

UNITIL CORP
Form 10-Q
April 24, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 2013

Commission File Number 1-8858

UNITIL CORPORATION

(Exact name of registrant as specified in its charter)

New Hampshire
(State or other jurisdiction of

02-0381573
(I.R.S. Employer

incorporation or organization)

Identification No.)

6 Liberty Lane West, Hampton, New Hampshire
(Address of principal executive office)

03842-1720
(Zip Code)

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

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

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

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.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 19, 2013
Common Stock, no par value	13,813,228 Shares

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UNITIL CORPORATION AND SUBSIDIARY COMPANIES

FORM 10-Q

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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 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 counterparties 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;

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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.

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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.

PART I. FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) **OVERVIEW**

Unitil Corporation (Unitil or the Company) is a public utility holding company headquartered in Hampton, New Hampshire. Unitil is 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 territory in the states of New Hampshire, Massachusetts and Maine. Unitil is the parent company of three wholly-owned distribution utilities:

- i) Unitil Energy Systems, Inc. (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 Gas and Electric Light Company (Fitchburg), which provides both electric and natural gas service in the greater Fitchburg area of north central Massachusetts; and
- iii) Northern Utilities, Inc. (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.

Unitil Energy, Fitchburg and Northern Utilities are collectively referred to as the distribution utilities. Together, the distribution utilities serve approximately 101,700 electric customers and 73,700 natural gas customers in their service territory.

In addition, Unitil is the parent company of Granite State Gas Transmission, Inc. (Granite State) 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 domestic natural gas supplies in the south and Canadian natural gas supplies in the north.

Unitil had an investment in Net Utility Plant of \$608.3 million at March 31, 2013. Unitil's total operating revenue 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 directly affected by changes in the cost of purchased electricity and natural gas. Earnings from Unitil's utility operations are primarily derived from the return on investment in the utility assets of the three distribution utilities and Granite State.

Unitil also conducts non-regulated operations principally through Usource Inc. and Usource L.L.C. (collectively, Usource), which is wholly-owned by Unitil Resources Inc., a wholly-owned subsidiary of Unitil. Usource provides energy brokering and advisory services to large commercial and industrial customers primarily in the northeastern United States. The Company's other subsidiaries include Unitil Service Corp., which provides, at cost, a variety of administrative and professional services to Unitil's

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affiliated companies, Unitil Realty Corp. (Unitil Realty), which owns and manages Unitil's corporate office building and property located in Hampton, New Hampshire and Unitil Power Corp., which formerly functioned as the full requirements wholesale power supply provider for Unitil Energy. Unitil's consolidated net income includes the earnings of the holding company and these subsidiaries.

RATES AND REGULATION**Rate Case Activity**

Granite State Base Rates Granite State has in place a FERC approved rate settlement agreement under which it is permitted each June to file a limited Section 4 rate case that includes incremental annual rate adjustments to recover the revenue requirements for certain specified future capital cost additions to transmission plant projects. In June, Granite State will submit to the FERC its next incremental annual rate adjustment with rates to be effective August 1, 2013.

Unitil Energy Base Rates On April 26, 2011, the New Hampshire Public Utilities Commission (NHPUC) approved a rate settlement with a permanent increase of \$5.2 million in annual revenue effective July 1, 2010, and 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 step increases in annual revenue on May 1, 2012, May 1, 2013 and May 1, 2014, to support Unitil Energy's continued capital improvements to its distribution system. Unitil Energy's first step increase was approved as filed, effective May 1, 2012. On February 28, 2013, Unitil Energy filed its second step increase of \$2.8 million for effect on May 1, 2013, including rate increases to recover the increased spending for its vegetation management and reliability enhancement programs. This matter remains pending.

Northern Utilities Base Rates Filed In April 2013, Northern Utilities filed two separate rate cases, with the NHPUC and Maine Public Utilities Commission (MPUC), requesting approval to increase its natural gas distribution base rates. In New Hampshire, the Company requested an increase of \$5.2 million in gas distribution base revenue or approximately 9.4 percent over test year operating revenue. In Maine, the Company requested an increase of \$4.6 million in gas distribution base revenue or approximately 6.3 percent over test year operating revenue. Both filings include proposed multi-year rate plans that include cost tracking mechanisms to recover future capital costs associated with Northern's infrastructure replacements and safety and reliability improvements to the natural gas distribution system while avoiding the need to file general rate cases prior to April 2017. In addition, Northern has requested temporary rates in New Hampshire to collect a \$2.5 million increase (annualized) in gas distribution revenue, effective July 1, 2013. The rate case filings are subject to regulatory review and approval with final rate orders expected in the first half of 2014.

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 NHPUC; Fitchburg is subject to regulation by the Massachusetts Department of Public Utilities (MDPU); and Northern Utilities is regulated by the NHPUC and the 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

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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, with the exception of Northern Utilities' residential customers, have the opportunity to purchase their electricity or natural gas supplies from third-party energy supply vendors. Most customers, however, continue to purchase such supplies through the distribution utilities under regulated energy rates and tariffs. Unitil's distribution utilities purchase electricity or natural gas from unaffiliated wholesale suppliers and recover the actual approved costs of these supplies on a pass-through basis, as well as certain costs associated with industry restructuring, through reconciling rate mechanisms that are periodically adjusted.

On August 1, 2011, the MDPU issued an order approving revenue decoupling mechanisms (RDM) for the electric and natural gas divisions of 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, to which RDM does not apply. The difference between distribution revenue amounts billed to customers and the targeted amounts is recognized as an increase or a decrease 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 27% and 11% 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.

RESULTS OF OPERATIONS

The following section of MD&A compares the results of operations for each of the two fiscal periods ended March 31, 2013 and March 31, 2012 and should be read in conjunction with the accompanying unaudited Consolidated Financial Statements and the accompanying Notes to unaudited Consolidated Financial Statements included in Part I, Item 1 of this report.

The Company's results of operations are expected to reflect the seasonal nature of the natural gas business. Annual gas revenues are substantially realized during the heating season as a result of higher sales of natural gas due to cold weather. Accordingly, the results of operations are historically most favorable in the first and fourth quarters. Fluctuations in seasonal weather conditions may have a significant effect on the result of operations. Sales of electricity are generally less sensitive to weather than natural gas sales, but may also be affected by the weather conditions in both the winter and summer seasons.

