

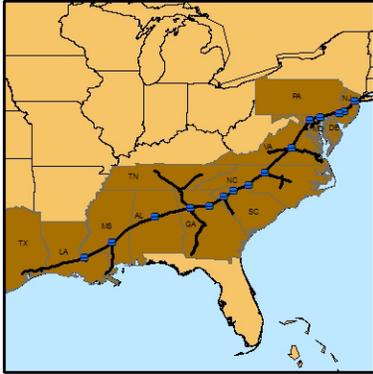
Testimony of Norm Szydlowski, President and Chief Executive Officer, Colonial Pipeline Company, to the Senate Committee on Energy and Natural Resources, Nov. 6, 2007

I appreciate the opportunity to address the Committee today. And I want to commend you for focusing attention on whether the domestic energy industry has the necessary workforce and skill sets to ensure our nation has the vital energy we need.

Too often the U.S. energy industry is portrayed as uninterested in the future, as passive and as part of the problem, not the solution. The truth is our industry exists to serve the American people by providing an essential commodity. I was fortunate enough to represent our country as an advisor to the Iraqi Oil Ministry, so I have seen firsthand what happens when a nation's energy industry is unable to meet the people's needs. First at Chevron and now as CEO of Colonial Pipeline, I also have seen the good that comes when a government and the energy industry work together to ensure infrastructure is in place, is strong and is responsive to the needs of Americans.

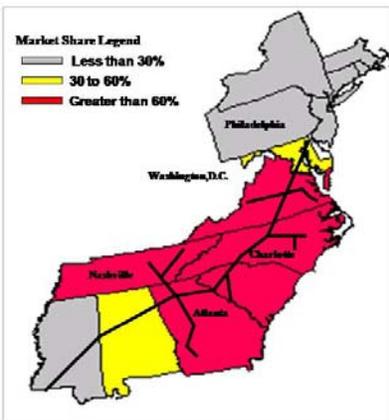
Nowhere was this more evident than in the aftermath of Hurricanes Katrina and Rita. If not for the cooperation between the government and the energy industry, the suffering would have been far worse and recovery would not have begun within 48 hours of those terrible storms coming ashore. Three members of this committee – Senators Bingaman, Domenici and Akaka – were among the U.S. and state officials who took a personal stake in seeing that the U.S. energy industry had what it needed to serve the American public. That is essentially what we are talking about today: does the energy industry have the right workers to ensure Americans will have the energy they need today, tomorrow and into the future.

My remarks will share Colonial Pipeline's experience. As the largest pipeline of its kind, I believe it provides examples that represent the entire pipeline segment of the U.S. energy industry. I believe my remarks also represent experiences of the broader energy sector, including nuclear, refining, natural gas and electric utilities. I will conclude with my thoughts on what leadership this Committee can provide on this issue.



First, let me give you a quick description of Colonial Pipeline. Created in 1962, Colonial today consists of 5,519 miles of underground pipeline connecting refineries primarily in the Gulf Coast with markets across the Southern and Eastern United States. We begin in Houston and end at the New York harbor. The main lines are 40- and 36-inches in diameter, with one primarily devoted to gasoline and the other carrying distillate products such as jet fuel, diesel fuel, home heating oil and fuels for the U.S. military.

We connect directly to major airports along our system. Visually, Colonial looks like a long expanse of right-of-way with 15 tank farms along the way. These tank farms store more than 1.2 billion gallons of fuel and help provide communities with a 4-5 day supply before they need to be replenished.



Overall, Colonial carries 20 percent of all liquid petroleum products that move on U.S. pipelines. In many markets we supply the vast majority of fuel those communities rely on. In others, such as the Northeast, we face competition from overseas shipments of fuel. There our gasoline shipments are less significant than our distillate shipments (home heating oil, jet fuel, etc.) Our headquarters is in suburban Atlanta from where our Control Center operates the pipeline 24 hours a day, seven days a week. We are a company based on some fundamental values. The first of these is the safety of

our operations so that we protect our workers, the citizens in whose communities we operate, and the environment we share. Another fundamental value we share is reliability. Our customers – and the public they serve – depend on Colonial. Pipelines are the nation’s most efficient and safest method of delivering fuel, and Colonial strives to be the best in our industry.

