UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Suedeen G. Kelly, Marc Spitzer,
Philip D. Moeller, and Jon Wellinghoff.

Gas Transmission Northwest Corporation — Docket No. RP06-407-000

ORDER ON MARKET-BASED RATE PROPOSAL

(Issued June 21, 2007)

1. On June 30, 2006, Gas Transmission Northwest Corporation (GTN) filed, as part of its Natural Gas Act (NGA) section 4 rate case in Docket No. RP06-407-000, a proposal to charge market-based rates for interruptible transportation (IT) service for delivery to the California border (full-haul). The Commission finds that GTN has failed to support its claim that it lacks market power in the destination and origin markets and over the Kingsgate to Malin path, and thus should not be allowed to charge market-based rates for its full-haul IT service, as requested. Accordingly, GTN's market-based rate proposal is rejected.

I. Background

2. On June 30, 2006, GTN filed an NGA general section 4 rate case proposing the subject market-based rates in addition to other rate and terms and conditions changes, including a rate increase with an increase in return on equity; a roll-in of costs associated with its 1998 and 2002 expansion projects; and revisions to its open season for expansion capacity and right of first refusal (ROFR) capacity provisions.

3. On July 31, 2006, the Commission issued an order accepting and suspending GTN's tariff sheets, to be effective January 1, 2007, subject to refund and conditions and the outcome of the hearing and technical conference established by the order.[1] The Commission established a hearing to explore issues including, but not limited to, the cost-of-service, cost allocation, and rate design for the existing services. The Commission also established a technical conference to explore, among other things, market-based rates for full-haul interruptible transportation.

[1] *Gas Transmission Northwest Corp.*, 116 FERC ¶ 61,109 (2006).

4. On September 26 and 27, 2006, the Commission staff convened the technical conference. On October 6, 2006, as a result of discussions in the technical conference, GTN filed supplemental information addressing its proposal for market-based rates. A number of parties filed protests to GTN's market-based IT rate proposal as well as adverse post-technical conference comments. Technical conference comments were filed on October 18, 2006. Attachment A to this order lists the commenters and those filing reply comments. The protests and comments are discussed below.

5. On December 21, 2006, the Commission issued an order following the technical conference.[2] The order addressed the tariff issues. It also set for hearing the issue of whether GTN properly implemented its 1996 rate case settlement with respect to the billing determinants for its FT rates, and all cost allocation issues related to the flexible services rates and risk sharing proposals.[3] This order addresses GTN's request for market-based rates.

II. <u>GTN's Proposal</u>

6. GTN asserts that, consistent with Commission policy[4] and Commission cases addressing market-based rates for transportation,[5] it proposes to charge market-based rates for its full-haul IT service from the International Boundary near Kingsgate, British Columbia, to Malin, Oregon at the California border delivery point. GTN states that its market power analysis concludes that GTN lacks market power over full-haul IT service from Kingsgate to Malin, and thus the Commission can appropriately approve GTN's request to charge market-based rates for such service. GTN states, however, that it is not filing for authority to charge market-based rates for IT services at any other delivery points on its system. GTN has determined that customers at other delivery points do not have the same quality of good alternatives available to them. GTN states that it will continue to provide all other IT services at a capped, cost-based IT tariff rate.

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[2] *Gas Transmission Northwest Corporation*, 117 FERC ¶ 61,315 (2006).

[3] The issues set for hearing in this proceeding are currently before the Presiding Administrative Law Judge.

[4] Alternatives to Traditional Cost-of-Service Ratemaking for Natural Gas Pipelines and Regulation of Negotiated Transportation Services of Natural Gas Pipelines, 74 FERC ¶ 61,076 (1996 Policy Statement).

[5] *Citing, KN Interstate Gas Transmission Co*., 76 FERC ¶ 61,134 (1996) (*KNI*); *Rendezvous Gas Services,* L.L.C., 112 FERC ¶ 61,141, at 61,792-94 pp. 26-40 (2005) (*Rendezvous*).

7. GTN asserts that the destination and origin markets in which GTN's full-haul IT services compete are sufficiently un-concentrated, with a low enough GTN market share, and with sufficient alternatives available to GTN's California IT customers, that the Commission can safely approve GTN's market-based rate application for full-haul IT service to California.[6] GTN states that in reaching this conclusion it has applied the criteria that the Commission has established for determining whether a natural gas pipeline's service qualifies for market-based rates.

