<u>NEW HAMPSHIRE GAS CORPORATION</u>

Winter 2011-2012 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 Summer 2011 Cost of Gas proceeding, Docket DG 11-054.

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, 2011 to April 30, 2012. My testimony will also address the delivery rate increase effective November 1, 2011 and other issues related to the winter period.

COST OF GAS ADJUSTMENT

Q. Please explain the calculation of the Cost of Gas Rate on the proposed 45th revised Tariff Page 24.

A. The proposed 45th revised Tariff Page 24 contains the calculation of the Winter 2011-2012 COG rate and summarizes the Company's forecast of propane sendout and propane costs. The estimated total cost of the forecasted propane sendout from November 1, 2011 through April 30, 2012 is $2,172,053. 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 Period Costs, the following adjustments have been made:

1) The prior period under-collection of $33,215 is added to the forecasted propane costs. The calculation of the under-collection is demonstrated on Schedule G.

2) Interest of $3,617 is added to the forecasted propane costs. Schedule H shows this forecasted interest calculation for the period May 2011 through April 2012. 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 $2.2157 per therm is calculated by dividing the forecasted Total Anticipated Cost of $2,208,885 by the Projected Gas Sales of 996,907 therms. The Fixed Price Option ("FPO") rate of $2.2357 per therm was established by adding a $0.02 premium to the Non-FPO rate.

Q. Please describe Schedule A.

A. This Schedule A converts the gas costs from gallons to therms. The 1,094,097 therms represent propane sendout as detailed on Schedule B, Line 3, and the unit cost of $1.9883 per therm represents the average cost per therm for the winter period sendout as detailed on Schedule F, Line 81.

Q. What is Schedule B?

A. Schedule B represents the under/(over) collection calculation for the 2011-2012 winter 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 2010-2011 winter period firm sendout and company use. The Firm Sales forecast on Line 9 is derived from weather normalized 2010-2011 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 continues to actively monitor its level of unaccounted-for volumes, which amounted to 2.92% per the most recent U.S. DOT report for the twelve months ended June 30, 2011.

Although this rate is higher than the 1.66% for the prior twelve month period, it nonetheless represents a continuation of significantly lower gas losses in comparison to 5-10 years ago. The general reduction in loss levels is attributed to a leak repair program, cast iron main replacements, and meter replacements.

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

A Schedule C presents the calculation of the total forecasted cost of propane purchases in the 2011-2012 winter period, segregated by Propane Purchase Stabilization Plan ("PPSP") purchases, spot purchases, and storage costs. Schedule D is a synopsis of the structure of PPSP pre-purchases for the winter period, the monthly average rate of the pre-purchases, and the resulting weighted average contract price for the winter period as used in Schedule C, Line 10. Schedule E presents the forecast of the per-gallon cost for spot purchases as used in Schedule C, Lines 24-29.

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 price of $1.7949 per gallon ($1.9616 per therm), inclusive of broker fees, pipeline fees, PERC fees, and trucking charges from the Selkirk, NY terminal.

Q. **How was the cost of spot purchases determined?**

A. The forecasted spot market prices of propane as shown on Schedule E are Mont Belvieu propane futures quotations as of September 15, 2011. The delivered cost of spot purchases is then determined by adding broker fees, pipeline fees, PERC fees, and trucking charges.

Q. Please describe Schedule F.

A. Schedule F is a forecast of the weighted average cost of propane in inventory for each month through April 2012. This Schedule is important as the total cost of propane sendout each month is a weighted average cost inclusive of pre-purchased deliveries, spot deliveries, and withdrawals from storage.

Q. What is Schedule G?

A. Schedule G shows the calculation of the actual under-collected balance for the prior winter period November 2010 through April 2011, including interest. This period has been audited by Commission Audit Staff and was found to be materially accurate. The final under-collected balance of $33,215 (Line 11) is included on Schedule H, Line 1, Column 1.

Q. How is Schedule H represented in the COG calculation?

A. Schedule H presents the interest calculation on (over)/under collected balances through April 2012. The prior period under-collection plus interest on that balance through October 31, 2011 is included on Schedule B, Line 14 in the "Prior" column. The forecasted monthly interest for the winter period 2011-2012 in Column 7 is included on Schedule B, Line 13. The net amount of the prior period under-collection plus the total interest amount is also included on the tariff page.

