UNITIL CORP
Form 10-K
February 01, 2012
Table of Contents

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, 2011

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	**Name of Exchange on Which Registered**
Common Stock, No Par Value	**New York Stock Exchange**

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 x

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 x

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 x 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 x No ¨

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 x 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 x

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

Based on the closing price of June 30, 2011, the aggregate market value of common stock held by non-affiliates of the registrant was $282,734,913.

The number of common shares outstanding of the registrant was 10,955,671 as of January 30, 2012.

Documents Incorporated by Reference:

Portions of the Proxy Statement relating to the Annual Meeting of Shareholders to be held April 19, 2012 are incorporated by reference into Part III of this Report

Table of Contents

UNITIL CORPORATION

FORM 10-K

For the Fiscal Year Ended December 31, 2011

Table of Contents

Table of Contents

PART I

Item 1. Business

UNITIL CORPORATION

In this Annual Report on Form 10-K, the Company , Unitil , we , and our refer to Unitil Corporation and its subsidiaries, unless the context requires otherwise. Unitil is a public utility holding company and was incorporated under the laws of the State of New Hampshire in 1984. The following companies are wholly-owned subsidiaries of Unitil:

Company Name	State and Year of Organization	Principal Business
Unitil Energy Systems, Inc. (Unitil Energy)	NH - 1901	Electric Distribution Utility
Fitchburg Gas and Electric Light Company (Fitchburg)	MA - 1852	Electric & Natural 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 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 capital city of Concord, 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, which is the largest city in northern New England. 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 101,400 electric customers and 71,900 natural gas customers.

Unitil s distribution utilities had an investment in Net Utility Plant of $510.7 million at December 31, 2011. Unitil s total operating revenue was $352.8 million in 2011. Substantially all of Unitil s operating revenue is derived from regulated distribution utility operations.

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 in 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

1

Table of Contents

indirect subsidiaries that are wholly-owned by Unitil Resources. Usource provides energy brokering and advisory services to a national client base of large commercial and industrial customers. (for segment information, see Part II, Item 8, Note 8 herein).

OPERATIONS

Natural Gas Operations

Unitil s natural gas operations include gas distribution utility operations and interstate gas transmission pipeline operations, discussed below. Revenue from Unitil s gas operations was $159.2 million for 2011, which represent about 45% 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, the Company purchased Northern Utilities, a natural gas distribution utility serving customers in Maine and New Hampshire, from Bay State Gas Company (Bay State) and Granite State, an interstate natural gas transmission pipeline company primarily serving the needs of Northern Utilities, from NiSource Inc. (NiSource).

Natural Gas Distribution Utility Operations

Unitil s natural gas distribution operations are conducted through two of the Company s operating 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 56,600 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 2011 gas operating revenue was $123.1 million, of which approximately 40.0% was derived from residential firm sales and 60.0% from commercial/industrial firm sales.

Natural gas is supplied and distributed by Fitchburg to approximately 15,300 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 2011 gas operating revenue was $31.5 million, of which approximately 51% was derived from residential firm sales and 49.0% from commercial/industrial firm sales.

Gas Transmission Pipeline Operations

Granite State is an interstate natural gas transmission pipeline company, operating 86 miles of underground gas transmission pipeline primarily located in Maine and New Hampshire. Granite State provides Northern Utilities with interconnection to major natural gas pipelines and access to North American pipeline supplies. Granite State had operating revenue of $4.6 million for 2011. Granite State derives its revenues principally from the transportation services provided to Northern Utilities and to third-party marketers.

Table of Contents

Electric Distribution Utility Operations

Unitil s electric distribution operations are conducted through two of the Company s utilities, Unitil Energy and Fitchburg. Revenue from Unitil s electric utility operations was $188.1 million for 2011, which represents about 53% 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 electric industry restructuring 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 73,100 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 2011 electric operating revenue was $128.8 million, of which approximately 54.0% was derived from residential sales and 46.0% from C&I sales.

Fitchburg is engaged in the distribution of both electricity and natural gas in the greater Fitchburg area of north central Massachusetts. Fitchburg s service territory encompasses approximately 170 square miles. Electricity is supplied and distributed by Fitchburg to approximately 28,300 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 2011 electric operating revenue was $59.3 million, of which approximately 52.0% was derived from residential sales and 48.0% from C&I sales.

Seasonality

As a result of the acquisitions of Northern Utilities and Granite State in 2008, consolidated results for the Company in the current period may not be directly comparable to some prior period results until such time as the acquisitions are fully reflected in all reporting periods presented. 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 due to heating-related requirements, and negatively affected during the second and third quarters, when gas operating and maintenance expenses usually exceed sales margins in the period.

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 advisory services to a national client base of large commercial and industrial customers. Revenue from Unitil s non-regulated operations was $5.5 million in 2011.

3

Table of Contents

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 8 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 the 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 its 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.

Rate Case Activity

Fitchburg Increase in Base Rates Approved On August 1, 2011, the MDPU issued an order approving increases of $3.3 million and $3.7 million in annual distribution revenues for Fitchburg s electric and gas divisions, respectively. The MDPU also approved revenue decoupling mechanisms and a return on equity of 9.2% for both the electric and gas divisions of Fitchburg. The rate increase for Fitchburg s electric division included the recovery of $11.4 million of previously deferred emergency storm restoration costs associated with the December 2008 ice storm, which costs are to be amortized and recovered over seven (7) years without carrying costs. The order provides resolution to the open regulatory matters concerning the ratemaking treatment and cost recovery related to the December 2008 ice storm event.

Granite State Increase in Base Rates Approved On January 31, 2011, the FERC approved a settlement agreement providing for an increase of $1.7 million in annual revenue, based on new gas transportation rates to be effective January 1, 2011. Subsequently, on August 31, 2011, the FERC approved an amendment to the settlement agreement which provides for an additional increase of approximately $0.5 million in Granite State s annual revenues effective August 1, 2011. Under the amended settlement agreement, beginning in 2012, Granite State is permitted to file limited annual rate adjustment filings to recover the revenue requirements for certain specified future capital cost additions to transmission plant projects. The limited rate adjustments would be effective August 1 of each year, and are projected to conclude in 2014 when the major projects will be completed. The annual revenue increases for the limited rate adjustments are estimated to be approximately $0.5 million each year during 2012 through 2014.

Table of Contents

Unitil Energy Increase in Base Rates Approved On April 26, 2011, the NHPUC approved a final rate settlement which makes permanent a temporary increase of $5.2 million in annual revenue effective July 1, 2010, and provides for an additional increase of $5.0 million in annual revenue effective May 1, 2011.

The settlement extends through May 1, 2016 and provides for a long-term rate plan and earnings sharing mechanism, with estimated future increases of $1.5 million to $2.0 million in annual revenue to occur on May 1, 2012, May 1, 2013 and May 1, 2014, to support Unitil Energy s continued capital improvements to its distribution system. The rate plan allows Unitil to file for additional rate relief if its return on equity is less than 7% and a sharing of earnings with customers if its return on equity is greater than 10% in a calendar year. The settlement provides for a return on equity of 9.67%, a common equity ratio of 45.45% and an overall weighted cost of capital of 8.39% to determine changes to distribution rate levels.

The settlement approved Unitil Energy s proposal for an augmented vegetation management program and reliability enhancement program. Under the augmented vegetation management program, Unitil Energy will be increasing its vegetation management spending from a test-year spending level of approximately $0.7 million to $3.1 million per year by 2013. Under the new reliability enhancement program, Unitil Energy will spend $1.8 million annually towards targeted projects designed to enhance system reliability. The funding for both of these programs is included in the future rate increases discussed above.

The settlement provides for recovery of deferred December 2008 ice storm and February 2010 wind storm costs of approximately $7.6 million, including carrying charges. These costs will be recovered over eight years in the form of a tariff surcharge. Finally, the settlement establishes a major storm reserve of $400,000 annually, which will be used to recover costs associated with responding to and recovering from future qualifying major storm events.

Northern Utilities Base Rate Case Filings In May 2011, Northern Utilities filed two separate rate cases with the NHPUC and MPUC requesting approval to increase its natural gas distribution base rates in New Hampshire and Maine, respectively.

On November 29, 2011, the MPUC approved a comprehensive settlement agreement providing for a $7.8 million permanent increase in annual distribution revenue for Northern Utilities Maine operations, effective January 1, 2012, and an additional permanent increase in annual distribution revenue of $0.85 million to recover the costs of 2011 cast iron pipe replacement capital spending effective May 1, 2012. The settlement is inclusive of an earlier settlement for a temporary rate increase of $3.5 million in annual distribution revenue effective November 1, 2011. The settlement also precludes Northern Utilities from filing for a new base rate increase with an effective date prior to January 1, 2014.

In New Hampshire, Northern Utilities requested an increase of $5.2 million in annual gas distribution base revenue, which represents an increase of approximately 8.1%. On July 22, 2011, the NHPUC approved a settlement for a temporary rate increase of approximately $1.7 million in annual revenue effective August 1, 2011. Once permanent rates are approved by the NHPUC, they will be reconciled back to August 1, 2011. The Company is currently in settlement discussions with the NHPUC and a final rate order is expected in the first quarter of 2012.

Also see Part II, Item 7 below for Management s Discussion and Analysis of Financial Condition and Results of Operations Regulatory Matters and Note 5 to the accompanying Consolidated Financial Statements for additional information on Rates and Regulation.

NATURAL GAS SUPPLY

Unitil manages gas supply for customers served by Northern Utilities in Maine and New Hampshire as well as customers served by Fitchburg in Massachusetts.

Fitchburg s residential and C&I business customers have the opportunity to purchase their natural gas supply from third-party gas supply vendors. Many large and some medium C&I customers purchase their supplies from third-party suppliers, while most of Fitchburg s residential and small C&I customers continue

Table of Contents

to purchase their supplies at regulated rates from Fitchburg. Northern Utilities C&I 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 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.

On November 2, 2011, the Massachusetts Supreme Judicial Court (SJC) issued its decision vacating an order issued on November 2, 2009 by the MDPU in which the MDPU ordered the Company s electric and natural gas distribution utility, Fitchburg, to refund $4.6 million of natural gas costs, plus interest. The MDPU s original order, issued in 2009, found that Fitchburg had 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 natural gas purchasing practices were imprudent. The Company appealed the MDPU s decision to the SJC. The SJC s decision vacates the MDPU s order to refund $4.6 million, plus interest, in favor of a $0.2 million refund, plus interest. The Company had previously recorded a pre-tax charge to earnings and recognized a Regulatory Liability of $4.9 million in the fourth quarter of 2009 based on the MDPU s original order. As a result of the decision, the Regulatory Liability has been adjusted and the Company recognized a pre-tax credit of $4.7 million in the fourth quarter of 2011. This credit is recognized on the Company s 2011 Consolidated Statement of Earnings as a $4.5 million reduction in Purchased Gas expense and a reduction of $0.2 million in Interest Expense, net.