8. GTN asserts that the relevant product is the provision of full-haul IT service on the GTN pipeline during peak and off-peak periods. GTN submits that the relevant geographic destination market for this service is northern California. GTN contends that alternatives to this service in the destination market include spot gas supplies made available by other holders of pipeline capacity on GTN and other pipelines serving northern California, IT service and released capacity on other pipelines serving northern California, released capacity on GTN, and spot gas sales from storage fields located in northern California.

9. GTN asserts that the relevant origin market for this service is the geographic area that includes the Western Canada Sedimentary Basin (WCSB). GTN contends that alternatives to its full-haul IT service out of the WCSB include the transportation services of other pipelines out of the WCSB, including IT service and capacity assigned by shippers on those pipelines in the secondary market, and storage injection services in Alberta.

10. GTN submits that the market concentration in the destination market as measured by the Herfindahl-Hirschman Index (HHI) statistic ranges from 1,052 to 1,091 (with a GTN market share of 12 to 18 percent) depending on assumptions concerning whether the capacity held by some shippers on a firm basis is committed to serve customers in Northern California on peak days. GTN states that these results are well below the HHI threshold of 1,800 that has been employed by the FERC (and other agencies) historically to define a highly concentrated market.

11. GTN asserts that market concentration in the origin market ranges conservatively from 1,514 to 1,690 (with a GTN/TransCanada market share of 25 to 36 percent) depending on whether one includes the available capacity on TransCanada's mainline to the east in the relevant market. GTN submits that in either case these concentration measures are below the 1,800 threshold for highly concentrated markets.

[6] *See* Testimony of Dr. Paul Carpenter.

III. Discussion

12. The 1996 Policy Statement states that the typical application for market-based rates will define the relevant geographic market first by identifying alternative sellers offering service over the same transportation path and second by identifying alternative services in the origin and destination markets.[7] Any application failing to support its claim that it lacks market power in even one of the three relevant markets (*i.e.*, the transportation path, the origin market, or the destination market) would be rejected by the Commission. In this case, GTN has failed to prove that it lacks market power in each of the three relevant markets.

13. After review of the record evidence and submissions of parties, the Commission finds that GTN has failed to demonstrate that it lacks market power in the Kingsgate to Malin path or the origin and destination markets. GTN's analyses of these markets rely heavily on unsubstantiated assertions. GTN has claimed that both storage capacity (and gas purchased from storage on the spot market) and capacity release could substitute and compete with its proposed market-based IT service in the origin and destination markets. However, GTN has failed to demonstrate the availability, deliverability, and economic viability of these alternatives to market-based IT service. GTN's assumption that 100 percent of firm capacity on GTN and competing pipelines would be available for release is not supported by GTN's own historical capacity release data. The Commission's analysis indicates that if any of GTN's unsupported assumptions are removed from the equation, market concentration in the origin and destination markets as measured by HHI rises to over 3,000, and GTN's market-share increases significantly, suggesting that GTN does in fact have market power. Finally, GTN has failed to provide an analysis of the transportation path alternatives available for short-haul shippers who could be adversely affected by market-based rates to California. Accordingly, the Commission rejects GTN's request for market-based rates for full-haul IT service.

A. Consistency with Commission Policy

14. The 1996 Policy Statement puts forth specific criteria that the Commission will consider in evaluating a request for market-based rates. The Commission's three-pronged approach is: 1) define the relevant markets; 2) measure a firm's market share and market concentration; and 3) evaluate other relevant factors.[8] The Commission finds that GTN's proposal fails in each of these three steps. First, the Commission disagrees with GTN's limitation of relevant markets to the origin and destination markets alone. As discussed further below, the Commission finds that a path analysis is an essential step in GTN's case. Second, the Commission finds that GTN has failed to support multiple

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[7] 74 FERC ¶ 61,076 at 61,233 (1996 Policy Statement).

[8] *Id.* at 61,230.

assumptions on which its origin and destination market statistics rely. Finally, the Commission finds that GTN has failed to provide additional evidence that would otherwise mitigate its market power over the provision of IT service.

