UNITIL CORP
Form 10-Q
July 27, 2010
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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 June 30, 2010

Commission File Number 1-8858

UNITIL CORPORATION

(Exact name of registrant as specified in its charter)

New Hampshire	**02-0381573**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization)	**Identification No.)**
6 Liberty Lane West, Hampton, New Hampshire	**03842-1720**
(Address of principal executive office)	**(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 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 ¨ 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	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

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 July 26, 2010
Common Stock, No par value	**10,870,981 Shares**

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UNITIL CORPORATION AND SUBSIDIARY COMPANIES

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PART I. FINANCIAL INFORMATION

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

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. On December 1, 2008, the Company purchased: (i) all of the outstanding capital stock of Northern Utilities, Inc. (Northern Utilities), a natural gas distribution utility serving customers in New Hampshire and Maine, from Bay State Gas Company and (ii) all of the outstanding capital stock of Granite State Gas Transmission, Inc. (Granite), an interstate gas transmission pipeline company primarily serving the needs of Northern Utilities, from NiSource, Inc. (the Acquisition).

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 southeastern seacoast and state capital regions of New Hampshire;

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, 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 100,500 electric customers and 70,000 natural gas customers in their service territory.

In addition, Unitil is the parent company of Granite, a natural gas transmission pipeline, regulated by the FERC, operating 87 miles of underground gas transmission pipeline primarily located in Maine and New Hampshire. Granite provides Northern Utilities with interconnection to three major natural gas pipelines and access to pipeline supplies.

The distribution utilities are local pipes and wires operating companies and, combined with Granite, had an investment in Net Utility Plant of $456.6 million at June 30, 2010. 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 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.

Unitil also conducts non-regulated operations principally through Usource, which is wholly-owned by Unitil Resources Inc., a wholly-owned subsidiary of Unitil. Usource provides energy brokering and consulting services to large commercial and industrial customers 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 affiliated companies, Unitil Realty Corp., 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.

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RATES AND REGULATION

Base Rate Cases:

On April 15, 2010, Unitil Energy filed a proposed annual base rate increase of $10.1 million with the New Hampshire Public Utilities Commission (NHPUC), which represents an increase of 6.5 percent above present rates. Unitil Energy s filing also included a long-term rate plan establishing base rate step adjustments associated with future planned capital additions and targeted reliability enhancement and vegetation management programs. In its rate filing, Unitil Energy requested that rates initially be set at a lower level on a temporary basis.

On June 29, 2010, the NHPUC issued an order approving a temporary rate increase for Unitil Energy. The order provides for a temporary rate increase of $5.2 million (annual) effective July 1, 2010 which will be collected by applying a uniform per kilowatt-hour (kWh) surcharge of $0.00438 to each of Unitil Energy s current rate schedules. Of the $5.2 million rate increase, $500,000 of the increase is intended to permit Unitil Energy to annually recover expenses incurred during the December 2008 ice storm and another $500,000 of the increase is intended to fund higher planned vegetation management program expenditures. Once permanent rates are approved by the NHPUC, they will be reconciled to the date temporary rates were ordered, July 1, 2010. Final review and approval by the NHPUC of Unitil Energy s permanent base rate increase request is currently scheduled to be completed by February 2011.

On June 29, 2010, Granite filed a proposed base transportation rate increase with the FERC, which is Granite s first filing for a rate change since its last general rate case in 1997. If approved as filed, the rate increase would provide for an increase of approximately $3 million in revenue on an annual basis. The rate case filing reflects a rate base of $18.3 million which includes $4.2 million of capital additions to be made through the end of 2010.

In addition to its request for new base transportation rates, Granite, in its rate case filing, is seeking approval to implement a capital cost surcharge that would allow Granite to implement a rate surcharge annually to recover projected capital expenditures of approximately $12.7 million during the three-year time period 2011-2013. Granite expects the FERC regulatory process to result in an effective date of January 1, 2011 for the requested rate increase.

Additionally, Fitchburg and Northern Utilities are currently preparing base rate cases and anticipate filing them with their respective regulatory commissions within the next year.