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 storage facilities within Fitchburg s service territory.

Fitchburg has available under firm contract 14,057 million British Thermal Units (MMbtu) per day for 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 Utilities 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 Utilities 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, to truck supplies to storage facilities within Northern Utilities service territory.

Northern Utilities has available under firm contract 100,000 MMbtu per day of year-round and seasonal transportation capacity to its distribution facilities, and 3.4 billion cubic feet (BCF) of underground storage. As a supplement to pipeline natural gas, Northern Utilities owns an LNG storage and vaporization facility. This plant is used principally during peak load periods to augment the supply of pipeline natural gas.

ELECTRIC POWER SUPPLY

The restructuring of the electric 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.

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 2011, 106 or 71% of Unitil s largest New Hampshire customers, representing 25% of total New Hampshire electric energy sales, and 28 or 93% of Unitil s largest Massachusetts customers, representing 33% 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 electric 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, 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 two-year contracts, each providing 25% of the total supply requirements of the group.

The NHPUC and MDPU regularly review 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

In connection with the implementation of retail choice, Unitil Power, which formerly functioned as the wholesale power supply provider for Unitil Energy, and Fitchburg divested their long-term power supply contracts through the sale of the entitlements to the electricity sold under those contracts. 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. The companies have a continuing obligation to submit regulatory filings that demonstrate their compliance with regulatory mandates and provide for timely recovery of costs in accordance with their approved restructuring plans.

ENVIRONMENTAL MATTERS

The Company 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

Table of Contents

as of December 31, 2011, 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.

Fitchburg recovers the environmental response costs incurred at this former MGP site in gas rates pursuant to the 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. Fitchburg had filed suit against several of its former insurance carriers seeking coverage for past and future environmental response costs at the site. In January 2011, Fitchburg settled with the remaining insurance carriers for approximately $2.0 million and received these payments in the first quarter of 2011. Any recovery that Fitchburg receives from insurance or third-parties with respect to environmental response costs, net of the unrecovered costs associated therewith, are shared 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-1800s through the mid-1900s. 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.

Northern Utilities or others have substantially completed remediation of the Exeter, Rochester, Somersworth, Portsmouth, and Scarborough sites. The sites in Lewiston and Portland have been investigated and remedial activities are currently underway. Future operation, maintenance and remedial costs have been accrued, although there will be uncertainty regarding future costs until all remedial activities are completed.

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. 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 5 to the accompanying Consolidated Financial Statements for additional information on Environmental Matters.

EMPLOYEES

As of December 31, 2011, the Company and its subsidiaries had 454 employees. The Company considers its relationship with employees to be good and has not experienced any major labor disruptions.

As of December 31, 2011, 151 of the Company s employees were represented by labor unions. These employees are covered by four separate collective bargaining agreements which expire on March 31, 2012, May 31, 2012, May 31, 2013 and June 5, 2014. The agreements provide discreet salary adjustments, established work practices and uniform benefit packages. The Company expects to negotiate new agreements prior to their expiration dates.

Table of Contents

AVAILABLE INFORMATION

The Company s Internet address is *www.unitil.com*. There, the Company makes available, free of charge, its Securities and Exchange Commission (SEC) fillings, 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 1, 2012:

Name	Age	Position
Robert G. Schoenberger	61	Chairman of the Board, Chief Executive Officer and President
Mark H. Collin	52	Senior Vice President, Chief Financial Officer and Treasurer
Thomas P. Meissner, Jr.	49	Senior Vice President and Chief Operating Officer
Laurence M. Brock	58	Controller and Chief Accounting Officer
Todd R. Black	47	Senior Vice President, External Affairs and Customer Relations, Unitil Service
George R. Gantz	60	Senior Vice President, Distributed Energy Resources, Unitil Service
George E. Long, Jr.	55	Vice President, Administration, Unitil Service
Sandra L. Whitney	48	Corporate Secretary
William D. Adams	64	Director
Dr. Robert V. Antonucci	66	Director
David P. Brownell	68	Director
Michael J. Dalton	71	Director
Albert H. Elfner, III	67	Director
Edward F. Godfrey	62	Director
Michael B. Green	62	Director
Eben S. Moulton	65	Director
M. Brian O Shaughnessy	68	Director
Dr. Sarah P. Voll	69	Director

Robert G. Schoenberger has been Unitil s Chairman of the Board of Directors and Chief Executive Officer since October 1997, and his current term will expire in 2012. Mr. Schoenberger will stand for re-election to the Board of Directors at the Annual Meeting of Shareholders in April 2012. Mr. Schoenberger has also served as Unitil s 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 that develops innovative power conversion solutions for the renewable power industry) since 2007. Mr. Schoenberger also serves as chairman of the Tocqueville Society of the Greater Seacoast (New Hampshire) United Way. 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 Southwest Power Pool from 2003 until 2005.

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.

Table of Contents

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.

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.

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.

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.

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 March 2009, and his current term will expire in 2012. Mr. Adams will stand for re-election to the Board of Directors at the Annual Meeting of Shareholders in April 2012. Mr. Adams has been the president of Colby College in Waterville, Maine, since 2000, and as president, Mr. Adams also serves on the board of trustees of Colby College. Prior to going to Colby, Mr. Adams served as president of Bucknell University in Pennsylvania from 1995 until 2000. Mr. Adams served as vice president and secretary of Wesleyan University in Connecticut, before Bucknell. Mr. Adams also taught political philosophy at the University of North Carolina at Chapel Hill and Santa Clara University, and was coordinator of the Great Works in Western Culture program at Stanford University. Mr. Adams has been a member of the board of directors of Maine Public Broadcasting Corporation since 2002. Mr. Adams formerly served on the board of directors of Wittenberg University from 2007 2011, and also the board of directors of Maine General Health from 2002 to 2010.

Dr. Robert V. Antonucci has been a member of Unitil s Board of Directors since December 2004, and his current term will expire in 2014. Dr. Antonucci has been the president of Fitchburg State University (FSU) in Fitchburg, Massachusetts, since 2003. Prior to his employment with FSU, 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 as a director of the North Central Massachusetts Chamber of Commerce and a director of the North Central Massachusetts United Way.

David P. Brownell has been a member of Unitil s Board of Directors since June 2001, and his current term will expire in 2014. 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 is a member of the board of the University of New Hampshire (UNH) Foundation. Mr. Brownell was also interim president of the UNH Foundation, former vice chairman of the board of the 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.

Michael J. Dalton has been a member of Unitil s Board of Directors since September 1984, and his current term will expire in 2013. Mr. Dalton retired as President and Chief Operating Officer of Unitil in

Table of Contents

2003. Mr. Dalton is a member of the College Advisory Board of the UNH College of Engineering and Physical Science and Vice President of the Alumni Society of the College of Engineering and Physical Science. Mr. Dalton was formerly a director of the New England Gas Association, the Electric Council of New England, the UNH Foundation, the UNH Alumni Association, and the UNH President s Council.

Albert H. Elfner, III has been a member of Unitil s Board of Directors since January 1999, and his current term will expire in 2014. 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 Main Street America Insurance Company (Main Street), Jacksonville, Florida, as well as chairman of the Main Street finance committee.

Edward F. Godfrey has been a member of Unitil s Board of Directors since January 2002 and his current term will expire in 2013. 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 has also been a director of Vector Fleet Management, LLC, Charlotte, North Carolina, since 2006.

Michael B. Green has been a member of Unitil s Board of Directors since June 2001, and his current term will expire in 2014. 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 Concord General Mutual Insurance Company, and a director of Merrimack County Savings Bank (Merrimack), including membership on Merrimack s investment and audit committees.

Eben S. Moulton has been a member of Unitil s Board of Directors since March 2000, and his current term will expire in 2014. 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 Corp. (a company that provides electronic manufacturing services to advanced technology companies), Newark, New York, and a director of six private companies.

M. Brian O Shaughnessy has been a member of Unitil s Board of Directors since September 1998, and his current term will expire in 2014. Mr. O Shaughnessy has been the chairman of the board of Revere Copper Products, Inc. (Revere), Rome, New York, since 1989. 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 January 2003, and her current term will expire in 2012. Dr. Voll will stand for re-election to the Board of Directors at the Annual Meeting of Shareholders in April 2012. Dr. Voll retired in 2007 as vice president from National Economic Research Associates, Inc. (NERA), Washington, District of Columbia, a firm of consulting economists specializing in industrial and financial economics, and 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 19, 2012, at 10:30 a.m.

Table of Contents

Transfer Agent

The Company s transfer agent, Computershare Investor Services, 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 Investor Services

P.O. Box 43078

Providence, RI 02940-3078

Telephone: 800-736-3001

www.computershare.com/investor

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 Investors 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/investor*.

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

The Company is subject to comprehensive regulation, which could impact the rates it is able to charge, its authorized rate of return and its ability to recover costs. This could adversely affect the Company s financial condition or results of operations. In addition, certain regulatory authorities have the power to impose finance penalties and other sanctions on the Company, which could adversely affect the Company s financial condition or results of operations.

The Company is subject to comprehensive regulation by federal regulatory authorities (including the FERC) and state regulatory authorities (including the NHPUC, MDPU and MPUC). These authorities regulate many aspects of the Company s operations, including the rates that the Company can charge customers, the Company s authorized rates of return, the Company s ability to recover costs from its customers, construction and maintenance of the Company s facilities, the Company s safety protocols and procedures, the Company s ability to issue securities, the Company s accounting matters, and transactions between the Company and its affiliates. The Company is unable to predict the impact on its financial condition or results of operations from the regulatory activities of any of these regulatory authorities. Also, changes in regulations or the imposition of additional regulations could adversely affect the Company s financial condition or results of operations.

The Company s ability to obtain rate adjustments to maintain its current authorized rates of return depends upon action by regulatory authorities under applicable statutes, rules and regulations. These regulatory authorities are authorized to leave the Company s rates unchanged, to grant increases in such rates or to order decreases in such rates. The Company may be unable to obtain favorable rate adjustments or to maintain its current authorized rates of return, which could adversely affect its financial condition or results of operations.

Regulatory authorities also have authority with respect to the Company s ability to recover its electricity and natural gas supply costs, as incurred by Unitil Power, Unitil Energy, Fitchburg, and Northern Utilities. If the Company is unable to recover a significant amount of these costs, or if the Company s recovery of these costs is significantly delayed, then the Company s financial condition or results or operations could be adversely affected.

In addition, certain regulatory authorities have the power to impose financial penalties and other sanctions on the Company if the Company is found to have violated statutes, rules or regulations governing its utility operations. This could adversely affect the Company s financial condition or results of operations.

Severe storms have struck, and may strike, the New England region, causing extensive damage to the Company s utility operations and the loss of service to significant numbers of the Company s customers. If the Company is unable to recover a significant amount of storm costs in its rates, or if the Company s recovery of storm costs in its rates is significantly delayed, then the Company s financial condition or results or operations could be adversely affected.