On May 16, 2012, the Company sold 2,760,000 shares of its common stock at a price of \$25.25 per share in a registered public offering. The Company used the net proceeds of approximately \$65.7 million from this offering to make equity capital contributions to its regulated utility subsidiaries, repay short-term debt and for general corporate purposes. Overall, the results of operations and Earnings reflect the higher number of average shares outstanding year over year.

Earnings Overview

The Company's Earnings Applicable to Common Shareholders (Earnings) were \$10.8 million for the first quarter of 2013, an increase of \$1.8 million, or 20.0%, over the first quarter of 2012. Earnings per common share (EPS) were \$0.79 for the first quarter of 2013, compared to \$0.83 per share in the first quarter of 2012. The 2013 first quarter EPS reflects the higher number of average shares outstanding period over period. The Company's results for the first quarter of 2013 as compared to the same period in 2012 reflect higher electric and gas sales margins and lower borrowing costs, partially offset by higher operating costs.

Natural gas sales margin was \$30.5 million in the three months ended March 31, 2013, an increase of \$3.2 million, or 11.7%, compared to the same period in 2012. In the first quarter of 2013, natural gas

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sales margin was positively affected by higher therm unit sales and higher distribution base rates. Therm sales of natural gas increased 12.3% in the three months ended March 31, 2013 compared to the same period in 2012, principally driven by the effect of colder winter weather and customer growth in the first quarter of 2013 compared to 2012. Based on weather data collected in the Company's service areas, there were 10% more Heating Degree Days in the first quarter of 2013 compared to the same period in 2012. Weather-normalized gas therm sales (excluding decoupled sales) are estimated to be 6.6% higher in the first quarter of 2013 compared to the same period in 2012, reflecting healthy customer growth. Approximately 11.0% of the Company's total therm sales of natural gas are decoupled and changes in these sales do not affect sales margin.

Electric sales margin was \$18.4 million in the three months ended March 31, 2013, an increase of \$2.3 million, or 14.3%, compared to the same period in 2012, reflecting higher electric kilowatt-hour (kWh) sales and higher distribution base rates. Electric sales margin in 2013 also reflects higher recovery of \$0.9 million of vegetation management and electric reliability enhancement expenditures as well as an increase of \$0.3 million in the recovery of major storm restoration costs, which are offset by a corresponding increase in expenses. Electric kWh sales increased 2.7% compared to the first quarter of 2012, principally driven by the effect of colder winter weather and customer growth in the first quarter of 2013 compared to 2012. Weather-normalized kWh sales (excluding decoupled sales) are estimated to be 1.7% higher in the first quarter of 2013 compared to the same period in 2012. Approximately 27.0% of total electric kWh sales are decoupled and changes in these sales do not affect sales margins.

Operation and Maintenance (O&M) expenses increased \$1.9 million in the three months ended March 31, 2013 compared to the same period in 2012. The increase in O&M expenses in the first quarter of 2013 compared to the same period in 2012 reflects higher utility operating costs of \$1.1 million, higher professional fees and insurance claims expenses of \$1.0 million and a decrease in all other operating costs, net of \$0.2 million. The increase in utility operating costs in the first quarter of 2013 compared to same period in 2012 includes an increase of \$0.9 million in new spending on vegetation management and electric reliability enhancement programs which is recovered through cost tracker rate mechanisms that result in a corresponding and offsetting increase in revenue and margin in the period.

Depreciation and Amortization expense increased \$1.1 million in the three months ended March 31, 2013 compared to the same period in 2012, reflecting higher depreciation on normal utility plant additions of \$0.6 million, higher amortization of major storm restoration costs of \$0.3 million and an increase in all other amortization of \$0.2 million.

Local Property and Other Taxes increased by \$0.1 million in the three months ended March 31, 2013 compared to the same period in 2012, reflecting higher property taxes on higher levels of utility plant in service.

Interest Expense, net decreased \$0.3 million in the three months ended March 31, 2013 compared to the same period in 2012, reflecting lower average rates and lower short-term borrowings.

Usource, the Company's non-regulated energy brokering business, recorded revenues of \$1.5 million in the first quarter of 2013, an increase of \$0.2 million compared to the first quarter of 2012.

In 2012, Unitil's annual common dividend was \$1.38, continuing an unbroken record of quarterly dividend payments since trading began in Unitil's common stock. At its January, 2013 and March, 2013 meetings, Unitil's Board of Directors declared quarterly dividends on the Company's common stock of \$0.345 per share.

A more detailed discussion of the Company's results of operations for the three months ended March 31, 2013 is presented below.

Gas Sales, Revenues and Margin

Therm Sales Unitil's total therm sales of natural gas increased 12.3% in the three months ended March 31, 2013 compared to the same period in 2012, reflecting increases of 14.1% and 11.7% in sales to Residential and Commercial and Industrial (C&I) customers, respectively. The increase in gas therm

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sales in the Company's utility service territories was principally driven by the effect of colder winter weather in the first quarter of 2013 compared to 2012 and the addition of new Residential and C&I customers. Based on weather data collected in the Company's service areas, there were 10% more Heating Degree Days in the first quarter of 2013 compared to the same period in 2012. Weather-normalized gas therm sales (excluding decoupled sales) are estimated to be 6.6% higher in the first quarter of 2013 compared to the same period in 2012, reflecting healthy customer growth. Approximately 11.0% of the Company's total therm sales of natural gas are decoupled and changes in these sales do not affect sales margin. As discussed above, under revenue decoupling for 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.

The following table details total firm therm sales for the three months ended March 31, 2013 and 2012, by major customer class:

Therm Sales (millions)

	Three Months Ended March 31,			
	2013	2012	Change	% Change
Residential	19.4	17.0	2.4	14.1%
Commercial/Industrial	61.9	55.4	6.5	11.7%
Total	81.3	72.4	8.9	12.3%

Gas Operating Revenues and Sales Margin The following table details total Gas Operating Revenues and Sales Margin for the three months ended March 31, 2013 and 2012:

Gas Operating Revenues and Sales Margin (millions)

	Three Months Ended March 31,			
	2013	2012	\$ Change	% Change ⁽¹⁾
Gas Operating Revenues:				
Residential	\$ 29.4	\$ 27.3	\$ 2.1	3.3%
Commercial / Industrial	41.4	36.9	4.5	7.0%
Total Gas Operating Revenues	\$ 70.8	\$ 64.2	\$ 6.6	10.3%
Cost of Gas Sales:				
Purchased Gas	\$ 39.7	\$ 36.5	\$ 3.2	5.0%
Conservation & Load Management	0.6	0.4	0.2	0.3%
Total Cost of Gas Sales	\$ 40.3	\$ 36.9	\$ 3.4	5.3%
Gas Sales Margin	\$ 30.5	\$ 27.3	\$ 3.2	5.0%

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

Unitil analyzes operating results using Gas Sales Margin. Gas Sales Margin is calculated as Total Gas Operating Revenues less the associated cost of sales, which are recorded as Purchased Gas and Conservation & Load Management (C&LM) in Operating Expenses. Unitil believes Gas Sales Margin is a better measure to analyze profitability than Total Gas Operating Revenues since the approved cost of sales are tracked costs that are passed through directly to the customer resulting in an equal and offsetting amount reflected in Total Gas Operating Revenues.

