

example, if the applicant were to increase its price, entry into the market might be so easy that sellers attracted by the profit opportunity created by the higher price would quickly take customers away from the applicant by offering a lower price. This would make the applicant's price increase unprofitable. Thus, the applicant would not be able to exercise market power, despite its large market share and despite the high market concentration.⁶¹

Ease of entry is one of several competitive factors that might lead to the conclusion that an applicant lacks market power. It is most likely to apply to circumstances that do not require the large sunk costs of major construction—for instance, perhaps in offering short-haul market center services. Another competitive factor that might be alleged by an applicant would be the presence of buyer power. An applicant might argue that if a single buyer is a large customer of the pipeline, is knowledgeable and sophisticated in its

⁶¹ As stated before, entry would probably only be relevant for gas pipelines in the case of minor facilities such as facilities that could be constructed under a blanket certificate.

buying, and has been in business for a lengthy period of time, the buyer may have the knowledge and large-scale purchasing power to negotiate reasonable rates even in a concentrated market. However, just because buyers develop sophisticated purchasing systems and market knowledge as the result of dealing with various suppliers in numerous markets, there still is reason to have some skepticism that a buyer in a single destination area served by one or a few pipelines will have such capabilities.

The applicant must demonstrate that sufficient quantities of good alternatives are available to its customers to make a price increase unprofitable. In other words, the applicant must show that customers would replace a significant proportion of its throughput with other transportation alternatives if the applicant raised its price.

B. An Example of the Analysis Applied to Firm Transportation

1. Introduction

To illustrate the application of the market power analysis discussed above to a request for market-based

transportation rates, staff shows an analysis of a hypothetical filing by an interstate pipeline. In that hypothetical filing, the ABC Pipeline Company seeks Commission approval to offer firm transportation (FT) at market-based rates. ABC's primary proposal is for market-based FT rates for its entire system (see map). As an alternative, ABC requests market-based rates for firm transportation between two market centers, the Free Parking Hub, located in the production area, and the Just Visiting Hub, located in its market area. In its alternative proposal ABC Pipeline offers cost-based rates for service upstream of the Free Parking Hub and downstream of the Just Visiting Hub. Finally, as part of its alternate proposal ABC Pipeline is proposing to add facilities so that it will interconnect with all the pipelines at the Free Parking Hub. The interconnections will allow ABC to provide switching service at the hub. ABC proposes market-based rates for the switching service.

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