F.E.R.C. No. 7
(Cancels F.E.R.C. No. 6)

KUPARUK TRANSPORTATION COMPANY

LOCAL PIPELINE TARIFF

Containing the

QUALITY BANK METHODOLOGY

GENERAL APPLICATION

This tariff shall apply only to those tariffs which specifically incorporate this tariff, supplements to this tariff and successive issues hereof, by reference.

For Rules and Regulations (other than the Quality Bank Methodology) governing the transportation of petroleum by pipeline from Kuparuk, Alaska to the Trans Alaska Pipeline System, Pump Station No. 1, refer to F.E.R.C. Tariff No. 15, supplements thereto and reissues thereof.

NOTICES

This tariff is issued pursuant to the Settlement Agreement filed on May 23, 1994 by Kuparuk Transportation Company.

Issued on one (1) day notice under authority of 18 CFR § 341.14. This Tariff publication is conditionally accepted subject to refund pending a thirty (30) day review period.

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

ISSUED: February 20, 1998

EFFECTIVE: February 23, 1998

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EXPLANATION OF REFERENCE MARKS

[W] Change in wording only

[N] New

[U] Unchanged rate

ITEM NO.	SUBJECT	KTC QUALITY BANK METHODOLOGY

Item 1 Quality Bank

I. GENERAL PROVISIONS

A. Quality Bank Administrator

The Kuparuk Transportation Company ("KTC") Quality Bank shall be administered by the Kuparuk Quality Bank Administrator, who shall be appointed by KTC, and by those designated by the Kuparuk Quality Bank Administrator to assist the Administrator (hereinafter collectively referred to as the "Kuparuk Quality Bank Administrator"). The name and address of KTC's designated Quality Bank Administrator will be made available upon written request to KTC.

B. Cost Recovery

1. KTC Quality Bank Operating and Administrative Costs

All reasonable and necessary costs of operating and administering the KTC Quality Bank Methodology, including and without limitation, costs incurred for obtaining, handling and processing samples of the various petroleum streams, assay costs, and costs incurred by the KTC Quality Bank Administrator as a result of administering the KTC Quality Bank, shall be recovered by KTC through the KTC Quality Bank debits and credits in the form of per-barrel charges on a monthly basis. The KTC Quality Bank Administrator will total all such costs incurred for each month and will divide those costs by the number of barrels transported in that month. The resulting per-barrel charge will then be added to all payments into the KTC Quality Bank and subtracted from all payments out of the KTC Quality Bank for that month.

2. Kuparuk River Unit Continuous Sampling Capital Costs

In the event KTC acquires and installs additional continuous sampling equipment to sample the Kuparuk River Unit ("KRU") stream pursuant to Section III.C.1.b. of this tariff, all reasonable and necessary costs relating to such acquisition and installation shall be recovered through per-barrel Quality Bank charges in a similar manner to that set forth in Section I.C.2 above (i.e., the KRU sampling capital costs will be recovered through direct billing of all KTC shippers over a three- month period, with interest at the then-current FERC interest rate on refunds as prescribed in 18 C.F.R. § 340.1, based on each shipper's proportionate share of KTC total throughput over the six-month period immediately preceding the decision to install KRU sampling equipment.)

C. Other General Provisions

1. In the event any payment is made to any shipper hereunder and it is subsequently determined by any Federal or state court, administrative agency or other governmental entity having jurisdiction that no other shipper was liable for the adjustment for which payment was made, the shipper receiving such payment shall upon receipt of an accounting from KTC return the same to KTC or its designee. KTC shall promptly utilize same to reimburse all shippers who made such payments.

2. All payments due from any shipper under the KTC Quality Bank Methodology shall be made by such shipper within 20 days of receipt of each accounting and, for any delay in payment beyond such 20 day period, shall bear interest calculated at an annual rate equivalent to 125% of the prime rate of interest of Citibank N.A. of

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New York, New York, on ninety- day loans to substantial and responsible commercial borrowers as of the date of accounting.

3. If any shipper fails to make payment due hereunder within 30 days of issuance of each accounting, KTC shall have the right to sell at public auction either directly or through an agent at any time after such 30 day period any Petroleum of the shipper in its custody. Such auction may be held on any day, except a legal holiday, and not less than 48 hours after publication of notice of such sale in a daily newspaper of general circulation published in the town, city or general area where the sale is to be held, stating the time and place of sale and the quality and location of Petroleum to be sold. At said sale KTC shall have the right to bid, and, if it is the highest bidder, to become the purchaser. From the proceeds of said sale, KTC will deduct all payments due and expenses incident to said sale, and the balance of the proceeds of the sale remaining, if any, shall be held for whomsoever may be lawfully entitled thereto.

