

UNITIL CORP
Form 10-K
February 10, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2009

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-8858

UNITIL CORPORATION

(Exact name of registrant as specified in its charter)

New Hampshire (State or other jurisdiction of incorporation or organization)	02-0381573 (I.R.S. Employer Identification No.)
6 Liberty Lane West, Hampton, New Hampshire (Address of principal executive offices)	03842-1720 (Zip Code)

Registrant's telephone number, including area code: (603) 772-0775

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class Common Stock, No Par Value	Name of Exchange on Which Registered New York Stock Exchange
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Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Based on the closing price of June 30, 2009, the aggregate market value of common stock held by non-affiliates of the registrant was \$219,996,265.

The number of common shares outstanding of the registrant was 10,838,394 as of February 9, 2010.

Documents Incorporated by Reference:

Portions of the Proxy Statement relating to the Annual Meeting of Shareholders to be held April 15, 2010 are incorporated by reference into Part III of this Report

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Unitil Corporation (Unitil or the Company) is a public utility holding company. Unitil was incorporated under the laws of the State of New Hampshire in 1984. The following companies are wholly owned subsidiaries of Unitil:

Company Name	Organization	Principal Business
Unitil Energy Systems, Inc. (Unitil Energy)	NH - 1901	Electric Distribution Utility
Fitchburg Gas and Electric Light Company (Fitchburg)	MA - 1852	Electric & Gas Distribution Utility
Northern Utilities, Inc. (Northern Utilities)	NH - 1979	Natural Gas Distribution Utility
Granite State Gas Transmission, Inc. (Granite State)	NH - 1955	Natural Gas Transmission Pipeline
Unitil Power Corp. (Unitil Power)	NH - 1984	Wholesale Electric Power Utility
Unitil Service Corp. (Unitil Service)	NH - 1984	Utility Service Company
Unitil Realty Corp. (Unitil Realty)	NH - 1986	Real Estate Management
Unitil Resources, Inc. (Unitil Resources)	NH - 1993	Non-regulated Energy Services
Usource Inc. and Usource L.L.C. (Usource)	DE - 2000	Energy Brokering and Advisory Services

Unitil and its subsidiaries are subject to regulation as a holding company system by the Federal Energy Regulatory Commission (FERC) under the Energy Policy Act of 2005.

Unitil's principal business is the local distribution of electricity and natural gas throughout its service territories in the states of New Hampshire, Massachusetts and Maine. Unitil is the parent company of three wholly owned distribution utilities: i) Unitil Energy, which provides electric service in the southeastern seacoast and state capital regions of New Hampshire, including the city of Concord, New Hampshire, ii) Fitchburg, which provides both electric and natural gas service in the greater Fitchburg area of north central Massachusetts, and iii) Northern Utilities, which provides natural gas service in southeastern New Hampshire and portions of southern and central Maine, including the city of Portland and the Lewiston-Auburn area. In addition, Unitil is the parent company of Granite State, an interstate natural gas transmission pipeline company that provides interstate natural gas pipeline access and transportation services to Northern Utilities in its New Hampshire and Maine service territory. Together, Unitil's three distribution utilities serve approximately 100,500 electric customers and 70,000 natural gas customers.

Unitil's distribution utilities are local pipes and wires operating companies and, combined with Granite State, had an investment in net utility plant of \$449.7 million at December 31, 2009. Unitil's total operating revenue was \$367.0 million in 2009. Substantially all of Unitil's operating revenue is derived from regulated utility operations.

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A fifth utility subsidiary, Unitil Power, formerly functioned as the full requirements wholesale power supply provider for Unitil Energy. In connection with the implementation of electric industry restructuring in New Hampshire, Unitil Power ceased being the wholesale supplier of Unitil Energy on May 1, 2003 and divested of substantially all of its long-term power supply contracts through the sale of the entitlements to the electricity associated with those contracts.

Unitil also has three other wholly owned subsidiaries: Unitil Service, Unitil Realty and Unitil Resources. Unitil Service provides, at cost, a variety of administrative and professional services, including regulatory, financial, accounting, human resources, engineering, operations, technology and energy supply management services on a centralized basis to its affiliated Unitil companies. Unitil Realty owns and manages the Company's corporate office in Hampton, New Hampshire. Unitil Resources is the Company's wholly owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are indirect subsidiaries that are wholly owned by Unitil Resources. Usource provides energy brokering and advisory services to large commercial and industrial customers in the northeastern United States.

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OPERATIONS

Gas Operations

Unitil's Gas Operations include gas distribution utility operations and gas transportation pipeline company operations, discussed below. Revenue from Unitil's gas operations was \$152.8 million for 2009, which represent about 42% of Unitil's total operating revenue. In 2008, the Company significantly expanded its gas operations by acquiring Northern Utilities and Granite State on December 1, 2008.

