NEW HAMPSHIRE GAS CORPORATION

Winter 2013-2014 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 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 five seasonal Cost of Gas proceedings, Dockets DG 11-054, DG 11-212, DG 12-071, DG 12-284, and DG 13-082.

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, 2013 to April 30, 2014. My testimony will also address bill comparisons 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 51st revised Tariff Page 24.

A. The proposed 51st revised Tariff Page 24 contains the calculation of the Winter 2013-2014 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, 2013 through April 30, 2014 is $1,682,095. 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 under-collection of $23,544 is added to the anticipated cost of the propane sendout. The calculation of the under-collection is presented on Schedule G.

2) Interest of $2,541 is added to the anticipated cost of the propane sendout. Schedule H shows this forecasted interest calculation for the period May

2013 through April 2014. 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 $1.6785 per therm is calculated by dividing the Total Anticipated Cost of $1,708,180 by the Projected Gas Sales of 1,017,695 therms. The Fixed Price Option ("FPO") rate of $1.6985 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 1,101,599 therms represent propane sendout as detailed on Schedule B, Line 3, and the unit cost of $1.5308 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 2013-2014 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 2012-2013 winter period firm sendout and company use. The forecasted Firm Sales on Line 9 represent weather normalized 2012-2013 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 separately displayed on Line 4 of that schedule. The Company actively monitors its level of unaccounted-for volumes, which amounted to 1.64% in the most recent U.S. DOT report for the twelve months ended June 30, 2013. Although slightly higher than the 1.13% rate reported in the prior year, the current rate nonetheless represents a continuation of significantly lower losses compared to 5-10 years ago. The Company's loss control efforts have included leak repair programs, cast iron main replacements, meter change-outs, close monitoring of propane deliveries, and maintaining gas sendout as close to 740.0 btu/cf as mechanically possible.

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 2013-2014 period, segregated by Propane Purchasing 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, and the resulting weighted average contract price for the winter period as used in Schedule C, Line 7. 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 Purchasing 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 $1.3300 per gallon ($1.4535 per therm), inclusive of Pipeline, PERC and Trucking charges in effect at the time of the supplier's bid (April 2013), plus a hedge premium charge.

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 16, 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 F.**

A. Schedule F contains the calculation of the weighted average cost of propane in inventory for each month through April 2014. 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 under-collected balance for the prior Winter 2012-2013 period, including interest. The final under-collected balance of $23,544 (Line 16) is included on Schedule H, Line 1, Column 1. The Company filed its Winter 2012-2013 reconciliation with the Commission on June 6, 2013, and provided additional information per a request from Audit Staff on August 13, 2013. A follow-up request for copies of invoices and clarifying data was received on September 16, 2013. The Company expected to respond to this request in no more than one week.

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 2014. The prior period under-collection plus interest on that balance through October 31, 2013 is included on Schedule B, Line 14 in the “Prior” column. The forecasted monthly interest for the Winter 2013-2014 period in Column 7 is included on Schedule B, Line 13. The prior period under-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 2013-2014 period?**

A. Yes, the Company will offer the FPO program for the upcoming winter period to provide customers the opportunity to lock in their cost of gas rate. Enrollment in the 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 will close on October 19. The Company is forecasting that 21% of total sales volumes will be enrolled in the FPO program, a level consistent with the 20.8% participation rate last winter and the 21% average for the previous five offerings.

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 has 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 on September 30 advising them of the program offering and the procedure to enroll in it.

COST OF GAS RATE AND BILL COMPARISONS

Q. How does the proposed Winter 2013-2014 cost of gas rate compare with the previous winter's rate?

A. The projected Non-FPO COG rate of $1.6785 per therm is an increase of $0.1783 or 11.9% from the Winter 2012-2013 average rate of $1.5002. The proposed FPO rate is $1.6985 per therm, representing an increase of $0.1768 per therm or 11.6% from last winter's rate of $1.5217.

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

A. The principal reason for the higher rates is a forecasted increase in the average spot market purchase price to $1.6165 per therm from last year's actual rate of $1.4333. The rate is also being unfavorably impacted by the inclusion of the prior period under-collection, whereas last winter's rate contained the benefit of a previous over-collection. These impacts are partially offset by a decrease in the

PPSP contract rate per therm to $1.4535 from $1.5013 due to lower average futures prices during the pre-purchase period and a lower supplier premium.

