

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED MARCH 31, 1999

COMMISSION FILE NO. 1-10403

TEPPCO PARTNERS, L.P.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE  
(STATE OF INCORPORATION  
OR ORGANIZATION)

76-0291058  
(I.R.S. EMPLOYER  
IDENTIFICATION NUMBER)

2929 ALLEN PARKWAY  
P.O. BOX 2521  
HOUSTON, TEXAS 77252-2521  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, INCLUDING ZIP CODE)

(713) 759-3636  
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## TEPPCO PARTNERS, L.P.

CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS)

	MARCH 31, 1999	DECEMBER 31, 1998
	----- (UNAUDITED)	-----
ASSETS		
Current assets:		
Cash and cash equivalents .....	\$ 29,903	\$ 47,423
Short-term investments .....	3,271	3,269
Accounts receivable, trade .....	89,473	113,541
Inventories .....	22,011	20,434
Other .....	2,677	3,909
	-----	-----
Total current assets .....	147,335	188,576
	-----	-----
Property, plant and equipment, at cost (Net of accumulated depreciation and amortization of \$200,510 and \$193,858) ....	678,597	671,611
Investments .....	4,723	6,490
Intangible assets .....	36,363	36,842
Other assets .....	11,417	11,450
	-----	-----
Total assets .....	\$ 878,435	\$ 914,969
	=====	=====
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable and accrued liabilities .....	\$ 82,452	\$ 117,933
Accounts payable, general partner .....	3,942	2,815
Accrued interest .....	6,180	13,039
Other accrued taxes .....	5,891	6,739
Other .....	5,974	7,699
	-----	-----
Total current liabilities .....	104,439	148,225
	-----	-----
Senior Notes .....	389,730	389,722
Other long-term debt .....	38,000	38,000
Other liabilities and deferred credits .....	3,139	3,407
Minority interest .....	3,470	3,393
Redeemable Class B Units held by related party .....	106,365	105,036
Partners' capital:		
General partner's interest .....	388	(380)
Limited partners' interests .....	232,904	227,566
	-----	-----
Total partners' capital .....	233,292	227,186
	-----	-----
Total liabilities and partners' capital .....	\$ 878,435	\$ 914,969
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

## TEPPCO PARTNERS, L.P.

CONSOLIDATED STATEMENTS OF INCOME  
(UNAUDITED)  
(IN THOUSANDS, EXCEPT PER UNIT AMOUNTS)

	THREE MONTHS ENDED MARCH 31, 1999	THREE MONTHS ENDED MARCH 31, 1998
	-----	-----
Operating revenues:		
Sale of crude oil and petroleum products .....	\$ 222,374	\$ --
Transportation - Refined products .....	25,596	22,462
Transportation - LPGs .....	26,595	21,815
Transportation - Crude oil and NGLs .....	2,566	--
Mont Belvieu operations .....	2,897	2,670
Other - net .....	6,062	3,258
	-----	-----
Total operating revenues .....	286,090	50,205
	-----	-----
Costs and expenses:		
Purchases of crude oil and petroleum products .....	216,697	--
Operating, general and administrative .....	21,213	15,844
Operating fuel and power .....	6,893	6,190
Depreciation and amortization .....	8,139	6,080
Taxes - other than income taxes .....	2,679	2,577
	-----	-----
Total costs and expenses .....	255,621	30,691
	-----	-----
Operating income .....	30,469	19,514
Interest expense .....	(7,542)	(7,156)
Interest costs capitalized .....	142	284
Other income - net .....	541	647
	-----	-----
Income before minority interest and extraordinary loss on debt extinguishment .....	23,610	13,289
Minority interest .....	(238)	(134)
	-----	-----
Income before extraordinary loss on debt extinguishment .....	23,372	13,155
Extraordinary loss on debt extinguishment, net of minority interest .....	--	(72,767)
	-----	-----
Net income (loss) .....	\$ 23,372	\$ (59,612)
	=====	=====
Basic and diluted income (loss) per Limited Partner and Class B Unit:		
Income before extraordinary loss on debt extinguishment .....	\$ 0.64	\$ 0.41
Extraordinary loss on debt extinguishment .....	--	(2.28)
	-----	-----
Net income (loss) .....	\$ 0.64	\$ (1.87)
	=====	=====
Weighted average Limited Partner and Class B Units outstanding .....	32,917	29,000

See accompanying Notes to Consolidated Financial Statements.

TEPPCO PARTNERS, L.P.  
 CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (UNAUDITED)  
 (IN THOUSANDS)

	THREE MONTHS ENDED MARCH 31, 1999	THREE MONTHS ENDED MARCH 31, 1998
	-----	-----
Cash flows from operating activities:		
Net income (loss) .....	\$ 23,372	\$ (59,612)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization .....	8,139	6,080
Extraordinary loss on early extinguishment of debt, net of minority interest .....	--	72,767
Equity in loss of affiliate .....	74	94
Decrease in accounts receivable, trade .....	24,068	6,563
Increase in inventories .....	(1,577)	(1,080)
Decrease in other current assets .....	1,232	250
Decrease in accounts payable and accrued expenses .....	(43,786)	(11,087)
Other .....	(715)	71
	-----	-----
Net cash provided by operating activities .....	10,807	14,046
	-----	-----
Cash flows from investing activities:		
Proceeds from cash investments .....	3,000	--
Purchases of cash investments .....	(1,235)	--
Purchase of fractionators and related intangible assets, net of noncash portion .....	--	(2,000)
Purchase of crude oil system .....	(2,250)	--
Capital expenditures .....	(11,851)	(4,949)
	-----	-----
Net cash used in investing activities .....	(12,336)	(6,949)
	-----	-----
Cash flows from financing activities:		
Principal payment, First Mortgage Notes .....	--	(326,512)
Prepayment premium, First Mortgage Notes .....	--	(70,093)
Issuance of Senior Notes .....	--	389,694
Debt issuance costs, Senior Notes .....	--	(3,641)
Distributions .....	(15,991)	(13,710)
	-----	-----
Net cash used in financing activities .....	(15,991)	(24,262)
	-----	-----
Net decrease in cash and cash equivalents .....	(17,520)	(17,165)
Cash and cash equivalents at beginning of period .....	47,423	43,961
	-----	-----
Cash and cash equivalents at end of period .....	\$ 29,903	\$ 26,796
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS:		
Interest paid during the period (net of capitalized interest) .....	\$ 14,182	\$ 12,525
	=====	=====

See accompanying Notes to Consolidated Financial Statements.

## TEPPCO PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

## NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

TEPPCO Partners, L.P. (the "Partnership"), a Delaware limited partnership, was formed in March 1990. The Partnership operates through TE Products Pipeline Company, Limited Partnership (the "Products OLP") and TCTM, L.P. (the "Crude Oil OLP"). Collectively the Products OLP and the Crude Oil OLP are referred to as "the Operating Partnerships." The Partnership owns a 99% interest as the sole limited partner interest in both the Products OLP and the Crude Oil OLP. Texas Eastern Products Pipeline Company (the "Company" or "General Partner"), an indirect wholly-owned subsidiary of Duke Energy Corporation ("Duke Energy"), owns a 1% general partner interest in the Partnership and 1% general partner interest in each Operating Partnership. The Company, as general partner, performs all management and operating functions required for the Partnership pursuant to the Agreements of Limited Partnership of TEPPCO Partners, L.P. and TE Products Pipeline Company, Limited Partnership and TCTM, L.P. (the "Partnership Agreements"). The general partner is reimbursed by the Partnership for all reasonable direct and indirect expenses incurred in managing the Partnership.

The accompanying unaudited consolidated financial statements reflect all adjustments, which are, in the opinion of management, of a normal and recurring nature and necessary for a fair statement of the financial position of the Partnership as of March 31, 1999, and the results of operations and cash flows for the periods presented. The results of operations for the three months ended March 31, 1999, are not necessarily indicative of results of operations for the full year 1999. The interim financial statements should be read in conjunction with the Partnership's consolidated financial statements and notes thereto presented in the TEPPCO Partners, L.P. Annual Report on Form 10-K for the year ended December 31, 1998. Certain amounts from the prior year have been reclassified to conform to current presentation.

The Partnership operates in two industry segments: refined products and liquefied petroleum gases ("LPGs") transportation, and crude oil and natural gas liquids ("NGLs") transportation and marketing. The Partnership's reportable segments offer different products and services and are managed separately because each requires different business strategies. The crude oil and NGLs transportation segment was acquired as a unit, and the management at the time of the acquisition was retained. The refined products and LPGs transportation segment's interstate transportation operations, including rates charged to customers, are subject to regulations prescribed by the Federal Energy Regulatory Commission ("FERC"). Refined products, LPGs, crude oil and NGLs are referred to herein, collectively, as "petroleum products" or "products."

Basic net income per Unit is computed by dividing net income, after deduction of the general partner's interest, by the weighted average number of Limited Partner and Class B Units outstanding (a total of 32,916,547 Units and 29,000,000 Units as of March 31, 1999 and 1998, respectively). The general partner's percentage interest in net income is based on its percentage of cash distributions from Available Cash for each period (see Note 7. Cash Distributions). The general partner was allocated \$2.4 million (10.18%) of the net income for the three months ended March 31, 1999, and \$5.3 million (8.87%) of the net loss for the three months ended March 31, 1998.

Diluted net income per Unit is similar to the computation of basic net income per Unit above, except that the denominator was increased to include the dilutive effect of outstanding Unit options by application of the treasury stock method. For the quarters ended March 31, 1999 and 1998, the denominator was increased by 28,572 Units and 46,338 Units, respectively.

## NOTE 2. NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes standards for and disclosures of derivative instruments and hedging activities. This statement

## TEPPCO PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)  
(UNAUDITED)

is effective for fiscal years beginning after June 15, 1999. The Partnership expects to adopt this standard effective January 1, 2000, and does not expect the adoption of this statement to have a material impact on its financial condition or results of operations.

## NOTE 3. RELATED PARTY TRANSACTIONS

As of March 31, 1998, TEPPCO Colorado, LLC ("TEPPCO Colorado"), a wholly owned subsidiary of the Products OLP, purchased two fractionation facilities located in Weld County, Colorado, from Duke Energy Field Services, Inc. ("DEFS"), a wholly-owned subsidiary of Duke Energy. TEPPCO Colorado and DEFS entered into a twenty year Fractionation Agreement, whereby TEPPCO Colorado will receive a variable fee for all fractionated volumes delivered to DEFS. The purchase price of these transactions was \$40 million. Intangible assets include \$38 million of value assigned to the Fractionation Agreement, which will be amortized on a straight-line method over the term of the Fractionation Agreement. The remaining purchase price of \$2.0 million was allocated to the fractionator facilities purchased. TEPPCO Colorado and DEFS also entered into a Operations and Management Agreement, whereby DEFS will operate and maintain the fractionation facilities. TEPPCO Colorado will pay DEFS a set volumetric rate for all fractionated volumes delivered to DEFS. As the transactions occurred as of March 31, 1998, no effect of these transactions was included in the Partnership's consolidated statements of income for the quarter ended March 31, 1998.

Effective November 1, 1998, the Crude Oil OLP, through its wholly owned subsidiary TEPPCO Crude Oil, LLC ("TCO"), acquired substantially all of the assets of Duke Energy Transport and Trading Company ("DETTCO") from Duke Energy for approximately \$106 million. In consideration for such assets, Duke Energy received 3,916,547 Class B Limited Partnership Units ("Class B Units"). The Class B Units are substantially identical to the 29,000,000 Limited Partner Units, but they are not listed on the New York Stock Exchange. The Class B Units will be convertible into Limited Partner Units upon approval by the Limited Partner Unitholders. The Company intends to seek approval for conversion, however, if conversion is not approved before March 2000, the holder of the Class B Units will have the right to sell them to the Partnership at 95.5% of the market price of the Limited Partner Units at the time of sale. As a result of such option, the Class B Units were not included in partners' capital at March 31, 1999. Collectively, the Limited Partner Units and Class B Units are referred to as "Units." The transaction was accounted for under the purchase method of accounting. Accordingly, the results of the acquisition are included in the consolidated statements of income for the period subsequent to November 1, 1998.

## NOTE 4. INVESTMENTS

## SHORT-TERM INVESTMENTS

The Partnership routinely invests cash in liquid short-term investments as part of its cash management program. Investments with maturities at date of purchase of 90 days or less are considered cash equivalents. At March 31, 1999, short-term investments included \$3.3 million of investment-grade corporate notes, which mature within one year. Such investments at March 31, 1999 included a \$0.9 million investment in Duke Power Company corporate notes. All short-term investments are classified as held-to-maturity securities and are stated at amortized cost. The aggregate fair value of such securities approximates amortized cost at March 31, 1999.

## TEPPCO PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)  
(UNAUDITED)

## LONG-TERM INVESTMENTS

At March 31, 1999, the Partnership had \$4.7 million invested in investment-grade corporate notes, which have varying maturities through 2004. These securities are classified as held-to-maturity securities and are stated at amortized cost. The aggregate fair value of such securities approximates amortized cost at March 31, 1999.

## NOTE 5. INVENTORIES

Inventories are carried at the lower of cost (based on weighted average cost method) or market. The major components of inventories were as follows (in thousands):

	MARCH 31, 1999	DECEMBER 31, 1998
	-----	-----
Gasolines .....	\$ 3,901	\$ 4,224
Propane .....	881	1,503
Butanes .....	1,573	1,654
MTBE .....	596	641
Crude oil .....	7,837	5,517
Other products .....	3,612	3,229
Materials and supplies ....	3,611	3,666
	-----	-----
Total .....	\$22,011	\$20,434
	=====	=====

The costs of inventories were lower than market at March 31, 1999, and December 31, 1998.

## NOTE 6. LONG TERM DEBT

## SENIOR NOTES

On January 27, 1998, the Products OLP completed the issuance of \$180 million principal amount of 6.45% Senior Notes due 2008, and \$210 million principal amount of 7.51% Senior Notes due 2028 (collectively the "Senior Notes"). The 6.45% Senior Notes due 2008 are not subject to redemption prior to January 15, 2008. The 7.51% Senior Notes due 2028 may be redeemed at any time after January 15, 2008, at the option of the Products OLP, in whole or in part, at a premium. Net proceeds from the issuance of the Senior Notes totaled approximately \$386 million and was used to repay in full the \$61.0 million principal amount of the 9.60% Series A First Mortgage Notes, due 2000, and the \$265.5 million principal amount 10.20% Series B First Mortgage Notes, due 2010. The premium for the early redemption of the First Mortgage Notes totaled \$70.1 million. The Partnership recorded an extraordinary charge of \$73.5 million during the first quarter of 1998 (including \$0.7 million allocated to minority interest), which represents the redemption premium of \$70.1 million and unamortized debt issue costs related to the First Mortgage Notes of \$3.4 million.

The Senior Notes do not have sinking fund requirements. Interest on the Senior Notes is payable semiannually in arrears on January 15 and July 15 of each year, commencing July 15, 1998. The Senior Notes are unsecured obligations of the Products OLP and will rank on a parity with all other unsecured and unsubordinated indebtedness of the Products OLP. The indenture governing the Senior Notes contains covenants, including, but not limited to, covenants limiting (i) the creation of liens securing indebtedness and (ii) sale and leaseback transactions. However, the indenture does not limit the Partnership's ability to incur additional indebtedness.

## TEPPCO PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)  
(UNAUDITED)

## OTHER LONG TERM DEBT

In connection with the purchase of the fractionation assets from DEFS as of March 31, 1998, TEPPCO Colorado received a \$38 million bank loan from SunTrust Bank. Proceeds from the loan were received on April 21, 1998. TEPPCO Colorado paid interest to DEFS at a per annum rate of 5.75% on the amount of the total purchase price outstanding for the period from March 31, 1998 until April 21, 1998. The SunTrust loan bears interest at a rate of 6.53%, which is payable quarterly beginning in July 1998. The principal balance of the loan is payable in full on April 21, 2001. The Products OLP is guarantor on the loan.

## WORKING CAPITAL FACILITIES

In connection with the purchase of the DETTCO assets by TCO, the Crude Oil OLP entered into a \$30 million Revolving Credit Agreement ("Revolver") with Duke Capital Corporation ("Duke Capital"), a wholly owned subsidiary of Duke Energy. The Revolver, dated November 30, 1998, has a six-month term and bears interest at the one month LIBOR rate plus 0.50%. The Revolver also has a commitment fee of \$45,000 per annum.

The outstanding principal balance of the Revolver is payable in full at the end of its term. The Revolver is to be used by the Crude Oil OLP and its subsidiaries for working capital and general business needs. At March 31, 1999, there was no outstanding balance under the Revolver.

In connection with the purchase of the DETTCO assets by TCO, Duke Capital also agreed to guarantee the payment by TCO and its subsidiaries under certain commercial contracts between TCO and its subsidiaries and third parties. Duke Capital will provide up to \$100 million of guarantee credit to TCO and its subsidiaries for a period of three years from November 30, 1998. Pursuant to this agreement, the Partnership has agreed to pay Duke Capital \$100,000 per year.

## NOTE 7. CASH DISTRIBUTIONS

The Partnership makes quarterly cash distributions of all of its Available Cash, generally defined as consolidated cash receipts less consolidated cash disbursements and cash reserves established by the general partner in its sole discretion.

On February 5, 1999, the Partnership paid a cash distribution of \$0.45 per Limited Partner Unit and Class B Unit for the quarter ended December 31, 1998. The Class B Unit distribution was prorated for the 61 day period from issuance on November 1, 1998. Additionally, on April 16, 1999, the Partnership declared a cash distribution of \$0.45 per Limited Partner Unit and Class B Unit for the quarter ended March 31, 1999. The distribution will be paid on May 7, 1999, to Unitholders of record on April 30, 1999.

The Company receives incremental incentive distributions of 15%, 25% and 50% of the amount by which quarterly distributions of Available Cash exceed \$0.275, \$0.325 and \$0.45 per Limited Partner Unit and Class B Unit, respectively. During the three months ended March 31, 1999 and 1998, incentive distributions paid to the Company totaled \$1.5 million and \$1.1 million, respectively.



## TEPPCO PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)  
(UNAUDITED)

## NOTE 8. SEGMENT DATA

The Partnership operates in two industry segments: refined products and LPGs transportation, which operates through the Products OLP; and crude oil and NGLs transportation and marketing, which operates through the Crude Oil OLP.

Operations of the Products OLP consist of interstate transportation, storage and terminaling of petroleum products; short-haul shuttle transportation of LPGs at the Mont Belvieu, Texas complex; sale of product inventory; fractionation of natural gas liquids and other ancillary services. The Products OLP is one of the largest pipeline common carriers of refined petroleum products and LPGs in the United States. The Partnership owns and operates an approximate 4,300-mile pipeline system extending from southeast Texas through the central and midwestern United States to the northeastern United States.

The Crude Oil OLP gathers, stores, transports and markets crude oil, principally in Oklahoma and Texas; operates two trunkline NGL pipelines in South Texas; and distributes lube oil to industrial and commercial accounts. The Crude Oil OLP's gathering, transportation and storage assets include approximately 2,200 miles of pipeline and 1.3 million barrels of storage. The crude oil and NGLs transportation and marketing segment was added with the acquisition from DETCO effective November 1, 1998.

The below table includes interim financial information by business segment as of and for the quarter ended March 31, 1999. Comparative data has not been included as the Partnership operated as one business segment prior to November 1, 1998.

	PRODUCTS OLP	CRUDE OIL OLP	CONSOLIDATED
(in thousands):	-----	-----	-----
Unaffiliated revenues .....	\$ 61,150	\$ 224,940	\$ 286,090
Operating expenses, including power .....	26,189	221,293	247,482
Depreciation and amortization expense .....	6,763	1,376	8,139
	-----	-----	-----
Operating income .....	28,198	2,271	30,469
Interest expense .....	(7,536)	(6)	(7,542)
Other income, net .....	329	116	445
	-----	-----	-----
Net income .....	20,991	2,381	23,372
	=====	=====	=====
Identifiable assets .....	\$ 690,819	\$ 187,616	\$ 878,435
Accounts receivable, trade .....	18,686	70,787	89,473
Accounts payable and accrued liabilities ....	\$ 5,702	\$ 76,750	\$ 82,452

## NOTE 9. COMMITMENTS AND CONTINGENCIES

The Partnership is involved in various claims and legal proceedings incidental to its business. In the opinion of management, these claims and legal proceedings will not have a material adverse effect on the Partnership's consolidated financial position or results of operations.

The operations of the Partnership are subject to federal, state and local laws and regulations relating to protection of the environment. Although the Partnership believes the operations of the pipeline system are in material compliance with applicable environmental regulations, risks of significant costs and liabilities are inherent in pipeline operations, and there can be no assurance that significant costs and liabilities will not be incurred. Moreover, it is possible that other developments, such as increasingly strict environmental laws and regulations and enforcement policies thereunder, and claims for damages to property or persons resulting from the operations of the pipeline system, could result in substantial costs and liabilities to the Partnership. The Partnership does not anticipate that changes in environmental laws and regulations will have a material adverse effect on its financial position, operations or cash flows in the near term.

## TEPPCO PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)  
(UNAUDITED)

The Partnership and the Indiana Department of Environmental Management ("IDEM") have entered into an Agreed Order that will ultimately result in a remediation program for any on-site and off-site groundwater contamination attributable to the Partnership's operations at the Seymour, Indiana, terminal. A Feasibility Study, which includes the Partnership's proposed remediation program, has been approved by IDEM. IDEM will issue a Record of Decision formally approving the remediation program. After the Record of Decision has been issued, the Partnership will enter into an Agreed Order for the continued operation and maintenance of the program. The Partnership estimates that the costs of the remediation program being proposed by the Partnership for the Seymour terminal will not exceed the amount accrued therefore (approximately \$0.7 million at March 31, 1999). In the opinion of the Company, the completion of the remediation program being proposed by the Partnership, if such program is approved by IDEM, will not have a material adverse impact on the Partnership's financial condition, results of operations or liquidity.

In 1997, the Company initiated a program to prepare the Partnership's process controls and business computer systems for the "Year 2000" issue. Process controls are the automated equipment including hardware and software systems which run operational activities. Business computer systems are the computer hardware and software used by the Partnership. The Partnership is utilizing both internal and external resources to identify, test, remediate or replace all critical known or discovered non-compliant computerized systems and applications. The Company continues to evaluate appropriate courses of corrective action, including replacement of certain systems whose associated costs would be recorded as assets and amortized. The Partnership has incurred approximately \$1.8 million of costs related to the Year 2000 issue. The Company estimates the remaining amounts required to address the Year 2000 issue will be as much as approximately \$4.5 million. A portion of such costs would have been incurred as part of normal system and application upgrades. In certain cases, the timing of expenditures has been accelerated due to the Year 2000 issue. Although the Company believes this estimate to be reasonable, due to the complexities of the Year 2000 issue, there can be no assurance that the actual costs related to the Year 2000 issue will not be significantly greater.

The Partnership has adopted a three-phase Year 2000 program consisting of: Phase I - Preliminary Assessment; Phase II - Detailed Assessment and Remediation Planning; and Phase III - Remediation Activities and Testing. The Products OLP has completed Phase I; Phase II is 94% complete; and Phase III is 63% complete. The Crude Oil OLP has completed 88% of Phase I; Phase II is 69% complete; and Phase III is 20% complete. Remediation Activities and Testing of all process controls and business computer systems are scheduled to be completed before the end of the fourth quarter of 1999.

With respect to its third-party relationships, the Partnership has contacted its primary vendors, suppliers and service providers to assess their software and hardware products previously sold to the Partnership and other aspects of their state of Year 2000 readiness. Information continues to be updated regularly, thus the Partnership anticipates receiving additional information in the near future that will assist in determining the extent to which the Partnership may be vulnerable to those third parties' failure to identify and remediate their Year 2000 issues. However, there can be no assurance that the systems or products of other companies, on which the Partnership's systems rely, will be timely converted, or converted in a manner that is compatible with the Partnership's systems, or that any such failures by other companies would not have a material adverse effect on the Partnership.

Despite the Partnership's determined efforts to address and remediate its Year 2000 issue, there can be no assurance that all process controls and business computer systems will continue without interruption through January 1, 2000 and beyond. The complexity of identifying and testing all embedded microprocessors that are installed in hardware throughout the products pipeline system and crude oil system used for process or flow control, transportation, security, communication and other systems may result in unforeseen operational system shutdowns. Although the amount of potential liability and lost revenue cannot be estimated, failures that result in substantial

## TEPPCO PARTNERS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)  
(UNAUDITED)

disruptions of business activities could have a material adverse effect on the Partnership. In order to mitigate potential disruptions, the Partnership will prepare contingency plans for its critical systems, processes and external relationships by the end of the fourth quarter of 1999.

In February 1999, the Partnership announced plans to construct three new pipelines between the Partnership's terminal in Mont Belvieu, Texas and Port Arthur, Texas. The project includes three 12-inch diameter common-carrier pipelines and associated facilities. Each pipeline will be approximately 70 miles in length. Upon completion, the new pipelines will transport ethylene, propylene and natural gasoline. The anticipated completion date is the fourth quarter of 2000. The Partnership has entered into an agreement for turnkey construction of the pipelines and related facilities and has separately entered into agreements for guaranteed throughput commitments. The cost of this project is expected to total approximately \$74 million. Approximately \$7.1 million of spending was included in capital expenditures during the first quarter of 1999, with a total of approximately \$44 million expected to be incurred in 1999, and the remainder in 2000. The Partnership expects to obtain external financing during the second quarter of 1999 for this project.

Substantially all of the petroleum products transported and stored by the Partnership are owned by the Partnership's customers. At March 31, 1999, the Partnership had approximately 11.6 million barrels of products in its custody owned by customers. The Partnership is obligated for the transportation, storage and delivery of such products on behalf of its customers. The Partnership maintains insurance adequate to cover product losses through circumstances beyond its control.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

The following information is provided to facilitate increased understanding of the 1999 and 1998 interim consolidated financial statements and accompanying notes presented in Item 1. Material period-to-period variances in the consolidated statements of income are discussed under "Results of Operations." The "Financial Condition and Liquidity" section analyzes cash flows and financial position. Discussion included in "Other Matters" addresses key trends, future plans and contingencies. Throughout these discussions, management addresses items that are reasonably likely to materially affect future liquidity or earnings.

Through its ownership of the Products OLP and the Crude Oil OLP, the Partnership operates in two industry segments - refined products and LPGs transportation; and crude oil and NGLs transportation and marketing. The Partnership's reportable segments offer different products and services and are managed separately because each requires different business strategies.

The Products OLP segment is involved in the transportation, storage and terminaling of petroleum products and the fractionation of NGLs. Revenues are derived from the transportation of refined products and LPGs, the storage and short-haul shuttle transportation of LPGs at the Mont Belvieu, Texas, complex, sale of product inventory and other ancillary services. Labor and electric power costs comprise the two largest operating expense items of the Products OLP. Operations are somewhat seasonal with higher revenues generally realized during the first and fourth quarters of each year. Refined products volumes are generally higher during the second and third quarters because of greater demand for gasolines during the spring and summer driving seasons. LPGs volumes are generally higher from November through March due to higher demand in the Northeast for propane, a major fuel for residential heating.

The Crude Oil OLP segment is involved in the transportation and marketing of crude oil and NGLs. Revenues are earned from the gathering, storage, transportation and marketing of crude oil, NGLs and lube oils principally in Oklahoma and Texas. Operations of this segment are included from November 1, 1998, upon the acquisition from Duke Energy.

RESULTS OF OPERATIONS

Summarized below is financial data by business segment (in thousands):

	QUARTER ENDED MARCH 31,	
	1999	1998
	-----	-----
Operating revenues:		
Refined Products and LPGs Transportation .....	\$ 61,150	\$ 50,205
Crude Oil and NGLs Transportation and Marketing ....	224,940	--
	-----	-----
Total operating revenues .....	286,090	50,205
	-----	-----
Operating income:		
Refined Products and LPGs Transportation .....	28,198	19,514
Crude Oil and NGLs Transportation and Marketing .....	2,271	--
	-----	-----
Total operating income .....	30,469	19,514
	-----	-----
Income before extraordinary item:		
Refined Products and LPGs Transportation .....	20,991	13,155
Crude Oil and NGLs Transportation and Marketing ....	2,381	--
	-----	-----
Total income before extraordinary item .....	\$ 23,372	\$ 13,155
	-----	-----

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS - (CONTINUED)

For the quarter ended March 31, 1999, the Partnership reported net income of \$23.4 million, compared with income before an extraordinary loss of \$13.2 million for the first quarter of 1998. The extraordinary loss in 1998 resulted from a \$72.8 million charge for early extinguishment of debt, net of \$0.7 million allocated to minority interest. The \$10.2 million increase in income before the loss on debt extinguishment resulted primarily from a \$10.9 million increase in operating revenues of the refined products and LPGs transportation segment and \$8.2 million of margin contributed by the crude oil and NGLs transportation and marketing segment. These increases were partially offset by a \$5.4 million increase in operating, general and administrative expenses, a \$0.7 million increase in operating fuel and power expense, and a \$2.1 million increase in depreciation expense. See discussion below of factors affecting net income for the comparative periods by business segment.

REFINED PRODUCTS AND LPGS TRANSPORTATION SEGMENT

Volume and average tariff information for 1999 and 1998 is presented below:

	QUARTER ENDED		PERCENTAGE INCREASE (DECREASE)
	MARCH 31,		
	1999	1998	
VOLUMES DELIVERED			
(in thousands of barrels)			
Refined products .....	28,155	24,511	15%
LPGs .....	13,172	10,151	30%
Mont Belvieu operations .....	6,885	5,944	16%
Total .....	48,212	40,606	19%
=====			
AVERAGE TARIFF PER BARREL			
Refined products .....	\$ 0.91	\$ 0.92	(1%)
LPGs .....	2.02	2.15	(6%)
Mont Belvieu operations .....	0.16	0.16	--
Average system tariff per barrel ...	\$ 1.11	\$ 1.11	--
=====			

Refined products transportation revenues increased \$3.1 million for the quarter ended March 31, 1999, compared with the prior-year quarter, as a result of favorable differentials caused by reduced refinery production during maintenance turnarounds at Midwest area refineries and continued strong demand due to economic growth. Additionally, jet fuel deliveries increased as a result of new military supply agreements that became effective in the fourth quarter of 1998. These increases were partially offset by decreased feed stock and blend stock deliveries in the Midwest as a result of the lower refinery production in the region.

LPGs transportation revenues increased \$4.8 million for the quarter ended March 31, 1999, compared with the first quarter of 1998, due to a \$5.3 million increase in propane revenue, partially offset by a \$0.5 million decrease in butane revenue. Increased propane revenue resulted primarily from increased weather-related demand in the Midwest and Northeast, coupled with lower amounts of competing local supply. Additionally, short-haul propane transportation deliveries on the Texas Gulf Coast increased as a result of an extended turnaround at a petrochemical facility served by the Partnership during the first quarter of 1998. These short-haul propane deliveries resulted in the 6% decrease in the LPGs transportation average tariff per barrel. Butane revenues decreased during the first quarter of 1999, compared with the prior year first quarter, as a result of lower gasoline blending demand and unfavorable economics versus competing Canadian supply.

Other operating revenues increased \$2.8 million during the quarter ended March 31, 1999, as compared to the same period in 1998, due primarily to \$1.8 million of revenue recognized related to the fractionation assets

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS - (CONTINUED)

acquired effective March 31, 1998, higher propane imports received at the Partnership's marine import facility at Providence, Rhode Island, and increased refined products terminaling and storage revenues.

Costs and expenses increased \$2.3 million for the quarter ended March 31, 1999, compared with the first quarter of 1998, due primarily to a \$1.3 million increase in operating, general and administrative expenses, a \$0.7 million increase in depreciation and amortization expense, and a \$0.4 million through-put related increase in operating fuel and power expense. The increase in operating, general and administrative expenses was primarily due to a \$0.5 million increase in expenses associated with Year 2000 activities, a \$0.4 million increase in rental fees from higher volume through the connection from Colonial Pipeline at Beaumont, Texas, increased pipeline maintenance activity and \$0.2 million of expense related to the fractionator facilities acquired on March 31, 1998. These increases in operating, general and administrative expenses were partially offset by lower insurance expenses during the first quarter of 1999. Depreciation and amortization expense increased as a result of amortization of the value assigned to the Fractionation Agreement beginning on March 31, 1998, and capital additions placed in service.

Interest expense increased \$0.4 million during the first quarter of 1999, compared with the first quarter of 1998, due to interest expense on the \$38.0 million term-loan used to finance the purchase of the fractionation assets on March 31, 1998, partially offset by lower interest expense resulting from the refinancing of the First Mortgage Notes with the Senior Notes, which occurred on January 27, 1998.

Other income - net decreased during the first quarter of 1999, compared with the prior year, as a result of lower interest income earned on cash investments in 1999.

CRUDE OIL AND NGLS TRANSPORTATION AND MARKETING SEGMENT

Margin and volume information for the three months ended March 31, 1999 is presented below:

Margins (dollars in thousands):

Crude oil transportation .....	\$ 3,803	46%
Crude oil marketing .....	2,491	30%
NGL transportation .....	1,406	17%
LSI .....	543	7%
	-----	-----
Total margin .....	\$ 8,243	100%
	=====	=====

Barrels per day:

Crude oil transportation .....	88,396
Crude oil marketing .....	235,478
NGL transportation .....	10,814

LSI volume (total gallons): ..... 1,950,234

Margin per barrel:

Crude oil transportation .....	\$ 0.478
Crude oil marketing .....	\$ 0.118
NGL transportation .....	\$ 1.444

LSI margin (per gallon): ..... \$ 0.279

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## RESULTS OF OPERATIONS - (CONTINUED)

The crude oil and NGLs transportation and marketing segment was added to the Partnership's operations with the acquisition of the DETTCO assets effective November 1, 1998. The acquisition was accounted for as a purchase for accounting purposes. Net income contributed by the crude oil transportation and marketing segment totaled \$2.4 million for the quarter ended March 31, 1999.

Margin is a more meaningful measure of financial performance than operating revenues and operating expenses due to the significant fluctuations in revenues and expense caused by the level of marketing activity. Margin is calculated as revenues generated from crude oil and lube oil sales and crude oil and NGLs transportation less the cost of crude oil and lube oil purchases. During the three months ended March 31, 1999, crude oil transportation and NGL transportation contributed 46% and 17% of the margin, respectively, while crude oil marketing operations accounted for 30% of the margin. Operations of LSI contributed \$0.5 million, or 7%, of the margin for the three month period ended March 31, 1999.

Operating, general and administrative expenses, including operating fuel and power, of the crude oil and NGLs transportation and marketing segment totaled \$4.4 million, or 54% of the margin. Depreciation and amortization expenses and taxes - other than income totaled \$1.5 million, or 19% of the margin.

## FINANCIAL CONDITION AND LIQUIDITY

Net cash from operations for the quarter ended March 31, 1999, totaled \$10.8 million, comprised of \$31.5 million of income before charges for depreciation and amortization, partially offset by \$20.7 million used for working capital changes. This compares with cash flows from operations of \$14.0 million for the first quarter of 1998, which was comprised of \$19.2 million of income before charges for the extraordinary loss on early extinguishment of debt and for depreciation and amortization, partially offset by \$5.2 million used for working capital changes. The increase in cash used for working capital changes during the first quarter of 1999, as compared with the first quarter of 1998, resulted primarily from timing of payments related to crude oil marketing activity. Net cash from operations for the quarter ended March 31, 1999 included interest payments related to the Senior Notes and the term loan of \$14.3 million. Net cash from operations for the quarter ended March 31, 1998 included interest payments related to the First Mortgage Notes of \$12.8 million in connection with repayment of the outstanding balance of the First Mortgage Notes.

Cash flows used in investing activities during the first quarter of 1999 included \$11.9 million of capital expenditures, \$2.3 million for the purchase of a 125-mile crude oil system in Southeast Texas, and \$1.2 million of additional cash investments. These decreases of cash were partially offset by \$3.0 million of proceeds from maturities of cash investments. Cash flows used in investing activities during the first quarter of 1998 included \$4.9 million of capital expenditures and \$2.0 million as the initial cash payment of the purchase price of the fractionation assets and related intangible assets.

In February 1999, the Partnership announced plans to construct three new pipelines between the Partnership's terminal in Mont Belvieu, Texas and Port Arthur, Texas. The project includes three 12-inch diameter common-carrier pipelines and associated facilities. Each pipeline will be approximately 70 miles in length. Upon completion, the new pipelines will transport ethylene, propylene and natural gasoline. The anticipated completion date is the fourth quarter of 2000. The Partnership has entered into an agreement for turnkey construction of the pipelines and related facilities and has separately entered into agreements for guaranteed throughput commitments. The cost of this project is expected to total approximately \$74 million. Approximately \$7.1 million of spending was included in capital expenditures during the first quarter of 1999, with a total of approximately \$44 million expected to be incurred in 1999, and the remainder in 2000. The Partnership expects to obtain external financing during the second quarter of 1999 for this project.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FINANCIAL CONDITION AND LIQUIDITY - (CONTINUED)

Exclusive of the pipeline construction between Mont Belvieu and Port Arthur, the Partnership estimates that capital expenditures for 1999 will total approximately \$37 million. Approximately \$21 million is expected to be used for the Products OLP and \$16 million is expected to be used for the Crude Oil OLP. Substantially all expenditures related to the Products OLP are expected to be used for life-cycle replacements and to upgrade current facilities. Approximately \$10 million of planned expenditures of the Crude Oil OLP are expected to be used in revenue-generating and cost-reduction projects, with the remainder to be used to maintain existing operations. The Partnership revises capital spending estimates periodically in response to changes in cash flows and operations.

On January 27, 1998, the Products OLP completed the issuance of \$180 million principal amount of 6.45% Senior Notes due 2008, and \$210 million principal amount of 7.51% Senior Notes due 2028 (collectively the "Senior Notes"). The 6.45% Senior Notes due 2008 are not subject to redemption prior to January 15, 2008. The 7.51% Senior Notes due 2028 may be redeemed at any time after January 15, 2008, at the option of the Products OLP, in whole or in part, at a premium. Net proceeds from the issuance of the Senior Notes totaled approximately \$386 million and was used to repay in full the \$61.0 million principal amount of the 9.60% Series A First Mortgage Notes, due 2000, and the \$265.5 million principal amount of the 10.20% Series B First Mortgage Notes, due 2010. The premium for the early redemption of the First Mortgage Notes totaled \$70.1 million. The repayment of the First Mortgage Notes and the issuance of the Senior Notes reduced the level of cash required for debt service until 2008. The Partnership recorded an extraordinary charge of \$73.5 million during the first quarter of 1998 (including \$0.7 million allocated to minority interest), which represents the redemption premium of \$70.1 million and unamortized debt issue costs related to the First Mortgage Notes of \$3.4 million.

The Senior Notes do not have sinking fund requirements. Interest on the Senior Notes is payable semiannually in arrears on January 15 and July 15 of each year, commencing July 15, 1998. The Senior Notes are unsecured obligations of the Products OLP and rank on a parity with all other unsecured and unsubordinated indebtedness of the Products OLP. The indenture governing the Senior Notes contains covenants, including, but not limited to, covenants limiting (i) the creation of liens securing indebtedness and (ii) sale and leaseback transactions. However, the indenture does not limit the Partnership's ability to incur additional indebtedness.

In connection with the purchase of the fractionation assets from DEFS as of March 31, 1998, TEPPCO Colorado received a \$38 million bank loan from SunTrust Bank. Proceeds from the loan were received on April 21, 1998, and therefore were not included on the consolidated statement of cash flows as of March 31, 1998. The loan bears interest at a rate of 6.53%, which is payable quarterly beginning in July 1998. The principal balance of the loan is payable in full on April 21, 2001. The Products OLP is guarantor on the loan. TEPPCO Colorado paid interest to DEFS at a per annum rate of 5.75% on the amount of the total purchase price outstanding for the period from March 31, 1998 until April 21, 1998.