On December 1, 2008, the Company purchased: (i) all of the outstanding capital stock of Northern Utilities, a natural gas distribution utility serving customers in Maine and New Hampshire, originally founded as Portland Gas Light Company in 1849, from Bay State Gas Company (Bay State) and (ii) all of the outstanding capital stock of Granite State, an interstate natural gas transmission pipeline company primarily serving the needs of Northern Utilities, from NiSource Inc. (NiSource) pursuant to the Stock Purchase Agreement dated as of February 15, 2008 by and among NiSource, Bay State, and Unitil (the Acquisitions). Bay State is a wholly owned subsidiary of NiSource. The aggregate purchase price for the Acquisitions was \$160 million in cash, plus an additional working capital adjustment of \$49.2 million, including approximately \$30.0 million of natural gas storage inventory. To finance the Acquisitions and recapitalize Northern Utilities and Granite State, the Company issued additional equity and debt (see Liquidity, Commitments and Capital Requirements section in Part II, Item 7 below). The regulatory process in both New Hampshire and Maine, in connection with those states' approvals of the Acquisitions, included the negotiation and filing of settlement agreements reflecting commitments by Unitil with respect to Northern Utilities' rates, customer service and operations. The settlement agreements were separately negotiated and filed in each state but reflect a number of common features (See Note 6 to the accompanying Consolidated Financial Statements for additional information on these settlement agreements).

Gas Distribution Utility Operations

Unitil's natural gas utility operations are conducted through two of the Company's distribution utilities, Northern Utilities and Fitchburg. The primary business of Unitil's natural gas utility operations is the local distribution of natural gas to customers in its service territory in New Hampshire, Massachusetts and Maine. As a result of a restructuring of the gas utility industry in New Hampshire, Massachusetts and Maine, Fitchburg's residential and commercial and industrial (C&I) customers and Northern Utilities' C&I customers have the opportunity to purchase their natural gas supplies from third-party energy supply vendors. Most customers, however, continue to purchase such supplies through Northern Utilities and Fitchburg under regulated rates and tariffs. Northern Utilities and Fitchburg purchase natural gas from unaffiliated wholesale suppliers and recover the actual costs of these supplies on a pass-through basis through reconciling rate mechanisms that are periodically adjusted.

Natural gas is supplied and distributed by Northern Utilities to approximately 54,800 customers in 44 New Hampshire and southern Maine communities, from Plaistow, New Hampshire in the south to the city of Portland, Maine and then extending to Lewiston-Auburn, Maine in the north. Northern Utilities has a diversified customer base both in Maine and New Hampshire. Commercial businesses include healthcare, education, government and retail. Northern Utilities' industrial base includes manufacturers in the industries of auto, housing, rubber, printing, textile, pharmaceutical, electronics, wires and food production as well as a military installation. Northern Utilities 2009 gas operating revenue was \$113.9 million, of which approximately 37.0% was derived from residential firm sales and 63.0% from C&I firm sales.

Natural gas is supplied and distributed by Fitchburg to approximately 15,200 customers in the communities of Fitchburg, Lunenburg, Townsend, Ashby, Gardner and Westminster, all located in Massachusetts. Fitchburg's industrial customers include paper manufacturing and paper products companies, rubber and plastics manufacturers, chemical products companies and printing, publishing and associated industries. Fitchburg's 2009

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gas operating revenue was \$34.8 million, of which approximately 54.0% was derived from residential firm sales and 46.0% from commercial/industrial firm sales.

Gas Transmission Pipeline Company Operations

Granite State is an interstate natural gas transmission pipeline company, operating 87 miles of underground gas transmission pipeline primarily located in Maine and New Hampshire. Granite State

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provides Northern Utilities with interconnection to major natural gas pipelines and access to domestic natural gas supplies in the south and Canadian natural gas supplies in the north. Granite State had operating revenue of \$4.1 million for 2009. Granite State derives its revenues principally from the transportation services provided to Northern Utilities and, to a lesser extent, third-party marketers.

Electric Distribution Utility Operations

Unitil's electric utility operations are conducted through two of the Company's distribution utilities, Unitil Energy and Fitchburg. Revenue from Unitil's electric utility operations was \$209.9 million for 2009, which represent about 57% of Unitil's total operating revenue.

The primary business of Unitil's electric utility operations is the local distribution of electricity to customers in its service territory in New Hampshire and Massachusetts. As a result of the implementation of choice in New Hampshire and Massachusetts, Unitil's customers are free to contract for their supply of electricity with third-party suppliers. The distribution utilities continue to deliver that supply of electricity over their distribution systems. Both Unitil Energy and Fitchburg supply electricity to those customers who do not obtain their supply from third-party suppliers, with the approved costs associated with electricity supplied by the distribution utilities being recovered on a pass-through basis under periodically-adjusted rates.

Unitil Energy distributes electricity to approximately 72,600 customers in New Hampshire in the capital city of Concord as well as parts of 12 surrounding towns and all or part of 18 towns in the southeastern and seacoast regions of New Hampshire, including the towns of Hampton, Exeter, Atkinson and Plaistow. Unitil Energy's service territory consists of approximately 408 square miles. In addition, Unitil Energy's service territory encompasses retail trading and recreation centers for the central and southeastern parts and includes the Hampton Beach recreational area. These areas serve diversified commercial and industrial businesses, including manufacturing firms engaged in the production of electronic components, wires and plastics, healthcare and education. Unitil Energy's 2009 electric operating revenue was \$146.4 million, of which approximately 51.0% was derived from residential sales and 49.0% from commercial/industrial sales.

