Exhibit No. ___(GEM-1)

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Maritimes & Northeast Pipeline, L.L.C.	§ § §	Docket No. RP04-___-000

PREPARED DIRECT TESTIMONY OF
GREGG E. MCBRIDE
ON BEHALF OF
MARITIMES & NORTHEAST PIPELINE, L.L.C.

Q. 1 Please state your full name, title, and current place of employment.

A. My name is Gregg E. McBride, and I am Vice President of Rates and Economic Analysis for Duke Energy Gas Transmission Corporation ("DEGT"). DEGT's home office is located at 5400 Westheimer Court, Houston, Texas 77056. Since M&N Management Company, the Managing Member of Maritimes & Northeast Pipeline, L.L.C. ("Maritimes"), has only a limited number of employees, many of Maritimes' administrative functions are supported by DEGT employees. In that capacity, I oversee the preparation of many of the various rate and tariff filings that Maritimes files with the Federal Energy Regulatory Commission ("FERC" or "Commission").

Q. 2 Please briefly summarize your educational and professional background.

A. I received a Bachelor of Science degree in Accounting from Eastern Illinois University in Charleston, Illinois, in 1978. I have been employed with Duke Energy Corporation and its predecessor corporations, PanEnergy Corp and Panhandle Eastern Corp., since January 1979. For over 16 of those years, I have held positions in the Regulatory Affairs Department of those corporations' respective natural gas pipeline companies. In addition, I have held positions of responsibility in the Investor Relations, Marketing, and Capacity Management departments of those corporations.

As part of my current responsibilities, I oversee the preparation of various rate and tariff filings that the DEGT companies file with the Commission. My responsibilities also include the preparation of economic analyses for various projects on Maritimes' behalf.

Q. 3 On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of Maritimes.

Q. 4 Have you previously testified before the Federal Energy Regulatory Commission?

A. I have presented testimony for the pipeline companies of DEGT and its predecessors in numerous proceedings before the Commission.

Q. 5 What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to explain and support the cost allocation and rate design methodologies utilized to develop the rates proposed by Maritimes in this proceeding, as shown in Statements I and J (and supporting schedules), and as set forth on the revised sheets filed herein, as part of Maritimes' FERC Gas Tariff, First Revised Volume No. 1 ("Tariff"). The specific allocation and rate design methodologies, which I will discuss later in my testimony, follow Maritimes' established practices. In addition, I explain and provide support for the proposed Tariff changes.

Q. 6 What statements, schedules, or exhibits are you sponsoring in conjunction with your direct testimony?

A. I am sponsoring the following statements and schedules: Functionalization of Cost of Service (Schedule I-1); Overall Cost of Service by Function (Schedule

I-1(a)); Cost of Service by Facility (Schedule I-1(b)); Zone Operational and Maintenance Expense (Schedule I-1(c)); Basis of Allocation of Common Costs to Function (Schedule I-1(d)); Classification of Cost of Service (Schedule I-2); Allocation of Cost of Service (Schedule I-3); Transmission and Compression of Gas by Others (Schedule I-4); Comparison and Reconciliation of Estimated Operating Revenues with Cost of Service (Statement J); Summary of Billing Determinants (Schedule J-1) (co-sponsoring with Mr. William C. Penney, Jr.); and Derivation of Rates (Schedule J-2).

Q. 7 Were these exhibits prepared by you or under your direction or supervision?

A. Yes, all of these statements and schedules were prepared under my direction and supervision.

COST ALLOCATION

Q. 8 Please explain generally the overall process utilized by Maritimes to allocate costs to individual services.

A. After obtaining plant, operation and maintenance ("O&M") and administrative and general ("A&G") costs from Maritimes' books and records, these costs are functionalized, classified, and allocated to individual services. Cost functionalization consists of identifying all costs assignable to the transmission function, which for Maritimes is all of its costs. These transmission function costs are then classified as fixed or variable. Finally, these fixed and variable transmission function costs are allocated to individual services. Ms. Sabra L. Harrington, the Vice President, Controller and Treasurer for M&N Management Company provided me with the data reflected in the statements and schedules for plant costs and expenses. As verified by Ms. Harrington, the base period data included in this filing reflects the results in Maritimes' books and records.

