

Practice Applicable to Automatic Balancing

1. This Practice is subject to the Crude Petroleum Tariff Rules and Regulations. In the event of any inconsistency, the Tariff Rules and Regulations shall prevail.
2. Capitalized words in this Practice have the same meaning as those words in the Tariff Rules and Regulations unless otherwise specified.
3. Definitions
 - a) “Automatic Balancing Price”: means the price determined for each Crude Type in accordance with section 11 or 12 of this Practice.
 - b) “Working Group”: has the meaning set out in section 5.
 - c) “CAPP”: means the Canadian Association of Petroleum Producers.
 - d) “Commencement Date”: means August 1, 2005.
 - e) “Crude Types”: has the meaning set out in section 6.
 - f) “Annual Term”: means the period of 12 months immediately following the Commencement Date as defined in section 4.
 - g) “Injection”: means the physical introduction of a commodity directly into the Carrier’s mainline system from a tank, tanks or a feeder facility.
 - h) “Non-Reported In-Line Transfer”: has the same meaning as in the Carrier’s Practice Governing In-Line Transfers.
 - i) “SIS”: means the secure internet-based system that is used to electronically exchange information with Enbridge Pipelines’ customers known as the Shipper Information System.
 - j) “Over/Short Position”: the Shipper’s volumetric position in the Enbridge system (which includes all of the Regular Receipt Points and Regular Delivery Points on Enbridge Pipelines Inc. and on Enbridge Energy, Limited Partnership) as calculated by the Carrier and reported in the shipper balance over/short position reports (both draft and final – the “Shipper Balance Over/Short Position Reports”).
 - k) “Reported In-Line Transfer”: has the same meaning as in the Carrier’s Practice Governing In-Line Transfers.
 - l) “Schedule A”: means the schedule of Crude Types attached to and forming part of this Practice.

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- m) "Schedule B": means the schedule of Crude Types for which volumetric settlement is applicable; however, price shall be negotiated as set out in section 12 (c).
 - n) "Unassigned Shipper Volume": means physical volume within receipt tankage, in excess of tank bottoms and working stock, not already assigned to a shipper or shippers through pre-receipts, carry-overs or any other means that designates ownership of the volume.
 - o) "Working Day": means a day on which the Carrier ordinarily conducts business, generally Monday through Friday except holidays. For greater certainty, Working Day 1 would be the first business day of a month regardless of the actual date.
4. The term of the Practice shall be 12 months from the Commencement Date.
5. There shall be an automatic balancing practice working group comprised of one representative each from the Carrier, CAPP and 5 Shippers ("Working Group"). The 5 Shippers represented on the Working Group will be determined from time to time by CAPP.
6. This Practice will apply only to those commodities included in Schedule A ("Crude Types").
7. Adding or Deleting a Crude Type
- a) Any new commodity types accepted for transportation by the Carrier on or after August 1, 2005 will be added to Schedule A. Notice will be given to all Shippers of the addition of the new Crude Type in the month immediately prior to the month in which balancing of the new Crude Type will begin.
 - b) For all commodities accepted for transportation by the Carrier as at August 1, 2005 the following procedure will apply:
 - i) The Carrier or any Shipper can initiate the addition of commodities to Schedule A by making a written request to the Carrier or to the Working Group or both.
 - ii) When a new commodity is proposed to be added to Schedule A, the proposal will be communicated by the Carrier to all Shippers by way of a notice setting out the review and consultation process as determined by the Working Group to be followed in respect of the proposal.
 - iii) When the Working Group determines that it is appropriate to add a new commodity to Schedule A, notice will be given to all Shippers of the addition of the new Crude Type to Schedule A in the month immediately prior to the month in which balancing of the new Crude Type will begin.
 - c) A request for deletion of a Crude Type from Schedule A must be made in writing to the Carrier or to the Working Group. A Crude Type will only be deleted from Schedule A on approval by the Working Group. Notice will be given to all Shippers of the deletion of a Crude Type in the month immediately prior to the month in which exclusion of that Crude Type from this Practice would take effect.

- d) For any additions of Crude Types to or deletions of Crude Types from Schedule B, the process described in section 7(b)(i) to 7(b)(iii) shall apply.

8. Temporary Suspension of Automatic Balancing Practice

- a) The Carrier reserves the right to temporarily suspend this Practice in respect of a specific Crude Type where volumetric adjustments to receipt tank Working Stock levels are required to ensure adequate operational volumes are maintained.
- b) Crude Types for which receipt tank Working Stock is required are indicated on Schedule A.
- c) In circumstances where this Practice is suspended in respect of a specific Crude Type to allow for volumetric adjustments to Working Stock, any Shipper, regardless of its Over/Short Position, whose Injections of a Crude Type have exceeded its feeder pipeline splits of that Crude Type can be asked to provide Working Stock in that Crude Type. The resulting volumetric adjustments must be made by the Shipper prior to continuing with Automatic Balancing.
- d) A Shipper may be temporarily excluded from this Practice by the Carrier if the Shipper is required to provide financial assurance to the Carrier pursuant to the Crude Petroleum Tariff Rules and Regulations.
- e) The Working Group may determine other circumstances in which this Practice may be suspended or in which a Shipper may be temporarily excluded from this Practice in accordance with sections 17 and 19.