The Partnership paid the fourth quarter 1998 cash distribution of \$16.0 million (\$0.45 per Limited Partner Unit and Class B Unit) on February 5, 1999. The Class B Unit distribution was prorated for the 61 day period from issuance on November 1, 1998. Additionally, on April 16, 1999, the Partnership declared a cash distribution of \$0.45 per Limited Partner Unit and Class B Unit for the three months ended March 31, 1999. The distribution will be paid on May 7, 1999 to Unitholders of record on April 30, 1999.

OTHER MATTERS

The operations of the Partnership are subject to federal, state and local laws and regulations relating to protection of the environment. Although the Partnership believes the operations of the Pipeline System are in material compliance with applicable environmental regulations, risks of significant costs and liabilities are inherent in pipeline operations, and there can be no assurance that significant costs and liabilities will not be incurred. Moreover, it is possible that other developments, such as increasingly strict environmental laws and regulations and



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## OTHER MATTERS - (CONTINUED)

enforcement policies thereunder, and claims for damages to property or persons resulting from the operations of the Pipeline System, could result in substantial costs and liabilities to the Partnership. The Partnership does not anticipate that changes in environmental laws and regulations will have a material adverse effect on its financial position, operations or cash flows in the near term.

The Partnership and the Indiana Department of Environmental Management ("IDEM") have entered into an Agreed Order that will ultimately result in a remediation program for any on-site and off-site groundwater contamination attributable to the Partnership's operations at the Seymour, Indiana, terminal. A Feasibility Study, which includes the Partnership's proposed remediation program, has been approved by IDEM. IDEM will issue a Record of Decision formally approving the remediation program. After the Record of Decision has been issued, the Partnership will enter into an Agreed Order for the continued operation and maintenance of the program. The Partnership estimates that the costs of the remediation program being proposed by the Partnership for the Seymour terminal will not exceed the amount accrued therefore (approximately \$0.7 million at March 31, 1999). In the opinion of the Company, the completion of the remediation program being proposed by the Partnership, if such program is approved by IDEM, will not have a material adverse impact on the Partnership's financial condition, results of operations or liquidity.

In 1997, the Company initiated a program to prepare the Partnership's process controls and business computer systems for the "Year 2000" issue. Process controls are the automated equipment including hardware and software systems which run operational activities. Business computer systems are the computer hardware and software used by the Partnership. The Partnership is utilizing both internal and external resources to identify, test, remediate or replace all critical known or discovered non-compliant computerized systems and applications. The Company continues to evaluate appropriate courses of corrective action, including replacement of certain systems whose associated costs would be recorded as assets and amortized. The Partnership has incurred approximately \$1.8 million of costs related to the Year 2000 issue. The Company estimates the remaining amounts required to address the Year 2000 issue will be as much as approximately \$4.5 million. A portion of such costs would have been incurred as part of normal system and application upgrades. In certain cases, the timing of expenditures has been accelerated due to the Year 2000 issue. Although the Company believes this estimate to be reasonable, due to the complexities of the Year 2000 issue, there can be no assurance that the actual costs related to the Year 2000 issue will not be significantly greater.

The Partnership has adopted a three-phase Year 2000 program consisting of: Phase I - Preliminary Assessment; Phase II - Detailed Assessment and Remediation Planning; and Phase III - Remediation Activities and Testing. The Products OLP has completed Phase I; Phase II is 94% complete; and Phase III is 63% complete. The Crude Oil OLP has completed 88% of Phase I; Phase II is 69% complete; and Phase III is 20% complete. Remediation Activities and Testing of all process controls and business computer systems are scheduled to be completed before the end of the fourth quarter of 1999.

With respect to its third-party relationships, the Partnership has contacted its primary vendors, suppliers and service providers to assess their software and hardware products previously sold to the Partnership and other aspects of their state of Year 2000 readiness. Information continues to be updated regularly, thus the Partnership anticipates receiving additional information in the near future that will assist in determining the extent to which the Partnership may be vulnerable to those third parties' failure to identify and remediate their Year 2000 issues. However, there can be no assurance that the systems or products of other companies, on which the Partnership's systems rely, will be timely converted, or converted in a manner that is compatible with the Partnership's systems, or that any such failures by other companies would not have a material adverse effect on the Partnership.

Despite the Partnership's determined efforts to address and remediate its Year 2000 issue, there can be no assurance that all process controls and business computer systems will continue without interruption through

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## OTHER MATTERS - (CONTINUED)

January 1, 2000 and beyond. The complexity of identifying and testing all embedded microprocessors that are installed in hardware throughout the products pipeline system and crude oil system used for process or flow control, transportation, security, communication and other systems may result in unforeseen operational system shutdowns. Although the amount of potential liability and lost revenue cannot be estimated, failures that result in substantial disruptions of business activities could have a material adverse effect on the Partnership. In order to mitigate potential disruptions, the Partnership will prepare contingency plans for its critical systems, processes and external relationships by the end of the fourth quarter of 1999.

The matters discussed herein include "forward-looking statements" within the meaning of various provisions of the Securities Act of 1933 and the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included in this document that address activities, events or developments that the Partnership expects or anticipates will or may occur in the future, including such things as estimated future capital expenditures (including the amount and nature thereof), business strategy and measures to implement strategy, competitive strengths, goals, expansion and growth of the Partnership's business and operations, plans, references to future success, references to intentions as to future matters and other such matters are forward-looking statements. These statements are based on certain assumptions and analyses made by the Partnership in light of its experience and its perception of historical trends, current conditions and expected future developments as well as other factors it believes are appropriate under the circumstances. However, whether actual results and developments will conform with the Partnership's expectations and predictions is subject to a number of risks and uncertainties, including general economic, market or business conditions, the opportunities (or lack thereof) that may be presented to and pursued by the Partnership, competitive actions by other pipeline companies, changes in laws or regulations, and other factors, many of which are beyond the control of the Partnership. Consequently, all of the forward-looking statements made in this document are qualified by these cautionary statements and there can be no assurance that actual results or developments anticipated by the Partnership will be realized or, even if substantially realized, that they will have the expected consequences to or effect on the Partnership or its business or operations. For additional discussion of such risks and uncertainties, see TEPPCO Partners, L.P.'s 1998 Annual Report on Form 10-K.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Partnership may be exposed to market risk through changes in commodity prices and interest rates as discussed below. The Partnership has no foreign exchange risks.

The Partnership mitigates exposure to commodity price fluctuations by maintaining a balanced position between crude oil purchases and sales. As a hedging strategy to manage crude oil price fluctuations, the Partnership occasionally enters into futures contracts on the New York Mercantile Exchange, and makes limited use of other derivative instruments. It is the Partnership's policy not to acquire crude oil, futures contracts or other derivative products for the purpose of speculating on price changes. Market risks associated with commodity derivatives were not material at March 31, 1999.

At March 31, 1999, the Partnership had outstanding \$180 million principal amount of 6.45% Senior Notes due 2008, and \$210 million principal amount of 7.51% Senior Notes due 2028 (collectively the "Senior Notes"). Additionally, the Partnership had a \$38 million bank loan outstanding from SunTrust Bank. The SunTrust loan bears interest at a fixed rate of 6.53% and is payable in full in April 2001. At March 31, 1999, the estimated fair value of the Senior Notes and the SunTrust loan was approximately \$394.7 million and \$37.8 million, respectively.

On November 30, 1998, the Crude Oil OLP entered into a \$30 million Revolving Credit Agreement ("Revolver") with Duke Capital Corporation ("Duke Capital"), a wholly owned subsidiary of Duke Energy. The Revolver has a six-month term and bears interest at the one month LIBOR rate plus 0.50%. At March 31, 1999, there was no outstanding balance under the Revolver.

## PART II. OTHER INFORMATION

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

## (a) Exhibits:

Exhibit Number -----	Description -----
3.1	Certificate of Limited Partnership of the Partnership (Filed as Exhibit 3.2 to the Registration Statement of TEPPCO Partners, L.P. (Commission File No. 33-32203) and incorporated herein by reference).
3.2	Certificate of Formation of TEPPCO Colorado, LLC (Filed as Exhibit 3.2 to Form 10-Q of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the quarter ended March 31, 1998 and incorporated herein by reference).
3.3	Second Amended and Restated Agreement of Limited Partnership of TEPPCO Partners, L.P., dated November 30, 1998 (Filed as Exhibit 3.3 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1998 and incorporated herein by reference).
3.4	Amended and Restated Agreement of Limited Partnership of TE Products Pipeline Company, Limited Partnership, effective July 21, 1998 (Filed as Exhibit 3.2 to Form 8-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) dated July 21, 1998 and incorporated herein by reference).
3.5	Agreement of Limited Partnership of TCTM, L.P., dated November 30, 1998 (Filed as Exhibit 3.3 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1998 and incorporated herein by reference).
4.1	Form of Certificate representing Limited Partner Units (Filed as Exhibit 4.1 to the Registration Statement of TEPPCO Partners, L.P. (Commission File No. 33-32203) and incorporated herein by reference).
4.2	Form of Indenture between TE Products Pipeline Company, Limited Partnership and The Bank of New York, as Trustee, dated as of January 27, 1998 (Filed as Exhibit 4.3 to TE Products Pipeline Company, Limited Partnership's Registration Statement on Form S-3 (Commission File No. 333-38473) and incorporated herein by reference).
4.3	Form of Certificate representing Class B Units (Filed as Exhibit 3.3 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1998 and incorporated herein by reference).
10.1	Assignment and Assumption Agreement, dated March 24, 1988, between Texas Eastern Transmission Corporation and the Company (Filed as Exhibit 10.8 to the Registration Statement of TEPPCO Partners, L.P. (Commission File No. 33-32203) and incorporated herein by reference).
10.2	Texas Eastern Products Pipeline Company 1997 Employee Incentive Compensation Plan executed on July 14, 1997 (Filed as Exhibit 10 to Form 10-Q of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the quarter ended September 30, 1997 and incorporated herein by reference).
10.3	Agreement Regarding Environmental Indemnities and Certain Assets (Filed as Exhibit 10.5 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1990 and incorporated herein by reference).
10.4	Texas Eastern Products Pipeline Company Management Incentive Compensation Plan executed on January 30, 1992 (Filed as Exhibit 10 to Form 10-Q of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the quarter ended March 31, 1992 and incorporated herein by reference).



## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K - (CONTINUED)

- 10.5 Texas Eastern Products Pipeline Company Long-Term Incentive Compensation Plan executed on October 31, 1990 (Filed as Exhibit 10.9 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1990 and incorporated herein by reference).
- 10.6 Form of Amendment to Texas Eastern Products Pipeline Company Long-Term Incentive Compensation Plan (Filed as Exhibit 10.7 to the Partnership's Form 10-K (Commission File No. 1-10403) for the year ended December 31, 1995 and incorporated herein by reference).
- 10.7 Employees' Savings Plan of Panhandle Eastern Corporation and Participating Affiliates (Effective January 1, 1991) (Filed as Exhibit 10.10 to the Partnership's Form 10-K (Commission File No. 1-10403) for the year ended December 31, 1990 and incorporated herein by reference).
- 10.8 Retirement Income Plan of Panhandle Eastern Corporation and Participating Affiliates (Effective January 1, 1991) (Filed as Exhibit 10.11 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1990 and incorporated herein by reference).
- 10.9 Panhandle Eastern Corporation Key Executive Retirement Benefit Equalization Plan, adopted December 20, 1993; effective January 1, 1994 (Filed as Exhibit 10.12 to Form 10-K of Panhandle Eastern Corporation (Commission File No. 1-8157) for the year ended December 31, 1993 and incorporated herein by reference).
- 10.10 Employment Agreement with William L. Thacker, Jr. (Filed as Exhibit 10 to Form 10-Q of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the quarter ended September 30, 1992 and incorporated herein by reference).
- 10.11 Texas Eastern Products Pipeline Company 1994 Long Term Incentive Plan executed on March 8, 1994 (Filed as Exhibit 10.1 to Form 10-Q of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the quarter ended March 31, 1994 and incorporated herein by reference).
- 10.12 Panhandle Eastern Corporation Key Executive Deferred Compensation Plan established effective January 1, 1994 (Filed as Exhibit 10.2 to Form 10-Q of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the quarter ended March 31, 1994 and incorporated herein by reference).
- 10.13 Asset Purchase Agreement between Duke Energy Field Services, Inc. and TEPPCO Colorado, LLC, dated March 31, 1998 (Filed as Exhibit 10.14 to Form 10-Q of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the quarter ended March 31, 1998 and incorporated herein by reference).
- 10.14 Credit Agreement between TEPPCO Colorado, LLC, SunTrust Bank, Atlanta, and Certain Lenders, dated April 21, 1998 (Filed as Exhibit 10.15 to Form 10-Q of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the quarter ended March 31, 1998 and incorporated herein by reference).
- 10.15 First Amendment to Credit Agreement between TEPPCO Colorado, LLC, SunTrust Bank, Atlanta, and Certain Lenders, effective June 29, 1998.
- 10.16 Contribution Agreement between Duke Energy Transport and Trading Company and TEPPCO Partners, L.P., dated October 15, 1998 (Filed as Exhibit 3.3 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1998 and incorporated herein by reference).
- 10.17 Guaranty Agreement by Duke Energy Natural Gas Corporation for the benefit of TEPPCO Partners, L.P., dated November 30, 1998, effective November 1, 1998 (Filed as Exhibit 3.3 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1998 and incorporated herein by reference).



## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K - (CONTINUED)

- 10.18 Revolving Credit Agreement between TCTM, L.P. as Borrower and Duke Capital Corporation as Lender, dated November 30, 1998 (Filed as Exhibit 3.3 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1998 and incorporated herein by reference).
- 10.19 Letter Agreement regarding Payment Guarantees of Certain Obligations of TCTM, L.P. between Duke Capital Corporation and TCTM, L.P., dated November 30, 1998 (Filed as Exhibit 3.3 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1998 and incorporated herein by reference).
- 10.20 Form of Employment Agreement between the Company and O. Horton Cunningham, Ernest P. Hagan, Thomas R. Harper, David L. Langley, Charles H. Leonard and James C. Ruth, dated December 1, 1998 (Filed as Exhibit 3.3 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1998 and incorporated herein by reference).
- \*10.21 Agreement Between Owner and Contractor between TE Products Pipeline Company, Limited Partnership and Eagleton Engineering Company, dated February 4, 1999.
- \*10.22 Services and Transportation Agreement between TE Products Pipeline Company, Limited Partnership and Fina Oil and Chemical Company, BASF Corporation and BASF Fina Petrochemical Limited Partnership, dated February 9, 1999.
- \*10.23 Call Option Agreement, dated February 9, 1999.
- \*10.24 Texas Eastern Products Pipeline Company Retention Incentive Compensation Plan, effective January 1, 1999.
- 22.1 Subsidiaries of the Partnership (Filed as Exhibit 22.1 to the Registration Statement of TEPPCO Partners, L.P. (Commission File No. 33-32203) and incorporated herein by reference).
- \*27 Financial Data Schedule as of and for the three months ended March 31, 1999.
- - - - -

\* Filed herewith.

(b) Reports on Form 8-K filed during the quarter ended March 31, 1999: None.

Items 1, 2, 3, 4 and 5 of Part II were not applicable and have been omitted.



SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on its behalf by the undersigned duly authorized officer and principal financial officer.

TEPPCO Partners, L.P.  
(Registrant)

By: Texas Eastern Products Pipeline Company,  
General Partner

/s/ CHARLES H. LEONARD

-----  
Charles H. Leonard  
Senior Vice President, Chief Financial Officer  
and Treasurer

Date: May 6, 1999

## EXHIBIT INDEX

Exhibit Number -----	Description -----
3.1	Certificate of Limited Partnership of the Partnership (Filed as Exhibit 3.2 to the Registration Statement of TEPPCO Partners, L.P. (Commission File No. 33-32203) and incorporated herein by reference).
3.2	Certificate of Formation of TEPPCO Colorado, LLC (Filed as Exhibit 3.2 to Form 10-Q of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the quarter ended March 31, 1998 and incorporated herein by reference).
3.3	Second Amended and Restated Agreement of Limited Partnership of TEPPCO Partners, L.P., dated November 30, 1998 (Filed as Exhibit 3.3 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1998 and incorporated herein by reference).
3.4	Amended and Restated Agreement of Limited Partnership of TE Products Pipeline Company, Limited Partnership, effective July 21, 1998 (Filed as Exhibit 3.2 to Form 8-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) dated July 21, 1998 and incorporated herein by reference).
3.5	Agreement of Limited Partnership of TCTM, L.P., dated November 30, 1998 (Filed as Exhibit 3.3 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1998 and incorporated herein by reference).
4.1	Form of Certificate representing Limited Partner Units (Filed as Exhibit 4.1 to the Registration Statement of TEPPCO Partners, L.P. (Commission File No. 33-32203) and incorporated herein by reference).
4.2	Form of Indenture between TE Products Pipeline Company, Limited Partnership and The Bank of New York, as Trustee, dated as of January 27, 1998 (Filed as Exhibit 4.3 to TE Products Pipeline Company, Limited Partnership's Registration Statement on Form S-3 (Commission File No. 333-38473) and incorporated herein by reference).
4.3	Form of Certificate representing Class B Units (Filed as Exhibit 3.3 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1998 and incorporated herein by reference).
10.1	Assignment and Assumption Agreement, dated March 24, 1988, between Texas Eastern Transmission Corporation and the Company (Filed as Exhibit 10.8 to the Registration Statement of TEPPCO Partners, L.P. (Commission File No. 33-32203) and incorporated herein by reference).
10.2	Texas Eastern Products Pipeline Company 1997 Employee Incentive Compensation Plan executed on July 14, 1997 (Filed as Exhibit 10 to Form 10-Q of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the quarter ended September 30, 1997 and incorporated herein by reference).
10.3	Agreement Regarding Environmental Indemnities and Certain Assets (Filed as Exhibit 10.5 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1990 and incorporated herein by reference).
10.4	Texas Eastern Products Pipeline Company Management Incentive Compensation Plan executed on January 30, 1992 (Filed as Exhibit 10 to Form 10-Q of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the quarter ended March 31, 1992 and incorporated herein by reference).

- 10.5 Texas Eastern Products Pipeline Company Long-Term Incentive Compensation Plan executed on October 31, 1990 (Filed as Exhibit 10.9 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1990 and incorporated herein by reference).
- 10.6 Form of Amendment to Texas Eastern Products Pipeline Company Long-Term Incentive Compensation Plan (Filed as Exhibit 10.7 to the Partnership's Form 10-K (Commission File No. 1-10403) for the year ended December 31, 1995 and incorporated herein by reference).
- 10.7 Employees' Savings Plan of Panhandle Eastern Corporation and Participating Affiliates (Effective January 1, 1991) (Filed as Exhibit 10.10 to the Partnership's Form 10-K (Commission File No. 1-10403) for the year ended December 31, 1990 and incorporated herein by reference).
- 10.8 Retirement Income Plan of Panhandle Eastern Corporation and Participating Affiliates (Effective January 1, 1991) (Filed as Exhibit 10.11 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1990 and incorporated herein by reference).
- 10.9 Panhandle Eastern Corporation Key Executive Retirement Benefit Equalization Plan, adopted December 20, 1993; effective January 1, 1994 (Filed as Exhibit 10.12 to Form 10-K of Panhandle Eastern Corporation (Commission File No. 1-8157) for the year ended December 31, 1993 and incorporated herein by reference).
- 10.10 Employment Agreement with William L. Thacker, Jr. (Filed as Exhibit 10 to Form 10-Q of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the quarter ended September 30, 1992 and incorporated herein by reference).
- 10.11 Texas Eastern Products Pipeline Company 1994 Long Term Incentive Plan executed on March 8, 1994 (Filed as Exhibit 10.1 to Form 10-Q of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the quarter ended March 31, 1994 and incorporated herein by reference).
- 10.12 Panhandle Eastern Corporation Key Executive Deferred Compensation Plan established effective January 1, 1994 (Filed as Exhibit 10.2 to Form 10-Q of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the quarter ended March 31, 1994 and incorporated herein by reference).
- 10.13 Asset Purchase Agreement between Duke Energy Field Services, Inc. and TEPPCO Colorado, LLC, dated March 31, 1998 (Filed as Exhibit 10.14 to Form 10-Q of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the quarter ended March 31, 1998 and incorporated herein by reference).
- 10.14 Credit Agreement between TEPPCO Colorado, LLC, SunTrust Bank, Atlanta, and Certain Lenders, dated April 21, 1998 (Filed as Exhibit 10.15 to Form 10-Q of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the quarter ended March 31, 1998 and incorporated herein by reference).
- 10.15 First Amendment to Credit Agreement between TEPPCO Colorado, LLC, SunTrust Bank, Atlanta, and Certain Lenders, effective June 29, 1998.
- 10.16 Contribution Agreement between Duke Energy Transport and Trading Company and TEPPCO Partners, L.P., dated October 15, 1998 (Filed as Exhibit 3.3 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1998 and incorporated herein by reference).
- 10.17 Guaranty Agreement by Duke Energy Natural Gas Corporation for the benefit of TEPPCO Partners, L.P., dated November 30, 1998, effective November 1, 1998 (Filed as Exhibit 3.3 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1998 and incorporated herein by reference).

- 10.18 Revolving Credit Agreement between TCTM, L.P. as Borrower and Duke Capital Corporation as Lender, dated November 30, 1998 (Filed as Exhibit 3.3 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1998 and incorporated herein by reference).
- 10.19 Letter Agreement regarding Payment Guarantees of Certain Obligations of TCTM, L.P. between Duke Capital Corporation and TCTM, L.P., dated November 30, 1998 (Filed as Exhibit 3.3 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1998 and incorporated herein by reference).
- 10.20 Form of Employment Agreement between the Company and O. Horton Cunningham, Ernest P. Hagan, Thomas R. Harper, David L. Langley, Charles H. Leonard and James C. Ruth, dated December 1, 1998 (Filed as Exhibit 3.3 to Form 10-K of TEPPCO Partners, L.P. (Commission File No. 1-10403) for the year ended December 31, 1998 and incorporated herein by reference).
- \*10.21 Agreement Between Owner and Contractor between TE Products Pipeline Company, Limited Partnership and Eagleton Engineering Company, dated February 4, 1999.
- \*10.22 Services and Transportation Agreement between TE Products Pipeline Company, Limited Partnership and Fina Oil and Chemical Company, BASF Corporation and BASF Fina Petrochemical Limited Partnership, dated February 9, 1999.
- \*10.23 Call Option Agreement, dated February 9, 1999.
- \*10.24 Texas Eastern Products Pipeline Company Retention Incentive Compensation Plan, effective January 1, 1999.
- 22.1 Subsidiaries of the Partnership (Filed as Exhibit 22.1 to the Registration Statement of TEPPCO Partners, L.P. (Commission File No. 33-32203) and incorporated herein by reference).
- \*27 Financial Data Schedule as of and for the three months ended March 31, 1999.
- 

\* Filed herewith.

AGREEMENT BETWEEN  
OWNER AND CONTRACTOR  
(STIPULATED SUM)

between

TE PRODUCTS PIPELINE COMPANY, LIMITED PARTNERSHIP

AND

EAGLETON ENGINEERING COMPANY

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AGREEMENT BETWEEN OWNER AND CONTRACTOR

(STIPULATED SUM)

THIS AGREEMENT BETWEEN OWNER AND CONTRACTOR (STIPULATED SUM) (this "Agreement") made and entered into on this 4th day of February 1999, by and between TE Products Pipeline Company, Limited Partnership, a Delaware limited partnership ("Owner"), and Eagleton Engineering Company, a Texas corporation ("Contractor");

WITNESSETH:

WHEREAS, Owner intends to engage a qualified engineer and contractor to design and construct, on a turnkey all inclusive basis, (i) a 12-inch diameter bidirectional pipeline system to transport propylene from Port Arthur, Texas to Mont Belvieu, Texas, (ii) a 12 inch diameter bidirectional pipeline system to transport ethylene between Port Arthur, Texas and Mont Belvieu, Texas, (iii) a 12 inch diameter bidirectional pipeline system to transport natural gasoline between Port Arthur, Texas and Mont Belvieu, Texas, and (iv) a 12-inch diameter unidirectional ethylene pipeline lateral with meter to Union Carbide's plant near Port Arthur, Texas; and

WHEREAS, Contractor has represented to Owner that Contractor has both the real estate, engineering and construction skills and expertise to acquire all necessary rights-of-way and to design and construct such pipeline systems to the performance standards set forth in this Agreement and otherwise in accordance with the terms and requirements set forth in this Agreement; and

WHEREAS, based on the foregoing representations and the other representations hereinafter set forth, Owner desires to engage Contractor, and Contractor desires to accept Owner's engagement, to acquire all necessary rights-of-way and to design and construct such pipeline systems to the performance standards set forth in this Agreement and to perform all other obligations set forth in this Agreement.

NOW THEREFORE, based on the foregoing premises and the covenants, promises, representations and warranties set forth in this Agreement, Owner and Contractor agree as follows:

SECTION I            DEFINED TERMS; INTERPRETATION

1.1 Definitions. Unless the context otherwise requires, the respective terms defined in Appendix A attached hereto and incorporated herein shall, when used in this Agreement, have the respective meanings specified in Appendix A, with each such definition of a term being equally applicable to the singular and the plural forms of the term so defined.

1.2 References. Gender, Number. All references in this Agreement to a "Section," "subsection," "Appendix" or "Exhibit" shall be to a Section, subsection, Appendix or Exhibit of this Agreement, unless the context requires otherwise. Unless the context otherwise requires, the

words "this Agreement," "hereof," "hereunder," "herein," "hereby," or words of similar import shall refer to this Agreement as a whole and not to a particular Section, subsection, Appendix, Exhibit, clause or other subdivision hereof. Whenever the context requires, the words used herein shall include the masculine, feminine and neuter gender, and the singular and the plural.

1.3 Interpretation. It is expressly agreed that this Agreement shall not be construed against any Party, and no consideration shall be given or presumption made, on the basis of who drafted this Agreement or any particular provision hereof or who supplied the form of this Agreement. Each Party agrees that this Agreement has been purposefully drawn and correctly reflects its understanding of the transaction that this Agreement contemplates. In construing this Agreement:

(a) Examples shall not be construed to limit, expressly or by implication, the matter they illustrate;

(b) The word "included" and its derivatives means "includes, but is not limited to" and corresponding derivative expressions;

(c) A defined term has its defined meaning throughout this Agreement, regardless of whether it appears before or after the place where it is defined; and

(d) The headings and titles herein are for convenience only and shall have no significance in the interpretation hereof.

## SECTION 2 INDEPENDENT CONTRACTOR

2.1 Independent Contractor Status. Owner hereby engages Contractor as an independent contractor, and Contractor hereby accepts Owner's engagement as an independent contractor, to perform all of the obligations of Contractor specified in this Agreement.

2.2 Contractor Responsible for Means, Methods and Procedures. It is expressly understood and agreed that in the performance of its obligations under this Agreement, Contractor is and shall at all times be an independent contractor and is and shall be solely responsible for the means, methods and procedures by which to perform its obligations under this Agreement. Contractor, as an independent contractor, shall be solely responsible for its employees and equipment. Except as contemplated by Section 5, neither Contractor nor its employees shall at any time represent to any third party that Contractor or any of its employees is the agent, representative, employee or servant of Owner.

2.3 Contractor's Employees not Owner's Employees. Under no circumstances shall Contractor's employees be considered employees of Owner, and Contractor shall take all steps necessary to ensure that Contractor's employees are not employees of Owner. Contractor acknowledges that Owner will not make any payments on behalf of Contractor or Contractor's employees for the purposes of the Federal Insurance Contribution Act, the Social Security Act or the Federal Unemployment Tax Act. Contractor further acknowledges that Contractor is

responsible for its employees and for all self employment taxes, federal income taxes and any other taxes (as well as the filing of all returns relating thereto) which are to be paid in respect of, or withheld from amounts payable to Contractor's employees.

2.4 No Entitlement to Owner's Employee Benefits. Contractor agrees and understands that Contractor and Contractor's employees shall not be considered employees of Owner with respect to employee benefits paid by Owner to its employees.

### SECTION 3 DESIGN, CONSTRUCTION AND PERFORMANCE REQUIREMENTS

3.1 Design and Engineering Services. In addition to Contractor's construction obligations under this Agreement and the Contract Documents, Contractor shall provide all design and engineering services needed to fully define the Pipeline Systems and to cause the Pipeline Systems, as designed and engineered, to comply with the Completion Requirements and to operate in accordance with the Performance Requirements. Such design and engineering services shall include but not be limited to the services described in Exhibit 3.1 attached hereto. All such services shall be performed in accordance with the Project Schedule.

3.2 Description of and Obligation to Construct Project. Subject to the terms and conditions of this Agreement, Contractor hereby agrees to construct, fabricate, install and erect, on a turnkey all inclusive basis, three pipeline systems (the "Pipeline Systems") and certain ancillary facilities conforming to the requirements of this Agreement and all other Contract Documents, as follows:

(i) A 12.75 inch outside diameter ANSI 900 bidirectional pipeline (the "Propylene Pipeline") approximately 66 miles in length, terminating immediately inside the southwest corner property line of the Port Arthur Plant and the property line of the Mont Belvieu South Terminal, to be used to transport propylene from Port Arthur, Texas to Mont Belvieu, Texas along the route described in Exhibit 3.2(a), or deviations therefrom approved by Owner in accordance with subsection 5.1. Such pipeline system will include meter facilities at each end and shall be designed in accordance with the Piping Flow Diagram found in Exhibit 3.2(b-1) and general isometric layouts found in Exhibits 3.2(c-1) and 3.2(c-2); and

(ii) A 12.75 inch outside diameter ANSI 900 bidirectional pipeline (the "Ethylene Pipeline") approximately 66 miles in length, terminating immediately inside the southwest corner property line of the Port Arthur Plant and the property line of the Mont Belvieu South Terminal, to be used to transport ethylene between Port Arthur, Texas, and Mont Belvieu, Texas, along the route described in Exhibit 3.2(a) or deviations therefrom approved by Owner in accordance with subsection 5.1, and shall include a 12.75 inch outside diameter pipeline lateral with meter that ties into Union Carbide's Port Arthur plant facility. Such pipeline system will include meter facilities at each end and shall be designed in accordance with the Piping Flow Diagram found in Exhibit 3.2(b-2) and general isometric layouts found in Exhibits 3.2(c-1) and 3.2(c-3); and

(iii) A 12.75 inch outside diameter ANSI 900 bidirectional pipeline (the "Natural Gasoline Pipeline") approximately 66 miles in length, terminating immediately inside the

southwest corner property line of the Port Arthur Plant and the property line of the Mont Belvieu South Terminal, used to transport natural gasoline between Mont Belvieu, Texas, and Port Arthur, Texas along the route described in Exhibit 3.2(a) or deviations therefrom approved by Owner in accordance with subsection 5.1. Such pipeline system will include meter facilities at each end and shall be designed in accordance with the Piping Flow Diagram found in Exhibit 3.2(b-3) and general isometric layout found in Exhibit 3.2(c-1) and Exhibit 3.2(c-4); and

(iv) All other components and installations required by the Contract Documents or as necessary to cause the Pipeline Systems to be completed in accordance with the Completion Requirements and to operate and perform in accordance with the Performance Requirements.

The Propylene Pipeline, Ethylene Pipeline and Natural Gasoline Pipeline will conform to and be designed, engineered, fabricated, constructed and installed in accordance with the requirements of the Contract Documents, including the requirements of Exhibit 3.2(d) respectively, and all Applicable Laws. The Pipeline Systems together with all such other components, installations and interests described in this subsection 3.2, as more fully described above and in the Contract Documents, are herein sometimes referred to as the "Project".

### 3.3 Performance Requirements.

(a) The Propylene Pipeline, Ethylene Pipeline and Natural Gasoline Pipeline will be designed, engineered and constructed to meet the performance criteria set forth in Exhibits 3.2(b-1), 3.2(b-2), 3.2(b-3), 3.2(c-1), 3.2(c-2), 3.2(c-3), 3.2(c-4) and 3.2(d).

(b) The Pipeline Systems, when completed, will be capable of operating in accordance with all Applicable Laws and all performance and operational requirements set forth in this Agreement.

(c) Contractor shall require each equipment vendor to design its equipment in accordance with Applicable Laws and to warrant that such equipment, when installed and operated in accordance with the equipment specifications, will operate in accordance with Applicable Laws and all performance and operational requirements set forth in this Agreement.

The requirements set forth in paragraphs (a), (b) and (c) preceding are herein collectively referred to as the "Performance Requirements".

### 3.4 Completion Requirements.

(a) Upon completion of construction of the Pipeline Systems, Contractor shall test the Pipeline Systems in accordance with and in satisfaction of the acceptance testing procedures and requirements set forth in Exhibit 3.4(a). In addition to the notice requirements set forth in paragraph (d) of subsection 7.7, Contractor shall give Owner not less than 4 days notice prior to such tests. Contractor shall provide to Owner certified copies of the results of any such test as soon as practicable after its completion.

(b) Contractor shall complete the Project and perform the Work in a good and workmanlike manner, and in accordance with the Contract Documents, all Applicable Laws and normal industry standards applicable to the construction of the Project or performance of the Work (including ANSI/ASME B31.4, Liquid Transportation Systems for Hydrocarbons, Liquid Petroleum Gas, Anhydrous Ammonia and Alcohols).

The requirements (including the passing of the tests set forth in Exhibit 3.4(a)) set forth in paragraphs (a) and (b) preceding are herein collectively referred to as the "Completion Requirements". Any Work not completed in accordance with the Completion Requirements or not capable of being operated in accordance with the Performance Requirements will be considered defective and Owner shall have the right to require such defective Work to be corrected in accordance with subsection 7.11(a).

#### SECTION 4 CONTRACT DOCUMENTS AND INTERPRETIVE RULES

4.1 Contract Documents. The "Contract Documents" shall collectively mean and consist of (i) this Agreement, including all Exhibits, (ii) the Drawings and Specifications, (iii) the waivers executed and delivered by Contractor pursuant to subsection 12.2, (iv) the Parent Guaranty and (v) all Change Orders. The Contract Documents represent the entire and integrated agreement between the Parties and supersede prior negotiations, representations or agreements, written or oral.

4.2 Documents at Project Site. Contractor shall maintain at its office at the Project Site, for Owner's benefit and review, one record copy of the Drawings and Specifications, Change Orders and other modifications to the Contract Documents, in good order, and marked currently to record changes and selections made during construction. Promptly after execution of the Contract Documents, Contractor shall prepare an initial set of drawings and specification for the Project for Owner's review and comment. After receipt of Owner's comments, Contractor shall promptly prepare the final Drawings and Specifications incorporating such comments, to the extent such comments will not cause a failure to meet the Completion Requirements and Performance Requirements. By submission of the final Drawings and Specifications to the Owner, Contractor represents and warrants to Owner that the Project can be constructed and installed in accordance with the Drawings and Specifications to meet or exceed the Completion Requirements and the Performance Requirements.

4.3 Interpretive Rules and Resolution of Conflicts Among Contract Documents.

(a) Unless otherwise stated in the Contract Documents, words which have generally recognized technical or construction industry meanings are used in the Contract Documents in accordance with such recognized meanings.

(b) Large-scaled drawings shall control over smaller-scaled drawings, figured dimensions on the drawings shall control over scaled dimensions and noted materials shall control over graphic representations. Notwithstanding the foregoing provisions, where a conflict exists

within or between parts of the Contract Documents, or between the Contract Documents and Applicable Laws, or between Applicable Laws themselves, the more stringent or higher quality requirements shall apply.

(c) Where "as shown," "as indicated," "as detailed," or words of similar import are used, it shall be understood that reference to the Drawings and Specifications is made unless otherwise stated.

(d) As used in the Contract Documents, "provide" shall be understood to mean "provide complete in place," that is, to furnish, fabricate, deliver, install, and erect, including all materials, services, and expenses necessary to complete in place, ready for operation or use. The use of the term "as required" means as prescribed by the Contract Documents. The use of the term "as necessary" in the Contract Documents means all action essential to the completion of the Work or applicable portion thereof. The use of the term "day" in the Contract Documents means calendar day. The use of the term "holiday" in the Contract Documents means any day recognized by national banks in Houston, Texas as a holiday.

(e) In the interest of brevity, the Contract Documents frequently omit modifying words such as "all" and "any" and articles such as "the" and "all," but the fact that a modifier or an article is absent from one statement and appears in another is not intended to affect the interpretations of such statement.

(f) Whenever a notice time period or approval time period appears in the Contract Documents and such time period ends on a Saturday, Sunday or holiday, such time period shall be extended to the next Business Day.

## SECTION 5 ACQUISITION OF RIGHTS-OF-WAY

### 5.1 Obligation to Acquire Rights-of-Way.

(a) Contractor shall use its Best Efforts necessary to obtain valid and enforceable easements and permits (separately and collectively referred to as "Rights-of-Way") along the anticipated route of the Pipeline Systems described in Exhibit 3.2(a) (such anticipated route, the "Projected Pipeline Rights-of-Way"). Should Owner object to a pipeline route or right-of-way intended to be used by Contractor, Owner will be responsible for any additional costs in obtaining the alternative Rights-of-Way plus all increases in associated costs for materials, construction and engineering services. Owner and Contractor shall execute a Change Order with respect to such alternative Rights-of-Way and additional or increased costs in accordance with subsection 6.4.

(b) Contractor shall perform a title search of 20 years or to the last conveyance, whichever is greater, on each property through which Contractor will obtain Rights-of-Way. Contractor in the performance of its obligations under this Section 5 shall use experienced right-of-way agents that are licensed or registered with the Texas Real Estate Commission.

5.2 Rights-of-Way to be Acquired by Easement. All Rights-of-Way shall be acquired by easement except as provided in subsections 5.3 and 5.4. Each such easement shall be granted by the landowner to Owner upon the form of easement attached hereto as Exhibit 5.2 or such modified form as is approved by Owner. Contractor shall use its Best Efforts to secure free assignability of any such easement.

5.3 Rights-of-Way to be Acquired by Permit. Contractor shall acquire permits where necessary. Contractor shall obtain title data supporting each permit, if privately owned property is involved. Owner shall have an opportunity to participate in the meetings between Contractor and permitting agencies or companies. Owner shall review and approve any application, agreement and permit submitted to an agency or landowner regarding the acquisition of any Rights-of-Way. Contractor shall consult with Owner regarding issues of concern or objections raised by any governmental agency or landowner regarding the issuance of a permit. Contractor and Owner shall collectively identify alternatives and planning contingencies regarding any issues concerning the permitting process. All permits or agreements shall, if reasonably possible, be acquired as perpetual or paid up term. Contractor shall use its Best Efforts to secure free assignability of any such permit.

5.4 Condemnation. In the event that Contractor, after exercising its Best Efforts, is unable to acquire any Rights-of-Way from a landowner, Contractor shall fully advise Owner of the situation and furnish to Owner the following information:

(1) The terms and monetary consideration that landowner has last advised Contractor would be acceptable;

(2) The terms and monetary consideration that Contractor made to landowner as the last offer; and

(3) If Owner elects to condemn any property, a condemnation appraisal for the proposed Rights-of-Way performed by a qualified third party appraiser.

Based on the information furnished by Contractor, Owner shall make the decision whether to accept the landowner's terms and monetary consideration demands, or to exercise Owner's right of eminent domain to condemn the landowner's property for the easement. In the event Owner elects to proceed with such condemnation action, Contractor shall subject to subsection 5.6 be responsible for all costs and expenses, including but not limited to attorneys' and appraisers fees, associated with the condemnation action and any award to the landowner as a result thereof. Notwithstanding the foregoing sentence, Owner shall be responsible for all costs and expenses in any condemnation action, including attorneys' fees, associated with Owner establishing its right of eminent domain as a common carrier under Vernon's Ann. Civ. St. art. 6132a-1 Sec. 1.09(c).