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Natural gas sales margin was \$30.5 million in the three months ended March 31, 2013, an increase of \$3.2 million compared to the same period in 2012. In the first quarter of 2013, natural gas sales margin was positively affected by higher therm unit sales, discussed above, and higher distribution base rates.

The increase in Total Gas Operating Revenues of \$6.6 million in the first quarter of 2013 reflects higher gas sales margin of \$3.2 million and higher costs of sales of \$3.4 million, including higher Purchased Gas costs of \$3.2 million and higher C&LM costs of \$0.2 million, which are tracked costs that are passed through directly to customers.

Electric Sales, Revenues and Margin

Kilowatt-hour Sales In the first quarter of 2013, Unitil's total electric kWh sales increased 2.7% compared to the first quarter of 2012. Sales to Residential and C&I customers increased 5.0% and 0.8%, respectively, in the first quarter of 2013 compared to the same period in 2012, principally driven by the effect of colder winter weather and customer growth in the first quarter of 2013 compared to 2012. As discussed above, based on weather data collected in the Company's service areas, there were 10% more Heating Degree Days in the first quarter of 2013 compared to the same period in 2012. Weather-normalized kWh sales (excluding decoupled sales) are estimated to be 1.7% higher in the first quarter of 2013 compared to the same period in 2012. Approximately 27.0% of total electric kWh sales are decoupled and changes in these sales do not affect sales margins. As discussed above, under revenue decoupling for 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.

The following table details total kWh sales for the three months ended March 31, 2013 and 2012 by major customer class:

kWh Sales (millions)

	Three Months Ended March 31,			
	2013	2012	Change	% Change
Residential	188.4	179.4	9.0	5.0%
Commercial/Industrial	237.3	235.3	2.0	0.8%
Total	425.7	414.7	11.0	2.7%

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Electric Operating Revenues and Sales Margin The following table details total Electric Operating Revenues and Sales Margin for the three months ended March 31, 2013 and 2012:

Electric Operating Revenues and Sales Margin (millions)

	Three Months Ended March 31,			
	2013	2012	\$ Change	% Change ⁽¹⁾
Electric Operating Revenues:				
Residential	\$ 26.2	\$ 27.7	\$ (1.5)	(3.1%)
Commercial / Industrial	19.7	21.0	(1.3)	(2.7%)
Total Electric Operating Revenues	\$ 45.9	\$ 48.7	\$ (2.8)	(5.7%)
Cost of Electric Sales:				
Purchased Electricity	\$ 26.3	\$ 31.1	\$ (4.8)	(9.9%)
Conservation & Load Management	1.2	1.5	(0.3)	(0.6%)
Total Cost of Electric Sales	\$ 27.5	\$ 32.6	\$ (5.1)	(10.5%)
Electric Sales Margin	\$ 18.4	\$ 16.1	\$ 2.3	4.7%

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

Unitil analyzes operating results using Electric Sales Margin. Electric Sales Margin is calculated as Total Electric Operating Revenues less the associated cost of sales, which are recorded as Purchased Electricity and Conservation & Load Management (C&LM) in Operating Expenses. Unitil believes Electric Sales Margin is a better measure to analyze profitability than Total Electric Operating Revenues since the approved cost of sales are tracked costs that are passed through directly to the customer resulting in an equal and offsetting amount reflected in Total Electric Operating Revenues.

Electric sales margin was \$18.4 million in the three months ended March 31, 2013, an increase of \$2.3 million compared to the same period in 2012, reflecting higher electric kWh sales, discussed above, and higher distribution base rates. As discussed previously, electric sales margin in 2013 also reflects higher recovery of \$0.9 million of vegetation management and electric reliability enhancement expenditures as well as an increase of \$0.3 million in the recovery of major storm restoration costs, which are offset by a corresponding increase in expenses.

The decrease in Total Electric Operating Revenues of \$2.8 million in the first quarter of 2013 reflects higher electric sales margin of \$2.3 million offset by lower costs of sales of \$5.1 million, including lower Purchased Electricity costs of \$4.8 million and lower C&LM costs of \$0.3 million, which are tracked costs that are passed through directly to customers.

Operating Revenue - Other

The following table details total Other Operating Revenue for the three months ended March 31, 2013 and 2012:

Other Operating Revenue (Millions)

	Three Months Ended March 31,			
	2013	2012	\$ Change	% Change
Other	\$ 1.5	\$ 1.3	\$ 0.2	15.4%
Total Other Operating Revenue	\$ 1.5	\$ 1.3	\$ 0.2	15.4%

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Total Other Operating Revenue, which is comprised of revenues from the Company's non-regulated energy brokering business, Usource, increased \$0.2 million in the three month period ended March 31, 2013 compared to the same period in 2012. 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.

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 increased \$3.2 million, or 8.8%, in the three month period ended March 31, 2013 compared to the same period in 2012. The increase in Purchased Gas reflects higher therm sales of natural gas partially offset by lower wholesale natural gas prices and an increase in the amount of natural gas purchased by customers directly from third-party suppliers. The Company recovers the approved costs of Purchased Gas through reconciling rate mechanisms which track costs and revenues for recovery on a pass-through basis and therefore changes in approved expenses do not affect earnings.

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 \$4.8 million, or 15.4%, in the three month period ended March 31, 2013 compared to the same period in 2012, reflecting lower wholesale electricity prices and an increase in the amount of electricity purchased by customers directly from third-party suppliers, partially offset by higher kWh sales. The Company recovers the approved costs of Purchased Electricity through reconciling rate mechanisms which track costs and revenues for recovery on a pass-through basis and therefore changes in approved expenses do not affect earnings.