4. KTC and its designee are authorized to receive through measurement, connecting carriers or otherwise all information and data necessary to make the computations under the KTC Quality Bank Methodology. All shippers will furnish KTC or its designated Quality Bank Administrator, and consents to KTC or its designated Quality Bank Administrator acquiring from other carriers or other persons, any additional information and data necessary to make the computations under this Methodology. Shippers also consent to KTC or its agents disclosing to the designated Quality Bank Administrator all information and data necessary to make the computations under this Methodology

5. Adjustment payments and administrative costs in this Methodology are not a part of KTC's transportation tariff rates, and such shall not be an offset or other claim by any shipper against sums due KTC for transportation or other charges, costs, or fees due or collected under KTC's rate tariff.

II. QUALITY BANK PROCEDURES

A. Overview

A Distillation-based methodology consistent with the TAPS Pump Station No. 1 Quality Bank Methodology shall be implemented for KTC. This methodology for calculation of the KTC Quality Bank debits and credits is based on valuations of petroleum components. This methodology shall apply to the specific petroleum (as defined in the [W] tariffs) streams identified in Section II.B. and also shall be applied to any streams tendered to KTC through a new connection. The Quality Bank value of each petroleum stream shall be the volume-weighted sum of the Quality Bank values of its components. The characteristics and volumes of components for each separate petroleum stream are based on assay information obtained using a defined set of testing procedures [W] as set forth in Section II.C. Quality Bank credits and debits are determined by comparing the Quality Bank value of each petroleum stream to the appropriate KTC reference stream Quality Bank value.

B. KTC Quality Bank Streams

[W] 1. The KTC Quality Bank assesses the following streams: (1) the Kuparuk River Unit ("KRU") stream which results from the combined output of Central Processing Facility-1 ("CPF-1") and Central Processing Facility-2 ("CPF-2) within the KRU; (2) the Milne Point

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stream, which is blended with the KRU stream at the interconnection of KTC and the Milne Point Pipeline; and (3) any new streams introduced into KTC.

2. The KTC Quality Bank reference stream is the blended common stream downstream of the KTC-Milne Point Pipeline interconnection point.

C. KTC Quality Bank Methodology

1. Assay Methodology – Sampling Procedure

[W]

[W]

a. Subject to Section II.C.1.b. below, the Kuparuk Quality Bank Administrator will sample the Milne Point stream, as well as any new streams, using continuous monthly composite samplers on a flow rate dependent basis, and assays of these continuously collected samples shall be performed monthly by the Kuparuk Quality Bank Administrator. The assay data regarding the KTC reference stream as received at TAPS Pump Station No. 1 used by the TAPS Quality Bank Administrator in the calculation of the TAPS Quality Bank adjustments shall be used by the Kuparuk Quality Bank Administrator for the KTC reference stream. Composition of the KRU stream will be determined by the Kuparuk Quality Bank Administrator based on the difference between the sample stream assay results and the KTC reference stream assay results. An illustration of this calculation appears in Attachment 1A hereto. Once the composition of the KRU stream is thus calculated, the Quality Bank Value of the KRU stream will be determined as if the assay values had been measured directly.

[W]

b. Upon the written request of any KTC shipper, KTC will promptly undertake to acquire and install the necessary equipment and facilities to permit continuous monthly composite sampling on a flow rate dependent basis of the KRU stream. KTC will exercise its best judgment in determining what facilities are necessary to sample the KRU stream on the most cost-effective and reliable basis. KTC shall notify the APUC and the FERC of the date on which all facilities and technical arrangements are in place to permit such sampling, which shall be the "KRU Sample Implementation Date." From and after the KRU Sample Implementation Date, the Kuparuk Quality Bank Administrator will sample the KRU stream using continuous monthly composite sample[s] on a flow rate dependent basis, and assay[s] of these continuously collected sample[s] will be performed monthly by the Kuparuk Quality Bank Administrator. This assay data will be used thereafter to determine the Quality Bank value of the KRU stream, and the KTC reference stream value will thereafter be calculated using the volume weighted average of the KRU, Milne Point, and any new streams, rather than the data collected by the TAPS Quality Bank Administrator at TAPS Pump Station No. 1.

[W]

2. Assay Analysis Procedure

a. Except as specified in paragraph b. below, the assays will include a true boiling point ("TBP") distillation and, as applicable, gas chromatograph analysis of each Quality Bank stream. Specifically, the TBP procedure will employ ASTM 2892 up to 650 F and ASTM 5236 for the 650 to 1050+ F range for the petroleum samples. The light ends (175 F minus) from

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the petroleum streams will be subject to gas chromatograph analysis to determine the volumes of the propane ("C3"), Iso-butane ("iC4"), and normal butane ("nC4"), with the light straight run ("LSR") (sometimes referred to as natural gasoline) volume determined by difference between the total of the three components and the measured 175 F minus volume.

b. The specific gravities of C3, iC4, and nC4 will be derived from GPA Standard 2145.