Fitchburg is engaged in the distribution of both electricity and natural gas in the greater Fitchburg area of northcentral Massachusetts. Fitchburg's service territory encompasses approximately 170 square miles. Electricity is supplied and distributed by Fitchburg to approximately 27,900 customers in the communities of Fitchburg, Ashby, Townsend and Lunenburg. Fitchburg's industrial customers include paper manufacturing and paper products companies, rubber and plastics manufacturers, chemical products companies and printing, publishing and associated industries and education. Fitchburg's 2009 electric operating revenue was \$63.5 million, of which approximately 54.0% was derived from residential sales and 46.0% from commercial/industrial sales.

Seasonality

As a result of the acquisitions of Northern Utilities and Granite State, consolidated results for the Company in the current period may not be directly comparable to prior period results until such time as the acquisitions are fully reflected in both reporting periods. In particular, the Company's results will reflect the seasonal nature of the natural gas distribution business. Accordingly, the Company expects that results of operations will be positively affected during the first and fourth quarters, when sales of natural gas are typically higher, and negatively affected during the second and third quarters, when gas operating and maintenance expenses usually exceed sales margins in the period.

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Electric sales in New England are far less seasonal than natural gas sales; however, the highest usage typically occurs in both the summer months due to air conditioning demand and the winter months due to heating-related requirements and shorter daylight hours. Unitil Energy, Fitchburg and Northern Utilities are not dependent on a single customer or a few customers for their electric and natural gas sales.

Non-regulated and Other Non-Utility Operations

Unitil's non-regulated operations are conducted through Usource, a subsidiary of Unitil Resources. Usource provides energy brokering and consulting services to large commercial and industrial customers in the northeastern United States. Revenue from Unitil's non-regulated operations was \$4.3 million in 2009.

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The results of Unitil's other non-utility subsidiaries, Unitil Service and Unitil Realty, and the holding company are included in the Company's consolidated results of operations. The results of these non-utility operations are principally derived from income earned on short-term investments and real property owned for Unitil's and its subsidiaries' use and are reported, after intercompany eliminations, in Other segment income (for segment information, see Part II, Item 8, Note 10 herein).

(For details on Unitil's Results of Operations, see Part II, Item 7 herein.)

RATES AND REGULATION

Unitil is subject to comprehensive regulation by federal and state regulatory authorities. Unitil and its subsidiaries are subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005 with regard to certain bookkeeping, accounting and reporting requirements. Unitil's utility operations related to wholesale and interstate energy business activities are also regulated by FERC. Unitil's distribution utilities are subject to regulation by the applicable state public utility commissions, with regard to their rates, issuance of securities and other accounting and operational matters: Unitil Energy is subject to regulation by the New Hampshire Public Utilities Commission (NHPUC); Fitchburg is subject to regulation by the Massachusetts Department of Public Utilities (MDPU); and Northern Utilities is regulated by the NHPUC and Maine Public Utilities Commission (MPUC). Granite State, Unitil's interstate natural gas transmission pipeline, is subject to regulation by the FERC with regard to their rates and operations. Because Unitil's primary operations are subject to rate regulation, the regulatory treatment of various matters could significantly affect the Company's operations and financial position.

Unitil's distribution utilities deliver electricity and/or natural gas to all customers in their service territory, at rates established under traditional cost of service regulation. Under this regulatory structure, Unitil's distribution utilities recover the cost of providing distribution service to their customers based on a historical test year, in addition to earning a return on their capital investment in utility assets. As a result of a restructuring of the utility industry in New Hampshire, Massachusetts and Maine, Unitil's customers have the opportunity to purchase their electricity or natural gas supplies from third party energy supply vendors. Most customers, however, continue to purchase such supplies through the distribution utilities under regulated energy rates and tariffs. Unitil's distribution utilities purchase electricity or natural gas from unaffiliated wholesale suppliers and recover the actual approved costs of these supplies on a pass-through basis, as well as certain costs associated with industry restructuring, through reconciling rate mechanisms that are periodically adjusted.

On December 11 and 12, 2008, a severe ice storm struck the New England region (December 2008 Ice Storm), causing extensive damage to electric facilities and loss of service to significant numbers of customers of several utilities. An estimated one million electric customers in the region were affected, including all of Unitil's 28,000 Massachusetts customers, and approximately half of its New Hampshire customers.

The Company has received regulatory approval to defer storm restoration costs and has accrued and deferred approximately \$14.6 million of costs, including carrying charges, incurred for the repair of its electric system damaged during the ice storm so that it may seek recovery of these costs in its next base rate cases. The Company does not believe these storm restoration expenditures and the timing of cost recovery will have a material adverse impact on the Company's financial condition or results of operations. However, if it were ultimately determined that certain of these costs were not recoverable in rates, there may be a significant impact on the Company's results of operations in future periods.

Also see Part II, Item 7 below for Management's Discussion and Analysis of Financial Condition and Results of Operations - Regulatory Matters and Note 6 to the accompanying Consolidated Financial Statements for additional information on Rates and Regulation.

NATURAL GAS SUPPLY

With the purchase of Northern Utilities on December 1, 2008, Unitil now manages gas supply for customers served by Northern Utilities in Maine and New Hampshire as well as customers served by Fitchburg in Massachusetts.