Q. 9 Please identify the cost classification and allocation methodologies utilized by Maritimes in this proceeding.

A. Maritimes' cost of service has been classified and allocated using the Straight Fixed-Variable ("SFV") methodology, which is consistent with Maritimes' current cost classification and allocation methodology utilized in deriving its initial rates in its certificate proceeding in Docket Nos. CP96-809, *et al.* Maritimes continued to use this methodology for the rates established in its December 20, 2002 settlement of the Docket No. RP02-134, *et al.* proceeding ("Settlement"). The SFV methodology assigns fixed costs, including return on equity and related income taxes, to the reservation component and variable costs to the usage component. As approved by the Commission for Maritimes' initial rates and in the Settlement, Maritimes has developed rates for all firm services that assign 100 percent of the costs to the reservation component.

With respect to Maritimes' rates for incrementally priced laterals, the methodology employed by Maritimes for assigning O&M costs to these laterals is one (1) percent of gross plant, and these percentages are set out in Schedule I-1(d). This methodology is consistent with the methodology that Maritimes utilized in establishing the initial rates for the Newington, Westbrook, and Bucksport Laterals. Maritimes is assigning O&M costs to the Veazie Lateral also using one (1) percent of gross plant which is a change from the current rates where Maritimes utilized 1.3 percent of gross plant.

All other cost of service items for the incrementally priced laterals are determined on a direct cost basis. In other words, ad valorem taxes are based on current assessments; tax rates, depreciation, and return are calculated based on Commission-approved rates; and income taxes are based on currently effective state and federal income tax rates. The Settlement did not reset the rates for the incrementally priced laterals; the parties mutually agreed that the existing rates for the incrementally priced laterals would be left in place. An overall summary of how the various cost of service items have been allocated between Maritimes' mainline and lateral facilities is set out in Schedule I-2.

Q. 10 Have you provided statements and schedules which detail the process described above?

A. Yes. The Commission's regulations require a natural gas pipeline filing to change its rates to summarize the classification and allocation of its costs through Schedules I-1, I-1(a), I-1(b), I-1(c), I-1(d), I-2, I-3, I-4, and I-5. I have provided all of these schedules, except for Schedule I-5, which is sponsored by Mr. Joe A. Payne.

Q. 11 Please describe Schedule I-1.

A. Schedule I-1 shows the functionalization of the overall cost of service provided on Statement A, a statement sponsored by Mr. David S. Abbott. Since the Maritimes system consists solely of transmission facilities, the overall cost of service for Maritimes is assignable to its transmission function.

Q. 12 Please describe Schedule I-1(b).

A. Schedule I-1(b) takes the information from Statements C through H-4, which are sponsored by Mr. Abbott, and spreads those amounts between the mainline facilities and Maritimes' four incrementally priced laterals using the allocation factors calculated in Schedule I-1(d).

Q. 13 Please describe Schedule I-1(c).

A. Schedule I-1(c), which is entitled "Zone Operational and Maintenance Expense," does not contain any data since Maritimes does not employ zone rates.

Q. 14 Please explain the contents of Schedule I-1(d).

A. Schedule I-1(d) shows the calculation of the allocation factors used in Schedule I-1(b) under the column heading "O&M Allocation Factor No." These factors are used to allocate common expenses between the mainline and Maritimes' four incrementally-priced laterals.

Q. 15 Please explain Schedule I-2.

A. Schedule I-2 shows the classification of the various cost of service items utilizing the SFV methodology. Cost classifications for the overall cost of service are broken down between fixed and variable costs, and reservation and usage costs on Page 1. Pages 2 through 6 show the cost classifications for Maritimes' mainline facilities and its four incrementally-priced laterals separately. Page 7 shows the SFV percentages for the various cost of service line items, and Page 8 is a summary breakdown of the classified costs for the mainline facilities and the four incrementally-priced laterals.