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. O&M expenses increased \$1.9 million in the three months ended March 31, 2013 compared to the same period in 2012. The increase in O&M expenses in the first quarter of 2013 compared to the same period in 2012 reflects higher utility operating costs of \$1.1 million, higher professional fees and insurance claims expenses of \$1.0 million and a decrease in all other operating costs, net of \$0.2 million. The increase in utility operating costs in the first quarter of 2013 compared to same period in 2012 includes an increase of \$0.9 million in new spending on vegetation management and electric reliability enhancement programs which is recovered through cost tracker rate mechanisms that result in a corresponding and offsetting increase in revenue and margin in the period.

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. In the first quarter of 2013, approximately 67% of these costs were related to electric operations and 33% to gas operations.

Total C&LM expenses decreased by \$0.1 million in the three months ended March 31, 2013 compared to the same period in 2012. These costs are collected from customers on a fully reconciling basis and therefore, fluctuations in program costs do not affect earnings.

Depreciation, Amortization and Taxes

Depreciation and Amortization Depreciation and Amortization expense increased by \$1.1 million, or 13.3%, in the three months ended March 31, 2013 compared to the same period in 2012, reflecting higher depreciation on normal utility plant additions of \$0.6 million, higher amortization of major storm restoration costs of \$0.3 million and an increase in all other amortization of \$0.2 million.

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Local Property and Other Taxes Local Property and Other Taxes increased by \$0.1 million, or 2.7%, in the three months ended March 31, 2013 compared to the same period in 2012, reflecting higher property taxes on higher levels of utility plant in service.

Federal and State Income Taxes Federal and State Income Taxes increased by \$1.1 million for the three months ended March 31, 2013 compared to the same period in 2012, reflecting higher pre-tax earnings in the current period.

Other Non-Operating Expenses

Other Non-operating Expenses in the three month period ended March 31, 2013 were flat compared to the same period in 2012.

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. In addition, certain reconciling rate mechanisms used by the Company's distribution operating utilities give rise to regulatory assets (and regulatory liabilities) on which interest is calculated.

Unitil's utility subsidiaries operate a number of reconciling rate mechanisms to recover specifically identified costs on a pass-through basis. These reconciling rate mechanisms track costs and revenue on a monthly basis. In any given month, this monthly tracking and reconciling process will produce either an under-collected or an over-collected balance of costs. In accordance with the distribution utilities' rate tariffs, interest is accrued on these balances and will produce either interest income or interest expense. Consistent with regulatory precedent, interest income is recorded on an under-collection of costs which creates a regulatory asset to be recovered in future periods when rates are reset. Interest expense is recorded on an over-collection of costs, which creates a regulatory liability to be refunded in future periods when rates are reset.

Interest Expense, Net (millions)	Three Months Ended		
	2013	2012	Change
Interest Expense			
Long-term Debt	\$ 5.1	\$ 5.1	\$
Short-term Debt	0.3	0.5	(0.2)
Regulatory Liabilities			
Subtotal Interest Expense	5.4	5.6	(0.2)
Interest (Income)			
Regulatory Assets	(0.7)	(0.6)	(0.1)
AFUDC and Other	(0.1)	(0.1)	
Subtotal Interest (Income)	(0.8)	(0.7)	(0.1)
Total Interest Expense, Net	\$ 4.6	\$ 4.9	\$ (0.3)

Interest Expense, Net decreased \$0.3 million in the three months ended March 31, 2013 compared to the same period in 2012, reflecting lower average rates and lower short-term borrowings.

CAPITAL REQUIREMENTS**Sources of Capital**

Unitil requires capital to fund utility plant additions, working capital and other utility expenditures recovered in subsequent 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

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replaces portions of its short-term debt with long-term financings more closely matched to the long-term nature of its utility assets. Additionally, from time to time, the Company has accessed the public capital markets through public offerings of equity securities. 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 and 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 March 31, 2013, March 31, 2012 and December 31, 2012, the Company and all of its subsidiaries were in compliance with the regulatory requirements to participate in the Cash Pool.

Unitil has an unsecured revolving credit facility with a group of banks that extends to October 8, 2013. The borrowing limit under the credit facility is \$60 million, which the Company believes will be sufficient until its expected renewal.

The following table details the borrowing limits, amounts outstanding and amounts available under the revolving credit facility as March 31, 2013, March 31, 2012 and December 31, 2012:

	Revolving Credit Facility (millions)		
	March 31, 2013	March 31, 2012	December 31, 2012
Limit	\$ 60.0	\$ 115.0	\$ 60.0
Outstanding	\$ 32.6	\$ 77.6	\$ 49.4
Available	\$ 27.4	\$ 37.4	\$ 10.6

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 permit funded debt to exceed 65% of capitalization at the end of each fiscal quarter. At March 31, 2013, March 31, 2012 and December 31, 2012, the Company was in compliance with the financial covenants contained in the revolving credit agreement. (See also "Credit Arrangements" in Note 4.)

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.

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 March 31, 2013, there were approximately \$13.5 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 were obligations

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of \$3.3 million, \$6.3 million and \$10.7 million outstanding at March 31, 2013, March 31, 2012 and December 31, 2012, respectively, related to these asset management agreements. The amount of natural gas inventory released in March 2013 and payable in April 2013 is \$1.7 million and is recorded in Accounts Payable at March 31, 2013. The amount of natural gas inventory released in March 2012 and payable in April 2012 is \$0.3 million and is recorded in Accounts Payable at March 31, 2012. The amount of natural gas inventory released in December 2012 and payable in January 2013 is \$2.1 million and is recorded in Accounts Payable at December 31, 2012.

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 March 31, 2013, the principal amount outstanding for the 8% Unitil Realty notes was \$2.7 million, and the principal amount outstanding for the 7.15% Granite State notes was \$10.0 million.

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.

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 the three months ended March 31, 2013 compared to the same period in 2012.

	Three Months Ended March 31,	
	2013	2012
Cash Provided by Operating Activities	\$ 40.8	\$ 30.4

Cash Provided by Operating Activities Cash Provided by Operating Activities was \$40.8 million in 2013, an increase of \$10.4 million compared to 2012. Cash flow from Net Income, adjusted for non-cash charges to depreciation, amortization and deferred taxes, was \$25.6 million in 2013 compared to \$22.6 million in 2012, representing an increase of \$3.0 million. Working capital changes in Current Assets and Liabilities resulted in an \$8.9 million net source of cash in 2013 compared to a \$7.7 million net source of cash in 2012, representing an increase of \$1.2 million. Deferred Regulatory and Other Charges resulted in a \$2.9 million source of cash in 2013 compared to a \$1.6 million source of cash in 2012. All Other, net operating activities resulted in a source of cash of \$3.4 million in 2013 compared to a use of cash of (\$1.5) million in 2012.