Please see (i) *Regulatory Matters* in Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations) and (ii) *Regulatory Matters* in Note 5 (Commitments and Contingencies) to the accompanying Consolidated Financial Statements.

As a result of electric industry restructuring, the Company has a significant amount of stranded electric generation and power supply related supply costs. If the Company is unable to recover a significant amount of stranded costs in its rates, or if the Company s recovery of stranded costs in its rates is significantly delayed, then the Company s financial condition or results or operations could be adversely affected.

The stranded electric generation and power supply related supply costs resulting from the implementation of electric industry restructuring mandated by the states of New Hampshire and Massachusetts are recovered by the Company on a pass-through basis through periodically reconciled rates. Any unrecovered balance of stranded costs is deferred for future recovery as a regulatory asset. Such regulatory assets are subject to periodic regulatory review and approval for recovery in future periods.

Substantially all of the Company s stranded costs relate to (i) Unitil Power s long-term power purchase agreements (which Unitil Power divested under long-term contract buyout agreements) and (ii) Fitchburg s formerly owned generation assets and purchase power agreements (which Fitchburg divested under a long-term contract buy-out agreement). Unitil Power made the final payment on its long-term contract buyout agreements in October 2010, which ended its obligations in the underlying purchase power contracts. As a result, in accordance with its retail stranded cost recovery rates, as of December 31, 2011, Unitil Energy has recovered substantially all of its stranded costs with the remaining $4.2 million of stranded costs projected to be fully recovered over the next ten years. Because Fitchburg continues to remain ultimately responsible for purchase power payments underlying its long-term buyout agreements, Fitchburg could incur additional stranded costs if they were required to resell such divested entitlements prior to the end of their term for amounts less than the amounts agreed to under the existing long-term buyout agreements. The Company expects that any such additional stranded costs would be recovered from its customers, however such recovery would require approval from the MDPU, the receipt of which cannot be assured. If the Company is unable to recover a significant amount of such stranded costs in its rates, or if the Company s recovery of such stranded costs in its rates is significantly delayed, then the Company s financial condition or results or operations could be adversely affected. Please see (i) the section entitled *Regulatory Matters Overview (Unitil Energy, Fitchburg, and Northern Utilities)* in Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations) and (ii) the section entitled *Regulatory Matters Overview (Unitil Energy, Fitchburg, and Northern Utilities)* in Note 5 (Commitments and Contingencies) to the accompanying Consolidated Financial Statements.

Table of Contents

The Company s electric and natural gas sales and revenues are highly correlated with the economy, and national, regional and local economic conditions may adversely affect the Company s customers and correspondingly the Company s financial condition or results of operations.

The Company s business is influenced by the economic activity within its service territory. The level of economic activity in the Company s electric and natural gas distribution service territory directly affects the Company s business. As a result, adverse changes in the economy may adversely affect the Company s financial condition or results or operations.

The Company may not be able to obtain financing, or may not be able to obtain financing on acceptable terms, which could adversely affect the Company s financial condition or results of operations.

The Company requires capital to fund utility plant additions, working capital and other utility expenditures. While the Company derives the capital necessary to meet these requirements primarily from internally-generated funds, the Company supplements internally generated funds by incurring short-term debt under its current credit facility, as needed. If the lending counterparties under the Company s current credit facility are unwilling or unable to meet their funding obligations, then the Company may be unable to, or limited in its ability to, incur short-term debt under its credit facility. This could hinder or prevent the Company from meeting its current and future capital needs, which could correspondingly adversely affect the Company s financial condition or results or operations.

Also, from time to time, the Company repays portions of its short-term debt with the proceeds it receives from long-term debt financings or equity financings. General economic conditions and the Company s operating and financial performance could negatively affect the Company s ability to obtain such financings and the terms of such financings, which could correspondingly adversely affect the Company s financial condition or results or operations.

Declines in the valuation of capital markets could require the Company to make substantial cash contributions to cover its pension obligations. If the Company is unable to recover a significant amount of pension obligation costs in its rates, or if the Company s recovery of pension obligation costs in its rates is significantly delayed, then the Company s financial condition or results or operations could be adversely affected.

Please see (i) the section entitled *Critical Accounting Policies Pension Benefit Obligations* in Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations) and (ii) Note 9 (Retirement Benefit Plans) to the accompanying Consolidated Financial Statements.

Increases in interest rates could increase the Company s interest expense and adversely affect the Company s financial condition or results of operations.

The Company and its utility subsidiaries have ongoing capital expenditure and cash funding requirements, which they frequently fund by issuing short-term debt and long-term debt.

The Company s short-term debt revolving credit facility typically has variable interest rates. Therefore, an increase or decrease in interest rates will increase or decrease the Company s interest expense associated with its revolving credit facility. An increase in the Company s interest expense could adversely affect the Company s financial condition or results of operations. As of December 31, 2011, the Company had approximately $87.9 million in short-term debt outstanding under its revolving credit facility.

The Company s long-term debt typically has fixed interest rates. Therefore, changes in interest rates will not affect the Company s interest expense associated with its presently outstanding fixed rate long-term debt. However, an increase or decrease in interest rates may increase or decrease the Company s interest expense associated with any new fixed rate long-term debt issued by the Company, which could adversely affect the Company s financial condition or results of operations. See Part II, Item 7 below for Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity, Commitments and Capital Requirements section and Note 3 to the accompanying Consolidated Financial Statements.

Table of Contents

In addition, the Company may need to use a significant portion of its cash flow to repay its short-term debt and long-term debt, which would limit the amount of cash it has available for working capital, capital expenditures and other general corporate purposes and could adversely affect its financial condition or results of operations.

The terms of the Company s and its subsidiaries indebtedness restrict the Company s business operations (including their ability to incur material amounts of additional indebtedness), which could adversely affect the Company s financial condition or results or operations.

See Part II, Item 7 below for Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity, Commitments and Capital Requirements section and Note 3 to the accompanying Consolidated Financial Statements.

A significant amount of the Company s sales are temperature sensitive. Because of this, mild winter and summer temperatures could decrease the Company s sales, which could adversely affect the Company s financial condition or results or operations. Also, the Company s sales may vary from year to year depending on weather conditions, and the Company s results of operations generally reflect seasonality.

The Company estimates that approximately 60% of its annual natural gas sales are temperature sensitive. Therefore, mild winter temperatures could decrease the amount of natural gas sold by the Company, which could adversely affect the Company s financial condition or results of operations. The Company s electric sales also are temperature sensitive, but less so than its natural gas sales. The highest usage of electricity typically occurs in the summer months (due to air conditioning demand) and the winter months (due to heating-related and lighting requirements). Therefore, mild summer temperatures and mild winter temperatures could decrease the amount of electricity sold by the Company, which could adversely affect the Company s financial condition and results of operations. Also, because of this temperature sensitivity, sales by the Company s distribution utilities vary from year to year, depending on weather conditions.

On August 1, 2011, the MDPU issued an order approving revenue decoupling mechanisms (RDM) for the electric and natural gas divisions of the Company s Massachusetts combination electric and natural gas distribution utility, Fitchburg. Revenue decoupling is the term given to the elimination of the dependency of a utility s distribution revenue on the volume of electricity or natural gas sales. The purpose of decoupling is to eliminate the disincentive a utility otherwise has to encourage energy efficiency programs. Under the RDM, the Company will recognize, in its Consolidated Statements of Earnings from August 1, 2011 forward, distribution revenues for Fitchburg based on predetermined amounts approved by the MDPU. The difference between distribution revenue amounts billed to customers and the predetermined amounts is recognized as increases or decreases in Accrued Revenue which form the basis for future reconciliation adjustments in periodically resetting rates for future cash recoveries or credits.

In addition, the Company s results of operations generally reflect seasonality. In particular, 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 (due to heating-related requirements), and negatively affected during the second and third quarters, when gas operating and maintenance expenses usually exceed sales margins in the period.

Long-term global climate change could adversely affect customer demand or cause extreme weather events that could disrupt the Company s electric and natural gas distribution services.

Milder winter and summer temperatures due to long-term global climate change may cause a decrease in the amount of natural gas and electricity sold by the Company, which could correspondingly adversely affect the Company s financial condition and results or operations. Conversely, colder winter temperatures and warmer summer temperatures due to long-term global climate change may cause an increase in the amount of natural gas and electricity sold by the Company.

In addition, extreme weather events (such as hurricanes and severe winter storms) related to long-term global climate change may damage facilities or result in increased service interruptions and outages and

Table of Contents

increase the Company s operations and maintenance costs. If the Company is unable to recover a significant amount of such costs in its rates, or if the Company s recovery of such costs in its rates is significantly delayed, then the Company s financial condition or results or operations could be adversely affected.

The Company is unable to predict the impacts on its financial condition and results or operations due to changes in weather related to long-term global climate change.

Unitil is a public utility holding company and has no operating income of its own. The Company s ability to pay dividends on its common stock is dependent on dividends and other payments received from its subsidiaries and on factors directly affecting Unitil, the parent corporation. The Company cannot assure that its current annual dividend will be paid in the future.

The ability of the Company s subsidiaries to pay dividends or make distributions to Unitil depends on, among other things:

- the actual and projected earnings and cash flow, capital requirements and general financial condition of the Company s subsidiaries;
- the prior rights of holders of existing and future preferred stock, mortgage bonds, long-term notes and other debt issued by the Company s subsidiaries;
- the restrictions on the payment of dividends contained in the existing loan agreements of the Company s subsidiaries and that may be contained in future debt agreements of the Company s subsidiaries, if any; and
- limitations that may be imposed by New Hampshire, Massachusetts and Maine state regulatory agencies.

In addition, before the Company can pay dividends on its common stock, it has to satisfy its debt obligations and comply with any statutory or contractual limitations.

The Company s current annual dividend is $1.38 per share of common stock, payable quarterly. However, the Company s Board of Directors reviews Unitil s dividend policy periodically in light of the factors referred to above, and the Company cannot assure the amount of dividends, if any, that may be paid in the future.

The Company s electric and natural gas distribution activities (including storing natural gas and supplemental gas supplies) involve numerous hazards and operating risks that may result in accidents and other operating risks and costs. Any such accident or costs could adversely affect the Company s financial position and results of operations.

Inherent in the Company s electric and natural gas distribution activities are a variety of hazards and operating risks, including leaks, explosions, electrocutions and mechanical problems. These hazards and risks could result in loss of human life, significant damage to property, environmental pollution, damage to natural resources and impairment of the Company s operations, which could adversely affect the Company s financial position and results of operations.

The Company maintains insurance against some, but not all, of these risks and losses in accordance with customary industry practice. The location of pipelines, storage facilities and electric distribution equipment near populated areas (including residential areas, commercial business centers and industrial sites) could increase the level of damages associated with these risks. The occurrence of any of these events could adversely affect the Company s financial position or results of operations.

