

Inventory Settlement Procedure

Express and Platte Pipelines

August 1, 2015

INTRODUCTION

Inventory gains and losses between commodities are a normal part of transporting unlike materials in a batched pipeline. These gains and losses can be attributed to interfacial batch cuts, shared tank movements and the normal intermixing of commodities as they transit the pipeline system. Due to differences in quality between commodities inventory gains or losses cannot be settled through the reallocation of Physical Inventory. To maintain a proportional balance of Physical Inventory relative to Book Inventory, Carrier requires Shippers to settle gains and/or losses through financial transactions. All Shippers are required to participate in this process. Carrier's goal is to minimize physical gains or losses between commodities, and to ensure that financial transactions utilize transparent pricing. This document describes the Inventory Settlement Procedure applicable to Express Pipeline LP, Express Pipeline LLC, and Platte Pipe Line Company, LLC which is currently in practice and which has been developed as a result of consultation with Shippers.

Carrier refers jointly to Express Pipeline LP, Express Pipeline LLC, and Platte Pipe Line Company, LLC. Capitalized terms in this procedure that are not defined in this procedure are defined in Carrier's rules and regulations.¹ The Inventory Settlement Procedure implements Tariff provisions in Carrier's rules and regulations.

DEFINITIONS

Batches in Transit: remaining Physical Inventory after removing Working Stock i.e. batches that remain in the mainline and/or tank at the close of each month

Book Inventory: the sum of opening inventory, Inventory Settlement Adjustments, receipt volumes and volumes transferred in and out, less Delivered volumes and Loss Allowance, in a given Month.

Book to Physical Rebalancing: a process whereby Carrier reassigns inventory positions to ensure Shipper's Book Inventory matches its assigned Physical Inventory. The difference between Book Inventory and Physical Inventory is the Settlement Volume (Batch Over/Short).

Inventory Settlement Adjustment: Settlement Volume as it appears on the following Month Shipper Balance Statement.

¹ Express Pipeline LP Tariff No.135, Express Pipeline LLC FERC Tariff No.164.11.0, and Platte Pipe Line Company, LLC FERC Tariff No.2.3.0, supplements thereto or successive issues thereof.

Loss Allowance: Volume fraction (as percentage) withheld by Carrier to cover the cost of losses inherent in the transportation and settlement of crude Petroleum inventory. Loss Allowance percentages are shown on Schedule C.

Net Settlement Value: Settlement Price multiplied by Settlement Volume. Net Settlement Value appears on both the Shipper Balance Statement and the invoice as either a debit (charge) or credit (refund). Net Settlement Value is the value of the financial transaction required to balance Book Inventory to Physical Inventory.

Physical Inventory: physical volumes in the pipeline and in tanks in a given Month, comprised of Working Stock and Batches in Transit.

Settlement Price: the value assigned to each Barrel of Settlement Volume. Carrier requires Shippers to provide a Settlement Price for their commodities before the start of each Month. Settlement Price may take the form of an index price such as from Natural Gas Exchange Inc. (“NGX”) for Canadian Crude, from NYMEX differential posting (“NYMEX”) for United States domestic production, or other form of pricing agreeable to Carrier. Carrier reserves the right to reject any price that it deems misrepresents current market conditions for such commodity.

Shipper Balance Statement: a summarized Monthly statement provided to each Shipper that shows Book Inventory, Physical Inventory, Settlement Volume, Settlement Price and Net Settlement Value.

Working Stock: as defined in Carrier’s rules and regulations, and typically pertains to volume associated with tank bottoms, tank lines and station piping that are necessary to operate the pipeline. Working Stock is assigned ownership to each Shipper on a quarterly basis. At the beginning of each quarter, Shipper’s obligation is based on current Month Nominations and the two immediate preceding Months of actual receipt volumes for a particular commodity. The average volume calculated for each commodity is compared to the entire commodity volume Tendered from all Shippers. As an example, the Working Stock obligation for all Months of the second quarter of a particular commodity for a Shipper is its January and February actual receipt volumes and March Nominations of a particular commodity, divided by the total January and February receipt volumes and total March Nominations of a particular commodity.