Other:

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 in regards to certain bookkeeping, accounting and reporting requirements. Unitil s utility operations related to wholesale and interstate energy business activities are also regulated by FERC. Unitil s distribution utilities are subject to regulation by the applicable state public utility commissions, in regards 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 Maine Public Utilities Commission (MPUC). 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 suppliers. A majority of Unitil s largest commercial and industrial (C&I) customers purchase their electric and natural gas supplies from third party suppliers. However, most residential and small customers continue to purchase their electric and natural gas supplies through Unitil s distribution utilities. Unitil s distribution utilities purchase electricity or natural gas from unaffiliated wholesale suppliers and recover the actual 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.

The regulatory process in both New Hampshire and Maine, in connection with those states approvals of the Acquisitions, included the negotiation and filing of settlement agreements reflecting commitments by Unitil with respect to Northern Utilities rates, customer service and operations. The settlement agreements were separately negotiated and filed in each state but reflect a number of common features. For additional discussion, please refer to Unitil s Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on February 10, 2010.

CAUTIONARY STATEMENT

This report and the documents we incorporate 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 ability to achieve the estimated potential synergy savings attributable to the Acquisitions;
- The Company s ability to retain existing customers and gain new customers;
- Variations in weather;
- Major storms;
- Recovery of deferred major storm costs;
- Recovery of energy commodity costs;
- Changes in the regulatory environment;
- Customers preferences on energy sources;
- Interest rate fluctuation and credit market concerns;
- General economic conditions that could have an adverse impact on the availability of credit and liquidity resources generally and could jeopardize certain of our counterparty obligations, including those of our insurers and financial institutions;

Fluctuations in supply, demand, transmission capacity and prices for energy commodities;

Increased competition; and

Customers performance under multi-year energy brokering contracts.

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

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any factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statements.

RESULTS OF OPERATIONS

The following section of MD&A compares the results of operations for each of the two fiscal periods ended June 30, 2010 and June 30, 2009 and should be read in conjunction with the accompanying Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included in Part I, Item 1 of this report.

Between December 2008 and June 2009 the Company issued 5.0 million common shares to complete the Acquisition. As a result of the Acquisition and the issuance of new common shares, consolidated results for the Company in the current period may not be directly comparable to prior period results until such time as the Acquisition and stock issuance is fully reflected in both reporting periods. Also, the Company s results are expected to reflect the seasonal nature of the acquired 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.

Earnings Overview

The Company s Earnings (Loss) Applicable to Common Shareholders was a net loss of ($2.1) million for the second quarter of 2010, compared to earnings of $0.2 million for the second quarter of 2009. For the six months ended June 30, 2010, the Company reported net income of $4.4 million compared to $9.3 million for the same period of 2009. Results for the second quarter were driven primarily by higher depreciation and interest expense and lower gas sales margins due to warmer regional temperatures.

Earnings (loss) per common share (EPS) were ($0.19) and $0.41 for the three and six month periods ended June 30, 2010 compared with $0.03 and $1.10 for the same periods of 2009. The Company s results of operations for 2010 are not directly comparable with 2009 due to the issuance of 5.0 million common shares between December 2008 and June 2009 to complete the financing of the Company s acquisition of Northern Utilities and Granite.

Natural gas sales margin decreased $2.4 million and $3.8 million in the three and six months ended June 30, 2010, respectively, compared to the same periods in 2009. Total natural gas therm sales were 5.1% and 6.0% lower in the three and six month periods ended June 30, 2010, respectively, compared to the same periods in 2009. Lower gas therm sales in the Company s utility service territories reflect the effect of warmer temperatures in 2010, where there were approximately 22% and 12% fewer Heating Degree Days in the three and six month periods, respectively, compared to the prior year.

Electric sales margin increased $0.4 million and $0.1 million in the three and six months ended June 30, 2010 compared to the same periods in 2009, reflecting higher electric kilowatt-hour (kWh) sales. Total kWh sales increased 5.3% and 1.5% in the three and six months ended June 30, 2010, respectively, compared to the same periods in 2009 reflecting increased sales to all customer groups.