9. Non-Reported In-Line Transfer Balances

Regardless of a Shipper's Over/Short Position generally, the net difference created each month through all Non-Reported In-Line Transfers on a Shipper and Crude Type basis must be settled with the Carrier at the Automatic Balancing Price.

10. Over/Short Position Balancing Process

- a) For each Crude Type, each Shipper's Over/Short Position will be balanced toward zero (0 m^3) in any month when the Over/Short Position for the Shipper in respect of a Crude Type, expressed as an absolute value, is greater than 100 m^3 .
- b) In any month where a Shipper's Over/Short Position in a Crude Type is not balanced for whatever reason, that Over/Short Position in that Crude Type will be carried forward to the next month.
- c) The Shipper's Over/Short Position for a given month will be determined for each Crude Type for which the Shipper had activity on the Enbridge system or a carry forward position. The Shipper's total Over/Short Position for each Crude Type will equal the sum of the Over/Short Position carried forward from previous month, if any, and the change in that Shipper's Over/Short Position for that month resulting from the Shipper's activity in each Crude Type, ("Total Over/Short Position").

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e.g. At the end of month 1 Shipper A has an Over/Short Position of -40 m^3 for Mixed Blend Sour and an Over/Short Position of $+105 \text{ m}^3$ for LSB. Shipper A's LSB position will be balanced for month 1 and its MSO position will be carried forward to month 2. In month 2 Shipper A's activity increases the Over/Short Position for MSO for month 2 by $+150 \text{ m}^3$. At the end of month 2 Shipper A's MSO Total Over/Short Position of $+110 \text{ m}^3$ will be balanced.

- d) On a monthly basis a Shipper Over/Short position in any Crude Type that is to be balanced will be balanced using the following parameters.
1. Shipper Positions greater than 0 m^3 but less than 100 m^3 will be settled 100%.
 2. Shipper Positions greater than 100 m^3 will be settled using the greater of 100 m^3 or the percentage in effect (see below) of the Shipper's Total Over/Short Position for Crude Types.
 - i) Effective August 1st, 2005 for the business months of August and September, 2005 the percentage rate will be 25%.
 - ii) Effective October 1st, 2005 for the business months of October and November, 2005 the percentage rate will be 50%
 - iii) Effective December 1st, 2005 for the business month of December, 2005 and forward the percentage rate will be 75%.
 - iv) During this timeframe the Automatic Balancing Working Group will meet to discuss and confirm the progression to the next graduated step in percentage increase.
 - v) Further review by the Automatic Balancing Working Group in the first quarter of 2006 will determine if further percentage increases will be recommended and implemented.
- e) Where physical Unassigned Shipper Volume (USV) exists within Enbridge tankage at the receipt location for a Crude Type, the Carrier reserves the right to assign all or a portion of that USV to any shipper who has a long position in that crude type in the form of a pre-receipt of volume for the immediately following NOS month. Any shipper being assigned a portion of the USV would be required to amend their subsequent month NOS for that commodity to decrease supply or increase batch or transfer volume.
- f) In circumstances where subsection 10 e) of the Practice applies, any shipper having a positive long shipper position will be assigned all or a portion of the USV up to their total long position for a commodity as full or partial settlement of their position. Assignments will occur on a pro-rata basis across all long positions in a commodity. If USV still exists once all long shipper positions have been exhausted, the Carrier reserves the right to divest of the remaining volume at current market prices to any interested party.

11. Automatic Balancing Price Determination

- a) Each month, every Shipper that ships any of the Crude Types will supply to the Carrier a price sheet setting out a single price at the injection point to the Enbridge system for each Crude Type shipped by that Shipper in that month. The price will represent the weighted average Enbridge stream price for that Shipper for that Crude Type for the month.

