NEW HAMPSHIRE GAS CORPORATION

Summer 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 have 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, and Winter 2011-2012 Cost of Gas proceeding, Docket DG 11-212.

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, 2012 to October 31, 2012. 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 52nd Revised Tariff Page 25.

A. The proposed 52nd Revised Tariff Page 25 contains the calculation of the Summer 2012 COG rate and summarizes the Company's forecast of propane sales and propane costs. The total anticipated cost of propane sendout from May 1, 2012 through October 31, 2012 is $589,800. The information contained on the tariff page is supported by Schedules A through H which are described later in this testimony.

To derive the Total Anticipated Cost for the period, the following adjustments were made:

1) The prior summer period under-collection of $15,719 is added to the anticipated cost of propane sendout. The calculation of the under-collection is demonstrated on Schedule E.

2) Interest of $1,213 is also added to the anticipated cost of propane sendout. Schedule F shows this forecasted interest calculation for the period November 2011 through October 2012. The interest calculation is based on the Wall Street Journal's posted prime rate.

The Cost of Gas Rate of $1.7884 per therm is calculated by dividing the forecasted Total Anticipated Cost of $572,868 by the Projected Gas Sales of 320,321 therms.

Q. Please describe Schedule A.

A. Schedule A converts the gas volumes and unit costs from gallons to therms. The 340,271 therms represent propane sendout as detailed on Schedule B, Line 3, and the unit cost of $1.7333 per therm represents the weighted average cost per therm for the summer period sendout as detailed on Schedule D, Line 81.

Q. What is Schedule B?

A. Schedule B presents the under/(over) collection calculation for the Summer 2012 period based on the forecasted volumes, the cost of gas, and applicable interest amounts. The forecasted Total Sendout on Line 3 represents the weather normalized 2011 summer period firm sendout plus company use. The forecasted Firm Sales on Line 8 represent weather normalized 2011 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 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% level of unaccounted-for volumes for the prior twelve month period, it nonetheless represents a continuation of significantly lower gas losses in comparison to several years ago. The general reduction in loss levels is attributed to ongoing leak repair programs, cast iron main replacements, and meter replacements.

Q. What is presented on Schedule C?

A. Schedule C presents the forecast of the cost for spot purchases in the Summer 2012 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 14, 2012. The forecasted delivered cost of these purchases is determined by adding 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 2012. The cost of propane sent out each month utilizes this weighted average cost inclusive of all spot purchases and withdrawals from storage.

Q. What is Schedule E?

A. Schedule E shows the calculation of the actual under-collected balance for the prior summer period May 2011 through October 2011, including interest. The final under-collected balance of $15,719 (Line 11) is included on Schedule F, Line 1, Column 1. The Commission audit of this period is currently in the final stages, with resolution of any issues anticipated before the summer period cost of gas hearing scheduled for mid-April.

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 2012. The prior period under-collection plus interest on that balance through April 30, 2012 is included on Schedule B, Line 13 in the "Prior" column. The forecasted monthly interest for the summer period 2012 in Column 7 is included on Schedule B, Line 12. The net amount of the prior period under-collection plus the total interest amount is also included on the tariff page.

COG RATE AND BILL COMPARISONS

Q. How does the proposed summer period 2012 COG rate compare with the summer period 2011 COG rate?

A. The projected COG rate of $1.7884 is a decrease of $0.2879 per therm or 13.9% from the summer period 2011 average rate of $2.0763.

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

A. The principal reason for the decrease is lower projected spot market prices of propane versus the summer 2011 period.

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

A. The pipeline fee has increased slightly by $0.0085 to $0.1315 per therm compared to last summer, and PERC fees are unchanged. Trucking fees are forecasted to increase by about two-tenths of a cent per therm, as the diesel fuel surcharge is anticipated to be modestly higher.

Q. What amount of propane was pre-purchased for the summer period?

A. The Company did not make any pre-purchases for the 2012 summer period.

Q. What is the impact of the summer period 2012 COG rate on the average residential heat and hot water customer?

A. As shown on Schedules I-1 and I-2, Lines 28 and 29, Column 14, the average residential heat and hot water customer is projected to see a decrease of $91.55 or 13.9% in the gas component of their bills compared to the prior summer 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 decrease of $75.96 or 7.1%, as shown in Lines 31 and 32, 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 Period 2011-2012. The Company believes that the estimated premium of $0.0772 per gallon was reasonable. This premium represents approximately 4.3% of the cost of the pre-purchased gallons. In Schedule, J-2, the Company performed a comparison of propane purchase costs under the contract price versus hypothetical spot prices for November 2011 to February 2012. The analysis shows that the cost of the pre-purchased gallons was approximately 10% higher than the average hypothetical spot purchase cost. 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 necessarily securing lower prices. As such, the Company believes the Plan should continue.

Q. Has the Company issued a Request for Proposal ("RFP") to potential suppliers for the 2012-2013 Propane Purchasing Stabilization Plan?

A. Yes, the Company issued an RFP to seven potential suppliers on March 1, 2012. Three responded with proposals by the March 15 deadline. 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 three proposals prior to the summer period 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 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.