	Three Months Ended March 31,	
	2013	2012
Cash (Used in) Investing Activities	\$ (14.4)	\$ (9.1)

Cash (Used in) Investing Activities Cash Used in Investing Activities was (\$14.4) million for 2013 compared to (\$9.1) million in 2012. The capital spending in both periods is representative of normal distribution utility capital expenditures reflecting normal electric and gas utility system additions.

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	Three Months Ended March 31,	
	2013	2012
Cash (Used in) Financing Activities	\$ (28.7)	\$ (20.6)

Cash (Used in) Financing Activities Cash Used in Financing Activities was (\$28.7) million in 2013 compared to (\$20.6) million in 2012. In 2013, sources of cash came from common stock issued in connection with its Dividend Reinvestment and Stock Purchase Plan and its 401(k) Plan of \$0.3 million. Uses of cash included net repayment of short-term debt of (\$16.8) million, repayment of long-term debt of (\$0.1) million, a decrease in exchange gas financing of (\$7.2) million, regular quarterly dividend payments on common and preferred stock of (\$4.8) million. All other financing activities resulted in a net use of cash of (\$0.1) million.

CRITICAL ACCOUNTING POLICIES

The preparation of the Company's financial statements in conformity with generally accepted accounting principles in the United States of America requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In making those estimates and assumptions, the Company is sometimes required to make difficult, subjective and/or complex judgments about the impact of matters that are inherently uncertain and for which different estimates that could reasonably have been used could have resulted in material differences in its financial statements. If actual results were to differ significantly from those estimates, assumptions and judgment, the financial position of the Company could be materially affected and the results of operations of the Company could be materially different than reported. The following is a summary of the Company's most critical accounting policies, which are defined as those policies where judgments or uncertainties could materially affect the application of those policies. For a complete discussion of the Company's significant accounting policies, refer to the Note 1 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on January 30, 2013.

Regulatory Accounting The Company's principal business is the distribution of electricity and natural gas by the three distribution utilities: Unitil Energy, Fitchburg and Northern Utilities. Unitil Energy and Fitchburg are subject to regulation by the FERC. Fitchburg is also regulated by the MDPU, Unitil Energy is regulated by the NHPUC and Northern Utilities is regulated by the MPUC and NHPUC. Granite State, the Company's natural gas transmission pipeline, is regulated by the FERC. Accordingly, the Company uses the Regulated Operations guidance as set forth in the FASB Codification. The Company has recorded Regulatory Assets and Regulatory Liabilities which will be recovered from customers, or applied for customer benefit, in accordance with rate provisions approved by the applicable public utility regulatory commission.

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Regulatory Assets consist of the following (millions)	March 31,		December 31,
	2013	2012	2012
Energy Supply Mechanisms	\$ 8.7	\$ 14.2	\$ 8.5
Deferred Restructuring Costs	16.5	21.1	20.1
Retirement Benefit Obligations	62.4	55.1	62.5
Income Taxes	10.0	11.2	10.2
Environmental Obligations	16.7	17.1	16.8
Deferred Storm Charges	27.7	26.8	27.8
Regulatory Tracker Mechanisms	6.7	13.8	24.7
Other	10.0	10.9	12.0
Total Regulatory Assets	\$ 158.7	\$ 170.2	\$ 182.6
Less: Current Portion of Regulatory Assets ⁽¹⁾	27.3	32.3	46.6
Regulatory Assets noncurrent	\$ 131.4	\$ 137.9	\$ 136.0

⁽¹⁾ Reflects amounts included in Accrued Revenue on the Company's unaudited Consolidated Balance Sheets.

Generally, the Company receives a return on investment on its regulated assets for which a cash outflow has been made. Regulatory commissions can reach different conclusions about the recovery of costs, which can have a material impact on the Company's consolidated financial statements. The Company believes it is probable that its regulated distribution and transmission utilities will recover their investments in long-lived assets, including regulatory assets. If the Company, or a portion of its assets or operations, were to cease meeting the criteria for application of these accounting rules, accounting standards for businesses in general would become applicable and immediate recognition of any previously deferred costs, or a portion of deferred costs, would be required in the year in which the criteria are no longer met, if such deferred costs were not recoverable in the portion of the business that continues to meet the criteria for application of the FASB Codification topic on Regulated Operations. If unable to continue to apply the FASB Codification provisions for Regulated Operations, the Company would be required to apply the provisions for the Discontinuation of Rate-Regulated Accounting included in the FASB Codification. In the Company's opinion, its regulated operations will be subject to the FASB Codification provisions for Regulated Operations for the foreseeable future.

Utility Revenue Recognition Utility revenues are recognized according to regulations and are based on rates and charges approved by federal and state regulatory commissions. Revenues related to the sale of electric and gas service are recorded when service is rendered or energy is delivered to customers. However, the determination of energy sales to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each calendar month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. This unbilled revenue is estimated each month based on estimated customer usage by class and applicable customer rates.

On August 1, 2011, the MDPU issued an order approving revenue decoupling mechanisms (RDM) for the electric and natural gas divisions of 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, to which RDM does not apply. The difference between distribution revenue amounts billed to customers and the targeted amounts is recognized as an increase or a decrease 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's other electric and natural gas distribution utilities are not subject to RDM.

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Allowance for Doubtful Accounts The Company recognizes a provision for doubtful accounts each month based upon the Company's experience in collecting electric and gas utility service accounts receivable in prior years. At the end of each month, an analysis of the delinquent receivables is performed which takes into account an assumption about the cash recovery of delinquent receivables. The analysis also calculates the amount of written-off receivables that are recoverable through regulatory rate reconciling mechanisms. The Company's distribution utilities are authorized by regulators to recover the costs of their energy commodity portion of bad debts through rate mechanisms. Evaluating the adequacy of the Allowance for Doubtful Accounts requires judgment about the assumptions used in the analysis, including expected fuel assistance payments from governmental authorities and the level of customers enrolling in payment plans with the Company. It has been the Company's experience that the assumptions it has used in evaluating the adequacy of the Allowance for Doubtful Accounts have proven to be reasonably accurate.

Retirement Benefit Obligations The Company sponsors the Unitil Corporation Retirement Plan (Pension Plan), which is a defined benefit pension plan covering substantially all of its employees. The Company also sponsors an unfunded retirement plan, the Unitil Corporation Supplemental Executive Retirement Plan (SERP), covering certain executives of the Company, and an employee 401(k) savings plan. Additionally, the Company sponsors the Unitil Employee Health and Welfare Benefits Plan (PBOP Plan), primarily to provide health care and life insurance benefits to retired employees.