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Fitchburg's residential and C&I customers have the opportunity to purchase their natural gas supply from third-party gas supply vendors, although most of Fitchburg's customers continue to purchase such supplies at regulated rates from Fitchburg. Northern Utilities' C&I natural gas customers have the opportunity to purchase their natural gas supply from third-party gas supply vendors, and third-party supply is prevalent among Northern Utilities' larger C&I customers. Most small C&I customers, as well as all residential customers, purchase their gas supply at regulated rates from Northern Utilities under regulated rates and tariffs. The approved costs associated with the acquisition of such wholesale natural gas supplies for customers who do not contract with third-party suppliers are recovered on a pass-through basis through periodically-adjusted rates and are included in Purchased Gas in the Consolidated Statements of Earnings.

In the fourth quarter of 2009, the MDPU issued an order finding that Fitchburg engaged in certain price stabilization practices for the 2007 / 2008 and 2008 / 2009 heating seasons without the MDPU's prior approval and that Fitchburg's gas purchasing practices were imprudent. As a result, the MDPU required Fitchburg to refund \$4.6 million of natural gas costs, plus carrying charges, to its gas customers. Fitchburg recorded a pre-tax charge of \$4.9 million in the fourth quarter of 2009 based on the MDPU's order. Fitchburg has appealed this order to the Massachusetts Supreme Judicial Court. Fitchburg's assessment is that pre-approval from the MDPU for gas purchases made to stabilize prices for customers was not required and that its gas-procurement practices were consistent with those of other Massachusetts natural gas distribution companies and all relevant MDPU rules and orders and Massachusetts law. In addition, Fitchburg is able to demonstrate that its gas purchasing practices were previously disclosed to the MDPU at public hearings and in required filings with the MDPU and the Massachusetts Office of the Attorney General. This appeal remains pending before the Massachusetts Supreme Judicial Court. Immediately after the MDPU opened its investigation of this matter in March 2009, Fitchburg ceased making the gas procurement purchases in question and filed a request with the MDPU for approval of a gas procurement plan for future gas purchases. This matter remains pending before the MDPU.

Regulated Natural Gas Supply

Fitchburg purchases natural gas under contracts of one year or less, as well as from producers and marketers on the spot market. Fitchburg arranges for gas delivery to its system through its own long-term contracts with Tennessee Gas Pipeline, or in the case of liquefied natural gas (LNG) or liquefied propane gas (LPG), to truck supplies to each storage facility within Fitchburg's service territory.

Fitchburg has available under firm contract 14,057 MMBtu per day of year-round and seasonal transportation and underground storage capacity to its distribution facilities. As a supplement to pipeline natural gas, Fitchburg owns a propane air gas plant and a LNG storage and vaporization facility. These plants are used principally during peak load periods to augment the supply of pipeline natural gas.

Northern purchases a majority of its natural gas from U.S. domestic and Canadian suppliers under contracts of one year or less, and on occasion from producers and marketers on the spot market. Northern arranges for gas delivery to its system through its own long-term contracts with various interstate pipeline and storage facilities, through peaking supply contracts delivered to its system, or in the case of LNG or LPG, to truck supplies to each storage facility within Northern Utilities' service territory.

Northern has available under firm contract 100,000 MMBtu per day of year-round and seasonal transportation capacity to its distribution facilities, and 3.4 Bcf of underground storage. As a supplement to pipeline natural gas, Northern owns a propane air gas plant and a LNG storage and vaporization facility. These plants are used principally during peak load periods to augment the supply of pipeline natural gas.

ELECTRIC POWER SUPPLY

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The restructuring of the utility industry in New Hampshire required the divestiture of Unitil's power supply arrangements and the procurement of replacement supplies, which provided the flexibility for migration of customers to and from utility energy service. Fitchburg, Unitil Energy, and Unitil Power each are members of the New England Power Pool (NEPOOL) and participate in the ISO New England, Inc. (ISO-NE) markets for the purpose of facilitating these wholesale electric power supply transactions, which are necessary to serve Unitil's customers.

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As a result of restructuring of the electric utility industry in Massachusetts and New Hampshire, Unitil's customers in both New Hampshire and Massachusetts have the opportunity to purchase their electric supply from competitive third party energy suppliers. As of December 2009, 99 or 67% of Unitil's largest New Hampshire customers, representing 24% of total New Hampshire electric energy sales, and 26 or 79% of Unitil's largest Massachusetts customers, representing 35% of total Massachusetts electric energy sales, are purchasing their electric power supply in the competitive market. However, most residential and small commercial customers continue to purchase their electric supply through Unitil's distribution utilities under regulated energy rates and tariffs. The concentration of the competitive retail market on higher use customers has been a common experience throughout the New England electricity market.

Regulated Electric Power Supply

In order to provide regulated electric supply service to their customers, Unitil's distribution utilities enter into load-following wholesale electric power supply contracts with various wholesale suppliers.

Fitchburg has power supply contracts with various wholesale suppliers for the provision of Basic Service energy supply. MDPU policy dictates the pricing structure and duration of each of these contracts. Currently, all Basic Service power supply contracts for large general accounts are three months in duration and provide 100% of supply requirements. Basic Service power supply contracts for residential and small and medium general service customers are acquired every six months, are 12 months in duration and provide 50% of the supply requirements.

Unitil Energy currently has power supply contracts with various wholesale suppliers for the provision of Default Service to its customers. Unitil Energy procures Default Service supply for its large general service accounts through competitive solicitations for power contracts of three months in duration for 100% of supply requirements. Unitil Energy procures Default Service supply for its other customers through a series of two one-year contracts and two three-year contracts, each providing 25% of the total supply requirements of the group.