[W]

3. Assay Data

a. The following volume and quality data will be determined for each stream.

Component	TBP Boiling Range	% Vol.	Specific Gravity
Propane (C3)		X	X
I-Butane (iC4)		X	X
N-Butane (nC4)		X	X
LSR	C5-175	X	X
Naphtha	175-350	X	X
Light Distillate	350-450	X	X
Heavy Distillate	450-650	X	X
Gas Oil	650-1050	X	X
Resid	1050+	X	X
Full Petroleum Stream			X

b. The total volume must add to 100% and the total component weighted mass must be checked against the mass of the full petroleum stream. These weight balances must be the same within calculation and assay precision. If the assay fails this threshold test of validity, a second assay shall be performed on the sample. An example of assay data required is presented in Attachment 1. These data are the basis for all calculations in this Quality Bank methodology. The KTC Quality Bank will operate on a calendar month basis, with the continuous samples retrieved for analysis on the last day of each month.

c. The Kuparuk Quality Bank Administrator shall investigate the validity of a sample that it takes or determines by difference (as opposed to the one taken by TAPS) if each of the following two tests is met.

(i) If one or more of an individual stream's reported component percentages for a month varies by more than the ranges indicated in the following table as compared to the prior month's assay.

Component	Variation in % of Stream Relative to Prior Month
Propane	+0.1
I-Butane	+0.1
N-Butane	+0.25
LSR	+0.5
Naphtha	+1.0
Light Distillate	+1.0
Heavy Distillate	+1.0
Gas Oil	+1.5
Resid	+1.0

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As an example, if a petroleum stream's heavy distillate volume percent is 23% for the prior month, a heavy distillate volume percent less than 22% or greater than 24% (exceeding the +1% range) shall cause the Kuparuk Quality Bank Administrator to check the second test.

(ii) The second test is whether the volume change in the specific component has resulted in a significant change in the stream's relative value when compared to the prior month's relative value using the prior month's prices. If the change results in a price movement of more than +15 cents per barrel, then the sample's validity must be investigated.

(iii) The Kuparuk Quality Bank Administrator shall ascertain from the tendering shipper(s) possible causes for the change in the stream's assay. The Kuparuk Quality Bank Administrator may have a second assay performed for any sample it has taken. The Kuparuk Quality Bank Administrator may decide that the first assay is valid, that the second assay is valid, or that the sample is invalid.

(iv) Should the Kuparuk Quality Bank Administrator determine that a sample is invalid, the last assay results accepted and used in the KTC Quality Bank for the stream will be used instead of the invalid sample in the Quality Bank calculation

d. If, prior to the KRU Sample Implementation Date, the TAPS Quality Bank Administrator makes any changes to the assay results initially reported for the KTC stream as received at TAPS Pump Station No. 1, or is ordered to make any such changes as the result of any order of the APUC or FERC or any court of competent jurisdiction, the Kuparuk Quality Administrator will reflect any such changes in the KTC Quality Bank debits and credits, including making any retroactive readjustments necessary to maintain consistency with the TAPS Pump Station No. 1 Quality Bank for the period from May 1, 1994 forward.

D. Component Unit Value Procedure

[W] The Kuparuk Quality Bank Administrator will obtain from the TAPS Quality Bank Administrator all of the adjusted component unit values necessary to determine the Kuparuk Quality Bank stream values in accordance with the distillation methodology used at TAPS Pump Station No. 1. The KTC Quality Bank will employ the same product

[W] prices, the same adjustments, and the same weightings as the TAPS Pump Station No. 1 Quality Bank, as set forth in Tariff FERC No. 33 (Amerada), FERC No. 7 (ARCO), FERC No. 11 (BP), FERC No. 420 (Exxon), FERC No. 11 (Mobil), FERC No. 26 (Phillips) and FERC No. 73 (Unocal), issued June 13, 1994, as well as supplements thereto and successive issues thereof, effective on the later of May 1, 1994 or the effective date on TAPS, for as long as a distillation methodology is maintained at TAPS Pump Station No. 1.

E. Quality Bank Stream Component Calculation Procedure

After all volume, quality, and pricing data are collected, the Kuparuk Quality Bank Administrator will establish quality differentials for each stream identified in Section III.B.

F. Quality Bank Calculation Procedures

The assay data and calculation procedures required by this

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(continued)

Methodology are summarized in the Attachments. The Attachments are for reference purposes only and are not intended to predict the impact of this procedure on any specific petroleum stream or any specific company. In the event of a conflict between the provisions of this Methodology as set forth above and the Attachments, the provisions of this Methodology shall control.