The FASB Codification requires companies to record on their balance sheets as an asset or liability the overfunded or underfunded status of their retirement benefit obligations (RBO) based on the projected benefit obligation. The Company has recognized a corresponding Regulatory Asset, to recognize the future collection of these obligations in electric and gas rates.

The Company's RBO and reported costs of providing retirement benefits are dependent upon numerous factors resulting from actual plan experience and assumptions of future experience. The Company has made critical estimates related to actuarial assumptions, including assumptions of expected returns on plan assets, future compensation, health care cost trends, and appropriate discount rates. The Company's RBO are affected by actual employee demographics, the level of contributions made to the plans, earnings on plan assets, and health care cost trends. Changes made to the provisions of these plans may also affect current and future costs. If these assumptions were changed, the resultant change in benefit obligations, fair values of plan assets, funded status and net periodic benefit costs could have a material impact on the Company's financial statements. The discount rate assumptions used in determining retirement plan costs and retirement plan obligations are based on an assessment of current market conditions using high quality corporate bond interest rate indices and pension yield curves. For the years ended December 31, 2012 and 2011, a change in the discount rate of 0.25% would have resulted in an increase or decrease of approximately \$367,000 and \$325,000, respectively, in the Net Periodic Benefit Cost for the Pension Plan. For the years ended December 31, 2012 and 2011, a 1.0% increase in the assumption of health care cost trend rates would have resulted in increases in the Net Periodic Benefit Cost for the PBOP Plan of \$981,000 and \$909,000, respectively. Similarly, a 1.0% decrease in the assumption of health care cost trend rates for those same time periods would have resulted in decreases in the Net Periodic Benefit Cost for the PBOP Plan of \$756,000 and \$705,000, respectively. (See Note 9 to the accompanying unaudited consolidated financial statements).

Income Taxes The Company is subject to Federal and State income taxes as well as various other business taxes. This process involves estimating the Company's current tax liabilities as well as assessing temporary and permanent differences resulting from the timing of the deductions of expenses and recognition of taxable income for tax and book accounting purposes. These temporary differences result in deferred tax assets and liabilities, which are included in the Company's unaudited consolidated balance sheets. The Company accounts for income tax assets, liabilities and expenses in accordance with the FASB Codification guidance on Income Taxes. The Company classifies penalty and interest expense related to income tax liabilities as income tax expense and interest expense, respectively, in the unaudited consolidated statements of earnings.

Provisions for income taxes are calculated in each of the jurisdictions in which the Company operates for each period for which a statement of earnings is presented. The Company accounts for income taxes in accordance with the FASB Codification guidance on Income Taxes, which requires an asset and liability

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approach for the financial accounting and reporting of income taxes. Significant judgments and estimates are required in determining the current and deferred tax assets and liabilities. The Company's current and deferred tax assets and liabilities reflect its best assessment of estimated future taxes to be paid. Periodically, the Company assesses the realization of its deferred tax assets and liabilities and adjusts the income tax provision, the current tax liability and deferred taxes in the period in which the facts and circumstances which gave rise to the revision become known.

Depreciation Depreciation expense is calculated on a group straight-line basis based on the useful lives of assets, and judgment is involved when estimating the useful lives of certain assets. The Company conducts independent depreciation studies on a periodic basis as part of the regulatory ratemaking process and considers the results presented in these studies in determining the useful lives of the Company's fixed assets. A change in the estimated useful lives of these assets could have a material impact on the Company's consolidated financial statements.

Commitments and Contingencies The Company's accounting policy is to record and/or disclose commitments and contingencies in accordance with the FASB Codification as it applies to an existing condition, situation, or set of circumstances involving uncertainty as to possible loss that will ultimately be resolved when one or more future events occur or fail to occur. As of March 31, 2013, the Company is not aware of any material commitments or contingencies other than those disclosed in the Commitments and Contingencies footnote to the Company's unaudited consolidated financial statements below.

Refer to Recently Issued Pronouncements in Note 1 of the Notes of unaudited Consolidated Financial Statements for information regarding recently issued accounting standards.

LABOR RELATIONS

As of March 31, 2013, the Company and its subsidiaries had 472 employees. The Company considers its relationship with employees to be good and has not experienced any major labor disruptions.

As of March 31, 2013, a total of 156 employees of certain of the Company's subsidiaries were represented by labor unions. There are 44 union employees of Fitchburg covered by a collective bargaining agreement (CBA) which expires on May 31, 2013; 34 union employees of Northern Utilities New Hampshire division covered by a separate CBA which expires on June 5, 2014; 35 union employees of Northern Utilities Maine division and Granite State covered by a separate CBA which expires on March 31, 2017; and 38 union employees of Unitil Energy covered by a separate CBA which expires on May 31, 2018. The agreements provide discrete salary adjustments, established work practices and uniform benefit packages. The Company expects to negotiate new agreements prior to their expiration dates.

In the fall of 2012, the Electric Systems Operators, which is a group of five employees of Unitil Service Corp., voted to be represented by a union. The company is currently in the process of negotiating the terms for a new collective bargaining agreement covering this group of five employees.

INTEREST RATE RISK

As discussed above, Unitil meets its external financing needs by issuing short-term and long-term debt. The majority of debt outstanding represents long-term notes bearing fixed rates of interest. Changes in market interest rates do not affect interest expense resulting from these outstanding long-term debt securities. However, the Company periodically repays its short-term debt borrowings through the issuance of new long-term debt securities. Changes in market interest rates may affect the interest rate and corresponding interest expense on any new issuances of long-term debt securities. In addition, short-term debt borrowings bear a variable rate of interest. As a result, changes in short-term interest rates will increase or decrease interest expense in future periods. For example, if the average amount of short-term debt outstanding was \$25 million for the period of one year, a change in interest rates of 1% would result in a change in annual interest expense of approximately \$250,000. The average interest

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rates on the Company's short-term borrowings for the three months ended March 31, 2013 and March 31, 2012 were 1.98% and 2.05%, respectively. The average interest rate on the Company's short-term borrowings for the twelve months ended December 31, 2012 was 2.0%.

