

5. ACCOUNTING PROCEDURES

5.1 CREDIT REQUIREMENTS

Credit is extended to Shippers provided that minimum financial requirements are initially met and that an acceptable financial posture and payment history is maintained.

1) NEW SHIPPERS

All prospective new Shippers are required to submit Form 5.1 "Request for Shipper Status."

Upon review by West Shore's Accounting Management, the prospective new Shipper will be informed of its acceptance or its rejection for credit extension and the relative credit limits imposed.

2) EXISTING SHIPPERS

West Shore continually reviews the financial posture of its Shippers and reserves the right to limit credit availability to existing Shippers where financially prudent. Such limitations are generally negotiated between West Shore and the Shipper.

3) PREPAY STATUS/LETTER OF CREDIT

For prospective new Shippers who do not submit the above information or do not meet West Shore's credit requirements, as well as existing Shippers who are no longer financially qualified, West Shore will provide its transportation services on a prepaid basis. In lieu of prepaid transportation services, such Shippers may also qualify for credit by providing a Letter of Credit from an acceptable financial institution. These arrangements should be made directly with West Shore's Accounting Department.

5.2 BILLING

A Shipper is billed four times each month for all barrels delivered in each respective time period (see billing schedule at end of section). Transportation charges are billed four times during the month, whereas settlement and filtration charges are billed only at the end of the month. Receipt and delivery tickets are the controlling documents upon which such billing is based. Each Shipper receives a single invoice that identifies all charges on all West Shore systems and companies. Payment is due 10 days from the invoice date, unless other payment terms have been arranged.

The billing documents included in the invoice package are as follows:

1) INVOICE

All current period charges are shown on this page. If month-end, transportation and settlement will all be shown; otherwise, only transportation charges will be shown on this page.

(See Page 1 of Example 5-A)

2) STATEMENT OF ACCOUNT

West Shore does not routinely send a Statement of Accounts. Customers wishing a Statement of Account should contact revenue accounting on an "as-needed" basis.

3) TRANSPORTATION CHARGES

Transportation charges, billed four times per month, reflect rates published and filed with the Federal Energy Regulatory Commission and the Illinois Commerce Commission, multiplied by the net volume of barrels delivered during the respective period. A "Summary of Transportation Charges," showing sub-totals by Delivery Location or Product Grade, is followed by the details of the Transportation Charges. The details of the charges are itemized by delivery location, product grade, ticket and batch. Additional information shown includes ticket date, origin, delivery company, barrels, tariff number, tariff rate and charge amount.

(See Pages 2 through 5 of Example 5-A)

In order to calculate transportation charges for segregated batches originating into the West Shore Pipe Line System, deliveries are matched to receipt based on the complete batch ID and batch sequence number.

Product received into the pipeline system during one period, but delivered the following period, will be included in intransit inventory and not charged for transportation until delivery has been made. In the case of a filed change in tariff rate, the tariff in effect on the date the product is received into the pipeline system will be used to calculate transportation charges.

4) SETTLEMENT CHARGES

Settlement charges, billed at month-end, are the result of transit variations (the variance between physical and book inventories of product) multiplied by an appropriate settlement price. Positive transit variations (over deliveries) result in charges to Shippers, and negative transit variations (under deliveries) result in credits to Shippers.

The Settlement Charges (or Credits) are calculated as follows:

Physical Inventory at Beginning of month
+ Barrels Received into system
- Barrels Delivered out of system
= Book Ending Inventory

Physical Inventory at End of month
- Book Ending Inventory

$$\begin{array}{r}
 = \text{Barrels "Over" and "Short" (i.e., Transit Variation)} \\
 \times \text{Settlement Price} \\
 \hline
 = \text{Settlement Charge (or Credit)}
 \end{array}$$

A "Summary of Settlement Charges," showing sub-totals by Product Grade, is followed by the details of the Settlement Charges. The details of the charges are separated by product grade. Information shown for each product grade includes beginning inventory, receipts, deliveries, book ending inventory, physical ending inventory, transit variation, settlement price and settlement charge

(See Pages 6 through 12 of Example 5-A)

Settlement Prices – West Shore Pipe Line Company utilizes a price basis for pricing overages and shortages of petroleum products. All of these prices are summarized on a separate page within the billing package.

(See Pages 13 and 14 of Example 5-A)

- A) **Price Basis** – West Shore's settlement price basis is "Platt's Oilgram Price Report" quotation under the heading Product Price Assessments - Chicago (Pipeline). More specifically, the monthly settlement price basis is an arithmetic average of the price each day there is a posting within a given month for the applicable product.

The settlement price basis for the various West Shore product grades is shown in Settlement Price Basis Table at the end of this section,

Transmix Delivered (Grade 999) shall be priced as the weighted average of 35% 87 Octane Unleaded Conventional Gasoline and 65% Low Sulfur Off Road Diesel.

Off Spec Gasoline will be priced on a case by case basis.

5) **PRODUCT LOSS ALLOCATION ASSESSMENT**

A product loss allocation assessment shall be added to the monthly settlement bill for long-haul transportation movements of refined products (does not apply to crude volumes). The product loss allocation assessment is to proportionally distribute normal losses resulting from evaporation, downgrading of product and handling of transmix inherent in the operation of the pipeline. This assessment is made monthly in accordance with the "Loss/Gain Equalization" provision of the applicable Rules and Regulations tariffs, and is calculated by determining the total cost of product downgrades and volume variations divided by the associated total volume throughput for the month. The resulting cents per barrel assessment will be applied to each shipper's total actual monthly delivered volumes.

6) **OTHER CHARGES**

Other miscellaneous charges may also be referenced on the invoice and in the billing package. These charges might include pumping fees, segregated batch fees, or other special charges.

5.3 BILLING SCHEDULE

There are four billing periods per month comprising three interim billing periods and one final billing period. Interim billing periods end on Sundays at midnight. If the first Sunday falls on the fifth, sixth or seventh of the month, the first interim billing period will run through those days. If the first Sunday falls on the first, second, third or fourth of the month, such day(s) are included in the next interim billing period. Days remaining in the month after the third interim billing are invoiced as of month-end. Exceptions occur when the first Sunday of the month is on the fifth of the month and such month includes a holiday preceding that Sunday. In these cases, the first five days are included in the next billing period. See billing cut-off date schedules for this year and next year at the end of this section.

5.4 BILLING INQUIRIES

All billing inquiries may be directed in writing to West Shore Pipe Line Company, P. O. Box 368, Emmaus, PA 18049, Attention: Revenue Accounting Department or by telephone or email to the Revenue Accounting contact listed on the invoice.