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May 16, 2007

Mr. William H. Clifton
BP Pipelines (Alaska) Inc.
P.O. Box 190848
Anchorage, Alaska 99519-0848

Dear Bill:

Section III.E.6 of the TAPS Quality Bank Methodology requires a review of the gravity differential to be used in the calculation of the Quality Bank adjustments for the Valdez Marine Terminal twice each year, in May and November. The current review has been concluded and the gravity differential for the six-month period beginning July 1, 2007 will be adjusted from \$0.0383 to \$0.0418 per 0.1° API.

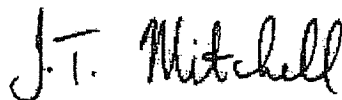
Table 1 provides a summary of the calculation of the distribution of ANS crude oil to the West Coast and East of the Rockies. The calculation is based on data from the U.S. Department of Transportation Maritime Administration. These percentages will also be used for calculation of the Weighted Average Component Values for July, 2007 – December, 2007.

Table 2 summarizes the posted gravity differentials taken from the crude oil bulletins published by the companies specified in the methodology. In accordance with the methodology, a weighted average of the differentials over the six-month period November, 2006 – April, 2007 was used.

Table 3 shows the calculation of the overall gravity differential and illustrates that the differential changed by more than 5% and, therefore, an adjustment to the differential is required.

This report is being mailed to the persons on the attached distribution list. Copies are also being sent to Vinson & Elkins, Guess & Rudd, KPMG LLP, and the State of Alaska, as well as interested shippers.

Very truly yours,



J.T. Mitchell
Quality Bank Administrator

TABLE 1

TAPS Quality Bank

Alaskan North Slope Crude Oil Distribution

(Thousands of Barrels per Day)

Shipment Location	2006 / 2007						Six Month Average	Percent
	September	October	November	December	January	February		
ANS Pipeline Shipment	0	0	0	0	0	0	0	0.0000
U.S. East Coast	0	0	0	0	0	0	0	0.0000
U.S. Gulf Coast	0	0	0	0	0	0	0	0.0000
Panama	0	0	0	0	0	0	0	0.0000
Puerto Rico	0	0	0	0	0	0	0	0.0000
Virgin Islands	0	0	0	0	0	0	0	0.0000
Gulf Coast Sub-Total	0	0	0	0	0	0	0	0.00
Alaska	19	20	31	34	26	31	27	4.0605
ANS Pipeline Shipment	0	0	0	0	0	0	0	0.0000
Hawaii	0	19	0	0	0	34	9	1.3367
West Coast Delivered	479	677	577	637	707	674	625	94.6028
West Coast Sub-Total	498	716	608	671	733	739	661	100.00
TOTAL:	498	716	608	671	733	739	661	100.00

Price Analyst: Shoran Date: 5/16/07
 Reviewed By: C.R. Mitchell Date: 5/16/07

TABLE 2
TAPS Quality Bank
Gravity Differentials Report

Postings averages summary for West Texas Sour (Gulf Coast) and California (West Coast) crude oils

Units for differential amounts : $\frac{\text{°API}}{(.1\text{°API})(\text{BBL})}$

Weighted averages based on the period: 11/01/2006 - 04/30/2007, inclusive

Coast	Company	Weighted Average Differential Amount	Period Postings
GULF	Chevron Products Company	0.00000	7
	Exxon Mobil Corporation	1.50000	7
	Shell Global Trading	1.50000	7
Simple average gravity differential for Gulf Coast crude oils:		1.000	

Coast	Company	Weighted Average Differential Amount	Period Postings
WEST	ChevronTexaco	4.14227	8
	Exxon Mobil Oil Corporation	4.00000	7
	Shell Global Trading	4.32873	8
	Union 76	4.24586	8
Simple average gravity differential for West Coast crude oils:		4.179	

TABLE 2
TAPS Quality Bank
Gravity Differentials Report

Postings averages detail for West Texas Sour crude oils (Gulf Coast)

Units for differential amounts : $\frac{\text{¢}}{(.1^\circ\text{APD})(\text{BBL})}$