Q. 16 Please explain Schedule I-3.

A. The Commission's regulations require that this schedule include (i) an allocation between direct sales services, (ii) an allocation between cost-of-service rates and market-based rates for products extraction, sales, and company-owned production, and (iii) an allocation of costs by function among rate zones.

Maritimes has provided no data on this schedule because none of the aforementioned items applies to Maritimes.

Q. 17 Please explain Schedule I-4.

A. This schedule does not contain any data because Maritimes does not currently have any Account 858 arrangements in place.

Q. 18 Has Maritimes allocated costs to interruptible services?

A. Maritimes has allocated approximately $8 million to interruptible services in this case. The interruptible "pool" of services covered by the $8 million allocation includes service under Rate Schedules MNIT, MNOP, MNPAL and MNTTT. As part of the Tariff changes that I will discuss later in my testimony, Maritimes is proposing to remove the interruptible sharing mechanism from its Tariff.

RATE DESIGN

Q. 19 Please explain generally the process utilized by Maritimes to develop its proposed rates in this proceeding.

A. Costs identified as mainline costs are allocated between firm and interruptible services, as shown on Schedule J-2, Page 1, based on volume determinants, as determined in Schedule J-1. Costs that have been calculated for each of the incrementally priced laterals are assigned to those lateral services.

Q. 20 Please describe Schedule J-1.

A. Schedule J-1 shows a comparison of the billing determinants used in Schedule G-2 to the rate design determinants used in Schedule J-2.

Q. 21 Please explain the rate design for firm services on Schedule J-2 used by Maritimes in this proceeding.

A. Maritimes has developed one-part reservation rates for all of its firm services in this proceeding. With respect to mainline services, Maritimes proposes to continue using its postage-stamp rate design. To determine these mainline rates, as well as the rates for Maritimes' incremental laterals, Maritimes has divided the cost of service, as reflected on Statement I-2, Page 8, by annual volume determinants utilizing the contract numbers for those services with the exception of the Westbrook Lateral. For the Westbrook Lateral, Maritimes has taken the actual deliveries during the base period to the Granite State Gas Transmission, Inc. meter (#30005) and divided that number by 365 to determine the average daily delivery of gas through that meter of approximately 8,000 dekatherms ("Dth") per day. On Schedule J-2, Page 2 of 2, Maritimes presents the formulas for deriving rates for its Rate Schedule MN151, MN90, and MNOP services. There are no contracts for these services, and the rates are derived from the Rate Schedule MN365 service.

Statement J is a comparison of the revenues from Schedule G-2 versus the cost of service that has been allocated and summarized on Schedule J-2, Page 1. As noted above, the mainline cost of service from Schedule I-2, Page 8, is allocated to individual services on Schedule J-2, Page 1. As can be seen on Statement J, Line 12, the rates derived on Schedule J-2, Page 1, collect the cost of service within $217.

Q. 22 You stated that Maritimes has derived its mainline rates utilizing its historical postage-stamp rate design. Does the postage-stamp rate recover costs associated with service on Phase III?

A. Yes, it does.

Q. 23 Why have you proposed this rate design for recovery of the Phase III costs?

A. Rolling the costs of Phase III into the postage-stamp rate is appropriate because this is not a single-purpose lateral. This is an extension of the mainline. The service associated with deliveries into Algonquin at the interconnection between Phase III and Algonquin's system in Beverly is the same service as the one Maritimes provides for deliveries into Tennessee at Dracut. In short, the long-term firm shippers can go back and forth between the Beverly and Dracut interconnections, and the shippers are the same to both points. The benefits to Maritimes' system, and in particular to its existing shippers, are demonstrated in detail in the testimony provided by Mr. William C. Penney, Jr., Mr. Christopher T. Ditzel, Mr. John J. Reed, and Dr. William B. Tye in this proceeding.