5.5 Due Diligence. Prior to the acquisition of any portion of the Pipeline Rights-of-Way, Contractor shall perform such due diligence as is necessary to determine that such portion of the Pipeline Rights-of-Way will not be subordinate to any mortgage,

deed of trust or other security agreement, or if such portion of the Pipeline Rights-of-Way will be subordinate to a mortgage, deed of trust or other security agreement, Contractor will make Best Efforts to obtain a subordination agreement from the holder of such mortgage, deed of trust or other security agreement.

5.6 Rights-of-Way Costs and Expenses. Subject to the penultimate and last sentences of subsection 5.1(a) and the last sentence of subsection 5.4, Contractor shall be responsible for all Rights-of-Way Costs and Expenses up to and including \$16.6 million, which includes \$471,000 as a lump sum amount for post-construction activities, subject to reduction pursuant to the provisions of subsection 5.7. All Rights-of-Way Costs and Expenses in excess of \$16.6 million shall be the responsibility of Owner. The method of payment of easement consideration and damage consideration shall be subject to the mutual agreement of Owner and Contractor.

5.7 Rights-of-Way on Fina and Owner Property. The monetary level of \$16.6 million set forth in subsection 5.6 and the Contract Sum shall both be reduced by an amount determined by multiplying \$1,500 times the number of Rods that the Pipeline System is located on property owned by Owner, Fina or any affiliate of either and for which Contractor does not have to pay for any easements or permits to cross such property other than de minimis amounts to Fina or its affiliates.

5.8 Common Carrier. Owner shall promptly make all appropriate T-4 filings and any other filings with the Commission with respect to its intention to operate as a common carrier pipeline, and furnish Contractor with copies of same. In addition, it shall be Owner's sole decision to exercise any eminent domain powers to obtain Rights-of-Way. Where Owner does decide to initiate a condemnation proceeding, Owner will effect the quick take procedures available under Applicable Laws.

## SECTION 6 THE WORK AND CHANGES IN THE WORK

6.1 The Work. Contractor shall provide and/or perform the "Work", which means (i) all materials, systems, equipment and other installations becoming a part of the Project pursuant to the Contract Documents (sometimes collectively referred to as "Materials"), (ii) all other materials, supplies, apparatus, implements, tools, equipment, sanitary facilities and other facilities not included in part (i) preceding and necessary in the construction of the Project, (iii) all labor, supervision, transportation, utilities, storage and other services (sometimes collectively referred to as "Services") required in the construction of the Project, (iv) all cutting and fitting required to complete the Work or make its parts fit together properly, (v) all other acts and all other things reasonably necessary to construct the Project in accordance with the Contract Documents, including all work expressly specified therein, save and except only such items of work as are specifically stated in the Contract Documents not to be obligations of Contractor, (vi) all other obligations of Contractor under this Agreement or any other Contract Documents, and (vii) any other work or services described in this Agreement or any other Contract Documents as a part of the Work.



## 6.2 Title to the Work and Risk of Loss.

(a) Title to all Work shall pass to Owner simultaneously with payment (other than the permitted 5% retainage) to Contractor for such Work, and Contractor will take all necessary actions to ensure that such Work shall be free and clear of all encumbrances, other than those created by Owner. Notwithstanding the preceding sentence, if Contractor is not paid for Work due to Owner's withholding payments as permitted under subsection 11.3, then title to such Work shall be deemed to have passed to Owner simultaneously with passage of title thereof to Contractor.

(b) All Work shall be kept free and clear of all liens and security interests other than those created by Owner. No Materials covered by an Application for Payment will be acquired by Contractor, a Subcontractor or any other Person performing Work subject to an agreement under which an interest therein or an encumbrance is retained by the seller or granted by Contractor, such Subcontractor or such other Person.

(c) Notwithstanding the provisions of paragraph (a), Contractor shall bear the risk of loss of all Materials until the Final Completion Date.

6.3 Standards for Materials. Contractor shall purchase, expedite and control all Materials. Contractor warrants that all Materials shall be new and of high quality, meet industry standards, be fit for the intended use and purpose to meet all requirements of the Drawings and Specifications and Applicable Laws.

6.4 Changes in the Work. Owner may request changes in the Work by giving Contractor a written request (a "Proposal Request") setting forth in detail the nature of the change in the Work requested (the "Change Work"). Upon receipt of a Proposal Request, Contractor shall promptly (but not later than 5 days after receipt of the Proposal Request or such longer period of time reasonably agreed to by Owner) return to Owner a written proposal (a "Change Order Proposal") setting forth in detail, with a suitable breakdown by trades and work classifications, a stipulated sum proposed as an adjustment to the Contract Sum for the performance of the Change Work, with a proposed adjustment to the Projected Final Completion Date resulting from such Proposal Request. In all events (i) the stipulated sum set forth in a Change Order Proposal shall not incorporate profit for Contractor in excess of 10 percent of the actual cost of the materials for Contractor covered by the Change Order Proposal and overhead and profit for Contractor in excess of 10 percent of the cost of such difference attributable to Change Work performed by Subcontractors, (ii) all labor costs of Contractor's forces included in the Change Order Proposal will be based on the wage rate schedule attached hereto as Exhibit 6.4(a) and (iii) to the extent applicable, all Material costs shall be based on prices paid by Contractor. Each Change Order Proposal shall be accompanied by appropriate data acceptable to Owner supporting such estimate, including but not limited to bids, cost estimates, wage schedules and applicable Unit Prices. When the Change Work involves both new work not originally required under the Contract Documents and replacement or obviation of previously planned Work, Contractor shall break down the stipulated sum contained in its Change Order Proposal to show both the additional compensation

bid for the new Work and the credit allowed for the replaced or obviated Work. If Owner approves Contractor's Change Order Proposal, which approval must be given within 5 days of Owner's receipt of such proposal, Owner will issue and Contractor will execute and accept a written modification on the form attached hereto as Exhibit 6.4(b) (a "Change Order") directing Contractor to perform Work and the Contract Sum and Projected Final Completion Date shall be adjusted as set forth in such Change Order. If Owner does not approve, Contractor shall be paid for time required to prepare the proposal and will have no further obligation with regard to the Change Work.

#### SECTION 7 CONTRACTOR'S GENERAL DUTIES, STATUS, REPRESENTATIONS AND WARRANTIES

7.1 Contractor's General Obligations. Contractor covenants with Owner to furnish its best skill and judgment in its performance of the Work. Contractor covenants with Owner to furnish efficient business administration and superintendence to cause the Work to be performed in strict accordance with the Contract Documents, to furnish at all times all Materials and Services as and when required or needed in order to timely complete the Work as required hereunder, and to perform the Work in a good and workmanlike manner. Contractor shall enforce strict discipline and good order among Contractor's employees and others carrying out the Work. Contractor shall not permit employment of any unfit individual not skilled in the tasks assigned to them. Contractor shall be solely responsible for and shall have control over construction means, methods, techniques, sequences and procedures, and for coordinating all portions of the Work. As general contractor for the Project, Contractor shall perform all necessary acts to accomplish the following:

(a) The avoidance of conflicts among the various trades;

(b) The efficient organization of construction activities, including location and size of activities, location and size of storage areas, staging areas and field offices, traffic patterns, delivery schedules, hoisting, safety and the like;

(c) Efficient scheduling of the Work to be performed by Subcontractors to avoid inefficient or unsafe performance of the Work performed by Subcontractors and to ensure that the progress of the Work conforms to the Project Schedule; and

(d) Scheduling, coordinating and chairing a project meetings at least once monthly, each of which project meetings shall be attended by Contractor's project manager, the pipeline Subcontractor's project superintendent when construction is in progress and others as deemed necessary, along with one or more representatives of Owner.

#### 7.2 Project Schedule.

(a) Contractor, within 5 days after execution of this Agreement, shall prepare and submit for Owner's information and approval a schedule in the form of a Gantt bar chart and a

detailed CPM Network schedule (as same may be revised from time to time, the "Project Schedule") for the Work. The Project Schedule shall incorporate the Projected Final Completion Date. In addition, Contractor shall, at the request of Owner, deliver the following information:

- (i) Schedule of activities by major project element;
- (ii) Activities listed by early start date for each major project element;
- (iii) A schedule of production of Drawings and Specifications and other documents required for the award of Subcontracts and contracts of sub-subcontractors (providing for appropriate periods for review, which periods shall not exceed ten days where practicable);
- (iv) Vendor's list approved by Owner.
- (v) A listing of all long lead-time items and a schedule for the acquisition; and delivery of such items; and
- (vi) A detailed schedule of the periods during which each Subcontractor's work will be performed.

(b) The Project Schedule shall take into consideration such matters as design services, Owner activities, governmental approvals and the like. Contractor and each Subcontractor under a major trade or procurement Subcontract shall cooperate fully and provide detailed information as required in order to achieve the most logical schedule for the Project that will be acceptable to Owner and Contractor.

(c) Contractor, in cooperation with Owner, and Subcontractors under major trade or procurement Subcontracts, will continuously monitor and shall revise and update monthly the Project Schedule, provided that the Projected Final Completion Date shall be adjusted only as expressly permitted in the Contract Documents. The Project Schedule shall be further revised or expanded to provide more detailed information concerning the time requirements for all elements of the Project as such information is developed by Contractor and approved by Owner.

(d) Contractor shall to the extent necessary, provide expediting services to ensure that materials and equipment are delivered in accordance with the Project Schedule.

(e) Contractor shall prepare semi-monthly Project progress reports in accordance with Exhibit 7.2(e-1) and Exhibit 7.2(e-2) showing Project related activities and Project status. Such Project progress reports shall reflect activities and progress for the previous 14 day period.

7.3 Checking Materials. Contractor shall inventory, check, inspect and approve all Materials received during the performance of the Works.

7.4 Payment of Claims. Contractor will pay promptly all amounts for Materials and Services furnished in the performance of the Work and any and all other valid claims arising out of the

performance of the Work hereunder. Contractor will allow no lien or charge to become fixed upon the Project or any portion thereof or the Pipeline Rights-of-Way, unless such lien or charge shall be created by Owner.

7.5 Payment of Taxes. Contractor shall pay sales, consumer, use and similar taxes incurred in the performance of the Work or portion thereof.

7.6 Contractor's Chief Inspector. Contractor shall employ a competent chief inspector and necessary assistants who shall be in attendance at the Project Site during the performance of the Work. Such chief inspector shall represent Contractor, and written communications from Owner given to such chief inspector shall be as binding as if given to Contractor. Owner and other entities designated by Owner, shall have the right, but not the obligation, to have one or more inspectors in attendance at any Project Site, provided such inspectors shall not interfere with the performance of the Work.

7.7 Permits, Fees, Notices, Tests and Inspections.

(a) Contractor shall secure and pay for any construction or building permits and other permits and governmental fees, licenses and inspections necessary for proper execution and completion of the Work.

(b) Contractor shall give all notices required by Applicable Laws.

(c) Contractor shall be responsible for ascertaining that the Contract Documents are in compliance with Applicable Laws.

(d) Contractor shall be responsible for arranging, scheduling and making any and all tests required by Applicable Laws or the Contract Documents. Contractor shall provide Owner with not less than 4 Business Days notice before conducting any pipeline test in order to allow Owner to have one or more representatives present during the conduct of such test.

(e) Contractor shall provide comprehensive visual and other inspection of all aspects of line pipe manufacture.

7.8 Compliance with Laws. In addition to complying with and constructing the Project in accordance with Applicable Laws, Contractor shall comply with each and every federal, state, county, city, and municipal laws, codes, statutes, rules, regulations and orders applicable to Contractor or its operations conducted under the Contract Documents.

7.9 Safety and Security.

(a) Contractor covenants, warrants and represents that all Work performed hereunder shall be conducted in accordance with safety standards and procedures provided for under Applicable Laws and industry standards.

(b) Without in any way limiting paragraph (a) preceding, Contractor shall erect and maintain, as required by existing conditions and performance of the Work, safeguards for safety and protection of persons and property on the Pipeline Rights-of-Way, other portions of the Project Site, and property adjacent to the Pipeline Rights-of-Way and other portions of the Project Site, including posting danger signs and other hazard warnings, promulgating safety regulations and notifying owners and users of any land within or adjacent to the Pipeline Rights-of-Way of the existence of any dangerous conditions created by the performance of the Work.

(c) When use or storage of explosives or other hazardous materials or equipment or unusual methods are necessary for execution of the Work, Contractor shall exercise utmost care and carry out such activities under the supervision of properly qualified personnel.

(d) Contractor shall designate a responsible member of the Contractor's organization whose duty shall be to use Best Efforts to prevent accidents in the performance of the Work. This person may be Contractor's superintendent.

(e) Contractor shall be responsible for the security of the Work, the Project Site and all Materials stored at the Project Site or at any other location by Contractor with the consent of Owner. Contractor shall be responsible for all direct losses and expenses incurred by reason of failure to maintain reasonable security at the Project Site or at the location where Materials are stored, and such expenses incurred shall not increase the Contract Sum. Contractor shall comply with all reasonable security requirements of Owner.

(f) Contractor shall use Best Efforts to protect all completed and partially completed Work located on the Project Site from loss and damage, including theft or damage by weather and, if necessary, shall provide suitable shelter therefor.

(g) Without limiting the generality of Contractor's safety obligations under this subsection 7.9, Contractor shall take all reasonable safety precautions and comply with all Applicable Laws to prevent damage, injury and loss to person and property resulting from the excavation and filling of, and performance of Work within, trenches during construction and installation of the Project, including the design and construction of sound trench safety and earth retention systems. Specific reference is made to (i) the Occupational Safety and Health Standards-Excavation, 54 Fed. Reg. 45,894 (1989) (codified at 29 C.F.R. Sections 1926.650-1926.652), and (ii) any and all special shoring requirements of the State of Texas, though such references are not intended to be an exhaustive listing of all Applicable Laws governing trench safety.

7.10 Cleaning Up. Contractor shall keep all areas within which it performs any portion of the Work in a safe condition and free from accumulation of waste material and shall satisfy any reasonable requests of Grantors of pipeline rights-of-way concerning clean-up of rights-of-way. Without limiting the foregoing, Contractor shall be responsible for performing such cleanup work within and adjacent to the Pipeline Rights-of-Way as is necessary to comply with the requirements of any instrument conveying or permitting a portion of the Pipeline Rights-of-Way to Owner. Upon the completion of the Work, Contractor shall remove from and about the Pipeline Rights-of-Way and all other areas within which any portion of the Work is performed all waste materials,

rubbish, Contractor's tools, construction equipment, machinery and surplus Materials. If Contractor fails to perform any of its cleanup obligations, Owner may perform same and charge the cost thereof to Contractor.

#### 7.11 Non-Conforming Work.

(a) Contractor warrants and represents that it shall promptly correct Work which does not conform to the requirement of the Contract Documents, the Completion Requirements or the Performance Requirements and of which Contractor receives written notice on or at any time before the first anniversary of the Final Completion Date. Contractor shall bear all costs of correcting such nonconforming and defective Work, including necessary disassembly, transportation, reassembly, additional testing and inspection and other expenses incurred as a result of the defective Work. The warranty contained herein shall survive acceptance of the Work by Owner and final payment.

(b) If Contractor fails to correct non-conforming or defective Work that Contractor is required to correct under subsection 7.11(a) within a reasonable time, Owner may correct such non-conforming or defective Work at Contractor's expense.

(c) If Owner prefers to accept non-conforming Work that Contractor is required to correct under subsection 7.11(a), Owner may do so instead of requiring its correction if Contractor agrees, in which case the Contract Sum will be reduced as mutually agreed. Such adjustment shall be effected whether or not final payment has been made, and if final payment has been made, Contractor shall pay to Owner the amount of such adjustment within 30 days after demand therefor.

7.12 As-Built Surveys and Record Drawings. Within 30 days after the Final Completion Date, Contractor shall deliver to Owner (i) on the ground surveys reflecting the actual location of the Pipeline Systems within the Pipeline Rights-of-Way and (ii) the record set of the drawings showing the as-built condition of the Pipeline Systems.

7.13 As-Built Documentation. Within 30 days after the Final Completion Date, Contractor shall provide at least six sets of design and construction data books which shall contain a description of the project scope, construction inspection reports, welding procedures and qualifications reports, welder qualification reports, hydrostatic test reports, electrical and instrument test reports, radiographic examination reports, construction specifications, radiographic examination specifications, pipe mill test reports and any other documents or drawings which show compliance with applicable codes, standards, regulations, and laws. Contractor shall also provide at least six sets of material and equipment data books which shall contain (i) all technical specifications prepared for acquisition of project related material, (ii) vendors' start-up, operating, and maintenance procedures, (iii) schematics and (iv) recommended spare parts lists.

7.14 Certain Obligations of Contractor Following Completion. Following the Final Completion Date, Contractor shall:

(a) assist Owner in instructing and training Owner's staff to operate and maintain the equipment and systems which are a part of the Pipeline Systems for a period not exceeding 30 days following the Final Completion Date or the initial start-up of the Pipeline System, whichever is later;

(b) assist Owner in checking out all equipment and systems and starting up equipment and systems for the operation of the Pipeline Systems for a period not exceeding 30 days following the Final Completion Date or the initial start-up of the Pipeline System, whichever is later;

(c) attend meetings and do whatever is necessary to ascertain the cause of and help resolve initial problems of equipment or systems of an operational nature for a period not exceeding 30 days following the Final Completion Date or the initial start-up of the Pipeline System, whichever is later.

Owner will not continue to hold the retainage provided for in subsection 11.2 hereof solely because Contractor's obligations under paragraphs (a), (b) or (c) next above have not yet been completed.

7.15 Certain Representations. Subject to the time limitation set forth in subsection 7.11(a) Contractor hereby represents and warrants to Owner that Contractor has satisfied itself (i) as to the nature, location, and character of the general area in which the Projected Pipeline Rights-of-Way is located, including, but not limited to, its climatic conditions, nature of soil conditions, available labor supply and labor costs, available materials supply and material costs, available utility services, and available equipment supply and equipment costs, and (ii) as to the quantity and quality of all materials and services and other matters necessary to complete the Work in the manner required by the Contract Documents.

7.16 Contractor's Obligations. Owner may from time-to-time furnish Contractor with certain documents prepared by Owner or on Owner's behalf until the first anniversary date of the Final Completion Date. Contractor shall thoroughly review such documentation. Any preliminary drawings, design guidelines, schematics, equipment lists, budgets, accounting information, reports, surveys, specifications and other documents contained in the documentation furnished by Owner are furnished solely for Contractor's general information and convenience. Contractor shall be responsible for the design and construction of a complete Pipeline System, which shall perform in accordance with the requirements of this Agreement. Any furnishing by Owner of design information which is utilized by Contractor in its sole discretion, and the review or inspection by Owner or its inspectors of the Drawings and Specifications or the Work shall not in any way relieve Contractor of its responsibilities under this Agreement.

## SECTION 8 COMMENCEMENT AND COMPLETION

8.1 Commencement of Work. Contractor shall commence the Work upon execution of this Agreement by both Parties.

## 8.2 Completion.

(a) Contractor shall cause the Final Completion Date to occur no later than October 16, 2000 (as such date may be extended in accordance with (i) with Change Orders pursuant to subsection 6.4, (ii) any delay pursuant to subsection 8.4 or (iii) Owner's failure to comply in a timely manner with its obligations under subsection 18.3 with respect to the Wetlands development or offsets that are remote from the Project Site, the "Projected Final Completion Date").

(b) The "Final Completion Date" means the date upon which all of the following shall have occurred:

(i) The Pipeline Systems shall have been completed in accordance with the Completion Requirements and Applicable Laws, and tested in accordance with the procedure set forth in Exhibit 3.4 (and the Pipeline System shall have passed such tests);

(ii) Following such testing, the Pipeline Systems shall have been prepared so that they could, if Owner so chose, be immediately filled with propylene, ethylene and natural gasoline, respectively;

(iii) The Pipeline Systems shall be capable of operating in accordance with the Performance Requirements;

(iv) The meter stations shall have been installed and tested, and shall be capable of being manually operated. The SCADA and SCADA interface system does not have to be complete for the Final Completion Date to have occurred; and

(v) Contractor shall have certified to Owner that (A) the conditions set forth in the immediately preceding clauses (i), (ii), (iii), and (iv) have been satisfied.

(c) At Owner's sole discretion, Owner may declare in writing that the Final Completion Date has occurred, notwithstanding the fact that certain immaterial items remain to be accomplished.

## 8.3 Liquidated Damages and Completion Bonus.

(a) If on the Projected Final Completion Date the Final Completion Date shall not have occurred then Contractor shall pay Owner as Owner's sole remedy for such delay as liquidated damages an amount determined based on the following sliding scale:



Number of Calendar Days after the Projected Final Completion Date the Final Completion Date Occurs -----	The Per Calendar Day Liquidated Damage Amount -----
0-21	\$0.00
22-30	\$50,000
31-60	\$75,000
61-beyond	\$100,000

The total sum of liquidated damages shall not exceed \$4 million. Any such liquidated damages shall be paid within 30 days after the Final Completion Date. No additional liquidated damages shall accrue following any termination of this Agreement by Owner under subsection 16.1(a).

(b) If the Final Completion Date occurs prior to the Projected Final Completion Date, then Owner shall pay Contractor as an early completion bonus an amount determined based on the following sliding scale:

Number of Calendar Days prior to the Projected Final Completion Date the Final Completion Date Occurs -----	The Per Calendar Day Early Completion Bonus Amount -----
0-14	\$0.00
15-21	\$25,000
22-beyond	\$50,000

The total sum of any such early completion bonus payment shall not exceed \$1.5 million. Any such early completion bonus payment shall be paid within 30 days after the Final Completion Date.

(c) Contractor acknowledges that Owner's business will be damaged if the Final Completion Date does not occur by the Projected Final Completion Date, and Contractor and Owner agree that the exact measurement of such damages is difficult, if not impossible, to determine, and the amounts provided for in subsection 8.3(a) as liquidated damages are reasonable estimates of the damages to Owner's business caused by such delay.

(d) For illustrative purposes only, attached hereto as Exhibit 8.3(d) are example calculations of liquidated damages and completion bonuses.

8.4 Delay.

(a) If the progress of the Work on the critical path of the most recent updated version of the Project Schedule or the performance of any other obligation hereunder is delayed at any

time by (i) an act or negligence of Owner ("Owner Delay") or (ii) Force Majeure as defined in Appendix A, in each case not reasonably anticipated by Contractor and beyond Contractor's reasonable control, then the Projected Final Completion Date shall be extended for the days of delay and Contractor shall not be liable for the failure to perform any obligation hereunder that is affected by a Force Majeure during the period of such Force Majeure; provided, however, that Contractor shall not be entitled to any extension or relief from liability to the extent that any such event could have been prevented or overcome by Contractor through the exercise of such diligence and reasonable care as would be exercised by a prudent person under similar circumstances. Contractor shall as far as reasonably possible, remedy any delay due to Force Majeure with all reasonable dispatch.

(b) In the event Contractor is delayed at any time in the progress of the Work, extension of the Projected Final Completion Date as provided for herein shall be Contractor's sole and exclusive remedy for such delay, unless the same shall have been caused by an Owner Delay and then only if and to the extent that such Owner Delay continues for 3 days after Owner's receipt of written notice from Contractor stating with specificity the act constituting Owner Delay. Owner's exercise of any of its rights or remedies provided for in the Contract Documents or under Applicable Laws shall not be construed as an Owner Delay. Contractor shall not be entitled to any damages or reimbursement for any losses and, except as expressly otherwise provided above in this paragraph (b), shall not be entitled to any compensation on account of any delay or delays resulting from any cause other than an Owner Delay, whether such cause is foreseen or unforeseen, reasonable or unreasonable.

(c) The Projected Final Completion Date and the Contract Sum take into full consideration the effect of inclement weather normally to be expected during the construction period for the Project and such effect shall be accounted for in the Project Schedule on both cost and time for completing the Work. The Project Schedule shall incorporate Contractor's expectation that it will experience weather delay during construction of the Project. Notwithstanding the definition of Force Majeure in Appendix A, an extension in the Projected Final Completion Date for weather delays may be claimed only for delays incurred during normal business hours (i.e., 7:00 a.m. to 5:00 p.m.) on Monday through Sunday of a given week (but excluding any holiday) and only after Contractor has previously been delayed by weather for at least 30 consecutive days.

(d) Contractor shall notify Owner in writing of any delay that would extend the Projected Final Completion Date as soon as reasonably possible after the occurrence of the delay. Contractor shall provide in the notice an estimate of the probable effect of such delay on the progress of the Work.

8.5 Owner's Obligations. Owner shall furnish Contractor with all information which Owner is required to furnish to Contractor within the time limits expressly required hereunder. Decisions and approvals required of Owner under the Contract Documents shall be provided within a reasonable period of time, not to exceed 7 days.

8.6 Time of the Essence. Time is of the essence as to the Contract Documents and completion of the Work, provided that Owner's sole remedy for any delay of the Final Completion Date shall be as provided in subsection 8.3.

## SECTION 9 CONTRACT SUM

9.1 Contract Sum. Owner shall pay to Contractor for the performance of the Work the sum of \$71,561,000 (said amount, as it may be increased or decreased in strict accordance with the Contract Documents including but not limited to the provisions of subsection 5.7 of this Agreement, is herein called the "Contract Sum"). Contractor acknowledges and agrees that the Contract Sum includes (i) the cost of all Materials, labor, fabrication, design, engineering, construction, installation, services, Rights-of-Way acquisition costs (except as otherwise provided in subsection 5.6) and other items necessary to complete the Project and the Work in accordance with the Contract Documents, (ii) without in any way limiting the clause immediately preceding, all amounts necessary for trench excavation and safety protection and for special shoring requirements of the State of Texas, as well as any other Applicable Laws, and (iii) the profit and overhead of Contractor for construction of the Project and the performance of the Work, provided that Contractor shall be permitted additional overhead and profit for Change Work to the extent and only to the extent expressly permitted under this Agreement.

9.2 Unit Prices. Owner hereby acknowledges and accepts, and Contractor hereby guarantees, the "Unit Prices" set forth in Exhibit 9.2 attached hereto. If any Unit Price increases or decreases above the permitted amount in Exhibit 9.2, such increase or decrease shall not change the Contract Sum.

## SECTION 10 SUBCONTRACTS AND OTHER AGREEMENTS

10.1 Obligation to Subcontract. Contractor shall subcontract with a pipeline construction contractor to furnish superintendents, foremen, labor, equipment, machinery, tools, materials and supplies necessary to perform construction of the Pipeline Systems in a diligent and workmanlike manner, provided that Owner shall have the right to approve such Subcontractor, but such approval shall not be unreasonably withheld.

10.2 Right to Subcontract. Subject to subsection 10.1, Contractor may subcontract any part of the Work and may enter into agreements with Subcontractors to provide Services or Materials for use with or incorporation into the Work (any such agreement herein referred to as a "Subcontract"). Owner shall have the right to approve, which approval shall not be unreasonably withheld, any Subcontractor prior to the execution of any Subcontract that provides for payments under such Subcontract in excess of \$500,000.

10.3 Subcontractor Relations. Contractor shall contract with each and every Subcontractor solely in the name and on behalf of Contractor, and no provision contained herein or in any other Contract Document nor approval by Owner of any Subcontractor or Subcontract shall be

construed as creating any contractual relationship between any Subcontractor and Owner, release Contractor from any liability arising out of the performance of any portion of the Work by such Subcontractor or be used as an argument by Contractor that Owner is estopped from asserting or has waived its right to assert that Contractor is fully responsible for any liability arising out of the performance of the Work by such Subcontractor.

10.4 Subcontractor and Suppliers Warranties. All guarantees and warranties of Materials and Services furnished to Contractor or Subcontractors by any Subcontractor, sub-subcontractor, manufacturer or supplier shall be deemed to run for the benefit of Owner. Contractor shall, on the Final Completion Date, assign to Owner the benefits of all guarantees and warranties of all Subcontractors, sub-subcontractor manufacturers and suppliers engaged for the Project, but such assignment shall not relieve Contractor of its warranty obligations to Owner under the Contract Documents or Applicable Laws. Notwithstanding the foregoing assignment, Contractor shall, upon completion of the Project deliver to Owner as part of the Data Books all guarantees and warranties furnished for the Project, with duly executed instruments confirming the assignment of the guarantees and warranties to Owner. The guarantees and warranties together in the Data Books shall be properly indexed. Contractor shall obtain from each Subcontractor, sub-subcontractor, manufacturer and supplier guarantees and warranties upon standard terms and periods generally offered by the Subcontractor, sub-subcontractor, manufacturer or supplier. In addition, Contractor shall request from each Subcontractor, sub-subcontractor manufacturer and supplier any extended guarantee or warranty offers which the Owner may evaluate and may wish to purchase at Owner's expense.

## SECTION 11 APPLICATIONS FOR PAYMENT

### 11.1 Applications for Payment.

(a) No later than the first business day of the month in which one of the payments described in Exhibit 11.1 (Schedule of Monthly Payments) becomes due, Contractor shall deliver to Owner one original and two copies of a completed invoice (an "Application for Payment") for such progress payment. The schedule includes a column indicating February 1999 payment totaling \$2,272,000, which is comprised of Contractor's invoices to Owner and Owner's down payment for Materials or equipment, if any, prior to the execution date of this Agreement. Payment for any of these amounts that have not been paid upon execution of this Agreement shall be paid on or before February 15, 1999.

(b) Each Application for Payment shall constitute a certificate by Contractor that (i) the payment therein requested is justly due Contractor on account of all Work for which the Application for Payment is being submitted, (ii) the Work performed to the date of the Application for Payment has been performed in accordance with the Contract Documents, (iii) the materials for which the Application for Payment is being submitted have or will be installed or incorporated in the Project or delivered to the Project Site or held off the Project Site and complying with the provisions of this paragraph (b), (iv) Contractor is not then in default under the Contract Documents or if Contractor is in default, Contractor shall specify the default of

which it is aware, (v) there are no known mechanics' or materialmen's liens outstanding at the date of the Application for Payment, (vi) all due and payable bills with respect to the Work have been paid to date or are included in the amount requested in the current Application for Payment, and (vii) except for such bills not paid, there is no known basis for the filing of any mechanics' or materialmen's liens on the Work.

11.2 Retainage. Notwithstanding any provision herein to the contrary, Contractor agrees that 5 percent (5%) of amounts payable on account of Work performed or supplied shall be retained by Owner until the final payment of the Contract Sum is payable to Contractor under the provisions of Section 12. The contract executed with the pipeline construction Subcontractor shall provide that the Contractor shall retain 10 percent (10%) of each progress payment to be made to the Subcontractor.

11.3 Owner's Right to Withhold Approval. Owner may withhold its approval of an Application for Payment, in whole or in part, to the extent reasonably necessary to protect Owner from loss on the following grounds:

(a) defective work not remedied within a reasonable time following written notice thereof;

(b) third party claims filed which Contractor has not bonded over;

(c) failure of Contractor to make payments to Subcontractors as required by the applicable agreements or for labor, materials, equipment, taxes, permits or any other item or matter for which Contractor is responsible under the Contract Documents other than during any good faith dispute relating thereto;

(d) damage to Owner caused by Contractor and not remedied within a reasonable time;

(e) failure to carry out the Work in accordance with the Contract Documents after receiving seven days written notice of such failure; or

(f) satisfaction of any claims against Contractor arising under any indemnities contained in the Contract Documents.

## SECTION 12 PAYMENTS TO CONTRACTOR

12.1 Owner's Review and Obligation to Fund. Within 15 days after its receipt of an Application for Payment and all documents required to accompany such Application for Payment, Owner will pay Contractor so much of the Application for Payment as Owner approves, it being understood that Owner shall have no right to withhold approval except to the extent permitted under this Agreement or other Contract Documents or as permitted under Applicable Laws. Owner recognizes the importance of prompt payment within the 15 day period and agrees to pay

Interest on that portion of an Application for Payment due and not paid by Owner within the 15 day period except where such withholding is permitted hereunder. Owner agrees to make its payments to Contractor by electronically transferring each payment to Contractor's bank in Houston, Texas. The wiring instructions for such account will be provided by Contractor.

12.2 Final Payment. Final payment, constituting the final, unpaid balance of the Contract Sum, shall be due and payable on the date all of the following conditions are satisfied: (i) 15 days shall have lapsed from the Final Completion Date, (ii) Contractor has delivered to Owner in exchange for such final payment, in the form of Exhibit 12.2(a) attached hereto, a waiver of all constitutional, statutory and contractual liens it may have against the Project; and (iii) Contractor has delivered to Owner waivers of mechanics' and materialmen's liens in the form of Exhibit 12.2(b) attached hereto from all Subcontractors who have performed Work in connection with the Project or, if Contractor is unable to obtain all such waivers, a bond in form, substance and amount satisfactory to Owner to cover, together with Contractor's indemnification of Owner against, any and all claims made on account of such liens.

12.3 No Waiver of Defects. No on-site observation or review by Owner, approval given by Owner or payment made by Owner to Contractor under this Agreement, or partial or entire acceptance or use of the Work or the Project by Owner or any other Person shall constitute an acceptance by Owner of Work not in compliance with the Contract Documents or a waiver by Owner of any claims against Contractor for any defects or deficiencies in the Work.

12.4 Owner not Required to See to Proper Application of Payments. No provision of this Agreement or the other Contract Documents shall be construed to require Owner to see to the proper application of monies paid to Contractor hereunder.

12.5 Owner's Limited Right to Pay Subcontractors Directly. Owner may, at its sole option and without any obligation to do so, at any time after Owner has given Contractor 10 days written notice of Contractor's default under the Contract Documents or under the applicable Subcontract or if a lien is filed by any Subcontractor, sub-subcontractor, laborer or materialmen against all or any portion of the Project or the Project Site and such lien is not released or bonded around to the satisfaction of Owner within 30 days after same has been filed, make payments directly to any Subcontractor and all such payments so made shall be without liability to Owner and shall be deemed to be made directly to Contractor on account of the Contract Sum. For purposes of this subsection 12.5, Contractor shall be deemed to have obtained a satisfactory bond on a lien claim if the Parent Guarantor advises Owner in writing within such 30 day period that such lien claim is covered by, and such Parent Guarantor will defend Owner against such claim pursuant to, the Parent Guaranty.

## SECTION 13 ACCOUNTING RECORDS

Contractor shall inspect and verify all materials and devices entering into the Work and shall keep such full and detailed accounts as may be necessary for proper management under the Contract Documents and as shall be satisfactory to Owner. Owner shall have the right to audit from time to

time, and upon request shall be afforded access to, all of Contractor's records, books, correspondence, instructions, drawings, receipts, vouchers, invoices for all Materials and Services, memoranda and similar data relating to the Contract Documents, and Contractor shall preserve all such records for the Project for a period of 5 years, or for such longer period as may be required by Applicable Laws, after the final payment hereunder.

#### SECTION 14 INSURANCE

14.1 Contractor's Insurance. At all times during the performance of the Work, Contractor (as well as the Subcontractor engaged to install the Pipeline Systems) will have in force with reliable insurance companies acceptable to Owner and authorized to do business in the state or states in which Contractor works, the following insurance:

(a) Worker's Compensation and Employee Liability Insurance including Alternate Employers endorsement, other states' coverage as needed, Maritime coverage endorsement if marine exposure exists and U.S. Longshore and Harborworkers Act coverage if work is to be performed on or near navigable waters. The workers compensation shall provide statutory limits and employers liability shall provide not less than \$1,000,000 per accident for bodily injury or disease.

(b) Commercial General Liability and Umbrella Liability insurance covering all of Contractor's operations pertaining to the Work with per occurrence limits of not less than \$6,000,000. The insurance shall be written on an occurrence form and shall include coverage for explosion, collapse and underground damage, contractual liability for Contractor's liability related to the Project, separation of insured clauses and if there is an aggregate limit, this limit will be on a per project basis. Owner shall be named as an additional insured on these policies.

(c) Business Automobile Insurance covering any vehicle used on or related to this Project with per accident limits of not less than \$6,000,000. The Business Automobile Insurance shall name Owner as an additional insured.

(d) Upon the request of Owner, Contractor will provide or cause Subcontractor to provide "All risk" installation floater/builder's risk type coverage including in transit with maximum deductible of \$10,000 and limits equal to the insurable value estimated for the Work (as defined in the Contract Documents), endorsed to provide for replacement cost coverage. Such insurance shall name Owner, as its interest appears, and any other contractors as their interest appear. The builder's risk coverage shall be endorsed to provide for coverage of all Materials (i) during transit to the Project Site, any other location on which a portion of the Work is performed, each approved offsite storage area, and each other location on which any portion of the Materials will be stored, and (ii) during storage on the Project Site, an approved offsite storage area and any other location on which any portion of the Materials will be stored. Such insurance coverage shall name Owner and other contractors as an additional insured.

(e) Errors and Omissions Insurance for Engineering Design Services with limits not less than \$2,000,000 covering liabilities resulting from errors or omissions in the design of the Pipeline Systems.

14.2 Term of Insurance, Certificates and Endorsements. All of Contractor's insurance shall be kept in full force and effect from the date Contractor receives its notice to continue until the Final Completion Date. All of Contractor's insurance will contain endorsements that (i) such insurance may not lapse or be canceled without the insurance company giving Owner at least 30 days prior written notice of such cancellation or 10 days in the event of non-payment of premium, (ii) Contractor will be solely responsible for payment of premiums, (iii) waive rights of subrogation against Owner and (iv) Contractor's insurance shall be primary in the event of overlapping coverage with insurance carried by Owner. Before Contractor continues the Work, Contractor will deliver to Owner certificates of insurance issued to Owner evidencing satisfactory coverage of the types required by subsection 14.1 are in effect. Such certificates shall be in a form acceptable to Owner and shall indicate that the endorsements required above have been issued and are in full force and effect.

14.3 Vendor's/Subcontractor's Insurance. Contractor shall require each of its Subcontractors (other than the Subcontractor engaged to install the Pipeline Systems, who shall be required to maintain the same coverage as Contractor) and each equipment vendor who will have any presence on the Project Site to maintain the same insurance as Contractor or such insurance as is industry standard for the type and scope of work being performed by the Subcontractor.

14.4 Violation of Policy Conditions. It shall be the responsibility of Contractor not to violate or permit to be violated any conditions of the insurance policies required under this Section 14, and it shall be Contractor's duty and responsibility to impose upon each Subcontractor and have each Subcontractor impose upon each sub-subcontractor the same responsibilities and obligations imposed upon Contractor under the insurance provisions provided for herein.

14.5 Waiver of Claims. CONTRACTOR HEREBY WAIVES RIGHTS IT MAY HAVE AGAINST OWNER (INCLUDING, BUT NOT LIMITED TO, A DIRECT ACTION FOR DAMAGES) ON ACCOUNT OF ANY LOSS OR DAMAGE OCCASIONED TO CONTRACTOR OR CONTRACTOR'S PROPERTY EXCEPT TO THE EXTENT SUCH LOSS OR DAMAGE IS CAUSED BY THE FAULT, NEGLIGENCE OR OTHER TORTIOUS CONDUCT, ACTS OR OMISSIONS OF OWNER OR OWNER'S DIRECTORS, EMPLOYEES, AGENTS OR REPRESENTATIVES), ARISING FROM ANY RISK COVERED BY A STANDARD FORM ALL RISK FULL REPLACEMENT COST PROPERTY INSURANCE POLICY. OWNER HEREBY WAIVES RIGHTS IT MAY HAVE AGAINST CONTRACTOR (INCLUDING, BUT NOT LIMITED TO, A DIRECT ACTION FOR DAMAGES) ON ACCOUNT OF ANY LOSS OR DAMAGE OCCASIONED TO OWNER OR OWNER'S PROPERTY, ARISING FROM ANY RISK COVERED BY THE BUILDER'S RISK COVERAGE MAINTAINED BY CONTRACTOR OR WHICH CONTRACTOR CAUSES SUBCONTRACTOR TO MAINTAIN PURSUANT TO SUBSECTION 14.1.



