UNITED STATES OF AMERICA
BEFORE FEDERAL TRADE COMMISSION

In the matter of **El Paso Energy Corporation**, a corporation, and **PG&E Corporation**, a corporation.	**Docket No. _____**

COMPLAINT

Pursuant to the provisions of the Federal Trade Commission Act and the Clayton Act, and by virtue of the authority vested in it by said Acts, the Federal Trade Commission ("FTC" or "Commission"), having reason to believe that Respondent El Paso Energy Corporation (“El Paso”), a corporation, and PG&E Corporation ("PG&E”), a corporation, have entered into a stock purchase agreement whereby El Paso proposes to acquire all voting securities of PG&E Gas Transmission Teco, Inc. and PG&E Gas Transmission Texas Corp., that such agreement violates Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45, and that such agreement, if consummated, would violate Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18, and Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45, and it appearing to the Commission that a proceeding in respect thereof would be in the public interest, hereby issues its complaint, stating its charges as follows:

I. RESPONDENTS

<u>El Paso</u>

1. Respondent El Paso is a corporation organized, existing, and doing business under and by virtue of the laws of the State of Delaware, with its office and principal place of business at 1001 Louisiana Street, El Paso Energy Building, Houston, Texas 77002.

2. Respondent El Paso is, and at all times relevant herein has been, engaged in, among other things, the exploration, production, transportation and sales of natural gas in the State of Texas and elsewhere.

3. Respondent El Paso had total revenues of $10.6 billion in 1999.

PG&E

4. Respondent PG&E is a corporation organized, existing, and doing business under and by virtue of the laws of the State of California, with its office and principal place of business at One Market Square, Spear Tower, Suite 2400, San Francisco, California 94105.

5. Respondent PG&E is, and at all times relevant herein has been, engaged in, among other things, the exploration, production, transportation and sales of natural gas in the State of Texas and elsewhere.

6. Respondent PG&E had total revenues of $20.8 billion in 1999.

7. Respondents El Paso and PG&E are, and at all times relevant herein have been, engaged in commerce, as "commerce" is defined in Section 1 of the Clayton Act, as amended, 15 U.S.C. § 12, and are corporations whose business is in or affects commerce, as "commerce" is defined in Section 4 of the FTC Act, as amended, 15 U.S.C. § 44.

II. THE ACQUISITION

8. Respondent El Paso entered into a stock purchase agreement whereby El Paso proposes to acquire all the voting securities of PG&E Gas Transmission Teco, Inc., and PG&E Gas Transmission Texas Corp., dated January 27, 2000, for $840 million, including the assumption of $561 million of debt (the "Acquisition").

III. TRADE AND COMMERCE

9. A relevant line of commerce in which to analyze the effects of the Acquisition is the pipeline transportation of natural gas. The only way to economically ship natural gas over significant distances is through large diameter high pressure pipelines. Buyers of natural gas must use these pipelines to transport gas from producing to consuming areas. No other economic way exists to transport commercial quantities of natural gas.

Permian Basin

10. A section of the country in which to analyze the effects of the Acquisition is the prolific natural gas production area located in southwestern Texas and southeastern New Mexico known as the Permian Basin.

11. Consumption of natural gas in the Permian Basin is well below natural gas production levels. Most production is transported to consuming areas in eastern Texas and California on natural gas pipelines.

12. Permian Basin natural gas producers either contract directly with natural gas consumers or sell the gas to marketers who resell the natural gas. Neither the producers nor marketers of Permian Basin gas have an economic alternative to using the natural gas pipelines located in the Permian Basin to deliver gas to users. The producing area of the Permian Basin is therefore a relevant section of the country.

13. El Paso, through its subsidiaries, owns two pipeline systems that transport natural gas out of the Permian Basin. One pipeline transports natural gas to California and other western states. The other, the Oasis pipeline, is a pipeline transporting natural gas from the Permian Basin through the central part of Texas to the Houston area. El Paso controls significant aspects of the Oasis pipeline business.

14. PG&E, through its subsidiaries, owns an interest in two pipeline systems that transport natural gas from the Permian Basin. One pipeline system transports natural gas across Texas to the Dallas area. Another pipeline system transports gas to the Houston area.

15. Together Respondents own or control a significant share of all the pipeline capacity from the Permian Basin. Respondents own or control most of the pipeline capacity to the areas in and around San Antonio and Austin, Texas.

16. El Paso and PG&E are actual and direct competitors in the Permian Basin. Competition between the El Paso and PG&E pipeline systems has resulted in significant competition in the transportation of natural gas from the Permian Basin area.

17. There are substantial barriers to entering this market. Building additional pipelines out of the Permian Basin would be expensive, would take more than two years, and would not prevent Respondents from being able to maintain a price increase over pre-Acquisition levels.

Central Texas

18. A section of the country in which to analyze the effects of the Acquisition is the natural gas consuming area in or around the metropolitan areas of San Antonio and Austin, Texas (“Central Texas”).

19. The major buyers of natural gas in Central Texas include local gas and electric public utilities and merchant power producers. These entities consume large quantities of natural gas to resell or use as fuel to generate electricity.

20. Natural gas consumption in Central Texas is well above natural gas production levels. Almost all natural gas consumed in Central Texas must be delivered by natural gas pipelines.

