Exhibit No. ___ (DSA-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
DAVID S. ABBOTT
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 David S. Abbott, and I am the Director, Joint Ventures in the Industry Initiatives, Pricing and Regulatory Affairs Department of 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 regard, I am involved in the rates and regulatory affairs functions for Maritimes.

Q. 2 What is your educational background?

A. I received a B.A. in History from Suffolk University in Boston, Massachusetts and a Certificate in Accounting from Bentley College in Waltham, Massachusetts.

Q. 3 Please describe the course of your professional career and the scope of your current duties and responsibilities for DEGT.

A. I have worked in the natural gas industry for 24 years and have gained extensive experience in numerous facets of the business including accounting, regulatory affairs and project development. My professional career began in the gas industry with Algonquin Gas Transmission Company in Boston, which through a series of mergers and acquisitions, is now a wholly-owned subsidiary of DEGT. I started out as a Senior Accountant and subsequently was transferred to the Rate Department, where I became involved in cost of service, rate design and project development activities. Following my transfer to Houston, Texas, I was promoted to Manager, Rates, and have been in my current position for seven years. My present responsibilities entail developing rates and tariffs for new pipeline projects and developing new services and rates for existing DEGT pipelines and other pipelines in which DEGT holds an equity interest. In this regard, I became involved with Maritimes approximately seven years ago, where I was involved in developing the FERC Gas Tariff for Maritimes and the NEB Gas Transportation Tariff for Maritimes & Northeast Pipeline Limited Partnership, Maritimes' Canadian pipeline affiliate. In addition, I oversaw the development of initial rates for Maritimes. More recently, I was involved in Maritimes' Cost and Revenue Study proceeding in Docket No. RP02-134, *et al.*, which was successfully concluded in late 2002.

Q. 4 On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of Maritimes.

Q. 5 Have you previously testified before the Federal Energy Regulatory Commission?

A. Yes, I sponsored testimony on behalf of Maritimes in Docket No. RP02-134, *et al.*

Q. 6 What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to sponsor the statements and schedules supporting the cost of service underlying the proposed mainline and lateral rates in this proceeding. The specific cost classification and allocation methodologies, which I will discuss later in my testimony, follow Maritimes' established practices.

Q. 7 What statements, schedules, or exhibits are you sponsoring in conjunction with your direct testimony?

A. I am sponsoring the following statements, schedules, and workpapers related thereto: Overall Cost of Service (Statement A); Rate Base and Return (Statement B); Accumulated Deferred Income Taxes (Schedule B-1); Regulatory Assets and Liabilities (Schedule B-2); Cost of Plant (Statement C and Schedules C-1, C-1(a), C-2, and C-3); Accumulated Provisions for Depreciation, Depletion, and Amortization (Statement D); Working Capital (Statement E and Schedule E-2); Rate of Return (Statements F-1, F-2, and F-3); Operation and Maintenance Expenses (Statement H-1); Operation and Maintenance Expense Adjustments (Schedule H-1.1), Depreciation, Depletion, and Amortization (Statement H-2); Income Taxes (Statement H-3); Taxes Other Than Income Taxes (Statement H-4); Balance Sheet (Statement L); and Income Statement (Statement M).

Q. 8 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.

Q. 9 What base period has been used in preparing Maritimes' instant case?

A. The base period is the twelve months ended February 29, 2004, adjusted for known and measurable changes through November 30, 2004. Base period data has been taken from Maritimes' books and records, which are prepared and maintained in conformity with the Uniform System of Accounts prescribed by the

Commission. Ms. Sabra L. Harrington, the person responsible for preparing and maintaining Maritimes' books and records, verifies in her testimony in this proceeding that the base period data sets forth the results reflected by Maritimes' books and records.

Q. 10 Please generally explain the process utilized by Maritimes to develop its proposed rates in this proceeding.

A. After obtaining plant costs and expenses from Maritimes' books and records, costs are functionalized, classified and allocated to individual services. Cost functionalization for Maritimes consists of assigning all costs to the transmission function. Costs are then classified as fixed or variable. Finally, costs are allocated to the individual services.

Q. 11 What adjustments, if any, were made to the actual data for the twelve months ended February 29, 2004?

A. The bulk of the adjustments made to the actual data relate to Maritimes' Phase III mainline extension, which Maritimes placed into service on November 24, 2003. Schedule H-1.1 and Statement H-4 detail the adjustments.

Q. 12 Please explain the statements which detail the process and calculations described above, beginning with Statement A.

