

The facts in this hypothetical are patterned after the facts of a large pipeline company and one of its major customers. Facts have been added or changed to better illustrate points in the analysis.

In order to analyze ABC's proposal, staff identifies the relevant product and geographic markets, measures the size of the market, and calculates market shares and the market's concentration using the Herfindahl-Hirschman Index (HHI). Where market shares and the HHI are high, staff examines other competitive factors that might constrain the exercise of market power.

A two step analysis is used to examine both of ABC's proposals. First, one examines whether there is sufficient competition along parallel routes for the proposed market-based services. Second, if there is not, one examines if there is sufficient competition in the origin and destination markets to constrain the exercise of market power. The Commission would deny ABC Pipeline's request if it finds that ABC has market power over customers on the relevant routes and in either origin areas or destination areas of the geographic market. To identify relevant geographic markets, one first identifies pairs of origin and destination markets. The pipeline might identify one such pair as the hypothetical Baltic field and City Distribution Company (City).⁶²

2. The Applicant's Primary Proposal

a. The Relevant Facts

City Distribution is a large natural gas public utility that serves millions of customers. Its service area covers a large metropolitan area. City's service area is located 100 miles downstream of the Just Visiting Hub.

City has its own storage facilities with a maximum daily storage withdrawal capability of 1.0 Bcf/day and a total working gas capacity of approximately 30 Bcf. Its peak day system demand is approximately 3.0 Bcf/day. Thus, at full utilization of its storage, City needs at least 2.0 Bcf/day (3.0 Bcf/day—1.0 Bcf/day) of transportation capacity on its peak day to meet customer demand.

City has over 30 interconnections with five interstate pipelines: ABC Pipeline Company, the Short Line Pipeline Company, the Boardwalk Pipeline Company, the Ventnor Pipeline Company, and the Pennsylvania Pipeline Company. Table 1 shows City's contract rights to, and use of, transportation capacity on all pipeline connections to its city gate for 1994.

Table 1 shows the total capacity of the pipelines in City's metropolitan area. The totals include capacity used to serve another LDC within that metropolitan area.

TABLE 1

Pipeline	MDQ Rights (Bcf)	USE (Bcf)	Capacity (Bcf)
ABC Pipeline (FT) . The Short Line Pipeline	1.3	1.5	1.5
Boardwalk Pipeline (FT)	0.3	0.2	0.3
All Sources of IT	0.2	0.2	0.7
The Ventnor Pipe- line	0.3
The Pennsylvania Pipeline	0.2	0.2	0.7
.....	0.1	0.1	0.1
Total	2.1	2.5	3.3

City currently purchases a portion of its peak day from gas produced in the Baltic field. ABC Pipeline is currently the only pipeline that connects to the gathering system in the Baltic field. Table 2 displays the nearest pipelines and the estimated cost to connect these pipelines to the Baltic field gathering system :

TABLE 2

Pipeline*	Connection costs
The Atlantic Pipeline	\$1,000,000
The Ventnor Pipeline	2,400,000
The Boardwalk Pipeline	17,000,000
The St. James Pipeline	15,000,000
The Park Place Pipeline	12,000,000

*The Atlantic and Ventnor Pipelines are affiliated, as are the Boardwalk and Park Place Pipelines.

b. Product Market

In its filing to the Commission, ABC might allege that there are numerous good alternatives to its FT service for City. It might start by alleging that two other pipelines directly connect areas that are very close to the Baltic field and City's city gate, and offer good alternatives to customers on both ends of the pipeline. It might further argue that customers on each end can use FT and interruptible transportation (IT) service on other pipelines leading to different market areas (in the case of Baltic field shippers) or other supply areas (in City's case).

FT on other pipelines may be a good alternative to ABC Pipeline's FT. However, ABC must demonstrate that its customers can actually get firm capacity on these other pipelines and that the quality of such FT is comparable to its own. Also, ABC must

demonstrate that other pipelines can provide FT that is price competitive with ABC's.

IT service on other pipelines might be a good alternative for FT. Indeed, Table 1 shows that City used 0.3 Bcf of IT to meet its transportation needs on its 1994 peak day. ABC might argue that similar levels of IT have been available at peak for many years and can be expected to be available in the future. If so, this suggests that, at a minimum, IT was of a sufficiently high quality (i.e., had a sufficiently low probability of interruption) that it could substitute for FT in the past and could probably do so in the future. However, ABC Pipeline would need to present evidence that IT was provided at a price that rendered the price of delivered gas using IT at or below the price of delivered gas using FT. That might not be the case if City's receipt of IT required payment of IT rates on several upstream pipelines, thereby making IT not price competitive. City might have been forced to purchase IT even if its price were much higher than that of FT. Also, the IT shown in Table 1 was received by City over several pipelines, including ABC Pipeline. Thus, because ABC would be able to affect the delivered price of gas using IT service, it cannot be counted as a good product alternative to ABC Pipeline's own FT.

Therefore, for both the primary and alternate proposals, staff is defining the product market to include ABC Pipeline's FT and FT on other pipelines. However, interruptible transportation is included in the product market for switching service at the Free Parking Hub.

c. Geographic Market: Parallel Route

In its application, ABC might argue that three pipelines provide service from the same production area as the Baltic field to the same metropolitan area as City and thus are parallel routes: ABC Pipeline (with 1.5 Bcf of capacity), the Boardwalk Pipeline (with .7 Bcf of capacity) and the Ventnor Pipeline (with .7 Bcf of capacity). ABC computes an HHI of .39 for these three routes—equivalent to about three equally large firms. ABC might argue that this provides some degree of competition, which combined with other factors, would justify a market-based rate. One of the factors ABC mentions is that City has buyer power because of its size. However, ABC Pipeline does not provide sufficient factual basis to evaluate the level of City's buyer power, so staff is unable to consider this factor.

A closer examination of the example would show that there are no parallel route pipelines. Neither of the other

⁶² Of course, the pipeline would need to provide the same information for all other origin and destination markets.