The NHPUC and MDPU regularly investigate alternatives to their procurement policy, which may lead to future changes in this regulated power supply procurement structure.

Regional Electric Transmission and Power Markets

Fitchburg, Unitil Energy and Unitil Power, as well as virtually all New England electric utilities, are participants in the ISO-NE markets. ISO-NE is the Regional Transmission Organization (RTO) in New England. The purpose of ISO-NE is to assure reliable operation of the bulk power system in the most economic manner for the region. Substantially all operation and dispatching of electric generation and bulk transmission capacity in New England is performed on a regional basis. The ISO-NE tariff imposes generating capacity and reserve obligations, and provides for the use of major transmission facilities and support payments associated therewith. The most notable benefits of the ISO-NE are coordinated power system operation in a reliable manner and a supportive business environment for the development of competitive electric markets.

Electric Power Supply Divestiture

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Prior to May 1, 2003, Unitil Energy purchased all of its power supply from Unitil Power under the Unitil System Agreement, a FERC-regulated tariff, which provided for the recovery of all of Unitil Power's power supply-related costs on a cost pass-through basis. Effective May 1, 2003, Unitil Energy and Unitil Power amended the Unitil System Agreement, such that power sales from Unitil Power to Unitil Energy ceased, and Unitil Power sold substantially all of its entitlements under the remaining portfolio of power supply contracts. Under the amended Unitil System Agreement, Unitil Energy continues to pay contract release payments to Unitil Power for stranded costs associated with the portfolio sale and its other ongoing power supply-related costs. In connection with the restructuring of the electric industry, Unitil Power and Fitchburg divested substantially all of their long-term power supply contracts and interests in generation assets through the sale of the interest in those assets or the sale of the entitlements to the electricity provided by those generation assets and long-term power supply contracts.

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Unitil Energy and Fitchburg recover in their rates all the costs associated with the divestiture of their power supply portfolios and have secured regulatory approval from the NHPUC and MDPU, respectively, for the recovery of power supply-related stranded costs and other restructuring-related regulatory assets. Unitil's distribution companies have a continuing obligation to submit filings in both states that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

ENVIRONMENTAL MATTERS

Unitil's past and present operations include activities that are generally subject to extensive and complex federal and state environmental laws and regulations. The Company believes it is in compliance with applicable environmental and safety laws and regulations, and the Company believes that as of December 31, 2009, there were no material losses reasonably likely to be incurred in excess of recorded amounts. However, there can be no assurance that significant costs and liabilities will not be incurred in the future. It is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations could result in increased environmental compliance costs.

Fitchburg's Manufactured Gas Plant Site Fitchburg continues to work with environmental regulatory agencies to identify and assess environmental issues at the former manufactured gas plant (MGP) site at Sawyer Passway, located in Fitchburg, Massachusetts. Fitchburg has proceeded with site remediation work as specified on the Tier 1B permit issued by the Massachusetts Department of Environmental Protection, which allows Fitchburg to work towards temporary closure of the site. A status of temporary closure requires Fitchburg to monitor the site until a feasible permanent remediation alternative can be developed and completed. Also, see Note 6 to the accompanying consolidated financial statements.

Fitchburg recovers the environmental response costs incurred at this former MGP site not recovered by insurance or other means in gas rates pursuant to terms of a cost recovery agreement approved by the MDPU. Pursuant to this agreement, Fitchburg is authorized to amortize and recover environmental response costs from gas customers over succeeding seven-year periods, without carrying costs. In addition, Fitchburg has filed suit against several of its former insurance carriers seeking coverage for past and future environmental response costs at the site. Any recovery that Fitchburg receives from insurance or third parties with respect to environmental response costs, net of the unrecovered costs associated therewith, are split equally between Fitchburg and its gas customers.

Northern Utilities' Manufactured Gas Plant Sites Northern Utilities has an extensive program to identify, investigate and remediate former MGP sites that were operated from the mid 1800's through the mid 1900's. In New Hampshire, MGP sites were identified in Dover, Exeter, Portsmouth, Rochester and Somersworth. This program has also documented the presence of MGP sites in Lewiston and Portland, Maine and a former MGP disposal site in Scarborough, Maine. Northern Utilities has worked with the environmental regulatory agencies in both New Hampshire and Maine to address environmental concerns with these sites.

The NHPUC and MPUC have approved the recovery of MGP environmental costs. For Northern Utilities' New Hampshire division, the NHPUC approved the recovery of MGP environmental costs over a seven-year amortization period. Northern Utilities believes material future costs will be recovered. For Northern Utilities' Maine division, the MPUC authorized the recovery of environmental remediation costs over a rolling five-year amortization schedule.

Also, see Part II, Item 7 below for Management's Discussion and Analysis of Financial Condition and Results of Operations' Environmental Matters and Note 6 to the accompanying Consolidated Financial Statements for additional information on Environmental Matters.

EMPLOYEES

As of December 31, 2009, the Company and its subsidiaries had 431 employees. The Company considers its relationship with employees to be good and has not experienced any major labor disruptions.

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As of December 31, 2009, 156 of the Company's employees were represented by labor unions. These employees are covered by collective bargaining agreements. Two agreements expire on May 31, 2010, one agreement expires on June 5, 2010 and one agreement expires on March 31, 2012. The agreements provide discreet salary adjustments, established work practices and uniform benefit packages. The Company expects to successfully negotiate new agreements prior to their expiration dates.

