NEW HAMPSHIRE GAS CORPORATION

Winter 2012-2013 Cost of Gas Filing

Direct Testimony of Brian R. Maloney

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

A. My name is Brian R. Maloney. I am employed by Rochester Gas and Electric Corporation ("RG&E") and my business address is 89 East Avenue, Rochester, NY 14649.

Q. What is your position?

A. I am a Lead Analyst in the Rates and Regulatory Economics Department.

Q. Please briefly describe your educational and professional background.

A. I graduated from the Rochester Institute of Technology with a Bachelor of Science degree in Business Administration. I joined RG&E in 2000 as an Analyst in the Corporate Accounting Department, and transferred as a Lead Analyst to the Rates and Regulatory Economics Department in 2004. Prior to joining RG&E, I held financial analysis positions in the banking and telecommunications industries.

Q. Please summarize your responsibilities.

A. My primary responsibilities currently consist of financial reporting, analysis, forecasting and regulatory requirements related to RG&E's electric revenues and margins. I have also been responsible for similar duties in RG&E's gas business, and have prepared testimony, exhibits, and rate design for three gas rate cases. I assumed responsibility in late 2010 for several of the regulatory requirements for New Hampshire Gas Corporation ("NHGC" or the "Company") related to the seasonal cost of gas ("COG") filings and reconciliations, monthly COG rate adjustments, and monthly income statements.

Q. Have you testified as a witness in any proceedings involving either company?

A. I have testified as a witness before the New York Public Service Commission in each of the last three RG&E delivery rate cases in 2002, 2004, and 2010, primarily on the topics of gas revenue forecasts and rate design. I testified before the New Hampshire Public Utilities Commission (the "Commission" or "PUC") in NHGC's last three seasonal Cost of Gas proceedings, Dockets DG 11-054, DG 11-212, and DG 12-071.

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

A. The purpose of my testimony is to explain the calculation of the Cost of Gas Rate to be billed from November 1, 2012 to April 30, 2013. My testimony will also address bill comparisons, the deferred revenue surcharge effective November 1, 2012, and other items related to the winter period.

COST OF GAS ADJUSTMENT

Q. Please explain the calculation of the Cost of Gas Rate on the proposed 48th revised Tariff Page 24.

A. The proposed 48th revised Tariff Page 24 contains the calculation of the Winter 2012-2013 COG rate and summarizes the Company's forecast of propane sales and propane costs. The total anticipated cost of the propane sendout from November 1, 2012 through April 30, 2013 is $1,445,302. The information presented on the tariff page is supported by Schedules A through J that will be described later in this testimony.

To derive the Total Anticipated Cost, the following adjustments have been made:

1) The prior period over-collection of $47,527 is subtracted from the anticipated cost of the propane sendout. The calculation of the over-collection is presented on Schedule G.

2) Interest of $437 is added to the anticipated cost of the propane sendout. Schedule H shows this forecasted interest calculation for the period May 2012 through April 2013. The interest calculation is based on the Wall Street Journal's posted prime rate.

The Non-Fixed Price Option ("Non-FPO") cost of gas rate of $1.5017 per therm is calculated by dividing the Total Anticipated Cost of $1,398,202 by the Projected Gas Sales of 931,112 therms. The Fixed Price Option ("FPO") rate of $1.5217 per therm was established by adding a $0.02 premium to the Non-FPO rate.

Q. Please describe Schedule A.

A. Schedule A converts the gas volumes and unit costs from gallons to therms. The 985,941 therms represent propane sendout as detailed on Schedule B, Line 3, and the unit cost of $1.4697 per therm represents the weighted average cost per therm for the winter period sendout as detailed on Schedule F, Line 55.

Q. What is Schedule B?

A. Schedule B presents the under/(over) collection calculation for the Winter 2012-2013 period based on the forecasted volumes, the cost of gas, and applicable interest amounts. The Total Sendout forecast on Line 3 is the weather normalized 2011-2012 winter period firm sendout and company use. The forecasted Firm Sales on Line 9 represent weather normalized 2011-2012 winter period firm sales. The weather normalization calculations for Sendout and Sales are found in Schedules I and J respectively.

Q. Are unaccounted-for gas volumes included in the filing?

A. Unaccounted-for gas is included in the Firm Sendout on Schedule B, Line 1, and is displayed on Line 4 of that schedule. The Company actively monitors its level of unaccounted-for volumes, which amounted to 1.13% in the most recent U.S. DOT report for the twelve months ended June 30, 2012. The general reduction in loss levels compared to 5-10 years ago is attributed to leak repair programs, cast iron main replacements, and meter change-outs.