Q. 24 Please explain the derivation of rates for the Rate Schedule MNPAL and MNTTT services.

A. The Rate Schedule MNPAL service (parking and lending service) has been priced at the Rate Schedule MNIT rate as it currently is in Maritimes' Tariff. There have been no nominations made under the Rate Schedule MNPAL service since it was added to the Tariff on July 1, 2003.

Maritimes has proposed the same rate for the Rate Schedule MNTTT service (title transfer tracking service) as the rate that is currently in Maritimes' Tariff. Maritimes is not proposing to allocate costs to this service as there have been no executed contracts under this rate schedule since it was added to the Tariff on November 1, 2002.

As part of the Tariff changes that are detailed below, Maritimes is proposing to remove the interruptible revenue sharing mechanism. As noted earlier, Maritimes has allocated approximately $8 million to interruptible services in this case.

PROPOSED TARIFF CHANGES

Q. 25 Please describe the Tariff changes which Maritimes is proposing with this filing.

A. Generally, Maritimes is proposing to revise its fuel tracker to change the number of calendar periods with different retainage percentages and to reflect a "cash transaction" approach, to add procedures for bidding on capacity that is subject to a right of first refusal ("ROFR"), to change the park and loan service offered pursuant to Rate Schedule MNPAL to make it more flexible to customer needs and coordinate certain aspects of the service to make it more compatible with the other DEGT pipelines, to change the operational flow order ("OFO") provision to add action alerts in order to make Maritimes' OFO provision consistent with other DEGT pipelines, and finally, to eliminate the revenue sharing mechanism for its off-peak firm and interruptible services.

Q. 26 Please describe the revision to the fuel tracker.

A. Under Section 20 of Maritimes' General Terms and Conditions ("GT&C"), Fuel Retainage Quantity ("FRQ"), Maritimes tracks changes in its expenditures for quantities of fuel and company use gas used to provide service for customers in order to match the actual requirements for company use gas with the actual compensation furnished by customers. In addition, Section 20 provides for the resolution of the actual net proceeds from Maritimes' cashout provision. Maritimes' compensation for fuel use is on an in-kind basis each month for projected fuel use requirements with a monetary basis makeup provision to reconcile differences between actual fuel use and actual in-kind retention each month.

The only change Maritimes proposes in the in-kind retention procedure is to reduce from four to two the number of specified calendar periods for calculating a separate in-kind retention rate or Fuel Retainage Percentage ("FRP"). Maritimes proposes no change to the Winter Period (November 1 through March 31), but proposes to combine the other three periods, Spring Shoulder (April 1 through May 31), Summer (June 1 through August 31), and Fall Shoulder (September 1 through October 31), into a single specified period, designated as the Non-Winter Period. Maritimes proposes this change because there has been no significant difference in the fuel use and associated retention rates during the three historical Non-Winter Periods on Maritimes, and customers have expressed a desire to reduce the number of times that FRP factors change by season.

Q. 27 What changes does Maritimes propose to implement a "cash transaction" approach for the fuel tracker?

A. Under the monetary makeup in Section 20, Maritimes records to the FRQ Deferred Account a net monetary value each month which represents (1) the difference between the actual fuel use requirement for the month and the actual retention quantity provided by customers for the month, and (2) the net resolution of the cashout provision for the month. The process of valuation of these net gas quantities is based upon the Commission-prescribed methodology set forth in *Mid Louisiana Gas Company*, 34 FERC ¶ 61,051 (1986), which the Commission established in connection with the historical, and now defunct, pipeline purchased gas adjustment provision. Under this methodology, valuations are based upon "deemed" purchases or sales of gas to represent the valuation of net quantities of gas on the system.