14.6 Corporate Guarantee. A Guaranty Agreement executed by Contractor's parent corporation, Babcock International Group PLC (the "Parent Guarantor"), in the form attached hereto as Exhibit 14.6 (the "Parent Guaranty"), together with the certificate executed by the secretary or assistant secretary of the Parent Guarantor evidencing the authorization of the execution and delivery of the Parent Guaranty by the individual executing and delivering the same. Failure to do so within 15 days of execution of this Agreement shall constitute a material default hereunder by Contractor.

## SECTION 15 INDEMNITY

15.1 CONTRACTOR INDEMNITY. CONTRACTOR WILL INDEMNIFY AND HOLD HARMLESS OWNER AND OWNER'S OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, AND REPRESENTATIVES (EACH AN "OWNER INDEMNIFIED PARTY") FROM, AND SHALL REIMBURSE EACH OWNER INDEMNIFIED PARTY FOR AND WITH RESPECT TO, ANY AND ALL COSTS, EXPENSES (INCLUDING, WITHOUT LIMITATION, REASONABLE ATTORNEYS FEES), CLAIMS, DEMANDS, ACTIONS, PROCEEDINGS, JUDGMENTS, HEARINGS, DAMAGES, LOSSES AND LIABILITIES BROUGHT OR ASSERTED BY OR PAYABLE TO ANY THIRD PARTY (INCLUDING CONTRACTOR, ANY SUBCONTRACTOR OR ANY SUB-SUBCONTRACTOR, OR ANY OF ITS OR THEIR AGENTS, REPRESENTATIVES OR EMPLOYEES) ON ACCOUNT OF PERSONAL INJURY, DEATH, PROPERTY DAMAGE OR ANY OTHER FORM OF INJURY OR DAMAGE (EACH A "CLAIM" AND COLLECTIVELY THE "CLAIMS") TO THE EXTENT ARISING OUT OF OR RELATING OR INCIDENT TO (A) ANY NEGLIGENCE OR INTENTIONAL MISCONDUCT OF CONTRACTOR OR CONTRACTOR'S OFFICERS, DIRECTORS, OR EMPLOYEES, (B) ANY BREACH OF THIS AGREEMENT BY CONTRACTOR, (C) THE PERFORMANCE OF THE WORK BY CONTRACTOR OR ANY OF ITS SUBCONTRACTORS OR ANY SUB-SUBCONTRACTOR OR ANY OTHER PERSON PERFORMING ANY PORTION OF THE WORK ON BEHALF OF OR FOR THE BENEFIT OF CONTRACTOR, OR (D) ANY FIRE, EXPLOSION OR ACCIDENT OCCURRING DURING THE PERFORMANCE OF THE WORK; EXCEPT TO THE EXTENT SUCH CLAIMS ARE ATTRIBUTABLE OR CAUSED BY THE SOLE, JOINT, CONCURRENT, OR COMPARATIVE NEGLIGENCE, FAULT OR STRICT LIABILITY OF AN OWNER INDEMNIFIED PARTY. IF A THIRD PARTY FILES A LAWSUIT OR BRINGS ANY OTHER LEGAL ACTION ASSERTING A CLAIM AGAINST AN OWNER INDEMNIFIED PARTY, THEN CONTRACTOR, UPON NOTICE FROM THE OWNER INDEMNIFIED PARTY, SHALL RESIST AND DEFEND SUCH CLAIM THROUGH COUNSEL REASONABLY SATISFACTORY TO THE OWNER INDEMNIFIED PARTY. CONTRACTOR DOES NOT INDEMNIFY OWNER FROM ANY CONSEQUENTIAL, INCIDENTAL, INDIRECT OR PUNITIVE DAMAGES, SUCH AS LOSS OF USE OR LOSS OF PROFIT. FURTHERMORE, CONTRACTOR SHALL NOT BE LIABLE FOR ANY THIRD PARTY ECONOMIC OR FINANCIAL LOSSES. CONTRACTOR'S OBLIGATIONS UNDER THIS SUBSECTION SHALL SURVIVE THE TERMINATION OF THIS AGREEMENT, AND SHALL NOT BE LIMITED IN ANY WAY BY ANY LIMITS OF INSURANCE REQUIRED TO BE CARRIED BY CONTRACTOR HEREUNDER.

15.2 OWNER INDEMNITY. OWNER WILL INDEMNIFY AND HOLD HARMLESS CONTRACTOR AND CONTRACTOR'S OFFICERS, DIRECTORS, EMPLOYEES, AGENTS AND REPRESENTATIVES (EACH A "CONTRACTOR INDEMNIFIED PARTY") FROM, AND SHALL REIMBURSE EACH CONTRACTOR INDEMNIFIED PARTY FOR AND WITH RESPECT TO ANY CLAIMS TO THE EXTENT ARISING OUT OF OR RELATING OR INCIDENT TO (A) ANY NEGLIGENCE OR INTENTIONAL MISCONDUCT OF OWNER OR OWNER'S OFFICERS, DIRECTORS, OR EMPLOYEES, OR (B) ANY BREACH OF THIS AGREEMENT BY OWNER; EXCEPT TO THE EXTENT ANY SUCH CLAIMS ARE ATTRIBUTABLE OR CAUSED BY THE SOLE, JOINT, CONCURRENT, OR COMPARATIVE NEGLIGENCE, FAULT OR STRICT LIABILITY OF A CONTRACTOR INDEMNIFIED PARTY. IF A THIRD PARTY FILES A LAWSUIT OR BRINGS ANY OTHER LEGAL ACTION ASSERTING A CLAIM AGAINST A CONTRACTOR INDEMNIFIED PARTY, THEN OWNER, UPON NOTICE FROM SUCH CONTRACTOR INDEMNIFIED PARTY, SHALL RESIST AND DEFEND SUCH CLAIM THROUGH COUNSEL REASONABLY SATISFACTORY TO SUCH CONTRACTOR INDEMNIFIED PARTY. OWNER DOES NOT INDEMNIFY CONTRACTOR FROM ANY CONSEQUENTIAL, INCIDENTAL, INDIRECT OR PUNITIVE DAMAGES, SUCH AS LOSS OF USE OR LOSS OF PROFIT. FURTHERMORE, OWNER SHALL NOT BE LIABLE FOR ANY THIRD PARTY ECONOMIC OR FINANCIAL LOSSES. OWNER'S OBLIGATIONS UNDER THIS SUBSECTION SHALL SURVIVE THE TERMINATION OF THIS AGREEMENT.

15.3 Other Provisions; Survival. The indemnification obligations of Contractor in this Section 15 are in addition to and shall not limit or be limited by any other indemnity obligations contained herein. Notwithstanding any other provision of this Agreement, the indemnity obligations contained in this Agreement, including the indemnity obligations contained in this Section 15, are intended to and shall survive the termination or expiration of this Agreement.

#### SECTION 16 TERMINATION, STOPPAGE OF WORK, OWNER'S RIGHT TO CARRY OUT WORK

##### 16.1 Termination by Owner With Cause.

(a) Subject to subsection 8.4, Owner may terminate this Agreement after 5 days' prior written notice to Contractor, if Contractor:

(i) refuses or fails to supply enough properly skilled workers or proper materials;

(ii) fails to make payment to Subcontractors for materials or labor in accordance with the respective agreements between Contractor and the Subcontractors except during any good faith dispute relating to such agreements or as a result of any failure by Owner to make any payment to Contractor under this Agreement;

(iii) fails to comply with any Applicable Laws, which failure shall have a material adverse effect on Owner's or Contractor's performance under this Agreement;

(iv) makes a general assignment for the benefit of its creditors, is unable to pay its debts as they become due, or becomes the subject of any voluntary or involuntary bankruptcy, insolvency, arrangement, reorganization or other debtor relief proceeding under any law, state or federal, now or hereafter in existence which remains unstayed 60 days after filing;

(v) fails to cause the Final Completion Date to occur by the date 90 days following the Projected Final Completion Date;

(vi) otherwise is in default of any material provision of the Contract Documents or otherwise fails to perform any of its material obligations under the Contract Documents.

(b) If Owner terminates this Agreement pursuant to paragraph (a) of this subsection 16.1, Contractor shall not be entitled to receive further payments on the Contract Sum unless Contractor is entitled to payment under paragraph (c) of this subsection 16.1.

(c) If Owner terminates this Agreement pursuant to this paragraph and the Contract Sum:

(i) exceeds the sum of (x) the cost incurred by Owner to complete the entire Project and Work, (y) all other reasonable costs, expenses and damages suffered by Owner as a result of the default or breach by Contractor or other reason supporting Owner's termination pursuant to paragraph (a) of this Section, and (z) all amounts paid by Owner to Contractor under the Contract Documents, then Contractor shall be paid the amount of such excess; or

(ii) is less than the total of the costs and amounts described in clauses (x), (y) and (z) under subparagraph (i) preceding, then Contractor shall pay to Owner the amount by which such costs and amounts exceed the Contract Sum.

16.2 Termination by Contractor with Cause. Contractor may terminate this Agreement after 10 days' prior written notice to Owner, if Owner:

(a) fails to pay any amount referred to in subsection 16.2(c) within 5 days after the later of Owner's receipt of written demand for such payment or the resolution of any dispute between the Parties relating to such amount;

(b) fails to comply with any Applicable Laws or any federal, state, county, city, and municipal laws, codes, statutes, rules, regulations and orders applicable to Owner or its operations conducted under the Contract Documents; which failure shall have a material adverse effect on Owner's performance under this Agreement;

(c) makes a general assignment for the benefit of its creditors, is unable to pay its debts as they become due, or becomes the subject of any voluntary or involuntary bankruptcy, insolvency, arrangement, reorganization or other debtor relief proceeding under any law, state or federal, now or hereafter in existence, which remains unstayed 60 days after filing; or

(d) otherwise is in default of any material provision of the Contract Documents or otherwise fails to perform any of its material obligations under the Contract Documents.

Notwithstanding any such termination, Contractor shall be entitled to receive all amounts owing to Contractor under the Contract Documents.

#### 16.3 Owner's Rights upon Termination of Agreement.

(a) Upon a termination of this Agreement pursuant to subsection 16.1, subsection 16.2 (provided Owner shall have paid Contractor all amounts owing to Contractor under the Contract Documents), or by the agreement of the Parties, Contractor shall:

(i) cease performance of the Work, but take immediate steps for a period not to exceed 3 days to preserve and protect Work completed and in progress and to protect materials, supplies, and equipment at the Project Site or in transit; and

(ii) upon request of Owner, deliver and assign to Owner (but in no event shall Owner be liable for any actions or defaults of Contractor occurring prior to such delivery and assignment) any and all contracts, subcontracts, purchase orders, bonds and options made by Contractor in performance of the Work, and deliver to Owner true and correct originals of all Contract Documents and all other materials relating to the Work which belong to Owner, together with all papers and documents relating to governmental permits, orders placed, bills and invoices, and lien releases obtained or issued in connection with the Work.

(b) Upon a termination of this Agreement pursuant to subsection 16.1, Owner may, without prejudice to any other rights or remedies of Owner, (i) take possession of the Project Site and all materials, equipment, tools, and construction equipment and machinery on the Project Site owned by Contractor, (ii) accept assignment of subcontracts from any of Contractor's subcontractors, and (iii) finish the Work by whatever method shall reasonably be appropriate.

#### 16.4 Stoppage of Work.

(a) Except as provided in paragraphs (b) and (c) below, in the event of a dispute, controversy or question between Owner and Contractor with respect to the interpretation of the Contract Documents, the performance of any portion of the Work, the delivery of any Materials, the payment of disputed monies or otherwise (the Parties acknowledging that undisputed monies will be paid when due), Owner and Contractor agree that pending the resolution or settlement of

such dispute, controversy or question, Contractor shall not directly or indirectly stop or delay the performance of the Work, including, without limitation, the delivery of Materials to the Project Site.

(b) If Contractor fails to correct any Work which is not in accordance with the requirements of the Contract Documents within a reasonable time after written notice thereof or persistently fails to carry out the Work in accordance with the Contract Documents, Owner, by written order signed personally or by an agent specifically so empowered by Owner in writing, may order Contractor to stop the Work, or any portion thereof until the cause for such order has been eliminated. The right of Owner to stop the Work shall in no way create any obligation upon Owner to exercise such right for the benefit of Contractor or any other person or entity.

(c) If Owner fails to pay Contractor any portion of the Contract Sum as and when required hereunder and such portion of the Contract Sum is not disputed by Owner, Contractor shall have the right to stop the Work unless such amount is paid to Contractor within 10 days after Owner's receipt of written demand for the payment thereof.

16.5 Owner's Right to Carry Out the Work. If Owner would be entitled to suspend Work under subsection 16.4(b), Owner may, without prejudice to other remedies Owner may take (but shall not be obligated to take) such action as is reasonably necessary to cause such Work to be carried out in accordance with the Contract Documents. In such a case, an appropriate Change Order shall be issued deducting from the Contract Sum the cost of carrying out such Work in accordance with the Contract Documents, provided that if such costs exceed the unfunded Contract Sum, then Contractor shall pay Owner an amount equal to the amount by which such costs exceed the unfunded Contract Sum.

#### SECTION 17 OWNERSHIP OF DOCUMENTS AND PATENT INFRINGEMENT

17.1 Ownership of Documents. All information (whether or not contained in written documents), drawings, specifications, plans, engineering calculations, computer and word processing disks and data contained thereon, computations, sketches, test data, surveys, models, photographs, discoveries, inventions, improvements to Owner's existing systems, processes or methods and all other work product prepared by Contractor or Contractor's consultants or vendors of equipment for the Project or their respective employees as a direct result of the performance of Contractor's obligations hereunder or conceived, discovered or invented by Contractor or its consultants or their respective employees as a result of or in connection with the design, development, construction, fabrication, manufacture, assembly or erection of the Project (all such information, drawings, specifications, reports or other documents herein collectively referred to as the "Work Product") are prepared as "work made for hire," as that phrase is defined in Section 10.1 of Title 17 of the United States Code (Public Law 94-553), and all title, ownership, copyright and patent privileges with respect to Work Product are, and shall at times be, in Owner and such Persons as Owner may designate, provided Owner shall have paid to Contractor all sums owed to Contractor under this Agreement. Without limiting the foregoing, Contractor shall as a condition to final payment hereunder, execute a written assignment which

unconditionally assigns to Owner all Work Product. Contractor shall have no right to use any Work Product on any project other than the Project, without Owner's prior written consent, which may be given or withheld in Owner's sole discretion. Contractor's previously copyrighted or patented discoveries, improvements, or inventions shall not be deemed Work Product under this paragraph. Contractor shall have no responsibility for any use to which the Work Product is put other than that for which it is prepared under this Agreement.

17.2 Delivery of Work Product. Upon completion of the Project and acceptance by Owner, Contractor shall deliver to Owner all written Work Product for the Project, except that Contractor may retain one copy for archival purposes only. Contractor shall execute and deliver to Owner any documents, reasonably evidencing and acknowledging the ownership of the Work Product by Owner, provided Owner shall have paid to Contractor all sums owed to Contractor under this Agreement. Contractor shall organize all Rights-of-Way acquisition work in files corresponding with the alignment drawings.

17.3 Patent Infringement.

(a) Contractor warrants that neither the Work Product nor any equipment manufactured or fabricated by Contractor will constitute an infringement of any perfected valid and enforceable United States patent or copyright. Contractor shall be liable to and hereby agrees to defend, indemnify and hold harmless the Owner Indemnified Parties against any of them for infringement of any copyright or United States patent arising out of the use of any of the Work Product or based on a claim that the equipment or part thereof manufactured or fabricated by Contractor infringed any such patent or copyright. Owner shall promptly notify Contractor of any claim asserted against an Owner Indemnified Party and Owner shall cooperate in the defense of any such claim, but Contractor shall be solely responsible for bearing the expense of defending any such claim and for any judgment or award (including costs and attorneys fees) based on any such claim. If any of the Work Product or such equipment is adjudged to violate a patent or copyright, Contractor shall use its best efforts to obtain for Owner the right to use such Work Product or equipment or modify the Work Product or equipment to become non-infringing provided, however, any such modification shall be acceptable to Owner.

(b) Contractor does not assume any liability for patent infringement due to changes in Work Product or equipment made at the request of Owner or engineering designs furnished by Owner.

17.4 Specific Enforcement. The rights of Owner under this Section 17 shall be specifically enforceable.

## SECTION 18 ADDITIONAL RIGHTS AND OBLIGATIONS

18.1 Right to Let Additional Contracts. Owner reserves the right to award contracts to consultants and other contractors to perform other work at the Project Site which Contractor is not under any obligation to perform, provided that such other contractors and consultants shall

not unreasonably interfere with the performance of the Work by Contractor. Contractor agrees to cooperate with any such consultants and other contractors to the extent possible without unreasonable disruption of the Work.

18.2 Owner's Right to Access Work. Contractor shall at all times provide Owner and its authorized employees, agents and representatives complete opportunity and facilities for observation of the Work and materials stored at the Project Site or at locations off the Project Site or in the course of fabrication by Contractor and Subcontractors. Contractor shall provide safe and proper facilities for such access and observation. Contractor shall abide by such reasonable observation procedures and requirements as may be established by Owner. No observation performed or failed to be performed by Owner or other parties permitted to make observations hereunder shall be a waiver of any of Contractor's obligations hereunder or be construed as any acceptance of the Work or any part thereof

18.3 Wetlands. Contractor shall ensure that the construction of the Project complies with all Wetlands Laws (the "Wetlands Requirements"). Contractor shall prepare all permit applications and secure approvals for conducting the Work in Wetlands areas from all governmental authorities with jurisdiction over Wetlands Requirements along the Projected Pipeline Rights-of-Way. Owner shall use Best Efforts to assist Contractor in securing all required approvals for the Work in Wetlands areas. Contractor shall be responsible for all required Wetlands damage mitigation and remediation conducted at or along the pipeline construction route and the Projected Pipeline Rights-of-Way. Owner shall be responsible for all Wetlands development or offsets that are remote from the actual Project Site and are required by a governmental authority. Owner shall promptly comply, in a manner that does not delay the Work, with all of Owner's obligations hereunder necessary to obtain approval to conduct the Work in Wetlands areas.

Contractor shall use Best Efforts to select construction techniques that minimize or mitigate damage to Wetlands areas and that minimize the requirement for off-site (away from the Projected Pipeline Rights-of-Way) Wetlands development or offset.

18.4 Additional Work. Fina may undertake to employ other workers, award other contracts, or utilize its own workers (collectively "Fina Workers") to perform additional work anywhere in the vicinity of the Work near Fina's Port Arthur, Texas, refinery and Plant. Contractor and Subcontractors shall fully cooperate with such Fina Workers and coordinate Work hereunder with such additional work of Fina Workers, as may be required. Fina may also designate from time to time other architects, engineers, consultants and professionals to administer, coordinate or otherwise participate in part or all of the Work at the Plant. Contractor and Subcontractors will cooperate with these other professionals as required by the Drawings and Specifications and to the extent necessary to ensure safe start up of the Owner's metering facility at the Plant.

## SECTION 19 MISCELLANEOUS PROVISIONS

19.1 Entire Agreement. The Contract Documents together with the letter agreement executed by the parties dated the date hereof, constitute the entire agreement between Owner and

Contractor relating to the Work and supersede all prior agreements and understandings relating to the subject matter thereof including Agreement No. PDC-3430 and Work Authorization No. 1 to Agreement No. PDC-3430 entered into between Eagleton Engineering Company and TE Products Pipeline Company, Limited Partnership.

19.2 Controlling Law. The Contract Documents shall be governed by and construed in accordance with the laws of the State of Texas.

19.3 Non-Waiver. No failure to exercise, and no delay in exercising any right, power, or remedy under the Contract Documents by either Party shall impair any right, power, or remedy which such Party may have, nor shall such failure or delay be construed to be a waiver of any such rights, powers, or remedies, or an acquiescence in any breach or default under the Contract Documents, nor shall any waiver of any breach or default be deemed a waiver of any default or breach subsequently occurring under the Contract Documents.

19.4 Non-Invalidity. In case any one or more of the provisions contained in the Contract Documents should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained in the Contract Documents shall not in any way be affected or impaired thereby.

19.5 Notices. All approvals, notices and demands required hereunder, and all other communications relating to a breach or default under the Contract Documents or a violation of any Applicable Laws, shall be in writing and shall be personally delivered, sent by expedited delivery service, mailed by first class or certified mail, return receipt requested, postage prepaid, or delivered by prepaid telecopy, to the Party to be served at the address to which such Party may from time to time notify the other Party in writing in accordance herewith. All such approvals, notices, demands, and other communications shall be effective when received.

19.6 Undefined Terms. In the event a term or phrase is not defined in this Agreement, such term or phrase shall have the meaning generally given to it in the construction industry.

19.7 Attorneys Fees. In the event any legal action or proceeding between Owner and Contractor arises from or as a result of the Contract Documents, the losing Party shall pay to the prevailing Party the latter's reasonable attorneys' fees and expenses incurred in any such action or proceeding.

19.8 Assignment. Owner has entered into this Agreement with Contractor in reliance upon the unique knowledge, experience and expertise of Contractor in the construction of the Project and performance of the Work. Contractor shall not transfer, assign or otherwise convey its interest in this Agreement without the prior written consent of Owner, which consent may be withheld in Owner's sole discretion, and, subject to Section 10, agrees that Owner shall not be required to accept performance under this Agreement from any Person other than Contractor, including, without limitation, any Trustee of Contractor appointed under the Bankruptcy Reform Act of 1978, 11 U.S.C. Section 101 et. seq., as amended, and any assignee of such Trustee.



19.9 Contractor Authority. Contractor represents to Owner that (i) Contractor is duly incorporated and legally existing under the laws of the State of Texas and is duly qualified to do business in the State of Texas, (ii) Contractor has all requisite power and all governmental certificates of authority, licenses, permits, qualifications and other documentation to perform its obligations under this Agreement, and (iii) the execution and delivery by Contractor of this Agreement and the performance of its obligations hereunder have been authorized by all necessary corporate action on its behalf.

19.10 Owner Authority. Owner represents to Contractor that (i) Owner is duly formed and legally existing under the laws of the State of Delaware and is duly qualified to do business in the State of Texas, (ii) Owner has all requisite power and all governmental certificates of authority, licenses, permits, qualifications and other documentation to perform its obligations under this Agreement, and (iii) the execution and delivery by Owner of this Agreement and the performance of its obligations hereunder have been authorized by all necessary action on its behalf.

19.11 Exhibits. Each exhibit, appendix and schedule attached to this Agreement or attached to any exhibit or appendix attached hereto is made a part hereof for all purposes.

19.12 Waiver of Jury Trial. In any action brought in any court by either Party concerning this Agreement, a right to a trial before a jury shall be waived.

IN WITNESS WHEREOF, Owner and Contractor have respectively executed this Agreement in multiple counterparts, effective as of the day and year stated on the first page hereof.

OWNER:  
  
TE PRODUCTS PIPELINE COMPANY,  
LIMITED PARTNERSHIP,  
a Delaware limited partnership

CONTRACTOR:  
  
EAGLETON ENGINEERING COMPANY,  
a Texas corporation

By: Texas Eastern Products Pipeline Company  
General Partner

By: /s/ C. D. CAGLE  
-----  
Name: C. D. Cagle

By: /s/ O. HORTON CUNINGHAM  
-----  
Name: O. Horton Cuningham  
-----  
Title: Vice President  
-----

Title: President  
-----

APPENDIX A  
TO  
AGREEMENT BETWEEN OWNER AND CONTRACTOR

DEFINITIONS

"Applicable Laws" means all federal, state, county, city, and municipal laws, codes, statutes, rules, regulations, permits and orders applicable to the design and construction of the Pipeline Systems or the performance of the Work, including without limitation (i) Railroad Commission of Texas Pipeline Safety Rules, Part 195, "Transportation of Hazardous Liquids by Pipeline", (ii) the Code of Federal Regulations, Title 49, Part 195, "Transportation of Hazardous Liquids by Pipeline" and (iii) all other applicable federal, state, county, city and municipal environmental, waste and hazardous material laws, codes, statutes, rules, regulations and orders.

"Application for Payment" has the meaning given in subsection 11.1.

"Best Efforts" shall mean commercially reasonable good faith efforts under the circumstances, without any requirements that any party be obligated (a) to pay any penalty, premium or undue consideration to obtain any waiver, consent, approval or election, (b) to modify its rights or obligations under any existing agreement, lease or other contract, or (c) to violate any Applicable Laws.

"Business Day" shall mean any day on which federal commercial banks are open for business for the purpose of sending and receiving wire transfers in Houston, Texas.

"Change Order" has the meaning given in subsection 6.4.

"Change Order Proposal" has the meaning given in subsection 6.4.

"Change Work" has the meaning given in subsection 6.4.

"Claim" has the meaning given in subsection 15.1.

"Commission" means the Texas Railroad Commission or any successor Texas governmental body or agency having regulatory oversight of a Common Carrier.

"Completion Requirements" has the meaning given in subsection 3.4.

"Contract Documents" has the meaning given in subsection 4. 1.

"Contract Sum" has the meaning given in subsection 9.1.

"Contractor" has the meaning given in the preamble.

"Contractor Indemnified Party" has the meaning in subsection 15.2.

"Data Books" means the design and construction data books and the material and equipment data books provided by Contractor to Owner pursuant to subsection 7.14.

"Drawings and Specifications" means the final drawings, diagrams, plans and specifications for the construction and installation of the Project prepared by Contractor in accordance with subsection 4.2.

"Ethylene Pipeline" has the meaning given in subsection 3.2.

"Fina" shall mean Fina Oil and Chemical Company.

"Final Completion Date" has the meaning given in subsection 8.2.

"Force Majeure" shall mean acts of God, (except as otherwise provided in subsection 8.4(c) of the Agreement); strikes, lockouts, or other industrial disturbances, which by the exercise of reasonable diligence could not have been avoided; acts of public enemies; wars; blockades; insurrections; riots; fires; floods; washouts; necessity for compliance with any court order, Applicable Laws, regulation or ordinance promulgated by any governmental authority having jurisdiction over the parties, or jurisdiction over any person supplying labor, material, or any item or items necessary to the performance of the Work; civil disturbances, explosions or any other cause of the kind or type herein recited beyond the reasonable control of Contractor. Settlement of strikes, lockouts or other industrial disturbances shall be entirely within the discretion of the party having the difficulty.

"Interest" means (i) the prime rate as published in the Wall Street Journal plus three percent or if such rate is unlawful the highest lawful rate permitted.

"Materials" has the meaning given in subsection 6. 1.

"Mont Belvieu South Terminal" means Owner's terminal facility located in Mont Belvieu, Texas.

"Natural Gasoline Pipeline" has the meaning given in subsection 3.2.

"Owner" has the meaning given in the preamble.

"Owner Delay" has the meaning given in subsection 8.4.

"Owner Indemnified Party" has the meaning given in Section 15.

"Parent Guarantor" has the meaning given in subsection 14.6.

"Parent Guaranty" has the meaning given in subsection 14.6.

"Parties" means Owner and Contractor.

"Party" means Owner or Contractor.

"Performance Requirements" has the meaning given in subsection 3.3.

"Person" means any individual, firm, partnership, corporation, company, joint venture, trust, unincorporated organization or other entity, association or organization, whether or not constituting a juridical entity under Applicable Laws.

"Pipeline Rights-of-Way" means the Projected Pipeline Rights-of-Way as the same may be modified in accordance with subsection 5. 1.

"Pipeline Systems" or "Pipeline Facilities" has the meaning given in subsection 3.2.

"Port Arthur Plant" means the refinery and related facilities owned by Fina Oil and Chemical Company and BASF Corporation located in Port Arthur, Texas.

"Project" has the meaning given in subsection 3.2.

"Project Schedule" has the meaning given in subsection 7.2.

"Project Site" means all of the land in, on or under which any of the Pipeline Systems are to be located, and all land adjacent thereto used in the performance of the Work.

"Projected Final Completion Date" has the meaning given in subsection 8.2.

"Projected Pipeline Rights-of-Way" has the meaning given in subsection 5. 1(a).

"Proposal Request" has the meaning given in subsection 6.4.

"Propylene Pipeline" has the meaning given in subsection 3.2.

"Rights-of-Way" has the meaning given to it in subsection 5.1(a).

"Rights-of-Way Costs and Expense" shall mean all monetary consideration paid for easements and permits, including but not limited to subordination agreements, damages, and all condemnation awards, expenses and costs, including attorney's fees and condemnation appraisals.

"Rod" shall mean 16.5 feet.

"Services" has the meaning given in subsection 6. 1.

"Subcontract" has the meaning given in subsection 10.2.

"Subcontractor" means any subcontractor engaged by Contractor in accordance with this Agreement.

"Unit Prices" has the meaning given in subsection 9.2.

"Wetlands" means any lands deemed wetlands under any Wetlands Laws.

"Wetlands Laws" means the Clean Water Act, the Rivers and Harbors Act, or the Federal Manual for Identifying and Delineating Jurisdictional Wetlands (Delineation Manual), all regulations issued in connection with such statutes and manuals, and all amendments or replacements of the foregoing.

"Wetlands Requirements" has the meaning given in subsection 18.3.

"Work" has the meaning given in subsection 6. 1.

"Work Product" has the meaning given in subsection 17. 1.

## LIST OF EXHIBITS

Exhibit 3.1	Design and Engineering Services
Exhibit 3.2(a)	Pipeline Systems Route
Exhibit 3.2(b-1)	Propylene Piping Flow Diagram
Exhibit 3.2(b-2)	Ethylene Piping Flow Diagram
Exhibit 3.2(b-3)	Natural Gasoline Piping Flow Diagram
Exhibit 3.2(c-1)	General Isometric Layout
Exhibit 3.2(c-2)	Propylene Isometric Layout
Exhibit 3.2(c-3)	Ethylene Isometric Layout
Exhibit 3.2(c-4)	Natural Gasoline Isometric Layout
Exhibit 3.2(d)	Project Design Requirements
Exhibit 3.4(a)	Testing Procedures and Requirements
Exhibit 5.2	Form of Easement
Exhibit 6.4(a)	Wage Rate Schedule
Exhibit 6.4(b)	Written Modification Form
Exhibit 7.2(e-1)	Reporting Requirements
Exhibit 7.2(e-2)	Measurement of Percentage Completion
Exhibit 8.3(d)	Calculations of Liquidated Damages and Bonuses
Exhibit 9.2	Unit Prices
Exhibit 11.1	Schedule of Monthly Payments
Exhibit 12.2(a)	Payment Form
Exhibit 12.2(b)	Waiver Form
Exhibit 14.6	Parent Guaranty

SERVICES AND TRANSPORTATION AGREEMENT

BETWEEN

TE PRODUCTS PIPELINE COMPANY, LIMITED PARTNERSHIP

AND

FINA OIL AND CHEMICAL COMPANY  
BASF CORPORATION  
BASF FINA PETROCHEMICALS LIMITED PARTNERSHIP

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Exhibit 2.2	Mont Belvieu Facilities
Exhibit 3.1	Operation and Maintenance
Exhibit 5.3	Example Calculations

## SERVICES AND TRANSPORTATION AGREEMENT

THIS SERVICES AND TRANSPORTATION AGREEMENT ("Agreement") is made and entered into this 9th day of February, 1999, by and between TE PRODUCTS PIPELINE COMPANY, LIMITED PARTNERSHIP, a Delaware limited partnership ("TEPPCO"); and BASF Fina Petrochemicals Limited Partnership ("LP"), a Texas limited partnership; BASF Corporation, a Delaware corporation ("BASF"); and Fina Oil and Chemical Company, a Delaware corporation ("Fina"); (Fina, BASF and LP are individually and collectively sometimes referred to as "Contracting Shippers");

## WITNESSETH:

WHEREAS, Fina and BASF are constructing a petrochemical Plant adjacent to Fina's refinery property located in or near Port Arthur, Texas;

WHEREAS, at such time as the Plant becomes operational Fina and BASF will have transportation requirements for the shipments of Ethylene and Propylene and LP will have transportation requirements for shipments of Natural Gasoline, between the Plant and Mont Belvieu, Texas;

WHEREAS, TEPPCO, at Contracting Shippers request, is willing to undertake the design, engineering, construction, operation and maintenance of three (3) 12.75 inch outside diameter pipelines from Mont Belvieu, Texas to the Plant for the purpose of transporting Ethylene, Propylene and Natural Gasoline for Contracting Shippers subject to Contracting Shippers committing to ship through such Pipeline Facilities a guaranteed volume of Products upon terms and

conditions set forth in this Agreement and the Tariff covering such transportation movements;

WHEREAS, the three pipelines will be operated by TEPPCO as common carrier facilities and as a result will offer to provide transportation services to Third Party shippers in addition to Contracting Shippers under terms and conditions set forth in the Tariff.

NOW, THEREFORE, in consideration of the premises and of the mutual covenants and agreements contained herein, and of other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, TEPPCO, Fina, BASF and LP hereby agree as follows:

SECTION 1  
DEFINED TERMS; INTERPRETATION

1.1 Defined Terms. The terms defined in Appendix A, attached hereto and incorporated herein shall, when used in this Agreement, have their respective meanings specified in Appendix A, with each such definition of a term being equally applicable to the singular and the plural forms of the term so defined.

1.2 References. All references in this Agreement to a "Section," "subsection" or "Exhibit" shall be to a Section, subsection or Exhibit of this Agreement, unless the context requires otherwise. Unless the context otherwise requires, the words "this Agreement," "hereof," "hereunder," "herein," "hereby," or words of similar import shall refer to this Agreement as a whole

and not to a particular Section, subsection, Exhibit, clause or other subdivision hereof. Whenever the context requires, the words used herein shall include the masculine, feminine and neuter gender, and the singular and the plural.

1.3 Interpretation. It is expressly agreed that this Agreement shall not be construed against any Party, and no consideration shall be given or presumption made, on the basis of who drafted this Agreement or any particular provision hereof or who supplied the form of this Agreement. Each Party agrees that this Agreement has been purposefully drawn and correctly reflects its understanding of the transaction that this Agreement contemplates. In construing this Agreement:

- (a) An example shall not be construed to limit, expressly or by implication, the matter it illustrates;
- (b) The word "includes" and its derivatives means "includes, but is not limited to" and corresponding derivative expressions;
- (c) A defined term has its defined meaning throughout this Agreement, regardless of whether it appears before or after the place where it is defined; and
- (d) The headings and titles herein are for convenience only and shall have no significance in the interpretation hereof.

SECTION 2  
PIPELINE FACILITIES

2.1 Design, Engineering and Construction. TEPPCO shall, at its sole cost and expense, provide or cause to be provided, the Pipeline Facilities. Moreover, TEPPCO shall, at its sole cost and expense, design, engineer, construct and install or cause to be designed, engineered, constructed and installed, in a safe and environmentally sound manner, the Pipeline Facilities capable of receiving and transporting the Products. The design, engineering, construction and installation of the Pipeline Facilities shall be performed in accordance with the provisions of Exhibit 2.1.

2.2 Receipt and Delivery Facilities.

(a) TEPPCO shall incur non-reimbursable expenses at Mont Belvieu of up to one million dollars for Mont Belvieu Work approved by Contracting Shippers to tie Receipt and Delivery Facilities into the Mont Belvieu Terminal. Exhibit 2.2 sets forth a diagram of TEPPCO's Mont Belvieu Terminal facilities into which the Receipt and Delivery Facilities will be tied. Any expenditures incurred by TEPPCO in excess of one million dollars for such Mont Belvieu Work will be for Contracting Shippers' account; provided, prior written approval is given by Contracting Shippers' to incur such excess expenditures. Any such reimbursable expenditures shall not include any mark-up for TEPPCO's profit, and shall be only those costs incurred by TEPPCO that are associated with the Mont Belvieu Work. Reimbursement of such excess costs by Contracting Shippers to TEPPCO shall be, at Contracting Shippers' sole election, either

through (i) a surcharge, as determined by TEPPCO, to the Transportation Charges, or (ii) a direct cash payment from Contracting Shippers to TEPPCO. If Contracting Shippers do not unanimously agree on the applicable method of reimbursement then the methodology set forth in item (i) directly above shall be deemed elected by all Contracting Shippers. Any surcharge determination by TEPPCO shall be calculated by taking (a) the costs incurred by TEPPCO, as described above, times (b) a factor of 0.14 with the product of (a) and (b) being divided by the applicable, annualized Guaranteed Monthly Volume. The applicable calculation of the surcharge for Natural Gasoline will be as set forth in the previous sentence and the applicable calculation of the surcharge for Ethylene and Propylene will be the value from the previous sentence multiplied by 100. Requests by Contracting Shippers for Mont Belvieu Work shall be made in accordance with Section 5.4 of Exhibit 2.1.

(b) Contracting Shippers shall each have the right, at their expense, to examine the books and records of TEPPCO, during normal business hours, to the extent necessary to verify the accuracy of any reimbursable expenses for Mont Belvieu Work as described in Section 2.2(a). TEPPCO agrees to keep its records and books of account in accordance with generally-accepted accounting principals consistently applied. Contracting Shippers agree with TEPPCO that Contracting Shippers' sole and exclusive remedy for any error or mistake made by TEPPCO in computing such reimbursable expense shall be the recomputing of such reimbursable expenses.

2.3 Common Carrier Facilities. The Pipeline Facilities will be common carrier facilities. TEPPCO's obligations and duties as a common carrier to handle and transport volumes of Products received from Contracting Shippers as well as its obligations and duties to all shippers which tender Products, shall be determined pursuant to the Tariff filed by TEPPCO with the Commission; provided, however, this understanding shall not be deemed to lessen or impair any of the Parties' obligations hereunder.

2.4 Authorizations and Rights-of-Way. TEPPCO shall apply for and use Best Efforts to secure from proper persons and authorities all rights-of-way (whether from private parties or any governmental agency or authority), licenses, permits, property rights of ingress and egress, certificates, servitudes, judgments, orders, rulings and other such authorizations (collectively "Authorizations") as may be required for the purpose of providing, locating, constructing, operating and maintaining the Pipeline Facilities. Contracting Shippers each agree to cooperate with TEPPCO with respect to any reasonable requests for assistance in seeking such Authorizations and the granting and giving to TEPPCO any easements, licenses and rights for TEPPCO to construct, maintain and operate any portion of the Pipeline Facilities on property owned by or under the control of (i) Fina, (ii) LP, and (iii) any Affiliates of either, for a total consideration of one hundred dollars (\$100.00). In that regard, the basic terms of any easement granted by Fina, LP or their Affiliates pursuant to this Agreement shall include that grantor shall not have the right to relocate the pipeline and



appurtenances except upon consent of grantee, that grantor shall provide grantee a direct and reasonably convenient access to the easement area and grantor represents that the easement is capable of being used for its intended purpose. The foregoing terms shall be in addition to such other reasonable and customary easement provisions.

2.5 Changes in Design, Engineering and Construction. The design, engineering and construction of the Pipeline Facilities shall comply with all Laws and the provisions of Exhibit 2.1. Contracting Shippers shall have the right to request changes in the design, engineering and construction of the Pipeline Facilities, provided such changes are given in accordance with the provisions of Exhibit 2.1. Any increases or decreases in the total costs and expenses to design, engineer and construct the Pipeline Facilities due to such changes requested by Contracting Shippers shall, in accordance with Exhibit 2.1, be properly reflected in increases or decreases to the Initial Transportation Charges, unless Contracting Shippers elect to make a lump sum settlement with TEPPCO.