INVENTORY SETTLEMENT PROCEDURE

Step 1: Determination of Book Inventory

At the close of each Month, Carrier determines the closing Book Inventory of each commodity by each Shipper.

Step 2: Determination of Physical Inventory

At the close of each Month, Carrier determines the Physical Inventory of each commodity by Shipper. Shipper’s Physical Inventory is the net total of its:

- (a) quarterly Working Stock obligation for each commodity, and
- (b) Batches in Transit as identified on the Delivery schedule

Step 3: Determination of Settlement Volume

At the close of each Month, Carrier determines the Settlement Volume for each commodity by Shipper that transited the system. Settlement Volume is determined by the sum of:

- (a) closing Book Inventory (Step 1) less
- (b) Physical Inventory (Step 2)

Settlement Volume is used in the calculation of the Net Settlement Value calculation (Step 5), and the following Month's determination of Book Inventory (Step 1).

Step 4: Determination of Settlement Price

On the Monthly Nomination Date, in addition to providing Carrier with its Monthly Nomination of Petroleum to be shipped in the following Month, Shipper will also provide Carrier with the Settlement Price for each commodity nominated for transportation.

Carrier will manage the pricing of certain commodities using NGX as follows:

- (a) NGX: For most Canadian sourced commodities, Carrier will use NGX pricing for the Nomination Month trading cycle. Carrier will apply the average NGX price for each commodity, adjusted for Shipper supplied differentials, to the Settlement Volume at Month close.
- (b) NYMEX: For most United States sourced commodities, Carrier will use NYMEX pricing for the Nomination Month trading cycle. Carrier will apply the average NYMEX price for each commodity, adjusted for Shipper supplied differentials, to the Settlement Volume at Month close.
- (c) For narrowly traded crude or for proprietary crude streams that do not normally trend to either NGX or NYMEX pricing, Carrier will accept price bids from Shippers of these commodity types. Such price bids will be averaged among Shippers of identical commodities. Carrier reserves the right to limit its exposure to this pricing mechanism, and as a consequence, may request documentation in support of Shipper price bids such as a verified price statement, completed sales contract or agreement, or other verifiable document. Carrier will hold such documents in confidence.

Step 5: Determination of Net Settlement Value

At the close of each Month, Carrier determines the Net Settlement Value for each commodity by Shipper that transited the system. The Net Settlement Value is shown on the Shipper Balance Statement and tariff invoice as either a debit (charge) or credit (refund), and is payable under terms set out in Carrier's rules and regulations.

This financial transaction allows the Settlement Volume to be recorded on the next Shipper Balance Statement as an Inventory Settlement Adjustment, ensuring Book to Physical Inventory balancing for all commodities and Shippers on the system.

An example of the Inventory Settlement Procedure is shown in Schedule A. A list of commodities affected by NGX and NYMEX prices, or are shipper supplied, are shown in Schedule B. Carrier's Loss Allowance procedure is shown in Schedule C.

SCHEDULE A:

EXAMPLE: Inventory Settlement Procedure and Shipper Balance Statements

A simplified example of a Shipper Balance Statement for the Month of April is shown below. This statement is for the commodity Western Canadian Select (“WCS”), sourced from Canada, and shipped by ABC Corporation.

The first half of the statement derives ABC’s closing Book Inventory. It begins with an opening inventory position of 200,000 Barrels carried forward from March’s closing Book Inventory. ABC Tenders 200,000 Barrels of WCS to Carrier, and transfers 10,000 Barrels in from XYZ Corporation. ABC Delivers 160,000 Barrels off the system. Carrier deducts 200 Barrels for Loss Allowance. ABC’s closing Book Inventory is the sum total of its opening inventory position, Tender, and transfer, less ABC’s volumes Delivered and Loss Allowance. ABC’s closing Book Inventory for April is 249,800 Barrels.

The latter half statement derives ABC’s Settlement Volume and Net Settlement Value. ABC has 80,000 Barrels of Working Stock, determined by January and February actual receipt volumes and March Nominations by ABC of WCS as a proportion of total WCS receipt volumes and Nominations over the same period. ABC has 180,000 Barrels of WCS in transit as identified on the Delivery schedule. ABC’s total Physical Inventory is 260,000 Barrels.

