

ExxonMobil Pipeline Company

Joint With

Williams Oil Gathering L.L.C.

QUALITY BANK POLICY

APPLYING ON

CRUDE PETROLEUM

**FROM POINTS OFFSHORE TEXAS
TO POINTS ONSHORE TEXAS**

GENERAL APPLICATION

This tariff shall apply only to those tariffs which specifically incorporate this tariff, supplements hereto or successive reissues hereof, by reference.

The provisions herein will, if effective, not result in an effect on the quality of the human environment.

ISSUED: September 24, 2001

EFFECTIVE: November 1, 2001

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5. **QUALITY BANK.** In order to equitably adjust for differences in value arising from differences in the gravity and sulfur contents of the streams received into and delivered from the common stream operation, quality banks shall be established at various points in the system. The quality banks will calculate, collect, and remit monetary adjustments among all Shippers for changes in gravity and sulfur which result from common stream operations.

Each Shipper is required to participate in the quality banks. Each Shipper agrees to pay the Carrier or Carrier's authorized agent any computed debit balance due from said Shipper in accordance with these rules and regulations.

Adjustments for differences in value of the petroleum streams will be made based on the relative value of each stream versus the common stream as determined by the following formula:

$$\text{Relative Value (\$/bbl)} = \text{Base Value} + \text{Gravity Adjustment} + \text{Sulfur Adjustment}$$

A base value of \$15.00 per barrel is assigned to a stream with a gravity of 0.0 degrees API with a sulfur content of 0.00 weight percent sulfur. The base value and the base gravity and base sulfur content are arbitrary and have no effect on the quality bank payment and receipts ultimately determined.

10. **GRAVITY ADJUSTMENT.** The Gravity Adjustment for a stream shall be calculated based on the following scale for the Gravity Coefficient:

<u>Gravity Range</u>	<u>Gravity Coefficient</u>
Below 40 degrees API	As determined by Regression Analysis (Article 16)
40 to 45 degrees API	No change
Above 45 degrees API	\$0.15 decrease per barrel per degree API increase

If, for the purpose of the following example only, the Gravity Coefficient is assumed to be \$0.20 per barrel per degree API, then, the Gravity Adjustment for a stream with a gravity of 37.2 degrees API would be calculated as follows:

$$37.2 * 0.20 = \$7.44 \text{ per barrel}$$

15. **SULFUR ADJUSTMENT.** The Sulfur Coefficient is determined by Regression Analysis (Article 16). The Sulfur Adjustment for a stream shall be calculated by multiplying the Sulfur Coefficient expressed in dollars per barrel per percent sulfur by the sulfur content (weight percent) of the stream. If, for the purpose of the following example only, the Sulfur Coefficient is assumed to be approximately negative \$0.80 per barrel per percent sulfur; that is, the relative value of a stream is adjusted downward by \$0.80 per barrel times the sulfur content of the stream.

For example, if a stream has a sulfur content of 0.55%, the sulfur adjustment would be calculated as follows: $0.55 * -0.80 = -0.44$ per barrel

- 16. REGRESSION ANALYSIS.** The Gravity Coefficient for gravity below 40° API and the Sulfur Coefficient will be determined based on the variation of price with gravity and sulfur as determined by a regression analysis of the prices for a reference crude set. This reference crude set are domestic and foreign crudes commonly used by refineries on the U.S. Gulf Coast. The initial set of fourteen reference crude oils is as follows: Arab Heavy, Arab Light, Arab Medium, Brent, Cano Limon, Eugene Island, Domestic Louisiana Heavy Low Sulfur (HLS), Mexican Isthmus, Kuwait, Domestic Louisiana Light Low Sulfur (LLS), Domestic Mars, Mexican Maya, Oriente and Vasconia.

The average prices of these crude oil as reported in publicly available sources for the most currently available three-month period is used. Such three-month average would consist of the prices quoted during the month of actual shipment plus the two prior months. For example, for shipments in September, the average would be for the months of July, August and September. These prices are adjusted to a delivered U.S. Gulf Coast refinery basis using published transportation rates, entrance fees such as customs duties and other factors necessary to derive the prices on a common and consistent basis.