When construction began in 1962, it was a different world. There wasn’t the global economy we have today. The pipeline was mostly in rural areas. Growth and development have brought us much closer to cities and towns. Suburbs now overlap our right-of-way. There have been corresponding changes to the workforce as the nation has grown. The information highway has shown many young men and women in search of career opportunities a more glamorous world

than pipelines and refineries. Fewer are following their parents' line of work, instead pursuing their own career paths and direction.

Across our industry, consolidation has caused a sharp decline in employment since the early '80s. Over half a million petroleum jobs were lost between 1982 and 2000. These layoffs gave an entire generation the impression that our industry was an unreliable employer. While Colonial's employment remained relatively stable during these years, we have had to deal with the same shrinking pool of candidates applying for careers within the overall industry. We are competing hard for candidates who may have fewer skills than candidates 10 years ago.

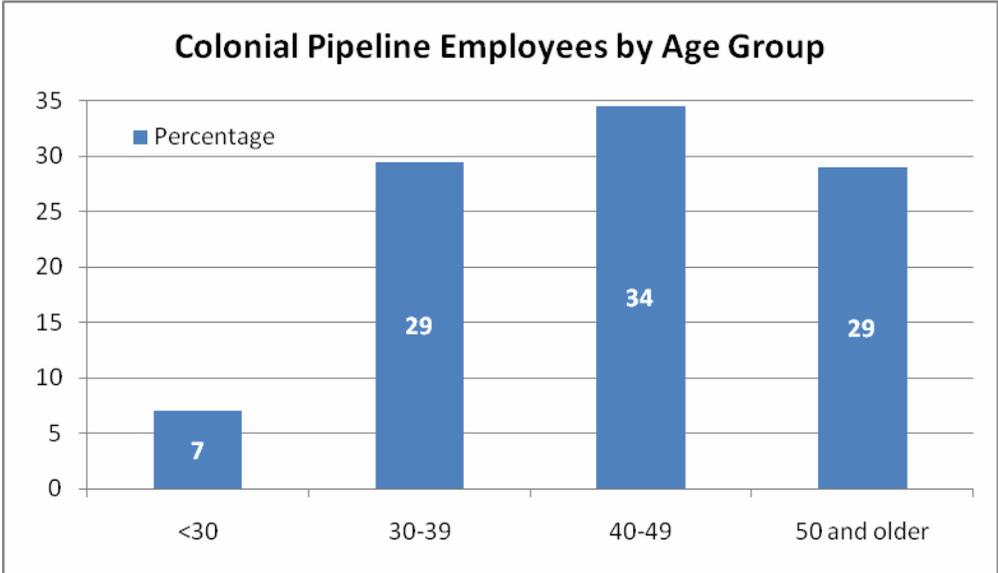
To address the situation, we have increased our compensation packages in an effort to attract entry-level workers. Colonial offers candidates with no more than a high school degree a starting salary of approximately \$42,000 with the ability to progress their career to \$70,000 a year. And that is only an average. Those who follow this path can – and do – become Lead Operators earning \$84,000 per year. Again, these are base salaries. On top of the base are shift differentials and overtime pay. To attract entry-level workers and to retain our current workforce we have included a full benefits package and annual bonuses. In critical labor markets such as Houston and the Northeast, we also pay geographic differentials. I stress that these opportunities are for non-skilled positions. The competition for engineers and more highly skilled positions is even more intense and the pay packages accordingly climb dramatically.

This challenge of recruiting new workers is not unique to our industry. But what makes it more serious for Colonial is the rate at which our current workforce is departing. Part of this is due to realities of the workplace. Fewer workers are spending their entire career at one company. The consequent trend is for an employee to spend 2-3 years mastering their skills and then to re-enter the job market in search of opportunities beyond their current employer.

But an even larger contributor is the graying of our workforce.