The Company s business is subject to environmental regulation in all jurisdictions in which it operates and its costs of compliance are significant. New or changes to existing environmental regulation, including those related to climate change or greenhouse gas emissions, and the incurrence of environmental liabilities could adversely affect the Company s financial condition or results of operations.

The Company s utility operations are generally subject to extensive federal, state and local environmental laws and regulations relating to air quality, water quality, waste management, natural

Table of Contents

resources, and the health and safety of the Company s employees. The Company s utility operations also may be subject to new and emerging federal, state and local legislative and regulatory initiatives related to climate change or greenhouse gas emissions including the U.S. Environmental Protection Agency s mandatory greenhouse gas reporting rule. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and criminal penalties and other sanctions; imposition of remedial requirements; and issuance of injunctions to ensure future compliance. Liability under certain environmental laws and regulations is strict, joint and several in nature. Although the Company believes it is in material compliance with all applicable environmental and safety laws and regulations, there can be no assurance that the Company will not incur significant costs and liabilities in the future. Moreover, it is possible that other developments, such as increasingly stringent federal, state or local environmental laws and regulations, including those related to climate change or greenhouse gas emissions, could result in increased environmental compliance costs.

Catastrophic events could adversely affect the Company s financial condition or results of operations.

The electric and natural gas utility industries are from time to time affected by catastrophic events, such as unusually severe weather and significant and widespread failures of plant and equipment. Other catastrophic occurrences, such as terrorist attacks on utility facilities, may occur in the future. Such events could inhibit the Company s ability to provide electric or natural gas distribution services to its customers for an extended period, which could adversely affect the Company s financial condition and results of operations.

The Company s business could be adversely affected if it is unable to retain its existing customers or attract new customers.

The success of the Company s business depends, in part, on its ability to maintain and increase its customer base. The Company s failure to maintain or increase its customer base could adversely affect its financial condition and results of operations.

The Company s energy brokering customers may default in their performance under multi-year energy brokering contracts, which could adversely affect the Company s financial condition and results of operations.

The Company s non-regulated energy brokering business provides energy brokering and consulting services to a national client base of large commercial and industrial customers. Revenues from this business are primarily derived from brokering fees and charges billed to suppliers as customers take delivery of energy from these suppliers under term contracts. The Company s customers may default in their performance under multi-year energy brokering contracts, which could adversely affect the Company s financial condition and results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2011, Unitil owned, through its electric distribution utilities, three utility operation centers, approximately 1,707 primary pole miles of local transmission and distribution overhead electric lines and 367 conduit bank miles of underground electric distribution lines, along with 50 electric substations, including four mobile electric substations. The Company s natural gas operations property includes two liquid propane gas plants, two liquid natural gas plants and 1,287 miles of underground gas mains. In addition, the Company s real estate subsidiary, Unitil Realty, owns the Company s corporate headquarters building and the 12 acres of land on which it is located.

Unitil Energy owns and maintains distribution operations centers in Concord, New Hampshire and Kensington, New Hampshire. Unitil Energy s 32 electric distribution substations, including a 5,000 kilovolt ampere (kVA) and a 10,500 kVA mobile substation, constitute 213,000 kVA of capacity, which excludes capacity of spare transformers, for the transformation of electric power from the 34.5 kilovolt

Table of Contents

subtransmission voltage to other primary distribution voltage levels. The electric substations are located on land owned by Unitil Energy or land occupied by Unitil Energy pursuant to perpetual easements.

Unitil Energy has a total of approximately 1,244 primary pole miles of local transmission and distribution overhead electric lines and a total of 310 conduit bank miles of underground electric distribution lines. The electric distribution lines are located in, on or under public highways or private lands pursuant to lease, easement, permit, municipal consent, tariff conditions, agreement or license, expressed or implied through use by Unitil Energy without objection by the owners. In the case of certain distribution lines, Unitil Energy owns only a part interest in the poles upon which its wires are installed, the remaining interest being owned by telephone companies.

The physical utility properties of Unitil Energy, with certain exceptions, and its franchises are subject to its indenture of mortgage and deed of trust under which the respective series of first mortgage bonds of Unitil Energy are outstanding.

Fitchburg s electric properties consist principally of 463 primary pole miles of local transmission and distribution overhead electric lines, 57 conduit bank miles of underground electric distribution lines and 18 transmission and distribution stations (including two mobile electric substations). The capacity of these substations totals 441,650 kVA, which excludes capacity of spare transformers.

Fitchburg s electric substations, with minor exceptions, are located on land owned by Fitchburg or occupied by Fitchburg pursuant to perpetual easements. Fitchburg s electric distribution lines and gas mains are located in, on or under public highways or private lands pursuant to lease, easement, permit, municipal consent, tariff conditions, agreement or license, expressed or implied through use by Fitchburg without objection by the owners. Fitchburg leases its distribution operations center located in Fitchburg, Massachusetts.

Fitchburg owns a propane air gas plant and a liquid natural gas (LNG) storage and vaporization facility, both of which are located on land owned by Fitchburg. Fitchburg also has 263 miles of underground steel, cast iron and plastic gas mains.

Northern Utilities distribution system is comprised of 1,024 miles of gas mains and 38,935 service pipes. The gas mains are primarily made up of polyethylene plastic (70%), coated and wrapped cathodically protected steel (19%), cast/wrought iron (7%), and unprotected bare and coated steel (4%).

Northern Utilities New Hampshire division serving 21 communities has 500 miles of distribution gas mains and 21,110 service pipes. Northern Utilities Maine division serving 23 communities has 524 miles of distribution and 17,825 service pipes. Northern Utilities also owns a propane air gas plant and a LNG storage and vaporization facility.

Granite State is a natural gas transmission pipeline, regulated by the FERC, operating 86 miles of underground gas transmission pipeline located primarily in Maine and New Hampshire.

The Company believes that its facilities are currently adequate for their intended uses.

Item 3. Legal Proceedings

The Company is involved in legal and administrative proceedings and claims of various types, which arise in the ordinary course of business. The Company believes, based upon information furnished by counsel and others, the ultimate resolution of these claims will not have a material impact on the Company s financial position.

A putative class action complaint was filed against Fitchburg on January 7, 2009 in Worcester Superior Court in Worcester, Massachusetts, captioned Bellerman v. Fitchburg Gas and Electric Light Company. On April 1, 2009, an Amended Complaint was filed in Worcester Superior Court and served on Fitchburg. The Amended Complaint seeks an unspecified amount of damages, including the cost of temporary housing and alternative fuel sources, emotional and physical pain and suffering and property damages allegedly incurred

Table of Contents

by customers in connection with the loss of electric service during the ice storm in Fitchburg s service territory in December, 2008. The Amended Complaint includes M.G.L. ch. 93A claims for purported unfair and deceptive trade practices related to the December 2008 ice storm. On September 4, 2009, the Superior Court issued its order on the Company s Motion to Dismiss the Complaint, granting it in part and denying it in part. The Company anticipates that the court will decide whether the lawsuit is appropriate for class action treatment in late 2012. The Company continues to believe the suit is without merit and will defend itself vigorously.

On November 2, 2011, the SJC issued its decision vacating an order issued on November 2, 2009 by the MDPU in which the MDPU ordered Fitchburg to refund $4.6 million of natural gas costs, plus interest. The MDPU s original order issued in 2009 found that the Company had engaged in certain price stabilization practices for the 2007 / 2008 and 2008 / 2009 heating seasons without the MDPU s prior approval and that the Company s natural gas purchasing practices were imprudent. The Company appealed the MDPU s decision to the SJC. The SJC s decision vacates the MDPU s order to refund $4.6 million, plus interest, in favor of a $0.2 million refund, plus interest. See additional discussion below in Regulatory Matters.

Table of Contents

PART II

Item 5. Market for Registrant s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

The Registrant s common stock is listed on the New York Stock Exchange under the symbol UTL. As of December 31, 2011, there were 1,586 shareholders of record.

Common Stock Data

Dividends per Common Share	2011	2010
1st Quarter	**$ 0.345**	$ 0.345
2nd Quarter	**0.345**	0.345
3rd Quarter	**0.345**	0.345
4th Quarter	**0.345**	0.345
Total for Year	**$ 1.38**	$ 1.38

See also Dividends in Part II, Item 7 below.

	2011		2010	
Price Range of Common Stock	**High/Ask**	**Low/Bid**	**High/Ask**	**Low/Bid**
1st Quarter	**$ 23.94**	**$ 21.84**	$ 24.40	$ 20.46
2nd Quarter	**$ 26.82**	**$ 23.12**	$ 24.36	$ 19.28
3rd Quarter	**$ 26.82**	**$ 24.53**	$ 22.99	$ 20.55
4th Quarter	**$ 28.60**	**$ 24.58**	$ 23.49	$ 21.22

Information regarding Securities Authorized for Issuance Under Equity Compensation Plans, as of December 31, 2011, is set forth in the table below.

Equity Compensation Plan Benefit Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in

			column (a))
Equity compensation plans approved by security holders			
Amended and Restated Unitil Corporation 2003 Stock Plan[1]	N/A	N/A	38,460
Equity compensation plans not approved by security holders			
N/A	N/A	N/A	N/A
Total	N/A	N/A	38,460

NOTES: (also see Note 2 to the accompanying Consolidated Financial Statements)

(1) The Amended and Restated Unitil Corporation 2003 Stock Plan (the Plan) was approved by shareholders in April 2003. 10,600 shares of restricted stock were awarded to Plan participants in May 2003; 10,700 shares of restricted stock were awarded to Plan participants in April 2004; 10,900 shares of restricted stock were awarded to Plan participants in March 2005; 14,375 shares of restricted stock were awarded to Plan participants in February 2006; 9,020 shares of restricted stock were awarded to Plan participants in February 2007; 15,540 shares of restricted stock were awarded to Plan participants in February 2008; 32,260 shares of restricted stock were awarded to Plan participants in February 2009; 12,520 shares of restricted stock were awarded to Plan participants in February 2010; 24,330 shares of restricted stock were awarded to Plan participants in February 2011.

Table of Contents

Stock Performance Graph

The following graph compares Unitil Corporation s cumulative stockholder return since December 31, 2006 with the Peer Group index, comprised of the S&P Utilities Index, and the S&P 500 index. The graph assumes that the value of the investment in the Company s common stock and each index (including reinvestment of dividends) was $100 on December 31, 2006.

Comparative Five-Year Total Returns

NOTE:

(1) The graph above assumes $100 invested on December 31, 2006, in each category and the reinvestment of all dividends during the five-year period. The Peer Group is comprised of the S&P Utilities Index.

Table of Contents

Unregistered Sales of Equity Securities and Uses of Proceeds

There were no sales of unregistered equity securities by the Company for the fiscal period ended December 31, 2011.