A regression analysis is performed to determine the best correlation on a least squares fit of the prices with API gravity and sulfur content as the independent variables. The coefficients of API gravity and sulfur content resulting from this regression are used as the Gravity Coefficient and Sulfur Coefficient, respectively. In performing the regression analysis, any price data point that deviates from the correlation by more than two standard deviations will be excluded from the correlation.

- 20. INLET BANK.** An Inlet Bank will be established to equalize the value of all streams received into the system. The Relative Value of each Shipper's receipt will be determined by the above formula using the gravity and sulfur content of a composite sample of the receipt. At the close of each month, the Common Stream Relative Value will be calculated as the volume weighted average of the Relative Value of all streams received into the system during the month.

If the Relative Value of a Shipper's stream received into the system is less than the Common Stream Relative Value, the Shipper's account will be debited by an amount equal to the product of the barrels tendered times the absolute difference between the Relative Value of its stream and the Common Stream Relative Value.

If the Relative Value of a Shipper's stream received into the system is greater than the Common Stream Relative Value, the Shipper's account will be credited by an amount equal to the product of the barrels tendered times the absolute difference between the Relative Value of its stream and the Common Stream Relative Value.

- 25. OUTLET BANK.** An Outlet Bank will be established to equalize the value of all streams delivered from the system. The Relative Value of each Shipper's delivery will be determined by the above formula using the gravity and sulfur content of a composite sample of the delivery. At the close of each month, the Common Stream Relative Value will be calculated as the volume weighted average of the Relative Value of all outlet streams delivered from the system during the month.

If the Relative Value of a Shipper's stream delivered from the system is less than the Common Stream Relative Value, the Shipper's account will be credited by an amount equal to the product of the barrels delivered to the Shipper times the absolute difference between the Relative Value of its stream and the Common Stream Relative Value.

If the Relative Value of a Shipper's stream delivered from the system is greater than the Common Stream

Relative Value, the Shipper's account will be debited by an amount equal to the product of the barrels delivered to the Shipper times the absolute difference between the Relative Value of its stream and the

Common Stream Relative Value.

- 26. CALCULATION OF SHIPPERS ACCOUNTS.** The sum of debits and credits for all Shippers for both inlet and outlet banks shall be zero.

After the end of each month, Carrier's agent will make quality bank calculations for that month.

Carrier's agent, acting as an administrative clearinghouse for the quality bank accounts, will include the collection of a prorated portion of the administrative agent's charges, the disbursing agent's charges and laboratory charges incurred in the administration of the quality bank (herein called the "Administrative Charges"). The sole purpose of the quality bank is to equitably adjust for differences in value of crude received into and delivered from the common stream, and Carrier shall receive no profit from the recovery of these charges. The Administrative Charges included in calculation of Shippers' accounts shall be based on the actual charges paid to third parties for administration and other services related to the quality bank, which costs will vary with time. Administrative Charges and other costs that are related to this quality bank and paid to third parties prior to the Effective Date (shown on Page 1) shall be paid by the Shippers exclusive of any interest charges so as to recover such costs through equal monthly payments over twenty-four (24) months immediately following the Effective Date.

- 30. SETTLEMENT.** Following the end of each calendar quarter, a statement shall be rendered to each Shipper setting forth the net debit or credit balance of said Shipper's Quality Bank account and specifying the amount required to be paid (or received) to settle the account. Disbursements to Shippers with a credit balance will be made using funds received from those Shippers making payments into the Quality Bank after such payments are received.

All payments due from Shippers shall be made within fifteen (15) days of the statement date. All crude petroleum which is received from a Shipper who has failed to pay such amounts shall be subject to the imposition of a lien to obtain payment of such amounts.

If a Shipper is deemed to be a credit risk, Carrier may require the Shipper to pay all estimated obligations in advance or to provide an irrevocable letter of credit satisfactory to the Carrier for such obligations.

Carrier or Carrier's authorized representative acts only as a clearinghouse for the quality bank accounts. Neither Carrier nor Carrier's authorized representative shall have any obligation to make payments except from funds received from the operation / administration of the Quality Bank.