15. The Commission agrees with protestors' assertions that the two cases that GTN cites where the Commission granted market-based rate authorization to pipelines are distinguishable from GTN's case. For example, CAPP argues that in *KNI*, the pipeline sought market-based rates for services in a supply area with numerous transportation alternatives. *KNI* had only a single firm transportation contract which accounted for an 18 percent market share, and as a result *KNI* engaged in heavy discounting of its interruptible service rates. In addition, as CAPP points out, GTN has failed to provide the type of pricing data provided in *KNI* demonstrating that it has been forced to heavily discount its interruptible transportation service in the past. CAPP goes on to state, "Even a cursory examination of GTN's recent history of Interruptible Transportation discounts shows that for the periods 8/19/2006 to 8/31/2006 and 9/1/2006 to 9/7/2006, long haul interruptible transportation service from Kingsgate to Malin could only be obtained at the maximum rate, which indicates a lack of available alternatives to the market for these periods."[9] GTN does not dispute CAPP on this point.

16. *Rendezvous* [10] is distinguishable, as well. In that case, the Commission determined that other market factors mitigated the risk of market power, despite an HHI of 2,062. The Commission reasoned that as a new, small (20.8 mile) entrant to a competitive market center *Rendezvous* would assume the position of a price taker and that any risk that *Rendezvous* would attempt to increase prices over an extended period of time would be mitigated by the low cost of market entry. This is in stark contrast with GTN, an existing, long-haul pipeline that uniquely connects a major supply area (Canada) with a major destination market (California), posing a high cost of entry.[11]

17. Also, a number of protestors have noted that the Commission's current policy requires that each application for market-based rates be sufficient to stand alone, without further inquiry or support.[12] In this proceeding the Commission provided GTN an additional opportunity to supplement the record through the technical conference and comment process. Despite having multiple opportunities to make its case, GTN has failed to provide evidence that supports its claim that it lacks market power.

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[9] CAPP Comments at 9 *citing KN Interstate Gas Transmission Company*, 76 FERC ¶ 61,134 (1996) (*KNI*).

[10] *Rendezvous Gas Services, L.L.C.*, 112 FERC ¶ 61,141 (*Rendezvous*).

[11] *Id*. at 10.

[12] *See Mississippi River Transmission Corp.*, 95 FERC ¶ 61,141 at 61,452.

B. Path Analysis

18. In the1996 Policy Statement, the Commission states that it expects the first step for typical proposals for market-based rates is to identify sellers offering service between the same origin and destination markets. While the Policy Statement clearly emphasizes the importance of parallel route competition for firm transportation, it was silent on other services such as interruptible transportation.

19. Several protestors assert that GTN's analysis fails to conform to the 1996 Policy Statement because it does not provide a path analysis for IT service. Protestors contend that the Policy Statement requires the Commission to analyze not only the origin and destination markets, but also the transportation path between those markets. Calpine asserts that because GTN has failed to complete the first stage of its transportation market analysis, the Commission is likewise unable to perform a market power analysis, precluding the Commission from determining that GTN lacks market power. Therefore, Calpine argues that GTN has failed to meet its burden of proof and consequently GTN's proposal for market-based IT rates should be summarily rejected.

20. CAPP asserts that a path analysis is particularly critical in GTN's case because of the risk of exposing short-haul shippers to monopoly pricing. CAPP claims that limiting market-based rates to full-haul IT service would not insulate customers at other receipt and delivery points on GTN from the exercise of market power and market pricing. In addition to concerns about short-haul shippers, protestors raise several problems faced by long-haul customers. The Indicated Shippers assert that PG&E is not the only destination market for GTN because GTN is the sole supplier to its affiliate, Tuscarora Gas Transmission Company, a small pipeline serving parts of Northern California and Nevada. In addition, the Indicated Shippers contend that PG&E must rely on GTN's capacity for a portion of its customer's needs because PG&E's total demand cannot be met by gas received at Topock and from gas produced within the State of California.

