UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

Northern Border Pipeline Company) Docket No. RP06- -000

PREPARED DIRECT TESTIMONY
OF
PAUL F. MILLER

Q. Please state your name, occupation and business address.

A. My name is Paul F. Miller. I am the Vice President and General Manager of Northern Plains Natural Gas Company LLC (Northern Plains), the operator of Northern Border Pipeline Company (Northern Border). My business address is 13710 FNB Parkway, Omaha Nebraska, 68154.

Q. What is your educational background?

A. I received a B.S.B.A. with a dual major in Finance and Economics from the University of Nebraska at Lincoln, Nebraska. I also hold an M.B.A. degree from the University of Nebraska at Omaha, Nebraska.

Q. Briefly describe your work experience.

A. I began my career at Peter Kiewit and Sons, a privately held construction firm in Omaha, Nebraska, where I was employed as a financial analyst in its coal mining business group. In 1990, I joined Northern Plains in the Finance Division performing various financial planning and treasury functions. Since that time I have held positions of increasing responsibility. I have worked in the Business

Development Unit and the Marketing Department in a lead commercial role performing business development and marketing functions. In April 2001, I was appointed Director of Marketing. In May 2002, I became the Vice President of Marketing. I assumed my present position in January 2005. In my position I am responsible for the day to day management of Northern Border.

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

A. No.

Q. What is the purpose of your testimony?

A. I will introduce the Northern Border ("Northern Border" or "NB") witnesses and describe major components of this filing. In addition, I will discuss certain changing business fundamentals that necessitate a change in our cost allocation and rate design methodology that is part of this proceeding.

Q. What Exhibits are you sponsoring?

A. I am sponsoring the following Exhibits:

Exhibit No. NB-2 Map showing Supply Zone and Market Area.

Exhibit No. NB-3 Statement O, Description of Company Operations.

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

A. Yes.

Q. Please describe generally Northern Border's service offerings?

A. Presently, Northern Border performs transportation service under four rate schedules; Rate Schedule T-1 for firm service, Rate Schedule T-1R for firm service under temporary capacity release, Rate Schedule T-1B for firm backhaul service and Rate Schedule IT-1 for interruptible service. In addition, Northern Border provides balancing services under Rate Schedule PAL for various park and loan services and Rate Schedule TPB for third party balancing services.

Q. Please identify the overall cost of service requested by Northern Border and the witnesses discussing significant cost of service components underlying the revenue requirement level.

A. The overall cost of service is shown on Statement A. NB witnesses Heckerman, Thompson and Wiederholt describe in detail the components of the base period cost of service (aside from the cost of capital) for the 12 months ending July 31, 2005 together with known and measurable adjustments encompassing the test period through April 30, 2006. A capital structure consisting of 49.27 percent common equity and 50.73 percent debt has been calculated and the cost of debt for the test period is 7.01 percent as supported by NB witness Jesse's testimony.

A depreciation rate of 2.84 percent is being applied to our transmission gas plant and NB witnesses Haessel and Feinstein address constraints upon the system's remaining life. A negative salvage value rate of .59 percent is recommended by NB witness Feinstein and is based on a terminal value study prepared by NB witness Halpin. The revenue requirement continues to reflect, consistent with Northern Border's tariff and the Commission's Policy Statement (111 FERC ¶61,129, 2005), an allowance for income taxes and NB witness Peters explains why the currently effective tariff provisions remain appropriate. NB witness Faber also provides information related to the income tax allowance.

Q. Please identify other witnesses' responsibilities.

A. Northern Border is requesting a rate of return of 14.2 percent on common equity. NB witness Moul presents evidence, analysis and a recommendation concerning the range for the rate of return on equity that Northern Border should be permitted to earn. NB witness Lauderdale describes the circumstances of certain other gas industry participants in the Corporate Pipeline Group utilized in NB witness Moul's testimony. NB witness Peters, in addition to discussing income taxes, also addresses financial risks and provides the rationale supporting the requested rate of return on equity. I will discuss the business risks confronting Northern Border manifested in its recontracting results and the proposed change in rate design methodology as well as how the Northern Border system interacts with storage capacity. NB witness Fonda describes other business risks facing Northern Border, the billing determinants to be used for rate computation purposes and certain primary and pro forma tariff language changes. NB witness Behrens provides information regarding pricing trends that demonstrate the changing competitive circumstances of markets in which Northern Border competes. NB witness Moorhead discusses why Northern Border's proposed changes in its rate design and the pro forma tariff changes are consistent with Commission policy. NB witness Neppl describes the underpinnings of Northern Border's capacity design and the calculation of rates under the proposed cost allocation and rate design methodology. He also describes changes that are proposed for tariff sheets.

