

g. Geographic Market: The Origin Area

ABC's pipeline is connected with the gathering system in the Baltic field in Louisiana. ABC Pipeline is the only inter or intrastate pipeline that is connected to this gathering system.

As for good alternative suppliers in the origin area, ABC Pipeline would have to demonstrate that the quality of FT on other pipelines is comparable to its own. Also, ABC would have to demonstrate that other pipelines can provide FT that is priced competitively with ABC's.

To show that other pipelines could become good FT alternatives, ABC Pipeline would have to show that other pipelines could easily connect with the gathering system in the Baltic field. Or, ABC Pipeline might argue that the producers could build gathering lines to connect to these other pipelines at a nominal cost. In either case, ABC would have to show that building these facilities would not reduce the netback to these producers.

In this example, all of the pipelines would have significant connection costs. At most, it appears that only on Atlantic would the cost of connecting the Baltic field result in a price increase of less than 15%. Thus, in the Baltic origin area, producers seem to have at most one good pipeline alternative to ABC Pipeline. The conclusion, therefore, is that staff cannot rule out the possibility, indeed likelihood, that ABC Pipeline has market power over shippers transporting gas out of the Baltic field origin area.

h. Primary Proposal: Conclusion

Our conclusion from analysis of this hypothetical is simple and straightforward. It is conceptually possible to demonstrate that pipelines lack significant market power over shippers buying transportation from supply fields to their city-gate customers. However, the City example suggests that such a showing would be difficult.

3. The Applicant's Alternate Proposal

a. The Relevant Facts

ABC Pipeline has also included a more limited market based proposal in its filing. ABC argues, at a minimum, it should be able to charge market-based rates for service between two market centers on its system, the Free Parking Hub and the Just Visiting Hub, and for its proposed new switching service at the Free Parking Hub. Table 5 shows the six pipelines at the Free Parking Hub and their capacity:

TABLE 5

	MDQ rights (Bcf)	Market share	HHI
ABC Pipeline	2.0	.21	.04
Oriental	*1.8	.29	.08
Vermont	*1.0	.....	.....
Reading	2.3	.24	.06
Pacific .....	.8	.08	.01
Mediterranean ...	1.7	.18	.03
Total	9.6	1.00	.22

*Since Vermont and Oriental are affiliated their capacity has been combined in computing market shares and HHIs.

Table 6 shows the five pipelines at the Just Visiting Hub:

TABLE 6

	MDQ rights (Bcf)	Market share	HHI
ABC Pipeline	2.0	.20	.04
Short Line Pipeline .....	.5	.05	.....
The Pennsylvania	*2.7	.54	.29
Reading	*2.5	.....	.....
Oriental	2.1	.21	.04
Total	9.8	1.00	.37

*Since the Pennsylvania and Reading are affiliated their capacity has been combined in computing market shares and HHIs.

Three pipelines provide firm transportation service between the two hubs. Their capacity on the route is shown in Table 7. In computing market shares and HHIs staff has used the lower of the pipeline's capacity at the Just Visiting and Free Parking Hubs as our estimate of the maximum amount of capacity that shippers can reserve between the two hubs.

TABLE 7

	MDQ rights (Bcf)	Market share	HHI
ABC Pipeline	2.0	.33	.11
Reading	2.3	.38	.14
Oriental	1.8	.30	.09
Total	6.1	*1.01	.34

*Total does not equal 1 due to rounding.

ABC Pipeline generally defines the product market as firm transportation. However, ABC argues that interruptible switching service at the Just Visiting Hub and the Free Parking Hub is the functional equivalent of firm service.

b. Geographic Market: Parallel Route

In the example, three pipelines provide firm transportation service between the Free Parking Hub (origin

market) and the Just Visiting Hub (destination market): ABC Pipeline (with a .33 market share), Reading Pipeline (with a .38 market share), and Oriental (with a .30 market share). This results in an HHI of .34 for this route—equivalent to three equal sized firms. ABC Pipeline might argue that the three parallel route pipelines provide some degree of competition. ABC might argue that when this is combined with additional competition at the origin and destination markets there is sufficient competition to justify market-based rates.

In its alternate proposal ABC has not proposed market-based rates for transportation upstream of the Free Parking Hub or downstream of the Just Visiting Hub. Instead, it proposes a regulated rate for such services that would recover only the (relatively small) costs of the facilities between the Baltic field and the Free Parking Hub or between the Just Visiting Hub and City's city-gate. This would ensure ABC could not use market-based rates to exercise market power over shippers at the extremities of its system. However, such a proposal would raise serious cost allocation issues between ABC's market-based and cost-based services.

In the alternate proposal there is the possibility of parallel route competition because there are three pipelines that serve both the origin and destination markets. However, this is only the beginning of the analysis. ABC Pipeline must also show that its customers can switch gas between ABC and the alternative pipelines at a low cost; its customers can actually get firm capacity on the Reading and the Oriental Pipelines; and the quality and price of firm service on these alternative pipelines is comparable to that provided on ABC Pipeline.

ABC argues that the Free Parking Hub is a header that offers firm switching service at minimal cost and that the Just Visiting Hub offers interruptible switching service among all the pipelines. The first may offer the customers good alternatives. The second probably does not. Potential market power problems here might be mitigated if firm switching service was offered at the Just Visiting Hub.

ABC argues that capacity release programs can make capacity available on the alternative pipelines. However, it has not shown that customers can obtain the same long-term FT service through the release program. Potential market power problems might be mitigated if ABC could show that its customers could buy the same long-term service through the release market (perhaps if the customers had many