NEW HAMPSHIRE GAS CORPORATION

Summer 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 four seasonal COG proceedings, Dockets DG 11-054, DG 11-212, DG 12-071, and DG 12-284.

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

A. The purpose of my testimony is to explain the calculation of the COG rate to be billed from May 1, 2013 to October 31, 2013. My testimony will also discuss bill comparisons and the Propane Purchasing Stabilization Plan.

COST OF GAS ADJUSTMENT

Q. Please explain the calculation of the Cost of Gas Rate on the proposed 57th Revised Tariff Page 25.

A. The proposed 57th Revised Tariff Page 25 contains the calculation of the Summer 2013 COG rate and summarizes the Company's forecast of propane sales and propane costs. The total anticipated cost of propane sendout from May 1, 2013 through October 31, 2013 is $472,652. The information presented on the tariff page is supported by Schedules A through H 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 $4,314 is subtracted from the anticipated cost of the propane sendout. The calculation of the over-collection is presented on Schedule E.

2) Interest of $787 is also subtracted from the anticipated cost of propane sendout. Schedule F shows this forecasted interest calculation for the

period November 2012 through October 2013. The interest calculation is based on the Wall Street Journal's posted prime rate.

The COG rate of $1.4892 per therm is calculated by dividing the forecasted Total Anticipated Cost of $467,551 by the Projected Gas Sales of 313,968 therms.

Q. Please describe Schedule A.

A. Schedule A converts the gas volumes and unit costs from gallons to therms. The 334,855 therms represent propane sendout as detailed on Schedule B, Line 3, and the unit cost of $1.4115 per therm represents the weighted average cost per therm for the summer period sendout as detailed on Schedule D, Line 55.

Q. What is Schedule B?

A. Schedule B presents the (over)/under collection calculation for the Summer 2013 period based on the forecasted volumes, the cost of gas, and applicable interest amounts. The forecasted Total Sendout on Line 3 is the weather normalized 2012 summer period firm sendout and company use. The forecasted Firm Sales on Line 8 represent weather normalized 2012 summer period firm sales. The weather normalization calculations for sendout and sales are found in Schedules G and H, 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 separately 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 primarily attributed to leak repair programs, cast iron main replacements, and meter change-outs. Additional efforts include closely monitoring the unloading of propane deliveries and maintaining gas sendout as close to 740.0 Btu/cf as mechanically possible.

Q. What is presented on Schedule C?

A. Schedule C presents the forecast of the unit cost for spot purchases in the Summer 2013 period.

Q. How was the cost of spot purchases determined on Schedule C?

A. The forecasted spot market purchase prices of propane as shown on Schedule C are the Mont Belvieu propane futures quotations as of March 11, 2013. The forecasted delivered cost of these purchases is determined by adding projected broker fees, pipeline fees, PERC fees, supplier charges, and trucking charges.

Q. Please describe Schedule D.

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

Q. What is Schedule E?

A. Schedule E shows the calculation of the actual over-collected balance for the prior Summer 2012 period, including interest. The final over-collected balance of $4,314 (Line 11) is included on Schedule F, Line 1, Column 1. The period has been examined by PUC audit staff, and the reconciliation was found to be accurate per their report dated 01/02/13.

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

A. Schedule F presents the interest calculation on (over)/under collected balances through October 2013. The prior period over-collection plus interest on that balance through April 30, 2013 is included on Schedule B, Line 13 in the “Prior” column. The forecasted monthly interest for the Summer 2013 period in Column 7 is included on Schedule B, Line 12. The prior period over-collection plus the total interest amount is also included on the tariff page.

COG RATE AND BILL COMPARISONS

Q. How does the proposed Summer 2013 COG rate compare with the previous summer's rate?

A. The projected COG rate of $1.4892 per therm is an increase of $0.1164 or 8.5% from the Summer 2012 average rate of $1.3728.

Q. What is the primary reason for the higher rate?

A. The principal reason for the increase is a higher pipeline tariff rate, as described below. The forecast of Mont Belvieu spot prices is relative stable in comparison to last summer's actual prices.

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

A. The PERC fee is unchanged, and trucking fees are forecasted to increase by about one-tenth of a cent per therm due to a slightly higher diesel fuel surcharge. The pipeline rate has jumped by approximately 11 cents per therm due to a tariff rate increase effective November 2012.

Q. Please provide a summary of the pipeline rate increase.

A. Enterprise TE Products Pipeline Co. ("TEPPCO") filed tariffs for a rate increase with the Federal Energy Regulatory Commission ("FERC") in March 2012. The amount of the requested increase on shipments to TEPPCO's Selkirk, NY terminal was $0.1017 per gallon. In April 2012, FERC conditionally accepted the tariffs and suspended the rate increase until November 2012. FERC also made the rate increase subject to refunds to shippers based on the final outcome of the proceeding (Docket IS12-203). Many shippers and retail propane associations intervened in the case to protest the level and structure of the rates. Settlement conferences began in December 2012, and the settlement participants announced on March 1, 2013 that an agreement in principle was reached that resolves all issues in the proceeding. The Company will continue to monitor the outcome of the case.

Q. How will refunds, if any, from TEPPCO to shippers be handled?

A. In the event that FERC's final order requires TEPPCO to refund a portion of the rate increase to shippers, the Company expects that these refunds will passed through to it. The Company will work with Commission Staff to determine the most appropriate method for returning the full refund amount to customers.

Q. Was any propane pre-purchased for the summer period?

A. The Company does not enter into pre-purchase contracts for the summer periods.

Q. What is the impact of the Summer 2013 COG rate on the average residential heat and hot water customer?

A. As shown on Schedules I-1 and I-2, Lines 32 and 33, Column 14, the average residential heat and hot water customer is projected to see an increase of $37.03 or 8.5% in the gas component of their bills compared to the prior summer 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 increase of $59.80 or 7.0% as shown on Lines 35 and 36, Column 14.

OTHER ITEMS

Q. Has the Company performed any analysis regarding its Propane Purchasing Stabilization Plan?

A. Yes, the Company has performed two analyses. In Schedule J-1, the Company evaluated the premium associated with securing the pre-purchased volumes for delivery in the Winter 2012-2013 period. The Company believes that the estimated premium of $0.0920 per gallon was reasonable in light of the fact it was just marginally higher than the estimated premium (i.e., supplier charge) for spot purchases. In addition, the premium was the lowest among suppliers responding to the Company's request for bids. In Schedule J-2, the Company performed a comparison of propane purchase costs under the contract price versus hypothetical spot prices. The analysis shows that the cost of the pre-purchased gallons was 5.7% higher than the average hypothetical spot purchase cost for the first four months of the current winter period. The Plan's purpose is to provide more stability in the winter COG rate by systematically purchasing supply over a predetermined period and to facilitate the offering of a Fixed Price Option, rather than to necessarily secure lower prices. The Company believes the Plan should continue.

Q. Has the Company issued a Request for Proposal ("RFP") to potential suppliers for the 2013-2014 Propane Purchasing Stabilization Plan?

A. Yes, the Company contacted seven potential suppliers and issued an RFP to five interested bidders on February 27, 2013. The deadline for responses is March 12. The Plan structure specified in the RFP, as detailed on Schedule J-3, is unchanged from last year. The Company will evaluate the merits of the qualifying responses and select a winning bid by the end of March.

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.