COMMODITY PRICE RISK

Although Unitil's three distribution utilities are subject to commodity price risk as part of their traditional operations, the current regulatory framework within which these companies operate allows for the reconciliation and collection of approved Purchased Electric and Purchased Gas costs in rates on a pass-through basis. Consequently, there is limited commodity price risk after consideration of the related rate-making. Additionally, as discussed above and below in Regulatory Matters, the Company has divested its commodity-related contracts and therefore, further reduced its exposure to commodity risk.

REGULATORY MATTERS

Please refer to Note 6 to the unaudited Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of Regulatory Matters.

ENVIRONMENTAL MATTERS

Please refer to Note 7 to the unaudited Consolidated Financial Statements in Part I, Item 1 of this report for a discussion of Environmental Matters.

Table of Contents**Item 1. Financial Statements****UNITIL CORPORATION AND SUBSIDIARY COMPANIES****CONSOLIDATED STATEMENTS OF EARNINGS**

(Millions, except common shares and per share data)

(UNAUDITED)

	Three Months Ended March 31,	
	2013	2012
Operating Revenues		
Gas	\$ 70.8	\$ 64.2
Electric	45.9	48.7
Other	1.5	1.3
Total Operating Revenues	118.2	114.2
Operating Expenses		
Purchased Gas	39.7	36.5
Purchased Electricity	26.3	31.1
Operation and Maintenance	15.3	13.4
Conservation & Load Management	1.8	1.9
Depreciation and Amortization	9.4	8.3
Provisions for Taxes:		
Local Property and Other	3.8	3.7
Federal and State Income	6.4	5.3
Total Operating Expenses	102.7	100.2
Operating Income	15.5	14.0
Other Non-Operating Expense	0.1	0.1
Income Before Interest Expense	15.4	13.9
Interest Expense, Net	4.6	4.9
Net Income	10.8	9.0
Less: Dividends on Preferred Stock		
Earnings Applicable to Common Shareholders	\$ 10.8	\$ 9.0
Weighted Average Common Shares Outstanding Basic (000 s)	13,748	10,917
Weighted Average Common Shares Outstanding Diluted (000 s)	13,750	10,921
Earnings Per Common Share (Basic and Diluted)	\$ 0.79	\$ 0.83
Dividends Declared Per Share of Common Stock	\$ 0.69	\$ 0.69

(The accompanying notes are an integral part of these consolidated unaudited financial statements.)

Table of Contents**UNITIL CORPORATION AND SUBSIDIARY COMPANIES****CONSOLIDATED BALANCE SHEETS***(Millions)*

(UNAUDITED)

	March 31, 2013	2012	December 31, 2012
ASSETS:			
Utility Plant:			
Electric	\$ 359.6	\$ 339.6	\$ 356.9
Gas	429.7	390.0	424.4
Common	32.7	29.9	30.9
Construction Work in Progress	21.2	23.3	21.0
Total Utility Plant	843.2	782.8	833.2
Less: Accumulated Depreciation	234.9	222.7	232.0
Net Utility Plant	608.3	560.1	601.2
Current Assets:			
Cash	7.5	8.2	9.8
Accounts Receivable, Net	60.7	47.9	45.9
Accrued Revenue	37.7	40.9	58.1
Exchange Gas Receivable	1.7	6.2	9.4
Gas Inventory	0.5	0.6	1.1
Materials and Supplies	4.6	3.9	4.1
Prepayments and Other	5.3	5.0	4.2
Total Current Assets	118.0	112.7	132.6
Noncurrent Assets:			
Regulatory Assets	131.4	137.9	136.0
Other Noncurrent Assets	18.2	20.4	16.8
Total Noncurrent Assets	149.6	158.3	152.8
TOTAL	\$ 875.9	\$ 831.1	\$ 886.6

(The accompanying notes are an integral part of these consolidated unaudited financial statements.)

Table of Contents**UNITIL CORPORATION AND SUBSIDIARY COMPANIES****CONSOLIDATED BALANCE SHEETS (Cont.)***(Millions)*

(UNAUDITED)

	March 31, 2013	2012	December 31, 2012
CAPITALIZATION AND LIABILITIES:			
Capitalization:			
Common Stock Equity	\$ 262.3	\$ 193.6	\$ 260.4
Preferred Stock	0.2	2.0	0.2
Long-Term Debt, Less Current Portion	287.2	287.7	287.3
Total Capitalization	549.7	483.3	547.9
Current Liabilities:			
Long-Term Debt, Current Portion	0.5	0.5	0.5
Accounts Payable	25.8	18.7	30.9
Short-Term Debt	32.6	77.6	49.4
Energy Supply Obligations	7.1	16.1	13.8
Current Deferred Income Taxes	4.9	3.9	13.4
Dividends Declared and Payable	4.8	3.8	
Interest Payable	5.4	5.5	3.1
Other Current Liabilities	13.2	13.5	14.3
Total Current Liabilities	94.3	139.6	125.4
Noncurrent Liabilities:			
Energy Supply Obligations	3.1	4.0	3.3
Noncurrent Deferred Income Taxes	52.5	48.2	38.7
Cost of Removal Obligations	53.0	47.9	51.4
Retirement Benefit Obligations	107.2	89.5	103.7
Environmental Obligations	13.8	14.5	13.8
Other Noncurrent Liabilities	2.3	4.1	2.4
Total Noncurrent Liabilities	231.9	208.2	213.3
TOTAL	\$ 875.9	\$ 831.1	\$ 886.6

(The accompanying notes are an integral part of these consolidated unaudited financial statements.)

Table of Contents**UNITIL CORPORATION AND SUBSIDIARY COMPANIES****CONSOLIDATED STATEMENTS OF CASH FLOWS***(Millions)*

(UNAUDITED)