A. Statement A summarizes the items included in Maritimes' cost of service for the base period as adjusted, totaling $151,288,531 as shown on Line 7 thereof. The cost of service consists of operation and maintenance expenses ("O&M"), depreciation, depletion and amortization ("DD&A") of gas plant in service, income and other taxes, and an overall rate of return of 10.16% on test period rate base. The $9,482,037 on Line 1 reflects total O&M expenses, as shown on Statement H-1, Page 6 of 6, Line 96. The $35,754,837 on Line 2 reflects DD&A

as adjusted, and as detailed on Statement H-2, Page 1 of 1, Line 25. Income and other taxes, which are shown on Lines 3 through 5, are further detailed on Statements H-3 and H-4, and the amount shown for return on Line 6 is from Statement B.

Q. 13 Please explain Statement B.

A. Statement B summarizes the rate base and return as derived in Statements C, D, E, F-2 and Schedule B-1. The rate base consists of the sum of net plant and working capital, reduced by accumulated deferred income taxes. The rate base for the mainline and lateral facilities is $655,632,608. The overall rate of return of 10.16% yields an overall return on rate base of $66,612,273.

Q. 14 Please describe Schedule B-1.

A. Schedule B-1 sets forth the detail for the accumulated deferred federal and state income tax credit that is part of the rate base computation. Schedule B-1 details the balances by month in FERC Accounts 190, 282 and 283 for the base period as adjusted. Maritimes is adjusting to zero the balances in Accounts 190 and 283 as these are non-property related accounts and are not properly includible in rate base.

Q. 15 Please describe Schedule B-2.

A. Schedule B-2 shows the monthly book balances of Maritimes' two regulatory asset accounts, the Phase I cost of service deferral and the deferral related to levelized depreciation that the Commission approved for the first four years of service on the pipeline. In the Docket No. RP02-134 rate proceeding, the parties mutually agreed that the amount of levelized depreciation remaining on the books at April 1, 2003, would continue to be treated as a rate base item and amortized at the mainline depreciation rate.

Q. 16 Please describe the contents of Statement C and its supporting schedules.

A. Statement C provides a summary of the cost of plant. The total cost of plant as shown on Statement B (Line 2) includes the plant items detailed on Statement C, excluding Construction Work in Progress as shown on Line 7. The cost of plant is based on the actual cost of plant as of February 29, 2004, adjusted for additions and reductions through November 30, 2004. Schedule C-1 shows a break out of the plant by FERC Account number. Schedule C-1(a) presents details of plant balances for the four laterals that are priced on an incremental basis. Schedule C-2 shows the details of major plant expansions during the base period.

Q. 17 What is contained in Statement D?

A. Statement D details the DD&A by account number for the base period as adjusted. The amount on Part 1, Page 1 of 3, Column M, Line 8, ties to the accumulated DD&A on Statement B, Line 3.

Q. 18 Please explain Statement E and Schedules E-1 and E-2.

A. Statement E details the components of working capital shown in Statement B as part of rate base. Statement E shows these components in summary form, the supporting details of which are set out in Schedule E-2. Although Maritimes is not claiming traditional cash working capital in this case (Schedule E-1), Maritimes is proposing a form of cash working capital related to its two debt service restricted cash accounts. Maritimes is a project financed pipeline and is required by its lenders to keep cash in two restricted cash accounts, the withdrawal of which is not under Maritimes' control. In this regard, on Schedule

E-2 Maritimes presents an average 13 month balance, as adjusted, for these accounts.

Q. 19 Please further describe the two restricted cash accounts.

A. Certainly. The two accounts, as detailed on Schedule E-2, are the Debt Service Cash Reserve Account and the Debt Service Account in Columns (D) and (E), respectively. The accounts can be described as follows:

Debt Service Cash Reserve Account

Section 4.8(d) of the Common Security Agreement relating to the project financing of the pipeline requires that the pipeline keep on deposit, with the Collateral Agent amounts equal to the required Debt Service Cash Reserve Account balance. The Debt Service Cash Reserve Account balance is defined as an amount equal to the aggregate amount of fees, interest, and principal payments that are due with respect to (i) the US Pipeline Loans on the next Quarterly date, (ii) the Bonds on the next Semi-Annual Date and (iii) other Funded Indebtedness (excluding Subordinated Indebtedness) on the next scheduled payment date.

Debt Service Account

Sections 4.8(b)(i) through (iv) of the Common Security Agreement require that the pipeline fund, on a monthly basis, various Debt Service accounts under the control of the Collateral Agent for the purpose of the periodic payments of debt service on the Secured Debt outstanding.

Q. 20 Please explain Statement F-1.

A. Statement F-1 explains that Maritimes is proposing a return on equity of 14.25% in this case. This rate of return is endorsed by Mr. Richard J. Kruse, Exhibit No. ___ (RJK-1), and Professor J. Peter Williamson, Exhibit No. ___ (JPW-1), in light of the current market, as reflected by the discounted cash flow methodology, as well as the risks associated with the recovery of costs of service for these facilities.