Maritimes proposes to utilize the "cash basis" method, which is used by Texas Eastern Transmission, LP ("TETLP"), whereby the amounts recorded to the deferred account representing the resolution of net gas differences are primarily the cash transactions which actually take place, such as the actual cash cost of purchased quantities of gas to replace shortages of gas and the actual cash proceeds from the sale of excess quantities of gas from the in-kind fuel retention process or the cashout provision.

Q. 28 Why is Maritimes proposing this change to the fuel tracker?

A. Maritimes believes that the cash basis provision is simpler to administer, more directly related to actual activity, easier to understand and subject to less misinterpretation by its customers, the Commission and the Commission Staff.

Q. 29 What change is Maritimes proposing regarding the ROFR?

A. Maritimes is proposing to change Section 4.2 of its GT&C in order to establish procedures for allocating capacity that is subject to the ROFR. Proposed Section 4.2 provides the timeline for (i) the bidding process for capacity that may become available due to the termination of an existing firm service agreement, and (ii) the original shipper to match bids if the original shipper exercises its ROFR.

New Section 4.2 also provides additional detail regarding a firm shipper's ROFR rights. Specifically, new Section 4.2 provides that a shipper with a ROFR may retain its capacity if it matches the best bid submitted by another shipper and accepted by Maritimes, and Maritimes does not have to accept bids at rates below a rate it specifies at the beginning of the bidding process. Maritimes will determine the best bid using a net present value analysis. If Maritimes does not accept any bids, a shipper with a ROFR may retain its capacity if it agrees to pay the maximum rate, or another agreed upon rate so long as it is not below a bid that was rejected for being below the specified rate. Finally, consistent with Commission policy, new Section 4.2 makes it clear that the ROFR right applies to the allocation of capacity associated with firm service agreement terminations by either the shipper or Maritimes and to capacity associated with volumetric reductions.

Q. 30 Why is Maritimes proposing this change?

A. The proposed revisions to the ROFR section eliminate inconsistencies between Maritimes' Tariff and the Commission's current policies regarding ROFR rights. The proposed revisions also clarify the extent of a firm shipper's ROFR rights and provide a reasonable timeline for conducting the bidding and matching process.

Q. 31 Please describe the revision to the park and loan service.

A. Maritimes is proposing some administrative changes which do not affect the operation or utilization of this service by customers, or the rights and obligations of the parties to any Rate Schedule MNPAL service agreement, but simply conform the MNPAL Rate Schedule and Form of Service Agreement to the similar park and loan service offered by TETLP and Algonquin which are operated, along with Maritimes, by DEGT. The proposed changes to Rate Schedule MNPAL involve the rearrangement of certain existing provisions within the Rate Schedule to (i) reflect that certain information related to the park or loan transaction will be reflected in the Exhibit(s) A to the Service Agreement rather than in the Service Agreement itself, (ii) reorganize three sections - Rate, Impairment of Receipts and Deliveries, and Balances - within the Rate Schedule so that the provisions of each of those sections are presented in a logical format, and (iii) provide for a more streamlined administrative process pursuant to which Maritimes and the customer execute a master park and loan agreement which provides for the addition of individual Exhibit(s) A to reflect the details of each park or loan transaction. The proposed changes to the Form of Service Agreement are to (i) modify the Form of Service Agreement to add the Exhibit A format, and (ii) move the details related to the specific transactions, such as the commencement and termination date of the transaction, the Maximum Park Quantity, the Maximum Loan Quantity, the applicable price(s) for the service and the Point(s) of Transaction at which the park or loan transaction will occur, from the body of the agreement to the Exhibit A.