21. Natural gas consumers can only receive natural gas from those pipelines that travel through Central Texas. Natural gas buyers in Central Texas have no effective alternative to natural gas pipeline transportation within that area. A relevant line of commerce in which to analyze the effects of the Acquisition is therefore the pipeline transportation of natural gas into Central Texas.

22. El Paso's Oasis pipeline transports natural gas into Central Texas. The Oasis Pipeline is one of the major suppliers of natural gas to Central Texas.

23. PG&E owns a pipeline system that transports natural gas into Central Texas. PG&E's system is also a major supplier of natural gas to Central Texas.

24. Together Respondents own or control a significant share of all the pipeline capacity into Central Texas. For some natural gas buyers, Respondent's pipeline systems are the only two alternatives.

25. El Paso and PG&E are actual and direct competitors in Central Texas. Competition between the El Paso and PG&E pipeline systems has resulted in significant competition to transport natural gas to Central Texas.

26. There are substantial barriers to entering this market. Building additional pipelines to natural gas production areas or pipelines outside the geographic market would be expensive, would take more than two years, and would not prevent Respondents from being able to maintain a price increase over pre-Acquisition levels.

<u>Matagorda Offshore Production Area</u>

27. A section of the country in which to analyze the effects of the Acquisition is the natural gas production area located in Texas waters in the Gulf of Mexico known as Matagorda Offshore Production Area ("Matagorda"). This section includes, but is not limited to, Blocks 487, 518, and 519 as designated by the United States Mineral Management Service.

28. Consumption of natural gas in Matagorda is well below natural gas production levels. Most production is transported to consuming areas on shore.

29. Matagorda natural gas producers either contract directly with natural gas consumers or sell the natural gas to marketers who resell it. Neither producers nor marketers of Matagorda gas have an economic alternative to using natural gas pipelines located in Matagorda to deliver gas to users. The producing area of Matagorda is therefore a relevant section of the country.

30. Respondents own the only two pipelines transporting natural gas from Matagorda.

31. El Paso and PG&E are actual and direct competitors in Matagorda. Competition between the El Paso and PG&E pipeline systems has resulted in significant competition to transport natural gas from Matagorda.

32. There are substantial barriers to entering this market. Building additional pipelines out of Matagorda would be cost prohibitive, and would not prevent Respondents from being able to maintain a price increase over pre-Acquisition levels.

COUNT I:
LOSS OF COMPETITION IN THE PERMIAN BASIN

33. Paragraphs 1 - 32 are incorporated by reference as if fully set forth herein.

34. The relevant product market in which it is appropriate to assess the effect of the Acquisition is natural gas transportation.

35. The relevant geographic market in which it is appropriate to assess the effect of the Acquisition is the Permian Basin.

36. The relevant market is highly concentrated and the Acquisition, if consummated, will substantially increase that concentration.

37. Entry into the relevant market would not be timely, likely, or sufficient to prevent anticompetitive effects.

38. The Acquisition will eliminate actual and direct competition between Respondents, with the likely results of raising rates and reducing output of transportation in the relevant market, and diminishing production of natural gas the Permian Basin.

COUNT II:
LOSS OF COMPETITION IN CENTRAL TEXAS

39. Paragraphs 1 - 32 are incorporated by reference as if fully set forth herein.

40. The relevant product market in which it is appropriate to assess the effect of the Acquisition is natural gas transportation.

41. The relevant geographic market in which it is appropriate to assess the effect of the Acquisition is Central Texas.

42. The relevant market is highly concentrated and the Acquisition, if consummated, will substantially increase that concentration.

43. Entry into the relevant market would not be timely, likely, or sufficient to prevent anticompetitive effects.

44. The Acquisition will eliminate actual and direct competition between Respondents, with the likely results of raising rates and reducing output of natural gas transportation, and thereby increasing the cost of electricity.

COUNT III: LOSS OF COMPETITION IN MATAGORDA

45. Paragraphs 1 - 32 are incorporated by reference as if fully set forth herein.

46. The relevant product market in which it is appropriate to assess the effect of the Acquisition is natural gas transportation.

47. The relevant geographic market in which it is appropriate to assess the effect of the Acquisition is Matagorda.

48. The relevant market is highly concentrated and the Acquisition, if consummated, will substantially increase that concentration.

49. Entry into the relevant market would not be timely, likely, or sufficient to prevent anticompetitive effects.

50. The Acquisition will eliminate actual and direct competition between Respondents with the likely results of raising rates and reducing output of transportation in the relevant market, and diminishing production of natural gas in Matagorda.

IV. VIOLATIONS CHARGED

51. The stock purchase agreement entered into by Respondents El Paso and PG&E constitutes a violation of Section 5 of the FTC Act, as amended, 15 U.S.C. § 45.

52. The Acquisition, if consummated, would violate Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18, and Section 5 of the FTC Act, as amended, 15 U.S.C. § 45.

IN WITNESS WHEREOF, the Federal Trade Commission, having caused this Complaint to be signed by the Secretary and its official seal affixed, at Washington, D.C., this _ ________ day of ________________________, 2000, issues its Complaint against Respondents.

By the Commission.

SEAL:

Donald S. Clark
Secretary