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

A. The pipeline rate is approximately $0.02 lower than last winter because of a FERC-approved settlement of Enterprise TE Products Pipeline's rates. The Company obtains a substantial portion of its propane from Enterprise's Selkirk, N.Y. terminal. The PERC fee and trucking charges are unchanged.

Q. What was the outcome of the Enterprise refund that resulted from this FERC-approved settlement agreement?

A. FERC had allowed Enterprise's increased tariff rates to become effective in November 2012 subject to refund pending the outcome of the proceeding (Docket IS12-203). The final settlement agreement effective May 1, 2013 contained a provision for refunds to shippers or their trade association, the amounts of which were granted confidential status by FERC. The Company's shipper and approximately 90 other small shippers were represented by the National Propane Gas Association ("NPGA") in the FERC proceeding. The Company's shipper was notified that the relatively small refund received by NPGA from Enterprise was nearly fully consumed by legal and other costs related to the rate case proceeding. As a result of this and other legal issues, the Company's shipper did not receive any refund to be passed on to its propane retailers.

Q. What is the impact of the Winter 2013-2014 COG rate on the typical residential heat and hot water customer participating in the FPO program?

A. As shown on Schedule K-1, Lines 32 and 33, the typical residential heat and hot water FPO customer would experience an increase of $95.13 or 11.6% 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 typical customer would see a total bill increase of $89.80 or 5.9%, as shown on Lines 35 and 36.

Q. What is the impact of the Winter 2013-2014 COG rate on the typical residential heat and hot water customer choosing the Non-FPO program?

A. As shown on Schedule K-2, Lines 32 and 33, the typical residential heat and hot water Non-FPO customer is projected to see an increase of $95.92 or 11.9% 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 typical customer would see a total bill increase of $90.59 or 6.0%.

Q. Please explain the derivation of the typical residential heating usage per customer of 538 therms for the winter period.

A. The typical usage was determined by defining a residential heating customer as one that used 60% or more of annual usage in the five winter months last year, and used at least 100 therms in that period. This typical usage level is lower than regional norms due to a) the Company's residential customer base containing many apartment units, b) significant use of alternate heating sources to supplement propane-fired furnaces, and c) the tendency of larger homes on larger lots to install propane tanks. The supporting schedules for this calculation were provided to Staff.

Q. Please describe the impact of the Winter 2013-2014 COG rate on the typical commercial customer compared to the prior winter period.

A. Schedules L-1 and L-2 illustrate that the typical FPO and Non-FPO commercial customer would see an increase in the gas component of their bills of $345.11 (11.6%) and $348.45 (11.9%) respectively. When the monthly customer charge, therm delivery charge and deferred revenue surcharge are included, the typical FPO and Non-FPO commercial customer would see total bill increases of $325.79 (6.5%) and $329.13 (6.6%) 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 is entering into a contract with a storage facility operator to reserve 50,000 gallons of propane at its 600,000 gallon facility located approximately 50 miles from the Keene plant. The Company will pay a fixed fee for the right (but not the obligation) to purchase from this facility over the upcoming winter season if ever necessary to do so. The contract, identical to the one entered into last year, is expected to be finalized by October 1. 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 2013-2014 period.

A. Pursuant to the 2009 Settlement Agreement approved in Order No. 25,309 (DG 09-038), the Company was authorized to implement a deferred revenue surcharge on November 1, 2012. The purpose of the surcharge is to collect over a two year period the difference between the amounts that would have been collected under maximum delivery rates in first two years of the rate agreement and the actual amounts billed to customers under the phased-in rates. The surcharge is being reduced from $0.0716 per therm for the first surcharge year to $0.0617 for the second year beginning November 1, 2013 to account for higher actual and forecasted sales levels. The rate calculation is detailed in Appendix 4.

Q. Please discuss the change being proposed to the method for calculating interest on the over/under collection of gas costs.

A. The Company currently accrues interest on the over/under collection balance at the prime rate as reported in *The Wall Street Journal*, with adjustments quarterly using the rate reported on the first business day of the month preceding the first month of the quarter. The Company is proposing to instead accrue interest using the monthly prime lending rate as reported by the Federal Reserve Statistical Release of Selected Interest Rates. The Company is proposing this change at Staff's request. The revised method will better reflect market lending rates as the rate will no longer be static over an entire quarter, and it will also provide consistency with the method used by the State's other regulated gas utilities.

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.