NEW HAMPSHIRE GAS CORPORATION

Winter 2014-2015 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 seven seasonal Cost of Gas proceedings, Dockets DG 11-054, DG 11-212, DG 12-071, DG 12-284, DG 13-082, DG 13-261, and DG 14-074.

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, 2014 to April 30, 2015. 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 57th revised Tariff Page 24 contains the calculation of the Winter 2014-2015 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, 2014 through April 30, 2015 is $1,826,090. 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 $9,404 is added to the anticipated cost of the propane sendout. The calculation of the under-collection is presented on Schedule G.

2) Interest of $2,382 is added to the anticipated cost of the propane sendout. Schedule H shows this forecasted interest calculation for the period May

2014 through April 2015. Interest is accrued using the monthly prime lending rate as reported by the Federal Reserve Statistical Release of Selected Interest Rates.

The Non-Fixed Price Option ("Non-FPO") cost of gas rate of $1.7069 per therm is calculated by dividing the Total Anticipated Cost of $1,837,876 by the Projected Gas Sales of 1,076,725 therms. The Fixed Price Option ("FPO") rate of $1.7269 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 1,144,600 therms represent propane sendout as detailed on Schedule B, Line 3, and the unit cost of $1.5997 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 2014-2015 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 2013-2014 winter period firm sendout and company use. The forecasted Firm Sales on Line 9 represent weather normalized 2013-2014 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 a record-low 0.99% in the most recent U.S. DOT report for the twelve months ended June 30, 2014. The rate in the previous two years averaged 1.41%. The general downtrend in the rate compared to the 3-5% level of 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. Please describe Schedules C, D, and E.

A Schedule C presents the calculation of the total forecasted cost of propane purchases in the Winter 2014-2015 period, segregated by Propane Purchasing Stabilization Plan ("PPSP") purchases, spot purchases, and other items. 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 the only change from prior years being a 25,000 gallon (3.6%) increase in pre-purchases. As shown on Schedule D, the company pre-purchased 725,000 gallons of propane between April and September at a weighted average price of $1.4791 per gallon ($1.6165 per therm), inclusive of broker, pipeline, PERC and trucking charges in effect at the time of the supplier's bid (March 2014), plus a hedge premium charge.

Q. How was the cost of spot purchases determined?

A. The forecasted spot market prices of propane as shown on Schedule E, Column 1 are the Mont Belvieu propane futures quotations as of September 3, 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 F.

A. Schedule F contains the calculation of the weighted average cost of propane in inventory for each month through April 2015. The unit 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 2013-2014 period, including interest. The final under-collected balance of $9,404 (Line 16) is included on Schedule H, Line 1, Column 1. The period has been examined by PUC audit staff, and the examiner's report dated 08/06/14 found the reconciliation to be accurate.

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 2015. The prior period under-collection plus interest on that balance through October 31, 2014 is included on Schedule B, Line 14 in the "Prior" column. The forecasted monthly interest for the Winter 2014-2015 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 2014-2015 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 20. The Company is forecasting that 23% of total sales volumes will enroll in the FPO program, a level somewhat higher than the 17.9% participation rate last winter and the 19% average for the previous four offerings due to the expectation that last winter's price spikes will encourage some additional customers to lock in the rate.

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. The Company is not seeking an increase in the premium because participation, based on prior customer behavior, is expected to remain well below the 50% threshold.

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 and the procedure to enroll in it.

COST OF GAS RATE AND BILL COMPARISONS

Q. How does the proposed Winter 2014-2015 cost of gas rate compare with the previous winter's rate?

A. The proposed Non-FPO COG rate of $1.7069 per therm is a decrease of $0.3023 or 15.0% from the Winter 2013-2014 average rate of $2.0092. The proposed FPO rate is $1.7269 per therm, representing an increase of $0.0284 per therm or 1.7% from last winter's fixed rate of $1.6985.

Q. What are the primary reasons for the change in rates?

A. The principal reason for the lower Non-FPO rate is a forecasted decrease in the average spot market purchase price to $1.5599 per therm from last year's actual rate of $2.3054. This impact is partially offset by an increase in the PPSP contract rate per therm to $1.6165 from $1.4573 due to higher average futures prices during the pre-purchase period and a higher hedge premium by the winning bidder. The proposed FPO rate is slightly higher due to the increase in the PPSP contract rate partially offset by this year's lower futures prices for spot purchases on the rate-setting date.

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

A. The pipeline tariff rate increased by nine-tenths of a cent per therm, the PERC fee and estimated supplier charge are unchanged, and the trucking fee is forecasted to decrease by one-tenth of a cent per therm due to a slightly lower diesel fuel surcharge.

Q. What is the impact of the Winter 2014-2015 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 $15.28 or 1.7% in the gas component of their bills compared to the prior winter period. When the monthly customer charge, therm delivery charge and elimination of the deferred revenue surcharge are factored into the analysis, the typical customer would see a total bill decrease of $17.91 or 1.1%, as shown on Lines 35 and 36.

Q. What is the impact of the Winter 2014-2015 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 a decrease of $162.61 or 15.0% in the gas component of their bills compared to the prior winter period. When the monthly customer charge, therm delivery charge and elimination of the deferred revenue surcharge are factored into the analysis, the typical customer would see a total bill decrease of $195.80 or 11.1%.

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 uses 60% or more of annual usage in the five winter months, and uses 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.

Q. Please describe the impact of the Winter 2014-2015 COG rate on the typical commercial customer compared to the prior winter period.

A. Schedule L-1 illustrates that the typical commercial FPO customer would see a $55 (1.7%) increase in the gas component of their bill but a $65 (1.2%) decrease in their total bill. Schedule L-2 shows that the typical commercial non-FPO customer would see decreases of $590 (15.0%) in the gas component of their bill and $710 (11.9%) in their total bill.

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 will enter into a contract with a storage operator by October 1 to reserve 100,000 gallons of propane at a facility located approximately 50 miles from the Keene plant. The contracted amount is being increased from 50,000 gallons in the prior two winters. The Company will pay a fixed fee for the right (but not the obligation) to make withdrawals over the upcoming winter season if necessary to do so. The Company is required to replenish any withdrawals from the facility by September of 2015. 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. Why is the Company increasing the contract from 50,000 gallons to 100,000 gallons?

A. The Company is increasing the contracted storage amount to provide additional supplies in the event of spot market price spikes and/or limited pipeline availability. The additional availability will also allow the Company to comply with the 7-day storage requirement even if half of this storage is withdrawn for sendout. This measure, in conjunction with the increase in contract purchases of 25,000 gallons, is intended to lessen the customer impact of propane market disruptions such as those experienced last winter.

Q. Have any market-wide changes occurred to reduce the risk of propane shortages in the Northeast/Midwest this winter?

A. A number of efforts to avoid a repeat of last winter's propane shortage have taken place, such as bolstering storage facilities, building rail terminals, encouraging early tank fills by consumers and dealers, and smoothing the regulatory process for granting exemptions to hours-of-service rules.

Q. Please discuss any other changes to rates for the Winter 2014-2015 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 was 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. This surcharge will end on October 31, 2014, and the residual over-collected balance currently estimated at $3,400 will be refunded in the November 2014 COG reconciliation. The estimated refund is included in this cost of gas filing on Schedule C, Line 27.

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.