Weighted averages based on the period: 11/01/2006 - 04/30/2007, inclusive

Company	Differential Amount	Date Posted
Chevron Products Company	0.000	04/30/2007
	0.000	03/31/2007
	0.000	02/28/2007
	0.000	01/31/2007
	0.000	12/31/2006
	0.000	11/30/2006
	0.000	10/31/2006
	0.00000	Wt. avg.
Exxon Mobil Corporation	1.500	04/30/2007
	1.500	03/31/2007
	1.500	02/28/2007
	1.500	01/31/2007
	1.500	12/31/2006
	1.500	11/30/2006
	1.500	10/31/2006
	1.50000	Wt. avg.
Shell Global Trading	1.500	04/30/2007
	1.500	03/31/2007
	1.500	02/28/2007
	1.500	01/31/2007
	1.500	12/31/2006
	1.500	11/30/2006
	1.500	10/31/2006
	1.50000	Wt. avg.

TABLE 2
TAPS Quality Bank
Gravity Differentials Report

Postings averages detail for California crude oils (West Coast)

Units for differential amounts : $\frac{\text{¢}}{(\text{I}^\circ\text{API})(\text{BBL})}$

Weighted averages based on the period: 11/01/2006 - 04/30/2007, inclusive

Company	Differential Amount	Date Posted
ChevronTexaco	4.250	04/30/2007
	4.250	03/31/2007
	4.250	02/28/2007
	4.250	01/31/2007
	4.250	01/18/2007
	4.000	12/31/2006
	4.000	11/30/2006
	4.000	10/31/2006
	4.14227	Wt. avg.
Exxon Mobil Oil Corporation	4.000	04/30/2007
	4.000	03/31/2007
	4.000	02/28/2007
	4.000	01/31/2007
	4.000	12/31/2006
	4.000	11/30/2006
	4.000	10/31/2006
	4.00000	Wt. avg.
Shell Global Trading	4.500	04/30/2007
	4.500	03/31/2007
	4.500	02/28/2007
	4.500	01/31/2007
	4.500	01/02/2007
	4.000	12/31/2006
	4.000	11/30/2006

TABLE 2

TAPS Quality Bank

Gravity Differentials Report

Postings averages detail for California crude oils (West Coast)

Units for differential amounts : $\frac{\text{¢}}{(.1^\circ\text{API})(\text{BBL})}$

Weighted averages based on the period: 11/01/2006 - 04/30/2007, inclusive

<u>Company</u>	<u>Differential Amount</u>	<u>Date Posted</u>
Shell Global Trading (continued)	4.000	10/31/2006
	<u>4.32873</u>	Wt. avg.
Union 76	4.500	04/30/2007
	4.500	03/31/2007
	4.500	02/28/2007
	4.500	02/01/2007
	4.000	01/31/2007
	4.000	12/31/2006
	4.000	11/30/2006
	4.000	10/31/2006
	<u>4.24586</u>	Wt. avg.

TABLE 3

TAPS Quality Bank

Quality Differential Review Report

Review Month: May, 2007

Distribution Location	Gravity Differential (¢ / .1°API / BBL) for NOV 2006 - APR 2007		Geographic Distribution Percentages for SEP 2006 - FEB 2007		Weighted Differential (¢ / .1°API / BBL)
West Coast	4.179	x	1.0000	=	4.179
Gulf Coast	1.000	x	0.0000	=	0.000
Calculated Quality Differential					4.179

Allowable range based on current Quality Differential:

Current Differential (¢ / .1°API / BBL) Effective: JAN 2007		(5%) Allowed Range		Range Upper Bound	Range Lower Bound
3.83	x	1.05	=	4.022	
3.83	x	0.95	=		3.638

The calculated Quality Differential equals or exceeds the 5 percent tolerance. Therefore, the current Quality Differential must be adjusted on July 1, 2007 to 4.18 cents per one tenth degree API per barrel of oil.

TAPS	Owner Contacts	Accountants	Attorneys
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