2.6 Commencement Date. The Commencement Date of this Agreement shall be the later of (a) November 1, 2000, or (b) the first day of the Month following the date TEPPCO notifies Contracting Shippers in writing that all necessary testing of the Pipeline Facilities has been completed in accordance with Exhibit 2.1, and the Pipeline Facilities are ready to commence service with respect to the transportation of Products hereunder on a continuous basis. As a matter of accommodation to Contracting Shippers and

subject to the terms and conditions of this Agreement, TEPPCO will notify Contracting Shippers of the estimated date that TEPPCO will be ready to commence service approximately six (6) Months prior thereto. Thereafter, TEPPCO will advise Contracting Shippers each Month of any changes as to such estimated date. After the Initial Contract Year commences, the Parties agree to enter into a written memorandum supplemental to this Agreement specifying the Commencement Date.

SECTION 3  
OPERATION OF THE PIPELINE FACILITIES

3.1 Operation and Maintenance. Subject to the terms and conditions of this Agreement, beginning as of the Commencement Date and continuing throughout the Initial Term and any subsequent Contract Years following the Initial Term, TEPPCO, through its General Partner, shall, at its sole cost and expense, operate and maintain the Pipeline Facilities in accordance with industry-accepted practices and procedures in the operation of common carrier facilities and in accordance with all applicable Laws and the provisions of Exhibit 3.1.

3.2 Utilities. TEPPCO shall furnish sufficient and adequately trained personnel and material, including heat, light and power and other utilities and services of any nature whatsoever used, consumed or needed to ensure TEPPCO's safe and efficient receipt, transportation and delivery of Product as required hereunder. Notwithstanding the immediately preceding sentence and

to the extent permitted under applicable Laws, Contracting Shippers shall provide certain utilities and services as described in Attachment 2.2(b) to Exhibit 2.1 attached hereto, to TEPPCO at the Pipeline System's Port Arthur delivery and receipt facility at a nominal cost to TEPPCO. Unless agreed otherwise by the Parties, Contracting Shippers shall be responsible for providing sufficient pressure to move the Products from the Plant to the Mont Belvieu Terminal in accordance with the process flow diagrams set out in Attachment 2.3 to Exhibit 2.1 attached hereto.

### 3.3 Product Specifications.

(a) Product tendered by Contracting Shippers for transportation through the Pipeline Facilities shall meet the Product specifications set forth in Attachment 2.2(b) to Exhibit 2.1 attached hereto. Contracting Shippers' Product transported through the Pipeline Facilities may be intermixed with product of Third Party shippers in the Pipeline Facilities, which product of Third Party shippers shall also meet the specifications set forth in Attachment 2.2(b) to Exhibit 2.1 attached hereto. Contracting Shippers' Product shall be subject to changes in quality and other characteristics as may result from such intermixing. Contracting Shippers and any other shipper shall not be entitled to receive the identical Product tendered by it to TEPPCO under the Tariff, although TEPPCO at its sole discretion may be able, from time to time, to handle Contracting Shippers' Products on a segregated basis. Delivery of Products by TEPPCO to Fina, BASF and/or LP and other Third Party shippers shall be out of common stock in TEPPCO's

common carrier pipeline system and shall meet the Product specifications as set forth in Attachment 2.2(b) to Exhibit 2.1. Contracting Shippers shall not be responsible or liable for any Products delivered to TEPPCO by any Third Party that fail to meet the specifications set out in Attachment 2.2(b) to Exhibit 2.1.

(b) TEPPCO will accept Product for transportation hereunder that does not meet the specifications in Attachment 2.2(b) to Exhibit 2.1 provided that:

- (i) Fina, BASF or LP, as the case may be, gives TEPPCO acceptable timely notice of its desire to have off-specification Product transported by TEPPCO hereunder and full particulars of the specification failures;
- (ii) Such off-specification Product will not harm, in TEPPCO's good faith judgment, the Pipeline Facilities or any other facilities provided by TEPPCO or Third Parties, or be deleterious to any future shipments of on-specification Products;
- (iii) Fina, BASF or LP, as the case may be, can demonstrate to TEPPCO's satisfaction that they have adequate facilities or have access to adequate facilities at the Delivery Point to handle such off-specification Product; and
- (iv) The size of the proposed shipment of off-specification Product meets TEPPCO's

requirements for a segregated batch shipment.

The provisions of Section 3.4 below shall not be applicable to any shipments of off-specification Product made in accordance with this Section 3.3(b). Additionally, TEPPCO shall not have any liability of any nature to any Third Party pertaining in any way to the quality, merchantability or fitness of Fina's, BASF's or LP's respective off-specification Product, which TEPPCO transports and FINA, BASF AND LP SHALL INDEMNIFY AND HOLD TEPPCO HARMLESS FOR ANY CLAIM OR LOSS RESULTING THEREFROM.

3.4 Volume and Quality of Product. TEPPCO agrees to deliver, in accordance with reasonable industry practices and Exhibit 3.1, Product in the same volume and of the same quality as the Product delivered to it for transportation and handling hereunder. TEPPCO shall take all action and inspection and install equipment and facilities deemed necessary by TEPPCO to reasonably insure such volume and quality obligations. In the event of any physical loss of or damage to the Product while being transported hereunder by TEPPCO, TEPPCO shall immediately or as soon as practicable upon discovery notify Fina, BASF or LP, as the case may be, of the Product loss or damage, and TEPPCO shall, at its option, either (a) make appropriate reimbursement for the Product lost or damaged based on the following:

- (i) Propylene - the most recent published United States polymer grade propylene current spot price average posted in the Chemical Marketing Associates, Inc. Monomers Report, prior to the date of the loss or

damage.

- (ii) Ethylene - the most recent published United States current spot price average for ethylene posted in the Chemical Marketing Associates, Inc. Monomers Report, prior to the date of the loss or damage.
- (iii) Natural Gasoline - the current Mont Belvieu, Texas spot average price for natural gasoline as published in Platt's Oilgram Price Report on the date the loss or damage occurs or the most recent published Mont Belvieu, Texas spot average price for natural gasoline prior to such date of the loss or damage if there is no publication of Platt's Oilgram Price Report on the date of the loss or damage,

or (b) replace such Product in kind at the Delivery Point. The aforesaid adjustment for the lost or damaged Product or the replacement of such lost or damaged Product, as the case may be, shall be made by TEPPCO not more than ten (10) calendar days following the date TEPPCO becomes aware that such loss or damage occurred. Notwithstanding anything in this Agreement to the contrary, the aforesaid adjustment for the loss of or damage to Product or the replacement of such lost or damaged Product shall be Fina's, BASF's or LP's sole and exclusive remedy for any Claim based on the physical loss of or damage to Product while being transported by TEPPCO. Subject to the provisions of Exhibit 3.1, any loss of Products due to measurement inaccuracies shall be the

sole responsibility of Fina, BASF and LP, as the case may be, and TEPPCO shall not have any liability for any loss of Products due to measurement inaccuracies.

3.5 Title to Product. Fina, BASF and LP shall retain title to their respective Products delivered by each to TEPPCO for transportation hereunder throughout the transportation of such Product from the Origin Point to the Delivery Point. Fina, BASF and LP shall be deemed to be in control and possession of their respective Products prior to the time such Product is delivered to TEPPCO at the Origin Point and after such Product is delivered to Fina, BASF or LP, as the case may be, at the Delivery Point, and TEPPCO shall be deemed to be in control and possession of the Product from the time the Product is delivered to TEPPCO at the Origin Point until the Product is delivered to Fina, BASF or LP, as the case maybe, at the Delivery Point.

3.6 Contracting Shippers' Indemnity. FINA, BASF AND LP SHALL EACH INDEMNIFY, DEFEND AND HOLD HARMLESS TEPPCO, ITS GENERAL PARTNER AND THEIR RESPECTIVE OFFICERS AND EMPLOYEES FROM AND AGAINST ANY AND ALL CLAIMS AND LOSSES, INCLUDING ENVIRONMENTAL LIABILITIES ARISING OUT OF ACTS, OMISSIONS OR EVENTS OCCURRING DURING FINA'S, BASF'S OR LP'S RESPECTIVE POSSESSION AND CONTROL OF PRODUCT HEREUNDER AS SET FORTH IN SECTION 3.5. INDEMNIFICATION UNDER THIS SECTION 3.6 SHALL NOT APPLY AS TO ANY CLAIM OR LOSS THAT ARISES OUT OF THE SOLE NEGLIGENCE, GROSS NEGLIGENCE OR WILFUL MISCONDUCT OF TEPPCO.

3.7 TEPPCO's Indemnity. TEPPCO SHALL INDEMNIFY, DEFEND AND

HOLD HARMLESS FINA, BASF AND LP, AND THEIR RESPECTIVE OFFICERS AND EMPLOYEES FROM AND AGAINST ANY AND ALL CLAIMS AND LOSSES, INCLUDING ENVIRONMENTAL LIABILITIES ARISING OUT OF ACTS, OMISSIONS OR EVENTS OCCURRING DURING TEPPCO'S POSSESSION AND CONTROL OF THEIR RESPECTIVE PRODUCTS HEREUNDER AS SET FORTH IN SECTION 3.5. INDEMNIFICATION UNDER THIS SECTION 3.7 SHALL NOT APPLY AS TO ANY CLAIM OR LOSS THAT ARISES OUT OF THE SOLE NEGLIGENCE, GROSS NEGLIGENCE OR WILFUL MISCONDUCT OF FINA, BASF OR LP, AS THE CASE MAY BE.

3.8 Notice of Claim. Each Party agrees to give the other prompt written notice of any Claim brought against it that is subject to the provisions of this Agreement.

3.9 Line Fill. Contracting Shippers shall provide the initial line fill of Natural Gasoline, Ethylene and Propylene for the Pipeline Facilities, as more specifically described in Exhibit 2.1.

#### SECTION 4 TRANSPORTATION CHARGES

4.1 Transportation Charges. As compensation for TEPPCO's transportation of Product from the Origin Point to the Delivery Point, which compensation shall be TEPPCO's sole compensation for the services described in Exhibit 3.1, Contracting Shippers agree to pay TEPPCO the following Transportation Charges:

- (i) On all Barrels of Natural Gasoline delivered to Contracting Shippers at a Delivery Point,



Contracting Shippers shall pay a Transportation Charge of \$0.1190 (11.9(cent)) per Barrel;

- (ii) On all quantities of Ethylene delivered to Contracting Shippers at a Delivery Point, Contracting Shippers shall pay a Transportation Charge of \$0.1189 (11.89(cent)) per 100 Pounds; and
- (iii) On all quantities of Propylene delivered to Contracting Shippers at a Delivery Point, Contracting Shippers shall pay a Transportation Charge of \$0.1156 (11.56(cent)) per 100 Pounds.

It is understood and agreed by the Parties that prior to the Commencement Date the above Transportation Charges may be increased or decreased in amounts to represent any increases or decreases in the costs and expenses of approved scope changes in the design, engineering and construction of the Pipeline Facilities. The amounts of any such increases or decreases to the Initial Transportation Charges shall be determined in accordance with the provisions of Exhibit 2.1 and Section 2.2 of this Agreement.

4.2 Increases and Decreases to Transportation Charges. Subject to the other provisions of this Agreement and in addition to any increases or decreases determined in accordance with Section 2.2, Section 4.1 or Section 4.3, on or before thirty (30) days after the end of the Initial Contract Year and each Contract Year thereafter, including any extensions of the Initial Term, the Transportation Charges as described and determined in Section 4.1 shall be increased or decreased based on the following formula:

$$1 + \frac{(A-B) \times 0.08}{B} = C$$

where:

- A = The Consumer Price Index for the calendar month immediately preceding the calendar month in which the Contract Year in question begins.
- B = The Consumer Price Index for the Month of October, 2000.
- C = The annual adjustment factor to be applied to the Initial Transportation Charges.

If during the term of this Agreement the publication of the Consumer Price Index is discontinued or the methodology or data used to calculate such index or indices is materially altered, a mutually agreeable index or indices, shall be selected. If the Parties are unable to select such a substitute index or indices, such shall be determined pursuant to Section 13.

4.3 Improvements Required by Law. In the event that at any time, and from time to time, after the Effective Date TEPPCO is required by any Laws not in effect on the Effective Date, to make improvements to all or a portion of the Pipeline Facilities or to otherwise incur therefor additional expenses for public safety, pollution control or any other similar or dissimilar reason, TEPPCO shall notify Contracting Shippers, as soon as reasonably possible, of the full particulars of the requirements of such Laws and TEPPCO's good faith estimate of the cost for compliance with such Laws. Notwithstanding anything herein to the contrary, TEPPCO, subject to the provisions of this Section 4.3, may increase the Transportation Charges hereunder to recover all or any portion of such costs and expenses, of which TEPPCO has previously notified

Contracting Shippers, over the useful life of the Pipeline Facilities; provided that TEPPCO makes a similar adjustment to any Third Party shipper's transportation charges under the Tariff. TEPPCO shall notify Contracting Shippers not less than ninety (90) days prior to the implementation of any increase in the Transportation Charges under this Section 4.3, of the amount of such increase, and the method of calculating such increase. Contracting Shippers shall each have the right to dispute any such increase by notifying TEPPCO, within thirty (30) days after receipt of TEPPCO's notice, of Contracting Shippers' decision to dispute the amount of such increase and the Parties shall meet and make a good faith effort to resolve the issue of the appropriate amount of such increase, prior to TEPPCO implementing such increase. If Contracting Shippers fail to timely notify TEPPCO of their individual or collective decision respecting a notified increase, then it shall be deemed for purposes of this Agreement that Contracting Shippers accept and approve such increase.

4.4 Implementation of Changes to Transportation Charges. The timing of the implementation of any adjustments allowed pursuant to Sections 4.2 and 4.3 shall be at the discretion of TEPPCO, but in no event shall such adjustments be retroactive. Furthermore, TEPPCO at its discretion may implement an increase for all or any portion of any increase allowed under Section 4.2 or TEPPCO may elect not to implement any such increases at all. All decreases under Section 4.2 shall be implemented as soon as reasonably practicable under existing Laws.

4.5 Tariff. Prior to the Commencement Date, TEPPCO shall file a Tariff with the Commission and diligently pursue with Contracting Shippers' assistance its timely commencement, covering the transportation of the Products and reflecting pertinent charges, rates, terms and conditions of this Agreement. Each of the Contracting Shippers shall have the right to review the Tariff, including supplements and successive issues, prior to TEPPCO filing such with the Commission.

4.6 Changes to the Transportation Charges and Deficiency Rates following the end of the Initial Term.

- (a) At the end of the Initial Term of this Agreement, TEPPCO shall reduce the then-existing Transportation Charges and Deficiency Rates for each Product to an amount determined based on the following formula:

Where:

- A = the Initial Transportation Charges for a Product.
- B = the Transportation Charges in effect for a Product immediately prior to the end of the Initial Term.
- C = the revised Transportation Charge and revised Deficiency Rate for a Product effective following the last day of the Initial Term.

- (b) In the event that during the Initial Term the Transportation Charges are increased pursuant to Section 4.3 then the Parties shall mutually agree

on an additional amount to be reflected in the revised Transportation Charges determined pursuant to Section 4.6(a) for such previous adjustment.

- (c) Such revised Transportation Charges shall be subject to increases and decreases in accordance with Sections 4.2 and 4.3 for so long as the Agreement remains in effect after the Initial Term.

SECTION 5  
GUARANTEED VOLUMES AND DEFICIENCY CHARGES

5.1 Guaranteed Monthly Volume. As an inducement to TEPPCO to design, construct, operate and maintain the Pipeline Facilities, and perform necessary real estate activities without which inducement TEPPCO would not construct and operate the Pipeline Facilities, and perform the necessary real estate activities, Contracting Shippers, subject to the provisions of Section 8, guaranty, covenant, warrant and represent that during each Contract Year they will in accordance with the provisions of this Agreement collectively ship or cause to be shipped and TEPPCO, subject to its obligations as a common carrier shall accept and transport from the Origin Points to the Delivery Points the following Guaranteed Monthly Volumes of Products each Month:

Products -----	Guaranteed Monthly Volume -----
Natural Gasoline	2,433,334 Barrels
Ethylene	250,000,000 Pounds
Propylene	250,000,000 Pounds

5.2 Deficiency Payments. (a) If the volume of a Product

("Deficient Volume") shipped through the Pipeline Facilities during a Month ("Delivery Month") is less than the Guaranteed Monthly Volume for such Product as set forth in Section 5.1, Contracting Shippers agree to pay TEPPCO within thirty (30) days after the end of the Delivery Month a Deficiency Charge in an amount equal to the difference between the specified Guaranteed Monthly Volume and the Deficient Volume times the applicable Deficiency Rate set forth below:

Product -----	Deficiency Rate -----
Natural Gasoline	\$0.1190 per Barrel
Ethylene	\$0.1189 per 100 Pounds
Propylene	\$0.1156 per 100 Pounds

(b) The Deficiency Rates set forth in Section 5.2(a) shall be increased or decreased in the same amounts as any increases or decreases to the Transportation Charges for costs and expense for (i) any changes in the design, engineering or construction of the Pipeline Facilities as provided in Exhibit 2.1, (ii) any Mont Belvieu Work as provided in Section 2.2, and (iii) any improvements required by Law as provided in Section 4.3.

(c) For purposes of Section 5.2(a) only, the term "shipped" shall mean all Product actually transported through the Pipeline Facilities during the Delivery Month, including such product that is shipped or transported through the Pipeline Facilities for Third Party shippers during the Delivery Month.

(d) If Contracting Shippers have a Makewhole Volume Obligation for a Delivery Month, all Excess Product Volumes for the particular Product (for which the Makewhole Volume Obligation

applies) shall be subtracted from the Makewhole Volume Obligation for such Delivery Month prior to calculating the Deficiency Charge for that Delivery Month.

(e) If Contracting Shippers do not have a Makewhole Volume Obligation for a Delivery Month or there is more Excess Product Volumes than Contracting Shippers' Makewhole Volume Obligation for such Month, then any unused Excess Product Volume for such Product shall be credited to Contracting Shippers and shall be subtracted from any Makewhole Volume Obligation that may occur in any future Month.

(f) Any Deficiency Charges paid by Contracting Shippers shall not be subject to any form of reimbursement; provided that all or any portion of any Deficiency Charges that are a result of an accounting error or other mistake shall be subject to reimbursement.

5.3 Example Calculations. For illustrative purposes only, attached hereto as Exhibit 5.3 are sample calculations of Deficiency Charges, Makewhole Volumes and Excess Product Volumes.

#### SECTION 6 BILLING AND PAYMENT

6.1 Invoice. Unless the Parties agree otherwise, TEPPCO shall submit invoices to Fina, BASF and LP separately on or about the tenth (10th) day of a Month. Each such invoice shall list for the preceding Month by Product the quantity of Product transported during such Month by such Party, the Transportation Charges and any

Excess Product Volume credits for such Month and any Deficiency Charges for such Month. Any Deficiency Charges that cannot be directly attributed to Fina, BASF or LP for such Month shall be shared equally among Fina, BASF and LP; provided Fina, BASF and LP do not direct TEPPCO to allocate such Deficiency Charges otherwise.

6.2 Payments. Fina, BASF and LP shall pay to TEPPCO their respective invoices within thirty (30) days of the date of such invoices by wire transfer pursuant to instructions furnished by TEPPCO to Fina, BASF and LP.

6.3 Late Payments. Any amounts not paid when due under Section 6.2 shall bear interest from the date due until paid, as applicable, at a rate equal to four percent (4%) over the prime interest rate first published each Month in The Wall Street Journal or if such rate is unlawful, the highest lawful rate permitted. All obligations to make payments under this Agreement are absolute and shall not be subject to any right of set-off or counterclaim by reason of any Claim against the non-owing Party under this Agreement or otherwise and the Parties hereby waive any such right of set-off or counterclaim. Furthermore, a dispute as to whether a particular amount is due shall not excuse non-payment. However, payment of any amount in dispute shall not constitute a waiver of the paying Party's rights or an admission to the paying Party's detriment with respect to such disputed amount. Notwithstanding any provisions to the contrary in this Agreement, in no event shall this Agreement require the payment or permit the collection or charging of interest in excess of the maximum amounts legally



permitted by the applicable usury law. If any such excess of interest is contracted for, charged or received under or in connection with this Agreement so that under any circumstances whatsoever the amount of interest contracted for, charged or received under or in connection with this Agreement exceeds the maximum amount of interest permitted by such applicable usury law, then (a) the interest limitations herein shall govern and control; (b) no person or entity now or hereafter liable for such indebtedness shall be obligated to pay the amount of such interest to the extent that it is in excess of the maximum amount of interest permitted by such applicable usury law; (c) such excess which may have been collected shall, at TEPPCO's election, be either (i) applied as a credit against any amounts owed under this Agreement or other agreements, or (ii) refunded to Fina, BASF or LP; and (d) the effective rate of interest shall be automatically reduced to the maximum lawful contract rate allowed for this Agreement under such applicable usury law.

6.4 Remedies. In addition to the provisions of Section 11 of this Agreement, if Fina, BASF or LP owes any amounts which are past due in excess of thirty (30) days, TEPPCO may, in addition to any remedy available under any applicable Law, require Fina, BASF or LP, as the case may be, to pay or furnish guaranty of payment to TEPPCO prior to further acceptance of Product for shipment or delivery hereunder.

SECTION 7  
MEASUREMENT AND INVENTORY ACCOUNTING

7.1 Measurement. Unless otherwise mutually agreed in writing, the method for measurement and testing of Product shall be as set forth in Exhibit 3.1 and the Parties agree that such shall be the exclusive method of measuring and testing Product delivered by Contracting Shippers to TEPPCO at the Origin Points and by TEPPCO to Contracting Shippers at the Delivery Points.

7.2 Testing of Measuring Equipment. Fina, BASF, LP and TEPPCO shall each have the right to have representatives present at all times of any installing, reading, cleaning, changing, repairing, inspecting, calibration, or adjusting done in connection with the other's measuring equipment or for sampling or testing of Product. Fina, BASF, LP and TEPPCO shall each give the others reasonable notice prior to the time of all tests so that the others may conveniently have their representatives present.

7.3 Records. Measurement, sampling, testing and other records associated with the delivery and transportation of Product hereunder shall remain the property of their owner, but upon request shall be made available to the non-owner for inspection, verification and audit at all reasonable times; provided, however that no Party shall be required to retain any record for a period longer than thirty-six (36) Months from the creation of the record.

7.4 Common Carrier Reports. TEPPCO shall furnish each of the Contracting Shippers with reports of their respective receipts, deliveries, inventory and sample analyses as are normally required

in common carrier pipeline operations and such other reports respecting operations as may be mutually agreed by the Parties.

SECTION 8  
FORCE MAJEURE AND ALLOCATION

8.1 TEPPCO Force Majeure. If by any reason of an event of Force Majeure TEPPCO is rendered unable, wholly or in part, to perform its obligations under this Agreement on or after the Commencement Date and if TEPPCO gives notice as soon as practical of such event in accordance with Section 14.2 and provides full particulars of such event in writing or by facsimile transmission after the occurrence of an event of Force Majeure, nonperformance of TEPPCO shall be excused during the continuance of such event and to the extent its performance is affected by such event, subject to the provisions of Sections 8.2. TEPPCO shall use due diligence to remedy its nonperformance with all reasonable dispatch, including the making of provision for such alternate performance as may be economical and practical.

8.2 Abatement of Guaranteed Monthly Volume.

(a) In the event TEPPCO is prevented from performing its obligations hereunder due to a Force Majeure Event on or after the Commencement Date, the collective Guaranteed Monthly Volume obligation of Contracting Shippers under Section 5.2 hereof shall abate in the same proportion as the inability of TEPPCO to perform during the period of such Force Majeure; provided, however, the Initial Term shall be extended for the same period of time that the

period of Force Majeure persists less the number of days equal to the result of dividing the number of Barrels or Pounds of Product, as the case may be, actually delivered by TEPPCO during said period, if any, by the applicable Daily Minimum Volume (fractions to be rounded upward to the next whole number) (the "Extension Term"). The Parties expressly agree that the Guaranteed Monthly Volume obligation for each Product during the Extension Term shall be the sum of the applicable Daily Minimum Volume for such Product for each day during the Extension Term, if any. In the event Contracting Shippers should transport collectively during any Month in which Force Majeure is claimed, the required Guaranteed Monthly Volume of Product (subject to such Force Majeure) through the Pipeline Facilities to the Delivery Point, then, in such event, there shall be no Extension Term of this Agreement attributable to such Force Majeure Event.

(b) By way of example, if TEPPCO on or after the Commencement Date has a Force Majeure Event on the Natural Gasoline pipeline and Contracting Shippers can only receive 20,000 barrels per day as a result of this event, Contracting Shippers would receive a collective reduction in the Guaranteed Monthly Volume for the applicable Month. In this example, it is assumed TEPPCO's restriction on deliveries to Contracting Shippers lasts for six days. The reduction to Contracting Shippers' collective Guaranteed Monthly Volume would be 120,000 Barrels, which is computed by taking the Daily Minimum Volume minus the actual daily deliveries during the period of Force Majeure multiplied by the duration of

the Force Majeure Event (i.e., [40,000-20,000] multiplied by 6). In conjunction with the above, the Initial Term of the Agreement for Natural Gasoline would be extended by three days, which is calculated by taking the volume credit received by Contracting Shippers' divided by the Daily Minimum Volume (i.e., 120,000/40,000). In the above example, if Contracting Shippers' actual deliveries during the Month of the Force Majeure Event were greater than the Guaranteed Monthly Volume, there would be no extension of the Initial Term.

8.3 Fina, BASF and LP Force Majeure. If by any reason of an event of Force Majeure, Fina, BASF or LP is rendered unable, wholly on in part on or after the Commencement Date, to perform its obligations under this Agreement and if Fina, BASF or LP gives notice as soon as practical of such event in accordance with Section 14.2 and provides full particulars of such event in writing or by facsimile transmission after the occurrence of an event of Force Majeure, nonperformance of Fina, BASF or LP, as the case may be, shall be excused during the continuance of such event, except that Fina, BASF and LP shall not be excused due to a Force Majeure Event or for reasons of Force Majeure, of its obligations under Section 5 to make Deficiency Payments and Fina, BASF and LP shall during such Force Majeure make timely payments of any Deficiency Payments for their failure to ship or cause to be shipped the applicable Guaranteed Monthly Volume of Products for reasons of Force Majeure or otherwise. Fina, BASF and LP shall use due diligence to remedy their respective nonperformance with all

reasonable dispatch, including the making of provision for such alternate performance as may be economical and practical.

8.4 Allocation. When shippers, including Fina, BASF and LP, tender quantities of commodities to TEPPCO for shipment greater than can be transported over the Pipeline Facilities for reasons other than a Force Majeure Event, TEPPCO shall restrict or suspend receipts of commodities from all its shippers (including receipts from Fina, BASF and LP of Product for transportation hereunder) to the extent necessary, but only to the extent necessary, to allocate its available transportation capacity among all its shippers on an equitable pro rata basis based on historical levels of shipments. In such event TEPPCO shall promptly notify Fina, BASF and LP by telephone (to be confirmed in writing) of Fina's, BASF's and LP's allocated capacity during such allocation period. If Fina's, BASF's and LP's allocated capacity is less than their collective Daily Minimum Volume, then the Guaranteed Monthly Volume obligation for the Product being allocated for the Month during which such capacity allocation occurs shall be reduced by an amount equal to the product of (i) the number of days during the Month the Pipeline Facilities are on allocation, and (ii) the difference between the applicable Daily Minimum Volume and Fina's, BASF's and LP's collective allocated capacity for such Product.

8.5 Disposal of Product. In the event Fina, BASF or LP is unable to have Product delivered to it hereunder at the Delivery Point, as a result of Force Majeure or any other cause, TEPPCO agrees to reasonably cooperate with Fina, BASF and Partnership with

respect to Fina's, BASF's or LP's disposal of such Product in the Pipeline Facilities; provided, however, if Fina, BASF or LP fail to make provisions for such disposal, TEPPCO shall have the right but not the obligation, at Fina's, BASF's and LP's sole cost and expense and for Fina's, BASF's and LP's account, as the case may be, to dispose of any such Product at the best commercial price then available under existing circumstances in order to free capacity in the Pipeline Facilities.

SECTION 9  
TERM

9.1 Term. This Agreement shall be in full force and effect as of the Effective Date and shall continue in effect for an Initial Term of twenty (20) Contract Years, subject to any extension pursuant to Section 8.2, and shall continue thereafter from Contract Year to Contract Year unless and until terminated by TEPPCO, or any of the Contracting Shippers upon not less than 180 days prior written notice to the other Parties specifying a termination date either at the end of (i) such Initial Term, or (ii) any subsequent Contract Year.

9.2 Termination. Notwithstanding Section 9.1, in the event Fina, BASF or LP should ever purchase the Pipeline Facilities from TEPPCO, this Agreement shall terminate upon such acquisition.

SECTION 10  
LAWS

This Agreement shall be subject to all Laws affecting either TEPPCO or Contracting Shippers and should any of the Parties, by force of any such Laws imposed at any time during the term of this Agreement, be rendered unable, wholly or in part, to carry out its obligations under this Agreement, then this Agreement shall nevertheless continue but shall be deemed modified to conform with the requirements of such Laws. Notwithstanding the foregoing provisions of this Section 10, this Agreement shall not be deemed to be so modified if such Laws substantially and materially impairs any Party's rights and benefits as herein provided, including but not limited to, services rendered hereunder or TEPPCO receiving Transportation Charges and Deficiency Charges substantially in accordance with the terms set forth herein, and, in such event, the Parties shall negotiate in good faith to amend the terms of this Agreement so that such Laws may be complied with and the Parties shall continue to receive the rights and benefits herein provided. This Agreement is expressly made subject to the Tariff and any inconsistencies between this Agreement and the Tariff shall be resolved in favor of the Tariff; provided, however, TEPPCO shall not, without Contracting Shippers prior written consent, seek to alter the character or amount of TEPPCO's services or obligations herein provided or to reduce the term of this Agreement. The Parties agree to assist each other (at the expense of the requesting Party) in any proceeding before any Governmental



Authority having jurisdiction over this Agreement or the Tariff, to ensure that the provisions of this Agreement and the Tariff continue in effect.

SECTION 11  
DEFAULT

In addition to any other provisions of this Agreement relative to default, it is understood and agreed that if either Party hereto shall fail to materially perform any of the covenants or obligations imposed upon it under and by virtue of this Agreement and such covenants or obligations are of a material nature, then in such event the other Party hereto may, at its option, terminate this Agreement by proceeding as follows: The Party not in default shall cause a written notice to be served on the Party in default stating specifically the cause for terminating this Agreement declaring it to be the intention of the Party giving notice to terminate the same; whereupon the Party in default shall have thirty (30) days after the service of the aforesaid termination notice in which to remedy or remove the cause or causes stated in the notice for terminating the Agreement (the "Cure Period") and, if within said Cure Period the Party in default does so remedy or remove said cause or causes, then such termination notice shall be deemed withdrawn and this Agreement shall continue in full force and effect. If the Party in default does not so remedy or remove the cause or causes within said Cure Period, then, at the option of the Party giving the termination notice, this Agreement shall

become null and void from and after the expiration of said Cure Period. If a default cannot be substantially cured within the Cure Period, but the Party in default has commenced to remedy the cause of default within the Cure Period and continues diligently pursuing such remedy after expiration of the Cure Period, then the Party not in default may not terminate this Agreement until such time as the Party in default stops diligently pursuing a remedy of the default. Any termination of this Agreement pursuant to the provisions of this Section 11 shall be without prejudice to the right of either Party to collect any amounts then due and owing to it under the provisions of this Agreement and shall be without prejudice to the rights of such Party to receive any Product for which it has paid the Transportation Charges hereunder but has not received the Product prior to the time of termination, and without waiver of or prejudice to any remedy (legal, equitable or otherwise) to which the Party not in default may be entitled for violations, default or breach of this Agreement. For purposes of this Section 11, the term "Party" shall mean TEPPCO on the one hand and Contracting Shippers, collectively on the other hand.

SECTION 12  
TAXES

12.1 TEPPCO Taxes. TEPPCO shall pay any and all applicable taxes (including but not limited to ad valorem taxes, excise taxes, sales taxes and value added taxes), fees, assessments and charges with respect to the Pipeline Facilities used by TEPPCO to provide

transportation services under this Agreement. Contracting Shippers shall cooperate with TEPPCO in any protest or contest by TEPPCO of such taxes solely at TEPPCO's expense.

12.2 Contracting Shippers' Taxes. Contracting Shippers shall each pay any and all applicable taxes (including but not limited to ad valorem taxes, excise taxes, sales taxes and value added taxes), fees, assessments and charges with respect to the delivery, ownership, receipt, handling, use, and storage of their respective Products in transit or the transfer of ownership of the Products hereunder. TEPPCO shall cooperate with Fina, BASF and LP in any protest or contest by any of them of such taxes solely at the requesting Party's expense.

### SECTION 13 DISPUTES

13.1 Dispute Negotiations. In the event of any controversy or dispute, whether based in contract, tort or otherwise, arising out of or relating to this Agreement or the scope, breach, termination or validity of this Agreement, the Parties shall promptly seek to resolve any such dispute by negotiations between senior executives of the Parties who have authority to settle such dispute. When a Party believes there is a dispute under this Agreement, that Party may give the other Party written notice of the dispute. Within thirty (30) days after receipt of such notice, the receiving Party shall submit to the other a written response. Both the notice and responses shall include (i) a statement of such Party's position

and a summary of the evidence and arguments supporting its position, and (ii) the name, title, facsimile number, and telephone number of the executive who will represent that Party. In the event the dispute involves a Claim arising out of the actions of any Person or entity not a signatory to this Agreement, the receiving Party shall have such additional time as necessary, not to exceed an additional thirty (30) days, to investigate the dispute before submitting a written response. The executives shall meet at a mutually acceptable time and place within fifteen (15) days after the date of the response and thereafter as often as they reasonably deem necessary to exchange relevant information and to attempt to resolve the dispute. If one of the executives is an attorney or intends to be accompanied at a meeting by an attorney, the other executives shall be given at least five (5) working days' notice of such intention and may also be accompanied by an attorney. All negotiations and communications pursuant to this Section 13 shall be treated and maintained by the Parties as confidential information and shall be treated as compromise and settlement negotiations for the purposes of the Federal and State Rules of Evidence. The term "Party" as used in this Section 13 shall mean TEPPCO on the one hand and Contracting Shippers collectively on the other hand.

13.2 Arbitration. Any disputes arising under the provisions of (i) Section 4.2 of this Agreement relative to selecting a substitute index in place of any discontinued index, or (ii) Section 4.1 of Exhibit 2.1 of this Agreement relative to

determining Related Costs (as that term is defined in Exhibit 2.1) caused by the rerouting of the Pipeline Facilities (collectively "Dispute") that are not settled pursuant to the foregoing provisions may be submitted to binding arbitration in accordance with the following provisions. No other dispute shall be subject to arbitration hereunder, unless otherwise expressly agreed to by the Parties.

- (a) The Party desiring to initiate arbitration in connection with any Dispute shall send, via certified mail, written notice of demand of arbitration to the other Party and the name of the arbitrator appointed by the Party demanding arbitration together with a statement of the matter in controversy.
- (b) Within fifteen (15) days after receipt of such demand, the receiving Party shall name its arbitrator. If the receiving Party fails or refuses to name its arbitrator within such 15-day period, the second arbitrator shall be appointed, upon request of the Party demanding arbitration, by the Chief U.S. District Court Judge for the Southern District of Texas ("Judge") or such other person designated by the Judge. The two arbitrators so selected shall within fifteen (15) days after their designation select a third arbitrator; provided, however, that if the two

arbitrators are not able to agree on a third arbitrator within such 15-day period, either Party may request the Judge or such other person designated by the Judge to select the third arbitrator as soon as possible. In the event the Judge declines to appoint an arbitrator, appointment shall be made, upon application of either Party, pursuant to the Commercial Arbitration Rules of the American Arbitration Association. If any arbitrator refuses or fails to fulfill his or her duties hereunder, such arbitrator shall be replaced by the Party which selected such arbitrator (or if such arbitrator was selected by another Person, through the procedure which such arbitrator was selected) pursuant to the foregoing provisions.

- (c) Each arbitrator selected by the Parties shall be qualified by education, experience and training to pass on the particular question in Dispute. The arbitrators selected by the Parties are not required to be neutral, but the third arbitrator shall be neutral, and must be a practicing attorney, a judge or a retired judge.
- (d) The Parties hereto hereby request and consent to the three (3) arbitrators conducting a hearing in Houston, Texas no later than sixty (60) days

following their selection or thirty (30) days after all prehearing discovery has been completed, whichever is later, at which the Parties shall present such evidence and witnesses as they may choose, with or without legal counsel.

- (e) Arbitration shall be conducted in accordance with the Commercial Arbitration Rules and procedures of the American Arbitration Association.
- (f) The Federal Rules of Civil Procedure, as modified or supplemented by the local rules of civil procedure for the U.S. District Court for the Southern District of Texas, shall apply in the arbitration. The Parties shall make their witnesses available in a timely manner for discovery pursuant to such rules. If a Party fails to comply with this discovery agreement within the time established by the arbitrators, after resolving any discovery disputes, the arbitrators may take such failure to comply into consideration in reaching their decision. All discovery disputes shall be resolved by the arbitrators pursuant to the procedures set forth in the Federal Rules of Civil Procedure.
- (g) Adherence to formal rules of evidence shall not be required. The arbitrators shall consider any evidence and testimony that they determine to be

relevant.

- (h) The Parties shall request that the arbitrators render their decision within thirty (30) calendar days following conclusion of the hearing.
- (i) Any decision by a majority of the arbitration panel shall be final, binding and non-appealable. Any such decision may be filed in any court of competent jurisdiction and may be enforced by any Party as a final judgment in such court. There shall be no grounds for appeal of any arbitration award hereunder.
- (j) The defense of statute of limitations and laches shall be tolled from and after the date a Party gives the other Party written notice of a Dispute as provided in Section 13.1 above until such time as the Dispute has been resolved pursuant to Section 13.1, or an arbitration award has been entered pursuant to Section 13.3.
- (k) Subject to subsection (j) directly above, in no event may arbitration be demanded after the date when institution of legal or equitable proceedings based on a Claim, Dispute or other matter in question would be barred by the applicable statute of limitations.

13.3 Payment of Expenses. In the event arbitration or, despite the Parties agreement to arbitrate, litigation arising out



of this Agreement is initiated by either Party, the prevailing Party, after the entry of a final nonappealable order, shall be entitled to recover from the other Party, as a part of said order, all court costs, fees and expenses of such arbitration (or litigation), including, without limitation, reasonable attorneys' fees.

SECTION 14  
GENERAL PROVISIONS

14.1 Further Assurances. At any time or from time to time at and after the Effective Date, each of the Parties shall, at the request of the other, execute and deliver or cause to be executed and delivered all the assignments, consents, documents and instruments, and take or cause to be taken all the other reasonable actions as may be necessary or desirable to more fully and effectively carry out the intents and purposes of this Agreement.