21. GTN countered that protestors have misinterpreted the Policy Statement with regard to whether or not a path analysis is a required component of a market power study. GTN cites the Policy Statement where the Commission describes a typical proposal for market-based rates as one that adopts an approach of first identifying sellers providing service between the same origin and destination market and second identifying sellers that offer services in either origin or destination markets.[13] GTN contends that the Policy Statement does not explicitly mandate that applicants follow a particular analysis, but rather merely implies what the typical process entails. GTN asserts that there are circumstances for which the first step may be necessary (*i.e.*, for firm services), however, the Commission does not explicitly require this step in order to obtain market-based rates. GTN argues that the parallel path analysis is unnecessary for interruptible services

[13] 1996 Policy Statement at 61,233.

because IT shippers are not captive customers. GTN asserts that, due to the interruptible nature of the service, shippers have no guarantee of receiving specific quantities of gas delivered from a specific receipt point to a specific delivery point during a specific period of time.

22. The Commission finds that, with respect to the in-path market from Kingsgate to Malin, GTN has failed to provide either a market power and concentration analysis or other mitigating evidence that it lacks market power over the path. In this case, a path analysis is needed to ensure that in-path shippers paying cost-based rates are not adversely affected by the new market-based rate proposal, and that all shippers, including in-path shippers, are not subject to the exercise of market power. GTN argues that the 1996 Policy Statement does not require it to provide a parallel path analysis and that, because GTN is not proposing market-based rates for in-path shippers, a path analysis is unnecessary. While the Policy Statement does not directly address unique criteria for evaluating applications for market-based IT rates, an analysis of GTN's transportation path is warranted in this case. The Commission is not persuaded by GTN's general assertion that path analysis is unnecessary for IT services because IT shippers are not captive customers. In its initial application, GTN explained that "…GTN is not filing for authority to charge market-based rates for IT services at any other delivery points on its system. After careful consideration GTN has determined that customers at these delivery points do not have the same quality of good alternatives available to them."[14]

23. The Commission finds that, contrary to GTN's assertions, market-based rates for full-haul services will impact service and rates over the entire pipeline. GTN concedes that the majority of shippers using non-full-haul points lack good alternatives. As protestors note, because the in-path IT shippers are subject to the highest destination market rate to obtain service, through the value test, they are therefore directly affected by the market-based proposal regardless of which point they take delivery at. Shippers paying market-based rates for full-haul service no longer have a mileage component to their rate structure and, if they deliver short of Malin, would be paying market-based rates for that in-path service. Accordingly, a significant change in pricing policy at the end of the pipeline surely affects the cost of transportation to points in between, especially since value is a consideration for obtaining service for short-haul shippers in the first place. GTN's failure to properly demonstrate that GTN lacks market power within-the-path constitutes a major deficiency in GTN's demonstration in support of market-based rates.

[14] Sullivan Affidavit at 16-17.

C. Origin and Destination Markets

24. In addition to defining the geographic limits of the relevant market, the Commission's 1996 Policy Statement requires applicants to list good alternatives to the service being analyzed.[15] In order to determine whether an alternative is "good" the applicant is required to evaluate it on the basis of availability, price, and quality. The Commission explains that a "good" alternative is one that is available soon enough, at a price that is low enough (*i.e.*, at or below the applicant's cost-based rate plus 10 percent), and with a quality that is at least as high as the service for which market-based rates are proposed.[16]

25. Numerous protesters contend that GTN's market power study is defective and should be rejected because GTN incorrectly defines the "good" alternatives to full-haul IT service on GTN in the origin and destination markets. In particular, Indicated Shippers and BP argue that storage field capacity (and spot sales from storage) should not be included as good alternatives in either the origin or the destination market because the use of storage still requires that transportation services be provided to move gas both in and out of storage. Other parties take issue with GTN's assumption that all firm capacity held on GTN and competing pipelines in the origin and destination markets is releasable and is supported by the actual historical release capacity data that GTN itself cites. Protestors also contend that GTN's comparison of interruptible service and capacity release ignores the fact that, under the Commission's current capacity release rules, shippers lack the ability to extract the same value from the market as GTN proposes to do with market-based rates.[17]

26. The Indicated Shippers further assert that GTN has failed to provide any analysis or evidence regarding the price of alternatives in the destination market. The Indicated Shippers' analysis shows that the cost of moving gas from the WCSB to PG&E ranges from an increase of 79 percent over GTN's proposed rates to 284 percent over GTN's current rates. The Indicated Shippers conclude that the interconnecting pipelines are not even "good" alternatives in terms of price. The Indicated Shippers further contend that the Commission should reject GTN's argument that the delivered price of gas from other pipelines to the destination market will mitigate GTN's market power. Because GTN could exercise market power up to the spread between basis differentials, the

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[15] 1996 Policy Statement at 22.

