NEW HAMPSHIRE GAS CORPORATION

Summer 2011 Cost of Gas Rate

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 consist of financial reporting, analysis and forecasting of RG&E gas revenues and margins. In addition, I prepare testimony and exhibits for RG&E Gas rate cases and develop delivery rate design proposals for such cases, perform monthly unbilled and deferred revenue calculations for posting to the general ledger, and file various monthly and annual reports with governmental agencies. Recently, I assumed responsibility for the 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 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 gas delivery rate design. I have not testified before the New Hampshire Public Utilities Commission (the "Commission" or "PUC").

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 May 1, 2011 to October 31, 2011. My testimony will also discuss bill impacts, the temporary closure of Selkirk terminal, and the Propane Purchasing Stabilization Plan.

COST OF GAS ADJUSTMENT

Q. Please explain the calculation of the Cost of Gas Rate on the proposed 48th revised Tariff Page 25.

A. The proposed 48th revised Tariff Page 25 contains the calculation of the 2011 Summer COG rate and summarizes the Company's forecast of propane sendout and propane costs. The estimated total cost of the forecasted propane sendout from May 1, 2011 through October 31, 2011 is $534,401. The information presented on the tariff page is supported by Attachments A through E which will be described later in this testimony.

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

1) The prior period under-collection of $10,753 is added to the forecasted propane costs. This calculation of the under-collection is demonstrated on Attachment D.

2) Interest of ($649) is added to the forecasted propane costs. Attachment C shows this forecasted interest calculation for the period November 2010 through October 2011. The interest calculation is based on the Wall Street Journal's posted prime rate.

The cost of gas rate of $1.8233 per therm is calculated by dividing the forecasted Total Anticipated Period Costs of $544,505 by the forecasted firm sales of 298,632 therms.

Q. Please describe Attachment A.

A. This attachment converts the produced gas costs to therms. The 321,271 therms represent propane sendout as detailed on Attachment B, and the unit cost of $1.6634 per therm represents the average cost per therm for the summer season as detailed on line 63 of Attachment E.

Q. What is Attachment B?

A. Attachment B represents the under/(over) collection calculation for the 2011 summer period based on the anticipated volumes, the cost of gas, and applicable interest charges. As shown on line 3, total forecasted sendout is the 2010 weather normalized summer period firm sendout plus the 2010 summer period company use. Forecasted firm sales shown on line 8 are the 2010 summer period weather normalized firm sales.

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

A. Unaccounted-for gas volumes are included in the firm sendout volumes on line 1 and are displayed on line 4 of Attachment B. The Company continues to actively monitor its level of unaccounted-for volumes, which amounted to 1.66% on the most recent DOT report for the year ended June 30, 2010.

Q. How is Attachment C represented in the COG calculation?

A. Attachment C represents the COG interest calculation through October 2011. The net cost of the prior period under-collection plus interest is also included on the tariff page.

Q. What is Attachment D?

A. Attachment D is the actual over-collection balance for the prior period May 2010 through October 2010, including interest. The ending under-collected balance of $10,753 is included on line 1, column 1, of Attachment C.

Q. Please describe Attachment E.

A. Attachment E is a forecast of the weighted-average cost of propane in inventory through October 2011. This attachment is important as the cost of propane sold includes spot market propane as well as propane withdrawn from storage.

COG RATE AND BILL COMPARISONS

Q. How does the proposed 2011 summer COG rate compare with last summer's COG rate?

A. The projected summer 2011 COG rate of $1.8233 is an increase of $0.1424 per therm from the average summer 2010 COG rate of $1.6809. As shown on Supplemental Schedules A and B, for the average residential heat and hot water customers, this would be a $45.29 increase for the summer 2011 period for the gas component of their bills, which is an 8.5% increase. If the Monthly Customer Charge, per therm Delivery Rates and Rate Case Surcharge are factored into the analysis, the customer will see an increase of $33.80 in their total bills for the period, which is a 3.6% increase.

