NEW HAMPSHIRE GAS CORPORATION

Summer 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 six seasonal COG proceedings, Dockets DG 11-054, DG 11-212, DG 12-071, DG 12-284, DG 13-082, and DG 13-261.

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, 2014 to October 31, 2014. 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 62nd revised Tariff Page 25.

A. The proposed 62nd Revised Tariff Page 25 contains the calculation of the Summer 2014 COG rate and summarizes the Company's forecast of propane sales and propane costs. The total anticipated cost of propane sendout from May 1, 2014 through October 31, 2014 is $552,856. 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 $982 is subtracted from the anticipated cost of the propane sendout. The calculation of the over-collection is presented on Schedule E.

2) Interest of $894 is also subtracted from the anticipated cost of propane sendout. Schedule F shows this forecasted interest calculation for the

period November 2013 through October 2014. The interest calculation is based on the Wall Street Journal's posted prime rate.

The COG rate of $1.6190 per therm is calculated by dividing the forecasted Total Anticipated Cost of $550,980 by the Projected Gas Sales of 340,323 therms.

Q. Please describe Schedule A.

A. Schedule A converts the gas volumes and unit costs from gallons to therms. The 349,127 therms represent propane sendout as detailed on Schedule B, Line 3, and the unit cost of $1.5835 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 2014 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 2013 summer period firm sendout and company use. The forecasted Firm Sales on Line 8 represent weather normalized 2013 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 1.64% in the most recent U.S. DOT report for the twelve months ended June 30, 2013. The general reduction in loss levels compared to several years ago is attributed to the Company's loss control efforts including 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. What is presented on Schedule C?

A. Schedule C presents the forecast of the unit cost for spot purchases in the Summer 2014 period.

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

A. The forecasted spot market prices of propane as shown on Schedule C, Column 1, are the Mont Belvieu propane futures quotations as of March 11, 2014. 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 2014. The unit 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 2013 period, including interest. The final over-collected balance of $982 (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 02/14/14.

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 2014. The prior period over-collection plus interest on that balance through April 30, 2014 is included on Schedule B, Line 13 in the “Prior” column. The forecasted monthly interest for the Summer 2014 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 2014 COG rate compare with the previous summer's rate?

A. The projected COG rate of $1.6190 per therm is an increase of $0.1413 or 9.6% from the Summer 2013 average rate of $1.4777.

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

A. The higher rate is primarily attributable to an increase in Mt. Belvieu futures prices in comparison to last year's actual spot prices.

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

A. The pipeline rate, PERC fee and estimated supplier charge are unchanged, and the trucking fee is forecasted to increase by about two-tenths of a cent per therm due to a slightly higher diesel fuel surcharge.

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 2014 COG rate on the typical residential heat and hot water customer?

A. As shown on Schedules I-1 and I-2, Lines 32 and 33, Column 14, the typical residential heat and hot water customer is projected to see an increase of $16.27 or 9.6% 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 typical customer would see a total bill increase of $13.25 or 3.6% 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 2013-2014 period. The Company believes that the estimated premium of $0.0089 per gallon was unusually favorable reflecting a highly competitive environment in the supplier market at the time of the RFP. 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 42.2% lower than the average hypothetical spot purchase cost for the first four months of the current winter period reflecting a very volatile propane market in the Northeast and Midwest due to cold weather conditions and supply constraints. 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 2014-2015 Propane Purchasing Stabilization Plan?

A. Yes, the Company issued an RFP to seven potential bidders on March 4, 2014. The deadline for responses is March 14. The Plan structure specified in the RFP, as detailed on Schedule J-3, represents a small increase in pre-purchases from 700,000 gallons to 725,000 gallons to maintain the 65% targeted ratio of hedged volumes to expected sales. The Company will evaluate the merits of the qualifying responses and select a winning bid by the end of March.

Q. Please discuss any other changes to rates for the Summer 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. For the final six months of the surcharge (May 1, 2014 - October 31, 2014) , the rate per therm can reduced from $0.0617 to $0.0453 as sales and collections for the 2013-2014 winter were above forecast due to the cold weather. The rate calculation is detailed in Appendix 4. A final reconciliation will be completed in November 2014, and the residual balance will be recovered or refunded through next winter's COG rate.

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.