[16] 1996 Policy Statement at 25. The Commission does not impose a specific time requirement on the basis that different types of service would require different standards.

[17] The Commission issued a Request for Comments on January 3, 2007 in Docket Nos. RM06-21-000 and RM07-4-000 seeking comment on, among other things, the current cap on released capacity.

Commission should reject GTN's proposal as it did Koch's.[18] The Indicated Shippers similarly challenge GTN's contention that the question should be whether the pipeline could withhold capacity to increase the short-term market value of its IT capacity on a systematic basis. The Indicated Shippers argue that the appropriate question is whether the applicant could ever achieve a price increase greater than 10 percent of the applicant's maximum cost-based rate for the term of the transaction, whether short term or long term.[19]

27. CAPP also questions why, though GTN defines the relevant product as "the provision of interruptible transportation services on the GTN pipeline during peak and off-peak hours," GTN has failed to calculate separate statistics for peak and off-peak periods. CAPP contends that the distinction is necessary because usage and demand patterns can vary greatly by season. CAPP argues for example that during off-peak periods such as late spring, the availability of release capacity might be greater, but it also might be more concentrated. CAPP contends that storage injection capacity is also likely to vary greatly between peak and off-peak periods.

28. In GTN's supplemental comments it takes issue with the exclusion of gas storage as a good alternative in protestors' analyses. GTN disagrees with arguments that gas storage requires the additional cost of transportation to the buyer's receipt point. On the contrary, GTN explains that in the origin market, all storage facilities are connected to TransCanada's Alberta system at the Nova Inventory Transfer point where there is no additional fee for moving gas into or out of storage, while in the destination market, gas supplies can be transported from the PG&E, Lodi, and Wild Goose storage facilities to the PG&E Citygate at no additional cost. GTN asserts that storage is indeed a good substitute for transportation service precisely because it allows shippers an alternative in peak periods when the basis differential between the origin and destination market values is high. GTN points out that the Commission discussed the direct substitution of storage and transportation services in its most recent policy statement concerning gas storage.[20]

29. GTN also responds to protestors' allegations that it failed to address alternatives in the destination market on the basis of price. GTN states that BP's contention that the

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[18] Indicated Shippers' Reply Comments at 10, *citing Koch Gateway Pipeline Co*., 85 FERC ¶ 61,103 at 61,045-46, where the Commission, in determining whether differences in gas spot prices could limit a pipeline from exercising market power, determined that Koch could exercise market power any time the basis differential allowed Koch to charge a price greater than its long-run competitive transportation price.

[19] Indicated Shippers' Reply Comments at 10-11.

[20] Rate Regulation of Certain Natural Gas Storage Facilities, Order No. 678, 115 FERC ¶ 61,343 at P 26 (2006).

price correlations between PG&E Citygate, PG&E South, and Malin are insufficient proof that IT service on other pipelines is a good alternative in terms of price evidences BP's lack of understanding of how PG&E's system operates. GTN explains that the PG&E Citygate is the point where PG&E receives gas from its backbone system into its local distribution system. Prices at Malin and PG&E South, on the other hand, are for volumes entering the PG&E transmission system from GTN at Malin and from El Paso, Transwestern, Kern River, and Southern Trails in the south. GTN asserts that the observed differences in these prices simply reflect the value of PG&E's backbone transmission routes as gas is moved from Malin or PG&E South to PG&E Citygate. GTN notes that the data provided shows a high correlation between prices at all three locations, indicating that the transportation cost component of service on alternate pipelines which is implicit in the delivered gas price, is equivalent to the market-based value of IT service on GTN.

30. We address each of the protestors' claims and GTN's response, starting with the treatment of storage and capacity release as alternatives to full-haul IT service in the origin and destination markets. While the Commission cannot conclude that storage and uncommitted firm-capacity are never good alternatives to IT service, we find that GTN has failed to support its case that these potential alternatives satisfy the Commission's criteria for inclusion. Absent these two arguments, the GTN case in chief fails.