14.2 Notices. All notices, invoices, requests, demands and other communications required or permitted to be given under this Agreement shall be deemed to have been duly given if in writing and delivered personally or sent via first-class, postage prepaid, registered or certified mail (return receipt requested), or by overnight delivery service or facsimile transmission addressed as follows:

If to Fina:

Fina Oil and Chemical Company  
6000 Legacy Drive  
Plano, Texas 75024-3601  
Attention: General Counsel

If to BASF:

BASF Corporation  
3000 Continental Drive - North  
Mount Olive, New Jersey 07828-1234  
Attention: Vice President - Special Projects

If to LP:

BASF Fina Petrochemicals, Limited Partnership  
Hwy 366 @ Gate 99 off Hwy 87  
Port Arthur, Texas 77642  
Attention: Plant Manager

If to TEPPCO:

Texas Eastern Products Pipeline Company  
2929 Allen Parkway, Suite 3200  
Houston, Texas 77019  
Attention: Vice President - Business Development  
Telephone: (713) 759-3685  
Facsimile: (713) 759-3957

Any notice given to Contracting Shippers shall be given to Fina, BASF and LP. Any Party may change the address to which the communications are to be directed to it by giving notice to the other in the manner provided in this Section 14.2. Notice by mail shall be deemed to have been given and received on the third calendar day after posting. Notice by overnight delivery service, facsimile transmission or personal delivery shall be deemed given on the date of actual delivery.

14.3 Entire Agreement. This Agreement and the Attachments and Exhibits hereto set forth the entire agreement and understanding of the Parties with respect to the transactions contemplated hereby and supersede all prior agreements, arrangements and understandings relating to the subject matter hereof, including the Fina Oil and Chemical Company Consulting Services Contract (Contract Number:

6476-A) dated October 19, 1998 between Fina Oil and Chemical Company and TE Products Pipeline Company, Limited Partnership. No representation, promise, inducement or statement of intention with respect to the subject matter of this Agreement has been made by any Party that is not embodied in this Agreement, Attachments and Exhibits hereto, and none of the Parties shall be bound by or liable for any alleged representation, promise, inducement or statement of intention not so set forth.

14.4 Assignment. Neither Fina, BASF, LP nor TEPPCO may sell, transfer, assign, pledge or hypothecate, in each case, by operation of law, change in control or otherwise, its rights, interests or obligations under this Agreement without the full consent of the other Parties; provided, however, either Fina, BASF, LP or TEPPCO shall have the right, without the consent of any of the other Parties, to assign all its rights and obligations under this Agreement to an Affiliate or to a Third Party purchaser of all of the assets of a Party to which this Agreement pertains provided that such Affiliate or Third Party has sufficient assets and financial strength acceptable to the other Parties, which acceptance shall not be unreasonably withheld; and further provided that contemporaneously with the assignment of such interest, the Affiliate or Third Party to whom such interest is being assigned shall deliver to the other Parties to this Agreement a written agreement pursuant to which such Affiliate or Third Party agrees (i) to be bound by all the terms and provisions of this Agreement and any agreement referenced herein; and (ii) to perform and

discharge the obligations and liabilities set forth in this Agreement and such other agreements. TEPPCO may not sell or assign all or any portion of its interest in the Pipeline Facilities to an Affiliate or a Third Party without properly assigning this Agreement to such acquiring Affiliate or Third Party as provided in this Section 14.4.

14.5 Enforceability by the Parties. This Agreement shall inure to the benefit of, be binding upon, and be enforceable by the Parties hereto and their respective successors and permitted assigns.

14.6 Amendments. This Agreement may be amended, superseded or cancelled, and any of the terms hereof may be waived, only by a written instrument specifically stating that it amends, supersedes or cancels this Agreement or waives any of the terms herein, executed by all Parties or, in the case of a waiver, by the Party waiving compliance. The failure of any Party at any time to require performance of any provision herein shall in no manner affect the right at a later time to enforce the same.

14.7 Execution in Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

14.8 Waiver. No waiver by any Party of any condition, or of any breach of any term, covenant, representation or warranty, shall be deemed or constitute a waiver of any other condition, or breach of any other term, covenant, representation or warranty, nor shall

the waiver constitute a continuing waiver unless otherwise expressly provided.

14.9 Unenforceability of Provisions. Any provision hereof that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

14.10 Third Party Beneficiary. Except to the extent a Third Party is expressly given rights herein, any agreement contained, expressed or implied in this Agreement shall be only for the benefit of the Parties hereto and their respective legal representatives, successors and assigns, and such agreements shall not inure to the benefit of the obligees of any indebtedness of any Party hereto, it being the intention of the Parties hereto that no person or entity shall be deemed a third party beneficiary of this Agreement, except to the extent a Third Party is expressly given rights herein.

14.11 Damages. NOTWITHSTANDING ANYTHING TO THE CONTRARY CONTAINED HEREIN, WHETHER OR NOT OCCASIONED BY A DEFAULT OR OTHER BREACH OF THIS AGREEMENT, NO PARTY SHALL BE LIABLE HEREUNDER TO THE OTHER PARTIES FOR SPECIAL, EXEMPLARY OR PUNITIVE DAMAGES, LOSS OF PROFITS, OR CONSEQUENTIAL DAMAGES, WHETHER IN CONTRACT, TORT, STRICT LIABILITY OR OTHERWISE.

14.12 Governing Law. THIS AGREEMENT SHALL BE CONSTRUED

AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAW OF THE STATE OF TEXAS, WITHOUT REGARD TO ANY CONFLICT-OF-LAWS PROVISION THEREOF THAT WOULD OTHERWISE REQUIRE THE APPLICATION OF THE LAW OF ANY OTHER JURISDICTION.

14.13 Venue. Any court proceedings arising out of or relating to this Agreement or the transactions contemplated hereby, shall be brought and tried in the federal or state courts situated in the City of Houston, Harris County, Texas.

IN WITNESS WHEREOF, the Parties have duly executed this Agreement as of the date first set forth above.

Fina Oil and Chemical Company

By: /s/ MICHAEL J. COUCH  
-----  
Name: Michael J. Couch  
-----  
Title: SENIOR VICE PRESIDENT  
-----

BASF CORPORATION

By: /s/ CARL A. JENNINGS  
-----  
Name: Carl A. Jennings  
-----  
Title: EXECUTIVE VICE PRESIDENT

BASF FINA PETROCHEMICALS  
LIMITED PARTNERSHIP BY ITS  
GENERAL PARTNERS

FINA OIL AND CHEMICAL COMPANY

By: /s/ MICHAEL J. COUCH  
-----  
Name: Michael J. Couch  
-----  
Title: SENIOR VICE PRESIDENT  
-----

BASF CORPORATION

By: /s/ RUDOLF R. SCHNUR  
-----  
Name: Rudolf R. Schnur  
-----  
Title: VICE PRESIDENT  
-----

TE PRODUCTS PIPELINE COMPANY,  
LIMITED PARTNERSHIP, BY TEXAS  
EASTERN PRODUCTS PIPELINE COMPANY,  
GENERAL PARTNER

By: /s/ DAVID LANGLEY  
-----  
Name: David Langly  
-----  
Title: VICE PRESIDENT  
-----

## APPENDIX A

"Affiliate" shall mean, as to the Person specified, any Person (a) controlling, controlled by or under common control with such specified Person, (b) which beneficially owns or holds fifty percent (50%) or more of any class of stock or other equity interest of such specified Person, or (c) fifty percent (50%) or more of any class of whose stock or equity interest is beneficially owned or held by such specified Person and its Affiliates. For purposes of this definition "control," when used with respect to any specified Person, means the power to direct the management and policies of the Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agreement" shall mean this instrument and all appendices and exhibits hereto as originally executed or as may from time to time be supplemented or amended.

"Authorizations" shall have the meaning given in Section 2.4.

"Barrel" shall mean 42 United States standard gallons at 60 degrees Fahrenheit.

"BASF" shall mean BASF Corporation, a Delaware corporation.

"Best Efforts" shall mean commercially reasonable good faith efforts under the circumstances, without any requirements that any Party be obligated (a) to pay any penalty, premium or undue consideration to obtain any waiver, consent, approval or election, (b) to modify its rights or obligations under any existing agreement, lease or other contract, or (c) to violate any Applicable Law.

"Claim" shall mean any demand, demand letter, claim or notice of noncompliance or violation (written or oral) or Proceeding.

"Commission" shall mean the Texas Railroad Commission or any commission, agency or other Governmental Authority succeeding to the powers of the Texas Railroad Commission as it pertains to this Agreement or the Tariff.

"Commencement Date" shall be the date established pursuant to the provisions of Section 2.6.

"Consumer Price Index" shall mean the Consumer Price Index - All Urban Consumers published by the Bureau of Labor Statistics. The specific Index is for Houston-Galveston-Brazoria, SAO All Items, Not Seasonally Adjusted.



"Contract Year" shall mean the period of time beginning on the Commencement Date or any anniversary thereof and ending 365 days (366 days in the case any such yearly period has February 29th) later.

"Contracting Shippers" shall mean individually and jointly Fina, BASF and LP.

"Daily Minimum Volume" shall be determined for each Product as follows:

Product -----	Amounts -----
Natural Gasoline (Barrels)	80,000
Ethylene (Pounds)	8,219,178
Propylene (Pounds)	8,219,178

"Deficiency Rate" shall have the meaning given in Section 5.2(a) and Section 5.2(b).

"Delivery Month" shall have the meaning given in Section 5.2(a).

"Delivery Point" shall mean the Plant, the Mont Belvieu Terminal or the Union Carbide Company's compressor station near Port Arthur, Texas, as the case may be.

"Dispute" shall have the meaning given in Section 13.2.

"Effective Date" shall mean the date of execution of this Agreement by the Parties.

"Environmental Condition" shall mean any environmental pollution, contamination, degradation, damage or injury caused by, related to, arising from, or in connection with the generation, handling, use, treatment, storage, transportation, disposal, discharge, release or emission of any Hazardous Materials, or violation of or remediation required under any Environmental Laws.

"Environmental Laws" shall mean all laws, rules, regulations, statutes, ordinances, decrees or orders of any Governmental Authority relating to (a) the control of any pollutant or potential pollutant or protection of the air, water, or land, (b) solid, gaseous or liquid waste generation, handling, treatment, storage, disposal or transportation, including all Hazardous Materials, and (c) exposure to hazardous, toxic or other substances alleged to be harmful and includes without limitation, (1) the terms and conditions of any Environmental Permits, and (2) judicial, administrative, or other regulatory decrees, judgments, and orders of any Governmental Authority. "Environmental Laws" shall include, but not be limited to, the Clean Air Act, 42 U.S.C. Section 7401 et seq., the Clean Water Act, 33 U.S.C. Section 1251 et seq., the Resource Conservation and Recovery Act ("RCRA"), 42 U.S.C. Section 6901 et seq., the Superfund Amendments and Reauthorization Act, 42 U.S.C. Section 11001,

et seq., the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq., the Water Pollution Control Act, 33 U.S.C. Section 1251 et seq., the Safe Drinking Water Act, 42 U.S.C. Section 300f et seq. and CERCLA. The term "Environmental Laws" shall also include all state, local and municipal laws, rules, regulations, statutes, ordinances and orders dealing with the same subject matter or promulgated by any Governmental Authority thereunder or to carry out the purposes of any federal, state, local and municipal laws.

"Environmental Liabilities" shall mean any and all liabilities, responsibilities, claims, suits, losses, costs (including remedial, removal, response, abatement, clean-up, investigative, or monitoring costs and any other related costs and expenses), other causes of action, damages, settlements, expenses, charges, assessments, liens, penalties, fines, prejudgment and post-judgment interest, attorneys' fees and other legal fees (a) pursuant to any agreement, order, notice, or responsibility, directive (including directives embodied in Environmental Laws), injunction, judgment, or similar documents (including settlements), arising out of or in connection with any Environmental Laws, or (b) pursuant to any Claim by a Governmental Authority or other Person for personal injury, property damage, damage to natural resources, remediation, or payment or reimbursement of response costs incurred or expended by the Governmental Authority or Person pursuant to common law or statute and relating to an Environmental Condition.

"Environmental Permit" shall mean any permit, license, approval, registration, identification number or other authorization covering the ownership or operation of the Pipeline Facilities granted under or pursuant to any applicable law, regulation or other requirement of the United States or of any state, municipality or other subdivision thereof relating to the control of any pollutant or protection of health or the environment, including, without limitation, all applicable Environmental Laws.

"Excess Product Volume" shall mean the total volume of a particular Product that Fina, BASF and LP and Third Parties transport through the Pipeline Facilities from an origin point to a Delivery Point during a Month that is in excess of that Month's Guaranteed Monthly Volume for such Product.

"Extension Term" shall have the meaning given it in Section 8.2.

"Fina" shall mean Fina Oil and Chemical Company, a Delaware corporation.

"Force Majeure" or "Force Majeure Event" shall mean, without limitation by this recital, acts of God; acts of a public enemy; fires; explosions; wars; earthquakes; storms; floods; extreme cold or freezing; extreme heat; washouts; necessity for compliance with any court order, law, regulation or ordinance promulgated by any Governmental Authority having jurisdiction; civil disturbances;

strikes, lockouts or other industrial disturbances; the necessity for testing (as required by Governmental Authority or as deemed necessary by the testing Party for the safe operation thereof); inability of either Party to obtain necessary material, supplies, permits, or labor to perform or comply with any obligation or condition of this Agreement; inability to obtain rights-of-way; and any other causes, whether of the kind herein recited or not, which are not reasonably in the control of the Party claiming suspension. It is understood and agreed that the settlement of strikes, lockouts or other industrial disturbances shall be entirely within the discretion of the Party having the difficulty and that the requirement that any Force Majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes, lockouts or other industrial disturbances by acceding to the demands of an opposing party involved in such strikes, lockout or other industrial disturbances, when such course is inadvisable in the discretion of the Party having the difficulty.

"General Partner" shall mean Texas Eastern Products Pipeline Company, a Delaware corporation.

"Governmental Authority" shall mean any entity of or pertaining to government, including any federal, state, local or other governmental or administrative authority, agency, court, tribunal, arbitrator, commission, board or bureau.

"Guaranteed Monthly Volume" shall have the meaning and volume amounts set forth in Section 5.1.

"Hazardous Materials" shall mean (a) toxic or hazardous materials or substances; (b) solid wastes, including asbestos, polychlorinated biphenyls, mercury, buried contaminants, chemicals, flammable or explosive materials; (c) radioactive materials; (d) petroleum wastes and any spills or releases of any petroleum wastes or petroleum products; and (e) any other chemical, pollutant, contaminant, substance or waste that is regulated by any Governmental Authority under any Environmental Law.

"Initial Contract Year" shall mean the first Contract Year and commencing on the Commencement Date.

"Initial Term" shall have the meaning set forth in Section 9.1.

"Initial Transportation Charges" shall be the Transportation Charges in effect on the Commencement Date.

"Laws" shall mean any applicable federal, state, county, city, and municipal law, ordinance, code, regulation, order, judgment, writ, injunction, requirement, statute, rule, governmental authorization or any order of any Governmental Authority.

"Losses" shall mean any and all damages, losses, liabilities, payments, obligations, penalties, assessments, costs, disbursements or expenses (including interest, awards, judgments, settlements, fines, costs of remediation, diminutions in value, fees and expenses of attorneys, accountants and other professional advisors and expert witnesses and costs of investigation and preparation of any kind or nature whatsoever).

"LP" shall mean BASF Fina Petrochemicals Limited Partnership.

"Makewhole Volume" shall mean the volume difference in Barrels or Pounds, as the case maybe, between the applicable Guaranteed Monthly Volume for a Month and the volume of Product actually shipped by Fina, BASF, LP and Third Parties during such month, provided such actual volume is less than the Guaranteed Monthly Volume.

"Mont Belvieu Terminal" shall mean TEPPCO's Mont Belvieu South terminal in Mont Belvieu, Texas.

"Mont Belvieu Work" shall mean the design, engineering, construction and installation of facilities necessary to tie Receipt and Delivery Facilities into TEPPCO's facilities at the Mont Belvieu Terminal.

"Month" shall mean the period beginning at 12:00 a.m. (midnight) local Houston, Texas, time on the first day of a calendar month and ending at 12:00 a.m. (midnight) local Houston, Texas, time on the first day of the next calendar month.

"Origin Point" shall mean the Plant or the Mont Belvieu Terminal, as the case may be.

"Party" shall mean Fina, BASF, LP or TEPPCO, except as provided otherwise in Section 11 and Section 13 and "Parties" shall mean Fina, BASF, LP and TEPPCO unless the context otherwise requires.

"Person" shall mean any individual, partnership, limited partnership joint venture, association, limited liability company, stock company, trust, unincorporated organization, or Governmental Authority.

"Pipeline Facilities" or "Pipeline Systems" shall mean three (3) 12.75-inch outside diameter pipelines and associated facilities and equipment to be constructed by TEPPCO along the proposed route identified in Exhibit 2.1. Each of the three pipelines would operate as a common carrier facility and would be dedicated to one of the following Product services:

- (i) Transportation of Natural Gasoline between the Mont Belvieu Terminal and the Plant.
- (ii) Transportation of Ethylene between the Plant and the Mont Belvieu Terminal.
- (iii) Transportation of Propylene between the Plant and the Mont Belvieu Terminal.

The Natural Gasoline pipeline, the Ethylene pipeline and Propylene pipeline will be designed and constructed to be bi-directional. However, the Propylene Pipeline will be operated after the Commencement Date to flow Propylene only from the Plant to the Mont Belvieu Terminal. The pipeline dedicated to Ethylene service includes a lateral pipeline for the transportation of Ethylene from the Plant to Union Carbide Company's plant near Port Arthur, Texas. The Pipeline Facilities are more fully described in Exhibit 2.1.

"Plant" shall mean LP's petrochemical plant located in or near Port Arthur, Texas on property leased by the LP from Fina. The Pipeline Facilities will terminate immediately inside the property lines of the leased property.

"Pounds" shall mean a unit of mass equal to 16 avoirdupois ounces or 0.45359237 kilogram.

"Proceeding" shall mean any action, suit, claim, investigation, review or other judicial or administrative proceeding, at law or in equity, before or by any Governmental Authority.

"Product" or "Products" shall mean "Natural Gasoline," "Ethylene" and "Propylene" meeting the specifications attached hereto as Exhibit 3.3.

"Receipt and Delivery Facilities" shall mean those facilities owned by Fina, BASF or a Third Party supplier or customer of Fina or BASF that are necessary for either the receipt or delivery of Products.

"Tariff" shall mean the tariff filed by TEPPCO with the Commission as described in Section 4.5 hereof, including all supplements to and successive issues thereof.

"THE WALL STREET JOURNAL" shall mean the The Wall Street Journal newspaper published by Dow Jones & Company, Inc.

"Third Party" shall mean any Person other than the Parties.

"Transportation Charges" shall have the meaning set forth in Section 4.1.

EXHIBIT 2.1

PROJECT MANAGEMENT FOR  
DESIGN, ENGINEERING AND CONSTRUCTION  
AND RIGHT OF WAY ACQUISITION

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#### LIST OF ATTACHMENTS

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## EXHIBIT 2.1

PROJECT MANAGEMENT FOR  
DESIGN, ENGINEERING, CONSTRUCTION AND  
RIGHT OF WAY ACQUISITION

## SECTION 1 DEFINITIONS

The terms defined in Attachment A-2.1 shall (i) have the respective meaning specified therein with each such definition of a term being equally applicable to singular and the plural form of the term so defined. Terms initially capitalized but not defined in Attachment A-2.1 shall have the meaning given to such term in the Agreement to which this Exhibit is attached.

## SECTION 2 DESIGN, CONSTRUCTION AND PERFORMANCE REQUIREMENTS

2.1 Design and Engineering Services. TEPPCO shall provide or cause to be provided all design and engineering services needed to fully define the Pipeline Facilities and to cause the Pipeline Facilities, as designed and engineered, to comply with the Completion Standards and to operate in accordance with the Performance Standards. Such design and engineering services shall include but not be limited to the services described in Attachment 2.1 attached hereto. All such services shall be performed in accordance with the Project Schedule.

2.2 Description and Construction of Project. TEPPCO shall construct, fabricate and install or cause to be constructed, fabricated and installed three pipeline systems (the "Pipeline Systems" or "Pipeline Facilities") and certain ancillary facilities conforming to the specifications and standards contained in this Exhibit 2.1 and all other Contract Documents, as follows:

- (i) A 12.75 inch outside diameter ANSI 900 bidirectional pipeline (the "Propylene Pipeline") approximately 66 miles in length, terminating immediately inside the southwest corner property line of the Plant and the property line of the Mont Belvieu Terminal, to be used to transport Propylene from Port Arthur, Texas to Mont Belvieu, Texas along the route with the terminus locations described in Attachment 2.2(a), or deviations therefrom as required.
- (ii) A 12.75 inch outside diameter ANSI 900 bidirectional pipeline (the "Ethylene Pipeline") approximately 66 miles in length, terminating immediately inside the southwest corner property line of the Plant and the property line of the Mont Belvieu Terminal, to be used to transport Ethylene between Port Arthur, Texas and Mont Belvieu, Texas, along the route with terminus locations described in Attachment 2.2(a), or deviations therefrom as required. The Ethylene Pipeline would include a lateral pipeline to Union Carbide Company's compressor station near Port Arthur, Texas of approximately 0.3 miles in length.
- (iii) A 12.75 inch outside diameter ANSI 900 bidirectional pipeline (the "Natural Gasoline Pipeline") approximately 66 miles in length,

terminating immediately inside the southwest corner property line of the Plant and the property line of the Mont Belvieu Terminal, to be used to transport Natural Gasoline between Mont Belvieu, Texas and Port Arthur, Texas along the route with terminus locations described in Attachment 2.2(a), or deviations therefrom as required.

- (iv) All other components and installations described by the Contract Documents or as necessary to cause the Pipeline Systems to be completed in accordance with the Completion Standards and to operate and perform in accordance with the Performance Standards.

The Propylene Pipeline, Ethylene Pipeline and Natural Gasoline Pipeline will conform to and be designed, engineered, fabricated, constructed and installed in accordance with the specifications of the Contract Documents, including the specifications contained in Attachment 2.2(b) respectively, and all Laws. The Pipeline Systems together with all such other components, installations and interests described in this subsection 2.2 and in the Contract Documents, are herein sometimes referred to as the "Project."

### 2.3 Performance Standards

(a) The Propylene Pipeline, Ethylene Pipeline and Natural Gasoline Pipeline will be designed, engineered and constructed to meet or exceed the performance criteria set forth on Attachment 2.2(b) and Attachment 2.3.

- (b) The Pipeline Systems, when completed, will be

capable of operating in accordance with all Laws and all performance and operational specifications set forth in this Exhibit 2.1.

The Standards set forth in paragraphs 2.3(a) and (b) are herein collectively referred to as the "Performance Standards."

#### 2.4 Completion Standards

(a) Upon completion of construction of the Pipeline Systems, the Pipeline Systems shall be tested in accordance with and in satisfaction of the testing procedures and requirements set forth in Attachment 2.4. TEPPCO shall provide to Contracting Shippers certified copies of the results of any such test as soon as practicable after its completion. Moreover, TEPPCO shall notify Contracting Shippers at least three (3) days in advance of any testing pursuant to this Section 2.4(a) and Contracting Shippers' shall each have the right to have a representative present to witness any such test.

(b) The Project shall be completed and the Work performed in a good and workmanlike manner, and in accordance with the Contract Documents, all Laws and usual and customary industry standards applicable to the construction of the Project or performance of the Work as set forth in Attachment 2.2(b).

The requirements (including the passing of the tests set forth in Attachment 2.4) set forth in paragraphs 2.4(a) and (b) are herein collectively referred to as the "Completion Standards."

## SECTION 3 CONTRACT DOCUMENTS AND INTERPRETATIVE RULES

3.1 Contract Documents. The term "Contract Documents" shall collectively mean and consist of (i) the Agreement including this Exhibit and all Attachments, (ii) the Drawings and Specifications, and (iii) all Change Orders. The term "Drawings and Specifications" means the final drawings, diagrams, plans and specifications for the construction and installation of the Project prepared by Contractor, which may be modified from time-to-time in accordance with the Contract Documents.

3.2 Documents at Project Site. TEPPCO shall maintain or cause to be maintained at Contractor's offices, for review by each of the Contracting Shippers, one record copy of the Drawings and Specifications, Change Orders and other modifications to the Contract Documents, in good order, and marked currently to record changes and selections made during construction. Promptly after the execution of the Agreement, TEPPCO shall prepare or cause to be prepared an initial set of drawings and specifications for the Project for Contracting Shippers' collective review and comment. After receipt of Contracting Shippers' collective comments, TEPPCO shall promptly prepare, or caused to be prepared, the Drawings and Specifications incorporating such comments as appropriate. By submission of the final Drawings and Specifications to the Parties, TEPPCO represents to each of the Contracting Shippers that the Project can be constructed and installed in accordance with the Drawings and Specifications to meet or exceed the Completion Standards and the Performance Standards. Contracting Shippers

shall furnish TEPPCO with certain documents prepared by them. TEPPCO and its Contractor shall thoroughly review such documentation. Any preliminary drawings, design guidelines, schematics, equipment lists, budgets, accounting information, reports, surveys, specifications and other documents contained in the documentation furnished by Contracting Shippers are furnished solely for TEPPCO's general information and convenience. TEPPCO shall be responsible for the design and construction of a complete Pipeline System, which shall deliver Products in accordance with the requirements of the Agreement. Any furnishing by Contracting Shippers of design information which is utilized by TEPPCO in its sole discretion, and the review by Contracting Shippers of the Drawings and Specifications shall not in any way relieve TEPPCO of its responsibilities under the Agreement.

### 3.3 Interpretative Rules and Resolution of Conflicts Among Contract Documents.

(a) Unless otherwise stated in the Contract Documents, words which have generally recognized technical or construction industry meanings are used in the Contract Documents in accordance with such recognized meanings.

(b) Large-scaled drawings shall control over smaller-scaled drawings, figured dimensions on the drawings shall control over scaled dimensions and noted materials shall control over graphic representations. Notwithstanding the foregoing provisions, where a conflict exists within or between parts of the Contract Documents and Laws, or between Laws themselves, the more stringent

or higher quality requirements shall apply.

(c) Where "as shown," "as indicated," "as detailed," or words of similar import are used, it shall be understood that reference to the Drawings and Specifications is made unless otherwise stated.

(d) As used in the Contract Documents, "provide" shall be understood to mean "provide complete in place," that is, to furnish, fabricate, deliver, and install, including all materials, services, and expenses necessary to complete in place, ready for operation or use. The use of the term "as required" means as prescribed by the Contract Documents. The use of the term "as necessary" in the Contract Documents means all action essential to the completion of the Work or applicable portion thereof. The use of the term "day" in the Contract Documents shall mean calendar day.

(e) In the interest of brevity, the Contract Documents frequently omit modifying words such as "all" and "any" and articles such as "the" and "an," but the fact that a modifier or an article is absent from one statement and appears in another is not intended to affect the interpretations of such statement.

#### SECTION 4 ACQUISITION OF RIGHT-OF-WAY

##### 4.1 Acquisition of Right-of-Way.

(a) Subject to the provisions of Section 2.4 of the Agreement, TEPPCO shall take all steps necessary to obtain right-of-way ("Pipeline Right-of-Way") along the anticipated route of the

Pipeline Systems described in Attachment 2.2(a) (the "Projected Pipeline Right-of-Way") and use its Best Efforts to secure assignment rights for the Pipeline Right-of-Way where available. If TEPPCO (i) after using its Best Efforts is unable to obtain a Pipeline Right-of-Way over any segment of the Projected Pipeline Right-of-Way, or (ii) determines in good faith that it is not cost beneficial to the overall Project under the circumstances to obtain a Pipeline Right-of-Way, then TEPPCO shall determine, in its good faith judgment, the most appropriate rerouting or reroutings for the overall Project taking into account Related Costs and changes, if any, in the Projected Final Completion Date due to such rerouting or reroutings from the Projected Pipeline Right-of-Way. TEPPCO shall promptly advise Contracting Shippers of any such proposed rerouting or reroutings and the Related Costs required by such rerouting. In addition, TEPPCO shall advise Contracting Shippers of any adverse impact on the Projected Final Completion Date due to such rerouting as compared to proceeding with the acquisition of that portion of the Projected Pipeline Right-of-Way that is being rerouted around. Thereafter, TEPPCO and Contracting Shippers shall promptly meet to discuss in good faith all aspects of the proposed rerouting deviations. If, at such meeting, the Parties are unable to agree upon a rerouting option, TEPPCO shall nonetheless promptly proceed with the proposed rerouting option it deems is in the best overall interest of the Project under the circumstances, provided that such rerouting option will not, in TEPPCO's good faith judgment, have an adverse impact on the



Projected Final Completion Date as compared to proceeding with the acquisition of that portion of the Projected Pipeline Right-of-Way that is being rerouted around. If TEPPCO determines in its good faith judgment after consulting with Contracting Shippers that such reroute will have an adverse impact on the Projected Final Completion Date, TEPPCO will not proceed with the reroute without the consent of Contracting Shippers, but will proceed with acquiring that portion of the Projected Pipeline Right-of-Way that was proposed to be rerouted around. Any dispute as to the Related Costs due to a rerouting of the Pipeline Facilities shall be resolved in accordance with Section 13 of the Agreement including binding arbitration if the Parties are unable to resolve the dispute in accordance with Section 13.1 of the Agreement.

(b) All costs and expenses of any rerouting from the Projected Pipeline Right-of-Way that is required due to difficulties or complications in the design, engineering or construction of the Pipeline Facilities in the Projected Pipeline Right-of-Way shall be the sole responsibility of TEPPCO.

#### 4.2 Sharing Costs and Expenses for Right-of-Way.

(a) Except as provided in Section 4.2(b) below, TEPPCO shall be responsible for all actual costs and expenses, including attorneys fees, associated with securing the appropriate Authorizations, and all Related Costs (collectively "Costs").

(b) If the total of all such Costs exceed \$19 million, Contracting Shippers shall be responsible for or otherwise reimburse TEPPCO for all Costs in excess of \$19 million.

(c) TEPPCO shall provide, on a biweekly basis, a report summarizing Pipeline Right-of-Way acquisition activities to the right-of-way management personnel designated by Contracting Shippers. This biweekly report will contain (i) a list of landowners and parcels in each of the five geographically distinct budget areas, (ii) current status of landowner contacts and settlements, (iii) an accounting of the percentage of the Pipeline Right-of-Way acquired in each budget area, (iv) an accounting of the amount spent on each tract and the percentage of the budget spent in each budget area, (v) and an accounting of the percentage of the total budget spent. If the total of all Costs (inclusive of reasonably estimated future Costs) exceeds \$16.5 million, the report will also contain a status report on each remaining unsettled landowner and the planned next steps to resolve any differences between TEPPCO and the landowner as to TEPPCO's acquiring the Pipeline Right-of-Way across that landowner or the affected parcels of property.

#### SECTION 5 THE WORK AND CHANGES IN THE WORK

5.1 The Work. The "Work" shall include, (i) all materials, systems, equipment, and other installations becoming a part of the Project pursuant to the Contract Documents (sometimes collectively referred to as "Materials"), (ii) all other materials, supplies, apparatus, implements, tools, equipment, sanitary facilities and other facilities not included in item (i) preceding and necessary in the construction of the Project, (iii) all labor, supervision,

transportation, utilities, storage and other services (sometimes collectively referred to as "Services") required in the construction of the Project, (iv) all cutting and fitting required to complete the Work or make its parts fit together properly, (v) all other acts and all other things necessary to construct the Project in accordance with the Contract Documents, including all work expressly specified therein and such other work as may reasonably be inferred therefrom, and (vi) any other work or services described in this Exhibit or any other Contract Documents as a part of the Work.

#### 5.2 Title and Risk of Loss

Title to all Work shall be in TEPPCO and TEPPCO shall bear the risk of loss of all Materials.

5.3 Standards for Materials. All Materials shall be new and of high quality, meet industry standards, be fit for the intended use and purpose and meet all requirements of the Drawings and Specifications and Laws.

#### 5.4 Changes in Work.

(a) Contracting Shippers may request changes in the Work by giving TEPPCO a written request (a "Proposal Request") setting forth in detail the nature of the change in the Work requested (the "Change Work"). TEPPCO may upon its own motion prepare a "Proposal Request" for approval. Upon receipt of a Proposal Request from any of the Contracting Shippers or upon preparation of TEPPCO's own Proposal Request, TEPPCO shall as soon as reasonably practical submit to each of the Contracting Shippers a written proposal

("Change Order Proposal") on a form as shown in Exhibit 5.4 setting forth in reasonable detail, (i) a description of the scope of work approved by TEPPCO resulting from the proposed Change Work request, (ii) any change in the Projected Final Completion Date required due to such requested change, and (iii) a stipulated sum for the performance of the Change Work. The stipulated sum contained in any Change Order Proposal shall be based on TEPPCO's estimated actual costs including (i) all labor and other costs of Contractor and any Subcontractors, and (ii) any Material costs plus any mark-ups agreed to by TEPPCO, Contractor and Subcontractor, as the case may be. The stipulated sum shall not include any amount for profit to TEPPCO. Each Change Order Proposal shall be accompanied by appropriate data supporting such estimate, including but not limited to bids, cost estimates and wage schedules. When the Change Work involves both new Work not originally required under the Contract Documents and replacement or obviation of previously planned Work, TEPPCO shall break down the stipulated sum contained in its Change Order Proposal to show both the additional compensation bid for the new Work and the credit allowed for the replaced or obviated Work. If Contracting Shippers approve such Change Order Proposal, TEPPCO will issue and Contracting Shippers will execute and accept a written modification (a "Change Order") pursuant to which the Change Work described in the Change Order Proposal will be performed. Such Change Order shall set forth the agreed stipulated sum for such Change Work and any adjustment required to be made in the Projected Final Completion Date, which

date shall be so adjusted as set forth in the Change Order. If Contracting Shippers do not approve a Change Order Proposal, TEPPCO shall be paid for any Third Party costs required to prepare the proposal, unless TEPPCO initiated such proposal, and TEPPCO will have no further obligation with regard to the requested change. For purposes of this Section 5.4(a), Contracting Shippers must approve a Change Order Proposal within four (4) days of its issuance to Contracting Shippers by TEPPCO, otherwise such shall be deemed "not approved" by Contracting Shippers.

(b) Not later than ninety (90) days prior to the Completion Date TEPPCO shall advise each of the Contracting Shippers in writing of (i) the aggregate amount of the stipulated sums for all the Change Orders ("Total Stipulated Amount"), and (ii) a proposed adjustment to the Initial Transportation Charges resulting from such Total Stipulated Amount, which adjustment shall be calculated by taking such Total Stipulated Amount times a factor of 0.14 with the product being divided by the applicable annualized Guaranteed Monthly Volume. The applicable adjustment to the Initial Transportation Charges for Natural Gasoline will be as set forth in the previous sentence and the applicable calculation of the adjustment to the Initial Transportation Charges for Ethylene and Propylene will be the value from the previous sentence multiplied by 100. Each of the Contracting shippers, within thirty (30) days after receiving such written notice shall advise TEPPCO of their decision either (y) to pay in full the Total Stipulated Amount, which payment shall be then due and owing, or (z) to make

the adjustment in the Initial Transportation Charges as set forth in TEPPCO's written notice. If Contracting Shippers do not collectively agree on the method of reimbursing TEPPCO for the Total Stipulated Amount then the method described in item (z) above shall be deemed selected by all the Contracting Shippers.

(c) Changes in the Work due to deviations in the Projected Pipeline Right-of-Way shall be handled in accordance with the provisions of Section 4.1(a) and (b) of this Exhibit 2.1 and not pursuant to Section 5.4 of this Exhibit 2.1.

#### SECTION 6 TEPPCO'S GENERAL DUTIES, STATUS AND REPRESENTATIONS

6.1 TEPPCO's General Duties. TEPPCO shall cooperate with Contracting Shippers and Contracting Shippers's authorized agents in undertaking the Project. TEPPCO will furnish efficient business administration and superintendence to cause the Work to be performed in accordance with the Contract Documents and in a good and workmanlike manner. TEPPCO shall be solely responsible for and shall have control over construction means, methods, techniques, sequences and procedures, and for coordinating all portions of the Work. Each month TEPPCO shall conduct a project meeting, which shall be attended by TEPPCO's project manager, the pipeline Contractor's project superintendent when construction is in progress and others as deemed necessary, along with one or more representatives of the Contracting Shippers and any other prospective shipper. Contracting Shippers and any other prospective shipper, shall each have the right to request a project

meeting from time-to-time and TEPPCO shall make all reasonable efforts to arrange for any such requested project meeting.

## 6.2 Project Controls and Reporting

(a) TEPPCO, within fifteen (15) days after execution of the Agreement, shall prepare and submit for Contracting Shippers' information a Project Schedule in the form of a Gantt bar chart, and a detailed CPM network schedule, prepared in accordance with Attachment 6.2(a) attached hereto (as same may be revised from time-to-time, the "Project Schedule"). The Project Schedule shall incorporate the Projected Final Completion Date. In addition, TEPPCO shall, at the request of any of the Contracting Shippers, deliver the following information:

(i) Schedule of activities by major project element;

(ii) Activities listed by early start date for each major project element;

(iii) A schedule of production of Drawings and Specifications and other documents required for the award of contracts and subcontracts;

(iv) A listing of all long lead-time items and a schedule for the acquisition and delivery of such items; and

(v) A detailed schedule of the periods during which Contractor's and each Subcontractor's work will be performed.

(b) The Project Schedule shall take into consideration such matters as design services, Contracting Shippers' and other shippers' activities, governmental approvals and the like.

Contractor and each Subcontractor under a major trade subcontract shall cooperate fully and provide detailed information as required in order to achieve the most logical schedule for the Project.

(c) TEPPCO and Contractor and Subcontractors under major trade subcontracts, will continuously monitor and shall revise and update monthly the Project Schedule, provided that the Projected Final Completion Date shall be adjusted only as expressly permitted in the Contract Documents. The Project Schedule shall be further revised or expanded to provide more detailed information concerning the time requirements for all elements of the Project as such information is developed by TEPPCO.

(d) TEPPCO and Contractor shall to the extent necessary, provide expediting services to ensure that equipment is delivered in accordance with the Project Schedule.

(e) TEPPCO shall prepare or cause to be prepared a semi-monthly project progress report in accordance with Attachment 6.2(e)(1) and Attachment 6.2(e)(2) that shall reflect activities and progress for the previous fourteen (14) day period.

(f) The Projected Final Completion Date shall be October 16, 2000, subject to any changes as expressly permitted in the Contract Documents.

6.3 Payment of Taxes. TEPPCO shall pay, or cause to be paid all taxes incurred in the performance of the Work or portion thereof.

#### 6.4 Chief Inspector.

(a) TEPPCO shall employ a competent chief inspector and



any necessary assistants who shall be in attendance at the Project Site during the performance of the Work. The term "Project Site" means all of the land in, or under which any of the Pipeline Systems are to be located, and all land adjacent thereto used in the performance of the Work.

(b) Contracting Shippers may collectively employ a qualified inspector, at their sole cost and responsibility, to inspect any of the Work. In addition to any reporting obligations to the Contracting Shippers, such inspector may make only suggested recommendations regarding the Work to TEPPCO's chief inspector but implementation or action on such recommendations shall be at the chief inspector's sole discretion.

#### 6.5 Permits, Fees, Notices, Tests and Inspections.

(a) TEPPCO or Contractor shall secure and pay for any construction or building permits and other permits and governmental fees, licenses and inspections necessary for proper execution and completion of Work.

(b) TEPPCO or Contractor shall give all notices required by Laws.

(c) TEPPCO or Contractor shall be responsible for arranging, scheduling and making any and all tests required by Laws or the Contract Documents. TEPPCO shall provide Contracting Shippers and any other prospective shipper with at least three (3) business days notice before conducting any final pipeline test in order to allow Contracting Shippers and any other prospective shipper to have one or more representatives present during the

conduct of such test.

6.6 Compliance with Laws. TEPPCO shall require Contractor and Contractor shall require each Subcontractor to comply with federal, state, county, city, and municipal laws, codes, statutes, rules, regulations and orders applicable to its operations, and applicable requirements of Fina, BASF and LP when working on or in their property and/or facilities

6.7 Safety and Security.

(a) All Work shall be conducted in accordance with the United States Department of Transportation's safety standards and procedures.