Q. Please describe the major proposals for rate design in this proceeding.

A. In its last general rate proceeding at Docket No. RP99-322 Northern Border departed from its long standing cost of service form of tariff and adopted rates based upon a straight fixed variable cost allocation and rate design methodology. In this proceeding, Northern Border proposes to continue utilizing the straight fixed variable method. However, with respect to its proposed new Supply Zone, Northern Border will charge a postage stamp rate for all dekatherms received. In the Market Area, Northern Border will continue to establish rates on a per 100 dekatherm mile basis. In addition, Northern Border is proposing adjustments in the test period billing determinants to reflect, in the calculation of its proposed rates, the changing business conditions the pipeline faces. These changing business conditions have necessitated granting discounts from the maximum reservation rate in order to meet competition to obtain contract commitments. Another adjustment is being made to reflect the decline in the Btu content of gas transported on our pipeline system.

Q. Are you proposing any prospective changes in this filing?

A. Yes. Northern Border has filed pro forma tariff sheets to reflect changes that are being proposed on a prospective basis. Northern Border is proposing to establish a new maximum reservation rate for firm service contracted for a primary term of less than one year.

Q. Please describe the location of the Supply Zone and Market Area and how customers will be billed for service.

A. Northern Border proposes to establish a Supply Zone that will extend from Port of Morgan, Montana past our last substantive physical receipt point of Glen Ullin, North Dakota, The terminus of the Supply Zone will be at Milepost 396 which is located at the county line downstream of Glen Ullin between Morton and Emmons

Counties, North Dakota. The Supply Zone would include all points upstream of Milepost 396. NB witness Neppl identifies the direct gas plant and other costs in the Supply Zone and those costs that are assigned to the Supply Zone for purposes of deriving Northern Border's rates. Rates are designed in the Supply Zone on a uniform dekatherm basis for all Supply Zone receipts.

The Market Area will extend from Milepost 396 downstream to the terminus of the system. In the Market Area, Northern Border proposes to continue stating rates on a per 100 dekatherm mile basis.

For billing purposes, a shipper transporting gas in the Supply Zone and Market Area will be assessed a charge per dekatherm irrespective of the receipt point in the Supply Zone at which gas was received and a rate in the Market Area determined by the mileage in the Market Area. Exhibit No. NB-2 shows the physical location of the delineation between the proposed Supply Zone and the Market Area. All physical supply received in the Supply Zone will pay the same transportation rate to gain access through the constrained system segment identified by NB witness Neppl.

Q. Why is Northern Border proposing this change?

A. There are a number of reasons. Many of the factual details and support for Northern Border's policy decision to create a Supply Zone and a Market Area are founded in the testimony of NB witnesses Fonda, Neppl and Behrens. Based on their testimony and my knowledge of the market fundamentals, I have concluded that Northern Border must develop rates that more closely apportion costs so as to allow Northern Border a reasonable opportunity to recover its revenue requirement.

NB witness Neppl describes in his testimony that, over time, a greater share of Northern Border's receipt capacity has come from sources downstream of Port of Morgan. The result of this has been stranding upstream capacity, resulting in an under-recovery of costs given the current mileage based rate structure. Further, NB witness Neppl identifies the constrained segment of Northern Border's system as being near compressor station number 6 in North Dakota, meaning that the level of receipt capacity Northern Border is able to contract for is limited by the capacity it can transport through and downstream of its compressor station number 6. The Supply Zone postage stamp rate will provide equal footing to existing and potential supply sources to access the Market Area. This will provide customers with supply options in a manner that reduces stranded costs compared to our present rate design.

NB witnesses Fonda and Behrens demonstrate that Northern Border's competitive position compared to alternative export markets has eroded and increasingly, these other markets are providing better opportunities to shippers, on a netback basis, when compared to the markets served by Northern Border. Until recently, Northern Border was a fully contracted pipeline with long term firm contracts. In addition, the economics of transportation placed our capacity among the top choices for Canadian export markets. Our position as being fully contracted on a long term basis began to deteriorate in 2003 and today, Northern Border's competitive position has not supported recontracting at levels required to achieve its revenue requirement.