AVAILABLE INFORMATION

The Company's Internet address is www.unitil.com. There, the Company makes available, free of charge, its SEC filings, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and other reports, as well as amendments to those reports. These reports are made available through the Investors section of Unitil's website via a direct link to the section of the SEC's website which contains Unitil's SEC filings.

The Company's current Code of Ethics was approved by Unitil's Board of Directors on January 15, 2004. This Code of Ethics, along with any amendments or waivers, is also available on Unitil's website.

Unitil's common stock is listed on the New York Stock Exchange under the ticker symbol UTL.

DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The following table provides information about our directors and senior management as of February 10, 2010:

Name	Age	Position
Robert G. Schoenberger	59	Chairman of the Board, Chief Executive Officer and President
Mark H. Collin	50	Senior Vice President, Chief Financial Officer and Treasurer
Thomas P. Meissner, Jr.	47	Senior Vice President and Chief Operating Officer
Laurence M. Brock	56	Controller and Chief Accounting Officer
Todd R. Black	45	Senior Vice President, External Affairs and Customer Relations, Unitil Service
George R. Gantz	58	Senior Vice President, Distributed Energy Resources, Unitil Service
George E. Long, Jr.	53	Vice President, Administration, Unitil Service
Sandra L. Whitney	46	Corporate Secretary
William D. Adams	62	Director
Dr. Robert V. Antonucci	64	Director
David P. Brownell	66	Director
Michael J. Dalton	69	Director
Albert H. Elfner, III	65	Director
Edward F. Godfrey	60	Director
Michael B. Green	60	Director
Eben S. Moulton	63	Director
M. Brian O' Shaughnessy	66	Director
Dr. Sarah P. Voll	67	Director

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Robert G. Schoenberger has been Unitil's Chairman of the Board of Directors and Chief Executive Officer since 1997, as well as President since 2003. Prior to his employment with Unitil, Mr. Schoenberger was president and chief operating officer of the New York Power Authority (a state-owned utility) from 1993 until 1997. Mr. Schoenberger has also served as a director of SatCon Technology Corporation, Boston, Massachusetts (a company engaged in the development and manufacture of power electronics and control systems) since 2007. Mr. Schoenberger formerly served as chairman and trustee of Exeter Health Resources, Exeter, New Hampshire, from 1998 until 2009, and as a director of the Greater Seacoast (New Hampshire) United Way from 1998 until 2004, the New England Gas Association from 1999 until 2002 and the Southwest Power Pool from 2003 until 2005.

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Mark H. Collin has been Unitil's Senior Vice President and Chief Financial Officer since February 2003. Mr. Collin has also served as Treasurer since 1998. Mr. Collin joined Unitil in 1988, and served as Vice President of Finance from 1995 until 2003.

Thomas P. Meissner, Jr. has been Unitil's Senior Vice President and Chief Operating Officer since June 2005. Mr. Meissner served as Senior Vice President, Operations, from February 2003 until June 2005. Mr. Meissner joined Unitil in 1994 and served as Director of Engineering from 1998 until 2003.

George R. Gantz has been Unitil's Senior Vice President, Distributed Energy Resources, Unitil Service, since September 2009. Mr. Gantz joined Unitil in 1983 and served as Senior Vice President, Communication and Regulation from 1994 until 2003, and Senior Vice President, Customer Services and Communications from 2003 until 2009.

Todd R. Black has been Unitil's Senior Vice President, External Affairs and Customer Relations, Unitil Service, since September 2009. Mr. Black joined Unitil in 1998 and served as Vice President, Sales and Marketing, for Usource from 1998 until 2003, and President of Usource from 2003 until 2009.

Laurence M. Brock has been Unitil's Controller and Chief Accounting Officer since June 2005. Mr. Brock joined Unitil in 1995 as Vice President and Controller, and is a certified public accountant in the state of New Hampshire.

George E. Long, Jr. has been Unitil's Vice President, Administration, Unitil Service, since February 2003. Mr. Long joined Unitil in 1994 and was Director, Human Resources, from 1998 until 2003.

Sandra L. Whitney has been Unitil's Corporate Secretary and secretary of our Board of Directors since February 2003. Ms. Whitney joined Unitil in 1990 and also serves as the Corporate Secretary of Unitil's subsidiary companies.

William D. Adams has been a member of Unitil's Board of Directors since 2009. Mr. Adams has been the president of Colby College in Waterville, Maine, since 2000. Mr. Adams also serves on the board of trustees of Colby College. Mr. Adams also served as president of Bucknell University (Bucknell) in Pennsylvania from 1995 until 2000. Prior to leading Bucknell, he served as vice president and secretary of Wesleyan University in Connecticut. Mr. Adams also served as coordinator of the Great Works in Western Culture program at Stanford University and taught political philosophy at the University of North Carolina at Chapel Hill and Santa Clara University. Mr. Adams has served on the board of directors of Wittenburg University since 2007, Maine General Health since 2002, and Maine Public Broadcasting Corporation since 2002.

