

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

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 tariffs on file and in effect with the Texas Railroad Commission, 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. “Default Exception Price” is defined in Section 7(b) and is set forth on Schedule A.
 - b. “Injection” means the physical introduction of Crude Petroleum or Processed Condensate directly into the Pipeline at any Receipt Point.
 - c. “Modified Average Price” is defined in Section 6(c)(i).
 - d. “Over/Short Position” means a Shipper’s imbalance position on the Pipeline for a Product Type calculated by Carrier and reported to the Shipper on its month-end statement.
 - e. “PLA” means pipeline loss allowance.
 - f. “Product Type” means a type of Crude Petroleum or Processed Condensate set forth on Schedule A attached to and incorporated into this Policy.
 - g. “Weighted Average Balancing Price” is defined in Section 6(c)(iii).
 - h. “Weighted Average Injection Price” is defined in Section 6(a).
 - i. “Weighted Average Settlement Price” is defined in Section 8(a).
 - 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 Product Type:
 - a. Carrier will add any new Product Type accepted for transportation to Schedule A. Carrier may delete Product 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 or Processed Condensate 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 Product 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. Over/Short and PLA Price Determination - Shipper Submitted Pricing
 - 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 Product 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 Product 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 Product Type, then that Product Type for that Shipper will automatically be settled by the pricing described in Section 7(b).
 - c. Carrier will determine a price for each Product Type in the following manner:

- i. Round One: For each Product 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 Product 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 Product 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 Product 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 Product 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 Injection Price is used in Round Three, and falls within +/- 1% of the Weighted Average Balancing Price calculated in Round Three, will use their submitted Weighted Average Injection Price for Financial Settlement, as outlined in Section 8.
 - v. Shippers whose submitted prices were excluded from Round Three or do not fall within +/- 1% of the Weighted Average Balancing Price calculated in Round Three, will use Exception Pricing, as outlined in Section 7, for Financial Settlement.
7. Over/Short and PLA Price Determination – Exception Pricing
 - a. For Shippers whose prices are not determined in 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 pursuant to 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 Product Type (the “Default Exception Price”).
 - c. Once a method of pricing is administered under this Section 7 for a Shipper for a specific Product Type, that method will continue to be used unless mutually agreed upon by Carrier and Shipper.
8. Financial Settlement

Carrier will financially settle Over/Short Positions and PLA with each Shipper that conducts business in a flowing month, as follows:

 - a. Over/Short Positions will be settled for each Shipper with a Weighted Average Settlement Price, which will be calculated for each Shipper using the volumetric weighting of Receipts in the flowing month for each Product Type as a proportion of Total Receipts in the flowing month for that Shipper, multiplied by the pricing for the Product Type, as determined in Sections 6 or 7.
 - b. PLA Positions will be settled for each Shipper using the PLA volume calculated for the flowing month, multiplied by the Shipper’s pricing, as determined in Sections 6 or 7.
9. Carrier will keep all pricing provided by Shippers strictly confidential.



Schedule A
Shipper Over/Short Balance Practice – Texas City
Product Types and Quality Pools

Pool #1 – Foreign Heavy

AZUL – Tubarao Azul
 CAST – Castilla
 HAM – Hamaca
 JUBA – Jubarte
 MAG – Magdalena
 MAY – Maya
 MER – Mery
 MRL – Marlim
 NAPO – NAPO
 TMA – Tubarao Martelo
 ZUAT – Zuata

Pool #2 – Foreign Light

ABH – Arab Heavy
 ABL – Arab Light
 ABM – Arab Medium
 BASR – Basrah
 CLV – Clov
 HIBN – Hibernia
 IST – Isthmus
 KLT – Kuwaiti Light
 SAPI – Sapinhoa
 VAS – Vasconia

Pool #3 – Offshore

HOOPS – Hoover Offshore Pipeline System Blend
 SGC – Southern Green Canyon

Pool #4 - High Total Acid Number (Tan) Heavy

AWB – Access Western Blend
 BHB – Borealis Heavy Blend
 CDB – Christina Dilbit Blend
 CHV – Conventional Heavy
 KBD – Kearsy Bitumen Diluent
 MKH – Mackay River Heavy
 OSH – Suncor Synthetic
 PSH – Long Lake Heavy
 SHB – Surmont Heavy Blend
 SYB – Synbit Blend
 SDB – Sunrise Dilbit Blend
 HDB – Hangingstone Dilbit Blend

Pool #5 – Low Tan Heavy

AHS – Albion Heavy Synthetic
 BRB – Bow River Blend
 COLD – Cold Lake
 LLB – Lloydminster Blend
 PCH – Premium Conventional Heavy
 WCS – Western Canadian Select

Pool #6 – Low Tan Medium

BSO – BP Sour
 DSO – Domestic Sour
 NCS – Northern Canadian Sour
 MSB – Medium Sour Blend
 MSLM – Mississippi Lime
 WTSR – West Texas Sour
 MSM – Midale

Pool #7 - Low Tan Light

ACS – Alberta Syncrude
 BKN – Bakken
 DSW – Domestic Sweet
 EOG1 – EOG Blend
 KSR – Kansas Common Sour
 LSB – Light Sour Blend
 MSW – Mixed Sweet Blend
 PSB – Permian Sour Blend
 STSW – South Texas Sweet
 SYN – Synthetic Sweet Blend
 UHC – U.S. High Sweet Clearbrook

Pool #8 – Condensate

PCPR – Processed Condensate

Pricing Pool	Default Exception Price
High Tan Heavy; Low Tan Heavy	Monthly average of CMA Nymex plus the midpoint of the WCS Cushing differential for the month of delivery, as published by Argus
Low Tan Medium; Low Tan Light	Monthly average of CMA Nymex plus the weighted average of the WTI differential to CMA Nymex for the month of delivery, as published by Argus
Foreign Heavy	Monthly average of CMA Nymex plus the midpoint of the Maya (USGC) differential for the month of delivery, as published by Argus
Foreign Light	Monthly average of CMA Nymex plus the midpoint of the Argus Sour Crude Index (ASCI) plus the midpoint of the differential for Arab Medium (Saudi Arabia to US: delivered US Gulf) differential for the month of delivery, as published by Argus
Offshore	Monthly average of CMA Nymex plus the midpoint of the SGC differential for the month of delivery, as published by Argus
Condensate	Monthly average of Eagle Ford Condensate Houston (AAYBB00), as published by Platts in the North American Crude and Products Scan