Q. Please describe Schedules C, D, and E.

A Schedule C presents the calculation of the total forecasted cost of propane purchases in the Winter 2012-2013 period, segregated by Propane Purchase Stabilization Plan ("PPSP") purchases, spot purchases, and storage costs. Schedule D presents the structure of PPSP pre-purchases for the winter period, monthly average rates for the pre-purchases, rate adjustments, and the resulting weighted average adjusted contract price for the winter period as used in Schedule C, Lines 7 and 9. Schedule E presents the forecast of the unit cost for spot purchases as used in Schedule C, Lines 16-23.

Q. Please describe the Propane Purchase Stabilization Plan.

A. The PPSP, as approved in Order No. 24,617 in Docket DG 06-037, was again implemented with no material changes from prior years. As shown on Schedule D, the company pre-purchased 700,000 gallons of propane between April and September at a weighted average unadjusted price of $1.2914 per gallon, inclusive of Pipeline, PERC and trucking charges in effect at the time of the supplier's bid (March 2012), plus a hedge premium charge.

Q. Please explain the Pipeline tariff rate increase identified on Schedule D, Line 12.

A. Enterprise TE Products Pipeline Co. ("Enterprise TEPPCO") filed tariffs for a rate increase with the Federal Energy Regulatory Commission ("FERC") on March 16, 2012. The amount of the requested rate increase on shipments to its Selkirk, NY terminal is $0.0913 per gallon. The effective date of the new tariff is November 16, 2012, pending FERC's final decision. The Company forecasts that Enterprise TEPPCO will be successful in its FERC proceeding for purposes of determining the delivered cost of propane procurements.

Q. How was the cost of spot purchases determined?

A. The forecasted spot market purchase prices of propane as shown on Schedule E are the Mont Belvieu propane futures quotations as of September 18, 2012. The forecasted delivered cost of these purchases is determined by adding projected broker fees, pipeline fees, PERC fees, supplier charges, and trucking charges. The Company forecasts that the Enterprise TEPPCO pipeline tariff rate will increase in mid-November, as discussed above.

Q. Please describe Schedule F.

A. Schedule F contains the forecast of propane purchases and the weighted average cost of propane in inventory for each month through April 2013. The cost of propane sent out each month utilizes this weighted average inventory cost inclusive of all PPSP purchases, spot purchases, and storage withdrawals.

Q. What is Schedule G?

A. Schedule G shows the calculation of the actual over-collected balance for the prior Winter 2011-2012 period, including interest. The final over-collected balance of $47,527 (Line 16) is included on Schedule H, Line 1, Column 1. The Company filed its Winter Period 2011-2012 reconciliation with the Commission on June 7, 2012, and provided additional information per a request from Audit Staff on July 2, 2012. No communications have been received since that time.

Q. How is Schedule H represented in the cost of gas calculation?

A. Schedule H presents the interest calculation on (over)/under collected balances through April 2013. The prior period over-collection plus interest on that balance through October 31, 2012 is included on Schedule B, Line 14 in the “Prior” column. The forecasted monthly interest for the Winter 2012-2013 period in Column 7 is included on Schedule B, Line 13. The prior period over-collection plus the total interest amount is also included on the tariff page.

FIXED PRICE OPTION PROGRAM

Q. Will the Company offer an FPO program for the Winter 2012-2013 period?

A. Yes, the Company will offer the FPO program for the upcoming winter period to provide customers with the opportunity to lock in their cost of gas rate. Enrollment in this program is limited to 50% of forecasted winter sales, with allotments made available to both residential and commercial customers on a first-come, first-served basis. The FPO enrollment period is expected to close on or about October 19, 2012. The Company projects that 20% of total sales volumes will be enrolled in the FPO program, up slightly from the 18.2% last winter due to a more favorable FPO rate.

Q. Will a premium be applied to the FPO rate?

A. Yes. As approved in Order No. 24,516, Docket DG 05-144, the Company added a $0.02 per therm premium to the Non-FPO cost of gas rate to derive the FPO rate.

Q. How will customers be notified of the availability of the FPO program?

A. A letter will to be mailed to all customers in late September advising them of the program and how to participate in it.