Dr. Robert V. Antonucci has been a member of Unitil's Board of Directors since 2004. Dr. Antonucci has been the president of Fitchburg State College (FSC) in Fitchburg, Massachusetts, since 2003. Prior to his employment with FSC, Dr. Antonucci was president of the School Group of Riverdeep, Inc., San Francisco, California, from 2001 until 2003 and president and chief executive officer of Harcourt Learning Direct and Harcourt Online College, Chestnut Hill, Massachusetts from 1998 until 2001. Dr. Antonucci also served as the commissioner of education for the Commonwealth of Massachusetts from 1992 until 1998. In addition, Dr. Antonucci has served as a trustee of Eastern Bank since 1988. Dr. Antonucci also serves and a director of the North Central Massachusetts Chamber of Commerce and a director of the North Central Massachusetts United Way.

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David P. Brownell has been a member of Unitil's Board of Directors since 2001. Mr. Brownell has been a retired senior vice president of Tyco International Ltd. (Tyco) (a diversified global manufacturing and service company), Portsmouth, New Hampshire, since 2003. Mr. Brownell had been with Tyco since 1984. Mr. Brownell was also interim president of the University of New Hampshire (UNH) Foundation, former vice chairman of the board of UNH Foundation, former volunteer board president of the United Way of the Greater Seacoast, and a former board member of the New Hampshire Junior Achievement Advisory Council.

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Michael J. Dalton has been a member of Unitil's Board of Directors since 1984. Mr. Dalton has been the retired president and chief operating officer of Unitil since 2003. Mr. Dalton has been a member of the Industrial Advisory Council of the University of New Hampshire College of Engineering and Physical Sciences since 2003, and vice president since 2009. Mr. Dalton was a director of the New England Gas Association from 2002 until 2003, the Electric Council of New England, the UNH Foundation, the University of New Hampshire Alumni Association, and the University of New Hampshire President's Council. In addition, Mr. Dalton serves as a mentor with the University of New Hampshire Pathways Mentorship Program.

Albert H. Elfner, III has been a member of Unitil's Board of Directors since 1999. Mr. Elfner was the chairman of Evergreen Investment Management Company, Boston, Massachusetts, from 1994 until 1999 and its chief executive officer from 1995 until 1999. Mr. Elfner is also a director of NGM Insurance Company (NGM), Jacksonville, Florida, as well as a member of the NGM finance committee, and as a director of Emerson Ecologics, LLC (distributor of natural health care products to health care professionals), and as a trustee of MDT Advisors (a quantitative investment management firm), Boston, Massachusetts.

Edward F. Godfrey has been a member of Unitil's Board of Directors since 2002. Mr. Godfrey was the executive vice president and chief operating officer of Keystone Investments, Incorporated (Keystone), Boston, Massachusetts, from 1997 until 1998. Mr. Godfrey was senior vice president, chief financial officer and treasurer of Keystone from 1988 until 1996. Mr. Godfrey is also a director of VehiCare, LLC, Charlotte, North Carolina, since 2006.

Michael B. Green has been a member of Unitil's Board of Directors since 2001. Mr. Green has been the president and chief executive officer of Capital Region Health Care and Concord Hospital, Concord, New Hampshire, since 1992. Mr. Green is also a member of the adjunct faculty, Dartmouth Medical School, Dartmouth College, Hanover, New Hampshire. In addition, Mr. Green currently serves on the board of the Foundation for Healthy Communities, is a director of the New Hampshire Hospital Association, a director of New Hampshire Business Council for the Arts, and a director of Merrimack County Savings Bank including membership on the bank's investment and audit committees.

Eben S. Moulton has been a member of Unitil's Board of Directors since 2000. Mr. Moulton has been the managing partner of Seacoast Capital Corporation, Danvers, Massachusetts, (a private investment company) since 1995. Mr. Moulton is also a director of IEC Electronics (provider of electronic manufacturing services to advanced technology companies), Newark, New York, a director of six private companies, and a trustee of Colorado College, Colorado Springs, Colorado.

M. Brian O. Shaughnessy has been a member of Unitil's Board of Directors since 1998. Mr. O. Shaughnessy has been the chairman of the board of Revere Copper Products, Inc. (Revere), Rome, New York, since 1988. Mr. O. Shaughnessy also served as chief executive officer and president of Revere from 1988 until 2007. Mr. O. Shaughnessy also serves on the Board of Directors and as the chief co-chair of the Coalition for a Prosperous America, three copper industry trade associations, three manufacturing associations in New York State regarding energy-related issues, and the Economic Development Growth Enterprise of Mohawk Valley.

Dr. Sarah P. Voll has been a member of Unitil's Board of Directors since 2003. Dr. Voll has been a retired vice president, National Economic Research Associates, Inc. (NERA), Washington, District of Columbia, a firm of consulting economists specializing in industrial and financial economics, since 2007, but currently serves as a special consultant to NERA. Dr. Voll had been with NERA in the position of vice president since 1999, and in the position of senior consultant from 1996 until 1999. Prior to her employment with NERA, Dr. Voll was a staff member at the NHPUC from 1980 until 1996.

INVESTOR INFORMATION

Annual Meeting

The annual meeting of shareholders is scheduled to be held at the offices of the Company, 6 Liberty Lane West, Hampton, New Hampshire, on Thursday, April 15, 2010, at 10:30 a.m.