Pursuant to the written trading plan under Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the Exchange Act), adopted by the Company on March 24, 2011, the Company may periodically repurchase shares of its Common Stock on the open market related to Employee Length of Service Awards and the stock portion of the Directors annual retainer. There is no pool or maximum number of shares related to these purchases; however, the trading plan will terminate when $224,500 in value of shares have been purchased or, if sooner, on March 24, 2012.

The Company may suspend or terminate this trading plan at any time, so long as the suspension or termination is made in good faith and not as part of a plan or scheme to evade the prohibitions of Rule 10b-5 under the Exchange Act, or other applicable securities laws.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
10/1/11 10/31/11	7,838	$ 25.58	7,838	$ 13,132
11/1/11 11/30/11				$ 13,132
12/1/11 12/31/11	215	$ 27.80	215	$ 7,155
Total	8,053	$ 25.64	8,053	

Table of Contents

Item 6. Selected Financial Data

For the Years Ended December 31,	2011	2010	2009	2008	2007
(all data in millions except shares, % and per share data) (1)					
Consolidated Statements of Earnings:					
Operating Revenue	**$ 352.8**	$ 358.4	$ 367.0	$ 288.2	$ 262.9
Operating Income	**37.2**	28.0	26.1	20.5	18.5
Other Non-operating Expense	**0.4**	0.3	0.3	0.3	0.2
Income Before Interest Expense	**36.8**	27.7	25.8	20.2	18.3
Interest Expense, net	**20.4**	18.1	15.8	10.5	9.6
Net Income	**16.4**	9.6	10.0	9.7	8.7
Dividends on Preferred Stock	**0.1**	0.1	0.1	0.1	0.1
Earnings Applicable to Common Shareholders	**$ 16.3**	$ 9.5	$ 9.9	$ 9.6	$ 8.6
Balance Sheet Data (as of December 31,):					
Utility Plant (Original Cost)	**$ 773.7**	$ 728.4	$ 682.7	$ 641.4	$ 380.5
Total Assets	**$ 800.2**	$ 759.6	$ 725.2	$ 733.2	$ 474.6
Capitalization:					
Common Stock Equity	**$ 191.7**	$ 189.0	$ 193.1	$ 139.5	$ 100.4
Preferred Stock	**2.0**	2.0	2.0	2.0	2.1
Long-Term Debt, less current portion	**287.8**	288.3	248.9	249.3	159.6
Total Capitalization	**$ 481.5**	$ 479.3	$ 444.0	$ 390.8	$ 262.1
Current Portion of Long-Term Debt	**$ 0.5**	$ 0.5	$ 0.4	$ 0.4	$ 0.4
Short-term Debt	**$ 87.9**	$ 66.8	$ 64.5	$ 74.1	$ 18.8
Capital Structure Ratios (as of December 31,):					
Common Stock Equity	**40%**	39%	43%	36%	38%
Preferred Stock	**1%**	1%	1%	1%	1%
Long-Term Debt	**59%**	60%	56%	63%	61%
Earnings Per Share Data:					
Earnings Per Average Share	**$ 1.50**	$ 0.88	$ 1.03	$ 1.65	$ 1.52
Common Stock Data:					
Shares of Common Stock (Diluted Weighted Average Outstanding, 000 s)	**10,883**	10,824	9,647	5,830	5,672
Dividends Paid Per Share	**$ 1.38**	$ 1.38	$ 1.38	$ 1.38	$ 1.38
Book Value Per Share (Year-End)	**$ 17.50**	$ 17.35	$ 17.83	$ 17.90	$ 17.50
Electric and Gas Sales:					
Electric Distribution Sales (Millions kWh)	**1,682.1**	1,691.1	1,618.8	1,695.9	1,743.0

Firm Natural Gas Distribution Sales (Millions Therms)	**186.9**	172.9	178.7	47.2	28.4

(1) As a result of the acquisitions of Northern Utilities and Granite State on December 1, 2008, consolidated results for the Company in the current period may not be directly comparable to some prior period results until such time as the acquisitions are fully reflected in all reporting periods.

Table of Contents

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) (Note references are to Notes to the Consolidated Financial Statements in Item 8.)

OVERVIEW

Unitil is a public utility holding company headquartered in Hampton, New Hampshire. Unitil is subject to regulation as a holding company system by the FERC under the Energy Policy Act of 2005. 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 New Hampshire and Maine, from Bay State and (ii) all of the outstanding capital stock of Granite State, an interstate natural gas transmission pipeline company from NiSource.

Unitil s principal business is the local distribution of electricity and natural gas throughout its service territory 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;

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.

Unitil Energy, Fitchburg and Northern Utilities are collectively referred to as the distribution utilities. Together, the distribution utilities serve approximately 101,400 electric customers and 71,900 natural gas customers in their service territory.

In addition, Unitil is the parent company of Granite State, a natural gas transmission pipeline, regulated by the FERC, operating 86 miles of underground gas transmission pipeline primarily located in Maine and New Hampshire. Granite State provides Northern Utilities with interconnection to major natural gas pipelines and access to North American pipeline supplies.

The distribution utilities are local pipes and wires operating companies and Unitil had an investment in Net Utility Plant of $510.7 million at December 31, 2011. Unitil s total revenue was $352.8 million in 2011, which includes revenue to recover the approved cost of purchased electricity and natural gas in rates on a fully reconciling basis. As a result of this reconciling rate structure, the Company s earnings are not affected by changes in the cost of purchased electricity and natural gas. Earnings from Unitil s utility operations are derived from the return on investment in the three distribution utilities and Granite State.

Unitil also conducts non-regulated operations principally through Usource, which is wholly-owned by Unitil Resources. Usource provides energy brokering and consulting services to a national client base of large commercial and industrial customers. Usource s total revenues were $5.5 million in 2011. The Company s other subsidiaries include Unitil Service, which provides, at cost, a variety of administrative and professional services to Unitil s affiliated companies, and Unitil Realty, which owns and manages Unitil s corporate office building and property located in Hampton, New Hampshire. Unitil s consolidated net income includes the earnings of the holding company and these subsidiaries.

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 the 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 its 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.

In 2011, the Company completed base rate cases for: Unitil Energy; the electric and gas divisions of Fitchburg; the Maine division of Northern Utilities; and Granite State. The completion of these rate cases resulted in increases in annual distribution revenues of: $10.2 million for Unitil Energy; $3.3 million and $3.7 million for the electric and gas divisions of Fitchburg, respectively; $7.8 million for the Maine Division of Northern Utilities. Granite State received approval for an increase of $2.2 million in annual revenue. The New Hampshire division of Northern Utilities requested an increase of $5.2 million in annual distribution revenues in its base rate case filing. The Company is currently in settlement discussions with the NHPUC regarding its base rate case filing for Northern Utilities New Hampshire division and a final rate order is expected in the first quarter 2012. See Rate Case Activity in Part I, Item 1 for additional information on these rate cases.

On August 1, 2011, the MDPU issued an order approving revenue decoupling mechanisms (RDM) for the electric and natural gas divisions of the Company s Massachusetts combination electric and natural gas distribution utility, Fitchburg. Revenue decoupling is the term given to the elimination of the dependency of a utility s distribution revenue on the volume of electricity or natural gas sales. One of the primary purposes of decoupling is to eliminate the disincentive a utility otherwise has to encourage and promote energy conservation programs designed to reduce energy usage. Under the RDM, the Company will recognize, in its Consolidated Statements of Earnings from August 1, 2011 forward, distribution revenues for Fitchburg based on established revenue targets. The established revenue targets for the gas division may be subject to periodic adjustments to account for customer growth and special contracts, for which RDM does not apply. The difference between distribution revenue amounts billed to customers and the targeted amounts is recognized as increases or decreases in Accrued Revenue which form the basis for future reconciliation adjustments in periodically resetting rates for future cash recoveries from, or credits to, customers. The Company estimates that RDM applies to approximately 25% and 10% of Unitil s total annual electric and natural gas sales volumes, respectively. As a result, the sales margins resulting from those sales are no longer sensitive to weather and economic factors. The Company s other electric and natural gas distribution utilities are not subject to RDM.

CAUTIONARY STATEMENT

This report and the documents incorporated by reference into this report contain statements that constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, included or incorporated by reference into this report, including, without limitation, statements regarding the financial position, business strategy and other plans and objectives for the Company s future operations, are forward-looking statements.

These statements include declarations regarding the Company s beliefs and current expectations. In some cases, forward-looking statements can be identified by terminology such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, potential or

Table of Contents

negative of such terms or other comparable terminology. These forward-looking statements are subject to inherent risks and uncertainties in predicting future results and conditions that could cause the actual results to differ materially from those projected in these forward-looking statements. Some, but not all, of the risks and uncertainties include those described in Item 1A (Risk Factors) and the following:

- the Company s regulatory environment (including regulations relating to climate change, greenhouse gas emissions and other environmental matters), which could affect the rates the Company is able to charge, the Company s authorized rate of return and the Company s ability to recover costs in its rates;
- fluctuations in the supply of, demand for, and the prices of energy commodities and transmission capacity and the Company s ability to recover energy commodity costs in its rates;
- customers preferred energy sources;
- severe storms and the Company s ability to recover storm costs in its rates;
- the Company s stranded electric generation and generation-related supply costs and the Company s ability to recover stranded costs in its rates;
- declines in the valuation of capital markets, which could require the Company to make substantial cash contributions to cover its pension obligations, and the Company s ability to recover pension obligation costs in its rates;
- general economic conditions, which could adversely affect (i) the Company s customers and, consequently, the demand for the Company s distribution services, (ii) the availability of credit and liquidity resources and (iii) certain of the Company s counterparty s obligations (including those of its insurers and lenders);
- the Company s ability to obtain debt or equity financing on acceptable terms;
- increases in interest rates, which could increase the Company s interest expense;
- restrictive covenants contained in the terms of the Company s and its subsidiaries indebtedness, which restrict certain aspects of the Company s business operations;
- variations in weather, which could decrease demand for the Company s distribution services;
- long-term global climate change, which could adversely affect customer demand or cause extreme weather events that could disrupt the Company s electric and natural gas distribution services;
- numerous hazards and operating risks relating to the Company s electric and natural gas distribution activities, which could result in accidents and other operating risks and costs;

- catastrophic events;
- the Company s ability to retain its existing customers and attract new customers;
- the Company s energy brokering customers performance under multi-year energy brokering contracts; and
- increased competition.

Many of these risks are beyond the Company s control. Any forward-looking statements speak only as of the date of this report, and the Company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date on which such statements are made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for the Company to predict all of these factors, nor can the Company assess the impact of any such factor on its business or the extent to which any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statements.

See also Item 1A Risk Factors.

Table of Contents

RESULTS OF OPERATIONS

The following discussion of the Company s financial condition and results of operations should be read in conjunction with the accompanying Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included in Item 8 of this report.

