

which offered no-notice sales service prior to restructuring were required to offer no-notice transportation service to their existing sales customers at the time of unbundling. Pipelines had the option of making no-notice service available to non-sales customers. Thus, while many interstate pipelines currently provide no-notice transportation service, they do not and are not required to offer such service to new customers. Thus, comparable no-notice service probably is not available on other pipelines.

Also, applicants may wish to demonstrate that intrastate pipelines offer comparable firm transportation service. Transportation services offered by intrastate pipelines under section 311 of the NGPA are also subject to the same open-access and non-discriminatory access standards as interstate pipelines are under Order No. 436. Therefore, to the extent that intrastate pipelines offer firm transportation service, Staff believes that such service would be offered under terms and conditions that are substantially comparable to the firm transportation services offered by open-access interstate pipelines. However, intrastate pipelines are not required to offer firm transportation services and currently only a few intrastate pipelines offer firm transportation. Thus, firm transportation services may not be available on intrastate pipelines.

Applicants wishing to make a showing that interruptible transportation services make good alternatives to the applicant's firm services would have to demonstrate that an adequate amount of capacity is unsubscribed during peak periods so that the quality of the IT service would be comparable to that of the applicant's FT service.

#### b. The Geographic Market

In addition, in defining the market, one must identify all the sellers of the product or service. The collection of alternative sellers and the applicant constitutes the relevant geographic market. Specifying the relevant product and geographic market tells us what alternatives the customer has if it attempts to avoid a price increase imposed by a seller.

Geographic market definition is particularly important in transportation markets. Gas pipelines can transport gas out of a producing or origin region. They also deliver gas into a consuming or destination region.

The applicant must specify both the origin and destination markets for its FT service. Only in that way can the applicant identify good alternatives to the pipeline's service.

Staff proposes a two-step process of defining the geographic market. First, the applicant would identify those alternative sellers who offer service between the same origin and destination markets. Second, the applicant would identify those competitors that provide service either out of the origin market or into the destination market. This two-step process generally follows the analytic approach developed in the *Report of Commissioner Branko Terzic on Competition in Natural Gas Transportation* (May 24, 1993).

#### i. Transportation Between Markets

The first stage of the analysis identifies sellers offering transportation service over the same route. Examining different sellers serving the same transportation link simplifies the analysis. For instance, there is no need to consider whether different producing areas offer "good" alternatives to each other.

To show that another pipeline provides a good direct alternative, the applicant must show that customers could purchase the relevant service from the alternative supplier. Such a demonstration will probably include showing that capacity would be available on the alternative, that the customer can obtain any services needed to use the competitor's facilities in both origin and destination markets over the term of the service receiving market-based rates.

If a customer has a continuing obligation to take gas at a particular receipt point, or to deliver gas to a specific delivery point, beyond the term of its FT contract, competition from parallel pipelines is particularly important in evaluating market power on a pipeline seeking market-based FT rates. Then the applicant may have market power over the shipper even if both the origin and destination markets are otherwise competitive. While the shipper will have good alternatives to the applicant for getting gas to the city-gate, it may not have good alternatives for getting gas from that particular point to its city-gate. It could, of course, sell its contract gas from that particular point on the spot market in the production area and buy an equal amount of spot gas in an area where it had good transportation alternatives. But the spot price at which it sells might be lower than the spot at which it buys, causing extra expense and providing some opportunity for the applicant pipeline to raise its price. Additionally, the shipper may value the reliability of the contract gas and be concerned that it might not be able to buy spot gas when it needs it.

In practice, parallel route competition is most likely to occur in two situations. One is the secondary market (including pipeline IT) where parties offer service on the same facility. The other is for transportation between well-functioning market centers, as illustrated in the example in part B.

#### ii. Transportation at Origin and Destination Markets

Parallel route competition is not the only source of market discipline on gas transporters. A shipper in the production area will typically have alternative destination markets to which it could send gas. Similarly, a downstream shipper will typically have a choice of several producing areas from which to buy gas. Pipelines that provide such alternative service may offer an additional check on the market power of a shipper.

Natural gas transportation typically originates in the production area. In the production area (or the mainline receipt point), the applicant must identify the transportation alternatives available to customers. Customers could include producers with gas supplies attached at a receipt point, LDCs, and endusers with firm long-term supply contracts. To define a particular region as an origin market, the pipeline must identify all pipelines which compete with it to move gas out of that area. To demonstrate that these other pipelines are good alternatives (that is, are in the market), the applicant must show that its producer/shippers are physically connected to these other pipeline transportation alternatives.<sup>51</sup> The applicant must also show that these transportation alternatives provide a netback<sup>52</sup> to producer/shippers roughly the same as they would receive if they used the applicant's transportation.<sup>53</sup> An alternative is not a good alternative to a producer seeking to move gas out of the origin market if the alternative is

<sup>51</sup> Alternatively, the applicant could include a seller in the market if the seller can connect to the customer sufficiently cheaply that the customer receives a netback as least as large as it would receive if it used the applicant's transportation service.

<sup>52</sup> The netback is the delivered price of gas less the transportation costs paid by the producer. That is, the netback is the net price received by the producer.

<sup>53</sup> The geographic market is a region in which a hypothetical monopolist that is the only present or future provider of the relevant product at locations in that region would profitably impose at least a "small but significant and nontransitory" increase in price. In the case of an origin market, the hypothetical monopolist will impose a small but significant and nontransitory decrease in netbacks. Thus, a service is a good alternative if the netback using the alternative is at least as big as the netback using the applicant's facilities after the netback decrease.