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President and
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Transmission, Storage and Distribution Issues Relating to Petroleum and Refined Products
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Secretary Moniz, Chairman Landrieu, Deputy Secretary Connor and distinguished members of the Quadrennial Energy Review Task Force.

I am Tim Felt, president and chief executive officer of Colonial Pipeline Company.

Thank you for the opportunity to share some of my thoughts related to the refined products pipeline infrastructure that delivers much of the transportation fuels and other products that are critically important to our nation's economy.

History

In 1961, a handful of energy companies came together to build what was then the single largest privately funded construction project in the history of the United States – a \$370 million dollar pipeline that would deliver gasoline and other refined products from Houston, Texas to New York Harbor and points in-between.

This was a monumental undertaking by any measure. Secretary of Commerce Luther Hodges said at the time that it was “the sort of action this country needs if it is to realize its full economic potential.”

Those words remain true to this day – infrastructure projects that are designed to serve consumers and improve their lives are essential if we are to realize the full potential of the United States.

From July 1962 when Colonial began soliciting bids to build our mainline, to 1964, when our system became fully operational, through today, Colonial has continually invested to expand and maintain a critical energy artery that serves more than 50 million Americans.

Today, Colonial consists of 5,500 miles of pipeline that safely deliver refined products to 7 major airports, 90 military installations, and 270 delivery terminals across the South and East. Every day, we deliver more than 105 million gallons of fuel to American businesses, families, and the military.

When you think of Colonial, we are like a superhighway for energy, where barrels get on the highway here along the Gulf Coast and exit at various points along the southeast and northeast. We're pulling from the Gulf and pushing to points north. As such, Colonial serves as a cost effective outlet for the efficient Gulf Coast refineries to send their products to destinations along the southeast and northeastern United States. Other pipelines do the same for the various markets that they serve.

Reliability

The reliability of our infrastructure is crucial to our ability to deliver the fuel that people need. Maintaining that reliability, both every day and, perhaps more importantly, in the wake of extreme weather events – is a critical

responsibility for Colonial. Our customers rightly expect it, and we pride ourselves on being dependable no matter what. As a direct consequence of that, over the past five years we have invested roughly \$789 million on maintenance and system integrity.

Our dedicated employees have spent considerable time and resources to prepare for and respond to extreme weather events. Following Hurricanes Katrina and Rita in 2005, Colonial invested in several tractor-trailer mounted portable generators that would allow us to bring the system back on-line during prolonged disruptions to the grid.

In fact, it's through lessons-learned here along the Gulf Coast that we were able to successfully respond to Hurricane Sandy two years ago. In the days leading up to Sandy's landfall, Colonial pre-positioned our portable generators so that we could bring the system back on-line and supply fuel to New Jersey, New York and other points affected by the storm.

I'm proud to report that soon after the storm was over, we were back up and operational in less than 48 hours and did not lose a single gallon of product.

Safety

This leads me to another important element of our work. We believe that a reliable pipeline is a safe pipeline.

Safety is a top priority for Colonial, as it is for the entire industry. Our goal is zero incidents. To achieve this, our ongoing efforts to ensure the system's integrity include internal inspections of the pipe, corrosion control, pipe coatings, leak detection, aerial patrols and ongoing work to prevent damage by third parties.

We have also implemented several programs to educate communities along our system. Our outreach includes online portals for emergency responders so they know where we're located and have details about our assets and how to respond to a pipeline emergency. Our outreach to the public enlists their support and offers rewards if they call our 1-800 hotline to report unauthorized activity on the right of way.

Colonial conducts simulated drills each year to ensure our team remains prepared should an event occur. We work with the Department of Defense, U.S. Coast Guard, local and state regulatory agencies, first responders and third-party spill response contractors in simulated drills to ensure our team and those who would respond are fully prepared.

As a company, we take great pride in working with local first responders and making sure that they have the necessary equipment to respond to a liquids pipeline incident. From donating trucks, foam and related equipment to providing specialized training, Colonial maintains a close working relationship with responders in communities where we operate.

Following 9/11, Colonial undertook a system-wide review of both our physical security and cyber infrastructure. Both the Departments of Energy and Homeland Security have visited with Colonial and been briefed on these matters.

Investments

In addition to our \$100 million plus annual Integrity Management Program budget and other investments listed above, Colonial has also invested hundreds of millions of dollars to meet new market demands and provide additional options and flexibility to our customers. Increased connectivity and new storage and blending capacity make the Colonial system more valuable to our customers, to the energy sector, and to the Nation.

Recent investments include:

- New blending and storage facilities;
- Expansion of gasoline and distillate lines;

- Expansion of stub lines;
- Interconnections;
- Technology upgrades; and
- Safety and security upgrades.

While many of these expansion projects did not take place along the Gulf Coast, these investments have created capacity for transporting Gulf Coast refinery products, supporting their growth and expansion.

The Path Forward

Pipeline transportation of refined products is the safest and most cost-effective transportation solution for shippers and consumers. To move a gallon of gasoline, diesel or jet fuel from Houston to New York Harbor on Colonial, the tariff is 4.5 cents per gallon, or \$1.89 per barrel. To travel between those same points on a Jones Act tanker, the cost is about \$6.00 per barrel.

Transportation of imported gasoline from refineries in Europe to New York Harbor fall somewhere in the neighborhood of \$2.00 per barrel. However, many European refineries have excess gasoline and may be willing to sell it at a loss. Gasoline exports to the U.S. from Europe are continuing to fall as refineries curb production or shut down entirely.

The need for additional pipeline capacity along the Gulf Coast is material and pressing, largely driven by the surge in American energy production. However, there are a number of economic and regulatory risks that provide significant challenges for Colonial.

As the most cost-effective way to move products from the Gulf Coast to the East Coast, Colonial's system is – not surprisingly – operating at full capacity. Another, simpler way to put it is that demand for space on our system is greater than what we can accommodate. This means that we are forced to allocate (or ration) pipeline space based on shipping history.

We hear on an almost daily basis from our customers the need for additional capacity, which makes perfect sense when you look at the cost of alternatives. Our customers want to use the most cost effective, safest and most reliable transportation solution possible. That is our system.

However, we are a regulated industry and at times face regulatory challenges that give us, and companies like us, additional pause when evaluating future opportunities. There are regulatory matters that have arisen recently that pose challenges to new investment in our system. In the past, we have been able to successfully work through the regulatory process and resolve these types of challenges in a constructive and positive manner. We hope this will remain true going forward. We believe that regulators have the flexibility within their existing authority to address these challenges by allowing alternative methodologies where they make sense. Such an outcome will let us take the steps necessary to fulfill the growing needs of refiners, our shippers and consumers.

Closing

This year alone, Colonial will invest approximately \$339 million in non-transportation related projects in an effort to ensure that we can safely move products to market in a reliable and efficient manner.

Colonial wants to invest. We want to bring more domestically produced and refined fuel to consumers here in the United States. We want to expand our infrastructure. We are pleased that you are taking this time to examine these issues. If we work together on the right policies, we can take full-advantage of the energy resources we have here at home, help American businesses, provide energy for American families, and safely deliver the energy that the American people need and want.

Thank you for your time today.