O&M expenses decreased $0.4 million and increased $1.4 million for the three and six months ended June 30, 2010, respectively, compared to 2009. The changes in O&M reflect higher utility operating costs and lower professional fees. The increases in utility operating expenses reflect the full integration of Northern Utilities and Granite into the Company s consolidated operating results.

Depreciation and Amortization expense increased $0.7 million and $1.5 million in the three and six months ended June 30, 2010, respectively, compared to the same periods in 2009 reflecting normal utility plant additions.

Interest Expense, Net increased $0.8 million and $0.3 million in the three and six month periods ended June 30, 2010, respectively, compared to the same periods in 2009. In March 2010, Unitil Energy and Northern Utilities collectively issued $40 million of long-term debt which is contributing to the higher interest expense in the three and six month periods. Furthermore, net interest expense in 2010 reflects the permanent financing of Northern Utilities and Granite, which was completed in the second quarter of 2009.

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Provisions for Federal and State Income Taxes decreased by $2.5 million due to lower pre-tax income in 2010 compared to 2009.

All other items increased $0.3 million and $0.5 million in the three and six month periods ended June 30, 2010, respectively, compared to the same periods in 2009, primarily reflecting higher property and payroll taxes.

Usource, our non-regulated energy brokering business, recorded revenues of $1.1 million and $2.2 million in the three and six month periods ended June 30, 2010, respectively, which were flat compared to the same periods of 2009. 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.

Additionally, EPS in the three and six months ended June 30, 2010 reflect a higher number of average shares outstanding year over year, as discussed above.

In 2009, 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, 2010, March, 2010 and June 2010 meetings, the Unitil 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 and six months ended June 30, 2010 and a period-to-period comparison of changes in financial position are presented below.

Gas Sales, Revenues and Margin

Therm Sales Total therm sales of natural gas decreased 5.1% and 6.0% in the three and six months ended June 30, 2010, respectively, compared to the same periods in 2009. Lower gas therm sales in the Company s utility service territories reflect the effect of warmer temperatures in 2010, where there were approximately 22% and 12% fewer Heating Degree Days in the three and six month periods, respectively, compared to the prior year.

The following table details total firm therm sales for the three and six months ended June 30, 2010 and 2009, by major customer class:

Therm Sales (millions)

	Three Months Ended June 30,				**Six Months Ended June 30,**			
	2010	**2009**	**Change**	**% Change**	**2010**	**2009**	**Change**	**% Change**
Residential	**6.6**	6.9	(0.3)	(4.3%)	**24.4**	26.2	(1.8)	(6.9%)
Commercial / Industrial	**27.0**	28.5	(1.5)	(5.3%)	**81.6**	86.6	(5.0)	(5.8%)
Total	**33.6**	35.4	(1.8)	(5.1%)	**106.0**	112.8	(6.8)	(6.0%)

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Gas Operating Revenues and Sales Margin The following table details total Gas Operating Revenues and Sales Margin for the three and six months ended June 30, 2010 and 2009:

Gas Operating Revenues and Sales Margin (millions)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2010	**2009**	**$ Change**	**% Change(1)**	**2010**	**2009**	**$ Change**	**% Change(1)**
Gas Operating Revenue:								
Residential	**$ 10.0**	$ 9.6	$ 0.4	1.7%	**$ 35.8**	$ 40.0	$ (4.2)	(4.4%)
Commercial / Industrial	**13.7**	13.8	(0.1)	(0.4%)	**49.0**	55.8	(6.8)	(7.1%)
Total Gas Operating Revenue	**$ 23.7**	$ 23.4	$ 0.3	1.3%	**$ 84.8**	$ 95.8	$ (11.0)	(11.5%)
Cost of Gas Sales:								
Purchased Gas	**$ 14.3**	$ 11.8	$ 2.5	10.7%	**$ 52.6**	$ 60.2	$ (7.6)	(7.9%)
Conservation & Load Management	**0.8**	0.6	0.2	0.9%	**1.6**	1.2	0.4	0.4%
Gas Sales Margin	**$ 8.6**	$ 11.0	$ (2.4)	(10.3%)	**$ 30.6**	$ 34.4	$ (3.8)	(4.0%)