The Company s results are expected to reflect the seasonal nature of its natural gas businesses. 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 expenses usually exceed sales margins in those periods.

Net Income and EPS Overview

2011 Compared to 2010 The Company s Earnings Applicable to Common Shareholders (Earnings) were $16.3 million, or $1.50 per share, for the full year of 2011, an increase of $6.8 million, or $0.62 per share, over 2010, reflecting higher natural gas and electric sales margins partially offset by higher utility operating and interest costs. The Company s Earnings were $10.0 million, or $0.92 per share, for the fourth quarter of 2011, compared to Earnings of $5.2 million, or $0.48 per share, in the fourth quarter of 2010. The results include a non-recurring pre-tax credit of $4.7 million recorded in the fourth quarter of 2011 in connection with the Company s court appeal and the resulting favorable ruling vacating a 2009 regulatory order that had resulted in the previous charge off of Purchased Gas costs. Also included in the 2011 full year results is a non-recurring pre-tax charge of $2.0 million recorded in the third quarter, related to the resolution of the 2008 ice storm cost recovery in the Company s Massachusetts base rate case.

Natural gas sales margin increased $11.1 million in 2011 compared to 2010, reflecting an increase in gas unit sales, higher gas distribution rates and the recovery of Purchased Gas costs that had previously been charged off in a prior period. Total natural gas therm unit sales increased 8.1% in 2011 compared to 2010. The increase in gas therm sales reflects the addition of new residential and commercial and industrial (C&I) business customers during the year, increased gas usage and colder weather in 2011 compared to 2010, particularly in the first quarter of 2011. Heating Degree Days in 2011 were 3.8% greater than in 2010. On a weather-normalized basis, natural gas therm sales in 2011 increased 7.0% compared to 2010 due to new customer growth and increased gas usage.

Electric sales margin increased $7.6 million in 2011 compared to 2010, reflecting higher electric distribution rates on lower unit sales. Total electric kilowatt hour (kWh) unit sales decreased 0.5% in 2011 compared to 2010 reflecting slightly higher sales to residential customers offset by lower sales to C&I business customers. The increased sales to residential customers reflect customer growth partially offset by the effect of the weather in 2011 compared to 2010. There were 14.6% fewer Cooling Degree Days in 2011 compared to 2010. On a weather-normalized basis, kWh sales in 2011 increased 0.4% compared to 2010.

Total Operation & Maintenance (O&M) expenses increased $2.7 million, or 5.5%, in 2011 compared to 2010. The changes in O&M expenses reflect higher utility operating costs of $1.9 million and higher employee compensation and benefit costs of $1.8 million, partially offset by a credit of $1.0 million for proceeds from insurance related settlements. Utility operating costs in 2011 include approximately $1.7 million of spending on vegetation management and reliability enhancement programs. These costs are recovered through cost tracker rate mechanisms that result in corresponding increases in revenue.

Depreciation and Amortization expense increased $0.4 million in 2011 compared to 2010 reflecting normal utility plant additions, amortization of previously deferred storm charges and changes in depreciation rates resulting from the Company s recently completed base rate cases.

Local Property and Other Taxes increased $1.8 million in 2011 compared to 2010. This increase reflects higher state and local property tax rates on higher levels of utility plant in service.

Federal and State Income Taxes increased $5.5 million in 2011 due to higher pre-tax earnings in 2011 compared to 2010.

Other Non-operating Expenses increased $0.1 million in 2011 compared to 2010.

Table of Contents

Interest Expense, net increased $2.3 million in 2011 compared to 2010 due to lower interest income recorded on regulatory assets, including a non-recurring pre-tax charge, in the third quarter of 2011, against interest income of $1.8 million related to the final regulatory order issued in the Company s Massachusetts base rate case. Interest expense also reflects the issuance of a total of $40 million of long-term notes by two of the Company s operating utilities, Unitil Energy and Northern Utilities, in March 2010.

Usource, the Company s non-regulated energy brokering business, recorded revenues of $5.5 million in 2011, an increase of $0.9 million compared to 2010, and contributed $0.15 per share to Earnings in 2011. Usource s revenues are primarily derived from fees and charges billed to suppliers as customers take delivery of energy from these suppliers under term contracts brokered by Usource.

On November 2, 2011, the Massachusetts Supreme Judicial Court (SJC) issued its decision vacating an order issued on November 2, 2009 by the MDPU in which the MDPU ordered the Company s electric and natural gas distribution utility, Fitchburg, to refund $4.6 million of natural gas costs, plus interest. The MDPU s original order, issued in 2009, found that Fitchburg had 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 natural gas purchasing practices were imprudent. The Company appealed the MDPU s decision to the SJC. The SJC s decision vacates the MDPU s refund amount of $4.6 million, plus interest, in favor of a refund amount of $0.2 million, plus interest. The Company had previously recorded a pre-tax charge to earnings and recognized a Regulatory Liability of $4.9 million in the fourth quarter of 2009 based on the MDPU s original order. As a result of the decision, the Regulatory Liability has been adjusted and the Company recognized a pre-tax credit of $4.7 million in the fourth quarter of 2011. This credit is recognized on the Company s 2011 Consolidated Statement of Earnings as a $4.5 million reduction in Purchased Gas expense and a reduction of $0.2 million in Interest Expense, net.

In 2011, Unitil s annual common dividend was $1.38, representing an unbroken record of quarterly dividend payments since trading began in Unitil s common stock. At its January, 2012 meeting, the Unitil Board of Directors declared a quarterly dividend on the Company s common stock of $0.345 per share.

2010 Compared to 2009 The Company s Earnings Applicable to Common Shareholders was $9.5 million, or $0.88 per share, for 2010, compared to $9.9 million, or $1.03 per share, for 2009. The lower earnings in 2010 compared to 2009 reflect higher operating and interest expenses in 2010.

A more detailed discussion of the Company s 2011 and 2010 results of operations and a year-to-year comparison of changes in financial position are presented below.

Gas Sales, Revenues and Margin

Therm Sales Unitil s total therm sales of natural gas increased 8.1% in 2011 compared to 2010. The increase in gas therm sales reflects the addition of new residential and C&I business customers during the year, increased gas usage and colder weather in 2011 compared to 2010, particularly in the first quarter of 2011. Heating Degree Days in 2011 were 3.8% greater than in 2010. On a weather-normalized basis, natural gas therm sales in 2011 increased 7.0% compared to 2010 due to new customer growth and increased gas usage.

As discussed above, under revenue decoupling for the Company s Massachusetts combination electric and natural gas distribution utility, Fitchburg, distribution revenues, which are included in sales margin, will be recognized in the Company s Consolidated Statements of Earnings from August 1, 2011 forward, on established revenue targets and will no longer be dependent on sales volumes. In 2011, approximately 3% of the Company s gas therm sales were decoupled.

Unitil s total therm sales of natural gas decreased 3.2% in 2010 compared to 2009. Lower gas therm sales in the Company s utility service territories reflect the effect of milder winter temperatures in the early part of 2010 compared to 2009. Heating Degree Days in 2010 were 9% fewer than in the prior year. On a weather-normalized basis, natural gas therm sales in 2010 were essentially flat compared to 2009.

Table of Contents

The following table details total therm sales for the last three years, by major customer class:

Therm Sales (millions)				Change			
				2011 vs. 2010		2010 vs. 2009	
	2011	2010	2009	Therms	%	Therms	%
Residential	**37.7**	35.1	36.7	2.6	7.4%	(1.6)	(4.4%)
Commercial / Industrial	**149.2**	137.8	142.0	11.4	8.3%	(4.2)	(3.0%)
Total Therm Sales	**186.9**	172.9	178.7	14.0	8.1%	(5.8)	(3.2%)

Gas Operating Revenues and Sales Margin The following table details total Gas Operating Revenue and Margin for the last three years by major customer class:

Gas Operating Revenues and Sales Margin (millions)

				Change			
				2011 vs. 2010		2010 vs. 2009	
	2011	2010	2009	$	%[1]	$	%[1]
Gas Operating Revenue:							
Residential	**$ 65.1**	$ 61.5	$ 62.0	$ 3.6	2.4%	$ (0.5)	(0.3%)
Commercial / Industrial	**94.1**	88.6	90.8	5.5	3.7%	(2.2)	(1.4%)
Total Gas Operating Revenue	**$ 159.2**	$ 150.1	$ 152.8	$ 9.1	6.1%	$ (2.7)	(1.7%)
Cost of Gas Sales:							
Purchased Gas	**$ 89.1**	$ 90.5	$ 96.4	$ (1.4)	(0.9%)	$ (5.9)	(3.8%)
Conservation & Load Management	**2.2**	2.8	1.9	(0.6)	(0.4%)	0.9	0.6%
Total Cost of Gas Sales	**$ 91.3**	$ 93.3	$ 98.3	$ (2.0)	(1.3%)	$ (5.0)	(3.2%)
Gas Sales Margin	**$ 67.9**	$ 56.8	$ 54.5	$ 11.1	7.4%	$ 2.3	1.5%

(1) Represents change as a percent of Total Gas Operating Revenue.

Total Gas Operating Revenues increased $9.1 million, or 6.1%, in 2011 compared to 2010. Total Gas Operating Revenues include the recovery of the approved cost of sales, which are recorded as Purchased Gas and Conservation and Load Management (C&LM) in Operating Expenses. The increase in Total Gas Operating Revenues in 2011 reflects higher sales margin of $11.1 million partially offset by lower Purchased Gas revenues of $1.4 million and lower C&LM revenues of $0.6 million.

The Purchased Gas and C&LM components of Total Gas Operating Revenue decreased a combined $2.0 million, or 1.3%, of Total Gas Operating Revenues in 2011 compared to 2010, primarily reflecting the recovery of $4.5 million of Purchased Gas costs that had previously been charged off in a prior period, discussed above, lower natural gas commodity costs and an increase in the amount of natural gas purchased by customers directly from third-party suppliers, partially offset by higher sales of natural gas. Purchased Gas revenues include the recovery of the approved cost of gas supply as well as other energy supply related costs. C&LM revenues include the recovery of the cost of energy efficiency and conservation programs. The Company recovers the approved cost of Purchased Gas and C&LM in its rates at cost on a pass through basis.

Natural gas sales margin increased $11.1 million in 2011 compared to 2010, reflecting increased sales of $4.0 million, higher gas distribution rates of $2.6 million and the recovery of $4.5 million of Purchased Gas costs that had previously been charged off in a prior period, discussed above.

Total Gas Operating Revenues decreased $2.7 million, or 1.7%, in 2010 compared to 2009. The decrease in Total Gas Operating Revenues in 2010 reflects lower Purchased Gas costs of $5.9 million partially offset by higher C&LM revenues of $0.9 million and higher sales margin of $2.3 million.