(b) When use or storage of explosives or other hazardous materials or equipment or unusual methods are necessary for execution of the Work, TEPPCO shall cause the Contractor to exercise utmost care and carry out such activities under the supervision of properly qualified personnel.

(c) TEPPCO shall designate a responsible member of TEPPCO's organization whose duty shall be to work with Contractor in the prevention of accidents in the performance of the Work.

(d) TEPPCO shall be responsible for the security of the Work, the Project Site and all Materials stored at the Project Site or at any other location. TEPPCO shall be responsible for all losses and expenses incurred by reason of failure to maintain reasonable security at the Project Site or at the location where Materials are stored.

(e) TEPPCO shall cause Contractor to employ such

practices as are necessary to protect all completed and partially completed Work and all existing improvements located on the Project Site from loss and damage, including theft or damage by weather and, if necessary, shall provide suitable shelter therefor. Contractor shall correct at its own expense any damage or disfigurement to work or property (whether or not located on the Project Site).

6.8 Cleaning Up. TEPPCO shall cause Contractor to keep all areas within which it performs any portion of the Work in a safe condition and free from accumulation of waste material and shall satisfy any reasonable requests of grantors of Pipeline Right-of-Way concerning clean-up of the right-of-way. Without limiting the foregoing, Contractor shall be responsible for performing such cleanup work within and adjacent to the Pipeline Right-of-Way as is necessary to comply with the requirements of any instrument conveying a portion of the Pipeline Right-of-Way to TEPPCO. Upon the completion of the Work, Contractor shall remove from and about the Pipeline Right-of-Way and all other areas within which any portion of the Work is performed all waste materials, rubbish, Contractor's tools, construction equipment, machinery and surplus Materials. If Contractor fails to perform any of its cleanup obligations, TEPPCO will perform same.

#### 6.9 Non-Conforming Work.

TEPPCO represents that it shall correct or cause to be corrected defective Work and Work which does not conform to the requirement of the Contract Documents, the Completion Standards or

the Performance Standards; provided, however, TEPPCO may accept any non-material, non-conforming Work, if TEPPCO elects to do so.

6.10 As-Built Surveys and Record Drawings. TEPPCO shall maintain (i) on the ground surveys reflecting the actual location of the Pipeline System within the Pipeline Right-of-Way, and (ii) the record set of the drawings showing the as-built condition of the Pipeline Systems. Such surveys and drawings shall be updated on a timely basis to reflect changes that are made in the future.

6.11 As-Built Documentation. TEPPCO shall maintain a set of design and construction data books which shall contain a description of the project scope, construction inspection reports, welding procedures and qualifications reports, welder qualification reports, hydrostatic test reports, electrical and instrument test reports, radiographic examination reports, construction specifications, radiographic examination specifications, and any other documents or drawings which show compliance with applicable codes, standards, regulations, and laws. TEPPCO shall also maintain a set of material and equipment data books which shall contain (i) all technical specifications prepared for acquisition of project related material, (ii) vendors' start-up, operating, and maintenance procedures, (iii) schematics, and (iv) recommended spare parts lists.

6.12 Certain Responsibilities. TEPPCO represents that it has satisfied itself as to the nature, location, and character of the general area in which the Projected Pipeline Right-of-Way is located, including, but not limited to, its climatic conditions.

## SECTION 7 COMMENCEMENT AND COMPLETION

7.1 Commencement of Work. TEPPCO shall commence the Work hereunder upon execution of the Agreement by the Parties.

## 7.2 Completion

(a) The Parties anticipate that the Completion Date shall occur no later than October 16, 2000.

(b) The "Completion Date" means the date upon which all of the following shall have occurred:

(i) The Pipeline Systems shall have been completed in accordance with the Completion Standards, and tested in accordance with the procedure set forth in Attachment 2.4 (and the Pipeline Systems shall have passed such tests);

(ii) Following such testing, the Pipeline Systems shall be ready to be filled with Propylene, Ethylene and Natural Gasoline. Contracting Shippers shall provide Product for the initial line fill for the Propylene Pipeline, Ethylene Pipeline and Natural Gasoline Pipeline. Attached hereto as Attachment 7.2 are the line fill procedures to be utilized by TEPPCO and Contracting Shippers.

(iii) All governmental permits for the operation of the Pipeline Systems shall have been issued and received.

(iv) The Pipeline Systems shall be capable of operating in accordance with the Performance Standards; and

(v) Contractor shall have certified to TEPPCO that (A) the conditions set forth in clauses (i), (ii), (iii) and (iv) have been satisfied and (B) the Completion Date has occurred.

(c) TEPPCO, in its reasonable judgment, may declare in writing that the Completion Date has occurred and that all the items set forth in Section 7.2(b) have been achieved, notwithstanding the fact that certain immaterial items remain to be accomplished.

(d) TEPPCO shall be responsible for performing the Pipeline Facilities commissioning, the filling of the Pipeline Systems and acceptance tests to the extent possible for satisfying the capacity representations set forth in Section 2.1(k) of Exhibit 3.1 to the Agreement.

### 7.3 Liquidated Damages and Completion Bonus.

(a) If on the Projected Final Completion Date the Completion Date shall not have occurred then TEPPCO shall pay to Contracting Shippers, collectively, as liquidated damages, and not as a penalty, an amount determined based on the following sliding scale:

Number of Days after the Projected Final Completion Date the Completion Date Occurs -----	The Per Day Liquidated Damage Amount -----
0-21	\$ 0.00
22-30	\$ 50,000
31-60	\$ 75,000
61-beyond	\$100,000

The total sum of liquidated damages shall not exceed \$4 million. Any such liquidated damages shall be paid within thirty (30) days after the Completion Date.

(b) If the Completion Date occurs prior to the Projected Final Completion Date, then Contracting Shippers shall collectively

pay to TEPPCO as an early completion bonus an amount determined based on the following sliding scale:

Number of Days prior to the Projected Final Completion Date the Completion Date Occurs	The Per Day Early Completion Bonus Amount
0-14	\$ 0.00
15-21	\$ 25,000
22-beyond	\$ 50,000

The total sum of any such early completion bonus payment shall not exceed \$1.5 million. Any such early completion bonus payment shall be paid within thirty (30) days after the Completion Date.

(c) TEPPCO acknowledges that Contracting Shippers' businesses will be damaged if the Completion Date does not occur by the Projected Final Completion Date, and TEPPCO and Contracting Shippers agree that the exact measurement of such damages is difficult, if not impossible, to determine, and the amounts provided for in subsection 7.3(a) as liquidated damages are reasonable estimates of the aggregate of all damages to Contracting Shippers' collective businesses caused by such delay.

(d) Notwithstanding anything in this Agreement to the contrary, the payment of liquidated damages pursuant to this Section 7.3 shall be Contracting Shippers' sole and exclusive remedy for any Claim based upon TEPPCO's or its Contractor's failure to have the Pipeline Facilities ready for operations by the Projected Final Completion Date, and TEPPCO shall not be responsible or liable to Contracting Shippers' for any actual, compensatory, consequential, loss of profits, punitive or any other damages resulting from such failure.

(e) For illustrative purposes only, attached hereto as Attachment 7.3(e) are sample calculations of liquidated damages and completion bonuses.

#### 7.4 Delay.

(a) If the progress of the Work on the critical path of the most recent updated version of the Project Schedule is delayed at any time by (i) an act or the neglect of Contracting Shippers, (ii) by changes in the Work pursuant to Section 5.4 of this Exhibit or Section 2.2 of the Agreement, (iii) by Construction Force Majeure as defined in Exhibit A-2.1, (iv) any delay due to the rerouting of the Pipeline System as determined in accordance with Section 4.1 of this Exhibit 2.1, or (v) subject to Section 9 of this Exhibit, delay due to a pending resolution of a dispute, in each case not reasonably anticipated by TEPPCO and beyond TEPPCO's reasonable control, then the Projected Final Completion Date shall be extended for the days of delay; provided, however, that TEPPCO shall not be entitled to any extension to the extent that any such event could have been prevented or overcome by TEPPCO or its Contractor through the exercise of such diligence and reasonable care as would be exercised by a prudent Person under similar circumstances. TEPPCO shall as far as reasonably possible, remedy any delay due to Construction Force Majeure with all reasonable dispatch. It is understood and agreed that the definition of Force Majeure in Exhibit A to the Agreement shall not be used or asserted with respect to a delay in the progress of the Work under this Section 7.4.



(b) In the event Contractor is delayed at any time in the progress of the Work on the critical path of the most recent updated version of the Project Schedule, which delay is subject to force majeure under Contractor's contract, then the Projected Final Completion Date shall be extended for the same period of time; provided that such force majeure would be a Construction Force Majeure event as defined in Exhibit A-2.1. TEPPCO shall use reasonable efforts to provide in its contract with Contractor that if any delay due to Construction Force Majeure should continue for sixty (60) days, TEPPCO shall have the right to terminate its contract with Contractor.

(c) TEPPCO shall notify Contracting Shippers in writing of any delay that would extend the Projected Final Completion Date as soon as reasonably possible after the occurrence of the delay. TEPPCO shall provide in the notice an estimate of the probable effect of such delay on the progress of the Work.

(d) The amount of any extension in the Projected Final Completion Date for whatever reason incurred, will be based only on actual delays occurring on Monday through Sunday, excluding holidays.

7.5 Contracting Shippers' Obligations. Contracting Shippers shall each furnish TEPPCO with all information which Contracting Shippers are required to furnish to TEPPCO within the time limits expressly required hereunder. Decisions and approvals required of Contracting Shippers under the Contract Documents shall be provided within a reasonable time, not to exceed six (6) days.

## SECTION 8 CONTRACTS AND OTHER AGREEMENTS

8.1 Contractor. TEPPCO shall contract with a pipeline contractor ("Contractor") to furnish superintendents, foremen, labor, equipment, machinery, tools, materials and supplies necessary to perform the design, engineering and construction of the Pipeline Systems in a diligent and workmanlike manner, provided that Contracting Shippers shall have the right to approve such Contractor, but such approval shall not be unreasonably withheld.

8.2 Subcontractor. Contractor may subcontract any part of the Work and may enter into agreements with Subcontractors ("Subcontractors") to provide services or Materials for use with or incorporation into the Work. TEPPCO and its Contractor shall include on its bid lists, but not be limited to, qualified local subcontractors and suppliers for construction and materials for the Pipeline Facilities where TEPPCO deems appropriate.

8.3 Relations. Contractor shall contract with each and every Subcontractor solely in the name and on behalf of Contractor, and no provision contained herein or in any other Contract Document nor approval by Contracting Shippers of Contractor shall be construed as creating any contractual relationship between any Contractor, Subcontractor and any of Contracting Shippers.

## SECTION 9 NO STOPPAGE OF WORK AND TIME OF THE ESSENCE

9.1 No Stoppage of Work. In the event of a dispute, controversy or question between Contracting Shippers and TEPPCO with respect to the interpretation of the Contract Documents, the

performance of any portion of the Work or otherwise, Contracting Shippers and TEPPCO agree that pending the resolution or settlement of such dispute, controversy or question, TEPPCO shall not directly or indirectly stop or delay the performance of the Work, unless to do otherwise would violate any Laws, including Environmental Laws and Environmental Permits, or create an Environmental Condition.

9.2 Time of the Essence. Time is of the essence as to the Contract Documents and completion of the Work, provided Contracting Shippers' sole remedy for any delay in the Final Completion Date shall be as provided in Section 7.3 of this Exhibit 2.1. SECTION 10 OWNERSHIP OF DOCUMENTS AND PATENT INFRINGEMENT

10.1 Ownership of Documents. Title, ownership, copyright and patent privileges to all information (whether or not contained in written documents), drawings, specifications, plans, engineering calculations, computer and word processing disks and data contained thereon, computations, sketches, test data, surveys, models, photographs, discoveries, inventions, processes or methods and all other work product (collectively "Work Product") prepared by TEPPCO or TEPPCO's consultants, Contractor, Subcontractors or vendors of equipment for the Project or their respective employees as a result of or in connection with the Project, shall at all times for purposes of this Agreement, be in TEPPCO.

10.2 Patent Infringement.

(a) Neither the Work Product nor any equipment manufactured or fabricated by TEPPCO or for TEPPCO will infringe on any perfected patent or copyright of any Third Party.

(b) Contractor and TEPPCO do not assume any responsibility or liability for patent infringement due to changes in equipment made at the request of Contracting Shippers or engineering designs furnished by Contracting Shippers.

#### SECTION 11 ADDITIONAL WORK AND RIGHT TO ACCESS WORK

11.1 Additional Work. Fina may undertake to employ other workers, award other contracts, or utilize its own workers (collectively "Fina Workers") to perform additional work anywhere in the vicinity of the Work near Fina's Port Arthur, Texas, refinery or the Plant. TEPPCO, Contractor and Subcontractors shall fully cooperate with such Fina Workers and coordinate Work hereunder with such additional work of Fina Workers, as may be required. Fina also reserves the right to designate from time to time other architects, engineers, consultants and professionals to administer, coordinate or otherwise participate in part or all of the Plant work. TEPPCO, Contractor and Subcontractors will cooperate with these other professionals as required by the Drawings and Specifications and to the extent necessary to ensure safe start up and operation of the TEPPCO metering facility at the Plant.

11.2 Contracting Shippers' Right to Access Work. TEPPCO shall at all times provide Contracting Shippers and their authorized employees, agents and representatives complete opportunity and facilities for observation of the Work and materials stored at the Project Site, or at locations off the Project Site, or in the

course of fabrication by Contractor and Subcontractors. TEPPCO shall provide safe and proper facilities for such access and observation; provided, however, such access and observation shall be at Contracting Shippers' and their authorized employees', agents' and representatives' sole risk, cost and expense. Contracting Shippers shall abide by such reasonable observation and safety procedures and requirements as may be established by TEPPCO, and CONTRACTING SHIPPERS SHALL INDEMNIFY TEPPCO FOR ANY CLAIMS OR LOSSES THAT CONTRACTING SHIPPERS, THEIR EMPLOYEES, AGENTS AND REPRESENTATIVES SUFFER OR INCUR AS A RESULT OF OR THAT IS ATTRIBUTABLE TO SUCH ACCESS OR OBSERVATION, EVEN IF SUCH CLAIMS OR LOSSES ARE ATTRIBUTABLE TO THE NEGLIGENCE OF TEPPCO.

## ATTACHMENT A-2.1

## DEFINITIONS TO EXHIBIT 2.1

"Change Order" shall have the meaning given in Section 5.4(a).

"Change Order Proposal" shall have the meaning given in Section 5.4(a).

"Change Work" shall have the meaning given in Section 5.4(a).

"Completion Date" shall have the meaning given in Section 7.2(a).

"Completion Standards" shall have the meaning given in Section 2.4.

"Contract Documents" shall have the meaning given in Section 3.1.

"Contractor" shall have the meaning given in Section 8.1.

"Construction Force Majeure" shall mean acts of God; strikes, lockouts, or other industrial disturbances, which by the exercise of reasonable diligence could not have been avoided; acts of public enemies; wars; blockades; insurrections; riots; fires; floods; washouts; necessity for compliance with any court order, Law, regulation or ordinance promulgated by any Governmental Authority having jurisdiction of the Parties, or jurisdiction over any Person supplying labor, material, or any item or items necessary to the performance of the Work; civil disturbances, explosions or any other cause of the kind or type herein recited beyond the reasonable control of TEPPCO. Settlement of strikes, lockouts or other industrial disturbances shall be entirely within the discretion of the party having the difficulty.

"Costs" shall have the meaning given in Section 4.2(a).

"Drawings and Specifications" shall have the meaning given in Section 3.1.

"Ethylene Pipeline" shall have the meaning given in Section 2.2.

"Fina Workers" shall have the meaning given in Section 11.1.

"Materials" shall have the meaning given in Section 5.1.

"Natural Gasoline Pipeline" shall have the meaning given in Section 2.2.

"Performance Standards" shall have the meaning given in Section 2.3.

"Pipeline Right-of-Way" shall have the meaning given in Section 4.1.

"Project" shall have the meaning given in Section 2.2.

"Proposal Request" shall have the meaning given in Section 5.4(a).

"Propylene Pipeline" shall have the meaning given in Section 2.2.

"Project Schedule" shall have the meaning given in Section 6.2(a).

"Project Site" shall have the meaning given in Section 6.4(a).

"Projected Final Completion Date" shall have the meaning given in Section 6.2(f).

"Projected Pipeline Right-of-Way" shall have the meaning given in Section 4.1.

"Related Costs" shall mean as applied to the Pipeline Facilities all direct costs and expenses for Authorizations, design, engineering, procurement, materials and construction attributable to reroute or reroutes from the Projected Pipeline Right-of-Way, excluding any reroutes pursuant to Section 4.1(b), less the amount of such costs and expenses originally planned but which have not been expended.

"Services" shall have the meaning given in Section 5.1.

"Subcontractor" shall have the meaning given in Section 8.2.

"Total Stipulated Amount" shall have the meaning given in Section 5.4(b).

"Work" shall have the meaning given in Section 5.1.

## ATTACHMENT 7.3(E) TO EXHIBIT 2.1

## SAMPLE CALCULATIONS

## (a) Liquidated Damages Calculation Example

Assume that the Final Completion occurs at 3 PM on November 23, 2000. Therefore, the Final Completion Date occurred 38 days after the Projected Final Completion Date. The liquidated damages are calculated as follows:

21 days x \$0 =	\$	0	
9 days x \$50,000 =	\$	450,000	
8 days x \$75,000 =	\$	600,000	
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38 days	=	\$1,050,000	Liquidated Damages

## (b) Bonus Calculation Example

Assume that the Final Completion occurs at 3PM on September 5, 2000. Therefore, the Final Completion Date occurred 41 days before the Projected Final Completion Date. The bonus is calculated as follows:

14 days x \$0 =	\$	0	
7 days x \$25,000 =	\$	175,000	
20 days x \$50,000 =	\$	1,000,000	
41 days	\$	1,175,000	Bonus



## EXHIBIT 3.1

## OPERATION AND MAINTENANCE

## SECTION 1 DEFINITIONS

1.1 The terms defined in Attachment A-3.1 shall have the respective meaning specified therein with each such definition of a term being equally applicable to singular and the plural form of the term so defined. Terms initially capitalized but not defined in Attachment A-3.1 shall have the meaning given to such term in the Agreement to which this Exhibit is attached.

## SECTION 2 SERVICES AND DUTIES

2.1 Services. TEPPCO shall provide all management, operation and maintenance services necessary or advisable in order to safely, dependably and efficiently manage, operate and maintain the Pipeline Facilities. TEPPCO shall perform the following services ("Services") in a manner consistent with good industry practices.

(a) Comply with all Laws, including the Environmental Laws, foreign trade zone requirements and obtain and maintain all Permits and foreign trade zone certifications, including Environmental Permits, required for the maintenance and operation of the Pipeline Facilities.

(b) Maintain adequate and sufficient records and provide all data and/or reports reasonably required in the operation of common carrier pipeline facilities, and as required by Law.

(c) Maintain current revisions of all drawings and specifications, technical documents, instruction books, equipment diagrams and other information relating to the Pipeline Facilities.

(d) Maintain appropriate levels of spare parts and materials required for the maintenance and proper operation of the Pipeline Facilities.

(e) Take all actions as may be necessary or appropriate to maintain the Pipeline Facilities in good operating condition and repair.

(f) In the event of Emergencies, perform all actions reasonable and appropriate to protect the Pipeline Facilities and all related facilities, equipment, supplies and personnel and notify Contracting Shippers immediately as soon as practical of any such Emergencies.

(g) Establish and maintain an effective work force required for the management, operation and maintenance of the Pipeline Facilities through proper hiring, training, supervising and qualifying procedures, and administer all matters pertaining to labor relations, working conditions, employee benefits, safety and all related matters in connection with these duties in accordance with Laws.

(h) Subject to Section 2.2, provide reasonable access to the Pipeline Facilities and all records relating to the operation and maintenance of the Pipeline Facilities to all agents, representatives and inspectors of Contracting Shippers and other Third Party shippers.

(i) Keep and maintain the Pipeline Facilities free and clear of, or discharge in the ordinary course of business, all liens and encumbrances resulting from performance of Services by TEPPCO, its contractors and subcontractors.

(j) Keep Contracting Shippers and other Third Party shippers informed of the operating status of the Pipeline Facilities through reports as may be reasonably requested and agreed upon from time to time. In addition to the foregoing, TEPPCO will immediately notify Contracting Shippers by telephone as soon as reasonably possible of any shutdown, bring down or scheduled or unscheduled maintenance occurrence of the Pipeline Facilities which impacts, or TEPPCO reasonably believes may impact, the operations of the Plant. To the extent possible TEPPCO will schedule all shutdown maintenance to the Pipeline Facilities to coincide with LP's Plant turnaround schedule. LP shall furnish TEPPCO with such Plant turnaround schedule at least 180 days prior to any planned shutdown of the Plant and LP shall advise TEPPCO of any changes or modifications to such schedule. TEPPCO will take all reasonable actions, consistent with sound, prudent business and operating practices, to minimize the Pipeline Facilities total unavailable time.

(k) Take such actions as shall be necessary to maintain the aggregate capacity of the Pipeline Facilities to as close as possible the current estimated maximum capacities of:

- (i) 80,000 Barrels per day for Natural Gasoline.
- (ii) 8,219,178 Pounds per day for Ethylene.
- (iii) 8,219,178 Pounds per day for Propylene.

(l) Perform such mechanical activities as may be required to receive, store, transport, load and otherwise handle Products tendered for transportation through the Pipeline Facilities.

(m) Maintain surveillance of the Pipeline Facilities, periodically inspect the Pipeline Facilities for damage or other conditions which could affect the safe, efficient and economical operation of the Pipeline Facilities, as required by Laws, rights-of-way agreements, or good pipeline practice, and perform or cause to be performed such repairs to the Pipeline Facilities as may be required.

(n) Prepare and maintain manuals, monitoring programs, contingency plans and training programs satisfying applicable Laws and other requirements of Governmental Authorities.

(o) Prepare run tickets, daily status reports and other appropriate accounting materials to document the custody transfer, receipt and delivery of Products and sample and measure Products received and delivered as may be necessary to verify quality and quantity;

(p) Prepare appropriate surveillance, operating and maintenance reports to document the performance of the Pipeline Facilities.

2.2 Contracting Shippers' Access. This Section 2.2 shall be the sole governing provision of this Exhibit 3.1 pertaining to Contracting Shippers', their employees', agents' and other representatives' (collectively "Representatives") access to the Pipeline Facilities following the Commencement Date. Contracting Shippers and their Representatives following the Commencement Date shall have access to the Pipeline Facilities when accompanied by a

representative of TEPPCO who has been so designated by TEPPCO, and upon at least 24 hours advance notice to TEPPCO, except in the event of an Emergency, in which case, TEPPCO shall provide to Contracting Shippers and their Representatives access to the Pipeline Facilities, as the case may be, at any time and as soon as reasonably and safely possible in accordance with Section 2.3. Contracting Shipper and their Representatives shall comply with all of TEPPCO's safety rules and procedures during any such access. ANY SUCH ACCESS SHALL BE AT CONTRACTING SHIPPERS' AND THEIR REPRESENTATIVES' SOLE RISK, COST AND EXPENSE AND CONTRACTING SHIPPERS SHALL INDEMNIFY TEPPCO FOR ANY CLAIM OR LOSS THAT CONTRACTING SHIPPERS OR THEIR REPRESENTATIVES MAY SUFFER OR INCUR AS A RESULT OF OR THAT IS ATTRIBUTABLE TO SUCH ACCESS UNLESS SUCH CLAIM IS CAUSED BY THE SOLE NEGLIGENCE OF TEPPCO. IT IS EXPRESSLY UNDERSTOOD AND AGREED THAT DURING AN EMERGENCY THE FOREGOING INDEMNITY IN THIS SECTION 2.2 SHALL APPLY AND BE ENFORCEABLE AGAINST CONTRACTING SHIPPERS EVEN IF SUCH CLAIM OR LOSS IS DUE TO THE NEGLIGENCE OF TEPPCO OR ITS EMPLOYEES, AGENTS, CONTRACTORS AND REPRESENTATIVES.

2.3 Emergency Action by TEPPCO. Notwithstanding any provision in this Agreement to the contrary, it is particularly provided that in the case of explosion, fire, flood or any other sudden Emergency, or Third-Party notification of an Emergency, TEPPCO shall take any and all actions deemed necessary, in its sole judgment, to protect public safety and health, the environment and property. In the event of any such Emergency condition, TEPPCO

will make every reasonable effort to ascertain the exact nature of the Emergency and to immediately notify Contracting Shipper of TEPPCO's intended emergency response actions prior to any shutdown of the Pipelines Facilities or any flow reductions. TEPPCO will make every reasonable effort to accommodate the requests of Contracting Shippers with regard to the planned Emergency response ("Requests"). However, the prior notification to Contracting Shippers of TEPPCO's emergency response actions or the accommodation of Requests shall not be a prerequisite to TEPPCO's taking such steps and initiating such actions as are necessary to deal with the Emergency and to provide immediate safeguards to public safety and health and the environment if, in TEPPCO's sole opinion, such notification or the accommodation of Requests would be impractical. TEPPCO will ensure the development of coordinated emergency response plans with Contracting Shippers and any other Third Party shipper.

### SECTION 3 EMPLOYEES, CONSULTANTS AND CONTRACTORS

3.1 Employees. TEPPCO shall hire, employ, and have supervision over such persons as may be required to enable TEPPCO to perform the Services required hereunder (including consultants, professionals, and any other service or materials provider).

3.2 Affiliates. TEPPCO may utilize the services of any Affiliate in performance of its obligations hereunder.

3.3 Performance Standards. TEPPCO shall perform the Services and carry out its responsibilities, devoting appropriate time and

talents to the operations of the Pipeline Facilities in a good and businesslike manner and in accordance with good and prudent practices within the industry. In connection therewith, all persons engaged by TEPPCO shall be duly trained, qualified and experienced to perform their responsibilities. TEPPCO shall require all contractors, and such contractors shall use reasonable efforts to require all subcontractors, to carry adequate insurance. All materials and workmanship used or provided in performing the Services shall be in accordance with applicable governmental standards, regulations and Laws.

#### SECTION 4 OPERATING COSTS

4.1 Costs and Expenses. TEPPCO shall pay and be responsible for all costs, expenses, expenditures and fees incurred in connection with the provision of the Services or otherwise required for the management, operation and maintenance of the Pipeline Facilities. Subject to the provisions of Section 7.3 and Section 8.5 of this Exhibit 3.1, any loss of Products due to measurement inaccuracies shall be the sole responsibility of Contracting Shippers and Third Party shippers, as the case may be, it being expressly understood and agreed that TEPPCO shall not have any responsibility or liability under the Agreement for any loss of Products due to measurement inaccuracies.

4.2 Insurance. TEPPCO shall carry such insurance as it may consider necessary or appropriate and shall be responsible for all costs and expenses of premiums payable for such insurance. Under

no circumstances shall TEPPCO be required to carry insurance for business interruption or be liable to Contracting Shippers for Claims or Losses attributable to business interruption or loss of profits.

#### SECTION 5            WARRANTY

5.1 Warranty and Disclaimers. TEPPCO warrants that the Services shall be performed in accordance with the terms and conditions of the Agreement, including all standards set forth in this Exhibit 3.1. Except as otherwise provided in the Agreement, Contracting Shippers agree that there are no warranties, either express or implied, made with respect to TEPPCO's performance under this Agreement AND TEPPCO SPECIFICALLY DISCLAIMS ANY AND ALL IMPLIED WARRANTIES THAT MAY RESULT FROM ANY RELATIONSHIP BETWEEN TEPPCO AND CONTRACTING SHIPPERS OR FROM DRAWINGS OR MODELS OF THE WORK OR OTHERWISE, INCLUDING, BUT NOT LIMITED TO, ANY AND ALL IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, DESIGN, PERFORMANCE, CONDITION, CERTIFICATION, MAINTENANCE OR SPECIFICATION. It is understood and agreed that nothing in the Agreement or any Exhibit thereto is intended to limit, abrogate or in any way modify TEPPCO's obligations and duties as a common carrier pipeline under the Laws.

5.2 Remedies. In the event TEPPCO breaches any warranty described in Section 5.1 above, TEPPCO shall re-perform any defective service, replace any unfit or unqualified personnel and train new personnel, and repair or replace any components of the



Pipeline Facilities damaged as a consequence of such breach. Any such re-performance, training, repair or replacement by TEPPCO pursuant to this Section 5.2 shall be at TEPPCO's sole cost and expense.

## SECTION 6 EASEMENT AND TARIFF ADMINISTRATION

6.1 Easement Administration. As used in this Section "Easement Administration" means the acquisition, maintenance, modification, release and administration (including, but not limited to, the making of required payments) of all contracts and grants (including, but not limited to, rights-of-way agreements, easements, leases and Permits) concerning TEPPCO's rights to use or occupy the real property of Third Parties. TEPPCO will perform all Easement Administration necessary for the maintenance and operation of the Pipeline Facilities and compliance with the terms and conditions of easements, rights-of-way and Permits.

6.2 Tariff Administration. Subject to the provisions of Section 4.5 of the Agreement relating to Contracting Shippers' right to review Tariff filings, all Tariffs, changes in Tariffs, rates, and divisions of rates covering movements through the Pipeline Facilities shall be handled solely by TEPPCO. TEPPCO will keep all necessary records required by Commission order applicable to any Tariff filings.

7.1 Natural Gasoline and Propylene Measurement Procedures. The metering facilities for Natural Gasoline and Propylene shall be owned, maintained and operated by TEPPCO in accordance with the following:

(a) Natural Gasoline and Propylene to or from TEPPCO shall be measured through facilities equipped with turbine flow meters or other type of flow meters of standard make and design which will ensure accurate measurements. The output of the meters will be transmitted to computing and recording instruments to ensure accurate documentation of the measurements. The meters shall be operated between the minimum and maximum flow rates per the manufacturer's specifications for each meter.

(b) The Product pressure and temperature during the custody transfer will be determined by continuous, on-line, industry accepted transmitters. If transmitter should fail, manual temperatures or pressures will be taken at the meters and input into the flow computer as a fixed value.

The Natural Gasoline density will be based on on-line real time input into the flow computer. Should the on-line density instrument fail, the density will be manually input into the flow computer as a fixed value. The Propylene density will be based on 100% pure propylene with a density of .5228 as per API 11.3.3.2.

(c) The volume corrections factors used for Natural Gasoline to net the volumes to standard conditions will be based on the latest API Manual of Petroleum Measurement Standards, Chapter 11.1, Volume Correction Factors, Table 6A and Chapter 11.2.2 Compressibility Factors for Hydrocarbons: 0-90 API Gravity Range.

(d) The volume corrections factors used for Propylene to net the volumes to standard conditions will be based on the latest API Manual of Petroleum Measurement Standards, Chapter 11.3.3.2 Propylene Compressibility.

(e) Propylene mass flowrate in Pounds shall equal gross flowrate times Meter Factor times Flowing Specific Gravity times weight of H<sub>2</sub>O at 60(degree)F and 14.696 psia.

- where:
- (1) Flowing Specific Gravity equals (Calculated Flowing Density in Lbs/Ft<sup>3</sup> times 0.0161846) divided by 0.999012.
  - (2) Calculated Flowing Density equals density at flowing temperature and pressure calculated using API Chapter 11.3.3.2.
  - (3) Meter Factor equals a dimensionless term obtained by dividing the gross standard volume of liquid passed through the meter (as measured by a prover during proving) by the corresponding meter indicated volume at standard conditions.

(f) TEPPCO will notify Contracting Shippers of any instrument or computer problem that is discovered which impacts a specific Product shipment.

## 7.2 Proving and Calibration Procedures of Meters

(a) TEPPCO shall prove the custody transfer meters for Natural Gasoline and Propylene a minimum of twice each Month in accordance with the API Manual of Petroleum Measurement Standards, Chapter 4, Proving Systems. TEPPCO will promptly notify Contracting Shippers if this proving requirement cannot be met.

(b) A valid proving will consist of a minimum of five (5) consecutive proof runs that repeat within 0.05% of each run.

(c) Pressure and temperature instrumentation and

densitometers used as computer input will be calibrated each calendar quarter in accordance with API and ASTM standards and manufacturer's specifications and requirements. Records of the calibrations and tests will be maintained by TEPPCO and will be open for inspection by Contracting Shippers at any reasonable time.

(d) Following any calibration of temperature or pressure instrumentation, any equipment found to be inaccurate shall, prior to its use, be calibrated or replaced with equipment that accurately functions.

(e) TEPPCO shall supply Contracting Shippers upon request with documentation of the results of any meter proving or instrument calibration test performed, whether witnessed or not witnessed by Contracting Shippers representatives. TEPPCO will immediately notify Contracting Shippers of any variance of meter factors, temperatures, pressures or gravities which will affect booked volumes.

### 7.3 Billing Adjustments

(a) TEPPCO will adjust previous meter volumes for Natural Gasoline and Propylene if:

1. any temperature instrument is found to be inaccurate by more than one (1) degree Fahrenheit.
2. any pressure instrument is found to be inaccurate by more than ten (10) PSIG.
3. any densitometer is found to be inaccurate by more than two (2) API degrees.

4. the meter's factor changes by more than 0.25% from the previous meter factor.

(b) The following guidelines will be used to determine the volume of Product subject to adjustment:

1. If the duration of the inaccuracy is known or agreed upon, the volume booked shall be corrected for the period of the inaccuracy.
2. If the duration of the inaccuracy is not known or agreed upon, one half (1/2) of the volume booked since the last calibration of the equipment in error shall be corrected.

(c) If, for any reason, any instrument is out of service or in disrepair such that Product delivery cannot be accurately determined, the quantity delivered during the period of outage or malfunction shall be estimated using the first feasible method shown below and agreed to by the Parties:

1. By using the volumes measured by Contracting Shippers' metering station, provided Contracting Shippers' measurement equipment meets all requirements as set forth in this Section 7.3 for TEPPCO's measurement.
2. By correcting the error if the percentage or amount of the error is determined by calibration, test, or mathematical calculation. All calibrations must meet API standards.

3. By estimating the quantity of delivery through analysis of actual deliveries made during preceding periods under conditions when measuring equipment was registering accurately.

(d) The reasoning behind any volumetric adjustments will be properly documented and filed with other billing documentation.

#### SECTION 8 ETHYLENE MEASUREMENT

8.1 Unit of Measure. Unless otherwise stated, the unit of measurement of Ethylene delivered or received shall be in mass (one thousand Pounds of ethylene). Ethylene density is calculated using API Chapter 11.3.2.1, IST 1045, or IUPAC Tables, as the Parties shall mutually agree.

8.2 Equipment. Except as specified otherwise herein, all measuring and testing equipment, housing, devices, and materials shall be of standard manufacture and type and shall, with all related equipment, appliances, and buildings, be installed, maintained, and operated or furnished by TEPPCO at TEPPCO's expense. Notwithstanding the foregoing, TEPPCO's orifice meter shall be installed and operated in accordance with the specifications prescribed in API MPMS 14.3 (ANSI/API 2530) entitled "Orifice Metering of Natural Gas" (formerly Gas Measurement Committee Report Number 3 of the American Gas Association) and any subsequent modifications to API MPMS 14.3, (ANSI/API 2530).

8.3 Check Meters. Contracting Shippers shall have the right at their cost and expense to install and maintain check meters in series with TEPPCO's meters. Such orifice meters shall be installed and operated in accordance with the specifications prescribed in API MPMS 14.3 (ANSI/API 2530) entitled "Orifice Metering of Natural Gas" (formerly Gas Measurement Committee Report Number 3 of the American Gas Association) and any subsequent modifications to API MPMS 14.3, (ANSI/API 2530).

8.4 Calibration. The measurement equipment is to be calibrated quarterly by TEPPCO in the presence of representatives of the Contracting Shippers, if Contracting Shippers choose to be represented, and the Parties shall jointly observe any necessary adjustments that are made in the measuring equipment. Each Party shall give to the other Party notice of the time of all regular tests of measuring equipment and other tests called for herein sufficiently in advance of the holding of such tests so that the other Parties may conveniently have their representatives present. If any Party at any time desires a special test of any measuring equipment, it will promptly notify the other Parties, and the Parties will then cooperate to promptly secure a calibration test and jointly observe any adjustments. If, upon any special test, the measuring equipment is found to be no more than one percent (1%) erroneous in the aggregate, the entire cost of such test shall be paid for by the Party requesting the test and previous readings of such equipment shall be considered correct in computing deliveries hereunder.

8.5 Billing Adjustment. If, upon any test, any measuring equipment is found to be inaccurate by more than one percent (1%), such equipment shall be adjusted to read accurately, and the previous readings shall be corrected for such inaccuracy for any period which is definitely known and agreed upon. In case the period is not definitely known and agreed upon, then the readings shall be corrected for a period extending back one-half (1/2) of the time elapsed since the last date of calibration, not to exceed a period of thirty (30) days. If, for any reason, measuring equipment is inoperative so that the amount of Ethylene delivered cannot be ascertained, then the volume of Ethylene delivered during the period such measuring equipment is inoperative shall be estimated and agreed upon by the Parties upon the basis of the best data available by using the first of the following methods which is feasible:

(a) By using the registration of any check-measuring equipment, if installed and accurately registering;

(b) By correcting the error, if the percentage of error is ascertainable by calibration, test, or mathematical calculation; or

(c) By estimating the quantity of delivery through analysis of actual deliveries made during preceding periods under conditions when measuring equipment was registering accurately.

Claims of any Party concerning the quantity of Ethylene, Propylene or Natural Gasoline delivered must be submitted in writing within 180 days from the date of commencement of the claimed discrepancy.



## ATTACHMENT A-3.1

## DEFINITIONS

"Calculated Flowing Density" shall have meaning given in Section 7.1(e).

"Easement Administration" shall have the meaning given in Section 6.1.

"Emergencies" shall mean the occurrence, condition, or reasonable anticipation of an occurrence or condition, which might (1) threaten life, property, or the environment; or (2) render any of the Pipeline Facilities incapable of normal operation.

"Flowing Specific Gravity" shall have the meaning given in Section 7.1(e).

"Meter Factor" shall have the meaning given in Section 7.1(e).

"Permit" shall mean any license, permit or authority granted by any Governmental Authority.

"Requests" shall have the meaning given in Section 2.3.

"Representatives" shall have the meaning given in Section 2.2.

"Services" shall have the meaning given in Section 2.1.

## CALL OPTION AGREEMENT

THIS CALL OPTION AGREEMENT ("Agreement") granted as of February 9, 1999, by and between BASF Fina Petrochemicals Limited Partnership (LP), Fina Oil and Chemical Company ("Fina"), BASF Corporation ("BASF") (collectively "Fina/BASF"); and TE Products Pipeline Company, Limited Partnership ("TEPPCO");

## WITNESSETH:

WHEREAS, Fina/BASF have entered into a Services and Transportation Agreement ("Transportation Agreement") with TEPPCO dated as of the date of this Agreement pursuant to which TEPPCO will design, engineer, construct, install, and operate certain Pipeline Facilities through which Fina/BASF agrees to ship or caused to be shipped certain guaranteed volumes of Products; and

WHEREAS, Fina/BASF has requested and TEPPCO is willing to grant Fina/BASF a call option to acquire for cash the Pipeline Facilities pursuant to the terms hereof;

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements set forth herein and intending to be legally bound hereby, the parties hereto agree as follows:

1. Definitions. Terms capitalized but not defined in this Agreement shall have the meaning given to such term in the Transportation Agreement unless the context of such term as used herein requires otherwise.