Payments to or from the Shippers as a result of the Quality Bank are not part of the transportation tariff rates of Carrier and said payments shall not be offset or otherwise claimed by a Shipper against sums due Carrier for transportation or other charges collected pursuant to Carrier's tariff rules and regulations.

- 40. REDETERMINATION OF ADJUSTMENTS.** Carrier's administrative agent will review the methodology and calculate the Gravity Adjustment and Sulfur Adjustment factors monthly following the procedure specified in Articles 10, 15, and 16 above.

50. **EXAMPLE.** In order to illustrate the workings of a quality bank as described above, a simple example is shown below:

A. Inlet Quality Bank Example Calculation

Crude Oil Values	
Shipper A	
Barrels	150
Deg API	30.00
%S	1.50
Relative Value, \$/bbl	19.80
Shipper B	
Barrels	100
Deg API	38.00
%S	0.50
Relative Value, \$/bbl	22.20
Common Stream	
Barrels	250
Wt. Avg. Value, \$/bbl	20.76

For the purpose of the example, the value of each inlet stream was assigned a value based on its sulfur and gravity using the gravity and sulfur adjustments described earlier ($\text{Value } (\$/\text{bbl}) = 15.00 + 0.20 \times \text{API} - 0.8 \times \%S$, where the API Coefficients is assumed to be \$0.20/bbl API and the Sulfur coefficient is assumed to be negative \$0.80 per barrel per % sulfur). The base value (\$15/bbl in this case) is arbitrary and has no effect on the results. The value of the common stream was calculated as the volume weighted average of the inlet streams. The settlement procedure is shown below.

Settlement Procedure	
Shipper A	
Barrels	150
Relative Value, \$/bbl	19.80
Debit, \$/bbl	-0.96
Debit, \$	-144.00
Shipper B	
Barrels	100
Relative Value, \$/bbl	22.20
Credit, \$/bbl	1.44
Credit, \$	144.00
Common Stream	
Barrels	250
Wt. Avg. Value, \$/bbl	20.76

The per barrel amount due each shipper is the value of this stream minus the weighted average value of all streams. For this example, Shipper A would owe the bank \$144.00 plus Administrative Charges (150 bbl x \$0.003/bbl = \$0.45, assuming Administrative Charges of \$0.003/bbl), for a total of \$144.45. Shipper B would be due \$144.00 less Administrative Charges (100 bbl x \$0.003/bbl = \$0.30) for a total of \$143.70.

B. Outlet Quality Bank Example Calculation

Crude Oil Values											
<table border="1"> <thead> <tr> <th colspan="2">Common Stream</th> </tr> </thead> <tbody> <tr> <td>Barrels</td> <td>250</td> </tr> <tr> <td>Wt. Avg. Value, \$/bbl</td> <td>20.552</td> </tr> </tbody> </table>		Common Stream		Barrels	250	Wt. Avg. Value, \$/bbl	20.552				
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Shipper B											
Barrels	100										
Deg API	33.0										
%S	1.25										
Relative Value, \$/bbl	20.60										

For the purpose of the example, the value of each outlet stream was assigned a value based on its sulfur and gravity using the gravity and sulfur adjustments described earlier ($\text{Value } (\$/\text{bbl}) = 15.00 + 0.20 \times \text{API} - 0.8 \times \%S$, where the Sulfur coefficient is assumed to be negative \$0.80 per barrel). The base value (\$15/bbl in this case) is arbitrary and has no effect on the results. The value of the common stream is based on the value of the common stream exiting the inlet quality bank. The settlement procedure is shown below.

Settlement Procedure											
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Shipper B											
Barrels	100										
Relative Value, \$/bbl	20.60										
Credit, \$/bbl	0.048										
Credit, \$	4.80										

The per barrel amount due each shipper is the value of the common stream minus the value of the shipper's stream. For this example, Shipper A would owe the bank \$4.80 plus Administrative Charges (150 bbl x \$0.003/bbl = \$0.45, assuming Administrative Charges of \$0.003/bbl), for a total of \$5.25. Shipper B would be due \$4.80 less Administrative Charges (100 bbl x \$0.003/bbl = \$0.30), for a total of \$4.50.

The net position for each shipper would be the sum of settlement procedures for their shipments in the Inlet and Outlet Quality Banks.