- b) Enbridge will calculate the Automatic Balancing Price for each Crude Type in the following manner:
- i) Round One: for each Crude Type for which a minimum of 5 (five) Shippers have supplied a weighted average price for the month, Enbridge will calculate a simple average price using all prices submitted.
 - ii) Where any price supplied for a Crude Type for a month is 5% higher or lower than the simple average calculated on the basis of all prices supplied, then it will be deemed to be an extreme price and will be excluded from Round Two of the Automatic Balancing Price calculation for each Crude Type.
 - iii) Round Two: For each Crude Type for which at least (three) Shipper provided prices remain, the Carrier will calculate a simple average after excluding any extreme prices as identified in Round One.
 - iv) Any remaining prices that are 2% higher or lower than the Round Two simple average will be excluded from the calculation of a final simple average.
 - v) Round Three: For each Crude Type for which at least 3 (three) Shipper provided prices remain, the Carrier will calculate a simple average after excluding any extreme prices as identified in Round Two.
 - vi) If less than 3 Shipper supplied prices remain going into Round Three, then pricing for the particular Crude Type in question will be dealt with on an exception basis as outlined in section 12.
 - vii) Unless exception pricing applies, the final simple average price for each Crude Type in Schedule A will be the Automatic Balancing Price for that month.
 - viii) Notwithstanding the foregoing, Shippers whose weighted average price falls within the final +/- 2% range will have their positions settled using their own price.
- c) In the event that in any month there is only a single Shipper of a Crude Type, the Carrier will use pricing provided by that Shipper as the Automatic Balancing Price if the Shipper provides written evidence acceptable to the Carrier that the contractual basis for that pricing reflects a fair market value for the Crude Type for the relevant period of time. The Carrier shall keep any such evidence and the information contained therein confidential. If the Shipper chooses to not provide written evidence acceptable to the Carrier in support of the Shipper's pricing then the Exception Pricing process set out in section 12 will apply.
- d) The price determination process described in this section will also be used for the determination of allowance oil pricing and for that reason, Shippers will supply to the Carrier a single price sheet containing pricing for each commodity, including those that are Crude Types, representative of their weighted average Enbridge stream pricing for the month.

12. Exception Pricing

- a) For Crude Types for which less than 5 Shippers have provided weighted average prices or for which less than 3 Shipper supplied prices remain after the Second Phase of the Automatic Balancing Price calculation, balancing will be carried out on a Crude Type by Crude Type basis between the involved Shippers and the Carrier.
- b) In this instance, balancing will take place with pricing based on one of the following:
 - i) a formula agreed upon with involved Shippers;
 - ii) an agreed upon benchmark to a posted price +/- an agreed upon amount per m³;
 - iii) a modified average price (for example using pricing from 3 Shippers); or
 - iv) individually negotiated pricing.
- c) For Crude Types included in Schedule B to this Practice, the Automatic Balancing Price shall be individually negotiated between the Shipper and the Carrier.

13. Negotiated Commodity Purchases/Sales

- a) With the agreement of the Carrier, Shippers may choose to negotiate purchases and sales of Crude Types directly with the Carrier prior to month's end with a view to adjusting that Shipper's Over/Short Position in those Crude Types towards zero (0 m³).
- b) Shippers may initiate negotiations each month any time before final Shipper Balance Over/Short Position Reports are issued.

14. Settlement

- a) Draft Shipper Balance Over/Short Position Reports will be posted to "SIS" by Working Day 6/7;
- b) Shippers may bring changes to draft Shipper Balance Over/Short Position Reports to the attention of Enbridge Oil Accounting/Supply Control up until the Shipper Balance Over/Short Position Reports are finalized and invoices issued;
- c) Settlement for Automatic Balancing based on final Shipper Balance Over/Short Position Reports will take place on the 25th day of the month following that being balanced.

e.g. Settlement for Automatic Balancing based on final Shipper Balance Over/Short Position Reports for the month of September will take place on the 25th of October.

15. Annual Third Party Review

- a) The Carrier will arrange for an annual, independent third party review of this Practice generally and the Automatic Balancing Price determinations specifically. The reviewer will be subject to a Confidentiality Agreement specifically relating to Shipper pricing information and will be commissioned to provide a written report that will be distributed to all Shippers involved in this Practice for the review year.

- b) No information that is specific to a Shipper shall be included in the third party's written report.
 - c) Copies of the third party's report will also be provided to the Working Group.
 - d) The cost of the annual third party review will be shared 50/50 between the Carrier and all Shippers.
16. The Carrier will keep all pricing provided by Shippers strictly confidential. Similarly, calculated averages will not be published or provided to Shippers other than in circumstances as specifically set out above.
17. Working Group Review
- a) In addition to the review by an independent third party as outlined above, at the end of the first 9 months of each Annual Term, the Working Group will review the Practice with a view to ensuring that the anticipated goal of reducing inventory balance exposure for the Carrier and Shippers is being achieved fairly, efficiently and effectively. Prior to carrying out the annual 9 month review, the Working Group will confirm the evaluation guidelines and criteria for the review.
 - b) Continuation of the Practice with or without amendments will be considered as part of the Working Group review.
18. During the term of the Practice, a Shipper, the Carrier or CAPP may raise specific concerns with the Practice. These concerns will be handled in accordance with the resolution process adopted by the Working Group, which is set out in Schedule C.
19. During the term of the Practice, the Working Group may make recommendations for amendments to the Practice in response to concerns raised pursuant to section 18 or on its own initiative. In addition, the Working Group may recommend suspension or discontinuation of the Practice. Amendments, suspension or discontinuation of the Practice will become effective on the date that will be specified in a letter to all Shippers giving notice of the amendments, suspension or discontinuation of the Practice.
20. If, at the end of the Annual Term, the Working Group has not finalized amendments or revisions to the Practice or determined that the Practice shall be suspended or discontinued, the Practice will continue to be implemented in accordance with the terms of this Practice until such time as the amendments and revisions are approved and notice is given to all Shippers.