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.

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 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 – Juba
MAG – Magdalena
MAY – Maya
MER – Meray
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 – Kearl Bitumen Diluent
MKH – Mackay River Heavy
OSH – Suncor Synthetic
PSH – Long Lake Heavy
SHB – Surmont Heavy Blend
SYB – Synbit Blend
SDB – Sunrise Dibit Blend
HDB – Hangingstone Dibit Blend

Pool #5 – Low Tan Heavy
AHS – Albian 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
MSP – 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
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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