1. <u>Storage</u>

31. First, with respect to using origin market or destination market storage as an alternative, the Commission finds that, in the instant case there are multiple reasons why storage may not be a good alternative to IT service in either origin or destination markets. The three main reasons are availability, physical attributes and economics. GTN argues that storage is a good alternative to IT service because it is a short-term product similar to IT. In the origin market, GTN compares putting gas in storage with transporting gas when the price of transportation is too high to be viable. In the destination market GTN compares purchasing gas from storage on the spot market with buying transportation services. The Commission finds that, to address GTN's contention that market area storage is a good alternative to interruptible deliveries, the physical nature and the availability of the relevant storage must be analyzed. GTN has not provided information about the availability of spot sales from storage or future storage service availability.

32. Presently, storage capacity subscribed under firm service contracts limits its availability to support IT services, either directly or indirectly (capacity release). GTN has provided no evidence in this regard. Secondly, GTN has not produced evidence of the existence of spot market sales of natural gas from storage in its study. Such information would illustrate the liquidity of natural gas storage during peak and off-peak periods. Furthermore, GTN's destination market analysis includes various storage facilities in Northern California and Nevada, but GTN fails to discuss the engineering

aspects of the fields as to whether any of these facilities operate on a traditional one year injection/withdrawal cycle. Where traditional one year cycles are employed, storage gas may not be an available alternative to meet off-season demand (*e.g.* electric generation) when IT sales are needed. Additionally, GTN fails to address the availability of capacity on the PG&E system which would be required to transport the gas from storage to market.

33. In the origin market, putting gas in storage as opposed to buying transportation service is effectively arguing producers should keep their gas out of the market. Again GTN supplies no evidence on availability or operational characteristics to support its argument.

34. GTN's argument also fails to address whether storage is a good alternative on the basis of price. The 1996 Policy Statement illustrates the inextricable link between competition in primary markets and the resulting availability and price of a product in the secondary market. GTN argues that transportation costs are irrelevant in both the origin and destination market because transportation from the Nova Inventory Transfer point to storage facilities in the origin market and from the storage facilities to PG&E Citygate in the destination market is provided at no additional cost. While there may be no additional cost to transport gas from the supply basin to storage facilities in the origin market, GTN does not address the cost of leasing storage capacity and its impact on the total costs for shippers to get gas to market. In the destination market, GTN states that transportation from the PG&E, Wild Goose, and Lodi storage facilities to the PG&E Citygate is provided at no cost and therefore GTN assumes that no additional transportation costs exist. However, this argument does not address the potential costs of moving spot purchases from storage to delivery points not connected to PG&E's local distribution system. Furthermore, contrary to GTN's assertions, it is unrealistic to assume that the exercise of market power on transportation service to the destination market would have no effect on the price of spot purchases from storage which depends on transportation service. In order to demonstrate that storage is in fact a substitute for IT transportation, and not dependent on IT transportation, an applicant would need to provide evidence addressing the price and availability of storage capacity or spot sales from storage (depending on the market) and cycling capabilities.

2. <u>Capacity Release</u>

35. With respect to capacity release, numerous protestors take issue with GTN's assumption that 100 percent of firm capacity not held by an LDC or industrial end-user is available for either capacity release or short-term secondary market sales. Protestors contend that GTN's analysis should have utilized the test-period release data as its upper bounds for capacity to be included as an alternative to full-haul IT service. GTN argues that to limit the amount of capacity considered available as protestors suggest would ignore good alternatives such as short-term spot purchases. The Commission finds that

records of actual capacity release in peak and off-peak periods while being a more conservative estimate of activity, may be a more reasonable assumption than treating all firm capacity as releasable/resalable. GTN has provided no evidence on the reasonableness of its assumptions. While GTN may be correct that some spot market sales of firm capacity may be available in some increment in off-peak periods, the pipeline bears the responsibility to fully demonstrate the alternatives will be available during peak periods as well.

