



**Federal Energy Regulatory Commission  
July 20, 2006  
Open Commission Meeting  
Statement of  
Chairman Joseph T. Kelliher**

**Item No. G-1: Colonial Pipeline Company (OR06-8-000)**

"The declaratory order issued by the Commission today grants the essential elements of Colonial Pipeline Company's petition for declaratory order and should make possible a badly needed \$1 billion expansion of the Colonial's pipeline system. Our action today will assure adequate supplies of gasoline and other petroleum products in the Southeast and Mid-Atlantic states and minimize future price increases that owe to transportation constraints. Our action is especially timely, given consumer concerns about gasoline prices.

Every day, Colonial Pipeline transports 2.4 million gallons of gasoline and other refined petroleum products over a 5,519 mile system that runs from Houston, Texas to Linden, New Jersey. This system supplies gasoline to the Southeast and Mid-Atlantic states, serving major cities such as New York, Philadelphia, Atlanta, Baltimore, as well as Washington, D.C. Colonial is a primary source of supply to this region.

The Colonial system was built over 40 years ago. Since that time, demand has grown substantially, the system has since become constrained, and Colonial has had to prorate or curtail shipments. In 2004, some movements on Colonial's system were prorated 25 percent of the time. Colonial indicates that by 2008, curtailments will occur for most of the year. If the Colonial system is not expanded, prorating will become a routine occurrence. These bottlenecks have the effect of raising gasoline prices and the prices of other petroleum products, and as the constraints become more severe the price effects will become that much greater.

We had a glimpse of what this could mean last year. Last year, Hurricanes Katrina and Rita temporarily disrupted operation of Colonial Pipeline, not from physical damage to Colonial, but from loss of electrical power needed to operate the pipeline. We saw sudden and large gasoline price increases in the Southeast and Mid-Atlantic states.

Our order clears the way for the commencement of construction of an expansion in the Colonial system later this year, with operation to follow in 2010.

We have taken care to protect the consumer, not only by acting to assure adequate supplies of gasoline and other petroleum products, but also in our review of the proposed mechanism Colonial would use to recover the expansion costs. The Commission agreed that the recovery mechanism is appropriate in this instance if Colonial demonstrates that the revenues earned by application of its grandfathered transportation rate to the expansion volumes do not allow for recovery of expansion costs.



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We are not setting any specific rate in this order. When Colonial actually files to recover the expansion costs, it must demonstrate that the recovery mechanism is consistent with this order as well as the Commission's other ratemaking principles."