ATTACHMENT 1:	Yield Data for Example Streams
ATTACHMENT 1A:	Calculation of Unsampled Stream
ATTACHMENT 2:	Component Unit Value Pricing Basis
ATTACHMENT 3:	Example Component Unit Values in $/Bbl
ATTACHMENT 4:	Example Stream Values in $/Bbl
ATTACHMENT 5:	Quality Bank Calculation Example

G. Unanticipated Implementation Issues

This Methodology is intended to contain a comprehensive treatment of the subject matter. However, unanticipated issues concerning implementation of this Methodology may arise. If so, the Kuparuk Quality Bank Administrator is authorized to resolve such issues in accordance with the goal of maintaining consistency with the distillation methodology applied by the TAPS Carriers at TAPS Pump Station No. 1. The Kuparuk Quality Bank Administrator's resolution of any such issue shall be final unless and until changed prospectively by orders of the FERC and APUC.

QUALITY BANK PROCEDURES MANUAL

SECTION 2.0 -- MONTHLY AVERAGE PRICES AND COMPONENT VALUES

2.0 The purpose of this section of the procedures manual is to document the Quality Bank Administrator's (QBA) duties relating to the monthly average prices and component values to be used in the new Quality Bank methodology effective December 1, 1993.

2.1 The QBA will designate a price analyst who will be responsible for documenting component values and entering the prices into the Price Determination module of QBWeb.

2.2 The prices to be used in the calculation of stream values for purposes of the Quality Bank are defined in the Tariffs filed by the TAPS Carriers with the FERC and the RCA. The prices are designated in Attachment 2 to the Tariffs, as it may be amended from time to time, which is included with this section of the manual.

2.3 The price publications to be used will be Platts Oilgram Price Report and Oil Price Information Service as specified in the Tariff.

2.4 At least once per month the QBA price analyst will enter the daily high and low prices from the price publications into the Price Determination module of QBWeb. Daily and monthly arithmetic average prices will be calculated for use in the stream value calculations. These monthly calculations will be printed out once per month and copies filed in the QBA pricing file.

2.5 At least two members of the QBA's staff will review each issue of the price publications to ensure that any changes affecting the prices used in quality bank calculations are noted. Corrections will be noted on the backup file copy and the page providing the correction will be stapled to the copy. These individuals will also check that prices are obtained for all days in which a price is published.

2.6 The price analyst will be alert to any unusual price changes which might indicate an error in the published price. In the case of any anomalies, the analyst will take the initiative and contact the publication to check the price. Confirmation should be documented in writing and added to the backup file.

2.7 After the end of each month, the prices published in Oil Price Information Service are compared with the prices from the Oil Price Information Service online service, Petroscan. In case of any discrepancies, O.P.I.S. is contacted and must verify the correct price and confirm it in writing.

2.8 Copies of the relevant pages from the price publications used for Quality Bank component value calculations will be filed each month in the QBA pricing file. Copies will also be sent to the Systems Consultant as well as to the Quality Bank auditors.

2.9 Initially and from time to time thereafter, the price analyst will check by hand the daily and monthly average calculations performed by QBWeb.

2.10 The prices entered by the price analyst will be crosschecked each month by a different member of the QBA's staff. At least two members of the QBA's staff will sign the monthly price report that is filed in the QBA pricing file after final corrections have been made.

2.11 The QBA will be responsible for dealing with any changes in the published prices in a manner consistent with tariffs filed by the TAPS Carriers as discussed in Section G.5 of the Quality Bank Methodology.

2.12 The price analyst will enter into QBWeb final data for Refinery Operating Indices from the Nelson Farrar Cost Index found in the first issue of Oil & Gas Journal published each month. Copies of the indices will be retained in the QBA files.

2.13 Annually, after entry of operating index data from the initial January issue of Oil & Gas Journal, the price analyst will calculate reference price adjustments made to certain components according to Section G.4 of the QB Methodology.

2.14 The QBA will ensure that the calculation of the weighted average component values to be used in the Quality Bank adjustment calculation includes the correct annual reference price adjustments to affected components as determined in accordance with Section 2.13 of this manual and the correct semiannual West Coast/Gulf Coast distribution factor as determined in accordance with Section 3.0 of this manual.

2.15 The price analyst will check the calculation of the weighted average component values each month.

2.16 The user instructions for Monthly Average Price and Component Values calculation will be kept at the QBA'S office. The instructions include examples of various formulas, screens, reports and processes.

2.17 After completion of the price data entry and checking procedures, the price analyst will notify the Systems Consultant that Weighted Average Component Values have been approved and are available for acceptance.

2.18 In order to assist shippers in certain State of Alaska tax calculations, the weighted average component values will be released by the 20th of the month following the month in question, if the data is available.

Issued: July 29, 2005