3. Other Issues

36. The Commission also finds that, as Indicated Shippers point out, GTN has failed to provide sufficient information about the price of alternatives in the destination market. GTN argues that the pricing policy set out in the Policy Statement is inapplicable and misapplied when examining interruptible transportation services. The price standard, as set out by the Policy Statement, defines a good alternative as one that should be valued at no more than 10 percent above the applicant's maximum cost-based rate. The Commission agrees with the interveners that GTN has attempted to re-write and expand the Policy Statement. GTN argues that the relevant question should be whether GTN could withhold capacity to increase the short-term market value of its capacity on a systemic basis, thereby increasing the market-based rate, and whether the pipeline could sustain an increase in the market value of its IT service by more than 10 percent. However, the Commission finds that this argument is not consistent with the current Policy Statement and that the price correlation data provided by GTN does not provide any evidence as to whether the destination market alternatives GTN has identified meet the Policy Statement's standard. Therefore, because GTN has not supported its claim with specific data, the Commission finds that GTN has failed to justify the inclusion of these alternatives on the basis of price.

37. For all of the above reasons we find GTN has not met its burden to demonstrate with actual data that it lacks market power and that its proposal will not adversely affect IT customers.

D. Conclusion

38. In light of the potential for exposure to market power, the Commission hereby rejects GTN's proposal for market-based rates. The Commission requires that each application for market-based rates be sufficient to stand alone, without further inquiry or support.[21] GTN's filing fails to meet this standard in multiple respects. In this regard we note that Commission staff convened a technical conference to discuss issues raised by this proposal. All parties, including the pipeline, were provided an opportunity to supplement the record and yet the record lacks supporting data. Furthermore, GTN's

[21] *See Mississippi River Transmission Corp.* at 61,452.

analyses of the origin and destination markets are weak for numerous reasons, as discussed above. The Commission finds that GTN has failed to demonstrate the reasonableness of storage as a good alternative. GTN has also failed to support its assumption that all firm capacity not held by LDC or industrial end users is releasable (a claim that seems improbable considering the actual historical release data GTN provides) and available as an alternative. The Commission also finds protestors' arguments regarding the potential impact of market-based rates on other in-the-path interruptible shippers convincing as GTN has failed to demonstrate that it lacks market power over all points within the Kingsgate to Malin path. In fact, GTN's own testimony suggests that it has market power over the provision of interruptible service between Kingsgate and Malin. Accordingly, the Commission cannot find that GTN lacks market power. Last, we note that currently GTN's cost allocation and seasonal rate proposals are in hearing. The Commission will respond to any issues on these matters at such time as they are before us in entirety.

The Commission orders:

GTN's request for approval of market-based rates for full-haul interruptible transportation is rejected.

By the Commission.

(S E A L)

Kimberly D. Bose,
Secretary.

Comments filed by:
GTN
PPM Energy, Inc. (PPM)
Avista Corporation (Avista)
The City of Redding, California (Redding)
Public Utilities Commission of the State of California (CPUC)
Pacific Gas and Electric Company (PG&E)
United States Gypsum Company (Gypsum)
Northern California Power Agency (Northern California)
Turlock Irrigation District (Turlock)
BP Canada Energy Marketing Corp and IGI Resources, Inc. (collectively, BP)
EnCana Marketing (USA) Inc., Nexen Marketing U.S.A. Inc., Petro-Canada Hydrocarbons Inc., and Tenaska Marketing Ventures (collectively, Canadian Suppliers)
Calpine Energy Services, L.P. (Calpine)
Sierra Pacific Power Company (Sierra)
San Diego Gas & Electric Company (San Diego)
Puget Sound Energy, Inc. (Puget)
Indicated Shippers[22]
Northwest Natural Gas Company (Northwest Natural)
City of Klamath Falls, Oregon (Klamath)
Canadian Association of Petroleum Producers (CAPP)
Northwest Industrial Gas Users (Northwest Industrials).

Reply comments were filed on October 27, 2006 by:
GTN
PPM
Avista
CPUC
PG&E
Indicated Shippers
Canadian Suppliers
Sierra
San Diego
BP
CAPP
Northwest Natural

[22] Indicated Shippers include Anadarko Energy Services Company, Chevron U.S.A. Inc., Conoco Phillips Company, and Coral Energy Resources, L.P.