

years remaining on their contracts) or at some future time when the capacity on all the pipelines would be available simultaneously. It would also need to show that such alternatives would be competitively priced. It could do this either by analyzing regulated prices or by showing that all other pipelines would be able to match any likely market-based price on ABC. This would be a difficult showing for any pipeline if it was the only pipeline in the market seeking market-based rates.

In the alternate proposal there is possible parallel route competition between the origin and destination markets. However, even if all additional market power problems were mitigated, the HHI of the route is still well above the .18 screen staff is using. So, staff moves to the second step in the analysis to examine the origin and destination markets separately.

#### c. Geographic Markets: Destination Markets

ABC Pipeline might argue four other pipelines serve the Just Visiting Hub and each of these pipelines would serve as a good alternative to its service. ABC might also argue two other pipelines, the Ventnor and the Boardwalk have facilities near the Just Visiting Hub. As with the parallel route analysis, these pipelines cannot be considered good alternatives unless ABC Pipeline can demonstrate its customers can get firm transportation capacity at a price and quality comparable to its own service.

The data indicate that the Just Visiting Hub is highly concentrated. In computing the HHI for the destination market the two affiliates, the Reading and the Pennsylvania, are treated as one firm. Because these two pipelines control half the capacity at the hub, the HHI of .37 is actually higher than that for the parallel route.<sup>64</sup>

If ABC Pipeline could show that the Ventnor and the Boardwalk Pipelines could easily connect to the Just Visiting Hub this would significantly reduce the HHI and make it easier to support market-based rates for ABC Pipeline. Alternatively, ABC Pipeline might argue that market power at the Just Visiting Hub is minimal if it could show that there are other market centers close to the Just Visiting Hub that could be accessed by pipelines serving the Free Parking Hub. If ABC Pipeline could not

show additional competitive factors that reduce market power, the data would not support market-based rates.

#### d. Hub Services

To justify market-based rates for service between two markets, ABC must show that both the origin and destination markets are competitive. ABC has not shown that the destination market, the Just Visiting Hub, is competitive. Therefore, it has not supported its proposal for market-based rates between the two hubs. However, ABC has also requested market-based rates for hub services at the Free Parking Hub.

To support its proposal for market-based rates for hub services, ABC Pipeline might argue that currently the Mediterranean Pipeline interconnects with the five other pipelines at the Free Parking Hub. When ABC builds its additional interconnections there will be two pipelines that connect with all the pipelines at the Free Parking Hub. In addition, these pipelines have several other alternative points of interconnection within a 100 mile radius of the hub and within the same rate zone. ABC argues that its customers can get the equivalent of ABC's switching service at these points of interconnection. ABC has provided a chart which shows that in addition to its proposed new facilities a shipper on any one of the five other pipelines has at least three alternative interconnections for each pipeline within the same rate zone. Some of these are direct interconnections and some require switching service at other nearby production area hubs. Further, interruptible capacity is consistently available within the production area and is of a very high quality, i.e., curtailments are rare. Thus, each shipper has at least three good alternatives to ABC's proposed switching service at the Free Parking Hub. This means that the highest HHI for ABC's switching service with any pipeline is .25.

The HHI of .25 for switching service is above staff's initial screen. However, there are other competitive factors that would reduce ABC's ability to exercise market power. One of these factors is the open access requirement that all open access pipelines must receive or deliver gas to other pipelines if capacity is available. By scheduling receipts and deliveries at the alternative points of interconnection a shipper can get the equivalent of switching service. And, when this is part of the basic point-to-point transportation service, there is no additional charge. Another competitive factor is ease of entry. In this area some

of the pipelines could build additional interconnections at minimal cost. It would be economic to build these interconnections if ABC attempted to exercise market power by charging excessive rates.

ABC has shown that its customers would have good alternatives to its switching service. Therefore, market-based rates are appropriate for its switching service at the Free Parking Hub.

#### e. Conclusion

Given the high level of concentration in the route and in the destination market, it is unlikely that ABC Pipeline could justify market-based rates for service between the two hubs. However, using the same criteria, market-based rates can be supported for hub services at the Free Parking Hub.

In the example, staff has assumed that a pipeline might have both cost and market-based FT rates on its system. Any such proposal would require a method for allocating costs between cost-based and market-based services.<sup>65</sup>

#### 4. Results of Analysis of Hypothetical

Staff must conclude that ABC would find it difficult to justify market-based rates for point-to-point FT on its system. Based on current data ABC may be able to justify market-based rates for some hub services. In the future, ABC may be able to justify market-based rates for more services. As the transportation market evolves, pipelines may find it economic to build connections to more hubs. This will increase the number of alternatives at each hub and thus will make it easier to satisfy the criteria for market-based rates for hub services or for transportation between hubs.

#### C. Application of Criteria to Other Services

Under the standards proposed above, as the example involving ABC Pipeline shows, it is unlikely that FT rates for any city-gate customer would be market-based. The same is true for any rates paid by producers directly attached at the other end of the pipe. What role, then, beyond the gas commodity and storage services, would market-based prices play?

The answer is that market prices may play an important role in capacity-release, IT, and market-center services.

As illustrated in the ABC Pipeline example, the many new sources of FT

<sup>64</sup>This example demonstrates the effect that pipeline affiliation can have on market concentration. If Reading and Pennsylvania were not affiliated, the HHI for the Just Visiting Hub would be .22, significantly lower than the .37 HHI calculated with affiliate market share combined. An HHI of .22 is much closer to a level which might be deemed indicative of an unconcentrated market.

<sup>65</sup>For example, it would be necessary to identify the cost of the facilities used for the market-based services as well as any related operation and maintenance costs. Also, there would need to be an allocation of common and joint costs, such as administrative costs, between the cost and market-based services.