ABC’s Physical Inventory is greater than its Book Inventory, and a Settlement Volume of 10,200 Barrels exists. A financial transaction is required to balance this Book to Physical Inventory discrepancy. The average NGX price of WCS in April is \$50/Barrel. The Net Settlement Value is therefore \$510,000, payable to Carrier.

The Settlement Volume in April of 10,200 Barrels will be recorded on the May Shipper Balance Statement as an Inventory Settlement Adjustment.

Shipper Balance Statement

Apr-08

Shipper: ABC Corporation
 Commodity: WCS

	Volume	
Opening Inventory:	200,000.0	
Inventory Settlement Adjustments:		
Adjusted Opening Inventory	200,000.0	
Receipt Volumes:	200,000.0	
Transfers In:	10,000.0	To ABC Corp.
		From XYZ Corp.
Transfers Out:	0.0	
Deliveries:	160,000.0	
Less Loss Allowance:	200.0	
Closing Inventory:	249,800.0	

Inventory Settlement Statement:
 (settlement value is invoiced separately, do not pay Shipper Balance Statement)

Closing Inventory:	249,800.0	
Less Working Stock:	80,000.0	
Less Batches In Transit	180,000.0	
Batch Over / (Short):	<u>10,200.0</u>	
April Valuation:	\$50.00	
(Based on Pricing Formula)		
Net Settlement Value:	\$510,000.00	

SCHEDULE B: List of Commodity Prices

Product Code	Description	Material Grade Code	INDEX Source	REFERENCE CRUDE/POST	Differential
Widely Traded					
SYN	Syncrude	L	NGX	WTIDiff	N/A
WCS	Western Canadian Select	SH	NGX	WTIDiff	N/A
Narrowly Traded					
AHS	Albian Heavy Synthetic	SH	NGX	WCS	Shipper Supplied
ASH	Wyoming Asphalt	H	NYMEX	WTI	Shipper Supplied
BR	Bow River Heavy	SH	NGX	WCS	Shipper Supplied
CL	Cold Lake	SH	NGX	WCS	Shipper Supplied
CRW	Condensate Blend	L	NYMEX	WTI	Shipper Supplied
GS	Platte General Sour	H	NYMEX	WTI	Shipper Supplied
LLB	Lloydminster Hardisty	SH	NGX	WCS	Shipper Supplied
PS	Platte Sweet	L	NYMEX	WTI	Shipper Supplied
HSB	Husky Synthetic Blend	L	NGX	SYN	Shipper Supplied
OSA	Suncor Oil Sands - A	L	NGX	SYN	Shipper Supplied
OSH	Suncor Oil Sands - H	SH	NYMEX	WTI	Shipper Supplied
SLE	Edmonton Light Sour	M	NYMEX	WTI	Shipper Supplied
SHE	Edmonton High Sour	L	NYMEX	WTI	Shipper Supplied
SO	Hardisty Light	M	NYMEX	WTI	Shipper Supplied
WCB	Western Canadian Blend	SH	NGX	WCS	Shipper Supplied

L Light
M Medium
H Heavy
SH Super Heavy

SCHEDULE C: Loss Allowance Percentages

Receipt Station		Delivery Station	Loss Allowance (%)
Hardisty	To	Edgar	0.100
Hardisty	To	Buffalo	0.100
Hardisty	To	Casper	0.100
Hardisty	To	Guernsey	0.150
Hardisty	To	Gurley	0.250
Hardisty	To	Salisbury	0.250
Hardisty	To	Wood River	0.250
Casper	To	Casper	0.050
Casper	To	Guernsey	0.150
Casper	To	Gurley	0.150
Casper	To	Holdredge	0.150
Casper	To	Salisbury	0.150
Casper	To	Wood River	0.150
Guernsey	To	Guernsey	0.050
Guernsey	To	Gurley	0.150
Guernsey	To	Holdredge	0.150
Guernsey	To	Salisbury	0.150
Guernsey	To	Wood River	0.150
Gurley	To	Gurley	0.050
Gurley	To	Holdredge	0.150
Gurley	To	Salisbury	0.150
Gurley	To	Wood River	0.150
Salisbury	To	Salisbury	0.050
Salisbury	To	Wood River	0.150