Q. What is the primary reason for the $0.1424 per therm summer COG increase?

A. The principal reason for the increase is higher projected spot market prices of propane versus the summer 2010 period.

Q. How were the gas prices determined?

A. The gas prices were determined from the Spot Market Purchase Cost Analysis included as Supplemental Schedule C. The spot market prices are based on Mt. Belvieu monthly propane futures market quotations as of March 16, 2011, plus broker, pipeline, Propane Education Research Council ("PERC"), and trucking fees.

Q. What amount of propane was pre-purchased?

A. The Company has not made any pre-purchases for the 2011 summer COG period.

Q. Has there been any impact on pipeline, PERC or trucking fees on NHGC's cost of gas?

A. Pipeline fees and PERC fees are unchanged from the end of the 2010 Summer COG period at $0.1125 per gallon and $0.0040 per gallon respectively. Trucking fees are forecasted at $0.0753 per gallon, up from $0.0699 at the end of the 2010 Summer COG period, due to higher fuel surcharges.

MISCELLANEOUS

Q. Please provide a timeline of events at the Selkirk terminal and the impact on supply sources.

A. Enterprise TE's propane pipeline terminal in Selkirk, NY and two other terminals downstream of Watkins Glen, NY were shut down on August 27, 2010 due to a propane leak discovered in Gilboa, NY. After corrective action and testing, the Selkirk terminal returned to service in early February 2011, and the Company was able to resume full allocations from there on March 4. The Company's supply from the time of closure through January was primarily sourced at the Watkins Glen terminal, approximately 165 miles away from Selkirk. In February, the Company's supply primarily came from Enterprise TE's Oneonta, NY terminal, which re-opened prior to Selkirk. A limited amount of propane was also obtained from Hartford Mills, NY and Canada.

Q. What was the impact on gas costs of the closure of the Selkirk terminal?

A. Total freight and wait time charges on contract purchases for November 2010 to February 2011 were $90,600 on deliveries of 545,000 gallons, equating to $0.166 per gallon or $0.181 per therm. In the prior winter with a fully operational Selkirk terminal, total freight and wait time charges on contract purchases for November 2009 to February 2010 were $10,500 on deliveries of 510,000 gallons, equating to $0.021 per gallon or $0.023 per therm. As such, the impact on contract gas costs of the Selkirk terminal closure can be estimated at approximately $0.145 per gallon ($0.158 per therm) for the first four months of the winter period. Similar detail cannot be compiled for spot purchases because freight charges are embedded in the spot price, but it can be assumed that those prices were impacted by a comparable amount.

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

A. Yes. The Company evaluated the estimated premium associated with securing the pre-purchased volumes (Supplemental Schedule E), and the contracted price versus the average monthly spot price for deliveries during the months of November 2010 through February 2011 (Supplemental Schedule F). First, concerning the estimated premium associated with securing the pre-purchased volumes, the Company believes that the premium of $0.0597 per gallon was reasonable. This premium represents approximately 4.2% of the cost of the pre-purchased gallons. Second, with regards to the comparison of the contracted all-in price versus the average price of monthly spot deliveries, the analysis shows that the cost of the pre-purchased gallons was approximately 15% lower than the average spot prices incurred over the November 2009 through February 2010 period. The Company believes the Plan should continue. The purpose of the Plan is to provide more stability in the winter COG rate by systematically purchasing supplies over a predetermined period, not necessarily to obtain lower prices. The systematic pre-purchases also facilitate the offering of a Fixed Price Option program.

Q. Has the Company issued a Request for Proposal ("RFP") to potential suppliers for the 2011-2012 period?

A. Yes, the Company issued an RFP to five potential suppliers on February 28, 2011. Two responded with legitimate proposals by the March 10 deadline. The Company will evaluate the merits of the proposals prior to the summer cost of gas hearing.

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 COG and delivery rate proceedings. First, NHGC 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 that system at a substantial cost to NHGC.

Q. Does this conclude your testimony?

A. Yes, it does.