) Carrier will add any new Crude Type accepted for transportation to Schedule A. Carrier may delete Crude Types from Schedule A from time to time. Carrier will provide notice to all Shippers of changes to Schedule A.
 - b) Shippers must request approval by Carrier of any Crude Petroleum not approved for transportation.
5. Over/Short Position Balancing Process/Pipeline Loss Allowance

For any month in which a Shipper has an Over/Short Position for any Crude Type, which expressed as an absolute value is greater than 0 barrels, Carrier will financially settle the Over/Short position using the processes outlined in Section 6 and Section 7 of this Policy. The price determination process described in Sections 6 and 7 will also be used for the determination of Pipeline Loss Allowance.
6. Shipper Over/Short Balancing Price Determination
 - a) No later than the end of Business Day 8 of the month after Injection or such other day as agreed upon by Carrier, every Shipper that ships any of the Crude Types shall supply to Carrier a price sheet setting out a single price (the “Weighted Average Injection Price”) at the Receipt Point for all Injections on the Seaway Pipeline for each Crude Type shipped by that Shipper in that month.
 - b) If a Shipper fails to submit the Weighted Average Injection Price on or before the end of Business Day 8 for a Crude Type, then that Crude Type for that Shipper will automatically be settled by the pricing described in Section 7(b).
 - c) Carrier will calculate a price for each Crude Type in the following manner:
 - i) Round One: For each Crude Type for which at least three Shippers have supplied a Weighted Average Injection Price for the month, Carrier will calculate a simple average price and standard deviation using all prices submitted. Carrier will then calculate a price (the “Modified Average Price”) by averaging all Shippers’ Weighted Average Injection Prices within one standard deviation of the simple average price. Where any price supplied for a Crude Type for a month is 2% higher or lower than the Modified Average Price it will be deemed to be an extreme price and will be excluded from Round Two below.
 - ii) Round Two: For each Crude Type for which at least three Shipper-provided prices remain after Round One, Carrier will calculate a simple average after excluding any extreme prices identified in Round One. Any remaining prices that are 1% higher or lower than the Round Two simple average will be excluded from the calculation in Round Three.
 - iii) Round Three: For each Crude Type for which at least three Shipper-provided prices remain after Round Two, Carrier will calculate a price (the “Weighted Average Balancing Price”) for each Crude Type by summing the product of each remaining Shipper’s Weighted Average Injection Price and total volume and dividing such value by the sum of all remaining Shippers’ total volume.
 - iv) Shippers whose weighted average price is used in Round Three and falls within +/- 1% of the Weighted Average Balancing Price calculated in Round Three will have their positions financially settled using their submitted pricing.
 - v) Shippers whose positions are not financially settled using their submitted pricing will have their positions financially settled using Exception Pricing, as outlined in Section 7.
7. Exception Pricing
 - a) For Shippers whose positions are not financially settled pursuant to Section 6, balancing will be carried out on a Crude-Type by Crude-Type basis between the involved Shippers and Carrier based on individually negotiated and agreed upon pricing, confirmed by Carrier and the Shipper by the end of Business Day 11.
 - b) If a settlement cannot be reached in Section 7(a), then the Shipper will receive the Default Exception Pricing for the respective Pool, as outlined in Schedule A, at the Receipt Point for that Crude Type.
 - c) Once a method of pricing is administered under this Section 7 for a Shipper for a specific Crude Type, that method will continue to be used unless mutually agreed upon by Carrier and Shipper.
8. Financial Settlement
 - a) Carrier will financially settle Over/Short Positions and PLA each month by Crude Type for each Shipper remaining in Section 6(c)(iii) whose price is within +/- 1% of the Weighted Average Balancing Price by multiplying the Shipper’s Over/Short Position and PLA by the relevant Weighted Average Injection Price.
 - b) Any Shipper who did not financially settle in Section 8(a) will have their Over/Short Positions and PLA financially settled by Crude Type by multiplying the Shipper’s Over/Short Position and PLA by the Exception Pricing as administered in Section 7.
9. Carrier will keep all pricing provided by Shippers strictly confidential.
10. Annual Policy Review
 - a) Carrier will commission an independent third party to review price determinations under the Policy and issue a written report to the Carrier and all Shippers.
 - b) The cost of the annual third party review will be the responsibility of all Shippers based proportionally on Actual Shipments for the year under review.