Q. How does the Company's proposed rate design respond to market circumstances?

A. The testimony of NB witnesses Behrens and Fonda will discuss variables that affect our competitive position. A strengthening trend in AECO pricing, increasing demand from eastern Canadian markets and the U.S. Northeast relative to Northern Border's Midwest markets and growing Rockies production impacting our market centers are impairing the attractiveness of our available pipeline capacity. The Ventura and Harper points, where the vast majority of our available capacity resides, have seen the greatest impairment. The Chicago market, in which we have no available capacity, continues to be competitive. However, only about 41.6 percent of Northern Border's Supply Zone capacity can be dedicated to serve this market.

Q. Are the proposed changes in cost allocation and rate design consistent with Commission policy?

A. NB witness Moorhead provides evidence and support that the proposed changes in our cost allocation and rate design methodology are consistent with Commission policy. In addition, NB witness Moorhead discusses why the prospective changes for firm transportation services for a primary term of less than one year are consistent with Commission policy.

Q. Are there any other issues in this proceeding that you wish to point out?

A. Yes. On August 18, 2005, the Commission issued a Certificate of Public Convenience and Necessity to Northern Border at Docket No.CP05-88 authorizing construction and operation of facilities for the Chicago III Expansion Project. As part of the application we requested a pre-determination to allow rolled in rate treatment of the project costs. In its order, the Commission indicated that further support for the rolling in of the project costs would be required in our next rate case. NB witness Neppl provides evidence demonstrating why these costs should be included in Northern Border's rates on a rolled in basis.

Northern Border is proposing to recover electric costs utilized to power electric compressor stations and compressor fuel taxes in its rates by implementing a surcharge mechanism. NB witness Neppl testifies on the method to be utilized to recover these costs.

Q. Among the business risks facing Northern Border, how does storage affect Northern Border's system?

A. Northern Border is unlike other interstate pipelines because it does not have captive interconnections with storage facilities. Most pipelines evolved as bundled service providers integrating storage with transportation to meet peak day requirements of its customers. As unbundled services were mandated, pipelines separated storage into a distinct service but retained the physical asset given its strategic importance to the transportation business. Northern Border did not evolve in that fashion. Northern Border has no synergistic storage assets to combine with its transportation service. Northern Border does not directly connect with storage facilities that are captive to its system. Therefore, Northern Border competes with other interstate pipelines and supply sources to serve storage injection and must depend upon at least one other intermediary to access storage. Northern Border, also does not receive the benefit of a round trip transportation transaction as the gas delivered off the system is not typically nominated back onto our system for redelivery. Specifically storage interacts with Northern Border in the following manner. First, upstream storage in Canada is accessed without any transportation on our system and competes for Canadian production during the injection cycle with Northern Border's markets. For example, in the spring, flexible reservoir storage in Canada, which is expanding, has the capability for substantial injections, depending upon inventory levels, thereby increasing demand in Canada. Conversely, the indirect storage facilities that Northern Border can serve which are aquifer driven and structured to discharge inventories throughout the duration of the spring, decrease demand in our market area. Secondly, Ventura and Harper are large interconnects with Northern Natural Gas Company and Natural Gas Pipeline of America, respectively that have integrated storage services that can be served by Northern Border or competitive supply from the mid-continent and Rockies. Finally, the eastern end of Northern Border can serve Chicago LDC storage markets that can choose among an array of pipelines and supply options.

Q. Based upon the test year revenue requirement, billing determinants and proposed rate design, briefly describe the impact to firm shippers.

A. The effect of the proposed rates is an overall increase in revenues of 7.8 percent above the base period revenues. The proposed percentage increase for the three transportation paths representing 73 percent of Northern Border's total Rate Schedule T-1 revenue requirement is as follows. The Port of Morgan to Ventura proposed increase is 5.8 percent. The Port of Morgan to Harper proposed increase is 7.3 percent. The Port of Morgan to Manhattan proposed increase is 9.1 percent.

Q. Does this conclude you prepared direct testimony?

A. Yes.

AFFIDAVIT

STATE OF NEBRASKA)
) ss.
COUNTY OF DOUGLAS)

Paul F. Miller, being first duly sworn, on oath states that he is the witness whose testimony appears on the preceding pages entitled "Prepared Direct Testimony of Paul F. Miller"; that, if asked the questions which appear in the text of said direct testimony, he would give the answers that are therein set forth; and that affiant adopts the aforesaid testimony as his sworn, direct testimony in this proceeding.