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

Total Gas Operating Revenues increased $0.3 million, or 1.3%, and decreased $11.0 million, or 11.5%, in the three and six month periods ended June 30, 2010, respectively, compared to the same periods in 2009. Total Gas Operating Revenues include the recovery of the approved cost of gas sales, which are recorded as Purchased Gas and Conservation & Load Management (C&LM) in Operating Expenses. The increase in Total Gas Operating Revenues in the second quarter of 2010 reflects higher Purchased Gas revenues of $2.5 million and higher C&LM revenues of $0.2 million, partially offset by lower gas sales margin of $2.4 million. The decrease in Total Gas Operating Revenues in the first six months of 2010 reflects lower Purchased Gas revenues of $7.6 million and lower gas sales margin of $3.8 million, partially offset by higher C&LM revenues of $0.4 million.

The Purchased Gas and C&LM components of Gas Operating Revenues increased a combined $2.7 million, or 11.6%, of Total Gas Operating Revenue and decreased a combined $7.2 million, or 7.5%, of Total Gas Operating Revenue in the three and six month periods ended June 30, 2010 compared to the same periods in 2009. The increase in the second quarter of 2010 is due to higher natural gas commodity costs, increased spending on energy efficiency and conservation programs, partially offset by lower natural gas sales. Also, Purchased Gas in the second quarter of 2010 reflects an adjustment of $0.8 million due to the recognition, for consistency purposes, of commodity-related bad debt expense previously recorded in O&M expense in the first quarter of 2010. The decrease in the six month period of 2010 primarily reflects lower sales of natural gas, partially offset by increased spending on energy efficiency and conservation programs. The Company recovers the cost of Purchased Gas and C&LM in its rates at cost on a pass through basis.

Natural gas sales margin decreased $2.4 million and $3.8 million in the three and six months ended June 30, 2010, respectively, compared to the same periods in 2009. The decrease in the three month period principally reflects lower sales of natural gas, which reflect the effect of warmer temperatures, of approximately $0.5 million, lower estimated unbilled revenue in the current period of $1.1 million and the recognition of commodity-related bad debt, discussed above, of $0.8 million. The decrease in the six month period principally reflects lower sales of natural gas, which reflect the effect of the milder winter heating season, of approximately $2.1 million and lower estimated unbilled revenue in the current period of $1.7 million.

Electric Sales, Revenues and Margin

Kilowatt-hour Sales Total electric kilowatt-hour (kWh) sales increased 5.3% and 1.5% in the three and six months ended June 30, 2010, respectively, compared to the same periods in 2009 reflecting increased sales to all customer groups.

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The following table details total kWh sales for the three and six months ended June 30, 2010 and 2009 by major customer class:

kWh Sales (millions)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2010	**2009**	**Change**	**% Change**	**2010**	**2009**	**Change**	**% Change**
Residential	**148.3**	141.1	7.2	5.1%	**326.0**	321.7	4.3	1.3%
Commercial/Industrial	**245.8**	233.2	12.6	5.4%	**483.3**	475.3	8.0	1.7%
Total	**394.1**	374.3	19.8	5.3%	**809.3**	797.0	12.3	1.5%

Electric Operating Revenues and Sales Margin The following table details total Electric Operating Revenues and Sales Margin for the three and six month periods ended June 30, 2010 and 2009:

Electric Operating Revenues and Sales Margin (millions)

	Three Months Ended June 30,				Six Months Ended June 30,			
	2010	**2009**	**$ Change**	**% Change[(1)]**	**2010**	**2009**	**$ Change**	**% Change[(1)]**
Electric Operating Revenue:								
Residential	**$ 23.8**	$ 23.3	$ 0.5	1.1%	**$ 51.9**	$ 56.4	$ (4.5)	(4.1%)
Commercial/Industrial	**22.8**	23.7	(0.9)	(1.9%)	**45.5**	52.7	(7.2)	(6.6%)
Total Electric Operating Revenue	**$ 46.6**	$ 47.0	$ (0.4)	(0.8%)	**$ 97.4**	$ 109.1	$ (11.7)	(10.7%)
Cost of Electric Sales:								
Purchased Electricity	**$ 31.7**	$ 33.4	$ (1.7)	(3.6%)	**$ 67.5**	$ 80.6	$	