Industry-wide, the petroleum sector estimates 27 percent of its workforce is within five years of retirement. That figure is the same for Colonial’s workforce. The problem is worse among the people who operate the pipeline, where nearly one in five employees is eligible to retire within two years. Of the four most critical positions, 35 percent of our Senior Operators/Lead Operators and 29 percent of our Inspectors are within two years of retiring. Among Controllers (who control and monitor pipeline operations) and Technicians (who maintain pumps, valves and other pipeline equipment), each group has 15 percent of their complement within two years of retiring.)

The U.S. Bureau of Labor Statistics puts the average age of the U.S. worker at 39 years. Colonial’s company-wide average age is just short of 44 years. And as the chart below shows, more than half of our workers are over the age of 40.



Unfortunately, these workforce issues are striking just as the business demands on and opportunities for pipelines are accelerating. As you are aware, expansions are under way for several refineries in the Gulf Coast region we serve. As a large-volume pipeline capable of transporting this product to the major population centers of the South and Eastern seaboard, Colonial is in a great position to help with the industry’s growth and with increasing the supply of available fuels.

We are currently developing a project that would add a third pipeline of 36 inches in diameter along our existing pipeline corridor between Baton Rouge and Atlanta. This project, which still faces several regulatory and engineering hurdles as well as the final approval of our owners, could add 800,000 barrels of additional capacity every day. That equates to an additional 33 million gallons of fuel every day. (By comparison, announced refinery expansions will produce an additional 1 million barrels per day of product by 2012.)

When we initially proposed the project, we estimated the cost would be \$1 billion for 465 miles of new pipeline. However, we now estimate the project will top \$2 billion. Part of that may be our conservative estimates in the beginning, and part of it is the rising price of steel. But a significant part of the higher estimate is due to the competition for qualified workers to build our project. The very expansions within the refining sector of our industry are soaking up the available skilled labor pool we are seeking for our own project. Although construction on our proposed project would not begin before 2011, our forecast is that the labor market will be as tight if not tighter by that time.

While this expansion will likely have minimal impact on our long term needs for operations manpower, it will require approximately 2,000 construction jobs during the building period.

Colonial has also been researching the transportation of ethanol and other bio-fuels on our pipeline. As you may or may not be aware, we are working with others to determine whether ethanol can be transported in a steel pipeline without inducing stress-cracking. While initial results are encouraging and there is much work to be done and questions to be answered, we hope to make test shipments in 2008. It's unlikely that these efforts will add significantly to our workforce demands long term, but the system modifications to handle these fuels may require could add yet another need for scarce design and construction expertise.

We hope projects like our expansion and our research into carrying fuels that will boost America's energy security are steps toward making our pipeline industry more attractive to young workers looking for a company to start and/or develop their career.

The work of this Committee has the potential to have far more substantial benefits for the workforce needs we face. Speaking for Colonial, here are some steps I think would benefit the industry as a whole and therefore the nation's consumers:

-- Encourage policies that improve technical school and skilled trade training. This would have the most immediate impact on our workforce needs, and this is an area where companies like Colonial would be willing to participate either in the design of curriculums or by providing other support, such as grants targeting the development of skills and trades needed in our industry.

-- Provide IRS relief on phased retirement initiatives that will allow companies to make in-service distribution of retirement benefits. We need to tap into the knowledge and experience of those employees who retired solely to have access their lump-sum benefits. We need their help preparing the new workers, and we can't ask them to jeopardize their pension benefits – nor the tax-qualified status of our pension plan – when they answer our call.

-- As Congress works on solutions to the Immigration question, please keep in mind that foreign workers represent a potential pool of skilled workers that would address our workforce shortages and provide stable, well-paying jobs that would not only benefit the individual but the community as well.

Thank you for the opportunity to testify before the Committee. Colonial Pipeline welcomes your continued interest and support. It has been invaluable to our company in particular and a contribution to the industry and the nation. Speaking for the 630 employees of Colonial Pipeline, and for the pipeline industry as a whole, we stand ready to help in any way we can as you develop solutions to the workforce shortage facing the nation's energy suppliers.