COST OF GAS RATE AND BILL COMPARISONS

Q. How does the proposed Winter 2012-2013 cost of gas rate compare with the previous winter's rate?

A. The projected Non-FPO COG rate of $1.5017 per therm is a decrease of $0.6236 or 29.3% from the winter 2011-2012 average rate of $2.1253. The proposed FPO rate is $1.5217 per therm, representing a decrease of $0.7140 per therm or 31.9% from last winter's rate of $2.2357.

Q. What are the primary reasons for the lower rates?

A. The primary reasons for this change are a decrease in the PPSP contract rate to $1.5111 from $1.9616 per therm due to a decline in futures prices during the pre-purchase period, as well as lower projected market prices for spot purchases. The rate is also being favorably impacted by the refund of the prior winter over-collection.

Q. Has there been any impact from pipeline, PERC or trucking fees on the COG rate?

A. As previously discussed, the pipeline rate is forecasted to increase by $0.0913 because of the pending FERC rate proceeding of Enterprise TEPPCO. The PERC fee and trucking charges are unchanged.

Q. What is the impact of the Winter 2012-2013 COG rate on the average residential heat and hot water customer participating in the FPO program?

A. As shown on Schedule K-1, Lines 32 and 33, the average residential heat and hot water FPO customer would experience a decrease of $665.45 or 31.9% in the gas component of their bills compared to the prior winter period. When the monthly customer charge, therm delivery charge and deferred revenue surcharge are factored into the analysis, the average customer would see a total bill decrease of $598.72 or 19.2%, as shown on Lines 35 and 36.

Q. What is the impact of the Winter 2012-2013 COG rate on the average residential heat and hot water customer choosing the Non-FPO program?

A. As shown on Schedule K-2, Lines 32 and 33, the average residential heat and hot water Non-FPO customer is projected to see a decrease of $581.18 or 29.3% in the gas component of their bills compared to the prior winter period. When the monthly customer charge, therm delivery charge and deferred revenue surcharge are factored into the analysis, the average customer would see a total bill decrease of $514.45 or 17.1%.

Q. Please describe the impact of the Winter 2012-2013 COG rate on the average commercial customer compared to the prior winter period.

A. Schedules L-1 and L-2 illustrate that the average FPO and Non-FPO commercial customer would see a decrease in the gas component of their bills of $1,018.85 (31.9%) and $887.93 (29.3%) respectively. When the monthly customer charge, therm delivery charge and deferred revenue surcharge are included, the average FPO and Non-FPO commercial customer would see total bill decreases of $916.68 (19.5%) and $785.76 (17.3%) respectively.

OTHER ITEMS

Q. Please describe how the Company will meet its 7-day on-site storage requirement.

A. The Company has net storage capacity at its plant in Keene for approximately 75,000 gallons of propane. Additionally, the Company intends to enter into a four month contract (December 1, 2012 - March 31, 2013) with a storage facility operator to reserve 50,000 gallons of propane in storage tanks located approximately 50 miles from the Keene plant. The Company will pay a per-gallon fee for the right (but not the obligation) to purchase from this facility if ever necessary to do so. The Company intends to finalize this contract by October 1 or shortly thereafter. In addition, the Company will arrange its standard trucking commitment with Northern Gas Transport, Inc. for transportation from this storage facility to the plant.

Q. Please discuss any other changes to rates for the Winter 2012-2013 period.

A. Pursuant to the 2009 Settlement Agreement approved in Order No. 25,309 (DG 09-038), the Company is authorized to implement a deferred revenue surcharge beginning on November 1, 2012. The purpose of the surcharge is to collect over a 24 month period the difference between the amounts that would have been collected in Years 1 and 2 under maximum rates designed to fully recover the approved delivery rate increase and the amounts actually billed to customers.

Appendix 4 contains a calculation of the deferred revenue amount, the surcharge rate, and the bill impact.

Q. Is the Company requesting a waiver of N.H. Code Admin. Rule Puc 1203.05 which requires rate changes to be implemented on a service-rendered basis?

A. Yes, the Company is requesting a waiver of N.H. Code Admin. Rule Puc 1203.05 as was granted in previous cost of gas and delivery rate proceedings. First, the Company's customers are accustomed to rate changes on a bills-rendered basis and an alteration in policy may result in customer confusion. Second, the Company's billing system is not designed to accommodate a change to billing on a service-rendered basis, and such a change would necessitate the modification or replacement of the system at a substantial cost.

Q. Does this conclude your testimony?

A. Yes, it does.