Natural gas sales margin increased $2.3 million in 2010 compared to 2009, reflecting the effect of the ordered refund of $4.9 million of natural gas supply costs recorded in 2009, discussed above. Absent the effect of this refund, natural gas sales margin decreased $2.6 million in 2010 compared to 2009, principally due to lower sales of natural gas, which reflect the effect of the milder winter heating season in the early part of 2010 compared to 2009.

Table of Contents

Electric Sales, Revenues and Margin

Kilowatt-hour Sales Unitil s total electric kWh sales decreased 0.5% in 2011 compared to 2010 reflecting slightly higher sales to residential customers offset by lower sales to C&I business customers. The increased sales to residential customers reflect customer growth partially offset by the effect of the weather in 2011 compared to 2010. There were 14.6% fewer Cooling Degree Days in 2011 compared to 2010. On a weather-normalized basis, kWh sales in 2011 increased 0.4% compared to 2010.

As discussed above, under revenue decoupling for the Company s Massachusetts combination electric and natural gas distribution utility, Fitchburg, distribution revenues, which are included in sales margin, will be recognized in the Company s Consolidated Statements of Earnings from August 1, 2011 forward, on established revenue targets and will no longer be dependent on sales volumes. In 2011, approximately 10% of the Company s electric kWh sales were decoupled from revenue and sales margin.

Unitil s total electric kWh sales increased 4.5% in 2010 compared to 2009. Electric kWh sales to residential customers and C&I customers increased 5.5% and 3.8%, respectively, in 2010 compared to 2009. The increased sales reflect higher than average summer temperatures in the Company s utility service territories in 2010 where there were approximately 61% more Cooling Degree Days in the three month period ended September 30, 2010, compared to the prior year, coupled with an improving regional economy. According to ISO-New England, the regional transmission operator in New England, July of 2010 was the second-hottest July in New England since 1960 and New England s all-time electricity consumption for one month was recorded in that month. On a weather-normalized basis, kWh sales in 2010 increased 1.6% compared to 2009.

The following table details total kWh sales for the last three years by major customer class:

kWh Sales (millions)				**Change**			
				2011 vs. 2010		**2010 vs. 2009**	
	2011	**2010**	**2009**	**kWh**	**%**	**kWh**	**%**
Residential	**682.8**	681.2	645.9	1.6	0.2%	35.3	5.5%
Commercial / Industrial	**999.3**	1,009.9	972.9	(10.6)	(1.0%)	37.0	3.8%
Total kWh Sales	**1,682.1**	1,691.1	1,618.8	(9.0)	(0.5%)	72.3	4.5%

Electric Operating Revenues and Sales Margin The following table details Total Electric Operating Revenue and Sales Margin for the last three years by major customer class:

Electric Operating Revenues (millions)

				Change			
				2011 vs. 2010		**2010 vs. 2009**	
	2011	**2010**	**2009**	**$**	**%(1)**	**$**	**%(1)**
Electric Operating Revenue:							
Residential	**$ 100.8**	$ 108.5	$ 108.9	$ (7.7)	(3.8%)	$ (0.4)	(0.2%)
Commercial / Industrial	**87.3**	95.2	101.0	(7.9)	(3.9%)	(5.8)	(2.7%)
Total Electric Operating Revenue	**$ 188.1**	$ 203.7	$ 209.9	$ (15.6)	(7.7%)	$ (6.2)	(2.9%)

Cost of Electric Sales:							
Purchased Electricity	**$ 114.2**	$ 137.7	$ 151.6	$ (23.5)	(11.5%)	$ (13.9)	(6.6%)
Conservation & Load Management	**6.3**	6.0	3.1	0.3	0.1%	2.9	1.4%
Total Cost of Electric Sales	**$ 120.5**	$ 143.7	$ 154.7	$ (23.2)	(11.4%)	$ (11.0)	(5.2%)
Electric Sales Margin	**$ 67.6**	$ 60.0	$ 55.2	$ 7.6	3.7%	$ 4.8	2.3%

(1) Represents change as a percent of Total Electric Operating Revenue.

Total Electric Operating Revenues decreased $15.6 million, or 7.7%, in 2011 compared to 2010. Total Electric Operating Revenues include the recovery of approved costs of electric sales, which are recorded as Purchased Electricity and C&LM in Operating Expenses. The net decrease in Total Electric Operating Revenues in 2011 reflects lower Purchased Electricity revenues of $23.5 million partially offset by higher C&LM revenues of $0.3 million and higher sales margin of $7.6 million.

Table of Contents

The Purchased Electricity and C&LM components of Total Electric Operating Revenue decreased a combined $23.2 million, or 11.4%, of Total Electric Operating Revenues in 2011 compared to 2010, primarily reflecting lower electric commodity costs and an increase in the amount of electricity purchased by customers directly from third-party suppliers, partially offset by higher spending on energy efficiency and conservation programs. Purchased Electricity revenues include the recovery of the cost of electric supply as well as other energy supply related restructuring costs, including long-term power supply contract buyout costs. C&LM revenues include the recovery of the approved cost of energy efficiency and conservation programs. The Company recovers the approved cost of Purchased Electricity and C&LM in its rates at cost on a pass through basis.

Electric sales margin increased $7.6 million in 2011 compared to 2010, reflecting higher electric distribution rates of $7.8 million, partially offset by reduced margins on lower unit sales of ($0.2 million).

Total Electric Operating Revenues decreased $6.2 million, or 2.9%, in 2010 compared to 2009. The net decrease in Total Electric Operating Revenues in 2010 reflects lower Purchased Electricity costs of $13.9 million offset by higher C&LM revenues of $2.9 million and higher sales margin of $4.8 million.

Electric sales margin increased $4.8 million in 2010 compared to 2009. The increase in electric sales margin reflects higher electric kWh sales and an electric rate increase, implemented in July 2010 for the Company s New Hampshire electric distribution utility.

Operating Revenue Other

Total Other Revenue increased $0.9 million in 2011 compared to 2010 and $0.3 million in 2010 compared to 2009. These increases were the result of growth in revenues from the Company s non-regulated energy brokering business, Usource. Usource s revenues are primarily derived from fees and charges billed to suppliers as customers take delivery of energy from these suppliers under term contracts brokered by Usource.

The following table details total Other Revenue for the last three years:

Other Revenue (millions)

				Change			
				2011 vs. 2010		2010 vs. 2009	
	2011	2010	2009	$	%	$	%
Usource	$ 5.5	$ 4.6	$ 4.3	$ 0.9	19.6%	$ 0.3	7.0%
Total Other Revenue	$ 5.5	$ 4.6	$ 4.3	$ 0.9	19.6%	$ 0.3	7.0%

Operating Expenses

Purchased Gas Purchased Gas includes the cost of natural gas purchased and manufactured to supply the Company s total gas supply requirements. Purchased Gas decreased $1.4 million, or 1.6%, in 2011 compared to 2010. This decrease reflects a credit of $4.5 million for the recovery of Purchased Gas costs that had previously been charged off in a prior period, discussed above, lower natural gas commodity costs and an increase in the amount of natural gas purchased by customers directly from third-party suppliers, partially offset by higher sales of natural gas. The Company recovers the approved costs of Purchased Gas in its rates at cost on a pass through basis and therefore changes in approved expenses do not affect earnings.

In 2010, Purchased Gas decreased $5.9 million, or 6.1%, compared to 2009. This decrease reflects the effect of the ordered refund of $4.9 million of Purchased Gas costs recorded in 2009, discussed above. Absent the effect of this refund, Purchased Gas decreased $1.0 million in 2010 compared to 2009, principally due to lower sales of natural gas, which reflect the effect of the milder winter heating season in the early part of 2010 compared to 2009, partially offset by higher natural gas commodity prices in 2010.

Purchased Electricity Purchased Electricity includes the cost of electric supply as well as other energy supply related restructuring costs, including power supply buyout costs. Purchased Electricity decreased $23.5 million, or 17.1%, in 2011 compared to 2010. This decrease primarily reflects lower electric commodity costs and an increase in the amount of electricity purchased by customers directly from

Table of Contents

third-party suppliers. The Company recovers the approved costs of Purchased Electricity in its rates at cost and therefore changes in approved expenses do not affect earnings.

In 2010, Purchased Electricity expenses decreased $13.9 million, or 9.2%, compared to 2009, reflecting an increase in the amount of electricity purchased by customers directly from third-party suppliers and lower electric commodity costs, partially offset by increased sales.

Operation and Maintenance O&M expense includes electric and gas utility operating costs, and the operating costs of the Company s non-regulated business activities. Total O&M expenses increased $2.7 million, or 5.5%, in 2011 compared to 2010. The changes in O&M expenses reflect higher utility operating costs of $1.9 million and higher employee compensation and benefit costs of $1.8 million, partially offset by a credit of $1.0 million for proceeds from insurance related settlements. Utility operating costs primarily consist of utility distribution and transmission system maintenance costs, bad debt expenses, office expenses and insurance costs. Utility operating costs in 2011 include approximately $1.7 million of spending on vegetation management and reliability enhancement programs. These costs are recovered through cost tracker rate mechanisms that result in corresponding increases in revenue.

In 2010, total O&M expense increased $4.1 million, or 9.2%, compared to 2009. The changes in O&M expenses reflect higher compensation and benefit expenses of $2.7 million and higher utility operating costs of $1.4 million. O&M expenses in 2010 reflect the full integration of Northern Utilities and Granite State into the Company s consolidated operating results.

Conservation & Load Management C&LM expenses are expenses associated with the development, management, and delivery of the Company s energy efficiency programs. Energy efficiency programs are designed, in conformity to state regulatory requirements, to help consumers use natural gas and electricity more efficiently and thereby decrease their energy costs. Programs are tailored to residential, small business and large business customer groups and provide educational materials, technical assistance, and rebates that contribute toward the cost of purchasing and installing approved measures. Approximately 74% of these costs are related to electric operations and 26% to gas operations.

Total Conservation & Load Management expenses decreased $0.3 million, in 2011 compared to 2010. These costs are collected from customers on a fully reconciling basis and therefore, fluctuations in program costs do not affect earnings.

Total Conservation & Load Management expenses increased $3.8 million in 2010 compared to 2009.

Depreciation and Amortization Depreciation and Amortization expense increased $0.4 million, or 1.4%, in 2011 compared to 2010 reflecting normal utility plant additions, amortization of previously deferred storm charges and changes in depreciation rates resulting from the Company s recently completed base rate cases.

In 2010, Depreciation and Amortization expense increased $1.5 million, or 5.5%, compared to 2009. This increase reflects higher depreciation on normal utility plant additions partially offset by lower amortization expense in the current year.

Local Property and Other Taxes Local Property and Other Taxes increased $1.8 million, or 16.1%, in 2011 compared to 2010. This increase reflects higher state and local property tax rates on higher levels of utility plant in service.

In 2010, Local Property and Other Taxes increased $0.8 million, or 7.7%, compared to 2009. This increase reflects higher state and local property tax rates on higher levels of utility plant in service and higher payroll taxes on higher compensation expenses.