Q. 32 Why is Maritimes proposing the changes to the park and loan service?

A. Maritimes believes that the proposed revisions will provide a more streamlined process for both Maritimes and its customers. In addition, the changes will enable Maritimes to conform the administration of its park and loan service to the service offered by TETLP and Algonquin. TETLP and Algonquin have offered the park and loan services in the manner contemplated by Maritimes' proposed filing since April 1, 2003, and September 1, 2003, respectively. The proposed changes to the

Rate Schedule will clarify the rights and obligations of both parties to the agreement by grouping all related provisions into the appropriate section within the Rate Schedule. Under the revised process, only an Exhibit A reflecting all of the details relevant to a particular transaction would be completed and executed by the two parties. Once the master agreement is executed by the parties, it becomes a simple matter to finalize the contractual arrangements for individual transactions. Maritimes implemented its park and loan service on July 1, 2003, as part of its implementation of the requirements of Order No. 637. Since that date, no customer has nominated under an MNPAL service agreement in the current format for either a park or a loan service. Therefore, the proposed changes to the Rate Schedule and the Form of Service Agreement will have no impact on any existing customer of Maritimes.

Q. 33 Please describe the revision to the OFO provision.

A. Maritimes proposes to add a pre-OFO in the form of an Action Alert. Maritimes also proposes to change the OFO penalty structure. The current OFO penalty is $50.00 per Dth for failure to comply. The proposed penalty structure is 200 percent times the Platts *Gas Daily* "Daily Price Survey" High Common price for "Dracut, Mass." per Dth for Action Alerts and 500 percent times the Platts *Gas Daily* "Daily Price Survey" High Common price for "Dracut, Mass." per Dth for OFOs.

Q. 34 Why is Maritimes proposing the change to the OFO provision?

A. Action Alerts and OFOs correspond to different degrees or severities of system emergencies. By adding the Action Alert, Maritimes will be able to take prior action to avert the issuance of an OFO. It allows Maritimes to tackle smaller system problems before they become full-scale system emergencies. The change in the penalty structure applies a market responsive cost to an out-of-balance customer who fails to heed an Action Alert or OFO. The different levels of penalties for Action Alerts and OFOs reflect the different levels of severity of system problems for which Action Alerts and OFOs would be issued. It is necessary that some cost be associated with a failure to heed an Action Alert, but the Action Alert penalty is still significantly less than the OFO penalty.

Q. 35 Please describe the revenue sharing mechanism which, as you stated earlier, is being eliminated.

A. Under Section 33 of the GT&C, Revenue Sharing Mechanism, Maritimes provides for revenue sharing in the event that revenues under Rate Schedules MNOP and MNIT exceed $19 million. Maritimes shared 90 percent of any excess revenues with the customers with the remaining 10 percent retained by Maritimes.

Q. 36 Why is Maritimes proposing the elimination of the revenue sharing mechanism?

A. The provision was included in the Tariff during Maritimes' original certificate proceeding, in Docket No. RP96-178, *et al.*, on the premise that the allocated cost for such rate schedules had not been proven to be the appropriate measure of the cost of those services, resulting in the possibility that the pipeline might earn revenues in excess of the allocated costs. Maritimes' actual experience suggests that the cost allocated to the services in this proceeding is the appropriate measure of costs, providing Maritimes with the proper balance of risk and incentives, thus making it appropriate to eliminate the revenue sharing mechanism as no longer necessary.

Q. 37 Does this conclude your prepared direct testimony?

A. Yes, it does.

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AFFIDAVIT OF GREGG E. MCBRIDE

GREGG E. MCBRIDE, being first duly sworn, on oath states that he is the witness whose Prepared Direct Testimony is filed herein; that, if asked the questions which appear in the text of aforesaid Prepared Direct Testimony, affiant would give the answers that are herein set forth; and that affiant adopts the aforesaid Prepared Direct Testimony as his sworn, direct testimony in this proceeding.

Gregg E. McBride

GREGG E. MCBRIDE

SUBSCRIBED AND SWORN TO before me, a Notary Public in and for the State of Texas, County of Harris, this 22nd day of June, 2004.

Barbara A. Hulsey

Notary Public

BARBARA A. HULSEY
Notary Public, State of Texas
My Commission Expires
OCTOBER 2, 2004

My commission expires: 10-2-04