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Transfer Agent

The Company's transfer agent, Computershare, is responsible for shareholder records, issuance of common stock, administration of the Dividend Reinvestment and Stock Purchase Plan, and the distribution of Unitil's dividends and IRS Form 1099-DIV. Shareholders may contact Computershare at:

Computershare

P.O. Box 43078

Providence, RI 02940-3078

Telephone: 800-736-3001

www.computershare.com

Investor Relations

For information about the Company, you may call the Company directly, toll-free, at: 800-999-6501 and ask for the Investor Relations Representative; visit the Investor page at www.unitil.com; or contact the transfer agent, Computershare, at the number listed above.

Special Services & Shareholder Programs Available to Holders of Record

If a shareholder's shares of common stock are registered directly in the shareholder's name with the Company's transfer agent, the shareholder is considered a holder of record of the shares. The following services and programs are available to shareholders of record:

Internet Account Access is available at www.computershare.com.

Dividend Reinvestment and Stock Purchase Plan:

To enroll, please contact the Company's Investor Relations Representative or Computershare.

Dividend Direct Deposit Service:

To enroll, please contact the Company's Investor Relations Representative or Computershare.

Direct Registration:

For information, please contact Computershare at 800-935-9330 or the Company's Investor Relations Representative at 800-999-6501.

Item 1A. Risk Factors

Risks Relating to Our Business

Risks related to the regulation of the Company's business could impact the rates it is able to charge, its costs and its profitability.

The Company is subject to comprehensive regulation by federal and state regulatory authorities, which significantly influences the Company's operating environment and its ability to recover costs from its customers. In particular, the Company is regulated by the FERC and state regulatory authorities with jurisdiction over public utilities, including the NHPUC, MDPUC and MPUC. These authorities regulate many aspects of the Company's operations, including, but not limited to, construction and maintenance of facilities, operations, safety, issuance of securities, accounting matters, transactions between affiliates, the rates that the Company can charge customers and the rate of return that it is allowed to realize. The Company's ability to obtain rate adjustments to maintain its current rate of return depends upon regulatory action under applicable statutes, rules and regulations, and the Company cannot assure you that it will be able to obtain rate adjustments or continue receiving its current authorized rates of return. These regulatory authorities are also empowered to impose financial penalties and other sanctions on the Company if it is found to have violated statutes and regulations governing its utility operations. The Company is unable to predict the impact on its operating results from the regulatory activities of any of these agencies. Although the Company has attempted to actively manage the rate making process and has had recent success in obtaining rate adjustments, it can offer no assurances as to future success in the rate making process. Despite the Company's requests, these regulatory commissions have authority under applicable statutes, rules and regulations to leave the Company's rates unchanged, grant increases or order decreases in such rates.

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The regulators also have authority with respect to the recovery of the Company's electricity and natural gas supply costs incurred by Unitil Energy, Fitchburg, and Northern Utilities. In the event that the Company is unable to recover a significant amount of these costs or recovery of these costs were to be significantly delayed, the Company's operating results could be materially adversely affected. Changes in regulations or the imposition of additional regulations could also have an adverse effect on the Company's operating results.

In the fourth quarter of 2009, the MDPU issued an order finding that Fitchburg engaged in certain price stabilization practices for the 2007 / 2008 and 2008 / 2009 heating seasons without the MDPU's prior approval and that Fitchburg's gas purchasing practices were imprudent. As a result, the MDPU required Fitchburg to refund \$4.6 million of natural gas costs, plus carrying charges, to its gas customers. Fitchburg recorded a pre-tax charge of \$4.9 million in the fourth quarter of 2009 based on the MDPU's order. Fitchburg has appealed the gas procurement Order to the Massachusetts Supreme Judicial Court. Fitchburg's assessment is that pre-approval from the MDPU for gas purchases made to stabilize prices for customers was not required and that its gas-procurement practices were consistent with those of other Massachusetts natural gas distribution companies and all relevant MDPU rules and orders and Massachusetts law. In addition, Fitchburg is able to demonstrate that its gas purchasing practices were previously disclosed to the MDPU at public hearings and in required filings with the MDPU and the Massachusetts Office of the Attorney General. This appeal remains pending before the Massachusetts Supreme Judicial Court. Immediately after the MDPU opened its investigation of this matter in March 2009, Fitchburg ceased making the gas procurement purchases in question and filed a request with the MDPU for approval of a gas procurement plan for future gas purchases. This matter remains pending before the MDPU.

The Company has deferred certain costs associated with the December 2008 Ice Storm for future recovery in rates.

On December 11 and 12, 2008, a severe ice storm struck the New England region, causing extensive damage to electric facilities and loss of service to significant numbers of customers of several utilities. An estimated one million electric customers in the region were affected, including all of Unitil's 28,000 Massachusetts customers, and approximately half of its New Hampshire customers.

The Company has received regulatory approvals to defer storm restoration costs and has accrued and deferred approximately \$14.6 million of costs, including carrying charges, for the repair of its electric system damaged during the December 2008 Ice Storm so that it may seek recovery of these costs in its next base rate cases. The Company does not believe these storm restoration expenditures and the timing of cost recovery will have a material adverse impact on the Company's financial condition or results of operations. However, if it were ultimately determined that certain of these costs were not recoverable in rates, there may be a significant impact on the Company's results of operations in future periods.

As a result of electric industry restructuring, the Company has a significant amount of certain stranded electric generation and generation related supply costs.

The stranded c