FPO AND NON-FPO CUSTOMER PROGRAMS

Q. Will the Company offer an FPO program for the Winter Period 2011-2012?

A. Yes, the Company intends to offer the FPO program for the upcoming winter period to allow customers to lock in their cost of gas. 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, 2011, and based on historical participation the Company expects FPO volumes of approximately 170,000 therms.

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 applied 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 is expected to be mailed to all customers in late September 2011 advising them of the program and how to participate in it.

Q. Did the Company offer the FPO program for the winter period 2010-2011?

A. No. The Company suspended the FPO program last winter because of an embargo at its primary supply point in Selkirk, NY resulting from a pipeline leak identified upstream in Gilboa, NY. The pipeline company could offer no assurance that the terminal would be open for that heating season. A letter describing these developments was sent to customers on October 5, 2010.

Q. What is the status of the Selkirk terminal?

A. The pipeline leak mentioned above was fully rectified, and the Selkirk terminal was reopened over February-March 2011. However, as of early-September 2011, the terminal was placed under a temporary embargo due to flooding in the area caused by tropical storms Irene and Lee.

Q. What is the potential impact on the FPO program of this temporary embargo at the Selkirk terminal?

A. The Company has been monitoring the situation closely. The Company's supplier representative has stated the terminal is expected to re-open during the week of September 25. In the event that the Company believes the re-opening of the terminal before the start of the heating season is at risk, it will assess the advisability of offering the FPO program for the upcoming winter period. This assessment, to be made in consultation with PUC Staff, will need to be completed before the end of September so that an appropriate letter regarding the FPO program can be sent to customers.

COG RATE AND BILL COMPARISONS

Q. How does the proposed winter period 2011-2012 COG rate compare with the winter period 2010-2011 COG rate?

A. The projected COG rate of $2.2157 for Non-FPO customers is an increase of $0.4180 per therm or 23.3% from the average winter period 2010-2011 rate of $1.7977. The proposed FPO rate is $2.2357 per therm. There was no comparable rate in the prior winter period, as the FPO program was not offered.

Q. What are the primary reasons for the higher rate?

A. The primary reasons for this change are an increase in the PPSP contract rate to $1.9616 from $1.4877 per therm due to an increase in futures prices during the pre-purchase period, as well as higher projected market prices for spot purchases.

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

A. The pipeline fee has increased by $0.0085 to $0.1315 per therm compared to last winter, and PERC fees are unchanged. Trucking fees are forecasted to decrease to standard levels reflecting the expected normal operation of the Selkirk terminal and the resulting elimination of the longer shipping distances and wait times encountered last winter.

Q. What is the impact of the winter period 2011-2012 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 an increase of $408.25 or 24.4% in the gas component of their bills compared to the prior winter period. When the monthly customer charge and the per therm delivery charge are factored into the analysis, the average customer would see a total bill increase of $449.27 or 16.8%.

Q. What is the impact of the winter period 2011-2012 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 an increase of $389.61 or 23.3% in the gas component of their bills compared to the prior winter period. When the monthly customer charge and the per therm delivery charge are factored into the analysis, the average customer would see a total bill increase of $430.63 or 16.1%.

Q. Please describe the impact of the winter period 2011-2012 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 an increase in the gas component of their bills of $645.87 (25.4%) and $617.33 (24.3%) respectively. When the monthly customer charge and the per therm delivery charge are included, the average FPO and Non-FPO commercial customer would see total bill increases of $709.77 (17.8%) and $681.23 (17.0%) respectively.

OTHER ITEMS

Q. Please discuss any other adjustments to rates for the winter period 2011-2012.

A. Pursuant to the 2009 Settlement Agreement approved in Order No. 25,309, the Company is authorized to increase its delivery revenues by an additional $57,746 beginning November 1, 2011. The requisite marked and clean tariffs and the supporting documentation for the new delivery rates are provided with this filing.

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 entered into a one year contract for a 60,000 storage tank (51,000 gallons net capacity) at a facility approximately 40 miles from the plant. The Company has arranged trucking from this facility to the plant with Northern Gas Transport, Inc.

Q. Has the Company researched diversifying its supply sources rather than getting most of its propane supply from the Selkirk terminal?

A. The Company has discussed with its supplier the reliability of the Selkirk terminal and the source pipeline, and the possibility of diversifying away from that supply point. In summary, the Company has determined its best course of action is to utilize its supplier’s knowledge and expertise in providing the best possible purchase points for propane. Over the past 13 years, the supplier has provided a commitment to meeting the Company’s supply requirements while at the same time being very conscientious of commodity pricing and shipping costs.

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.