Federal and State Income Taxes Federal and State Income Taxes increased $5.5 million in 2011 compared to 2010 due to higher pre-tax earnings in 2011 compared to 2010 (See Note 7 to the accompanying Consolidated Financial Statements).

Table of Contents

Federal and State Income Taxes decreased $0.9 million in 2010 compared to 2009 due to lower pre-tax operating income in 2010 compared to 2009 (See Note 7 to the accompanying Consolidated Financial Statements).

Other Non-operating Expenses (Income)   Other Non-operating Expenses (Income) increased $0.1 million in 2011 compared to 2010 and was flat in 2010 compared to 2009.

Interest Expense, net

Interest expense is presented in the financial statements net of interest income. Interest expense is mainly comprised of interest on long-term debt and short-term borrowings. Certain reconciling rate mechanisms used by the Company s distribution utilities give rise to regulatory assets (and regulatory liabilities) on which interest is calculated (See Note 3 to the accompanying Consolidated Financial Statements).

Interest Expense, net increased $2.3 million in 2011 compared to 2010 due to lower interest income recorded on regulatory assets, including a non-recurring pre-tax charge, in the third quarter of 2011, against interest income of $1.8 million related to the final regulatory order issued in the Company s Massachusetts base rate case. Interest expense also reflects the issuance of a total of $40 million of long-term notes by two of the Company s operating utilities, Unitil Energy and Northern Utilities, in March 2010.

In 2010, Interest Expense, net increased $2.3 million compared to 2009. In March 2010, Unitil Energy and Northern Utilities collectively issued $40 million of long-term debt which contributed to the higher interest expense in 2010.

LIQUIDITY, COMMITMENTS AND CAPITAL REQUIREMENTS

Sources of Capital

Unitil requires capital to fund utility plant additions, working capital and other utility expenditures recovered in subsequent and future periods through regulated rates. The capital necessary to meet these requirements is derived primarily from internally-generated funds, which consist of cash flows from operating activities. The Company initially supplements internally generated funds through bank borrowings, as needed, under its unsecured short-term revolving credit facility. Periodically, the Company replaces portions of its short-term debt with long-term financings more closely matched to the long-term nature of its utility assets. Additionally, with respect to public offerings of securities, the Company files registration statements with the Securities and Exchange Commission under the Securities Act of 1933, as amended. The Company s utility operations are seasonal in nature and are therefore subject to seasonal fluctuations in cash flows. The amount, type and timing of any future financing will vary from year to year based on capital needs and maturity or redemptions of securities.

The Company, along with its subsidiaries, are individually and collectively members of the Unitil Cash Pool (the Cash Pool). The Cash Pool is the financing vehicle for day-to-day cash borrowing and investing. The Cash Pool allows for an efficient exchange of cash among the Company and its subsidiaries. The interest rates charged to the subsidiaries for borrowing from the Cash Pool are based on actual interest costs from lenders under the Company s revolving credit facility. At December 31, 2011 and 2010, all of the Company s subsidiaries were in compliance with the regulatory requirements to participate in the Cash Pool.

Unitil has a revolving credit facility with a group of banks that extends to October 8, 2013. The borrowing limit under the revolving credit facility was $115.0 million at December 31, 2011 and $80.0 million at December 31, 2010. There was $87.9 million and $66.8 million in short-term debt outstanding through bank borrowings under the revolving credit facility at December 31, 2011 and 2010, respectively. The total amount of credit available under the Company s revolving credit facility was $27.1 million and $13.2 million at December 31, 2011 and 2010, respectively. The revolving credit facility contains customary terms and conditions for credit facilities of this type, including, without limitation, covenants restricting the Company s ability to incur liens, merge or consolidate with another entity or change its line of business. The revolving credit agreement also contains a covenant restricting the Company s ability to

Table of Contents

permit funded debt to exceed 65% of capitalization at the end of each fiscal quarter. As of December 31, 2011 and 2010, the Company was in compliance with the financial covenants contained in the revolving credit agreement.

On October 12, 2011, Unitil entered into the Fifth Amendment agreement with Bank of America, N.A., as administrative agent, and a syndicate of other lenders party thereto, further amending the revolving credit agreement dated as of November 26, 2008. The revolving credit agreement was previously amended on January 2, 2009, March 16, 2009, October 13, 2009 and October 8, 2010 to, among other things, increase the maximum borrowings under the facility, provide for a base rate interest rate option, reflect letter of credit availability, modify certain financial reporting requirements and extend the scheduled termination date of the facility. The Fifth Amendment agreement increased the maximum borrowings under the facility to $115 million, changed the additional interest margin applicable to borrowings at a fluctuating rate of interest per annum equal to the daily London Interbank Offered Rate from 2.00% to 1.75%, and changed the annual letter of credit fee from 1.625% of the daily amount available to be drawn under letters of credit issued under the credit facility to 1.500% of such daily amount. Also, see Credit Arrangements in Note 3.

The continued availability of various methods of financing, as well as the choice of a specific form of security for such financing, will depend on many factors, including, but not limited to: security market conditions; general economic climate; regulatory approvals; the ability to meet covenant issuance restrictions; the level of earnings, cash flows and financial position; and the competitive pricing offered by financing sources.

Contractual Obligations

The table below lists the Company s significant contractual obligations as of December 31, 2011.

			Payments Due by Period		
Significant Contractual Obligations (millions) as of December 31, 2011	**Total**	**2012**	**2013-2014**	**2015-2016**	**2017 & Beyond**
Long-term Debt	$ 288.3	$ 0.5	$ 3.0	$ 21.5	$ 263.3
Interest on Long-term Debt	264.0	19.9	39.8	39.1	165.2
Gas Supply Contracts	252.8	43.1	78.8	73.7	57.2
Power Supply Contract Obligations	12.9	8.7	1.7	0.9	1.6
Other	5.0	2.0	2.1	0.7	0.2
Total Contractual Cash Obligations	$ 823.0	$ 74.2	$ 125.4	$ 135.9	$ 487.5

The Company and its subsidiaries have material energy supply commitments that are discussed in Note 5 to the accompanying Consolidated Financial Statements. Cash outlays for the purchase of electricity and natural gas to serve customers are subject to reconciling recovery through periodic changes in rates, with carrying charges on deferred balances. From year to year, there are likely to be timing differences associated with the cash recovery of such costs, creating under- or over-recovery situations at any point in time. Rate recovery mechanisms are typically designed to collect the under-recovered cash or refund the over-collected cash over subsequent periods of less than a year.

The Company provides limited guarantees on certain energy and natural gas storage management contracts entered into by the distribution utilities. The Company s policy is to limit the duration of these guarantees. As of December 31, 2011, there were approximately $37.2 million of guarantees outstanding and the longest term guarantee extends through February 2014.

Northern Utilities enters into asset management agreements under which Northern Utilities releases certain natural gas pipeline and storage assets, resells the natural gas storage inventory to an asset manager and subsequently repurchases the inventory over the course of the natural gas heating season at the same price at which it sold the natural gas inventory to the asset manager. There was $14.9 million and $11.7 million outstanding at December 31, 2011 and 2010, respectively, related to these asset management agreements. The amount of natural gas inventory released in December 2011, which was payable in January 2012, is $2.5 million and recorded in Accounts Payable at December 31, 2011. The amount of natural gas inventory released in December 2010, which was payable in January 2011, is $3.9 million and recorded in Accounts Payable at December 31, 2010.

Table of Contents

The Company also guarantees the payment of principal, interest and other amounts payable on the notes issued by Unitil Realty and Granite State. As of December 31, 2011, the principal amount outstanding for the 8% Unitil Realty notes was $3.3 million, and the principal amount outstanding for the 7.15% Granite State notes was $10.0 million.

Benefit Plan Funding

The Company, along with its subsidiaries, made cash contributions to its Pension Plan in the amount of $8.8 million and $4.3 million in 2011 and 2010, respectively. The Company, along with its subsidiaries, contributed $3.5 million to Voluntary Employee Benefit Trusts (VEBT) in 2010. No contributions were made to the VEBTs in 2011. The Company, along with its subsidiaries, expects to continue to make contributions to its Pension Plan and the VEBTs in 2012 and future years at minimum required and discretionary funding levels consistent with the amounts recovered in the distribution utilities rates for these benefit plans. (See Note 9 to the accompanying Consolidated Financial Statements.)

Off-Balance Sheet Arrangements

The Company and its subsidiaries do not currently use, and are not dependent on the use of, off-balance sheet financing arrangements such as securitization of receivables or obtaining access to assets or cash through special purpose entities or variable interest entities. Unitil s subsidiaries conduct a portion of their operations in leased facilities and also lease some of their vehicles, machinery and office equipment under both capital and operating lease arrangements. (See Note 3 to the accompanying Consolidated Financial Statements.)

Cash Flows

Unitil s utility operations, taken as a whole, are seasonal in nature and are therefore subject to seasonal fluctuations in cash flows. The tables below summarize the major sources and uses of cash (in millions) for 2011 and 2010.

	2011	**2010**
Cash Provided by Operating Activities	**$ 45.9**	$ 25.9

Cash Provided by Operating Activities Cash Provided by Operating Activities was $45.9 million in 2011, an increase of $20.0 million over 2010. Cash flow from Net Income, adjusted for non-cash charges to depreciation, amortization and deferred taxes, was $54.4 million in 2011 compared to $49.0 million in 2010, representing an increase of $5.4 million. Working capital changes in Current Assets and Liabilities resulted in a ($13.7) million net use of cash in 2011, compared to a ($12.1) million net use of cash in 2010. Deferred Regulatory and Other Charges resulted in a $7.5 million source of cash in 2011, compared to a ($4.5) million use of cash in 2010. All Other, net operating activities resulted in a use of cash of $(2.3) million in 2011 compared to a use of cash of ($6.5) million in 2010.

	2011	**2010**
Cash (Used in) Investing Activities	**$ (57.1)**	$ (49.6)

Cash (Used in) Investing Activities Cash Used in Investing Activities was ($57.1) million for 2011 compared to ($49.6) million in 2010. The capital spending in both periods is representative of normal distribution utility capital expenditures reflecting normal electric and gas utility system additions. Capital expenditures are projected to be approximately ($59) million in 2012.

	2011	**2010**
Cash Provided by Financing Activities	**$ 9.8**	$ 24.9

Cash Provided by Financing Activities Cash Provided by Financing Activities was $9.8 million in 2011 compared to $24.9 million in 2010. In 2011, sources of cash from financing activities included proceeds from issuance of short-term debt of $21.1 million, an increase in gas inventory financing of $4.6

Table of Contents

million and the issuance of common stock of $1.0 million. Uses of cash included regular quarterly dividend payments on common and preferred stock of ($15.2) million, payment of long term debt of ($0.5) million and all other financing activities which resulted in a use of ($1.2) million.