	Three Months Ended March 31,	
	2013	2012
Operating Activities:		
Net Income	\$ 10.8	\$ 9.0
Adjustments to Reconcile Net Income to Cash Provided by Operating Activities:		
Depreciation and Amortization	9.4	8.3
Deferred Tax Provision	5.4	5.3
Changes in Working Capital Items:		
Accounts Receivable	(14.8)	(3.7)
Accrued Revenue	20.4	13.3
Exchange Gas Receivable	7.7	7.3
Accounts Payable	(5.1)	(7.7)
Other Changes in Working Capital Items	0.7	(1.5)
Deferred Regulatory and Other Charges	2.9	1.6
Other, net	3.4	(1.5)
Cash Provided by Operating Activities	40.8	30.4
Investing Activities:		
Property, Plant and Equipment Additions	(14.4)	(9.1)
Cash (Used in) Investing Activities	(14.4)	(9.1)
Financing Activities:		
Repayment of Short-Term Debt, net	(16.8)	(10.3)
Repayment of Long-Term Debt	(0.1)	(0.1)
Net Decrease in Exchange Gas Financing	(7.2)	(6.5)
Dividends Paid	(4.8)	(3.8)
Proceeds from Issuance of Common Stock	0.3	0.3
Other, net	(0.1)	(0.2)
Cash (Used in) Financing Activities	(28.7)	(20.6)
Net Increase (Decrease) in Cash	(2.3)	0.7
Cash at Beginning of Period	9.8	7.5
Cash at End of Period	\$ 7.5	\$ 8.2
Supplemental Cash Flow Information:		
Interest Paid	\$ 2.9	\$ 3.1
Income Taxes Paid	\$ 0.8	\$ 0.6
Non-cash Investing Activity:		
Capital Expenditures Included in Accounts Payable	\$ 1.0	\$ 0.7

(The accompanying notes are an integral part of these consolidated unaudited financial statements.)

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UNITIL CORPORATION AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations Unitil Corporation (Unitil or the Company) is a public utility holding company. 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. The following companies are wholly-owned subsidiaries of Unitil: Unitil Energy Systems, Inc. (Unitil Energy), Fitchburg Gas and Electric Light Company (Fitchburg), Northern Utilities, Inc. (Northern Utilities), Granite State Gas Transmission, Inc. (Granite State), Unitil Power Corp. (Unitil Power), Unitil Realty Corp. (Unitil Realty), Unitil Service Corp. (Unitil Service) and its non-regulated business unit Unitil Resources, Inc. (Unitil Resources). Usource Inc. and Usource L.L.C. are subsidiaries of Unitil Resources.

The Company's results are expected to reflect the seasonal nature of the 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 and maintenance expenses usually exceed sales margins in the period.

Unitil's principal business is the local distribution of electricity in the southeastern seacoast and state capital regions of New Hampshire and the greater Fitchburg area of north central Massachusetts, and the local distribution of natural gas in southeastern New Hampshire, portions of southern and central Maine and in the greater Fitchburg area of north central Massachusetts. Unitil has three distribution utility subsidiaries, Unitil Energy, which operates in New Hampshire, Fitchburg, which operates in Massachusetts and Northern Utilities, which operates in New Hampshire and Maine (collectively referred to as the distribution utilities).

Granite State is a natural gas transportation pipeline, operating 86 miles of underground gas transmission pipeline primarily located in Maine and New Hampshire. Granite State provides Northern Utilities with interconnection to three major natural gas pipelines and access to domestic natural gas supplies in the south and Canadian natural gas supplies in the north. Granite State derives its revenues principally from the transportation services provided to Northern Utilities and, to a lesser extent, third-party marketers.

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

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, energy management and 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 and leases this facility to Unitil Service under a long-term lease arrangement. Unitil Resources is the Company's wholly-owned non-regulated subsidiary. Usource, Inc. and Usource L.L.C. (collectively, Usource) are wholly-owned subsidiaries of Unitil Resources. Usource provides brokering and advisory services to large commercial and industrial customers in the northeastern United States.

Basis of Presentation The accompanying unaudited consolidated financial statements of Unitil have been prepared in accordance with the instructions to Form 10-Q and include all of the information and footnotes required by generally accepted accounting principles. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 2013 are not necessarily indicative of results to be expected for the year ending December 31, 2013. For further information, please refer to Note 1 of Part II to the Consolidated Financial Statements Summary of Significant Accounting Policies of the Company's Form 10-K for the year ended December 31, 2012, as filed with the Securities and Exchange Commission (SEC) on January 30, 2013, for a description of the Company's Basis of Presentation.

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Accrued Revenue Accrued Revenue includes the current portion of Regulatory Assets and unbilled revenues. The following table shows the components of Accrued Revenue as of March 31, 2013, March 31, 2012 and December 31, 2012.

Accrued Revenue (\$millions)	March 31, 2013	March 31, 2012	December 31, 2012
Regulatory Assets Current	\$ 27.3	\$ 32.3	\$ 46.6
Unbilled Revenues	10.4	8.6	11.5
Total Accrued Revenue	\$ 37.7	\$ 40.9	\$ 58.1

Utility Plant The cost of additions to Utility Plant and the cost of renewals and betterments are capitalized. Cost consists of labor, materials, services and certain indirect construction costs, including an allowance for funds used during construction (AFUDC). The costs of current repairs and minor replacements are charged to appropriate operating expense accounts. The original cost of utility plant retired or otherwise disposed of is charged to the accumulated provision for depreciation. The Company includes in its mass asset depreciation rates, which are periodically reviewed as part of its ratemaking proceedings, cost of removal amounts to provide for future negative salvage value. At March 31, 2013, March 31, 2012 and December 31, 2012, the Company estimates that the cost of removal amounts, which are recorded on the Consolidated Balance Sheets in Cost of Removal Obligations are \$53.0 million, \$47.9 million, and \$51.4 million, respectively. Prior to December 31, 2012, the cost of removal amounts had been recorded in Accumulated Depreciation on the Consolidated Balance Sheets.

Gas Inventory The Company uses the weighted average cost methodology to value natural gas inventory. The following table shows the components of Gas Inventory as of March 31, 2013, March 31, 2012 and December 31, 2012.

Gas Inventory (\$millions)	March 31, 2013	March 31, 2012	December 31, 2012
Natural Gas	\$ 0.1	\$ 0.1	\$ 0.6
Propane	0.3	0.4	0.4
Liquefied Natural Gas & Other	0.2	0.1	0.1
Total Gas Inventory	\$ 0.5	\$ 0.6	\$ 1.1

Exchange Gas Receivable Northern Utilities and Fitchburg have gas exchange and storage agreements whereby natural gas purchases during the months of April through October are delivered to a third party. The third party delivers natural gas back to the Company during the months of November through March. Prior to March 31, 2013, the exchange gas amounts had been recorded in Gas Inventory on the Company's Consolidated Balance Sheets. The exchange and storage gas volumes are recorded at weighted average cost. The following table shows the components of Exchange Gas Receivable as of March 31, 2013, March 31, 2012 and December 31, 2012.

Exchange Gas Receivable (\$millions)	March 31, 2013	March 31, 2012	December 31, 2012
Northern Utilities	\$ 1.5	\$ 5.9	\$ 8.7
Fitchburg	0.2	0.3	0.7
Total Exchange Gas Receivable	\$ 1.7	\$	