Paul F. Miller

Paul F. Miller

Subscribed and sworn to before me, a Notary Public in and for Douglas County, Nebraska, this 26th day of October, 2005.

Darla L Steffes

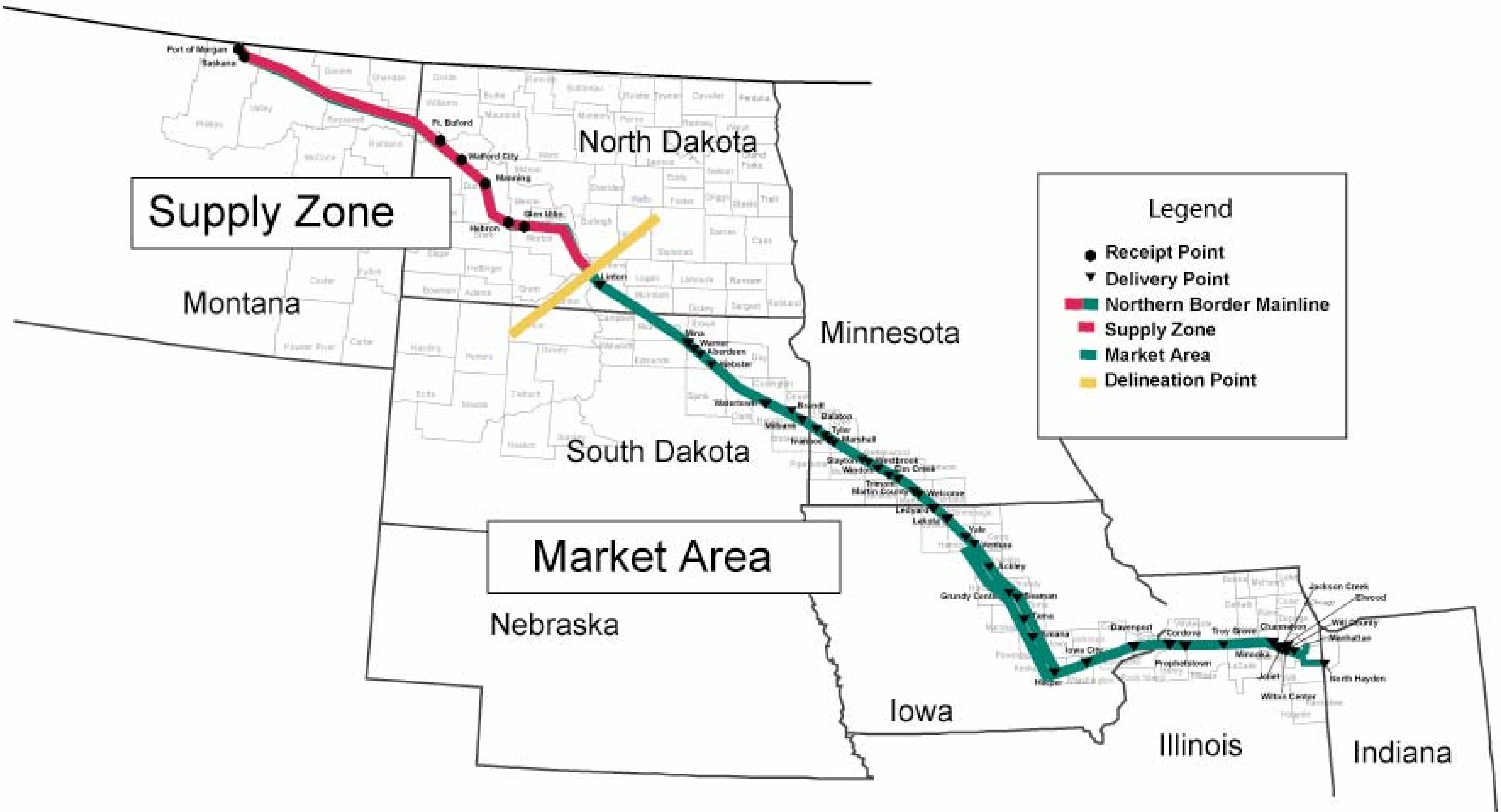
Notary Public

My Commission expires:

March 18, 2006

GENERAL NOTARY - State of Nebraska
DARLA L. STEFFES
My Comm. Exp. March 18, 2006

MAP



October 2005