2. Grant of Option.

(a) TEPPCO hereby grants to Fina/BASF an irrevocable

call option (the "Option") to purchase and acquire from TEPPCO all the Pipeline Facilities based on the buyout schedule attached hereto as Exhibit A and by this reference made a part hereof. If Fina, BASF and/or LP have an Excess Product Volume balance at the time of the Closing, then the buyout schedule in Exhibit A shall be reduced by a total amount determined by multiplying such Excess Product Volume by the applicable Transportation Charges under which such Excess Product Volumes were transported by TEPPCO.

(b) This Agreement shall become operative and in full force and effect as of the Commencement Date and unless sooner terminated as herein provided, shall terminate forty (40) years from the Commencement Date ("Initial 40-Year Term"). Fina/BASF shall have the right to extend this Agreement from year-to-year ("Renewal Term") following the Initial 40-Year Term and any Renewal Term upon giving TEPPCO written notice not less than 180 days prior to the end of the Initial 40-Year Term or any Renewal Term, as the case may be, of Fina/BASF's desire to so extend this Agreement and the payment to TEPPCO of \$100.00 for such extension.

(c) In addition to the provisions of Section 5(i), the Option may only be revoked and this Agreement terminated by TEPPCO if Fina/BASF or their successors and assigns have not transported any Product under the Tariff for a period of not less than six consecutive Months and the Transportation Agreement has been terminated.

### 3. Exercise of Option.

(a) The Option may be exercised by Fina/BASF by written

notice to TEPPCO, provided Fina/BASF shall not be in material default in the performance of their obligations set forth in the Transportation Agreement. Such notice must be given not later than 180 days prior to the commencement of the Contract Year for which the purchase price is to be determined in accordance with Exhibit A and Section 2(a) hereof and must be contemporaneously given by or on behalf of all the parties constituting Fina/BASF hereunder. Such notice shall specify a place and a date for the closing ("Closing") which date shall not be earlier than the first day of the applicable Contract Year nor later than the fifteenth day from the commencement of the applicable Contract Year. The Closing will be postponed if required to comply with the required waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 as amended ("HSR Act").

(b) Fina/BASF shall have the right to exercise the Option at any time after the twentieth Contract Year by giving TEPPCO at least 180 days written notice of its intention to exercise the Option. The notice shall specify a place and a date for the Closing. The Closing will be postponed if required to comply with the required waiting period under the Hart-Scott-Rodino Act. The purchase price shall be \$4 million, subject to the provisions of Section 2(a) hereof.

4. Closing. In the event Fina/BASF exercises the Option, Fina/BASF will make payment to TEPPCO on the date of the Closing of the purchase price for the Pipeline Facilities as determined in accordance with Exhibit A and Section 2(a) hereof, in immediately

available funds by wire transfer to a bank account of TEPPCO designated by TEPPCO. TEPPCO will deliver to Fina/BASF all necessary documentation evidencing the assignment and transfer of the Pipeline Facilities to Fina/BASF on an "AS IS, WHERE IS" basis WITH ALL FAULTS. Except as provided in Paragraph 5, such transfer documents shall expressly disclaim and negate ALL WARRANTIES, EXPRESS OR IMPLIED OR STATUTORY, REGARDING THE PROPERTY TRANSFERRED INCLUDING WITHOUT LIMITATION, (i) ANY IMPLIED OR EXPRESS WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, DESIGN, PERFORMANCE, CONDITION, CERTIFICATE, MAINTENANCE, OR SPECIFICATION, AND (ii) ANY INFORMATION, DATA, OR OTHER MATERIALS (WRITTEN OR ORAL) FURNISHED BY OR ON BEHALF OF TEPPCO TO FINA/BASF, AND FINA/BASF WILL HAVE SOLE RESPONSIBILITY FOR ANY ACTION TAKEN BY FINA/BASF, OR BY OTHERS RELYING ON FINA/BASF'S ADVICE, BASED ON SUCH RECORDS.

5. Investigation of Pipeline Facilities.

(a) Access to Information. Immediately following the exercise of the Option and until the Closing, (i) TEPPCO shall permit Fina/BASF and its respective representatives ("Fina/BASF's Representatives") to examine TEPPCO's records (other than litigation, financial and accounting records) with respect to the Pipeline Facilities, including, but not limited to, all files, abstracts of title, title opinions, title files, ownership maps, rights-of-way maps, rights-of-way agreements, licenses, leases and documents of title, safety, maintenance and operating manuals, facility response plans, system pressure logs, cathodic protection

records, inspection records, records concerning the construction, repair and maintenance of the Pipeline Facilities, records pertaining to environmental issues, and all other property or operation records, all engineering and other records, and all other contracts, agreements and documents relating to the Pipeline Facilities, insofar as the same are in TEPPCO's or its Affiliates' possession or control, or insofar as TEPPCO or its Affiliates have access to the same, and to the extent in each case that TEPPCO may do so without violating legal constraints or any legal obligation, (ii) TEPPCO shall permit Fina/BASF's Representatives to interview TEPPCO's and its Affiliates' employees as well as the employees of Contractor and any Subcontractor, provided such Contractor and Subcontractor allow such interview, with respect to the Pipeline Facilities, and (iii) TEPPCO shall cooperate with Fina/BASF's Representatives in connection with their interviews and examination of such records and other items. TEPPCO agrees to use Best Efforts to fully disclose to Fina/BASF all knowledge in its possession regarding all material matters affecting the Pipeline Facilities which a reasonably prudent purchaser of the Pipeline Facilities would want to know.

(b) Access to Property. Immediately following the exercise of the Option until the Closing, and subject to any required consent of any Third Party, TEPPCO shall grant Fina/BASF and Fina/BASF's Representatives access to the lands on which the Facilities are located and the right to observe all operations thereon, to visually inspect and examine the Pipeline Facilities

and to conduct environmental audits, inspections and other non-invasive investigations thereon as reasonably necessary for Fina/BASF to evaluate the physical and environmental condition of the Pipeline Facilities (collectively, "Investigations"). Fina/BASF shall conduct the Investigations in accordance with all applicable Laws and in accordance with the standards commonly employed by professionals conducting investigations of such type with respect to properties similar to the Pipeline Facilities and in accordance with all applicable and reasonable requirements of TEPPCO.

(c) Environmental Investigation. Immediately following the exercise of the Option until Closing, Fina/BASF and Fina/BASF's Representatives may conduct Investigations of the Pipeline Facilities with respect to environmental matters and the lands on which they are located, and in the event that the consent of any landowner is required prior to conducting any such Investigation, then TEPPCO shall assist Fina/BASF in obtaining any such consents. However, Fina/BASF shall not conduct any invasive Investigations including without limitation, core sampling of the surrounding soils or testing of ground water in the area surrounding the Pipeline Facilities without TEPPCO's prior written consent. TEPPCO shall have the right to have a representative of TEPPCO present during any environmental Investigation and TEPPCO shall have the right to approve all testing protocols.

(d) Notice. Fina/BASF shall provide to TEPPCO a minimum of seventy-two (72) hours notice prior to entering the Facilities

or any other property of TEPPCO to conduct any examination or Investigation under this Section 5. The notice shall specify, as applicable, the locations where the examination or Investigation is to be conducted, the activities proposed to be conducted, any personnel of TEPPCO whom Fina/BASF wishes to interview, and the estimated length of time necessary to accomplish the examination or Investigation. The notice shall also specify an official representative of Fina/BASF whom TEPPCO may contact to discuss the access sought and the examinations or Investigations proposed to be conducted. Upon receipt of such notice, TEPPCO shall allow Fina/BASF and Fina/BASF's Representatives to enter the Pipeline Facilities or such other property of TEPPCO during normal business hours to conduct such examinations and Investigations, as long as Fina/BASF's activities shall not unreasonably interfere with TEPPCO's operations or business and the other requirements of this Section 5 are observed.

(e) Restoration of Property. Upon completion of its examinations and Investigations, if any, Fina/BASF shall promptly restore all of TEPPCO's property to its original condition immediately prior to such examinations and Investigations to the extent practical and remove all equipment and materials brought onto TEPPCO's property by Fina/BASF or Fina/BASF's Representatives.

(f) Protection of Persons. Fina/BASF shall be responsible for the conduct and protection of all Persons involved in such examinations and Investigations and studies. Fina/BASF will undertake all measures reasonably necessary or appropriate to



protect such Persons and any other Persons on TEPPCO's property during any such examinations and Investigations. TEPPCO shall not have any right to control and shall not exercise any responsibility with respect to such examinations and Investigations.

(g) Confidentiality. Fina/BASF shall use its best efforts to maintain the confidentiality of all information and documentation obtained pursuant to this Section 5 and shall restrict the dissemination and circulation of all information and documentation regarding the environmental and physical condition of TEPPCO's property to the smallest number of people reasonably practicable for Fina/BASF and Fina/BASF's Representatives to complete their evaluation of the environmental and physical condition of the Pipeline Facilities. If Fina/BASF for any reason does not acquire the Pipeline Facilities, Fina/BASF will use its Best Efforts to cause all notes, samples, reports, analyses, correspondence, and all other documents relating to the environmental and physical condition of the Pipeline Facilities to be destroyed and, if requested by TEPPCO following such termination, shall furnish TEPPCO, within thirty (30) days following the date of Fina/BASF's receipt of such request, a written certificate to the effect that to the best of Fina/BASF's information, knowledge and belief based on Best Efforts inquiry all such items have been destroyed.

(h) INDEMNIFICATION. FINA/BASF SHALL INDEMNIFY, DEFEND AND HOLD HARMLESS TEPPCO AND ITS AFFILIATES FROM AND AGAINST ANY AND ALL LIABILITIES RESULTING FROM CLAIMS AND LOSSES FOR PERSONAL

INJURY OR DEATH OR PROPERTY DAMAGE ARISING OUT OF THE CONDUCT OF FINA/BASF'S EXAMINATIONS AND INVESTIGATIONS PURSUANT TO THIS SECTION 5.

(i) Right to Withdraw. At any time prior to Closing, if Fina/BASF determines in its sole judgment, based on its Investigations that it does not desire to acquire the Pipeline Facilities, Fina/BASF upon written notice to TEPPCO may withdraw its exercise of the Option, and the Closing shall be cancelled. Upon Fina/BASF's withdrawal of the exercise of the Option, this Agreement shall terminate and neither Party shall have any liability to the other for any matters due to the cancellation of the Closing or the termination of this Agreement, except for (1) any restoration pursuant to the provisions of paragraph 5(e), (2) the confidentiality obligations of Fina/BASF under Section 5(g), and (3) any indemnification obligations pursuant to the provisions of Section 5(h).

6. Representations and Warranties of TEPPCO. TEPPCO hereby represents and warrants to Fina/BASF as follows (such representations and warranties being deemed repeated at the Closing):

(a) Due Power, Authorizations, etc. TEPPCO has the requisite power and authority to enter into and perform this Agreement. This Agreement has been duly authorized by all necessary action on the part of TEPPCO and has been duly executed by a duly authorized officer of Texas Eastern Products Pipeline Company, the general partner of TEPPCO.

(b) Conflicting Instruments. Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby will violate or result in any violation of or be in conflict with or constitute a default under any term of the Limited Partnership Agreement of TEPPCO or of any judgment, decree, order, statute, rule or governmental regulation applicable to TEPPCO.

(c) Property. TEPPCO shall deliver, transfer, assign and convey the Pipeline Facilities free and clear of liens and encumbrances that would have a material adverse effect on the operation of the Pipeline Facilities, and TEPPCO shall remove any liens and encumbrances that can be fully discharged by the payment of money.

(d) Easements. TEPPCO represents and warrants that all easements, rights-of-way, permits and licenses will be in full force and effect with respect to TEPPCO's ownership and operation of the Pipeline Facilities.

#### 7. Documents to be Delivered at Closing

At or prior to the Closing, TEPPCO shall deliver to Fina/BASF the following documents in original form or if original form is not available, the next best evidence of same that are in TEPPCO's possession and which pertain to the Pipeline Facilities:

(a) Leases, easements, rights-of-way, rights-of-entry and access, environmental permits and other permits, licenses and governmental agency reports submitted by TEPPCO, franchises and other pertinent documents;

(b) Fully executed assignments of all rights-of-way agreements and easement agreements which cover the Pipeline Facilities; and, subject to the provisions set forth below, consents to the assignments where necessary to permit TEPPCO to assign such rights-of-way and easement agreements to Fina/BASF. TEPPCO shall be responsible for all administrative costs in obtaining such consents to assignment. Such administrative costs shall include, but not be limited to, filing fees, travel, expenses, labor cost of employees or contractors to contact grantors of the easements to be assigned and attorneys' fees in preparation of conveyance instruments. Fina/BASF shall be responsible for any consideration to be paid to any grantor of an easement for that grantor's consent to the assignment of such easement to Fina/BASF. In that regard, TEPPCO shall not agree to such a consideration payment with any grantor without Fina/BASF's approval, which approval or disapproval shall be promptly made by Fina/BASF after TEPPCO makes a request for a decision. In the event TEPPCO is unable to get a consent to an assignment, Fina/BASF shall be responsible for any condemnation or other action necessary to acquire such rights-of-way;

(c) Surveys, plans, maps, drawings, certificates, inspection and maintenance records and specifications of the Pipeline Facilities;

(d) Technical and service manuals relating to the operation and maintenance of the Pipeline Facilities;

(e) Fully executed rights-of-way agreements granting

Fina/BASF easements across TEPPCO's fee simple property on which the Pipeline Facilities are situated. The basic terms of such rights-of-way agreements shall include that grantor shall not have the right to relocate the pipeline and appurtenances except upon consent of grantee, that grantor shall provide grantee a direct and reasonably convenient access to the easement area and grantor represents that the easement is capable of being used for its intended purpose and that there are not paramount interests to which the easement is subject that interfere with grantee's use for the intended purpose. The foregoing terms shall be in addition to such other reasonable and customary easement provisions granted to third parties for pipeline operations on fee simple property owned by TEPPCO; and

(f) All additional documents or instruments that TEPPCO's counsel and Fina/BASF's counsel may mutually determine are reasonably necessary for the proper consummation of the transaction contemplated by this Agreement.

8. TEPPCO Covenants. So long as the Option remains in effect, TEPPCO covenants and agrees that:

(a) TEPPCO shall operate the Pipeline Facilities only in a usual, regular and ordinary manner; and

(b) TEPPCO will not take any action or enter into any agreement which would have the effect of frustrating or adversely affecting Fina/BASF's rights under this Agreement to acquire the Pipeline Facilities. From the time of the exercise of the Option until Closing, TEPPCO shall not undertake any actions as would

adversely change or alter its rights relative to the Pipeline Facilities. TEPPCO's representations as to the Pipeline Facilities will be based upon TEPPCO having made a diligent inquiry and investigation into the matters with respect to which the representations are given.

9. Fina/BASF Covenant. In the event that Fina/BASF exercises the Option and acquires the Pipeline Facilities, Fina/BASF represents and covenants that it will continue to operate the Pipeline Facilities after any such acquisition and that the Pipeline Facilities will be operated as common carrier pipeline facilities in all respects.

10. Environmental Indemnities.

(a) FINA/BASF INDEMNITY. AT CLOSING FINA/BASF SHALL ASSUME, INDEMNIFY AND HOLD TEPPCO HARMLESS AGAINST ALL ENVIRONMENTAL LIABILITIES RELATED TO THE PIPELINE FACILITIES THAT ARE ATTRIBUTABLE TO A FACT OR EVENT WHICH OCCURS ON OR AFTER CLOSING.

(b) TEPPCO INDEMNITY. AT CLOSING TEPPCO SHALL RETAIN, INDEMNIFY AND HOLD FINA/BASF HARMLESS AGAINST ALL ENVIRONMENTAL LIABILITIES RELATED TO THE PIPELINE FACILITIES THAT ARE BASED ON A FACT OR EVENT WHICH OCCURRED PRIOR TO CLOSING.

(c) Change in Laws. Notwithstanding anything herein to the contrary, any indemnification by TEPPCO under this Agreement for any Losses to Fina/BASF for Environmental Liabilities shall be deemed to specifically exclude, and neither TEPPCO nor its Affiliates shall be liable for any Losses to Fina/BASF for

Environmental Liabilities resulting from a change in any Laws including Environmental Laws on or after the Closing.

(d) Remediation. To the extent that remediation is required under TEPPCO's Indemnity obligations pursuant to Section 10(b), TEPPCO shall be responsible for and perform or cause to be performed all such remediation activities. TEPPCO, in its sole judgment, shall determine the proper protocol and plans for any such remediation and clean up work and shall be responsible for conducting such work in accordance with applicable Environmental Laws.

(e) (1) TEPPCO's indemnity obligation under Section 10(b) shall survive Closing for a period of five (5) years, provided that such indemnification obligation shall continue as to any matter which Fina/BASF has properly asserted a Claim under Section 10(f) during such five (5) year period.

(2) Fina/BASF's indemnity obligations under Section 10(a) shall survive Closing without limitation.

(3) In the event Fina/BASF sells or otherwise transfers the Pipeline System to a Third Party both Fina/BASF's indemnity obligations and TEPPCO's indemnity obligations under Sections 10(a) and 10(b) of this Agreement, respectively, shall thereupon terminate.

(f) All claims for indemnification by a party under this Section 10 (the party claiming indemnification and the party against whom such claims are asserted being hereinafter called the "Indemnified Party" and the "Indemnifying Party," respectively)

shall be asserted and resolved as follows:

(1) In the event that any Claim for which an Indemnifying Party would be liable to an Indemnified Party hereunder is asserted against or sought to be collected from such Indemnified Party by a third party, such Indemnified Party shall, within 45 calendar days of the receipt thereof, give notice (the "Claim Notice") to the Indemnifying Party of such Claim, specifying the nature of and specific basis for such Claim and the amount or the estimated amount thereof to the extent then feasible, which estimate shall not be binding upon the Indemnifying Party in its effort to collect the final amount of such Claim. The failure to so notify the Indemnifying Party of any such Claims shall relieve the Indemnifying Party from liability that it may have to the Indemnified Party under the indemnification provisions contained in this Section 10, but only to the extent of the loss directly attributable to such failure to notify, and shall not relieve the Indemnifying Party from any liability that it may have to the Indemnified Party otherwise than under this Section 10.

(2) The Indemnifying Party shall be given the opportunity, at its cost and expense, to contest and defend by all appropriate legal proceedings any Claim with respect to which it is called upon to indemnify the Indemnified Party under the provisions of this Agreement; provided, however, that notice of the intention so to contest and defend shall be delivered by the Indemnifying Party to the Indemnified Party within thirty (30) days following receipt of the notice provided for in Section 10(f)(1) above. If



the Indemnifying Party does not give notice to the Indemnified Party of its election to contest and defend any such Claim within such period then the Indemnifying Party shall be bound by the result obtained with respect thereto by the Indemnified Party and shall be responsible for all costs incurred in connection therewith. The Claim which the Indemnifying Party elects to contest and defend may be conducted in the name and on behalf of the Indemnifying Party or the Indemnified Party as may be appropriate. Such Claim shall be conducted by counsel employed by the Indemnifying Party who shall be reasonably satisfactory to the Indemnified Party, and the Indemnified Party shall have the right to participate in such Claim and to be represented by counsel of its own choosing at its cost and expense. If the Indemnified Party joins in any such Claim, the Indemnifying Party shall have full authority to determine all action to be taken with respect thereto; provided that if the Indemnifying Party reserves its rights with respect to its indemnification obligations under this Agreement as to such Claim, then the Indemnified Party shall have the full authority to determine all action to be taken with respect thereto. At any time after the commencement of defense of any Claim, the Indemnifying Party may request the Indemnified Party to agree in writing to the abandonment of such contest or to the payment or compromise by the Indemnifying Party of the asserted Claim, provided the Indemnifying Party agrees in writing to be solely liable for all losses relating to such Claim; whereupon such action shall be taken unless the Indemnified Party determines that the

contest should be continued and notifies the Indemnifying Party in writing within fifteen (15) days of such request from the Indemnifying Party. In the event that the Indemnified Party determines that the contest should be continued, the amount for which the Indemnifying Party would otherwise be liable hereunder shall not exceed the amount which the Indemnifying Party had agreed to pay in payment or consideration of such Claim, provided the other Person to the contested Claim had agreed in writing to accept such amount in payment or compromise of the Claim as of the time the Indemnifying Party made its request therefor to the Indemnified Party, and further provided that, under such proposed compromise, the Indemnified Party would be fully and completely released from any further liability or obligation with respect to the matters which are the subject of such contested Claim.

(3) If requested by the Indemnifying Party, the Indemnified Party agrees, at the Indemnifying Party's expense, to cooperate with the Indemnifying Party and its counsel in contesting any Claim that the Indemnifying Party elects to contest, or, if appropriate and related to the Claim in question, in making any counterclaim against the Person asserting the Claim, or any cross-complaint against any Person other than an Affiliate of the Indemnified Party.

(4) If any Indemnified Party should have a Claim against the Indemnifying Party hereunder that does not involve a Claim being asserted against or sought to be collected from it by a Person not a party to this Agreement, the Indemnified Party shall

send a Claim Notice with respect to such Claim to the Indemnifying Party. If the Indemnifying Party disputes such Claim, such dispute shall be resolved by agreement or otherwise.

(5) The Indemnified Party agrees to afford the Indemnifying Party and its counsel the opportunity, at the Indemnifying Party's expense, to be present at, and to participate in, conferences with all Persons asserting any action against the Indemnified Party and conferences with representatives of or counsel for such Persons.

11. Miscellaneous.

(a) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

(b) Further Assurances. From time to time after the Closing date, at Fina/BASF's reasonable request and at Fina/BASF's sole expense, TEPPCO will execute and deliver all such other instruments of conveyance, assignment, transfer and delivery and take all such other actions as Fina/BASF may reasonably request in order to more fully effectuate this Agreement, and to place Fina/BASF in possession and control of the Pipeline Facilities and any properties and rights thereof, or assist in the collection or reduction to possession of any and all such assets, properties or rights or to enable Fina/BASF to exercise and enjoy all rights and

benefits of TEPPCO with respect thereto. In connection with any such conveyance, assignment, transfer or delivery, Fina/BASF shall reimburse TEPPCO for any costs and expenses TEPPCO incurs as a result of any such assistance to Fina/BASF pursuant to this paragraph 11(b), except for any administrative costs incurred by TEPPCO pursuant to Section 7(b).

(c) EXCEPT AS PROVIDED IN SECTION 11(H), TEPPCO AND FINA/BASF AGREE THAT ONLY ACTUAL DAMAGES AND LOSSES SHALL BE RECOVERABLE UNDER THIS AGREEMENT. TEPPCO AND FINA/BASF HEREBY WAIVE ANY RIGHT TO RECOVER SPECIAL, PUNITIVE, CONSEQUENTIAL, INCIDENTAL OR EXEMPLARY DAMAGES.

(d) Expenses. Except as otherwise provided herein, each Party hereto shall pay its own expenses incurred in connection with this Agreement.

(e) Assignment. Neither Fina, BASF, LP nor TEPPCO may sell, transfer, assign, pledge or hypothecate, in each case, by operation of law, change in control or otherwise, its rights, interests or obligations under this Agreement without the full consent of the other Parties; provided, however, Fina, BASF, LP and TEPPCO shall have the right, without the consent of any of the other Parties, to assign all its rights and obligations under this Agreement to an Affiliate or to a Third Party purchaser of all the assets of a Party to which this Agreement pertains provided that such Affiliate or Third Party has sufficient assets and financial strength acceptable to the other Parties, which acceptance shall not be unreasonably withheld; and further provided that

contemporaneously with the assignment of such interest, the Affiliate or Third Party to whom such interest is being assigned shall deliver to the other Parties to this Agreement a written agreement pursuant to which such Affiliate or Third Party agrees (i) to be bound by all the terms and provisions of this Agreement and any agreement referenced herein; and (ii) to perform and discharge the obligations and liabilities set forth in this Agreement and such other agreements. In the event TEPPCO should assign its rights and obligations under the Transportation Agreement to a Third Party, TEPPCO shall likewise assign its rights and obligations under this Agreement to such Third Party.

(f) Amendments. This Agreement may not be modified, amended, altered or supplemented except upon the execution and delivery of a written agreement executed by the Parties hereto. However, any Party may waive any condition to the obligations of such Party hereunder.

(g) Notices. All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given (and shall be deemed to have been duly received if so given) by personal delivery or by mail (registered or certified mail, postage prepaid, return receipt requested) to the respective Parties as follows:

If to Fina/BASF:

Fina Oil and Chemical Company  
6000 Legacy Drive  
Plano, Texas 75024-3601  
Attention: General Counsel

BASF Corporation  
3000 Continental Drive - North  
Mount Olive, New Jersey 07828-1234  
Attention: Vice President - Special Projects

BASF Fina Petrochemicals, Limited Partnership  
Hwy 366 @ Gate 99 off Hwy 87  
Port Arthur, Texas 77642  
Attention: Plant Manager

If to TEPPCO:

Texas Eastern Products Pipeline Company  
2929 Allen Parkway, Suite 3200  
Houston, Texas 77019  
Attention: Vice President - Business Development  
Telephone: (713) 759-3685  
Facsimile: (713) 759-3957

or to such other address as any Party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall only be effective upon receipt.

(h) Remedies. TEPPCO agrees that if for any reason Fina/BASF shall have exercised its rights under the Option and TEPPCO shall have failed to sell and transfer the Pipeline Facilities to Fina/BASF in accordance therewith or to perform its other obligations under the Option, then Fina/BASF shall be entitled to specific performance and injunctive and other equitable relief.

(i) Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Texas without giving effect to the principles of conflict of laws thereof. (j) Counterparts. This Agreement may be executed in several counterparts, each of which shall be an original, but all

of which together shall constitute one and the same agreement.

(k) Effect of Headings. The paragraph headings herein are for convenience only and shall not affect the construction thereof.

(l) Third Party Beneficiaries. Except to the extent a Third Party is expressly given rights herein, any agreement contained, expressed or implied in this Agreement shall be only for the benefit of the Parties hereto and their respective legal representatives, successors and assigns, and such agreements shall not inure to the benefit of the obligees of any indebtedness of any Party hereto, it being the intention of the Parties hereto that no person or entity shall be deemed a Third Party beneficiary of this Agreement, except to the extent a Third Party is expressly given rights herein.

(m) TEPPCO's Notification Obligation. In the event TEPPCO should sell the Pipeline Facilities to a Third Party, TEPPCO shall prior to such sale notify such Third Party of the provisions of this Agreement and upon the consummation of such sale assign its rights and obligations under this Agreement to such Third Party. TEPPCO agrees to indemnify and hold Fina/BASF harmless from and against any Claims or Losses Fina/BASF incurs as a result of TEPPCO not complying with the provisions of this Section 11(m).

IN WITNESS WHEREOF, Fina/BASF and TEPCO have executed the Agreement as of the date first written above.

Fina Oil and Chemical Company

By: /s/ MICHAEL J. COUCH  
-----  
Name: Michael J. Couch  
-----  
Title: SENIOR VICE PRESIDENT  
-----

BASF CORPORATION

By: /s/ CARL A. JENNINGS  
-----  
Name: Carl A. Jennings  
-----  
Title: EXECUTIVE VICE PRESIDENT  
-----

BASF FINA PETROCHEMICALS  
LIMITED PARTNERSHIP BY ITS  
GENERAL PARTNERS

FINA OIL AND CHEMICAL COMPANY

By: /s/ MICHAEL J. COUCH  
-----  
Name: Michael J. Couch  
-----  
Title: SENIOR VICE PRESIDENT  
-----

BASF CORPORATION

By: /s/ RUDOLF R. SCHNUR  
-----  
Name: Rudolf R. Schnur  
-----  
Title: VICE PRESIDENT  
-----

TE PRODUCTS PIPELINE COMPANY,  
LIMITED PARTNERSHIP, BY TEXAS  
EASTERN PRODUCTS PIPELINE COMPANY,  
GENERAL PARTNER

By: /s/ DAVID LANGLEY  
-----  
Name: David Langley  
-----  
Title: VICE PRESIDENT  
-----



TEXAS EASTERN PRODUCTS PIPELINE COMPANY  
RETENTION INCENTIVE COMPENSATION PLAN

I. PURPOSE OF THE PLAN

The Texas Eastern Products Pipeline Company Retention Incentive Compensation Plan (the "Plan") is intended to provide a method whereby employees who are responsible for the management, growth and protection of TEPPCO and/or the Partnerships, and who are making and are expected to continue making substantial contributions to the successful growth of TEPPCO and the Partnerships, may be stimulated by personal involvement in the profits of TEPPCO Partners, L.P. to continue to serve TEPPCO and the Partnerships, thereby advancing the interests of TEPPCO and the Partnerships.

II. EFFECTIVE DATE OF PLAN

The Plan shall be and is hereby adopted effective as of January 1, 1999.

III. DEFINITIONS

Unless the meaning is clearly different when used in context, these terms shall have the following meanings:

- A. "Administrative Guidelines" shall mean the interpretive guidelines approved by the Committee providing the foundation for administration of the Plan.
- B. "Award Agreement" shall mean an agreement entered into between TEPPCO and a Participant setting forth the terms and conditions applicable to the award granted to the Participant.
- C. "Board" shall mean the Board of Directors of Texas Eastern Products Pipeline Company.
- D. "Committee" shall mean the Compensation Committee of the Board. No Committee member shall be eligible to participate in the Plan during the term for which he or she was appointed to the Committee.
- E. "Eligible Employee" shall mean a person who is a regular, full-time salaried employee of TEPPCO who performs services on a full-time basis for TEPPCO and/or the Partnerships or their subsidiaries in an executive, administrative or professional capacity.
- F. "Limited Partnership Unit" shall mean a single limited partnership unit interest in TEPPCO Partners, L.P.

- G. "Market Value" shall mean the closing price of a Limited Partnership Unit as of the applicable valuation date on The New York Stock Exchange, Inc. Composite Transactions Quotations (or, in the event such quotations are no longer published, on the principal national securities exchange on which the Limited Partnership Units are sold) or, if there shall have been no sale on such date, on the last preceding date on which a sale or sales were effected on one or more of the exchanges included in The New York Stock Exchange, Inc. Composite Transactions Quotations (or on such principal national exchange).
- H. "Participant" or "Participants" shall mean an Eligible Employee(s) to whom an award of Phantom Units has been granted hereunder.
- I. "Partnerships" shall mean TEPPCO Partners, L.P., TE Products Pipeline Company, Limited Partnership and/or TCTM, L.P. and their subsidiaries.
- J. "Phantom Unit Account" or "Account" shall mean the account established for each Participant pursuant to Paragraph C of Article VI.
- K. "Phantom Units" shall mean the conditional promise by TEPPCO to make a payment to the Participant in cash, determined by reference to the Limited Partnership Units and in accordance with the provisions of this Plan and Administrative Guidelines. Crediting of Phantom Units to a Participant's Account may be contingent on certain performance targets established by the Committee.
- L. "Plan" shall mean the Texas Eastern Products Pipeline Company Retention Incentive Compensation Plan.
- M. "TEPPCO" shall mean Texas Eastern Products Pipeline Company and/or any other company that adopts the Plan for the benefit of its employees with the authorization and approval of the Board. Any such adoption shall be subject to any terms and conditions prescribed by the Board.

IV. ADMINISTRATION AND INTERPRETATION OF THE PLAN

- A. The Plan shall be administered by the Committee or its designee. The Committee shall have sole and absolute discretion to construe and interpret the Plan and any instrument or agreement related thereto, including, without limitation, the power to construe and interpret doubtful or contested terms herein and therein, and, subject to the provisions herein set forth, to prescribe, amend and rescind rules and regulations and make all other determinations necessary or desirable for the administration of the Plan.
- B. The decision of the Committee relating to any question concerning or involving the interpretation or administration of the Plan and any instrument or agreement

relating thereto shall be final and conclusive, and nothing in the Plan and any instrument or agreement shall be deemed to give any officer or employee, or his or her legal representatives, any right to participate in the Plan, except to such extent, if any, as the Committee may have determined or approved pursuant to the provisions of the Plan.

- C. The Committee shall have sole and absolute discretion to determine the amount of an award to an Eligible Employee pursuant to the Plan and any instrument or agreement relating thereto in the event the Committee determines such award is merited and to determine whether any portion or all of the award is payable under the Plan.
- D. This Plan shall be governed by, construed and enforced in accordance with the internal laws of the State of Texas and, where applicable, the laws of the United States.

#### V. ELIGIBLE EMPLOYEES

- A. Phantom Units may be awarded under the Plan only to Eligible Employees. Members of the Committee, and any member of the Board who is not an employee of TEPPCO, are ineligible to receive Phantom Units under the Plan.
- B. Each Eligible Employee who receives an award of Phantom Units shall be a Participant.
- C. Notwithstanding anything to the contrary in the Award Agreement and any Phantom Unit Award Certificate, and except as otherwise provided in this Plan, an individual will cease to be a Participant and forfeit all benefits under the Plan once he or she terminates his or her employment with TEPPCO, and ceases to be an Eligible Employee.

#### VI. PHANTOM UNITS

- A. Awards shall be granted to Eligible Employees in Phantom Units. All awards made pursuant to this Plan are in consideration of services performed or to be performed for TEPPCO and/or the Partnerships. Crediting of Phantom Units to a Participant's Account may be contingent on certain performance targets established by the Committee.
- B. Phantom Unit awards shall be awarded to Eligible Employees under such terms and conditions as the Committee shall prescribe; provided, however, such Phantom Units so awarded shall be valued at the Market Value of a Limited Partnership Unit as of the grant date.

- C. The Committee shall establish and maintain for each Participant a Phantom Unit Account which will be used to determine the amount of Phantom Units that a Participant shall be credited under Article VII as of any particular date.
- D. Each award under this Plan may be evidenced by an Award Agreement setting forth the terms and conditions, as determined by the Committee, applicable to the award. Award Agreements shall include the following terms:
1. Non-Assignability. A provision that no award shall be assignable or transferable.
  2. Termination of Employment. Provisions governing the disposition of an award in the event of the termination of a Participant's employment.
  3. Withholding. A provision requiring the withholding of all taxes as required by law.
  4. Miscellaneous. Such other terms and conditions, including, without limitation, the criteria for determining vesting of awards, the amount or value of awards, termination of awards for cause, as are necessary and appropriate to effect the purposes of the Plan.
- F. If there shall be any change in the number or kind of Limited Partnership Unit interests, and if the Board shall, in its sole discretion, determine that such change equitably requires an adjustment in the number of the Phantom Units then awarded to the Participants and/or credited to Participant's Phantom Unit Accounts under the Plan, then such adjustment shall be made by the Board and shall be effective and binding for all purposes under the Plan. In making any such substitution or adjustment pursuant to this paragraph, fractional interests may be ignored.

VII. CREDIT AND REDEMPTION OF PHANTOM UNITS AND LIMITATIONS

- A. Phantom Units awarded to a Participant shall be credited to a Participant's Phantom Unit Account and redeemed in accordance with such terms and conditions as the Committee shall prescribe.
- B. Any unredeemed Phantom Units credited to the Phantom Unit Account of a Participant who retires from TEPPCO and who at the time of his or her retirement was an Eligible Employee, shall be redeemed as of the effective date of such retirement. Phantom Units that have been awarded, but not credited, to a Participant's Account shall be deemed forfeited as of the date of the Participant's retirement.

- C. Except as provided in Paragraphs A and B of this Article VII, if a Participant ceases to be an Eligible Employee upon his or her termination of employment with TEPPCO for any reason, any unredeemed Phantom Units credited to the Phantom Unit Account of the Participant shall be redeemed as of such date. Distribution of cash for Phantom Units redeemed upon the death of an employee shall be made to the Participant's surviving spouse, or if no surviving spouse exists, to his or her estate or legal representative. Phantom Units that have been awarded, but not credited, to a Participant's Account shall be deemed forfeited as of the date of the Participant's termination of employment.
- D. Notwithstanding anything to the contrary herein, the Committee, in its discretion, may accelerate the crediting of Phantom Units to a Participant's Phantom Unit Account and/or the redemption of Phantom Units of any Participant in the event of circumstances of unusual hardship to such Participant. The Committee's decision as to acceleration of Phantom Units under this paragraph shall be conclusive.
- E. The cash value of each Phantom Unit will be based on the Market Value of a Limited Partnership Unit as of the date of redemption. The Committee shall establish the necessary procedures for redemption of Phantom Units. Cash payments under this Plan shall be made no later than 15 business days following the proper redemption date of the Phantom Units.

#### VIII. QUARTERLY DISTRIBUTIONS

- A. As of each quarterly distribution date, TEPPCO shall pay to each Participant an amount equal to the product of:
1. the total number of Phantom Units awarded (whether or not then credited to the Participant's Phantom Unit Account) to a Participant less the total number of Phantom Units redeemed before the distribution record date, multiplied by
  2. the distribution paid with respect to a Limited Partnership Unit for such quarter.

#### IX. PROHIBITION AGAINST ASSIGNMENT OR ENCUMBRANCE

No right, title, interest or benefit hereunder shall ever be liable for or charged with any of the torts or obligations of a Participant or any person claiming under a Participant, or be subject to seizure by any creditor of a Participant or any person claiming under a Participant. No Participant nor any person claiming under a Participant shall have the power to sell, pledge, anticipate or dispose of any right, title, interest or benefit hereunder in any manner until the same shall have been actually distributed free and clear of the terms of the Plan.

## X. NATURE OF THE PLAN

The obligations to distribute cash under the Plan shall be a general, unsecured obligation of TEPPCO payable solely from the general assets of TEPPCO, and no Participant shall have any interest in any assets of TEPPCO by virtue of this Plan. Nothing in this Article X shall be construed to prevent TEPPCO from implementing or setting aside funds in a grantor trust subject to the claims of TEPPCO's creditors. The establishment of the Plan, the awarding of Phantom Units, the crediting of Phantom Units to a Participant's Phantom Unit Account or the setting aside of any funds shall not be deemed to create a trust. Legal and equitable title to any funds set aside for the purposes of the Plan, other than any grantor trust, shall remain in TEPPCO and shall remain subject to the general creditors of TEPPCO, present and future.

## XI. EMPLOYMENT RELATIONSHIP

Nothing in the adoption of this Plan nor the awarding of Phantom Units shall confer on any Participant the right to continued employment by TEPPCO or affect in any way the right of TEPPCO to terminate a Participant's employment at any time. Any question as to whether and when there has been a termination of a Participant's employment and the cause of such termination, shall be determined by the Committee, and its determination shall be final.

## XII. AMENDMENT AND TERMINATION OF PLAN

The Board, in its sole discretion, may terminate the Plan at any time with respect to any Phantom Units which have not been awarded to a Participant. The Board shall have the right to alter or amend the Plan or any part thereof from time to time, except that the Board shall not make any alteration or amendment which would impair the rights of a Participant with respect to the credit of or redemption of Phantom Units theretofore awarded to him. If not sooner terminated under the provisions of this Article XII, the Plan shall terminate when all Phantom Units have been redeemed.

## XIII. SUCCESSORS

The provisions of the Plan shall be binding upon TEPPCO and its successors and upon the Participants and their legal representatives.

## XIV. MISCELLANEOUS

Wherever applicable, the masculine pronoun as used herein shall be deemed to mean the feminine, the feminine pronoun the masculine, the singular the plural and the plural the singular.

IN WITNESS WHEREOF, TEPPCO has executed this Plan in its corporate name and its corporate seal to be hereunto affixed the 5th day of May, 1999.

TEXAS EASTERN PRODUCTS PIPELINE COMPANY

ATTEST:

/s/ James C. Ruth

By: /s/ William L. Thacker

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	DEC-31-1999	
	JAN-01-1999	
	MAR-31-1999	
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		3,271
		89,473
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		22,011
	147,335	879,107
		200,510
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		106,365
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878,435		233,292
		222,374
	286,090	216,697
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		\$0.64