Q. 21 Please explain Statement F-2.

A. Statement F-2 shows the detail of Maritimes' capital structure, the debt and equity costs, and the resulting overall rate of return. Maritimes is using its projected capital structure, as of November 30, 2004, of 56.25 percent debt and 43.75 percent equity, which was provided to me by Ms. Harrington and supported by Professor Williamson. As shown on Statement F-2, Maritimes is using a cost of debt of 6.98 percent, which is Maritimes' projected cost of long-term debt as of November 30, 2004.

Q. 22 Please explain Statement F-3.

A. Statement F-3 (Parts 1 and 2) sets out Maritimes' base period and projected cost of long-term debt. The sources of debt, which were provided to me by Ms. Harrington, are shown along with the calculation of the weighted average 6.98% debt cost.

Q. 23 Please explain Statement H-1.

A. Statement H-1 is a summary by FERC account of O&M expenses for each month of the base period, the adjustments to such O&M expenses, and the total as-adjusted O&M expenses included in Maritimes' cost of service. Ten adjustments are reflected on this statement.

Q. 24 Please describe the adjustments to O&M expenses which are detailed in Schedule H-1.1 and the reasons for making those adjustments.

A. Schedule H-1.1 summarizes and then details the various adjustments that are reflected on Statement H-1. The following is an overview of the adjustments: Adjustment Nos. 1 and 2 eliminate amounts included in gas supply and fuel use accounts that are collected through the FRQ tracker mechanism. Adjustment No. 3 eliminates ACA surcharges in Account 928 that are collected through a separate surcharge. Adjustment No. 4 includes labor and expenses related to Maritimes' new field office in Haverhill, Massachusetts, which will be responsible for system operation and maintenance activities. Adjustment No. 5 is related to Maritimes' pro rata share of the office expenses at DEGT's Waltham, Massachusetts office. Adjustment No. 6 reflects incentive pay adjustments that became effective in March and May of 2004. Adjustment No. 7 reclassifies expense items incurred during the base period that were inadvertently charged to improper accounts. Adjustment No. 8 includes legal and outside consultant expenses associated with the instant filing for which Maritimes proposes a three-year amortization. Adjustment No. 9 is for changes in annual premium expense associated with property and liability insurance coverage, and finally, Adjustment No. 10 relates to various increased operating expenses that will be realized during the Test Period.

Q. 25 Please explain Statement H-2.

A. Statement H-2 details the DD&A for the base period, as adjusted. The depreciation rates shown on Statement H-2, Column C are the current Commission approved rates for the mainline and the incremental laterals. The proposed depreciation rates, as supported by Mr. Edward H. Feinstein in his prepared direct testimony, are set out in Column D.

Q. 26 What is reflected in Statement H-3?

A. Statement H-3, Part 1 shows the computation of the federal and state income taxes for the base period, as adjusted. The return shown on Line 2 ties to Line 9 on Statement B. Line 3 reflects the deduction for debt expense, which is calculated by multiplying the proposed cost of debt included in Statement F-2 by rate base. State income taxes on Line 13 are calculated by multiplying the applicable taxable income times the composite state income tax rate of 8.811%. The calculation of the composite state tax rate is shown on Statement H-3, Part 2. Maritimes has utilized the current federal income tax rate of 35% to derive federal income taxes on Line 15.

Q. 27 What is reflected in Statement H-4?

A. Statement H-4 shows taxes, other than income taxes, by state and type of tax for the base period, as adjusted. Base period ad valorem taxes have been adjusted to reflect the inclusion of the Phase III facilities and expected increases in the States of Maine and New Hampshire. A separate workpaper is included showing a detailed computation of the test period estimated ad valorem taxes.

Q. 28 What is reflected in Statements L and M?

A. Statement L shows the balance sheet for Maritimes in the form prescribed by the Commission's Uniform System of Accounts for Natural Gas Companies for the twelve months ended February 29, 2004. Statement M is an income statement for the base period. These financial statements were prepared for management purposes and are unaudited. I obtained the data for these statements from Ms. Harrington.

Q. 29 Does this conclude your prepared direct testimony?

A. Yes, it does.

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

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

AFFIDAVIT OF DAVID S. ABBOTT

DAVID S. ABBOTT, 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.

David S. Abbott

DAVID S. ABBOTT

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

My commission expires: 10-2-04

NOTARY PUBLIC STATE OF TEXAS
BARBARA A. HULSEY
Notary Public, State of Texas
My Commission Expires
OCTOBER 2, 2004